

# REPORT ON THE ACTIVITIES OF THE POLISH FINANCIAL SUPERVISION AUTHORITY IN 2013

Pursuant to Article 4(2) of the Act of 21 July 2006 on Financial Market Supervision, the Polish Financial Supervision Authority is obliged to submit to the Prime Minister the annual report on its activities by 31 July of the following year. In execution of its statutory obligation, the Polish Financial Supervision Authority adopted the *Report on the Activities of the Polish Financial Supervision Authority in 2013* at its 208<sup>th</sup> meeting held on 4 March 2014.

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## LETTER FROM THE CHAIRMAN OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

Another challenging year is behind us. Despite the difficult situation in the global financial markets and in the economic environment, we managed to strengthen Poland's financial sector, which is one of the most stable and most promising financial sectors in Europe.

The banking sector's net profit in 2013 totalled PLN 15.4bn, which is close to the historical maximum levels. The average solvency ratio increased to 15.75% at the end of 2013, and the Polish banks are distinguished by their high quality of capital - Tier 1 capital ratio amounted to 14.21%. In June 2013, we informed the market that the concentration level in the banking sector is close to the optimum. In Poland, there are no banks that are too large, i.e. whose potential problems could not be solved using the available national crisis management instruments, and it should remain so. Therefore, the financial supervision authority will analyse very carefully any subsequent requests for significant bank mergers. In 2013, we amended Recommendation T and Recommendation S, which made banks' approach to retail loans and mortgage-backed loans more flexible. The PFSA also issued new recommendations, i.e. Recommendation M (operational risk) and Recommendation D (information and communication technology). On the initiative of the PFSA Office, the rules of operation of the interbank market changed and the regulatory work for development of long-term bank debt instruments was initiated. At the EU level, the banking union for the euro area is being developed and the CRD IV regulatory package has been agreed. The Polish supervisor's involvement has been recognized by the inclusion of a representative of the PFSA Office in the management board of the European Banking Authority (EBA).



2013 was the year of implementing the PFSA's supervision of cooperative savings and credit unions sector. First reports about the sector's situation were prepared, and administrators have been appointed in three cooperative savings and credit unions. The situation of many cooperative savings and credit unions is difficult and no form of restructuring provided for by the law can be ruled out. What surprises is the unparalleled, compared to other financial institutions, scale of outsourcing of core functions, and its impact on the effective management of cooperative savings and credit unions and on the costs.

In the insurance sector, we conducted, among other procedures, LTGA assessment of long-term insurance products, which confirmed the strength of the Polish insurance sector against the European market. We also referred to consultations the proposal of Recommendation U on bancassurance. In 2014, we will begin to issue guidelines addressed to all insurance undertakings. The guidelines will concern, in the first place, reinsurance, settlement of motor insurance claims, the risk of flooding and the establishment of technical provisions. The implementation of statutory amendments on open-end pension funds (OFEs), as adopted in 2013, will also present a challenge. In the capital market in turn, the Universal Trading Platform (UTP, a new trading system) was successfully implemented and the offering of shares in PKP Cargo and Energa was carried out. The European Securities and Markets Authority (ESMA) registered a trade repository in KDPW (KDPW\_TR) as one of the first four such institutions in Europe and the only repository operating in the region of Central and Eastern Europe. A procedure on granting KDPW\_CCP SA an authorisation to the provision of clearing services as a CCP under the provisions of EMIR is pending. Investment firms

received the positions of the PFSA Office on the conduct in the forex market and on investment advice, and implementation of the positions is verified during inspections.

As far as enforcement activities are concerned, in 2013 the PFSA issued 51 decisions imposing fines on financial market entities. The fines totalled PLN 22.8m, which was a record level. The PFSA Office also made 78 notifications to the prosecutor on the suspicion of committing an offence by persons acting in the financial market.

As far as consumer affairs are concerned, the Rules of the Arbitration Court at the PFSA were amended, which should translate into the Court's more frequent utilisation by financial institutions, particularly in the field of mediation.

On behalf of all the members of the Polish Financial Supervision Authority, I would like to congratulate everyone on their success in 2013.

Andrzej Jakubiak  
Chairman of the Polish Financial Supervision Authority (PFSA)

# 1. POLISH FINANCIAL SUPERVISION AUTHORITY

## LEGAL GROUNDS FOR OPERATION OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

The Polish Financial Supervision Authority (hereinafter referred to as the “Authority”, “PFSA” or “regulator”) operates under the Act of 21 July 2006 on Financial Market Supervision (Dz.U. of 2012, item 1149, as amended) hereinafter referred to as the Act on Financial Market Supervision.

The Polish Financial Supervision Authority exercises supervision of the financial market, including banking supervision, supervision of the capital market, supervision of the insurance market, supervision of the pension market, supplementary supervision of financial conglomerates, supervision of electronic money institutions, payment institutions and payment service bureaus, as well as supervision of cooperative savings and credit unions.

The aim of the supervision of the financial market is to ensure the proper functioning of this market, its stability, security and transparency, confidence in the financial market, and to ensure that the interests of the market's participants are protected.

The President of the Council of Ministers exercises supervision of operations of the Authority.

## COMPOSITION OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

The PFSA is a collective body composed of the Chairman, two Vice-Chairmen and four members: the minister competent for financial institutions or his or her representative, the minister competent for social security or his or her representative, the Governor of the National Bank of Poland or the Deputy Governor delegated by him or her, and a representative of the President of the Republic of Poland.

In 2013, the Polish Financial Supervision Authority was composed of the following persons (the composition of the PFSA did not change):

### **Chairman**

Andrzej Jakubiak

### **Vice-Chairman**

Lesław Gajek

### **Vice-Chairman**

Wojciech Kwaśniak

### **Members:**

#### **Representative of the Minister of Finance**

Ludwik Kotecki

#### **Representative of the Minister of Labour and Social Policy**

Jacek Męcina

#### **Governor of the National Bank of Poland or Deputy Governor of the National Bank of Poland delegated by the Governor**

Witold Koziński - Deputy Governor of the National Bank of Poland

**Representative of the President of the Republic of Poland**  
Jerzy Pruski

**COMPOSITION OF THE POLISH FINANCIAL SUPERVISION AUTHORITY**  
as at 31 December 2013

**Chairman of the Polish Financial Supervision Authority**



Andrzej Jakubiak

**Vice-Chairmen of the Polish Financial Supervision Authority**



Lesław Gajek



Wojciech Kwaśniak

**Other Members of the Polish Financial Supervision Authority**



Ludwik Kotecki  
Representative  
of the Minister of  
Finance



Jacek Męcina  
Representative  
of the Minister of  
Labour  
and Social Policy



Witold Koziński  
Deputy Governor  
of the National  
Bank of Poland



Jerzy Pruski  
Representative  
of the President  
of the Republic of  
Poland

## MEETINGS AND RESOLUTIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

The Polish Financial Supervision Authority adopts, within its powers, resolutions including administrative decisions and rulings. The Authority adopts resolutions by ordinary majority of votes in open voting in the presence of at least four members, including the Authority's Chairman or Vice-Chairman. If there is a tie, the PFSA Chairman has the casting vote.

In 2013, the Polish Financial Supervision Authority held 31 meetings, at which 430 resolutions were adopted, including 359 resolutions in the form of decisions and rulings.

**Table 1. Number of resolutions adopted by the PFSA, 2010-2013**

Resolution subject	Number of adopted resolutions			
	2010	2011	2012	2013
Issues regarding banking sector	84	76	67	76
Issues regarding cooperative savings and credit unions sector	-	-	-	16
Issues regarding payment services sector	-	-	3	17
Issues regarding insurance market	62	43	59	36
Issues regarding pension market	41	82	74	67
Issues regarding capital market	248	152	152	214
Cross-sectoral issues and issues regarding internal organisation of the PFSA work	7	12	4	4
<b>Total</b>	<b>442</b>	<b>365</b>	<b>359</b>	<b>430</b>

Source: in-house materials by the PFSA Office

Detailed information on the number of adopted resolutions by subject is presented in Table 1.1. in Annex 1.

## RULINGS ISSUED BY THE CHAIRMAN OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

In 2013, the Chairman of the PFSA issued one ruling on the instigation of ex officio proceedings pursuant to Article 13 of the Act on Capital Market Supervision.

## RULINGS AND ADMINISTRATIVE DECISIONS ISSUED UNDER THE AUTHORITY'S AUTHORISATION

Pursuant to Article 12(1) of the Act on Financial Market Supervision, the Authority may authorise its Chairperson, its Vice-Chairpersons and the employees of the PFSA Office to take actions within the PFSA's scope of competence, e.g. to issue rulings and administrative decisions.

In 2013, 2270 decisions and rulings were issued under the authorisation by the Polish Financial Supervision Authority.

**Table 2. Number of decisions and rulings issued under the authorisation granted by the PFSA, 2010-2013**

Subject of decisions and rulings	Number of decisions and rulings			
	2010	2011	2012	2013
Issues regarding banking sector	894	409	418	374
Issues regarding payment services sector	-	-	63	247
Issues regarding cooperative savings and credit unions sector	-	-	-	316
Issues regarding insurance market	279	297	393	347
Issues regarding pension market	506	329	396	293
Issues regarding capital market	834	902	878	670
Cross-sectoral issues	41	14	19	23
<b>Total</b>	<b>2 062</b>	<b>2 554</b>	<b>1 951</b>	<b>2270</b>

Source: in-house materials by the PFSA Office

Detailed information on the number of administrative decisions and rulings issued under the authorisation granted by the PFSA, by subject, is presented in Table 1.2. in Annex 1.

#### OFFICIAL JOURNAL OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

The Authority issues the Official Journal of the Polish Financial Supervision Authority. In the period covered by the report there were 33 PFSA Official Journals issued, which included, among other things, the publication of the resolutions issued by the PFSA and Announcements of the Examination Boards consisting of members appointed by the Chairman of the Polish Financial Supervision Authority (as long as such publication was required by law).

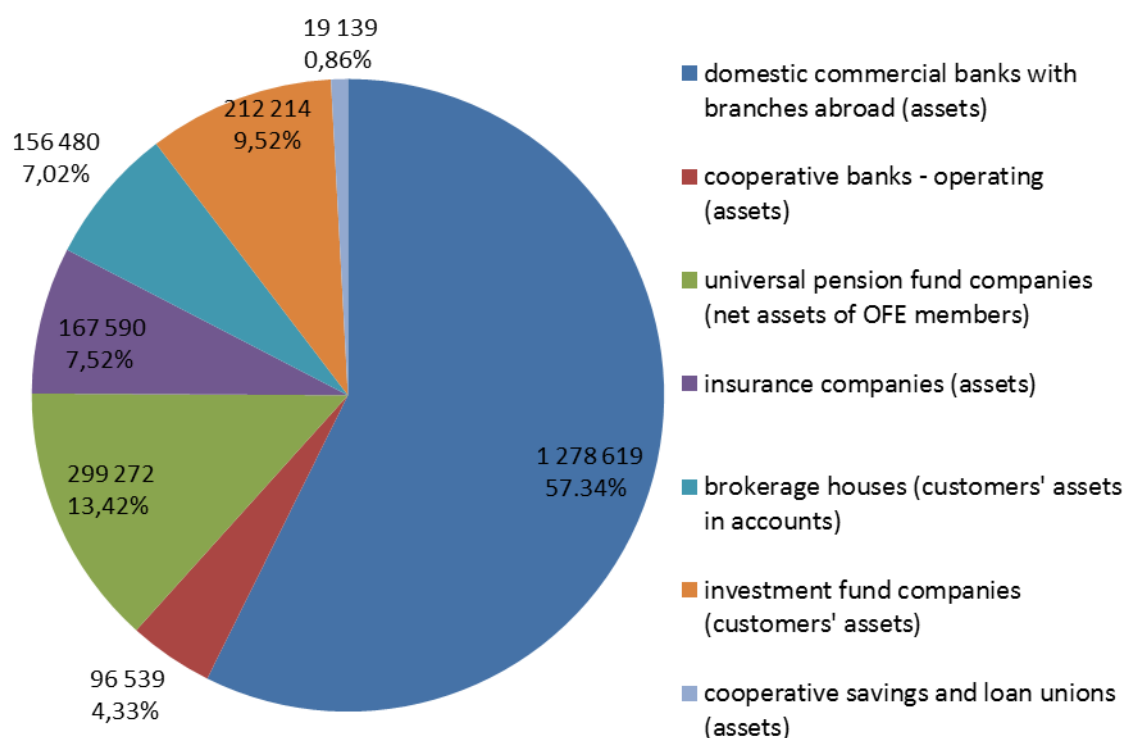
The list of items of the Official Journal of the Polish Financial Supervision Authority issued in 2013 is provided in Annex 3.

## 2. FINANCIAL MARKET IN POLAND - OVERVIEW

In 2013, the Polish economy, despite its strong links to other EU Member States, was able to maintain a positive rate of changes in GDP, also thanks to domestic demand and exports. Throughout 2013, both inflation (0.9% compared to 3.7% in 2012) and the central bank's reference rate (down to 2.5%) remained low. In the period covered by the report, there was a slight drop in the unemployment rate, which remained at around 13%, just as in 2012. In 2013, the euro area reported further economic slowdown. GDP growth was slightly above zero (0.3% in Q2 and 0.1% in Q3). The unemployment rate also remained at a constant level of about 12%, and inflation fell to its lowest level in four years and reached 0.8% in December.

In 2013, the situation on the financial market was stable. In the whole 2013, the zloty strengthened slightly against the dollar and weakened slightly against the euro (changes by 1.76 and -1.97%, respectively). It was a small change compared to the previous year, when the annual change of rate was 10% and 8.4%.

**Fig. 1. Structure of the Polish financial sector's assets in 2013 (PLN m)\***



Source: in-house materials by the PFSA Office

\*Total assets of the banking sector at the end of December 2013 amounted to PLN 1,407,180m - the data presented in the figure does not cover branches of credit institutions that are not supervised by the PFSA. The presented data for 2013 is derived from the monthly December 2013 reporting of banks and cooperative savings and credit unions, and was not audited. The data for previous years may differ from the data published in previous reports because of adjustments made by the banks themselves, and because of the subsequent auditing process.

In the whole 2013, total assets of the banking sector increased by about 4.2%. This change was comparable to the asset value increase achieved in the previous year (4.3%). The situation of the whole sector remained stable and liquidity ratios were maintained at safe levels. The profit of the whole sector exceeded PLN 15.4bn and was similar to the profit achieved in 2012 (PLN 15.5bn).

As at the end of 2013, there were 55 cooperative savings and credit unions ("SKOKs") operating in the Polish market, which had more than 2.6m members (a year-to-date increase of 2.5%). Their assets totalled PLN 19.1bn and were by over 13% higher than at the beginning of the year.

In 2013, the Warsaw Stock Exchange recorded an 8% increase in WIG, its main index, which, however, was accompanied by a decrease in the WIG 20 index (-7.05%). For comparison, over the previous year the indices went up by 26% and 20%, respectively. Share trading in 2013 totalled over PLN 250bn, up by approx. 25% against the previous year. In the whole 2013, the Warsaw Stock Exchange recorded 23 IPOs with a total offering value of over PLN 5bn.

Pension funds account for the vital part of demand on the stock exchange. The value of shares held in OFEs' portfolios, measured by the share in the total capitalisation of the WSE, reached 22% as at the end of 2013 against 18.1% as at the end of 2012. The value of OFEs' investments in shares listed on the WSE increased over this period from PLN 95bn to PLN 129bn (up by 36%).

There were also significant increases as far as investment fund companies and insurance undertakings are concerned. In 2013, the value of net assets entrusted for management to investment fund companies exceeded the level of PLN 212bn for the first time in history. At the end of 2013, the value of insurance undertakings' assets amounted to PLN 167.6bn.

**Table 3. Number of entities regulated by the PFSA as at 31 December 2013**

Type of entity	Number of entities
Commercial banks (including 2 associating banks)	41
Cooperative banks	571
Cooperative savings and credit unions, National Cooperative Savings and Credit Union	56
Domestic payment institutions	19
Payment service offices	1315
Segment I insurance undertakings (life insurance)	28
Segment II re-insurance undertakings (non-life insurance)	31
Universal pension fund companies	13
Occupational pension fund companies	5
Entities conducting brokerage activities	71
Investment fund companies	55
Power utilities keeping commodity accounts or registers	54
Commodity brokerage houses	1

Source: in-house materials by the PFSA Office

**Table 4. Number of entities that submitted a notification of intent to conduct activities in Poland through a branch as at 31 December 2013**

Type of entity	Number of entities
Credit institutions	28
Payment institutions	6
Insurance undertakings	22
Reinsurance undertakings	1
Investment firms*	14
Managing companies**	1

\* 20 branches of credit institutions also submitted notifications of intent to conduct investment activities.

\*\* An entity that obtained an authorisation to the management of UCITS funds.

Source: in-house materials by the PFSA Office

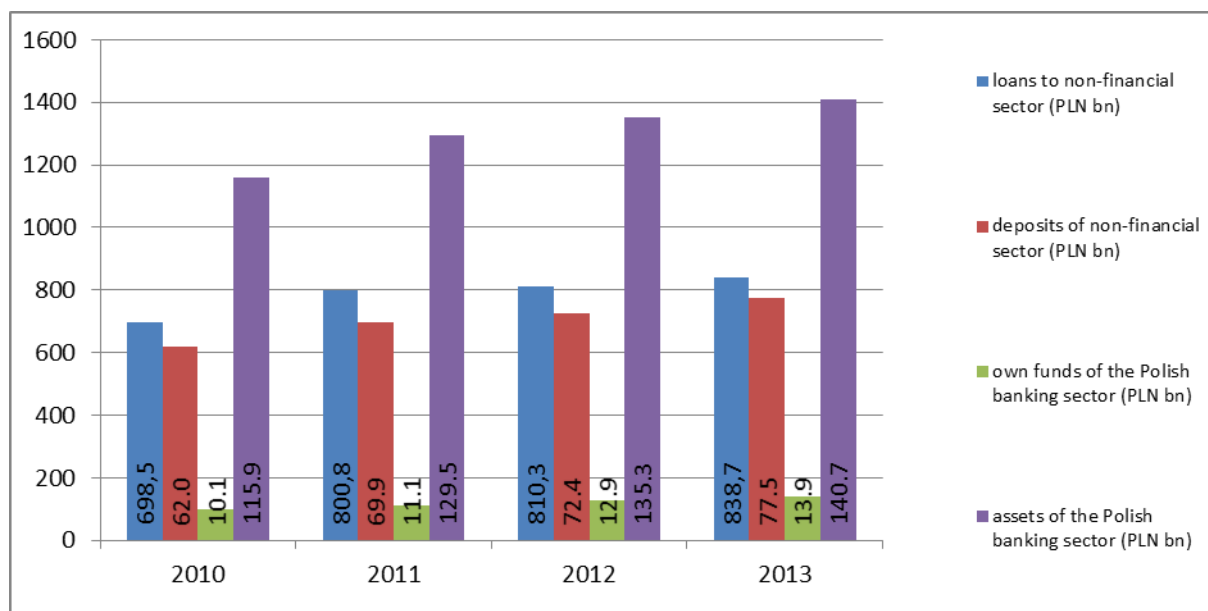
## 2.1. BANKING AND COOPERATIVE SAVINGS AND CREDIT UNIONS SECTOR

As at the end of 2013, the Polish Financial Supervision Authority regulated the activities of 41 commercial banks (including 1 state-owned bank and 2 associating banks), 571 cooperative banks, 28 branches of credit institutions, 55 cooperative savings and credit unions and the National Cooperative Savings and Credit Union.

As at 31 December 2013, cooperative banks were associated in Bank Polskiej Spółdzielczości S.A. in Warsaw (365) and SGB-Bank S.A. in Poznań (206). One cooperative bank operated independently (KBS in Cracow).

In 2013, none of the cooperative banks changed its association.

**Fig. 2. Highlights of the Polish banking sector, 2010-2013**



Source: in-house materials by the PFSA Office

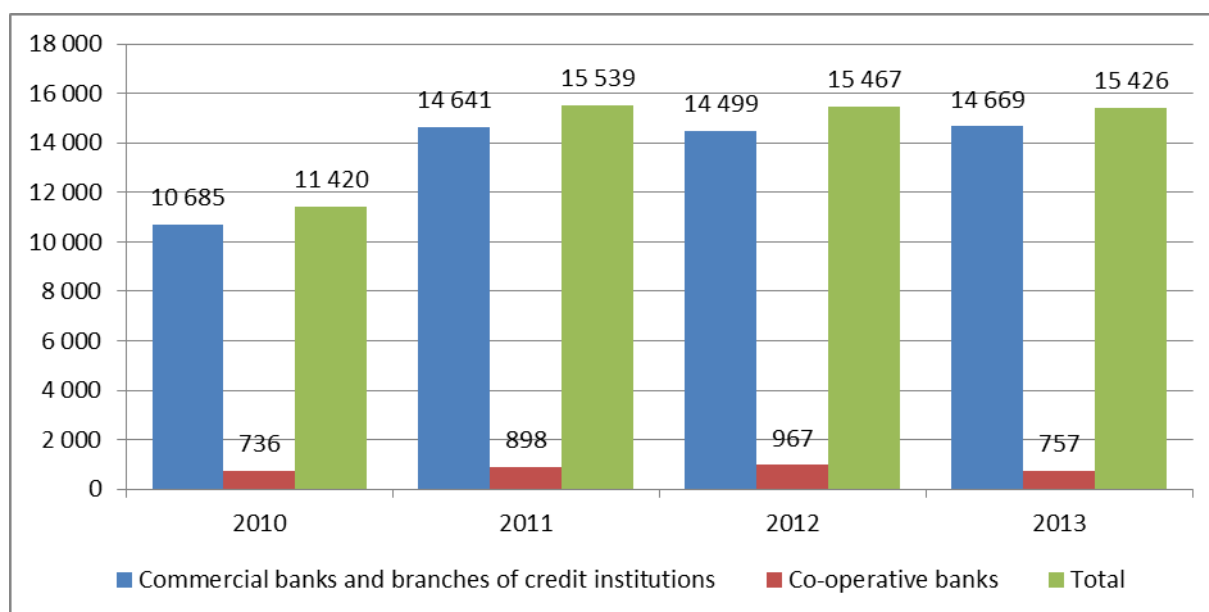
The presented data for 2013 comes from banks' monthly December 2013 reporting and was not audited. The data for previous years may differ from the data published in previous reports because of adjustments made by banks themselves, and because of the subsequent auditing process.

The balance-sheet total of the Polish banking sector as at the end of December 2013 amounted to PLN 1,407.2bn (up by 4.2% against the end of December 2012). Domestic

commercial banks (including branches abroad) account for 90.9% of the value of the sector's assets, branches of credit institutions - for 2.3% and cooperative banks - for 6.9%.

In assets' structure, loans and other receivables accounted for 71.0% (PLN 998.7bn), available-for-sale financial assets accounted for 13.3% (PLN 180.5bn), financial assets held for trading accounted for 3.0% (PLN 41.7bn) and cash in hand and balances with central banks accounted for 3.9% (PLN 55.0bn). In the equity and liabilities structure, deposits accounted for 69.5% of the balance-sheet total (PLN 978.2bn) and equity for 10.9% (PLN 153.9bn). Gross receivables from non-financial sector grew in 2013 by 3.5% and as at the end of December reached PLN 838.7bn (in 2013, FX differences did not have any significant influence on this category).

**Fig. 3. Net profit of the banking sector, 2010-2013 (PLN m)**



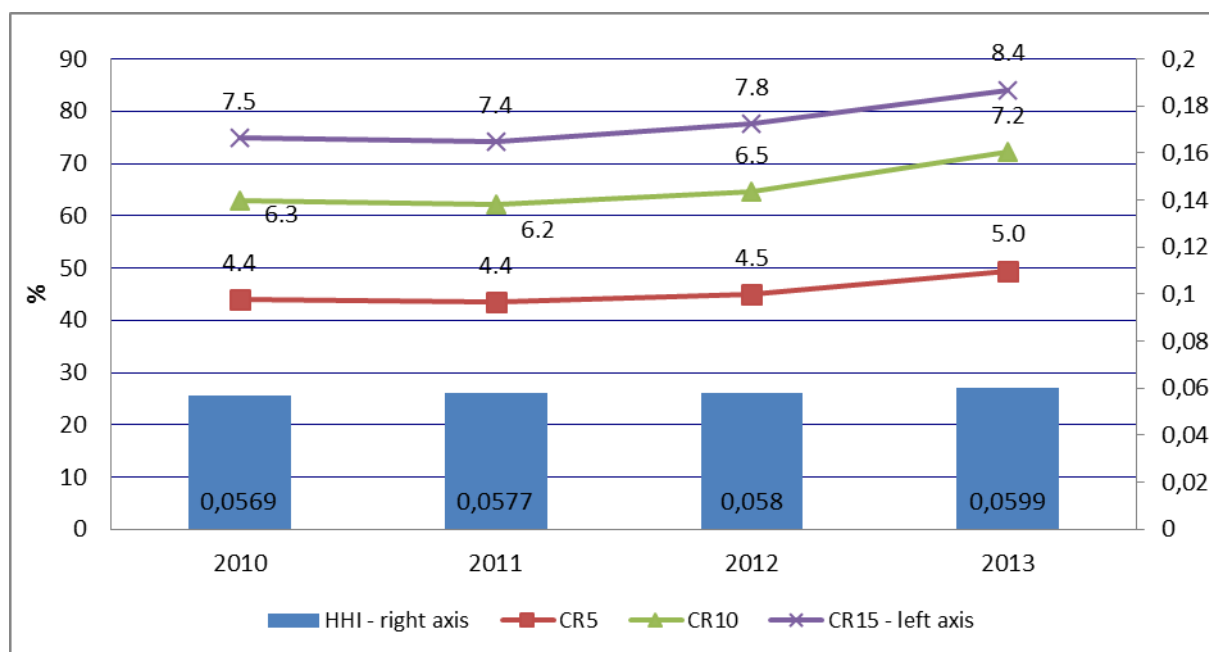
Source: in-house materials by the PFSA Office

The presented data for 2013 comes from banks' monthly December 2013 reporting and was not audited. The data for previous years may differ from the data published in previous reports because of adjustments made by banks themselves, and because of the subsequent auditing process.

The net profit of the banking sector in 2013 totalled PLN 15.4bn and was similar to the net profit of 2012 (PLN 15.5bn). Net interest income totalled PLN 34.1bn (-3.8% year on year), including interest income of PLN 61.3bn (-14% year on year) and interest costs of PLN 27.2bn (-24%). Net commission income totalled PLN 14bn (-2.3% year on year). Net income on banking activity decreased in the analysed period by 5.6% to PLN 58.5bn. The banks' operating expenses were comparable to operating expenses in the previous year and amounted to PLN 27.6bn. Impairment losses decreased by 8.2% year on year to PLN 7.6bn.

The assets of the cooperative savings and credit unions as at the end of 2013 totalled PLN 19.1bn and were by over 13% higher than at the beginning of the year. In addition, according to preliminary reporting data, the SKOK sector recorded a net profit of PLN 251m. If, however, the results of inspections carried out in unions by the PFSA Office were taken into account, the result would fall by PLN 639m. The sector's weak financial performance was influenced significantly by low quality of the loan portfolio and a decline in lending activity.

**Fig. 4. Asset concentration, 2010-2013**



Source: in-house materials by the PFSA Office

CR5, CR10, CR15 - indicators showing the shares of five, ten and fifteen largest banks in the banking sector's total assets.

HHI - Herfindahl-Hirschman Index (the sum of the squares of banks' shares in the banking sector's assets) is the market concentration measure used to assess the competition level on a given market. This index takes account not only of the number of entities but also of their relative size. HHI at the level of 0.058 describes a market that is competitive.

The presented data for 2013 comes from banks' monthly December 2013 reporting and was not audited. The data for previous years may differ from the data published in previous reports because of adjustments made by banks themselves, and because of the subsequent auditing process.

## 2.2. PAYMENT SERVICES SECTOR

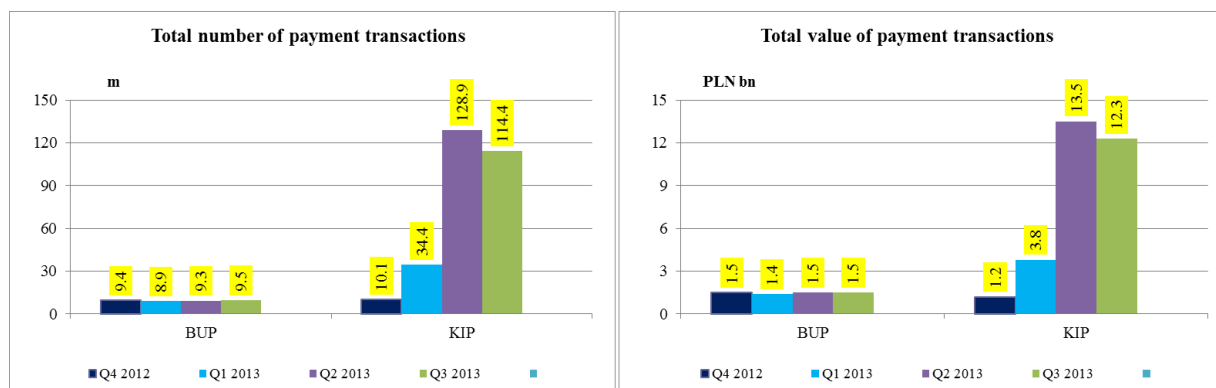
The Act on Payment Services of 19 August 2011 (Dz.U. No 199, item 1175, as amended, "APS") introduced a closed list of payment service providers. The two new categories of payment service providers, i.e. domestic payment institutions ("KIP") and payment service offices ("BUP") were put under the Polish Financial Supervision Authority's supervision.

As at 31 December 2013, authorisations were held by a total of 19 domestic payment institutions. The payment service register as at 31 December 2013 covered 1,315 payment service offices.

Due to the conditions and deadlines for the provision of reporting data by payment service providers, as set forth in the APS, at the end of the period covered by the report the PFSA has reporting data of KIPs and BUPs for the period covering the first, second and third quarter of 2013.

It follows from the data held by the PFSA that as further entities obtained authorisations to operate as a domestic payment institution, the disproportion between the total volume of operations of KIPs and BUPs, measured by the total number and the total value of transactions executed by these entities, increased rapidly in consecutive quarters.

**Fig. 5. Comparison of the total number and value of payment transactions executed by BUPs and KIPs for the period from Q4 2012 to Q3 2013**



Source: in-house materials by the PFSA Office

## 2.3. INSURANCE SECTOR

In carrying out insurance market supervision, which is based on the risk analysis approach, the PFSA Office takes actions as part of the supervisory analysis, which includes licensing, analytical and inspection activities and Supervisory Review and Assessment (BION) to fulfil the statutory objective of insurance market supervision, i.e. to protect the interests of policyholders, the insured, beneficiaries or persons entitled under insurance contracts. The supervisory activities include identification of areas requiring the PFSA Office's supervisory activities. The identification is followed by actions that are proportionate to the nature, scale and complexity of the risks inherent in the operations of a given insurance undertaking. Some of these actions are focused specifically on the analysis of the preparation stage and on supporting the preparation of the insurance sector and, indirectly, of the supervisory authority for the requirements of the Solvency II system<sup>1</sup>.

### INSURANCE MARKET ENTITIES

As at the end of 2013, authorisations to conduct insurance activities in Poland were held by 59 domestic insurance undertakings (including 28 life insurance undertakings, 30 non-life insurance undertakings and 1 reinsurance undertaking). One insurance undertaking was put into liquidation (UNIVERSUM Towarzystwo Ubezpieczeń na Życie S.A. in liquidation). When compared to 2012, the number of insurance undertakings decreased by 1. This change was the result of a merger of the insurance undertaking HDI-Gerling Życie TU S.A. with TU na Życie "WARTA" S.A. (the combined insurance undertaking operates under the name TU na Życie "WARTA" SA).

Both insurance and reinsurance undertakings are hereinafter referred to as insurance undertakings.

As at the end of 2013, 604 insurance undertakings from the European Union and European Economic Area Member States submitted notifications of conducting insurance activities in Poland under the freedom to provide services, and 22 insurance undertakings and 1 reinsurance undertaking notified of their operations through a branch.

<sup>1</sup>Directive of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 335, 17.12.2009, p. 1, as well as drafted 2<sup>nd</sup> and 3<sup>rd</sup> level acts to the Directive.

## SECURITY OF THE INSURANCE AND REINSURANCE SECTOR

In the whole 2013, the situation of the insurance sector was stable. A surplus of own funds in relation to capital requirements was recorded. The ratio of available solvency margin to required solvency margin fell by 44.47pp to the level of 358.13%, while the available solvency margin covering guarantee fund to guarantee fund decreased by 108.38pp to 996.69%.

All the insurance undertakings complied with the condition of maintaining available solvency margin to required solvency margin and available solvency margin covering guarantee fund to guarantee fund as well as the condition of covering the technical provisions with assets.

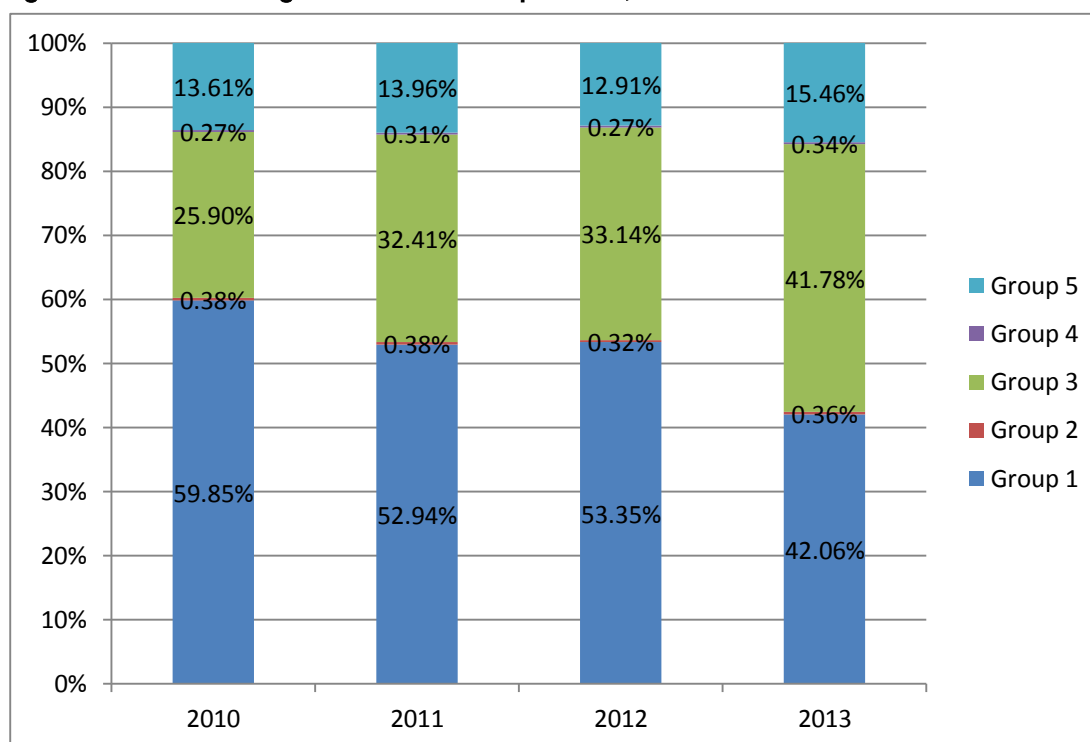
## REVENUE OF INSURANCE UNDERTAKINGS

In 2013, the gross premium written being the main source of income of insurance undertakings totalled PLN 57.86bn, which means that the insurance sector recorded a fall of 7.61% against 2012 (in 2012, an increase of 9.64% was recorded). This fall was mainly due to the decrease in the premium of life insurance undertakings (segment I) of 14.06% (the premium of PLN 31.26bn). For segment II insurance undertakings, gross premium written totalled PLN 26.60bn, up by 1.33%.

Among the segment I insurance classes, the following classes: 3 (life insurance related to unit-linked insurance fund), 4 (disability insurance) and 5 (accident and sickness insurance) recorded an increase in gross premium written compared to 2012. Class 3 (life insurance related to UFK) recorded the biggest value increase in gross premium written, i.e. of PLN 1.01bn (8.35%), to PLN 13.05bn. In the same period, a significant fall in gross premium written was recorded in class 1 (life insurance), i.e. from PLN 19.39bn in the corresponding period to PLN 13.14bn (32.25%). This was driven mainly by limitation of/resignation from the sale of short-term life insurance (so-called investment policies) in several insurance undertakings.

The portfolio of segment I insurance is dominated by life insurance (class 1) - 42.06% of the portfolio of direct insurance, and investment insurance (class 3) - 41.78% of direct insurance portfolio.

**Fig. 6. Structure of segment I insurance portfolio, 2010-2013**



Source: in-house materials by the PFSA Office

In the case of life insurance and non-life insurance undertakings, the largest increase in gross premium written compared to 2012 was recorded in the following classes of insurance:

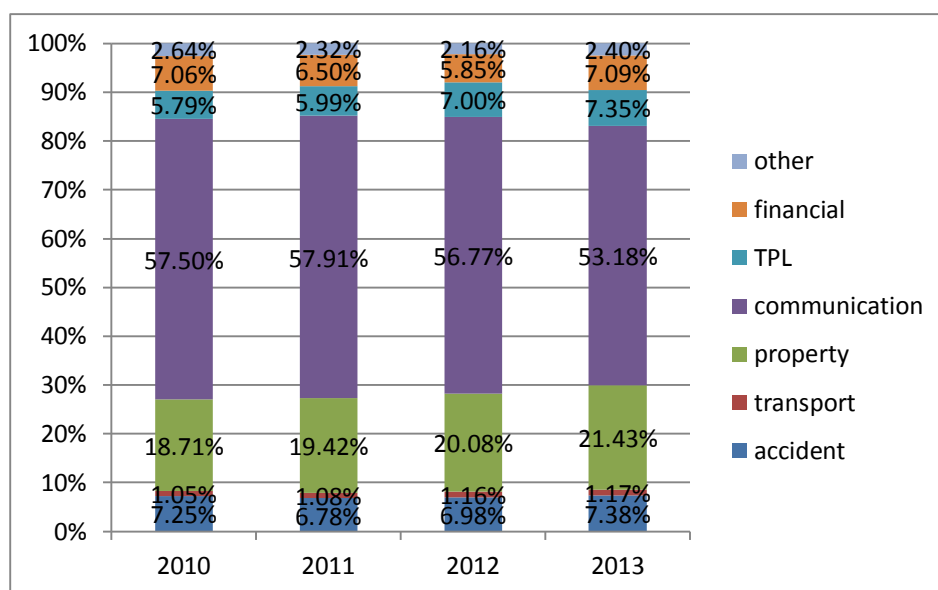
- in class 16 (insurance of various financial risks), there was an increase of PLN 0.3bn (40.92%) in the premium, to PLN 1.02bn,
- in class 8 (insurance against damage caused by natural forces), the premium increased by PLN 0.22bn (7.41%) to PLN 3.12bn,
- in class 9 (insurance against other damage to property), the premium increased by PLN 0.19bn (8.54%) compared to the previous year, to PLN 2.44bn.

In segment II, a fall in premiums written in class 10 (third-party liability insurance) and class 3 (Casco insurance) of PLN 0.77bn in total (5.30%), to PLN 13.79bn, had the greatest impact on the drop in the market:

- in class 10 (third-party liability insurance), gross premium written amounted to PLN 8.46bn and was lower compared to the previous year by PLN 0.47bn (5.22%),
- in class 3 (casco insurance) a premium of PLN 5.32bn was collected, less by PLN 0.31bn (5.43%) than in the corresponding period of the previous year.

The segment II insurance continues to be dominated by automobile insurance (TPL and comprehensive insurance) accounting for 53.18% of the direct insurance portfolio.

**Fig. 7. Structure of segment II insurance portfolio, 2010-2013**



Source: in-house materials by the PFSA Office

## PERFORMANCE OF INSURANCE UNDERTAKINGS

The performance analysis of the insurance sector in 2013 shows that despite the continuing difficult economic conditions the sector managed to generate financial profit higher by 42.25% than in 2012, amounting to PLN 8.96bn.

The segment I net financial result amounted to PLN 2.82bn, down by 4.88% from 2012. The net financial result deteriorated against the corresponding period of the previous year, mainly due to a significant deterioration of the results on investment activities. The segment I insurance undertakings earned nearly PLN 4.19bn on investment activities, i.e. down by PLN 3.52bn (45.67%) year on year.

The segment II net financial result amounted to PLN 6.14bn, up by 84.22% from 2012. It should be emphasized that in this segment the technical earnings of PLN 1.33bn were generated (up by 100.13% against 2012).

From the point of view of individual insurance classes' results, the improvement of the technical result in segment II resulted mainly from the improvement in class 9 (insurance against other damage to property; in 2013, in contrast to 2012, there was no significant damage related to insurance of agricultural crops) of PLN 0.41bn, to a lesser extent in class 15 (suretyship) of PLN 0.21bn and in group 10 (TPL) of PLN 0.21bn (although this class is still reporting a technical loss). There was a significant deterioration of the technical result in insurance class 3 (Casco insurance) - of about PLN 0.24bn.

**Table 5. Highlights of the performance of segment I insurance undertakings, 2010-2013 (PLN billion)**

Detailed list	2010	2011	2012	2013
<b>Balance-sheet highlights</b>				
Investments	50.76	47.31	49.28	45.45
Life insurance net assets, where the investment risk is borne by the policyholder	38.93	37.46	45.11	49.83
Equity	13.23	12.76	14.77	12.81
Technical provisions	77.20	73.02	81.11	83.73
Balance-sheet total	93.97	89.87	99.92	101.69
<b>Income statement highlights</b>				
Gross premiums written	31.42	31.83	36.38	31.26
Gross compensation and benefits paid	22.58	26.07	25.92	23.09
Cost of insurance operations	5.26	5.54	6.35	6.05
Client acquisition cost	3.70	3.98	4.68	4.47
Administrative expenses	1.59	1.63	1.74	1.67
Result on insurance operations	3.59	3.35	3.13	3.00
Net profit (loss)	3.65	2.92	2.97	2.82
<b>Selected solvency items</b>				
Own funds	12.37	11.87	13.64	11.79
Solvency margin	3.89	3.78	3.92	3.95
Guarantee fund	1.43	1.36	1.42	1.41

Source: in-house materials by the PFSA Office

**Table 6. Highlights of the performance of segment II insurance undertakings, 2010-2013 (PLN billion)**

Detailed list	2010	2011	2012	2013
<b>Balance-sheet highlights</b>				
Investments	41.52	45.47	51.76	53.56
Equity	17.65	18.14	21.41	20.82
Technical provisions	32.60	36.30	40.05	43.05
Balance-sheet total	51.20	56.24	62.77	65.90
<b>Income statement highlights</b>				
Gross premiums written	22.74	25.29	26.25	26.60
Gross compensation and benefits paid	14.17	13.74	14.05	13.71
Cost of insurance operations	6.34	6.65	7.05	7.01
Client acquisition cost	4.70	5.36	5.66	5.96
Administrative expenses	2.09	1.92	2.07	1.82
Result on insurance operations	-1.28	0.30	0.66	1.33
Net profit (loss)	3.09	3.08	3.33	6.14
<b>Selected solvency items</b>				
Own funds	13.77	14.33	17.65	16.64
Solvency margin	3.52	3.76	3.85	3.99
Guarantee fund	1.30	1.37	1.41	1.44

Source: in-house materials by the PFSA Office

## 2.4. PENSION SECTOR

### OPEN-END PENSION FUNDS AND UNIVERSAL PENSION FUND COMPANIES

As at the end of 2013, authorisations were held by 13 open-end pension funds and the same number of pension fund companies managing the funds. In 2013, the management of OFE POLSAT has been taken over by PKO BP BANKOWY PTE S.A. The merger of assets of OFE POLSAT and PKO BP Bankowy OFE took place on 19 July 2013.

As from 1 May 2011, following the reduction of the assessment basis of contributions transferred from the Social Insurance Institution ("ZUS") to open-end pension funds ("OFEs"), OFEs received 2.3% of the contribution assessment basis, and then the ratio increased to 2.5% in 2012 and to 2.8% in 2013. Since the beginning of 2014, the ratio has amounted to 3.1%. As a result of thorough legal changes in the pension system, which were adopted in December 2013, as from 1 July 2014 as little as 2.92% of the contribution will be transferred to OFEs, and the contribution will be transferred only for those members of pension funds who declared such intent. From that moment on, contributions of other pension fund members and of persons subject to social insurance who are not members of OFEs will be transferred in full to the Social Insurance Institution.

**Table 7. Net asset value of open-end pension funds as at year-end, 2010-2013**

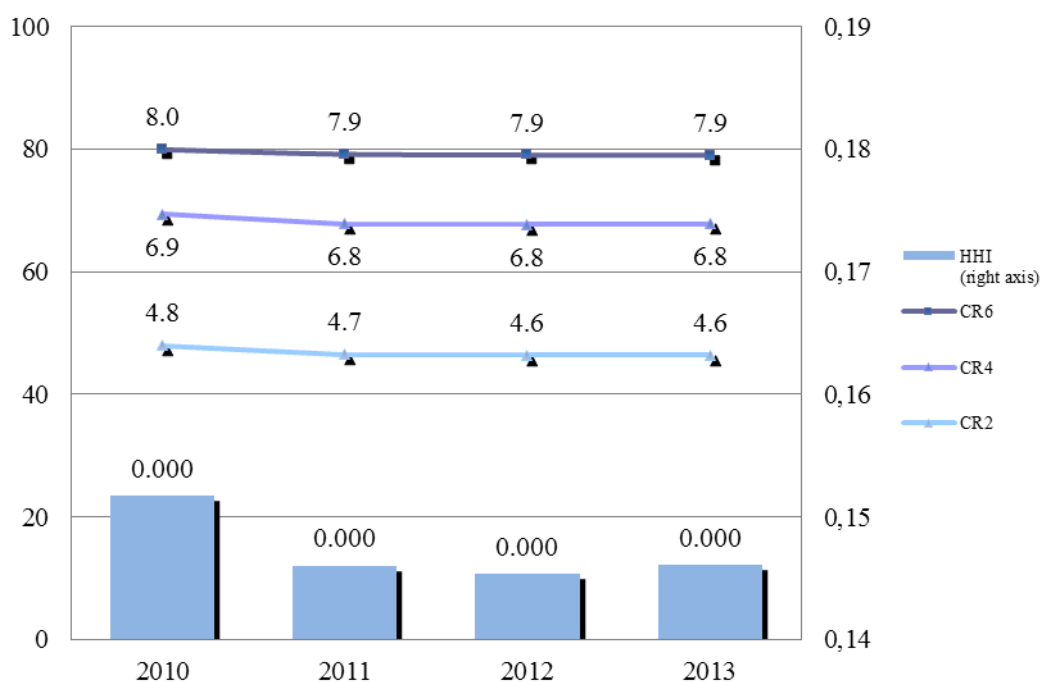
Open-end pension fund	Net asset value (PLN m)				Market share (%)
	2010	2011	2012	2013	2013
AEGON OFE	9 088.6	9 692.7	11 601.4	12 645.8	4.2
Allianz Polska OFE	6 511.4	6 725.7	8 220.2	9 104.3	3.0
Amplico OFE	16 905.8	17 444.7	21 368.3	23 953.2	8.0
Aviva OFE Aviva BZ WBK	52 889.1	51 272.0	60 901.4	66 710.3	22.3
AXA OFE	12 833.3	14 142.9	16 912.6	18 639.0	6.2
Generali OFE	10 426.0	11 270.0	13 529.1	15 006.1	5.0
ING OFE	53 202.0	53 301.7	64 169.7	72 157.6	24.1
Nordea OFE	9 337.6	10 083.9	12 048.3	13 532.8	4.5
Pekao OFE	3 411.4	3 387.7	4 047.6	4 510.2	1.5
PKO BP Bankowy OFE	6 565.2	7 558.3	9 447.0	13 186.7	4.4
OFE Pocztylion	4 263.7	4 261.3	5 092.0	5 692.7	1.9
OFE Polsat	2 050.4	2 000.0	2 369.7	-	-
OFE PZU "Złota Jesień"	30 659.6	30 523.0	36 282.4	40 114.7	13.4
OFE WARTA	3 107.2	3 056.4	3 606.7	4 019.1	1.3
<b>Total</b>	<b>221 251.3</b>	<b>224 720.1</b>	<b>269 596.5</b>	<b>299 272.5</b>	<b>100.0</b>

Source: in-house materials by the PFSA Office prepared based on daily reports of open-end pension funds

At the year-end, open-end pension funds' net assets reached PLN 299.3bn, having increased by 11% (PLN 29.7bn) over the year. The open-end pension funds' financial result of PLN 19.9bn and the contributions transferred by the Social Insurance Institution of PLN 11.1bn translated into the above growth of funds' net assets. In 2013, the rates of return generated by open-end pension funds ranged from 5.5% to 8.4%; the weighted average rate of return reached 7.2%.

The aggregate market share of the four largest pension funds, measured in terms of net asset value as at the end of 2013, was 67.8% (an increase of 0.03pp over the year). In the years 2010-2011, the OFE market's structure was subject to noticeable changes, which were expressed in biggest entities losing their market share, as reflected in CR2, CR4 and HHI indicators. In 2011-2013, there were only slight changes in the above indicators, which indicates stabilization of the market structure.

**Fig. 8. Concentration of net assets of open-end pension funds, 2010-2013**



CR2, CR4, CR6 - indicators showing the shares of the two, four and six largest open-end pension funds in total assets

HHI (Herfindahl-Hirschman Index) - a measure of market concentration, specifying the estimated level of concentration in a given industry and the level of competition in a given market; it is calculated as the sum of the squares of the market shares of individual companies (e.g. the sum of the squares of the shares of individual open-end pension funds in open-end pension funds' total assets)

Source: in-house materials by the PFSA Office

As at the end of 2013, there were 16.4m members of open-end pension funds. The market share of four largest funds, measured by the number of members, increased compared to the previous year. At the end of the year, the share was 58%, while in the previous year it reached 57.6%.

**Table 8. Number of open-end pension fund members as at year-end, 2010-2013**

Open-end pension fund	Number of members ('000)				Market share (%)
	2010	2011	2012	2013	2013
AEGON OFE	834.4	948.5	947.0	941.3	5.7
Allianz Polska OFE	448.5	508.1	553.7	593.0	3.6
Amplico OFE	1 135.7	1 192.6	1 269.9	1 537.3	9.4
Aviva OFE Aviva BZ WBK	2 786.2	2 687.5	2 672.9	2 676.4	16.3
AXA OFE	983.9	1 109.4	1 162.2	1 163.8	7.1
Generali OFE	788.0	890.1	1 006.3	1 010.3	6.2
ING OFE	2 929.8	2 954.1	3 010.2	3 060.3	18.7
Nordea OFE	868.5	898.8	888.3	925.4	5.7
Pekao OFE	349.5	344.5	342.8	342.0	2.1
PKO BP Bankowy OFE	468.3	539.5	657.8	956.9	5.84
OFE Pocztylion	518.1	588.3	595.9	594.8	3.6
OFE Polsat	311.1	302.5	300.8	-	-
OFE PZU "Złota Jesień"	2 193.5	2 215.0	2 222.9	2 229.8	13.6

OFE WARTA	315.4	314.5	311.5	346.3	2.1
<b>Total</b>	<b>14 931.0</b>	<b>15 493.4</b>	<b>15 942.3</b>	<b>16 377.7</b>	<b>100.0</b>

Source: Social Insurance Institution (ZUS)

The rates of return generated by open-end pension funds depend largely on the financial market situation. In 2013, funds' rates of return were positive and significantly higher than inflation but at the same time clearly lower than in the previous year.

**Table 9. Rates of return of open-end pension funds, 2010-2013 (%)**

Open-end pension fund	2010	2011	2012	2013
AEGON OFE	9.9%	-4.8%	16.4%	5.5%
Allianz Polska OFE	11.1%	-4.5%	18.0%	6.3%
Amplico OFE	11.2%	-4.8%	17.2%	8.0%
Aviva OFE Aviva BZ WBK	11.3%	-4.6%	16.6%	6.3%
AXA OFE	10.3%	-3.3%	14.9%	6.2%
Generali OFE	9.3%	-4.0%	15.0%	6.6%
ING OFE	11.9%	-4.5%	16.6%	8.4%
Nordea OFE	11.5%	-4.1%	17.6%	8.4%
Pekao OFE	10.5%	-5.3%	16.1%	7.4%
PKO BP Bankowy OFE	11.2%	-4.8%	16.4%	7.9%
OFE Pocztylion	11.1%	-6.1%	15.3%	7.5%
OFE Polsat	9.3%	-7.2%	14.6%	-
OFE PZU "Złota Jesień"	11.3%	-5.3%	15.7%	-7.2%
OFE WARTA	11.0%	-4.2%	16.2%	7.4%
<b>Average</b>	<b>10.8%</b>	<b>-4.8%</b>	<b>16.2%</b>	<b>-7.2%</b>

Source: in-house materials by the PFSA Office prepared based on daily reports of open-end pension funds

In 2013, as in previous years, the major items in the income statements of pension fund companies were revenues related to the management of pension funds (open-end and voluntary), including:

- revenue from the fee for the management of the open-end pension funds (62.8% of total revenue),
- revenue from the fee deducted from contributions to open-end pension funds (21.9% of total revenue),

as well as costs:

- general PTE management costs (14.9% of total costs),
- transfer agent costs (12.2% of total costs),
- acquisition costs for open-end and voluntary pension funds (7.7% of total costs of universal pension fund companies),
- costs of fees deducted from contributions and transfer payment-related charges paid to the Social Insurance Institution ("ZUS") and the Central Securities Depository of Poland ("KDPW") (6.6% of total costs).

In 2013, revenues of universal pension fund companies were higher than in the previous year. This resulted from an increase in contributions to open-end pension funds from 2.3% to 2.8% of the contribution assessment basis. As a result, in 2013, the total revenue of universal

pension fund companies derived from the management of open-end pension funds and voluntary pension funds amounted to PLN 1.8bn, up by 7.6% year on year. In the same period, the costs of funds' management increased by 68.6%, to PLN 1.3bn. Net result of universal pension fund companies in 2013 slightly exceeded PLN 359.6m and was down by 49.7% year on year. This was a consequence of the fact that some companies revalued financial assets or recognised in their financial statements on a one-off basis the costs that were previously deferred. This resulted directly from the legal changes adopted at the end of 2013.

#### OCCUPATIONAL PENSION FUNDS AND OCCUPATIONAL PENSION FUND COMPANIES

As at 31 December 2013, there were five occupational pension fund companies on the market, which managed five occupational pension funds. The first occupational pension fund company was established in 1999, while the last one started operations towards the end of 2004. As at the end of 2013, the value of assets accumulated in occupational pension funds (PFE) stood at PLN 2,038.9m. Compared to 2012, the net assets of PFEs increased by PLN 156.5m, i.e. by 8.3%. In the period under review, PLN 169.3m of basic and additional contributions were transferred to the accounts of members of occupational pension funds.

**Table 10. Net assets of occupational pension funds, 2010-2013 (as at 31 December)**

Detailed list	Net assets (PLN million)				Share in the market (%)
	2010	2011	2012	2013	2013
PFE TELEKOMUNIKACJI POLSKIEJ	934.6	909.4	1 097.0	1 167.0	57.2
PFE "Nowy Świat"	294.8	300.7	361.7	390.6	19.2
PFE Słoneczna Jesień	274.6	288.1	344.4	385.9	18.9
PFE UNILEVER POLSKA	27.2	31.7	42.7	51.5	2.5
PFE NESTLE POLSKA	24.2	27.7	36.5	43.8	2.1
<b>Total</b>	<b>1 555.4</b>	<b>1 557.6</b>	<b>1 882.4</b>	<b>2 038.9</b>	<b>100.0</b>

Source: Occupational pension funds

Contributions to occupational pension funds are free of any fees, and some occupational pension fund companies do not charge any management fees, which - from the participants' perspective - makes this form of saving more profitable.

As at the end of 2013, occupational pension funds had 57.1 thousand members. Year on year the number dropped by 0.1%.

In 2013, the average rate of return reported by occupational pension funds was 4.8% (in 2012: 14.7%). The moderate increase in the accounting unit was due to the conditions in the financial market.

**Table 11. Investment performance of occupational pension funds, 2010-2013 (rate of return or index change(%))**

Detailed list	2010	2011	2012	2013
PFE average rate of return	10.0	-4.3	14.7	4.8
PFE lowest rate of return	9.6	-5.2	13.6	3.5
PFE highest rate of return	10.5	-3.1	15.8	5.7
Inflation rate	2.6	4.3	3.7	

WIG change	18.8	-20.8	26.2	8.1
WIG20 change	14.9	-21.9	20.4	-7.0

Source: Occupational pension funds

## VOLUNTARY PENSION FUNDS (DFE)

In 2013, voluntary pension funds generated rates of return between 2.3% and 59.1%. This diversity was largely a consequence of relatively small assets available to these entities. In such a situation, one transaction or an investment in a single instrument can determine the performance. As a result, the performance may not fully reflect the systematic investment activities, and the rates of return generated in subsequent years may change significantly.

**Table 12. Rates of return and net assets of voluntary pension funds (DFE) in 2013**

Voluntary pension fund name	Net assets (PLN million)	Rate of return (%)
ING DFE	1.6	59.1%
MetLife Amplico DFE	2.9	56.7%
DFE PZU	0.3	32.8%
Nordea DFE	5.8	25.6%
PKO DFE	0.05	16.9%
DFE Pekao	2.0	16.3%
Allianz Polska DFE	11.2	-7.2%
DFE Pocztylion Plus	0.4	6.9%
Generali DFE	2.6	2.3%

Source: Voluntary pension funds

At the end of 2013, nine DFEs had 97,200 members, who deposited their savings there in the form of IKZE or IKE.

## OCCUPATIONAL PENSION SCHEMES, INDIVIDUAL PENSION ACCOUNTS AND INDIVIDUAL PENSION SECURITY ACCOUNTS

Occupational pension schemes (PPE), individual pension accounts (IKE) and individual pension security accounts (IKZE), in which participation is voluntary, are organised on an institutional basis, unlike other forms of voluntary accumulation of savings for pension purposes, and funds are accumulated in them on the terms and conditions provided for in the law.

The development of Pillar III of the pension system is supported by such incentives as tax exemptions and social security contribution allowances.

The occupational pension schemes market has been operating since 1999.

**Table 13. Development of occupational pension schemes, 2010-2013**

Detailed list	2010	2011	2012	2013
Number of occupational pension schemes	1 113	1 116	1 094	1 070
Number of participants ('000)	342	345	358	375
Value of assets accumulated (PLN million)	6 286	6 598	8 351	9 407

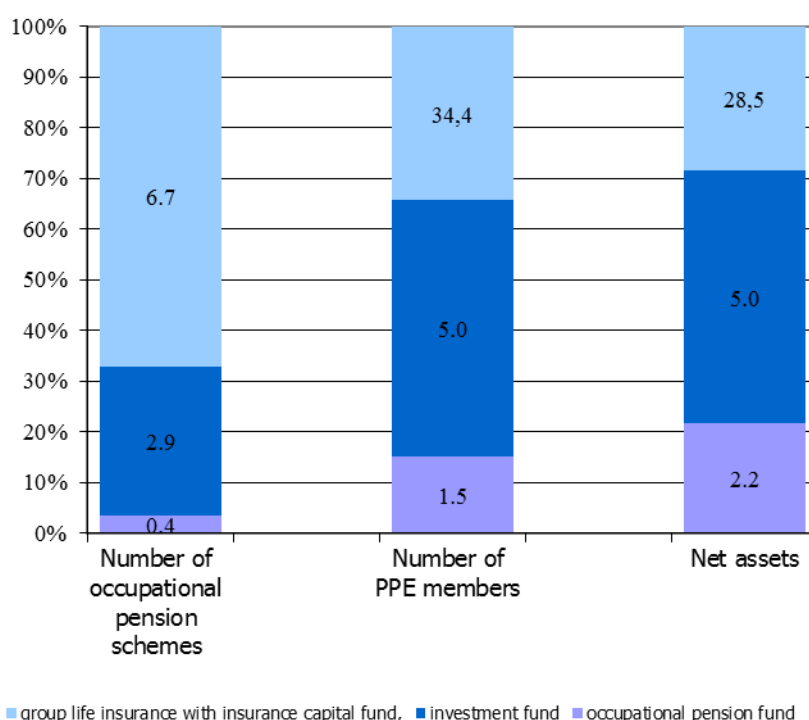
Source: in-house materials by the PFSA Office, institutions managing funds of occupational pension schemes

As at 31 December 2013, there were 1,070 occupational pension schemes, including:

- 718 schemes operating in the form of a group life insurance agreement with a unit-linked insurance fund,
- 314 schemes operating in the form of an agreement for payment by the employer of employee contributions to the investment fund,
- 38 schemes operating in the form of an occupational pension fund.

As at the end of 2013, occupational pension schemes had 375,000 participants, and the value of their assets stood at PLN 9,407m, which means that the value of assets accumulated in the accounts of PPE participants grew by PLN 1,056m (or 13%) compared to 2012.

**Fig. 9. Structure of the occupational pension schemes (PPE) market in 2013 (%)**



Source: in-house materials by the PFSA Office, institutions managing funds of occupational pension schemes

## 2.5. CAPITAL AND COMMODITY MARKET

Participants of the capital and commodity market supervised by the Polish Financial Supervision Authority include entities operating in the market of securities and other financial instruments, collective investment undertakings and entities operating in the commodity market.

### INVESTMENT FIRMS AND BANKS OPERATING SECURITIES ACCOUNTS (TRUST BANKS)

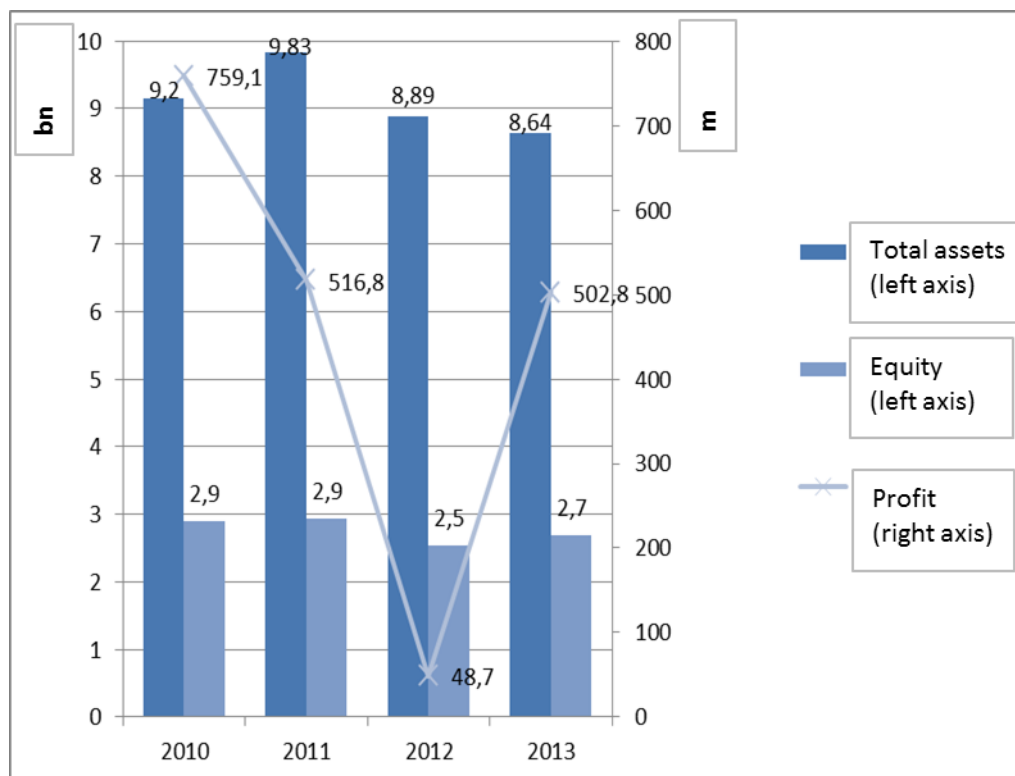
**Table 14. Number of entities pursuing brokerage and trust business, 2010-2013**

Type of entity	2010	2011	2012	2013
Brokerage houses	50	51	54	57

Banks conducting brokerage activities	14	14	15	14
Trust banks	14	15	15	13
<b>Total</b>	<b>78</b>	<b>80</b>	<b>84</b>	<b>84</b>

Source: in-house materials by the PFSA Office

**Fig. 10. Highlights of the brokerage houses sector, 2010-2013**



Source: in-house materials by the PFSA Office

**Table 15. Number of client accounts operated by brokerage houses and offices, 2010-2013**

Detailed list	Number of client accounts				Share in total assets (%)
	2010	2011	2012	2013	2013
Brokerage house	1 323 959	1 210 088	1 195 884	1 229 723	63.72%
Banks conducting brokerage activities	649 680*	675 327	696 773	700 063	36.28%

Source: in-house materials by the PFSA Office

\* Change in manner of disclosure, non-homogenous population

## ORGANISED SECURITIES MARKETS

### Giełda Papierów Wartościowych w Warszawie SA (Warsaw Stock Exchange)

In 2013, a new system for trading in financial instruments - Universal Trading Platform (UTP) was launched at Giełda Papierów Wartościowych w Warszawie SA (Warsaw Stock Exchange). During the year, the supervisory authority adjusted the supervisory tools to the new system.

In the period covered by the report, most major Stock Exchange indexes were rising, except for the largest companies WIG20 index. Trading on the Exchange was about PLN 50bn higher than in the previous year. Trading on the futures market increased by more than PLN 1bn.

In March 2013, the Warsaw Stock Exchange ceased to operate commodities trading within the meaning of the Act of 26 October 2000 on commodity exchanges (Dz.U. of 2010, No 48, item 284, as amended).

In 2013, the Warsaw Stock Exchange began to publish the results of a new WIG30 index.

**Table 16. Rates of return of the Warsaw Stock Exchange indices, 2010-2013 (%)**

Detailed list	2010	2011	2012	2013
WIG	18.77	-20.83	26.24	8.06
WIG20	14.88	-21.85	20.45	-7.05
mWIG40	19.57	-22.51	17.42	31.06
sWIG80	10.18	-30.47	22.92	37.28

Source: [http://www.gpw.pl/analizy\\_i\\_statystyki](http://www.gpw.pl/analizy_i_statystyki)

**Table 17. Number of instruments traded on the Warsaw Stock Exchange, 2010-2013**

Detailed list	2010	2011	2012	2013
Companies	400	426	438	450
including foreign	27	39	43	47
Number of initial offerings	34	38	19	23
Number of delistings	13	12	7	11
Bonds	50	51	62	94
including foreign	3	2	2	1
Futures	55	79	91	134
Options	106	122	120	116

Source: [http://www.gpw.pl/analizy\\_i\\_statystyki](http://www.gpw.pl/analizy_i_statystyki)

**Table 18. Capitalisation of the Warsaw Stock Exchange as at year-end, 2010-2013 (PLN million)**

Detailed list	2010	2011	2012	2013
Polish companies	542 646	446 151	523 390	593 464
Foreign companies	253 836	196 712	210 657	247 316
Polish bonds	486 505	521 746	588 635	590 265
Foreign bonds	586	173	173	98
<b>Total</b>	<b>1 283 573</b>	<b>1 164 782</b>	<b>1 322 855</b>	<b>1 431 143</b>

Source: [http://www.gpw.pl/analizy\\_i\\_statystyki](http://www.gpw.pl/analizy_i_statystyki)

WSE capitalization in 2013 went up by 13% when compared to the previous year.

**Table 19. Trading volumes on the Warsaw Stock Exchange, 2010-2013 (PLN million)<sup>2</sup>**

Detailed list	2010	2011	2012	2013
Equities	234 288	268 139	202 880	256 147
Bonds	1 428	836	1 043	1 653
Futures	340 648	361 665	216 436	218 839

<sup>2</sup> Trading volumes standardized to single format.

Options	16 888	23 562	16 269	17 419
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Source: [http://www.gpw.pl/analizy\\_i\\_statystyki](http://www.gpw.pl/analizy_i_statystyki)

### Alternative trading facility (NewConnect)

In addition to the regulated market, the Warsaw Stock Exchange operates an organised equity market in the form of an alternative trading facility under the name of NewConnect.

**Table 20. Highlights of the NewConnect alternative trading facility, 2010-2013**

Detailed list	2010	2011	2012	2013
NCIndex at year-end	63.44	41.62	33.26	366.01
Rate of return of NCIndex in current year (%)	27.65	-34.39	-20.09	10.05
Capitalisation of companies at year-end (PLN million)	4 970.95	8 383.50	10 804.74	10 444.88
Number of companies at year-end	185	351	429	445
Number of initial offerings	86	172	89	42
Number of trading sessions	253	251	249	247
Trading volume (PLN million) <sup>3</sup>	1 847.00	1 858.478	1 140.87	940
Number of trades per session	3470	4311	3105	2916
Average trading volume per session (PLN million)	7.3	7.40	4.58	3.80

Source: [http://www.newconnect.pl/pub/statystyki\\_roczne/2013\\_NC.pdf](http://www.newconnect.pl/pub/statystyki_roczne/2013_NC.pdf)

### BondSpot SA

Regulated OTC Market ("OTC") in Poland is operated by the company BondSpot SA, which in addition to the regulated market also organizes trading in debt instruments in the formula of an alternative trading system ("ATS").

**Table 21. Data on the OTC market and Alternative Trading System, 2010-2013<sup>4</sup>**

Detailed list	2010	2011	2012	2013
<b>RRP (Regulated OTC Market) BondSpot</b>				
Session trading volume (PLN million)	142.68	84.12	23.84	52.26
Number of trades per session	92	111	44	4
Number of instruments	28	71	84	94
<b>ASO (Alternative Trading System) BondSpot</b>				
Session trading volume (PLN million)	15.69	58.36	66.39	493.27
Number of trades per session	16	87	128	226
Number of instruments	21	92	125	146

Source: [http://www.gpwcatalyst.pl/pub/statystyki\\_roczne/2013\\_CAT.pdf](http://www.gpwcatalyst.pl/pub/statystyki_roczne/2013_CAT.pdf)

<sup>3</sup> Trading volumes standardized to single format.

<sup>4</sup> Trading volumes standardized to single format.

## SETTLEMENT AND DEPOSITORY SYSTEM

Krajowy Depozyt Papierów Wartościowych S.A. (the "Central Securities Depository of Poland", "KDPW") is a central institution responsible for operating and supervising the settlement and depository system supporting financial instruments trading in Poland. Starting from 1 July 2011, clearing of transactions in securities or other financial instruments registered in the system of the Central Securities Depository of Poland is performed via KDPW\_CCP SA while the settlement of these transactions (transfers between deposit accounts) is performed by the Securities Depository of Poland.

On 7 November 2013, the European Securities and Markets Authority (ESMA) registered a trade repository of KDPW, thus stating that it meets the requirements for repositories pursuant to *Regulation No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories* (EMIR).

On 27 December 2013, KDPW has also received the status of a globally recognized pre-LOU entity authorized to transmit pre-LEI codes required to report information on derivative contracts to trade repositories.

On 28 June 2013, KDPW\_CCP SA submitted to the Polish Financial Supervision Authority a request for authorisation to the provision of clearing services as a CCP under EMIR. The planned date of completion of the PFSA's proceedings falls in the second quarter of 2014. The authorisation obtained by KDPW\_CCP SA will allow KDPW\_CCP SA to provide clearing services in the EU in accordance with the EU standards stipulated in the above regulation and adopted regulatory technical standards.

## PUBLIC OFFERINGS OF FINANCIAL INSTRUMENTS OTHER THAN INVESTMENT CERTIFICATES

In 2013, there was an increase in public offerings as compared to the two previous years. The value of IPOs totalled PLN 14.16bn, which represents an increase of nearly 60% compared to the previous year and of 6% compared to 2011. The main reason for this was increased capital market activity of the Treasury. In 2013, the Treasury made two public offerings (the sale of shares in Polski Holding Nieruchomościami SA, with a value of PLN 0.24bn at the beginning of 2013, and the sale of shares in Energa SA, with a value of PLN 2.16bn at the end of 2013). Also in 2013, on the Treasury's initiative, PKP SA conducted a sale offer for the shares in PKP Cargo SA, with a value of PLN 1.42bn.

However, a drop was recorded in the most important segment of capital raising through public offerings (the primary market). The number of share subscriptions under public offerings and their total value fell considerably (a fall by more than 60%).

At the same time, a significant increase in activity could be observed in the segment of public offering of shares, where a fourfold increase in their value was recorded compared to 2012. Except for the above-mentioned sale offers of shares in companies that are directly or indirectly controlled by the Treasury, a secondary public offering of shares in Bank Zachodni WBK SA with a value of PLN 4.89bn was of significant importance, too. The offering was carried out by KBC Bank NV and Banco Santander SA to increase the number of shares held by minority shareholders to 30% of the share capital.

In other market segments (the segment of public offerings of bonds and of structured products), a moderate increase in the value of offerings was observed.

The number of public offerings placed on the market in 2013 was 132; the structure is presented in Table 22.

**Table 22. Characteristics of public offerings carried out in 2013**

132 public offerings, including: <i>carried out by foreign issuers</i>			
127 cash offerings			5 non-cash offerings
<i>76 public offerings of shares</i>  <i>including:</i> <i>37 offerings exempt from the requirement to prepare and seek approval of the prospectus</i>  <i>37 offers carried out by foreign issuers</i>	<b>9</b> public offerings of structured products  <i>including:</i>  <i>all carried out by foreign issuers</i>	<b>42</b> public offerings of bonds  <i>including:</i>  <i>18 offerings exempt from the requirement to prepare and seek approval of the prospectus</i>  <i>1 offer carried out by a foreign issuer</i>	
<b>32</b> public offerings	<b>44</b> public subscriptions		

Source: in-house materials by the PFSA Office

The aggregate value of public cash offerings executed in 2013 amounted to PLN 14,157.78m, including PLN 1,280.04m in share subscriptions, PLN 9,395.81m in share sale offerings, PLN 3,320.11m in bond issues and PLN 161.82m in public offerings of structured products.

**Table 23. Value and number of public cash offerings, 2010-2013**

Year	2010		2011		2012		2013	
Detailed list	Number of offerings *	Value (PLN million)	Number of offerings* *	Value (PLN million)	Number of offerings ***	Value (PLN million)	Number of offerings ****	Value (PLN million)
Public issues of shares	76	6 133.2	69	3 735.80	52	3 592.67	44	1 280.04
Public offerings of bonds	37	2 180.0	54	2 236.50	63	2 812.30	42	3 320.11
Share sale public offerings	37	15 456.2	30	6 671.10	27	2 272.55	32	9 395.81
Public offerings of structured products	36	1 251.7	24	692.7	12	143.71	9	161.82
<b>Total public offerings</b>	<b>186</b>	<b>25 021.1</b>	<b>177</b>	<b>13 336.1</b>	<b>155</b>	<b>8 821.23</b>	<b>127</b>	<b>14 157.78</b>
<i>Including</i>								
Initial public offerings	60	15 899.5	66	8 560.4	38	3 371.37	37	5 043.77

Source: in-house materials by the PFSA Office

\* In 2010, seven non-cash public equity offerings were also carried out.

\*\* In 2011, seven non-cash public equity offerings were also carried out.

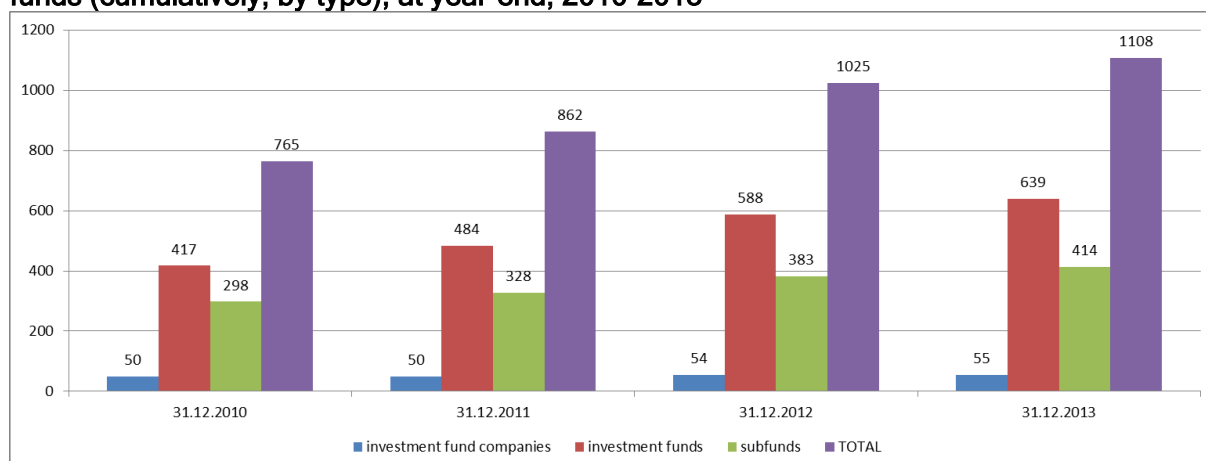
\*\*\*In 2012, four non-cash public equity offerings were also carried out.

\*\*\*\* In 2013, five non-cash public equity offerings were also carried out.

## INVESTMENT FUND COMPANIES AND INVESTMENT FUNDS

2013 was yet another year of growth in the number of regulated domestic entities in the investment funds sector, which is illustrated by Fig. 11 (cumulatively).

**Fig. 11. Total number of supervised investment fund companies, investment funds and sub-funds (cumulatively, by type), at year-end, 2010-2013**

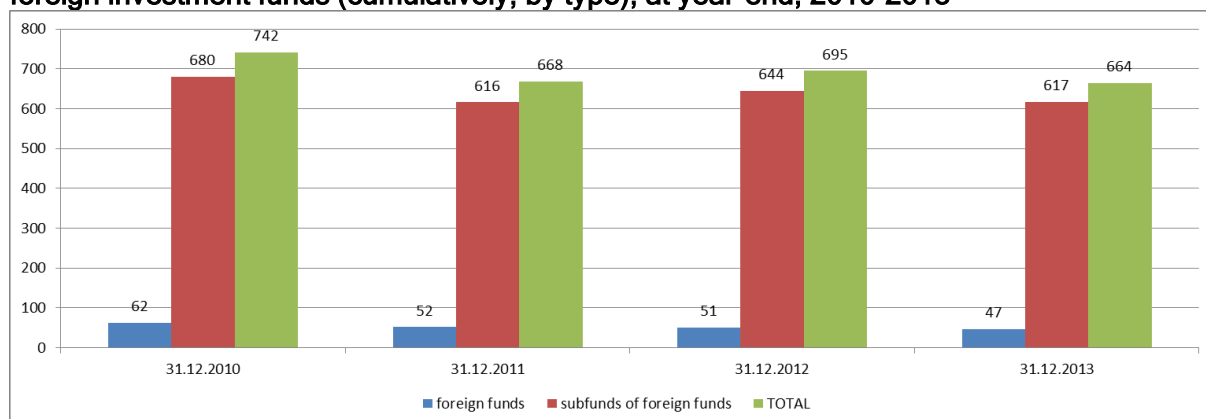


Source: in-house materials by the PFSA Office

As at 31 December 2013, there were 55 investment fund companies operating. They managed a total of 639 investment funds.

The Polish Financial Supervision Authority exercises supervision of selling in the Republic of Poland of participation units issued by foreign funds.

**Fig. 12. Total number of supervised foreign investment funds and sub-funds comprising foreign investment funds (cumulatively, by type), at year-end, 2010-2013**

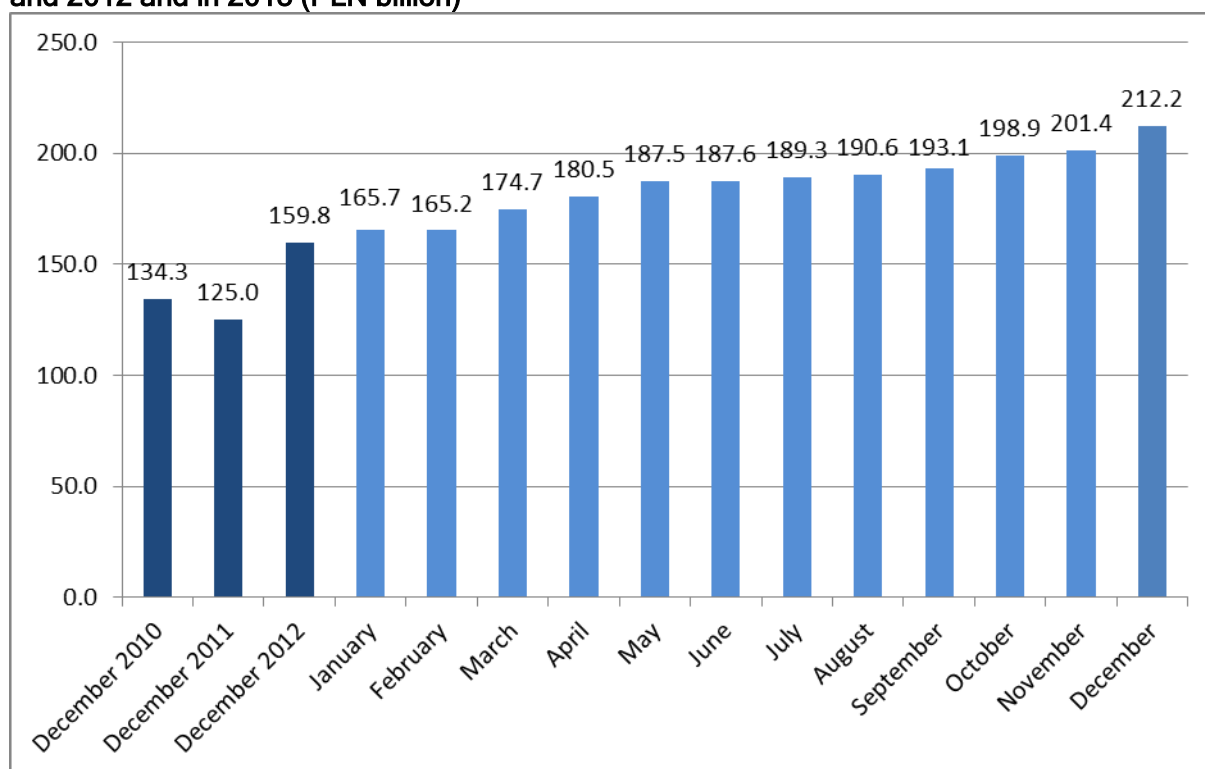


Source: in-house materials by the PFSA Office

Following a 2012 increase in the value of assets managed by investment fund companies, 2013 was characterized by a continued rising trend.

Over 2013, the value of assets managed by investment fund companies grew by PLN 52.4bn, to PLN 212.2bn as at 31 December 2013.

**Fig. 13. Assets under management of investment fund companies at year-end of 2010, 2011 and 2012 and in 2013 (PLN billion)<sup>5</sup>**



Source: in-house materials by the PFSA Office

As shown by the above figure, in all months, except for February, there was a growth in the value of assets managed by investment fund companies. Thus, the total value of assets of investment funds as at 31 December 2013 was well above the level of previous years. The biggest increase in the value of assets was recorded in March, May and December.

The increase in total managed assets was reflected in an increase in revenues compared to 2012. Despite the simultaneous increase in costs, the aggregate financial performance of investment fund companies also improved and at the end of December 2013 amounted to PLN 426m, i.e. PLN 101m more than in the previous year.<sup>6</sup>

**Table 24. Aggregate costs of investment fund companies, 2010-2013 (PLN million)<sup>7</sup>**

Costs	2010	2011	2012	2013	
Total costs, including:	1 655	1 731	1 763	2 129	100.0%
– fixed costs	403	447	553	589	27.7%
– variable costs, including:	1 252	1 284	1 210	1 540	72.3%
○ variable distribution costs*	923	958	861	1 079	50.7%

<sup>5</sup>Based on monthly reports filed by investment fund companies. Such reports are not audited or reviewed by statutory auditors, and so they may be subject to subsequent adjustments.

<sup>6</sup>Based on monthly reports filed by investment fund companies. Such reports are not audited or reviewed by statutory auditors, and so they may be subject to subsequent adjustments.

<sup>7</sup>Based on monthly reports filed by investment fund companies. Such reports are not audited or reviewed by statutory auditors, and so they may be subject to subsequent adjustments.

\* Costs related directly to acceptance and execution of orders for subscription, redemption and conversion of units in investment funds or acceptance of subscription orders for investment certificates and allotment of investment certificates, representing the distributor's fees or incurred in connection with the funds' promotion or marketing

Source: in-house materials by the PFSA Office

## COMMODITY MARKET

In connection with the entry into force in September 2013 of the Act of 26 July 2013 amending the Energy Law Act and certain other acts (Dz.U. of 2013, item 984, the so-called energy three-pack), a new exchange obligation concerning gas became effective, i.e. a constraint to trade in gas via the commodity exchange.

The energy three-pack introduced to the Energy Law Act Article 49b, which requires energy companies involved in trading in gaseous fuels to sell - at commodity exchanges or at the market organized by an entity operating a regulated market in the Republic of Poland - at least 55% of natural gas introduced into the transmission network. Given the concentrated structure of the gas market, the obligation of selling at commodity exchanges will be introduced gradually. The volume of gas covered by the obligation will change in the following years as follows: from the Act's the entry into force - 30%, from 1 January 2014 - 40%, from 1 January 2015 - 55%. The small energy three-pack allowed all energy companies, especially those active in the field of trading in gaseous fuels, to achieve the status of a member of a commodity exchange, and to trade in the stock market on their own account and not through brokerage houses.

In 2013, the volumes of trading in energy and gas on Towarowa Gielda Energii SA (Polish Power Exchange, "TGE") increased against 2012. The trading volume on all stock markets totalled 178.946 TWh (compared to 131.997 TWh in 2012, which means a growth of 35.57% y/y).

In 2013, 22.254 TWh were traded in total on the Day-Ahead and Current Day Market. Compared to the previous year, trading volume on the Day-Ahead Market increased by 16.49%. The weighted average price of electrical energy for the whole day based on all the purchase/sale transactions concluded in 2013 amounted to PLN 156.13/MWh. This represents a decrease of PLN 23.32 compared to 2012.

In 2013, the total trading volume of gas on the Day-Ahead Market amounted to 0.425 TWh. The weighted average price of gas for the whole day based on all the purchase/sale transactions concluded in 2013 amounted to PLN 116.75/MWh.

In 2013, the total trading volume on the electricity Commodity Forward Market amounted to 154.300 TWh. The trading volume went up by 36.70% compared to 2012. The weighted average price of the annual contract BASE\_Y-14 in the whole 2013 stood at PLN 155.00/MWh.

In 2013, the total trading volume of gas on the Commodity Forward Market amounted to 1.968 TWh. The weighted average price of the annual contract GAS\_BASE\_Y-14 in the whole 2013 stood at PLN 114.54/MWh. In addition, in 2013, there were five gas auctions conducted at the Polish Power Exchange, in which derivative instruments were offered.

In 2013, the total trading volume on the Property Rights Market amounted to 39.286 TWh (down by 36.87% y/y).

As at 31 December 2013, there were 59 members of Towarowa Gielda Energii S.A., including 6 brokerage houses and 9 foreign entities.

2013 was another year of functioning of the market coupling mechanism, i.e. the combination of the power markets of Poland and Sweden. It is related to the European Commission's recommendations under which a single European energy market is to be established in the following years.

In 2013, no transactions were made on the Emission Allowances Market (CO2 Spot) being part of TGE S.A.

On 4 November 2013, Towarowa Giełda Energii S.A. placed on the market Property Rights under Energy Efficiency Certificates (PMEF), the so-called white certificates.

## 3. LICENSING AND AUTHORISATION ACTIVITIES

### 3.1. BANKING SECTOR

#### TASKS CONCERNING CHANGES IN COMPOSITION OF BANKS' CORPORATE BODIES

In 2013, the Polish Financial Supervision Authority took 38 decisions by way of a resolution on granting the consent to appoint management board members, including presidents, including.

- 10 decisions granting consent to appoint the president of the management board of a bank operating as a joint-stock company,
- 17 decisions granting consent to appoint the president of the management board of a cooperative bank, including one decision as a result of reconsideration,
- 11 decisions granting consent to appoint members of the management board of a bank operating as a joint-stock company.

In addition, there were 13 decisions to discontinue the proceedings in the above-mentioned matters.

#### TASKS CONCERNING CHANGES IN THE SHAREHOLDING STRUCTURE OF BANKS BEING JOINT-STOCK COMPANIES

In 2013, the Polish Financial Supervision Authority took 5 decisions, in the form of a resolution, stating that there are no grounds to raise an objection to the planned purchase of shares in a bank. Four procedures in the above-mentioned matters were discontinued.

#### MERGER OF BANKS AND PURCHASE OF A BANK ENTERPRISE OR ITS ORGANISED PART

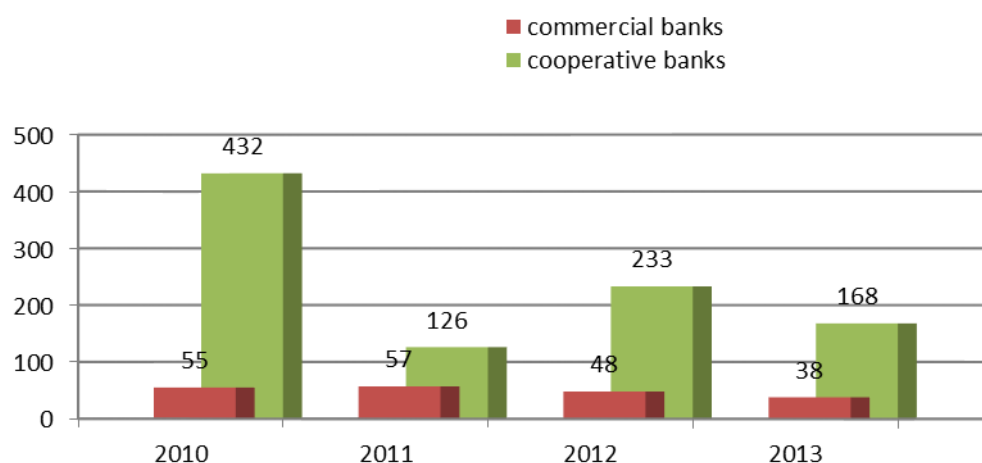
In 2013, the Polish Financial Supervision Authority issued 3 authorisations to the merger of banks in the form of a joint stock company and 4 authorisations to the acquisition of a bank enterprise or its organized part.

#### AMENDMENTS TO BANKS' CHARTERS

In 2013, upon consideration of requests concerning amendments to banks' charters, the Polish Financial Supervision Authority issued 207 decisions, including:

- 39 decisions on authorisation to amend charters of banks being joint-stock companies,
- 168 decisions on authorisation to amend charters of cooperative banks.

**Fig. 14. Number of issued decisions granting consent to amendments to charters of commercial banks and cooperative banks, 2010-2013**



Source: in-house materials by the PFSA Office

#### EXTENSION OF THE TERRITORY OF OPERATION OF A COOPERATIVE BANK

Extension of the territory of operation by a cooperative bank requires a separate consent of the Polish Financial Supervision Authority when the bank intends to conduct activity in counties other than the ones neighbouring the county where the bank operates. The Polish Financial Supervision Authority took 2 decisions on issuing authorisation to the extension of the territory of operation of a cooperative bank.

#### CONDUCTING ACTIVITY THROUGH A BRANCH OR AS PART OF CROSS-BORDER ACTIVITY

In 2013, the Polish Financial Supervision Authority received from credit institutions three notifications of the intention to conduct activity in Poland.

A credit institution may start operating in Poland through a branch after the expiry of two months, at the earliest, from the date of receipt by the Polish Financial Supervision Authority of a notification containing the information referred to in Article 48l(1) of the Banking Law Act. Until that time, the Authority may indicate the conditions that for the common good, in particular to protect consumer interest, ensure security of economic transactions or prevent infringement of law, must be satisfied by a credit institution branch pursuing its activity. The Authority issued three decisions in these matters in the form of a resolution, which were addressed to credit institutions notifying their activity through a branch. In 2013, three credit institutions notified of discontinuation of their activities through a branch in Poland. In the period covered by the report, the Polish Financial Supervision Authority also received from relevant regulators of states belonging to EEA 16 notifications of the intention of credit institutions to conduct cross-border activities in Poland. In this period, two credit institutions notified the PFSA of discontinuation of such activities.

In 2013, one domestic bank notified the PFSA of conducting cross-border activity in an EEA state.

## OPENING REPRESENTATIVE OFFICES OF FOREIGN BANKS AND CREDIT INSTITUTIONS, AND THEIR OPERATION

In 2013, the Polish Financial Supervision Authority issued 3 decisions granting authorisations to open representative office by credit institutions and 2 decisions on stating expiry of an authorisation to open a representative office of credit institutions.

### 3.2. COOPERATIVE SAVINGS AND CREDIT UNIONS (SKOK) SECTOR

On 27 October 2012, the Polish Financial Supervision Authority covered cooperative savings and credit unions ("SKOK") with its supervision. As in the case of supervision of banks, the supervision by the Polish Financial Supervision Authority of the cooperative savings and credit unions system is aimed at ensuring security of deposits of unions' members. The Act of 5 November 2009 on Cooperative Savings and Credit Unions provided for a number of licensing activities related to its entry into force:

- under Article 86(1) of the Act on Cooperative Savings and Credit Unions, unions shall, within 9 months of the Act's entry into force, file with the Polish Financial Supervision Authority a requests for approval of:
  - the charter adjusted to the provisions of the Act,
  - the president of the management board.
- under Article 86(2) of the Act on Cooperative Savings and Credit Unions, the National Union, within 6 months of the Act's entry into force, shall file with the Polish Financial Supervision Authority a request for approval of:
  - the charter adjusted to the provisions of the Act,
  - members of the management board.

The Act on Cooperative Savings and Credit Unions, as part of the license-related supervision, provides for a number of tasks to be performed on an ongoing basis by the Polish Financial Supervision Authority, including:

- issuing authorisations to establish cooperative savings and credit unions (Article 7(1) of the Act on Cooperative Savings and Credit Unions),
- approving amendments to charters of cooperative savings and credit unions (Article 8(2) of the Act on Cooperative Savings and Credit Unions),
- approving amendments to the charter of the National Union (Article 53(2) of the Act on Cooperative Savings and Credit Unions),
- granting consents to appointing presidents of cooperative savings and credit unions (Article 21(1) of the Act on Cooperative Savings and Credit Unions),
- granting consents to appointing members of the management board of the National Union (Article 51(1) of the Act on Cooperative Savings and Credit Unions).

#### TASKS OF MANAGEMENT OF COOPERATIVE SAVINGS AND CREDIT UNIONS

In accordance with Article 86(1)(2) of the Act on Cooperative Savings and Credit Unions, unions are required to apply to the Polish Financial Supervision Authority for approval of the president of their management board within 9 months from the date of entry into force of the Act, and therefore until 27 July 2013 the Polish Financial Supervision Authority refused to approve the president of the union's management board, if the president:

- has been convicted of intentional or fiscal offence, excluding offenses prosecuted upon private accusation
- was responsible for documented losses at his or her place of employment or in connection with his or her function as a member of the body of a legal person;
- has been prohibited from carrying out business activity on his or her own behalf or from performing functions of a representative or attorney of an entrepreneur, a member of the supervisory board or audit committee in a joint-stock company, limited liability company or cooperative,

- does not fulfil the requirements referred to in Article 18(4) of the Act on Cooperative Savings and Credit Unions,
  - does not guarantee the sound and prudent management of the union,
  - has not attained at least secondary education and the qualifications and experience necessary to manage a union.

The Polish Financial Supervision Authority may refuse to approve the president of the management board of an association if the president:

- is the subject of penal proceedings or court proceedings involving fiscal offences,
- has been convicted of a criminal offense other than those specified in the above item.

In 2013, the Polish Financial Supervision Authority adopted 10 decisions in the form of a resolution, on the approval of the president of a union's management board, including:

- nine decisions approving the president of the management board of a union,
- one refusal to approve the president of the management board.

Moreover, three procedures on the approval of the president of the management board of a union were discontinued.

#### AMENDMENTS TO CHARTERS OF COOPERATIVE SAVINGS AND CREDIT UNIONS

In accordance with Article 86(1)(1) of the Act on Cooperative Savings and Credit Unions, unions were required to apply to the Polish Financial Supervision Authority, within nine months from the date of its entry into force, i.e. until 27 July 2013, for approval of charters adapted to the provisions of the Act. Pursuant to the second sentence of Article 86(3) of the Act on Cooperative Savings and Credit Unions, the Polish Financial Supervision Authority shall adopt the decision on the approval of the charter in accordance with Article 8(3), according to which the PFSA shall refuse to approve amendments to the charter of a union if such an amendment would violate the law or safety of funds held by the union. Thus, pursuant to the mentioned provisions it should be assumed that the Polish Financial Supervision Authority refuses to approve the charter of a union if the charter leads to the violation of the law or safety of funds held by the union.

In 2013, the Polish Financial Supervision Authority issued 51 decisions on the approval of the charter of a cooperative savings and loan union, including:

- 30 decisions approving the charter of a union,
- 21 refusals to approve the charter of a union.

In addition, the Polish Financial Supervision Authority issued five decisions approving amendments to unions' charters and six decisions discontinuing proceedings in such matters, as well as 117 rulings on the admission of the National Cooperative Savings and Credit Union to participate as a party in the administrative procedure for approval of the president of a union's management board and for approval of a charter.

Moreover, the Polish Financial Supervision Authority issued 6 rulings refusing the admission of unions to proceedings concerning the National Cooperative Savings and Credit Union.

### 3.3. PAYMENT SERVICES AND ELECTRONIC MONEY SECTOR

In 2013, the PFSA granted authorisation to 16 entities to operate as a domestic payment institution. In 2012, such authorisations were issued to three entities, and therefore as at 31 December 2013 a total of 19 KIPs had such authorisations. The payment service register as at 31 December 2013 covered 1,315 payment service offices.

## LICENSES FOR DOMESTIC PAYMENT INSTITUTIONS ("KIP") AND REGISTRATION OF PAYMENT SERVICE OFFICES ("BUP")

The Act of 19 August 2011 on Payment Services ("APS") extended the powers of the Polish Financial Supervision Authority to include the supervision of certain payment service providers, namely payment institutions and payment service offices. Payment institutions may provide a wide range of payment services referred to in Article 3 of the APS.

However, payment service offices may only provide money remittance services.

The conducting of activities as a payment institution requires an authorisation of the Polish Financial Supervision Authority, while the conducting of activities as a payment service office is a regulated activity under the Act of 2 July 2004 on Freedom of Economic Activity and does not require obtaining an authorisation of the Polish Financial Supervision Authority - it only requires entry into the Payment Service Register. Both payment institutions and payment service offices may conduct, apart from providing payment services, also other economic activities and then obtain the status of a hybrid payment institution or a hybrid payment service office, respectively.

The Polish Financial Supervision Authority runs and makes available, through its website, the Payment Service Register ("PSR") covering: domestic payment institutions, payment service offices, cooperative savings and credit unions and the National Union. In line with the provisions of the APS, the entities other than payment service providers, which on the date of entry into force of the APS (i.e. 24 October 2011) conducted activities in the scope of payment services, were able to further conduct such activities in the Republic of Poland without the requirement to obtain an authorisation to conduct activities as a payment institution or the requirement of entry into the PSR, provided that a relevant request had been filed within 6 months of the date of entry into force of the APS (i.e. 24 April 2012).

In 2013, the Polish Financial Supervision Authority issued 16 authorisations to the provision of payment services as a domestic electronic money institution and 1 decision on the refusal of authorisation to provide payment services as a domestic payment institution. 6 proceedings in the above-mentioned matters were discontinued.

In 2013, the Polish Financial Supervision Authority examined 528 applications for entry of a payment service office into the Payment Service Register, by issuing:

- 269 certificates of entry of a payment service office into the Payment Service Register,
- 164 certificates of amendment to the entry of a payment service office into the Payment Service Register,
- 95 decisions on removal of a payment service office from the Payment Service Register.

Moreover, the Polish Financial Supervision issued 1 ruling on returning the application for entry of a payment service office into the Payment Service Register.

## ELECTRONIC MONEY INSTITUTIONS

On 7 October 2013, the amendments to the Act of 19 August 2011 on Payment Services entered into force which implemented Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions. At the same time the Act of 12 September 2001 on Electronic Payment Instruments, which until that time regulated the activities of electronic money, was repealed.

In 2013, the Polish Financial Supervision Authority examined 3 requests for granting an authorisation to the pursuit of the business of a domestic electronic money institution.

However, in the course of the proceedings conducted pursuant to those requests, the entities applying for an authorisation modified their requests and applied for an authorisation to provide payment services as a domestic payment institution.

#### ANALYSIS OF CONTACTLESS CARDS' SECURITY

In connection with PFSA representatives' participation in the work of the Payment System Council at the National Bank of Poland, the PFSA Office prepared the report "Analysis of the security level of contactless cards from the point of view of their holders," which presents the results of a study carried out by the PFSA Office on the main identified scenarios of undesirable use of proximity cards - together with the analysis of feasibility of those scenarios and related risks - as well as the analysis of the practice of banks using proximity technology in their products, which analysis was conducted on the basis of the results of surveys sent to selected commercial banks. The report was presented and discussed at the Council's meeting on 24 June 2013 and was subsequently published on the PFSA's website.

At the same meeting of the Council, a working group was established, with the participation of the representatives of the PFSA Office, whose task was to prepare a proposal for recommendations on the basic issues related to the security of transactions using contactless cards. The result of the group's work was a proposal for recommendations, which was adopted by the Council at the meeting on 30 September 2013. The recommendations have been published on the website of the National Bank of Poland. The entities engaged in activities related to issuing, accepting and servicing payment cards with contactless functionality were obligated to implement these recommendations within 6 months of their adoption, i.e. by 31 March 2014. After this date, the Council will examine the status of their implementation to decide about taking further action in this regard.

### 3.4. INSURANCE SECTOR

#### AUTHORISATIONS TO CONDUCT INSURANCE AND REINSURANCE ACTIVITY

In 2013, there was one case of proceedings conducted on the extension of the thematic scope of operations of a domestic insurance undertaking. One authorisation was granted to extend the thematic scope of the activity.

#### NOTIFICATIONS OF CONDUCTING INSURANCE ACTIVITIES IN POLAND

As at the end of 2013, 604 insurance undertakings from the European Union and European Economic Area Member States submitted notifications of conducting insurance activities in Poland under the freedom to provide services, and 22 insurance undertakings and 1 reinsurance undertaking notified of their operations through a branch.

In 2013, the PFSA received from foreign insurance undertakings 25 notifications of the intent to conduct insurance activities as a cross-border activity and one notification from a foreign insurance undertaking from an EU member state of the intent to conduct insurance activities in the Republic of Poland through a branch.

In the period covered by the report, 19 insurance undertakings from EU Member States notified their intention to extend the scope of the insurance activities conducted in the Republic of Poland under the freedom to provide services, and one insurance undertaking notified of its intention to extend the insurance activities in the Republic of Poland through a branch.

In 2013, among the insurance undertakings that notified their intent to conduct insurance activities in the Republic of Poland under the freedom to provide services there were three cases of withdrawal from conducting insurance operations in the Republic of Poland and four mergers.

#### CHANGES IN COMPOSITION OF INSURANCE UNDERTAKINGS' CORPORATE BODIES

In 2013, the PFSA issued 18 decisions on granting approval (11 in relation to management board presidents and 7 in relation to management board members of insurance undertakings); in 2 cases the proceedings were discontinued. Moreover, there was 1 procedure on abandoning the requirement of university education - the procedure was suspended at the request of the insurance undertaking.

It should be emphasised that even though the requirement of obtaining consent refers only to two management board members, all members must meet the criteria defined by the Act on Insurance Activity (full capacity to perform acts in law, university education, no criminal record, warranty of due management of the insurance undertaking). The regulator verifies whether those criteria are met as part of its ongoing supervision of operations of insurance undertakings (the relevant corporate body of the insurance undertaking for appointing or dismissing management board members is obliged to inform the regulator about any changes to the management board composition within 7 days of passing a resolution on appointment or dismissal). Similar supervisory actions are also performed as regards verification of corresponding information received in relation to changes in the composition of the supervisory board.

#### AMENDMENTS TO CHARTERS OF REGULATED ENTITIES

In 2013, the regulator issued 32 decisions on approval of amendments to charters of domestic insurance undertakings.

#### PURCHASE OF OR SUBSCRIPTION FOR SHARES OR RIGHTS ATTACHED TO SHARES

In 2013, the regulator issued 6 decisions relating to the purchase of or subscription for shares or rights attached to shares. Under those decisions, 2 procedures concerning 2 domestic insurance undertakings were discontinued, in 4 cases no grounds for raising an objection to direct purchase of shares of 4 domestic insurance undertakings were stated, in 4 cases no grounds for raising an objection to indirect purchase of shares of 4 domestic insurance undertakings were stated. In one case, the contested decision was upheld in relation to the objection to direct purchase of shares in a domestic insurance undertaking.

#### MERGER OF DOMESTIC INSURANCE UNDERTAKINGS

In 2013, in one case the Polish Financial Supervision Authority refrained from raising an objection to the planned merger of two domestic insurance undertakings.

#### ENTRY INTO THE REGISTER OF ACTUARIES

In the period covered by the report, there were 29 requests filed for entry to the actuaries register, and 30 decisions in this regard were issued.

In 2013, the Polish Financial Supervision Authority issued one decision on recognising professional qualifications to perform the regulated profession of actuary.

## INSURANCE AGENTS

In 2013, 114,965 actions were performed in the register, consisting in registration of requests for entry into the register, change of the data subject to entry into, and removal from, the register. There were 75,357 changes of data concerning individual agents and 174,236 changes concerning persons acting as agents. 6,320 agents and 27,428 persons acting as agents were removed from the register.

As at 31 December 2013, there were 34,534 insurance agents and 157,490 persons acting as agents entered into the register.

**Table 25. Number of registered insurance agents and persons acting as agents, 2010-2013**

Detailed list		2010	2011	2012	2013
Agents	Sole	8 390	6 266	7 351	7 932
	Multi-agents	3 930	3 360	4 515	4 510
	<b>Total</b>	<b>12 320</b>	<b>9 626</b>	<b>11 866</b>	<b>12 442</b>
Persons acting as insurance agent	Working for one agent	40 288	44 193	46 083	47 649
	Working for at least two agents	5 565	7 568	9 574	11 360
	<b>Total</b>	<b>45 853</b>	<b>51 761</b>	<b>55 657</b>	<b>59 009</b>

Source: in-house materials by the PFSA Office

In 2013, there were also 117 entities, entered into the register of insurance agents, which performed agency activities through persons working under an employment contract, for whom regulations provide for a simplified procedure of obtaining qualifications, including:

- 18 banks conducting agency activities through persons obliged to train themselves only on the general and specific insurance conditions of an insurance undertaking with which the registered entities co-operate, on the information about rate structures, on the rules of calculating insurance premiums and on the quantitative and value settlements on account of the insurance contracts being concluded and of the collection of insurance premiums,
- 99 entrepreneurs who conduct, under an agreement concluded with a segment II insurance undertaking, agency activities as activities supplementary to the core economic activities, if the agency activities are directly related to the core business of the entrepreneur, do not require detailed insurance knowledge and the duration of the agreement does not exceed 12 months.

## INSURANCE AND REINSURANCE BROKERS

**Table 26. Register of brokers at year-end, 2010-2013**

Brokers		2010	2011	2012	2013
Insurance	Natural persons	654	707	738	775
	Legal persons	282	299	339	371
	<b>Total</b>	<b>936</b>	<b>1006</b>	<b>1077</b>	<b>1146</b>
Reinsurance	Natural persons	5	4	5	8
	Legal persons	13	16	19	23
	<b>Total</b>	<b>18</b>	<b>20</b>	<b>24</b>	<b>31</b>

Source: in-house materials by the PFSA Office

In 2013, the Polish Financial Supervision Authority issued a total of 116 authorisations to conduct brokerage activities as regards insurance and reinsurance, including 68 authorisations to natural persons and 48 to legal persons. In this period, 4 authorisations were granted to legal persons to conduct reinsurance brokerage activities, and 3 authorisations to natural persons.

In the period covered by the report, there were procedures held on withdrawal of the authorisation to conduct insurance and reinsurance brokerage activities, including 32 on the party's initiative and 5 *ex officio*.

**Table 27. Number of authorisations to conduct insurance brokerage activities, as granted by the Polish Financial Supervision Authority, 2010-2013**

Detailed list	2010	2011	2012	2013
Natural persons	44	79	57	65
Legal persons	24	29	52	44
<b>Total (reinsurance excluded)</b>	<b>68</b>	<b>108</b>	<b>109</b>	<b>109</b>

Source: in-house materials by the PFSA Office

In the period covered by the report, six examinations were held by the Examination Board appointed by the Minister of Finance, including three examinations for insurance brokers and three for reinsurance brokers. A total of 561 persons took the examinations (including 13 persons who took an insurance broker qualifying examination). 345 persons passed the examinations (including 10 persons who took an insurance broker qualifying examination).

**Table 28. Statistics of persons taking the examination for insurance brokers, 2010-2013**

Detailed list	2010	2011	2012	2013
Persons taking the examination - total	504	657	567	548
Persons who passed the examination for brokers	261	457	339	335

Source: in-house materials by the PFSA Office

**Table 29. Statistics of persons taking the examination for reinsurance brokers, 2010-2013**

Detailed list	2010	2011	2012	2013
Persons taking the examination - total	21	23	36	13
Persons who passed the examination for brokers	7	21	19	10

Source: in-house materials by the PFSA Office

## NOTIFIED INSURANCE AGENTS

In 2013, 731 insurance agents intending to conduct activities in the Republic of Poland were notified by registration bodies or regulators of EU Member States. The notifications were withdrawn for 264 dealers.

### 3.5. PENSION SECTOR

#### PENSION FUNDS AND PENSION FUND COMPANIES

As regards licensing functions, in 2013 there were 98 procedures ended in the issue of 98 administrative decisions. There were also 13 rulings made in relation to pension market entities.

The number of issued decisions and rulings is presented in Table 1.2 in Annex 1.

#### Take-over of management in OFE POLSAT

The acquisition of the management of Otwarty Fundusz Emerytalny POLSAT [Open-end Pension Fund POLSAT] by PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A. was an important event in the pension market in 2013. The acquisition was approved by the Polish Financial Supervision Authority on 12 February 2013. When approving the consolidation process, the supervisory authority stated that the Company taking over the management guarantees that the Fund's matters will be dealt with in a proper manner, and that the authorisation issued will not be in conflict with the interests of pension fund members or other public good. It was also stated that the taking over of the management of OFE POLSAT would be associated with tangible benefits, e.g. reduction of expenses incurred for the management fee by members of both Funds and reduction of the fee deducted from contribution for members of PKO BP BANKOWY OFE to the level in force in the acquired fund.

Since the completion of the liquidation of OFE POLSAT, which took place on 19 July 2013, the pension fund market consists of 13 open-end funds. Another liquidated entity was Powszechne Towarzystwo Emerytalne POLSAT S.A., for which on 23 July 2013 the supervisory authority revoked an authorisation to establish a company.

#### CHANGES IN PENSION FUNDS' CHARTERS

In 2013, the PFSA granted 10 authorisations to an amendment to the charter of an open-end pension fund, six authorisations to an amendment to the charter of a voluntary pension fund and five authorisations to an amendment to the charter of an occupational pension fund.

#### CHANGES IN COMPOSITION OF PENSION FUND COMPANIES' GOVERNING BODIES

In 2013, the following decisions were made:

- 8 decisions as regards granting an authorisation to appoint a management board member in a universal pension fund company,
- 2 decisions as regards granting an authorisation to appoint a management board member in an occupational pension fund company,
- 13 decisions as regards granting an authorisation to appoint a supervisory board member in a universal pension fund company,
- 1 decision as regards granting an authorisation to appoint a supervisory board member in an occupational pension fund company.

#### OCCUPATIONAL PENSION SCHEMES (PPE)

In the period covered by the report, the PFSA Office noticed:

- a growth of approx. 19% in the number of requests for entry of a scheme into the register (37 requests in 2013 vs. 31 requests in the previous year),
- a drop of approx. 32% in the number of requests for entry of amendments to the scheme into the register (147 requests in 2013 vs. 217 requests in the previous year),
- a growth of approx. 9% in the number of requests for removal of the scheme from the register (50 requests in 2013 vs. 46 requests in the previous year),

- a growth of approx. 37% in the number of notifications of the change in the employer's or manager's details (148 notifications in 2013 vs. 108 notifications in the previous year),

The number of decisions issued by the PFSA in procedures concerning occupational pension schemes in 2013 is presented in Table 1.2 in Annex 1, while the number of resolutions passed by the PFSA in 2013 concerning occupational pension schemes is presented in Table 1.1 in Annex 1.

## 3.6. CAPITAL AND COMMODITY MARKET

### INVESTMENT FIRMS AND TRUST BANKS

In 2013, the PFSA issued 5 decisions to new brokerage houses on granting an authorisation to conduct brokerage activities, 5 decisions on granting an authorisation to conduct brokerage activities as an extension of the existing scope of brokerage houses' activities, 1 decision stating the expiry of an authorisation to conduct brokerage activities, 1 decision stating the expiry of an authorisation to conduct trust activities and 1 decision declaring partial expiry of an authorisation to conduct brokerage activities.

In the period covered by the report, the Polish Financial Supervision Authority also examined 3 notifications of the intent to perform brokerage activities-related operations outside the separate banking unit in which brokerage activities are conducted. In two cases, the PFSA adopted a decision on no objections, and in one case the procedure was discontinued.

As at 31 December 2013, there were 13 requests for granting an authorisation to conduct brokerage activities pending.

In 2013, 10 notifications of the intention to purchase or subscribe for shares of brokerage houses were examined. In 1 case a decision was issued stating that there are no objections to the intent to purchase or subscribe for shares of a brokerage house and setting a timeframe within which the purchase or subscription may take place, in 3 cases the Authority raised an objection to the intention to purchase or take over a brokerage house, and in 6 cases the proceedings were discontinued.

As at 31 December 2013, 7 procedures regarding notification of the intent to purchase or subscribe for shares of brokerage houses were being examined.

#### *Investment firms' notifications*

In the period covered by the report, the PFSA received 219 notifications of the intent to conduct brokerage activities without a branch and 1 notification of the intent to conduct brokerage activities through a branch in the Republic of Poland by foreign investment companies as well as 247 notifications of changes to the details included in the original notification.

A total of 92 entities resigned from pursuing brokerage activities in the Republic of Poland without opening a branch and 4 entities resigned from conducting brokerage activities through a branch.

**Table 30. Number of notified foreign investment firms at year-end, 2010-2013**

Type of entity	2010	2011	2012	2013
Foreign investment firm, without a branch	1 297	1 482	1625	1762
Foreign credit institution, without a branch	248	257	263	265
Foreign investment firm, a branch	14	16	17	14
Foreign credit institution, a branch	20	19	20	20
<b>Total</b>	<b>1 579</b>	<b>1 774</b>	<b>1 925</b>	<b>2061</b>

Source: in-house materials by the PFSA Office

In the period covered by the report, the Polish Financial Supervision Authority passed 6 resolutions on the transfer of information regarding the intent of Polish investment firms to conduct brokerage activities without opening a branch in another Member State.

One investment firm resigned from running a branch and began conducting cross-border operations from Poland. In the period covered by the report, the Authority sent 26 notifications concerning changes to the details included in the original notification, as submitted by Polish investment firms.

**Table 31. Number of Polish investment firms that notified their intent to conduct brokerage activities outside the Republic of Poland, as at year-end, 2010-2013**

Type of entity	2010	2011	2012	2013
Brokerage house (number of branches)	1 (9)	3 (11)	4 (13)	4 (12)
Brokerage house, without a branch	7	8	11	13

Source: in-house materials by the PFSA Office

## INVESTMENT FIRMS' AGENTS

As at 31 December 2013, the register of investment firms' agents comprised 193 entities including 29 legal persons and 164 natural persons.

In 2013, 20 natural persons and 1 legal person were entered into the register of investment firms' agents.

**Table 32. Register of investment firms' agents at year-end, 2010-2013**

Investment firms' agents	2010	2011	2012	2013
Natural persons	43	89	144	164
Legal persons	22	28	28	29
<b>Total</b>	<b>65</b>	<b>117</b>	<b>172</b>	<b>193</b>

Source: in-house materials by the PFSA Office

In the period covered by the report, there were two examinations for investment firm agents. A total of 143 persons took the examination. A total of 27 persons passed the examination.

## QUALIFIED INVESTORS

In 2013, the regulator made 2 entries to the register of qualified investors.

On 23 April 2013, the Act of 8 March 2013 amending the Act on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies, and certain other acts (Dz.U. of 2013, item 433) entered into force. The Act removed the provisions on a qualified investor as well as the PFSA's obligation to keep the

register of qualified investors under the previous Article 9(4) of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies (Dz.U. of 2013, item 1382). The concept of a qualified investor has been replaced by the concept of a professional client.

As at 22 April 2013, there were 25 entries in the “small and medium-sized enterprises” section and 8 entries in the “natural persons” section in the register of qualified investors.

## INFORMATION AGENCIES

In 2013, the Authority issued one decision indicating a company as a news agency.

## SECURITIES BROKERS

As at 31 December 2013, there were 2,710 licensed securities brokers.

In 2013, 84 persons were entered into the list of securities brokers.

**Table 33. Number of persons entered in the list of securities brokers and the total number of licensed securities brokers, 2010-2013**

Detailed list	2010	2011	2012	2013
Number of persons entered in the list of securities brokers in a given year	218	130	125	84
Total number of licensed securities brokers	2 371	2 502	2 627	2 710

Source: in-house materials by the PFSA Office

In 2013, there were two examinations held for candidates for securities brokers. A total of 450 persons took these examinations and 86 persons passed them. So far 2,892 persons passed the examination for candidates for securities brokers.

Additionally, in the period covered by the report, there was one supplementary examination for securities brokers. Four persons took the examination and one person passed it. So far, 96 persons passed the supplementary examination for securities brokers.

## INVESTMENT ADVISORS

As at 31 December 2013, there were 477 licensed investment advisors. In 2013, there were 67 persons entered into the list of investment advisors.

In 2013, the Polish Financial Supervision Authority issued 1 decision on recognising professional qualifications to perform the investment advisor profession.

**Table 34. Number of persons entered in the list of investment advisors and the total number of licensed investment advisors, 2010-2013**

Detailed list	2010	2011	2012	2013
Number of persons entered in the list of investment advisors in a given year	49	47	29	67
Total number of licensed investment advisors	336	383	410	477

Source: in-house materials by the PFSA Office

In 2013, there were 5 partial examinations of the examination for investment advisors. 66 persons passed the entire examination cycle.

## COMPANIES OPERATING A REGULATED MARKET AND DEPOSITORY FOR SECURITIES

**Table 35. Number of decisions issued in 2013**

Entity being a party to the decision	Number of decisions
Giełda Papierów Wartościowych w Warszawie SA (Warsaw Stock Exchange)	11
BondSpot SA	5
KDPW_CCP SA	6
Towarowa Giełda Energii SA (Polish Power Exchange)	3

Source: in-house materials by the PFSA Office

## APPROVAL OF ISSUE PROSPECTUSES OF FINANCIAL INSTRUMENTS OTHER THAN INVESTMENT CERTIFICATES

In 2013, the regulator issued 135 decisions on issue prospectuses and updating annexes, including:

- 29 decisions approving issue prospectuses of financial instruments other than investment certificates (developed as one or three documents),
- 106 decisions approving annexes to issue prospectuses of financial instruments other than investment certificates.

**Table 36. Number of approved issue prospectuses and annexes to issue prospectuses, 2010-2013**

Detailed list	2010	2011	2012	2013
Number of approved issue prospectuses	63	57	43	29
Number of approved annexes to issue prospectuses	172	128	145	106

Source: in-house materials by the PFSA Office

In 2013, the PFSA approved one information memorandum and stated equivalence of information in the information memorandum and information required for issue prospectus in two cases.

In the period covered by the report, the Polish Financial Supervision Authority also received 62 confirmations of approval of issue prospectuses from regulators from other Member States.

In the course of 69 procedures conducted in 2013 for approval of issue prospectus (information memorandum), the PFSA made over 4,370 remarks to the documents submitted.

Moreover, the PFSA issued 16 rulings on suspension of the administrative procedure on approval of issue prospectus (information memorandum, annex to issue prospectus) and 7 rulings on resuming a suspended procedure and 16 decisions on discontinuation of the administrative procedure on approval of issue prospectus (information memorandum, annex to the issue prospectus).

In 2013, the PFSA issued 26 opinions as regards public offerings or admitting securities to trading on a regulated market.

The overview of issuers whose issue prospectuses were approved by the Polish Financial Supervision Authority in 2013 is presented in Table 2.1 in Annex 2, while the up-to-date list of issue prospectuses approved by the PFSA is available on the PFSA's website.

## COLLECTIVE INVESTMENT UNDERTAKINGS

In 2013, the regulator made 163 rulings concerning collective investment undertakings.

As at 31 December 2013, the PFSA authorisations were held by 55 investment fund companies, which managed a total of 639 investment funds, including: 58 open-end investment funds, 52 specialist open-end investment funds, and 529 closed-end investment funds.

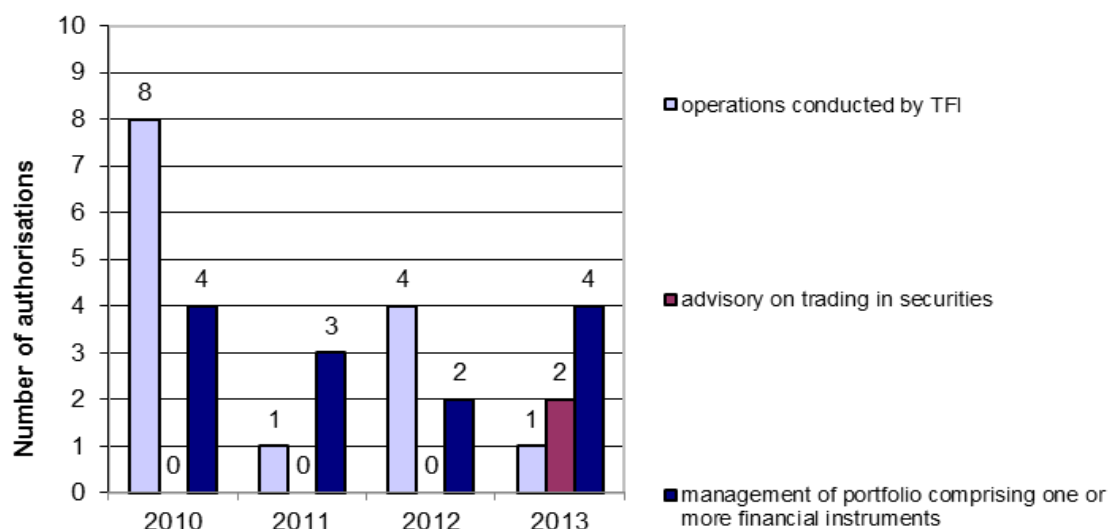
**Table 37. Number of investment fund companies and investment funds, 2010-2013, cumulatively**

Detailed list	2010	2011	2012	2013
Investment fund companies	50	50	54	55
Investment funds	417	484	588	639

Source: in-house materials by the PFSA Office

In 2013, the Polish Financial Supervision Authority issued one authorisation to establish an investment fund company.

**Fig. 15. Number of authorisations concerning operations of investment fund companies, 2010-2013**



Source: in-house materials by the PFSA Office

In 2013, the Polish Financial Supervision Authority issued:

- 1 authorisation to establish an open-end investment fund,

- 4 authorisations to establish a specialist open-end investment fund,
- 1 authorisation to establish a public closed-end investment fund.

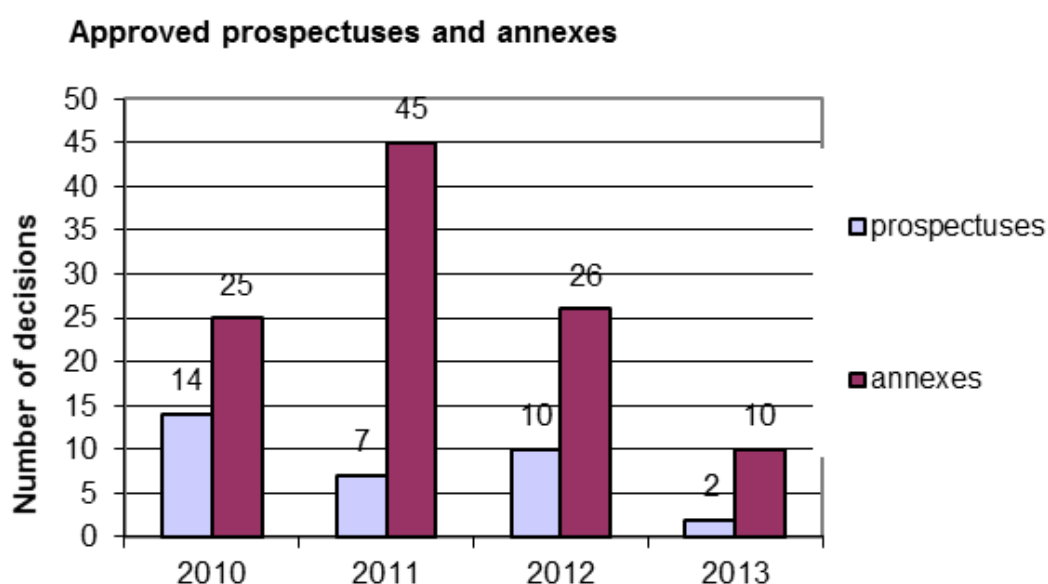
In 2013, 5 new funds with separated sub-funds started operating. As a result of their establishment and of the transformation of open-end investment funds or specialist open-end investment funds into a new sub-fund of the existing open-end investment fund or specialist open-end investment fund with separated sub-funds, the number of sub-funds separated as part of funds of this type considerably grew from 383 sub-funds in December 2012 to 414 sub-funds as at the end of December 2013.

In 2013, the PFSA registered 102 closed-end investment funds whose investment certificates in line with the fund's charter will not be offered as part of public offering, admitted to trading on a regulated market or introduced to an alternative trading system.

In 2013, in the investment funds sector the Polish Financial Supervision Authority issued 12 decisions on approval of issue prospectuses and annexes, including:

- 2 decisions approving issue prospectuses of investment certificates issued by public closed-end investment funds,
- 10 decisions approving annexes to issue prospectuses of investment certificates issued by public closed-end investment funds.

**Fig. 16. Number of issue prospectuses and annexes to issue prospectuses of public closed-end investment funds, as approved by the PFSA, 2010-2013**



Source: in-house materials by the PFSA Office

The Polish Financial Supervision Authority keeps the register of foreign funds, open-end investment funds having registered offices in states belonging to the European Economic Area (EEA), open-end investment funds having registered offices in states belonging to the OECD other than a Member State or a state belonging to the EEA, which sell fund units in the Republic of Poland.

In 2013, with regard to foreign funds and sub-funds of foreign funds, the number of notifications decreased compared to 2012. In 2013, the Polish Financial Supervision

Authority received, by electronic means, 15 complete notifications of the intention to sell foreign investment fund units in the Republic of Poland, which concerned one new foreign fund and 60 sub-funds of foreign funds. For comparison, in 2012, the PFSA received 24 complete notifications concerning 4 foreign funds and 66 sub-funds of foreign funds.

Moreover, in 2013 the Polish Financial Supervision Authority did not receive any notifications from managing companies that would intend to pursue their business in the Republic of Poland. For comparison, in 2012, the Authority notified three managing companies.

### Intermediaries in selling and redeeming investment fund units or shares

In accordance with Article 32(2) of the Act on Investment Funds, units of investment funds or titles of foreign investment funds may be sold and redeemed through the intermediation of entities having their registered office or place of residence in the Republic of Poland.

As at 31 December 2013, there were 84 entities in the list of investment fund units' distributors holding authorisations of the Polish Financial Supervision Authority. In the period covered by the report, the Polish Financial Supervision Authority issued five authorisations to intermediation in selling and redeeming investment fund units or titles of foreign funds and confirmed the expiration of one decision on granting an authorisation to intermediation in selling and redeeming units in investment funds and specialist open-end investment funds as well as titles of foreign funds.

### BROKERAGE HOUSES TRADING IN COMMODITIES AND ENTITIES KEEPING EXCHANGE-COMMODITY REGISTERS OR ACCOUNTS

In 2013, 5 authorisation were issued to power utilities to keep commodity registers or accounts. As at 31 December 2013:

- 54 power utilities held authorisations to keep commodity accounts or registers, and 3 applications for such authorisations were pending.
- 1 commodity brokerage house held an authorisation to conduct commodity brokerage activities.

### COMMODITY BROKERS

As at 31 December 2013, there were 316 licensed commodity brokers. In 2013, there were 47 persons entered into the list of commodity brokers.

**Table 38. Number of persons entered in the list of commodity brokers and the total number of licensed commodity brokers, 2010-2013**

Detailed list	2010	2011	2012	2013
Number of persons entered in the list of commodity brokers in a given year	29	28	39	47
Total number of licensed commodity brokers	202	230	269	316

Source: in-house materials by the PFSA Office

In 2013, the Polish Financial Supervision Authority issued 1 decision on recognising professional qualifications to perform the commodity broker profession.

In the period covered by the report, there were 2 examinations held for commodity brokers. A total of 115 persons took these examinations and 51 persons passed them. So far, 316 persons passed the examination for commodity brokers.

## GRANTING AUTHORISATIONS TO CONVERT SHARES INTO CERTIFICATED FORM (REMATERIALISATION OF SHARES)

In 2013, the Polish Financial Supervision Authority issued 5 authorisations to convert shares into certificated form.

## 4. OFF-SITE SUPERVISION

### 4.1. BANKING SUPERVISION

The aim of the supervision exercised by the Polish Financial Supervision Authority over the banking sector is to ensure security of funds in bank accounts and compliance of banks' operations with applicable laws, decision on the authorisation to establish a bank, and to ensure compliance of operations conducted by banks pursuant to Article 70(2) of the Act of 29 July 2005 on Trading in Financial Instruments with provisions of the said Act, the Banking Law Act and the charter.

#### PRUDENTIAL SUPERVISION OF DOMESTIC BANKS

The supervisory activities involved ongoing monitoring and quarterly analysis of banks' economic and financial standing. Based on the results of the analysis, banks were awarded points according to the CAEL rating system. In 2013, all commercial banks were rated, including associating banks (including 14 systemically important banks) and all cooperative banks. The PFSA Office prepared:

- 172 analyses (CAEL) of commercial banks conducted in four quarterly cycles,
- 2296 analyses (CAEL) of cooperative and associating banks conducted in four quarterly cycles.

There were also 105 SDK ratings of branches of foreign banks prepared. Apart from CAEL rating, banks are also covered by the BION assessment, i.e. the Supervisory Review and Assessment. Detailed information on the BION assessment in the banking sector is presented in the Supervisory Review and Assessment (BION) section.

As part of consolidated supervision, the regulator reviewed consolidated financial statements of banks and the economic and financial standing of banking groups and holding companies. Direct off-site supervision involved the selection of banks for comprehensive and problem-oriented inspections, and the results of the selection process were passed to the PFSA Office's organisational units responsible for inspection. Data was developed for inspections carried out at banks. Comparative (quarterly) analyses were conducted to examine the manner in which debt owed by the same borrower is classified by different banks and how shareholder structures of some major bank clients are presented; if any discrepancies were identified, relevant steps were taken with respect to the regulated entities involved. Actions from previous years aimed at continuous monitoring of entities' operations and, in particular, their liquidity positions were continued.

The analysed issues included the financing granted and obtained, limits for transactions with group entities, offering anti-tax products and FX-loans for residential properties.

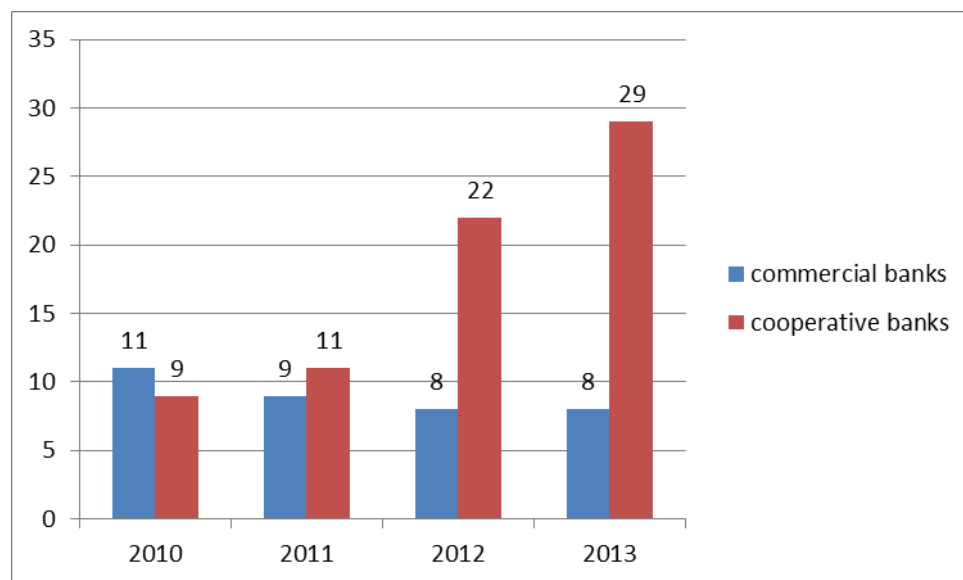
As part of off-site supervision, recommendations were issued on the following:

- principles of dividend payout and capital base strengthening,
- anti-tax products offering,
- change/rotation of an entity authorised to audit the bank's financial statements,
- review of the lending policy as regards FX-mortgage loans,
- supplementation of contingency liquidity plans in USD pursuant to ESRB recommendation,
- review of stress tests' assumptions in the area of liquidity risk,
- review of procedures regarding technical and collateral loans,
- suspension of lending,
- adjusting operations to the provisions of law regarding bank outsourcing,
- implementing post-BION recommendations.

In 2013, 8 commercial banks were covered by recovery proceedings. In 2013, 3 commercial banks were required to verify the assumptions of the recovery programme. In 2013, in the

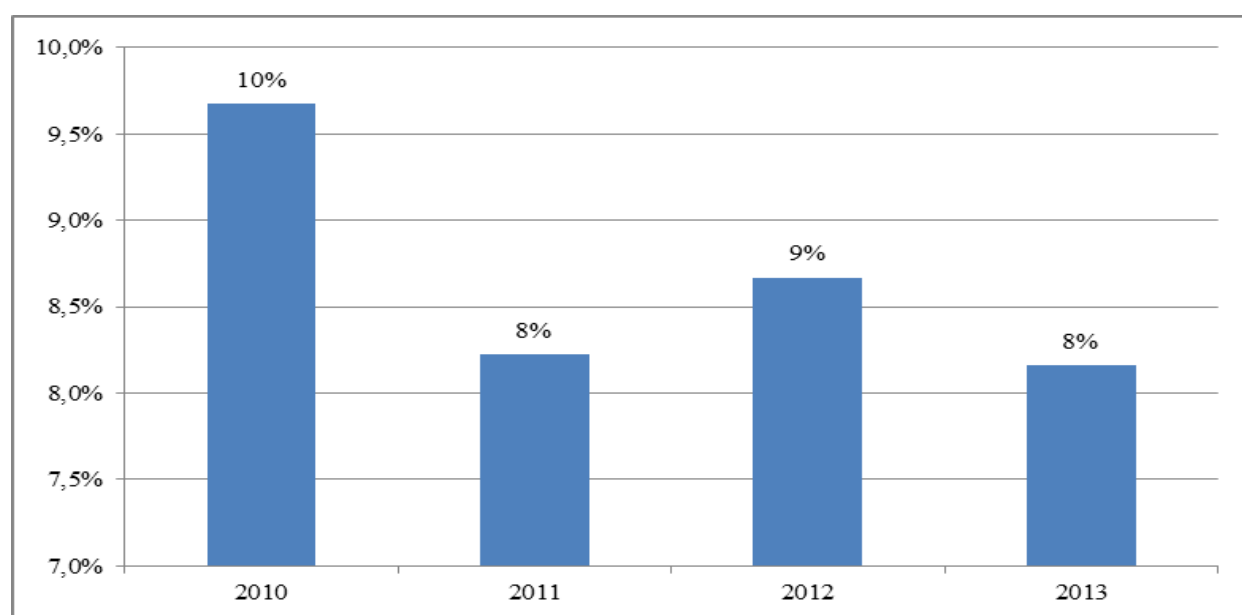
case of 2 banks the recovery programme was approved by the PFSA. However, in the case of cooperative banks, in the period covered by the report there were 9 cooperative banks included in the recovery programme, and 2 cooperative banks completed their programmes. As at the end of 2013, 29 cooperative banks were subject to recovery proceedings, as compared to 22 at the end of 2012.

**Fig. 17. Number of commercial and cooperative banks covered by recovery proceedings, 2010-2013**



Source: in-house materials by the PFSA Office

**Fig. 18. Share of assets of commercial and cooperative banks covered by recovery proceedings in the banking sector's assets (%), 2010-2013**



As at the end of 2013, the share of assets of cooperative banks covered by recovery proceedings in the banking sector's assets amounted to 0.003%.

Source: in-house materials by the PFSA Office

The PFSA also examined requests submitted by banks under the provisions of the Banking Law Act, and issued decisions concerning individual matters in connection with:

- inclusion of subordinated liabilities in supplementary funds (3 decisions for commercial banks, 25 decisions for cooperative banks)
- inclusion of cash generated under bonds issue in supplementary funds (16 decisions for commercial banks, 5 decisions for cooperative banks),
- limitation of the obligation of submitting to the PFSA consolidated statements translated into Polish (10 decisions for commercial banks),
- early reimbursement of subordinated liabilities (3 decisions for cooperative banks),

In addition, requests submitted by banks under the provisions of the Banking Law were analysed. The said requests and the decisions issued concerned individual matters relating to:

- inclusion of subordinated liabilities in supplementary funds (3 decisions),
- inclusion of cash generated under bonds issue in supplementary funds (16 decisions),
- limitation of the obligation of submitting to the PFSA consolidated statements translated into Polish (10 decisions).

## STRESS TESTING

In 2013, the PFSA Office performed, for the fourth time, stress tests aimed at determining the potential impact of the volatile macroeconomic environment on the financial standing and capital position of the Polish banking sector institutions as well as assessment of the sector's resilience to the shock suffered.

The banks were presented only with a general framework for the development of the economic situation and were not required to use a particular model in the study. The banks estimated the impact of the macroeconomic shock on their balance sheets, financial performance and capital adequacy. The banks were also required to include in their calculations, except for credit risk, the influence of other risk factors (e.g. liquidity risk resulting from the lack of confidence in the interbank market).

Two scenarios developed by the National Bank of Poland were used in this exercise:

- a reference scenario forecasting economic development assuming a stable reference rate of the central bank,
- a shock scenario assuming the occurrence of sudden and deep recession in Poland's major economic partners, which would lead to the transmission of adverse effects on the economic situation in Poland.

The study covered all commercial banks operating in Poland, which account for over 90% of the total assets of the entire banking sector.

The data submitted to the Office was first subject to an initial analysis. The Authority analysed the internal consistency of forecasts and their compliance with the existing and future regulations, as well as the plausibility of the actions taken by the banks and of the extrapolated trends. Any doubts arising during this process were consulted on an ongoing basis with banks. In addition, the models developed by the Office were used.

The ultimate result of stress tests conducted by the PFSA Office was assessment of potential capital requirements of individual banks, assuming the solvency ratio of 12% and Tier 1 ratio of 9% as a reference. In the calculations of the ratios, references were made to the solutions proposed in Basel 3. The forecast covered the period from September 2013 to the end of 2015.

Stress tests' results constitute one of the elements considered by the PFSA when determining the future dividend policy.

The PFSA Office also conducted a stress tests study concerning own funds of cooperative banks. The study was conducted to verify the fulfilment of the criteria for payment of a

dividend from the profit for distribution for 2013. The PFSA also sent surveys examining the preparation stage of cooperative and associating banks to the fulfilment of the LCR and NSFR liquidity requirements provided for in CRR.

## SUPERVISORY REVIEW AND ASSESSMENT (BION)

In 2013, the PFSA Office continued the work on developing a new concept of the BION process. The work, which started in the previous year, ended in the adoption of a new Methodology of the Supervisory Review and Assessment of commercial, associating and cooperative banks (the BION Methodology) on 30 December 2013. The document was made available to banks through its publication on the website of the PFSA Office.

In the BION process conducted according to the rules laid down in the new BION Methodology, the findings of the analytical and inspection activities conducted at banks by the supervisory authority are taken into account in a complementary and consistent manner. Under the new rules, the intensity of the BION process in individual banks depends primarily on the results of the business model sensitivity analysis and the banks' grouping during the segmentation. By implementing the principle of proportionality, the BION Methodology introduces a two-stage segmentation process during which the following is taken into account: the scale of operations and the bank's importance in the banking sector and the bank's business model defining the operational profile. The BION Methodology takes into account the existing rules of the dialogue with banks and introduces a continuous review of BION ratings under the quarterly off-site analysis.

As part of the BION process covering commercial banks for the year 2012 and conducted in 2013, a supervisory rating was awarded to 39 banks. The ratings were awarded as at 31 December 2012. Where necessary, the banks were given, except for the results, recommendations to remedy irregularities identified during the analysis and relating to the management of individual risk categories.

However, in the case of cooperative banks, in the period covered by the report 706 BION analyses were conducted, including 704 analyses concerning cooperative banks (330 analysis under the BION process for 2012 and 376 analyses for 2013) and 2 analyses concerning associating banks. As a result of the analytical work, 28 supervisory warnings were issued for cooperative banks as part of analytical activities.

## DE MINIMIS PROGRAMME OF BGK

The de minimis guarantee programme ("PLD") is currently one of the main instruments used by the Council of Ministers to counteract the effects of the economic slowdown. This is a guarantee provided under the programme of permissible state aid as collateral for a working capital loan or investment loan granted to micro, small or medium-sized enterprises (SMEs). The de minimis guarantee does not constitute a grant and is not directly related to the transfer of funds to an entrepreneur.

As part of the execution of the program "Promotion of entrepreneurship through warranties and guarantees of Bank Gospodarstwa Krajowego", by decision of the PFSA of 28 February 2013, BGK grants working capital loan repayment guarantees as de minimis aid under the de minimis Guarantee Line Portfolio Agreement (PLD).

On 21 October 2013, the Council of Ministers adopted an amendment to the government programme "Promotion of entrepreneurship through warranties and guarantees of Bank Gospodarstwa Krajowego", which is implemented by BGK, providing a basis for the extension of the de minimis programme to include investment loan repayment guarantees. The decision to extend the government programme aims at preventing the deterioration of the propensity to invest among SME entrepreneurs. The concept of extending BGK's offer of

de minimis guarantees was associated with the observed decrease in the number of investors starting new investments, and deterioration of investment growth forecasts, as well as the expected reduction of capital expenditure caused by the transitional period between successive financial perspectives (2014), and at the same time the planned maintenance in 2014 of the economic growth achieved partly thanks to investment activities.

Pursuant to the PSFA's decision of 12 November 2013, BGK obtained authorisation to include also investment loan repayments in its de minimis guarantee offer.

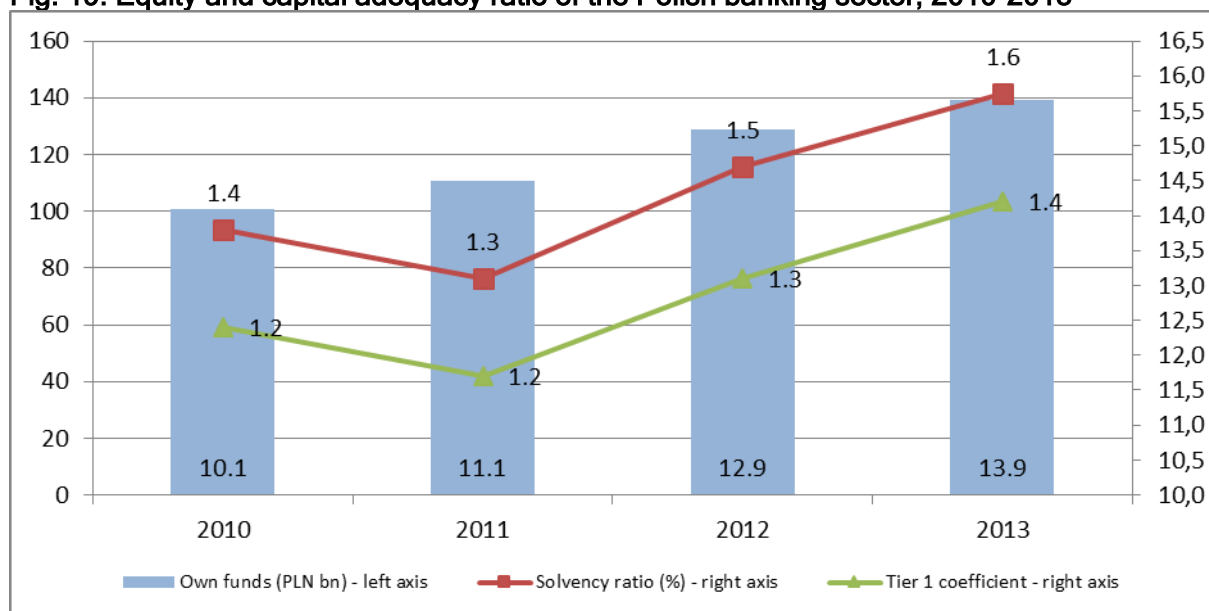
On 13 November 2013, Bank Gospodarstwa Krajowego signed with 22 banks agreements that extended de minimis guarantees to include investment and development loans. Estimates as at the end of November 2013 indicate that the number of entrepreneurs who benefited from the de minimis guarantee exceeded 31,000. The value of the guarantees granted as at the end of November 2013 amounted to PLN 5,955bn, which translates into loans of PLN 10.38bn.

## MONITORING OF BANKS' COMPLIANCE WITH APPLICABLE REGULATIONS

The PFSA Office performs systematic off-site monitoring of banks' financial standing, including their liquidity and capital position. In 2013, special attention was again paid to banks' maintenance of good quality and adequate amount of equity. Equity ensures bank's safety in case of undesirable external events that may occur as a result of crisis in the real area or turmoil in the international financial markets, for example.

To maintain capital adequacy on the level recognized as safe, the supervisory authority recommended that banks limit dividend payout. Profit retention at banks resulted in sector's solvency ratio growth to 15.75% as at the end of 2013 (against 14.74%% in 2012).

**Fig. 19. Equity and capital adequacy ratio of the Polish banking sector, 2010-2013**



Source: in-house materials by the PFSA Office

## PREPARATORY WORK RELATED TO LEGISLATIVE AMENDMENTS IN THE COOPERATIVE BANKING SECTOR AS REGARDS THE IMPLEMENTATION OF CRD IV

The PFSA Office regularly analysed the new proposals of the Capital Requirement Regulation (CRR), Capital Requirement Directive (CRD) IV, Bank Recovery and Resolution

(BRR) Directive and Deposit Guarantee Schemes (DGS) Directive, and several times provided to the Ministry of Finance comments in favour of solutions aimed at stabilizing the Polish cooperative banking sector. The comments were made, among other things, on:

- inclusion of preferential outflow weights for deposits of local government units in the LCR (satisfactory provisions have been obtained),
- special treatment of shares of cooperative banks in the definition of equity,
- an option to establish a liquidity group and to report on the basis of the aggregated liquidity norm by associations meeting IPS criteria (satisfactory provisions have been obtained),
- expanding the options granted to the local regulator to include the option to release a group of banks from the capital exposure limit for receivables inside a group meeting IPS criteria and preparing aggregate reports (satisfactory provisions have been obtained),
- definition of liquid assets in terms of the possibility of inclusion of cooperative banks' deposits in associating banks in such assets (no satisfactory provisions have been obtained; only IPS deposits can be considered liquid),
- taking in the Resolution process and in the Recovery process account of the fact that banks operate within the IPS group, and to take account of the associated possibilities to use the principle of proportionality, including:
  - development of the Recovery and Resolution plans at the level of the IPS association (satisfactory provisions have been obtained in relation to Recovery plans)
  - application of a smaller substantive scope in Recovery and Resolution plans (satisfactory provisions have been obtained; an employee of the PFSA Office was reported for the work in EBA aimed at developing the relevant technical standards),
  - taking account of lower fees for the guarantee and assistance fund (BFG) and the resolution fund (there is a possibility to apply lower fees only in the first case),
  - the initiation of the Resolution procedure by IPS (a provision has been retained according to which the Resolution process shall be initiated if certain conditions are met, including a situation where all IPS assistance possibilities have been exhausted).

In 2013, two surveys were presented to the cooperative banking sector; the surveys referred to the levels of liquidity indicators at the end of the first and third quarter of 2013. The survey results were presented to the Polish Financial Supervision Authority, and, at the request of the Authority, presented to the stakeholders involved in the drafting of amendments to the Act on the operation of cooperative banks, their associations and associating banks.

The analysis of CRR and of survey results in cooperative and associating banks was the basis for presenting proposals for the functioning of associations as integrated groups, which would be the basis for granting preferential outflows weight in LCR to associating banks and would allow banks to meet the minimum requirements in the transitional period before the establishment of the IPS system within associations.

The representatives of the Office actively participated in the consultative conferences and in issuing opinions on acts on the Bank Guarantee Fund and on the functioning of cooperative banks, their associations and associating banks. At the same time, the PFSA Office was systematically passing on to the sector the most important information on new regulations, with particular emphasis on capital changes. Similarly as in 2012, the Office corresponded with sector representatives and explained the emerging doubts about the discrepancies between national and EU regulations.

With a view to the preparation of both associations to changes in the organization of associations in such a way as to increase their safety, meet the mandatory liquidity standards and counteract the problems that arose during the crisis, the PFSA Office met several times both with representatives of the SGB association (to discuss the establishing of IPS) as well as with the representatives of the BPS association (to discuss its greater integration).

The result of these meetings are both the principles of future operation of the above-mentioned groups, as well as proposals for amendments to the Act on the functioning of cooperative banks, their associations and associating banks, which amendments have been proposed by the cooperative sector.

Given the scope of changes that affect to a large extent the functioning of cooperative banks, the Polish Financial Supervision Authority identified and published the directions of the supervisory policy towards cooperative banks, assuming the application of the mildest options provided for in the CRR Regulation, which concern the solutions dedicated to these entities. In 2013, the Authority determined that the depreciation of instruments issued by cooperative banks and failing to meet the conditions of the CRR Regulation will proceed according to the slowest available option, and the applicable minimum levels for capital adequacy ratios in 2014 will be at the lowest levels defined in the CRR Regulation. The mildest conditions concerning the prior consent to the payment of shares being the components of own funds will be also applied. The PFSA also defined an approach to the banks with too low capital, allowing them to initiate combination processes.

In 2013, the Polish Financial Supervision Authority examined a total of four analyses on the situation of the cooperative banking sector: the Information on the situation of the cooperative banking sector in 2012, the Information on the situation of the cooperative banking sector in the first quarter of 2013, in the first half of 2013 and in the third quarter of 2013. In the report on the situation of the cooperative banking sector in 2012, the PFSA focused on the general characteristics of the cooperative sector, gross receivables of cooperative and associating banks and sources of funding. The report also presented information on possible functioning models of associations in the context of CRD IV and CRR. Other information focused, among other things, on capital adequacy, cooperative banks' diversification and the situation of the largest cooperative banks as well as the sector's results and effectiveness.

## 4.2. SUPERVISION OF COOPERATIVE SAVINGS AND CREDIT UNIONS (SKOK)

On 27 October 2012, the Act on Cooperative Savings and Credit Unions came into force. The Act entrusted the Polish Financial Supervision Authority with supervision of unions. In January 2013, the *Regulation of the Minister of Finance on detailed accounting principles of cooperative savings and credit unions* was announced. The Regulation introduced two important modifications, compared to the rules in force in 2012, namely it introduced more detailed provisions for:

- the scope of potential entities that guarantee loans granted by unions, whose good financial situation may be the basis for the reduction of an impairment loss,
- the rules for recognising mortgage security as the basis for reducing impairment losses on overdue loans and borrowings.

Moreover, in January 2013, the Regulation on reporting information of cooperative savings and credit unions and of the National Cooperative Savings and Credit Union entered into force. The Regulation specifies the scope, time limits and manner of submitting reporting information by cooperative savings and credit unions and the National Cooperative Savings and Credit Union.

The amendment to the Act on Cooperative Savings and Credit Unions, which entered into force on 12 June 2013, provided the PFSA with a range of instruments for conducting restructuring processes in unions, including with the support of the Bank Guarantee Fund. Under the amendments to the Act on the Bank Guarantee Fund, in November 2013, the Fund covered the deposits of members of unions with BFG guarantees.

In August 2013, the *Regulation on the solvency ratio of cooperative savings and credit unions* was issued. The Regulation specifies the manner and detailed rules for calculating the solvency ratio for unions. The Regulation of the Minister of Finance of 17 September 2013 laying down specific accounting principles for cooperative savings and credit unions (which entered into force in October 2013) introduced two important modifications to accounting principles of unions, related to the possibility of reduction of impairment losses.

As early as in 2012, the supervisory system for cooperative savings and credit unions and the National Union was developed. Thanks to this work, it was possible to quickly approve cooperative savings and credit unions' financial statements submitted in line with the 2013 Regulation of the Minister of Finance on Cooperative Savings and Credit Unions' Reporting. In 2013, the PFSA's work was aimed at adjusting the reporting submitted by entities of the cooperative savings and credit unions sector in connection with changes in the law.

The Polish Financial Supervision Authority fulfilled the requirement of Article 87 of the Act on Cooperative Savings and Credit Unions and analysed the results of reports of statutory auditors performing external audits of cooperative savings and credit unions. Moreover, in 2013 the Polish Financial Supervision Authority analysed a total of four reports on the situation of the cooperative savings and credit unions sector:

- "Report on the situation of cooperative savings and credit unions (SKOK) in 2012",
- "Information on the situation of cooperative savings and credit unions in the first quarter, in the first half and in the third quarter of 2013."

The reports on the situation of cooperative savings and credit unions have been published and are available to market participants on the website of the Polish Financial Supervision Authority.

In 2013, the PFSA Office also conducted administrative procedures in relation to certain unions. The procedures concerned the following matters: the appointment of an administrator, recognising in own funds a loan constituting a subordinated debt, recognising in own funds a portion of the amount of members' additional liabilities, explaining whether there are grounds to take over a union pursuant to Article 74c(3) ff of the Act on Cooperative Savings and Credit Unions, as well as at the request of the National Union on the approval of model contracts referred to in Article 44(3) of the Act on Cooperative Savings and Credit Unions.

In the third quarter of 2013, the Polish Financial Supervision Authority decided on the appointment of administrators in three unions. In these unions, the financial statements were audited by independent statutory auditors at the expense of the PFSA. In addition to the management of current operations, the administrators held consultations with the owners (members of the unions). The administrators are preparing restructuring process plans for the unions.

According to unions' preliminary reporting data, at the end of the fourth quarter of 2013, 44 unions were required to develop a recovery proceedings programme. The assets of these unions accounted for PLN 15,834 m, which corresponds to 82.73% of assets of the cooperative savings and credit unions sector. The solvency ratio for the cooperative savings and credit unions sector at the end of December 2013 was 0.74%, and own funds according to the Act on Cooperative Savings and Credit Unions amounted to PLN 130,370,000.

### 4.3. SUPERVISION OF PAYMENT SERVICE PROVIDERS

Payment services operations conducted by domestic payment institutions and payment service offices are subject to the supervision of the PFSA in the scope and on the terms specified in the APS and in the Act on Financial Market Supervision.

The main goal of the PFSA's supervision of domestic payment institutions is to ensure the financial security of domestic payment institutions, compliance of operations of domestic payment institutions with the applicable national and EU regulations governing the functioning of the payment service market, and to protect the interests of users and holders of electronic money.

In relation to payment service offices, the objective of the PFSA's supervision is to ensure that payment service offices operate in compliance with the provisions of the APS, and to protect the interests of payment service market participants (users).

The initial capital of domestic payment institutions is several times greater than the minimum level required by the Act.

**Table 39. Own funds of KIPs (PLN '000)**

Item	Q1 2013	Q2 2013	Q3 2013
Own funds, including:	285 646	273 821	289 260
– initial capital	240 249	251 260	285 487
– revaluation reserve	1	0	0
– retained profit from previous years	45 396	22 561	3 774
Deductions from own funds	29 405	33 738	34 026
– shares in the payment institution that are held by the payment institution itself, valued at the carrying amount net of impairment losses	0	0	0
– all liabilities arising from the issue of preference shares	0	0	0
– intangible assets valued at the carrying amount	28 573	33 738	30 681
– loss from previous years	832	1	3 345
– loss under approval	0	0	0
– net loss for the current period	0	0	0
Own funds (after deductions)	256 241	240 083	255 234

Source: in-house materials by the PFSA Office

Total number and value of payment transactions executed by KIPs in the quarters of 2013 is presented in Table 40.

**Table 40. Information on payment transactions made by domestic payment institutions ("KIP")**

KIP	Number of transactions ('000)			Value of transactions (PLN m)			Fees and commissions (PLN '000)		
	Q1 2013	Q2 2013	Q3 2013	Q1 2013	Q2 2013	Q3 2013	Q1 2013	Q2 2013	Q3 2013
<b>Total</b>	34 404	128 865	114 424	3 819	13 481	12 324	58 467	208 026	187 600

Source: in-house materials by the PFSA Office

The average value of a single payment transaction executed by KIPs in the first quarter of 2013 amounted to PLN 111, in the second quarter - PLN 105, while in the third quarter of 2013 - PLN 108. The average value of fees and commissions collected by KIPs for the

execution of a single payment transaction in the first quarter of 2013 amounted to PLN 1.70, while in the second and third quarter of 2013 PLN 1.60.

The analysis of data provided to the PFSA on the domestic payment service market leads to the conclusion that several KIPs with established market position, which operate on a large scale, have a dominant position in this field.

Pursuant to the APS, payment service offices are required to submit to the PFSA reporting information for quarterly and annual periods, containing data on the number and value of completed money remittances.

For the first quarter of 2013, 951 (82%) of payment service offices out of 1,159 entities covered by this requirement submitted reporting information to the PFSA, while for the second quarter of 2013 - 969 (78%) out of 1,237 offices submitted reporting information to the PFSA. In the third quarter of 2013, 1,274 payment service offices were required to submit reporting information to the PFSA, and the information was submitted by 996 offices (78% of offices).

The number and value of money remittances executed by BUPs amounted to:

- in the first quarter of 2013 - 8.9m remittances with a total value of PLN 1.4bn,
- in the second quarter of 2013 - 9.3m remittances with a total value of PLN 1.5bn,
- in the third quarter of 2013 - 9.5m remittances with a total value of PLN 1.5bn,

It follows from the reporting information submitted by payment service offices for Q1, Q2 and Q3 2013 that the following percentages of offices failed to meet their obligations to the PFSA:

- about 20% of offices failed to submit the information about the number and value of executed money remittances, and
- about 30% of offices failed to submit to the PFSA the original document confirming the conclusion of an insurance contract, or bank or insurance guarantee contract.

Under the existing regulations governing the operation of the national payment service market, the supervisory authority has no powers that would enable it to remove from the register BUPs that failed to comply with their reporting obligations referred to above.

It follows from the data submitted to the PFSA by BUPs that the average monthly level of securing transactions by means of insurance contracts or guarantee agreements shows a continuous downward trend. The level of securing the transactions executed by payment service offices (the protection level of funds) is determined based on the ratio of the average monthly value of money remittances executed by these entities to the value of security held by them (i.e. concluded insurance contracts or guarantee agreements).

According to data for the first quarter of 2013, the average monthly protection level of the funds received to execute payment orders by BUPs amounted to 6.8%, 6.4% in the second quarter of 2013 and 5.9% in the third quarter of 2013. For comparison, in the fourth quarter of 2012, the average monthly level of protection was 7%.

The PFSA's supervisory activities in relation to BUPs include monitoring the timeliness of submission of reporting information, monitoring the compliance with the obligation to protect customers' funds, monitoring the timeliness of transferring funds to the recipient and the recipient's supplier, informing BUPs of the obligation to reduce the scale of operations or the need to transform into a KIP in the case of exceeding the statutory limit of monthly turnover of EUR 500,000, giving recommendations to offices in connection with negative financial results arising from activities other than the provision of payment services or lack of revenue from such additional activities, and conducting survey studies on payment service offices aimed at collecting information about the specific character of payment service offices' operations.

As part of the supervisory activities in relation to domestic payment institutions, the Polish Financial Supervision Authority conducts a substantive analysis of applications for authorisation to operate as a domestic payment institution and analyses the financial performance of KIPs in the context of their compliance with the financial plans presented on the stage of granting an authorisation. In addition, in 2013 the first inspections were held in three domestic payment institutions selected by the PFSA to verify the KIP's financial security, the compliance of data included in the periodic reporting information with the factual

situation and the KIP's operation in accordance with the applicable regulations governing the functioning of the payment service market at the national and Community level.

## THE NECESSARY REGULATORY CHANGES IN THE FUNCTIONING OF BUPs

Given the problems relating to the supervision of payment service offices as identified by the PFSA, in 2013 the PFSA began consultations with the Ministry of Finance, as the host of the Act on Payment Services, on possible changes in the concept of supervision of payment service offices. In September 2013, the PFSA sent to the Ministry of Finance the guidelines for two alternative new forms of supervision of these entities. As a result of consultations of PFSA Office representatives with the representatives of the Ministry of Finance, a concept was selected involving deregulation of payment service offices' operations by limiting the PFSA's supervision of such entities to the minimum scope required by Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market. On 13 December 2013, the guidelines for the proposal for an Act introducing the changes in question have been published on the website of the Chancellery of the Prime Minister (<http://bip.kprm.gov.pl/kpr/form/r1119,Zalozenia-do-projektu-ustawy-o-zmianie-ustawy-o-uslugach-platniczych.html>).

## 4.4. SUPERVISION OF INSURANCE MARKET

### SUPERVISORY REVIEW AND ASSESSMENT (BION) OF INSURANCE UNDERTAKINGS

In 2013, the fourth edition of the Supervisory Review and Assessment (BION) of insurance undertakings, covering 59 undertakings, was performed.

Supervisory review and assessment (BION) is a comprehensive process using all information available to the PFSA Office about insurance undertakings, including information obtained as a result of licensing-related activities, off-site analysis and on-the-spot checks at insurance undertakings, as well as on the basis of inquiries/questionnaires sent to insurance undertakings.

As a result of BION, the supervisory authority conducts a risk assessment and a significance assessment of insurance undertakings, based on which it takes supervisory activities, including inspection activities, taking into consideration the principle of proportionality. As part of the risk assessment, which is the outcome of assessments of key risks, capital adequacy and the quality of management, the PFSA also examines the specific character of individual undertakings and their insurance products, as well as the risk management system and process. This approach ensures full identification of risk in relation to the information available to the PFSA Office.

The main objectives of BION include:

- assessment of the insurance sector's standing, including the identification of systemically important risk areas,
- assessment of the insurance undertaking's risk, including:
  - identification of the insurance undertaking's areas of operations with increased or high risk,
  - assessment of the quality of the process of managing the insurance undertaking,
  - assessment of the financial standing of the insurance undertaking,
  - assessment of compliance of the insurance undertaking's operations with relevant laws and internal regulations,

- establishing the priorities in relation to supervisory activities, and effective allocation of the PFSA Office's resources, which will be assigned to areas and entities with the highest risk profiles,
- preparation for Solvency II, including in particular for the requirements of the supervisory review process as provided for in Article 36 of the Solvency II Directive.

In 2013, some changes were made in the BION methodology to limit the weaknesses and to reinforce the strengths of the BION methodology, as well as to improve the rating award process. The changes resulted, among other things, from the analysis of experiences gained during the 2011 BION and the comments made by insurance undertakings, including the comments submitted through the Polish Insurance Association. The main change consisted in the separation of two assessments in the BION process, i.e. risk assessment of an undertaking and assessment of an undertaking's significance (taking into account systemic risk), which affect the intensity of supervisory activities. The objective of this change was, among other things, to differentiate in the BION process between the risk that is directly linked with the business conducted by an undertaking and the systemic risk related to the significance of an undertaking and its influence on the insurance market. In connection with the exclusion of the systemic risk from the aggregate risk assessment, the weights of individual indicators have been changed while keeping the weights of the three main areas assessed under BION. The other changes concerned the method of calculating indicators used in the quantitative assessment, limits of awarded assessments and the updating of qualitative assessment issues in the BION methodology.

## MONITORING OF THE FINANCIAL STANDING OF INSURANCE UNDERTAKINGS

The key objective in the area of analytical supervision is to ensure ongoing monitoring and safeguard the financial stability of the market, and take appropriate remedial measures in the event of any identified threats. The overall goal of those activities is to guarantee that insurance undertakings have the ability to pay benefits due to insurers, the insured, the beneficiaries or the persons entitled under insurance contracts.

Assessment of the financial standing of insurance undertakings and their solvency in particular relies chiefly on their quarterly and annual financial statements.

Each of the financial statements and statistical reports submitted by insurance undertakings is subject to a separate analysis the results of which are published in uniform reports constituting the basis for taking further individual regulatory decisions.

In addition, the financial position of insurance undertakings is monitored pursuant to the obligation, which was imposed in 2008, of monthly submission of data on basic solvency ratios, and of other information provided by undertakings on an *ad hoc* basis at the supervisory authority's special request. Such information is used to identify elevated risk and high risk of capital adequacy under the Early Warning System.

It follows from the conducted analyses that the financial position of insurance undertakings in 2013 was stable.

The following activities should be indicated out of many activities carried out in 2013, whose objective was to monitor the risk in the business of insurance undertakings:

- monitoring insurance undertakings' activities aimed at limiting the excessive concentration of deposits in one entity or one type of assets (as a result of supervisory actions taken by the PFSA Office it was stated that undertakings execute actions aimed at limiting the concentration of deposits in credit institutions),
- verification of the correctness of determining, by insurance undertakings, of deferred tax assets and liabilities,

- analysis of compliance of planned and executed dividend payouts for 2012 with the PFSA Chairman's recommendation and their impact on insurance undertakings' results,
- analysis of insurance undertakings' explanations concerning the cooperation with entities entered on the PFSA's public warning list,
- monitoring insurance undertakings' exposure to the concentration of the risk associated with insurance guarantees granted,
- monitoring the impact of the effects of catastrophic weather events on the amount of potential damages and solvency of insurance undertakings,
- monitoring the profitability of individual insurance undertakings in important classes of insurance, and the trends in the tariff policy,
- monitoring the financial consequences of lawsuits and judgments in the cases relating to termination fees in insurance contracts.

#### SUPERVISION OF COMPLIANCE WITH DISCLOSURE AND REPORTING OBLIGATIONS AND OF COMPLIANCE OF INSURANCE UNDERTAKINGS' OPERATIONS WITH LAW

The provisions governing insurance activities impose on insurance undertakings a number of obligations to inform both the supervisory authority as well as policyholders. The supervisory authority's task in this respect is to verify both the fact of publication of the relevant information, as well as its content. The timely and full performance of disclosure requirements constitutes one of the key duties of undertakings, which ensures that the regulator and users of insurance services are given access to selected operational data of insurance undertakings.

With reference to performance of the mandatory disclosure requirements by undertakings, the following were analysed in 2013:

- financial statements, including 241 quarterly financial statements, 59 annual separate financial statements and 7 annual consolidated financial statements,
- disclosure on selecting or changing an entity authorised to audit financial statements - in 55 cases,
- information on selecting an actuary - 8 cases,
- information on selecting the person entrusted with keeping the books of accounts - 4 cases,
- information on authorising another entity to submit declarations of will as regards claims - 14 cases,
- information on a change to premium rate structures in mandatory automobile insurance (motor TPL insurance) and mandatory agricultural insurance (farmers TPL insurance and farm buildings insurance) - 34 cases,
- publication of annual statements of unit-linked insurance funds (hereinafter referred to as "UFK") as at 31 December 2012 (24 insurance undertakings, 1605 UFK) and semi-annual statements of UFK as at 30 June 2013 (24 insurance undertakings, 1703 UFK) on undertakings' websites,
- information on Individual Pension Accounts (IKE) and Individual Pension Security Accounts (IKZE) as at 31 December 2012 (28 segment I undertakings),
- Information on Individual Pension Accounts and Individual Pension Security Accounts as at 30 June 2013 (28 segment I insurance undertakings).

The results of the analysis performed suggest that insurance undertakings, save for rare exceptions, fulfil the disclosure requirements as stipulated under applicable laws.

In the course of exercising the ongoing supervision of the insurance sector, the compliance of insurance undertakings with law is also monitored by analysing the manner of performing requirements and by analysing insurance undertakings' internal regulations:

- internal regulations in place at companies (including rules governing the establishment of technical provisions and premium rate structures) were analysed in 55 cases,
- implementation of recommendations issued to undertakings following inspections carried out by the regulator was reviewed in 22 cases (in 12 cases recommendations was ultimately considered as implemented),
- implementation of recommendations to bring the operations of insurance undertakings in compliance with applicable laws as part of ongoing supervision was reviewed in 2 cases (in both cases the recommendation was ultimately considered as implemented).

In addition, the PFSA Office began to examine the accession by insurance undertakings to the Polish Insurance Association's recommendation concerning the application of best information practices in life insurance related to UFK. In 2014, the PFSA Office will be reviewing the implementation of the above-mentioned recommendation by insurance undertakings.

## EXAMINATION OF REQUESTS SUBMITTED BY INSURANCE AND REINSURANCE UNDERTAKINGS

Apart from supervision of undertakings' operations, the Polish Financial Supervision Authority also examined the requests submitted by regulated entities for granting certain rights or authorisations to certain activities within the competence of the financial supervision authority.

In 2013, insurance undertakings' requests concerning the following were examined:

- granting consent to recognize certain assets as assets for covering technical provisions - as a result of instituted 95 procedures, 73 decisions were issued as regards granting relevant consent and 2 decisions to dismiss the proceedings, and 20 procedures were not completed in 2013 - it concerns procedures the term within which they should be dealt with as mentioned in Article 35 § 3 of the Act on the Code of Administrative Procedure of 14 June 1960 (consolidated text Dz.U. of 2000, No 98, item 1071, as amended) had not expired by 31 December 2013,
- granting consent to recognize a subordinated loan under own funds (as a result of four procedures, three decisions were issued on granting the relevant consent and there was one procedure that was not completed in 2013 - it concerns procedures the term within which they should be dealt with as mentioned in Article 35 § 3 of the Act on the Code of Administrative Procedure of 14 June 1960 (consolidated text Dz.U. of 2000, No 98, item 1071, as amended) had not expired by 31 December 2013.

## STRESS TESTING OF THE INSURANCE SECTOR

In order to examine the stability and security of the Polish insurance sector, in particular to test the resistance and the capital needs, if any, of the Polish insurance sector and of individual insurance undertakings to extreme but still likely occurrences, in 2013 the PFSA continued work in connection with using stress tests in the process of supervising insurance undertakings, in particular with regard to examining the resistance of the Polish insurance sector to extreme but still likely occurrences, as well as improving risk management in insurance undertakings.

Since the beginning of 2013, the work has been conducted at the PFSA Office with regard to the verification of the methodology of performing stress tests in the insurance sector, in particular the calibration model of shocks' intensity for interest rate risk and share price risk, and changing the methodology for stress test performance for 2 new risk types: credit risk - assets concentration, credit risk - reinsurer's bankruptcy. On 5 April 2013, the PFSA Office published on its website the stress test methodology for 2012, and asked insurance

undertakings to conduct stress tests as at 31 December 2012 by 17 May 2013. In addition, in July and August 2013 the PFSA Office conducted internal stress tests using the available data, including data contained in financial statements, statistical reports and portfolio status reports.

One of the test results was identification of higher-risk insurance undertakings, i.e. undertakings that did not pass positively stress tests and the explanations provided by them were considered insufficient. These companies were requested to conduct additional stress tests as at 30 June 2013 for the risk types in question.

## A STUDY ON RISK MANAGEMENT IN THE INSURANCE SECTOR

As part of monitoring the preparation of insurance sector entities to the requirements of the Solvency II system relating to the risk management system, in 2013 the work was also continued in the area of analysis of the risk occurring in current operations of insurance undertakings and assessment of advancement of the work on the development of an effective risk management system. Although the Act on Insurance Activity does not contain any detailed provisions in this regard, the PFSA Office seeks to prepare insurance undertakings for future risk management requirements as soon as possible, because the Solvency II Directive introduces for insurance undertakings a requirement to have an effective risk-management system in place and to conduct own risk and solvency assessment (ORSA).

Based on insurance undertakings' responses to the questions of risk management in the business of insurance undertakings, as well as on the basis of the stress tests' results sent by undertakings and the results of internal stress tests, the PFSA developed a report entitled "Risk management in insurance undertakings in 2012 - the results of stress tests and of the risk management study". As a result of the analysis, the degree to which the insurance undertakings are prepared to meet the requirements stipulated in Article 44 of the Solvency II Directive was assessed.

## REINSURANCE OPERATIONS OF INSURANCE UNDERTAKINGS

In 2013, the PFSA prepared a report on the reinsurance of domestic insurance undertakings, including in particular reinsurance of catastrophic events. The report focuses primarily on reinsurance, because apart from few exceptions, the scope of domestic insurance undertakings' reinsurance activities is not significant. On the other hand, outward reinsurance is for many insurance undertakings a significant area of activity, and - as shown by the risk questionnaire results and stress tests - it is a basic technique of limiting risks, particularly catastrophic risk. The report was prepared based on the annual financial statements, an additional survey on catastrophic events, stress tests and the BION questionnaire.

Due to significant impact of disaster-related events on the operations of insurance undertakings from segment II, the PFSA Office assesses the sector II insurance undertakings' protection against effects of occurrence of losses due to disasters. When performing the aforesaid task, the PFSA Office requested twice the segment II insurance undertakings to present additional information, including:

- disaster reinsurance plans for 2013 and description of the reinsurance policy together with information on the risks not covered by the reinsurance protection,
- data on 2012 disaster events that were covered by insurance by individual companies and settlements of the said events as part of established reinsurance programme (losses on own retentions and losses on individual reinsurance contracts/reinsurers).

## PRE-APPLICATION PROCESSES CONCERNING INTERNAL MODELS

The Solvency II System gives insurance undertakings the possibility to determine the Solvency Capital Requirement (SCR) in a manner appropriate to their risk profile and the scale of operations. A set of tools, systems and procedures that should be used to achieve this aim constitute the so-called internal model. The said model should fulfil a number of strict requirements indicated in the Solvency II Directive and its use must be approved by the regulator. Verification of and advising on the model constitute a complex process requiring highly specialised knowledge of many domains, and the Solvency II Directive provides for a relatively short period of time to carry out this process (6 months). In 2013, the PFSA Office continued actions aimed at preparing both the PFSA Office and the insurance market entities to the forthcoming tasks related to assessment and approval of internal models. In 2013, the most important undertaking in that regard was continuation of the so-called pre-application processes initiated in 2011.

By conducting the pre-application processes, the PFSA Office continues its mission to support stable functioning and secure development of the financial market as well as to develop a dialogue between the insurance market and the regulator. The said process has many advantages related, above all, to an early diagnosis of gaps and identification of problem areas of the internal model, whereby it facilitates acceleration of the implementation of internal models as well as solutions concerning Solvency II in undertakings. Additionally, insurance or reinsurance undertakings have the option to familiarise themselves with the supervisor's expectations as to internal models.

As at 31 December 2013, the PFSA Office conducted pre-application processes for 12 domestic insurance undertakings (4 from segment I and 8 from segment II, which constituted in total 49.8% of the Polish insurance market as measured by the 2012 gross premium written).

In the case of foreign insurance groups, the pre-application processes conducted by the PFSA Office are executed as part of group pre-application processes. In 2013, representatives of the PFSA Office participated in meetings at the international level, including study visits, colleges of supervisors and working group meetings of EIOPA<sup>8</sup> (IMC<sup>9</sup>, ISM<sup>10</sup>, TPSG<sup>11</sup> under FinReq<sup>12</sup>, SRP subgroup<sup>13</sup> under IGSRR<sup>14</sup>) and ESRB<sup>15</sup> (expert groups under the ATC<sup>16</sup>: on the regulatory requirements for government debt instruments and for insurance).

In 2013, on the initiative of the PFSA Office, bilateral meetings were also held with representatives of foreign supervisors, during which the issues concerning the quality requirements and harmonization of supervisors' approaches to internal models' assessment were discussed. During the meetings, the problem areas relating to risk modelling using internal models were also discussed.

In addition, in October 2013, the employees of the PFSA Office co-held a seminar organized by EIOPA, which was addressed to representatives of other supervisory authorities (EIOPA

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<sup>8</sup> European Insurance and Occupational Pensions Authority (EIOPA).

<sup>9</sup> Internal Models Committee at EIOPA.

<sup>10</sup> Informal Supervisory Meetings - supervisor's informal meetings on internal models.

<sup>11</sup> Technical Provisions Sub Group.

<sup>12</sup> Financial Requirements Committee at EIOPA.

<sup>13</sup> Supervisory Review Process Sub-Group.

<sup>14</sup> Internal Governance, Supervisory Review and Reporting Committee at EIOPA.

<sup>15</sup> European Systemic Risk Board.

<sup>16</sup> Advisory Technical Committee at ESRB.

Seminar on Internal Models). The seminar focused on the problems of interest rate modelling for the purposes of calculating the Solvency Capital Requirement in the Solvency II system, and the validation of internal models.

The completion date of the work under the pre-application processes, which was earlier scheduled for June 2013, was rescheduled due to the postponement of the date of entry into force of the provisions of the Solvency II Directive to 1 January 2016, and the resulting schedule changes at individual insurance undertakings. The schedule of the work under the pre-application processes concerning internal models closely depends on the Solvency II general work schedule.

Further work (both domestic and international) will be continued in 2014.

## GAP ANALYSIS

As part of monitoring the preparations of insurance sector entities to the requirements of the Solvency II system<sup>17</sup>, in 2013 the PFSA Office conducted another survey of insurance undertakings' own assessment of their preparations for the functioning in accordance with the provisions of the Solvency II system (gap analysis) as at 31 December 2012. The survey results helped to identify areas of the Solvency II system where the preparatory work in insurance undertakings is at the most and at the least advanced stage.

They also presented the types of risks identified by undertakings in each of the examined areas, as well as the main problems and threats perceived by undertakings in the preparatory work. The comments and problems presented by insurance undertakings were also used by the PFSA Office for the purposes of the supervisory authority's other work related to supporting the preparations of the insurance sector entities to the Solvency II system (such as organisation of training courses, preparation of information materials) as well as for the purposes of the work on the PFSA Office's internal preparation for exercising supervision in the Solvency II system.

The problem that was most often indicated by insurance undertakings, i.e. the uncertainty about the final shape and the date of entry into force of Solvency II, should lose its importance in the years 2014-2015 in connection with agreeing on the text of the Omnibus II Directive<sup>18</sup> and the Quick-Fix II Directive<sup>19</sup>, which took place in November 2013, and thus with establishing a new schedule of implementing the Solvency II system in the European Union, with strong formal and legal bases (see Chapter 7.3 of this report). The application of EIOPA's guidelines on preparing for Solvency II should also have a beneficial effect in this regard.

## QUANTITATIVE IMPACT STUDY IN THE INSURANCE SECTOR

As part of the monitoring of preparations of insurance sector entities to the quantitative requirements (Pillar I) of the Solvency II system, in the period from 2 September to 31 October 2013, the PFSA Office conducted among domestic insurance undertakings the second compulsory national quantitative impact study of Solvency II on the financial position

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<sup>17</sup> Directive of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 335, 17.12.2009, p. 1, as well as drafted 2<sup>nd</sup> and 3<sup>rd</sup> level acts to the Directive.

<sup>18</sup> Proposal for a Directive of the European Parliament and of the Council amending Directives 2003/71/EC and 2009/138/EC in respect of the powers of the EIOPA and ESMA, document No 16330/13 (version of 27 November 2013, available on the Public Register of Documents of the Council: [www.consilium.europa.eu](http://www.consilium.europa.eu) - Documents - Public Register)

<sup>19</sup> Directive 2013/58/EU of the European Parliament and of the Council of 11 December 2013 amending Directive 2009/138/EC (Solvency II) as regards the date for its transposition and the date of its application, and the date of repeal of certain Directives (Solvency I), OJ L, 18.12.2013, p. 1.

of undertakings (the so-called QIS2013). The study was conducted using the data from financial statements prepared as at 31 December 2012.

The objective of the study was to analyse the solvency of individual insurance undertakings, and to test the proposals of solutions for quantitative requirements applicable in the Solvency II system, as developed during a cycle of the PFSA Office's ten thematic meetings with undertakings (organized after the previous quantitative impact study). The thematic meetings were held in the period from November 2012 to July 2013.

For the purpose of the quantitative impact study, the PFSA Office prepared the following materials for insurance undertakings:

- the technical specification of the study in Polish,
- a quantitative questionnaire (spreadsheet) to report quantitative results, with the option to select either the Polish or the English version,
- auxiliary spreadsheets to set a capital requirement, among other things, for counterparty risk and catastrophic risk in non-life insurance.

The technical specification of the study QIS2013 included the following issues: balance-sheet items' measurement, including technical provisions, determination of own funds, minimum capital requirement and capital solvency requirements using the standard formula. The technical specification did not include the topics discussed in the negotiations over the Omnibus II Directive, the determination of the Solvency Capital Requirement using the internal model and examination of the financial situation of insurance groups.

The QIS 2013 was one of the essential elements of the activities carried out by the PFSA Office to prepare insurance market entities for operating in the future Solvency II system. The study results indicated to the PFSA Office the areas of the Solvency II system that are a source of major problems or ambiguity for the domestic insurance market, and allowed the PFSA to identify the insurance undertakings for which there is a high risk of non-compliance with the requirement to cover the capital requirements by adequate own funds. Given the above, in 2014 the PFSA Office plans to continue thematic meetings with undertakings and to conduct another mandatory quantitative impact study in the second half of 2014.

## GUIDELINES ON PREPARING FOR SOLVENCY II

In October 2013, EIOPA issued guidelines on preparing for Solvency II<sup>20</sup>, which establish a coherent EU approach to analysing and monitoring by supervisors the state of preparation of insurance sector entities for complying with selected requirements of the Solvency II system. This approach is effective from 1 January 2014. The development of the guidelines under EIOPA, and then the preparation for their application in Poland constituted an important part of the PFSA Office's work in the Solvency II project in 2013.

The guidelines cover four areas: the system of governance, a forward-looking assessment of own risks (based on ORSA principles), submission of information to NCAs and pre-application for internal models. The objective of the guidelines is to ensure that national supervisory authorities, insurance undertakings, reinsurance undertakings and insurance groups take specific actions to implement the selected requirements of the Solvency II system so that these requirements are complied with no later than on the first day of their

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<sup>20</sup> <https://eiopa.europa.eu/publications/eiopa-guidelines-new/guidelines-on-forward-looking-assessment-of-own-risks-based-on-the-orsa-principles/index.html>; <https://eiopa.europa.eu/publications/eiopa-guidelines-new/guidelines-on-pre-application-of-internal-models/index.html>; <https://eiopa.europa.eu/publications/eiopa-guidelines-new/guidelines-on-submission-of-information-to-national-competent-authorities/index.html>; <https://eiopa.europa.eu/publications/eiopa-guidelines-new/guidelines-on-system-of-governance/index.html>.

application, as defined in the Solvency II Directive<sup>21</sup>, taking into account the changes introduced by the Quick-Fix II Directive<sup>22</sup>. As a rule, the scope and methods of application of the guidelines depend on the decisions of national supervisory authorities, which are formal recipients of the guidelines. However, in the case of guidelines for submission of information to NCAs and guidelines on a forward-looking assessment of own risks, EIOPA defined the expected results of the application of the guidelines very specifically (insurance sector entities are required to submit reports by specific deadlines).

In May 2013, the PFSA Office organized a meeting with domestic insurance undertakings to enable these entities to report any observations under the public consultation conducted at that time by EIOPA. The meeting showed that insurance sector entities attach great significance to the application of the guidelines and specific requirements of the Polish supervisory authority in this regard.

In December 2013, the PFSA Office conducted three meetings on the final versions of the guidelines, at which the PFSA presented its initial position regarding the application of the guidelines in Poland (i.e. the assumed expectations of the supervisory authority as regards the application by insurance sector entities of requirements contained in the guidelines in the so-called preparatory phase, and the methods of verification of the above expectations by the PFSA Office). The meeting resulted in a significant number of questions from entities, about the interpretation of the guidelines and the specific requirements of the Polish supervisory authority as regards the application of the Solvency II system's requirements referred to in the guidelines. The answers to these questions will be worked out during the communication and co-operation of the supervisory authority with insurance undertakings in the years 2014 and 2015. This should contribute to better preparation of market entities and the supervisory authority to the application of requirements of the Solvency II system from 1 January 2016 (or from 1 April 2015, in some cases provided for in the Quick-Fix II Directive<sup>23</sup>).

On 23 December 2013, the PFSA Office declared to EIOPA its intention to apply the guidelines on the Polish market from 1 January 2014. At the same time, it forewarned about the lack of a legal basis for enforcing on insurance sector entities compliance with the Solvency II system's requirements contained in the guidelines before the date of application of the Solvency II Directive's provisions corresponding to these requirements. The PFSA Office adopts a 'phasing-in' approach, which means that it will monitor the progress made by insurance sector entities in implementation of the requirements in question in 2014 and 2015 in order to ensure that these requirements will be met from the first day on which Solvency II is applicable.

## NATCAT FORUM

The activities under the natural catastrophes risk forum (so-called NatCat Forum), which started in 2012, were continued in 2013. NatCat Forum is an initiative of the PFSA Office dedicated to collaboration with the insurance market in solving problems related to natural catastrophes risk modelling in relation to the risk of flooding. In 2014, the Guidelines on the risk of flooding in insurance undertakings will be submitted to the public consultation.

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<sup>21</sup> Directive of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 335

<sup>22</sup> Directive 2013/58/EU of the European Parliament and of the Council of 11 December 2013 amending Directive 2009/138/EC (Solvency II) as regards the date for its transposition and the date of its application, and the date of repeal of certain Directives (Solvency I), OJ L, 18.12.2013, p. 1.

<sup>23</sup> Directive 2013/58/EU of the European Parliament and of the Council of 11 December 2013 amending Directive 2009/138/EC (Solvency II) as regards the date for its transposition and the date of its application, and the date of repeal of certain Directives (Solvency I), OJ L, 18.12.2013, p. 1.

## LONG-TERM GUARANTEES ASSESSMENT (LTGA)

The most important issue that remains to be resolved under the Omnibus II Directive in 2013 concerns the provisions for valuation of liabilities under long-term insurance contracts providing for guarantees for the insured and persons entitled under insurance contracts. Lack of effectiveness of short-term market valuation may cause an undesirable effect called artificial volatility of balance-sheet items of insurance undertakings. Absence of mechanisms reducing the artificial volatility combined with legal requirements for mark-to-market valuation of assets and annual horizon constituting the basis for capital requirement calculation in the Solvency II system can result in a considerable decline in demand of domestic insurance undertakings for long-term debt instruments and shorter average maturities of instruments held by them. These requirements disagree with the long-term perspective of insurance operations, based on the risk assumed by the insurance sector, notably the risk of demographic processes.

The issue was covered by the quantitative and qualitative impact study, whose performance in Poland in 2013 was coordinated by the PFSA Office.

The analysis covered the impact of the measures proposed in the so-called LTG package, including the so-called counter-cyclical premium and matching adjustment. As a result of the PFSA Office's participation in EIOPA's work on the methodology of the study, EIOPA changed its approach to determining the so-called risk-free base rate for the zloty. For the purposes of the study, that rate was established based on the yield of Polish government bonds rather than interest rate swaps, which, according to the analyses conducted by the PFSA Office, may reduce the balance-sheet volatility caused by the requirement of market valuation of assets and liabilities, and thereby increase the stability of the financial sector.

Although no such obligation exists, the PFSA Office, as one of the few national supervisory authorities, developed a detailed national report with study results<sup>24,25</sup> which was submitted to EIOPA. The decision to develop the report was dictated by dissimilarity between study results and the European average, and by the specific character of Polish insurance undertakings. In August 2013, the PFSA Office published on its website the results of the study on the domestic insurance market<sup>26</sup>, and on 14 October 2013, the PFSA held a meeting with representatives of national insurance undertakings summarizing the results and conclusions of the study for the Polish insurance market<sup>27</sup>.

The results of the study on the Polish insurance market differ significantly from the all-European results. Domestic insurance undertakings generated the best result in terms of the coverage of the Solvency Capital Requirement (SCR) among EEA<sup>28</sup> undertakings<sup>29</sup> participating in the study. In particular, the excellent result of the domestic insurance sector concerned the scenario that did not contain any of the proposed mechanisms, in which the SCR coverage ratio was approximately 302% for Poland compared to approximately 77% for the EEA (based on aggregated data at the end of 2011).

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<sup>24</sup> The report is available on the PFSA Office's website at:

[http://www.knf.gov.pl/Images/LTGA\\_PL\\_national\\_report\\_20130611\\_tcm75-34810.pdf](http://www.knf.gov.pl/Images/LTGA_PL_national_report_20130611_tcm75-34810.pdf).

<sup>25</sup> Ultimately, the report included results from 35 participants from Poland (17 segment I insurance undertakings and 18 segment II insurance undertakings). The results of part of the undertakings were excluded from the study due to the quality and data completeness problems.

<sup>26</sup> Available at: [http://www.knf.gov.pl/Images/Wyniki\\_LTGA\\_w\\_Polsce\\_opracowanie\\_UKNF\\_tcm75-35376.pdf](http://www.knf.gov.pl/Images/Wyniki_LTGA_w_Polsce_opracowanie_UKNF_tcm75-35376.pdf).

<sup>27</sup> The presentation from the meeting is available on the PFSA Office's website at:

[http://www.knf.gov.pl/Images/prezentacja\\_UKNF\\_podsumowanie\\_badania\\_LTGA\\_20131014\\_tcm75-36023.pdf](http://www.knf.gov.pl/Images/prezentacja_UKNF_podsumowanie_badania_LTGA_20131014_tcm75-36023.pdf).

<sup>28</sup> European Economic Area.

<sup>29</sup> The study results for undertakings from the Czech Republic, Iceland and Latvia have not been taken into account.

One of the conclusions of the study is a relatively small impact of the proposed solutions on the level of the Solvency Capital Requirement coverage ratio for the Polish insurance sector, which, however, is the result of the formulation of applicability conditions and the above-described stabilizing effect of determining the base risk-free rate for the zloty based on the profitability of Polish government bonds. In the context of maintaining competitive conditions for Polish entities in relation to undertakings from other Member States, as well as the stabilization of insurance undertakings' balance-sheet items over time (especially in the case of changes in establishing the base risk-free interest rate), in the PFSA Office's opinion it was necessary to include in the Omnibus II Directive solutions mitigating the artificial volatility (especially matching adjustments), whose applicability conditions would not constitute a barrier to their use by domestic insurers and reinsurers. The agreed Omnibus II Directive includes a modified condition concerning the so-called ring-fenced funds<sup>30</sup> when applying the matching adjustment. Moreover, due to the criticism of one of the proposed mechanisms checked during the study, namely the counter-cyclical premium (CCP), EIOPA proposed a new solution, the so-called volatility adjustment.<sup>31</sup>

## 4.5. SUPERVISION OF PENSION MARKET

Offsite supervision of the pension market covers the financial standing as well as operating and investment activities of pension fund companies and pension funds (the so-called second and third pillar of the pension system, including individual pension security accounts). The PFSA Office also monitors the above institutions in terms of compliance with applicable laws and their charters, and in terms of fulfilment of disclosure requirements. The goal behind the supervisory efforts in that regard is to protect the interests of pension fund members.

### MONITORING OF THE FINANCIAL STANDING OF PENSION FUND COMPANIES AND INVESTMENT ACTIVITY OF PENSION FUNDS

Tasks related to the ongoing supervision of financial operations and investment policy of open-end, occupational and voluntary pension funds as well as activity of universal and occupational pension fund companies were performed through systematic analysis of reporting data submitted in electronic form by regulated entities to the PFSA Office:

- daily and quarterly financial reports of pension funds including funds' balance sheet with explanatory notes, lists of investment portfolios, income statements with explanatory notes, lists of concluded transactions and important orders as well as information on the value and number of accounting units;
- monthly, semi-annual and annual structures of funds' assets;
- funds' operational reports on concluded fund membership agreements, the contribution paid, external and internal transfer payments, payments of periodic capital pensions, the number of members and the number of maintained accounts;
- financial statements of pension fund companies, covering balance sheets, income statements, information on fees in universal pension fund companies, universal pension fund companies' liabilities and capital links of pension fund companies.

The monitoring of financial standing of pension fund companies and investment policies of pension funds was carried out through, among other things:

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<sup>30</sup> Polish: *fundusz wyodrębniony*.

<sup>31</sup> The principles concerning the volatility adjustment had not been formulated by EIOPA until the report summarizing the study results.

- analysis of capital market transactions in terms of profitability and risk related to the acquisition of a given financial instrument, resulting from the structure of the instrument and the financial standing of its issuer;
- monitoring of investment activity of pension funds with respect to compliance with the overriding principle of investment profitability and security;
- review of the valuation of financial instruments held in pension funds' investment portfolios;
- analysis of the structure of pension funds' investment portfolios and its changes over time, as well as of accepted risk levels;
- assessment of the effectiveness of the investment activity of pension funds considering the conditions prevailing on capital markets and macroeconomic environment;
- analysis of internal procedures and declared rules of conducting investment activities at regulated entities.

An important task of a supervisory authority is to review pension funds' detailed valuation methodologies applied to financial instruments for which there is no market or it is impossible to value them on the arm's length basis, while observing the principle of conservative valuation. During the period covered by the report, 355 valuations submitted by open-end pension funds, voluntary pension funds and occupational pension funds were subject to approval by the supervisory authority.

**Table 41. Valuation methodologies submitted by pension funds for approval by the PFSA, 2010-2013**

Fund type	Number of submitted methodologies			
	2010	2011	2012	2013
OFE	190	267	420	293
PFE	12	1	16	29
DFE	-	-	6	33

Source: in-house materials by the PFSA Office

As financing provided by employers accounts for a high share of current financing of occupational pension fund companies, supervision of occupational pension fund companies is largely exercised on an indirect basis. This supervision is necessary to ensure the financial security and business continuity of the companies. It was found that shareholders in occupational pension fund companies cover the operating costs of the companies on an ongoing basis, and balances of amounts due at the end of individual quarters result directly from the adopted settlement systems. Another characteristic feature of occupational pension fund companies is that they rely on outsourced processes to a larger extent than universal pension fund companies do. As a result, supervision activities partly cover entities other than occupational pension fund companies.

In the period covered by this Report, the PFSA calculated and published the average weighted rates of return of all open-end pension funds twice - for the periods from 31 March 2010 to 29 March 2013 and from 30 September 2010 to 30 September 2013. In both periods, all open-end pension funds achieved rates of return above the required minimum.

**Table 42. Statutory rates of return of open-end pension funds calculated and published by the PFSA in 2013 (%)**

Open-End Pension Fund	Rates of return for the period	Open-End Pension Fund	Rates of return for the period
	from 31 March 2010		from 30 September 2010
	to 29 March 2013		to 30 September 2013
Allianz Polska OFE	19.132%	Nordea OFE	23.019%
Nordea OFE	19.052%	Allianz Polska OFE	21.137%
Amplico OFE	17.976%	ING OFE	21.094%
ING OFE	17.664%	OFE WARTA	20.430%
Aviva OFE Aviva BZ WBK	17.234%	Amplico OFE	20.400%
OFE WARTA	16.820%	PKO BP Bankowy OFE	20.276%
PKO BP Bankowy OFE	16.375%	Aviva OFE Aviva BZ WBK	19.756%
AXA OFE	16.290%	AXA OFE	18.849%
OFE PZU "Złota Jesień"	15.382%	Pekao OFE	18.787%
AEGON OFE	15.271%	OFE PZU "Złota Jesień"	18.628%
Generali OFE	14.760%	Generali OFE	18.258%
Pekao OFE	14.641%	OFE Pocztylion	17.449%
OFE Pocztylion	13.768%	AEGON OFE	17.337%
OFE POLSAT	9.828%	<b>Weighted average rate of return</b>	<b>19.751%</b>
<b>Weighted average rate of return</b>	<b>16.636%</b>	<b>Minimum rate of return</b>	<b>9.876%</b>
<b>Minimum rate of return</b>	<b>8.318%</b>		

Source: in-house materials by the PFSA Office

The following reports on the operations of the pension market entities were submitted at the PFSA meetings:

- "The financial situation of universal pension fund companies in 2012"
- "The investment activities of pension funds in the period from 31 March 2010 to 29 March 2013",
- "The financial situation of universal pension fund companies in the first half of 2013"
- "The investment activities of pension funds in the period from 30 September 2010 to 30 September 2013",
- "The market of open-end pension funds in the fourth quarter of 2012",
- "The market of open-end pension funds in the first quarter of 2013",
- "The market of open-end pension funds in the second quarter of 2013",
- "The market of open-end pension funds in the third quarter of 2013",

On the basis of all the information sent to the PFSA Office in the year covered by the report, the PFSA Office regularly developed and published monthly, quarterly or annual statistical and financial data on the OFE, PPE and IKE market, and information about transfers and drawing of OFE members.

## SUPERVISION OF LEGAL COMPLIANCE BY PENSION FUND COMPANIES AND PENSION FUNDS

The supervision exercised by the PFSA Office in the area of monitoring compliance of operations of pension funds and pension fund companies with the law included:

- checking the fulfilment by pension fund companies of capital requirements specified by legal provisions,

- checking compliance of exposure of pension funds' assets to investment categories determined by the provisions of law,
- the analysis of costs covered by the pension funds' assets,
- the analysis of regulated entities' compliance with requirements to disclose information to the regulator.

**Table 43. Provisions of law on investment limits, breached by OFEs in 2013**

Legal provision	Number of breaches*	including involuntary breaches**
Article 142(2)(5) of the Act on the Organisation and Functioning of Pension Funds	277	277
Article 144 of the Act on the Organisation and Functioning of Pension Funds	245	245
first sentence of paragraph 2 of subsection 1 of the Regulation of the Council of Ministers on additional limitations as regards pursuit of investment business by pension funds (in the case of investment of the fund's assets in shares, rights to shares, subscription rights and depositary receipts as referred to in Article 141(1)(4)-(6) and (13c) of the Act on Organisation and Functioning of Pension Funds, the said investments may not exceed 10% of one issue and when the share of company securities in the fund's assets does not exceed 1%, the fund's investments may constitute not more than 20% of one issue of company shares)	204	115
second sentence of paragraph 2 of subsection 1 of the Regulation of the Council of Ministers on additional limitations as regards pursuit of investment business by pension funds (the sum of the fund's assets invested in issues of shares of companies in which the fund's investments represent more than 10% of one share issue may not constitute more than 5% of the value of the fund's assets)	71	71
paragraph 1 of subsection 3 of the Regulation of the Minister of Finance on the general authorisation to invest assets of pension funds abroad	51	34

Source: in-house materials by the PFSA Office

\* An infringement of the same provision of law by one fund as regards the same financial instrument or group of instruments occurring at subsequent valuation dates are treated for reporting purposes as subsequent overruns of the investment limit.

\*\* The infringements of regulations occurred as a result of change in market prices being the basis for the valuation of funds' assets and liabilities, in estimation of exchange rates and in organisational or capital links between entities whose financial instruments are the subject of the investment of fund's assets or as a result of any other circumstances on which the fund has no direct impact.

As part of supervising the compliance with disclosure requirements, the PFSA Office verified the timeliness and correctness of daily and quarterly financial reports of pension funds, operational reports of open-end pension funds and voluntary pension funds, financial statements of pension fund companies as well as monthly, semi-annual and annual asset structures published by open-end pension funds. Acceptance and verification of the correctness of submitted daily reports and other information was performed on an ongoing basis, together with simultaneous explanation of any potential errors identified in the submitted data.

**Table 44. Reports, with adjustments, submitted and reviewed as part of compliance with pension funds' and pension fund companies' disclosure requirements, as received in 2013**

Type of submitted reports	Correct reports	reports
Financial reports by open-end pension funds	57 844	772
Financial reports by voluntary pension funds	2 803	78
Financial reports by occupational pension funds	80	6
Operational reports by open-end pension funds	4 930	212
Reports by universal pension fund companies	482	34
Reports by occupational pension fund companies	20	3
<b>Total</b>	<b>66 159</b>	<b>1 105</b>

Source: in-house materials by the PFSA Office

## SUPERVISORY REVIEW AND ASSESSMENT (BION) OF UNIVERSAL PENSION FUND COMPANIES

Supervisory review and assessment (BION) is a comprehensive process using all available information acquired by the regulator when performing direct supervision as part of on-the-spot inspections conducted in regulated entities and indirect supervision executed through activities related to licensing, analysis of reporting data and additional enquiries addressed to universal pension fund companies in the form of supervisory requests or surveys.

In 2013, the BION assessment process was conducted in universal pension fund companies for the year 2012. Supervisory ratings were assigned to 13 universal pensions fund companies and the results thereof were provided to the management boards of individual entities.

## SUPERVISION OF OCCUPATIONAL PENSION SCHEMES (PPE)

An employer offering an occupational pension scheme has a duty to submit annually to the regulator information on performance of the occupational pension scheme for a given calendar year. This way, the regulator obtains vital information on the functioning of individual occupational pension schemes and after statements aggregation - market data, important phenomena and trends.

As at the end of 2013, there were 1,070 PPEs. Some PPEs are intercompany - more than one employer participates in such PPEs. In consequence, the duty to submit a statement on the operated occupational pension scheme for the year 2013 lies with 1,116 employers who as at 31 December 2013 operated an occupational pension scheme.

In 2013, the regulator conducted 13 procedures under direct supervision activities with respect to employers offering an occupational pension scheme and 126 procedures covering employers who did not fulfil the duty to submit a statement on the maintained occupational pension scheme for the year 2012 within the established time limit.

## 4.6. SUPERVISION OF CAPITAL AND COMMODITY MARKET

Ongoing supervision of the capital and commodity market is performed mainly through:

- monitoring the standing of regulated entities on the basis of statements, reports and information submitted by the entities,
- supervising trade on regulated market as regards detection of use of inside information and manipulation involving financial instruments,
- checking compliance with capital requirements,
- preparing opinions on materials for supervisory board meetings and general meetings of the companies operating the regulated market, the depository for securities, and the commodity market, as well as participating in the meetings,
- checking regulated entities' compliance with disclosure requirements.

### SUPERVISION OF ENTITIES OPERATING IN SECURITIES MARKET

#### Ongoing supervision of investment firms

In addition to analytical activities concerning entities conducting brokerage activities, the business of trading in exchange commodities and trust business involving the keeping of securities accounts, in 2013, the Polish Financial Supervisory Authority supervised the process of transferring the brokerage and trust business from a bank pursuing such business to another bank in connection with the transfer of the relevant authorisations as a result of the acquisition process regulated by the company law and banking law. Moreover, in connection with the bank's resignation from conducting brokerage activities and the liquidation of a brokerage house, the Polish Financial Supervision Authority supervised the process of closing brokerage activities and transferring financial instruments and cash, as well as documents related to the keeping of accounts, including securities accounts, to another investment company. As part of the above-mentioned activities, the PFSA issued two decisions ordering the transfer of the assets and documents in question to another investment company, which consented to it.

The PFSA supervises the operations and financial standing of brokerage houses by analysing their periodic and current reports, including financial statements submitted in accordance with applicable laws. Moreover, meeting the obligations specified by the provisions of the Regulation of the Minister of Finance on the performance of supervisory review and assessment of brokerage houses of November 20th 2009, the process of supervisory assessment of brokerage houses (BION process) is being conducted.

In 2013, as part of supervision of operations of brokerage houses, annual financial statements for the year 2012, semi-annual financial statements for H1 2013, monthly and current reports of 56 brokerage houses as well as monthly and current reports of 14 brokerage offices were reviewed. In 2013, consolidated financial statements for the year 2012 and reports concerning the consolidated capital adequacy requirements for brokerage houses, submitted in accordance with binding laws, were also reviewed.

The main report used for exercising supervision of financial position of brokerage houses is the monthly MRF-form statement with information on the level of fulfilment of capital adequacy requirements specified in the Act of 29 July 2005 on trading in financial instruments (Dz.U. of 2010, No 211, item 1384, as amended) and the Regulation of the Minister of Finance of 18 November 2009 on the scope and detailed rules for determination of the total capital requirement, including capital requirements, for brokerage houses, and on the maximum ratio of loans and debt securities issued in relation to capital (Dz.U. No 204, item 1571 as amended). Table 45 presents the fulfilment of capital adequacy requirements by brokerage houses.

**Table 45. Average capital requirements (PLN million) and average capital requirements coverage ratios at brokerage houses, 2010-2013**

Detailed list	2010	2011	2012	2013
Average regulated capital	46	46.49	41.00	41.66
Average total capital requirement	19.63	35.51	13.63	13.27
Average internal capital	20.24	38.51	15.30	14.77
Average coverage of total capital requirement with regulated capital*	2.34	1.31	3.01	3.14
Average coverage of internal capital with regulated capital*	2.27	1.21	2.68	2.82

Source: in-house materials by the PFSA Office

Data sourced from monthly MRF-form statements as at 31 December 2010, 31 December 2011, 31 December 2012 and 31 December 2013.

\*Data expressed in abstract units, representing the average quotient of the regulated capital to the individual capital requirements.

**Table 46. Basic data from the balance sheets of brokerage houses (PLN million), 2010-2013**

Balance sheet	2010	2011	2012	2013
I. Cash and cash equivalents	5 408.74	5 485.61	4 979.18	5 496.44
II. Short-term receivables	2 132.98	2 031.96	2 793.89	1 949.42
III. Financial instruments held for trading	492.15	1 062.14	353.18	432.58
IV. Short-term prepayments	19.25	20.62	19.07	23.13
V. Financial instruments held to maturity	36.34	276.68	74.68	83.21
VI. Financial instruments available for sale	740.87	577.45	317.03	318.94
VII. Long-term receivables	43.75	28.40	35.41	32.08
VIII. Long-term loans granted	5.62	6.21	2.20	8.05
IX. Intangible assets	45.03	68.81	83.35	80.43
X. Property, plant and equipment	107.91	110.42	108.82	108.39
XI. Long-term prepayments	125.82	165.15	123.38	108.10
<b>TOTAL ASSETS</b>	<b>9 158.47</b>	<b>9 833.46</b>	<b>8 890.19</b>	<b>8 640.78</b>
I. Short-term liabilities	5 978.82	6 601.96	6 162.72	5 725.83
II. Long-term liabilities	27.58	83.98	10.37	9.34
III. Prepayments	158.25	129.76	110.10	133.22
IV. Provisions for liabilities	89.82	76.11	65.55	80.81
V. Subordinated liabilities	0.87	0.70	0.36	0.30
VI. Equity	2 903.14	2 940.95	2 541.09	2 691.28
<b>TOTAL LIABILITIES</b>	<b>9 158.47</b>	<b>9 833.46</b>	<b>8 890.19</b>	<b>8 640.78</b>

Source: in-house materials by the PFSA Office

Data for the years 2010-2012 sourced from audited financial statements, data for the year 2013 sourced from monthly MRF-form statements as at 31 December 2012,

The data does not include the data of brokerage houses whose financial year is not the same as the calendar year (two brokerage houses in the years 2010-2012 and one brokerage house in 2013)

**Table 47. Basic data from the income statement of brokerage houses (PLN million), 2010-2013**

Income statement	2010	2011	2012	2013
I. Income on brokerage activities	1 484.96	1 388.85	1 075.99	1 201.07
II. Cost of brokerage activities	1 162.20	1 263.75	1 138.51	1 169.00
III. Profit (loss) on brokerage activities (I-II)	322.76	125.10	-62.52	32.06
IV. Income on financial instruments held for trading	941.26	1 632.84	675.11	531.25
V. Costs due to financial instruments held for trading	687.53	1 328.98	563.91	185.44
VI. Profit (loss) on operations with financial instruments held for trading (IV-V)	253.72	303.85	111.20	345.80
VII. Income on financial instruments held to maturity	3.06	5.53	10.48	1.95
VIII. Costs due to financial instruments held to maturity	0.00	0.00	0.00	0.16
IX. Profit (loss) on operations with financial instruments held to maturity (VII-VIII)	3.06	5.53	10.48	1.79
X. Income on financial instruments available for sale	199.78	202.30	193.26	112.15
XI. Costs due to financial instruments available for sale	4.63	1.78	9.40	0.52
XII. Profit (loss) on operations with financial instruments available for sale (X-XI)	195.15	200.53	183.86	111.63
XIII. Other operating income	20.98	17.92	40.36	39.15
XIV. Other operating costs	15.64	13.39	29.92	21.87
XV. Difference in the amount of provisions and impairment losses on receivables	-21.16	-14.72	-49.53	-6.92
XVI. Profit (loss) on operating activity (III+VI+IX+XII+XIII-XIV+XV)	758.87	624.82	203.93	501.66
XVII. Financial income	210.89	278.77	234.23	173.47
XVIII. Financial costs	75.55	312.48	284.21	54.62
XIX. Profit (loss) on economic activity (XVI+XVII-XVIII)	894.21	591.11	153.94	620.51
XX. Extraordinary gains	0.00	0.00	0.00	0.00

XXI. Extraordinary losses	0.00	0.00	0.00	0.00
XXII. Gross profit (loss) (XIX+XX-XXI)	894.21	591.11	153.94	620.51
XXIII. Income tax	135.47	74.14	104.83	118.17
XXIV. Other mandatory profit decrease (loss increase)	-0.32	0.13	0.39	-0.15
XXV. Net profit (loss) (XXII-XXIII-XXIV)	759.06	516.85	48.73	502.49

Source: in-house materials by the PFSA Office

Data for the years 2010-2012 sourced from audited financial statements, data for the year 2013 sourced from monthly MRF-form statements as at 31 December 2012,

The data does not include the data of brokerage houses whose financial year is not the same as the calendar year (two brokerage houses in the years 2010-2012, and one brokerage house in 2013)

### Supervisory Review and Assessment (BION) of brokerage houses

In Q3 2013, the third formal process of supervisory assessment of brokerage houses, which started in September 2012, was finalised. In the fourth quarter of 2013, the PFSA conducted the last BION process in accordance with the old capital adequacy regime. The process covered 53 entities.

In connection with the publication of the CRD IV / CRR package, i.e. Regulation of the European Parliament and of the Council (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, and Directive of the European Parliament and of the Council 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, the PFSA Office sent two surveys to supervised entities. The surveys' objective was to obtain information regarding the preparation of brokerage houses in fulfilling the requirements arising from the above regulations and to obtain information on the progress of the process of adjustment to the new regime.

On 15 November 2013, a meeting was held with brokerage houses' and the Chamber of Brokerage Houses' representatives, during which the participants discussed the status of implementation of the CRD IV / CRR package into the Polish legal system, and the key changes resulting from the implementation of new regulations on the operation of brokerage houses.

### Companies operating a regulated market and settlement and depository companies

The Polish Financial Supervision Authority's supervisory duties over companies operating a regulated market and keeping a securities depository include:

- performing on-the-spot inspections at supervised entities such as Giełda Papierów Wartościowych w Warszawie SA, BondSpot SA, Krajowy Depozyt Papierów Wartościowych SA,
- preparing reports on the performed inspections,
- supervising the implementation of post-inspection recommendations,
- preparing opinions on materials for supervisory board meetings and general meetings of supervised institutions,
- the participation by a PFSA representative in supervisory board meetings and general meetings of supervised institutions.

PFSA representatives took part in 30 supervisory board meetings and 6 general meetings, including:

- 11 meetings of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie SA (Warsaw Stock Exchange),

- 2 General Meetings of Giełda Papierów Wartościowych w Warszawie SA (Warsaw Stock Exchange)
- 6 meetings of the Supervisory Board of Krajowy Depozyt Papierów Wartościowych SA (Central Securities Depository of Poland),
- 2 Extraordinary General Meetings of Krajowy Depozyt Papierów Wartościowych SA (Central Securities Depository of Poland),
- 5 meetings of the Supervisory Board of KDPW\_CCP SA,
- the Ordinary General Meeting of KDPW\_CCP S.A.,
- 8 meetings of the Supervisory Board of BondSpot SA,
- the General Meeting of BondSpot SA.

## SUPERVISION OF SECURITIES ISSUERS OTHER THAN INVESTMENT FUNDS

As part of the supervision of reporting by securities issuers other than investment funds, in 2013 the PFSA Office reviewed the compliance of:

- over 32,000 current and periodic reports as well as confidential information submitted by public companies,
- over 2,700 notifications submitted by the person acquiring and selling significant blocks of shares in public companies pursuant to Article 69 of the Act on Public Offering,
- about 4,500 notifications submitted by entities required to do so pursuant to Article 160 of the Act on Trading in Financial Instruments of 29 July 2005 (i.e.: Dz.U. of 2010, No 211, item 1384, as amended) - persons who are members of an issuer's management or supervisory bodies or who are proxies of an issuer, and other persons in managerial positions in an issuer's organizational structure, who have permanent access to inside information directly or indirectly relating to the issuer, and power to take decisions affecting the issuer's development and business prospects.

The activities performed by the PFSA Office in 2013 as part of supervision of reporting by securities issuers other than investment funds included, among other things:

- review of 207 financial statements (including consolidated financial statements) of 109 issuers in terms of their compliance with applicable accounting standards, especially International Accounting Standards/International Financial Reporting Standards ("hereinafter referred to as IFRS), selected based on the selection rules referred to in Standard No 1 of CESR (Committee of European Securities Regulators; at present ESMA: European Securities and Markets Authority) on Financial Information "Enforcement of Standards on Financial Information in Europe". The results of the review are used to prepare a report, which is then published on the PFSA's website,
- preparation and delivery of 116 positions and opinions, including 65 for external entities, concerning, among other things, application of IFRS, correctness of fulfilment by issuers of disclosure requirements related to interim reports, as well as in connection with proceedings conducted by the PFSA Office with respect to securities issuers' reporting and historical financial information presented in prospectuses.

In the period covered by the report, the PFSA issued the following decisions:

- two decisions on a request for entry into the register of qualified investors (On 23 April 2013, the Act of 8 March 2013 amending the Act on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies (Dz.U. of 2013, item 433) entered into force. The Act removed the concept of a qualified investor);
- five decisions on a request for granting an authorisation to convert shares into certificated form (rematerialisation of shares - Article 91(1) and (2) of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies);
- one decision on a request to indicate a company as a news agency;

- three decisions on the request from Giełda Papierów Wartościowych w Warszawie S.A. for suspension of trading in shares of a public company due to failure to timely meet disclosure requirements and two decisions on discontinuing the proceedings in the above-mentioned subject - pursuant to Article 20(2) of the Act of 29 July 2005 on trading in financial instruments;
- one decision on the request from Giełda Papierów Wartościowych w Warszawie S.A. for suspension of trading in shares of a public company due to abnormal changes in the share price - pursuant to Article 78(3) in conjunction with Article 16(3) of the Act of 29 July 2005 on trading in financial instruments;
- one decision on discontinuing proceedings relating to the request from Giełda Papierów Wartościowych w Warszawie S.A. for exclusion of a company's shares from trading - pursuant to Article 78(4) in conjunction with Article 16(3) of the Act of 29 July 2005 on trading in financial instruments.

Moreover, the Authority adopted a resolution on the occurrence of circumstances indicating that a company's shares on Giełda Papierów Wartościowych w Warszawie S.A. had been subject to manipulation referred to in Article 39 of the Act of 29 July 2005 on trading in financial instruments, consisting in placing orders and executing transactions that are or may be misleading as to the actual demand for, supply or price of a financial instrument (Article 39(2)(1) of the Act on trading).

In 2013, there were over 300 interventions in cases where incorrect fulfilment of disclosure requirements of public companies was identified. The interventions resulted in disclosure of current and periodic reports compliant with binding laws.

One of the PFSA's duties is to oversee formal and legal compliance of announcing and carrying out offers to acquire or exchange shares in a public company in connection with shareholders exceeding particular thresholds of the total number of votes. If an announced offer does not meet statutory requirements, the PFSA may demand that the terms of the offer be changed or supplemented, or may require explanations regarding the offer.

In the period covered by the report, 26 offers to acquire or exchange shares in a public company were announced. From the above total number of offers, 2 offers were announced in connection with exceeding the 33% threshold of the total number of votes in public companies, and another 14 offers were announced for all the remaining shares in the said companies. Moreover, 2 offers were announced under Article 72 of the Act on Public Offering.

The value of shares under offers announced in 2013 totalled more than PLN 6.2bn. For comparison, in 2009 the total value of shares under offers amounted to approx. PLN 3.2bn, in 2010 the value of acquisitions totalled approx. PLN 6bn, while in 2011 the value totalled more than PLN 18bn and in 2012 nearly PLN 7.2bn. In 2013, the PFSA demanded that the necessary changes be introduced in one offer, and in two cases, the PFSA asked for explanations.

## SUPERVISION OF COLLECTIVE INVESTMENT UNDERTAKINGS

The supervisory duties of the PFSA in relation to investment fund companies and investment funds, once they receive the required authorisations, include monitoring of their current situation through the analysis of current reports, current information, as well as periodic statements and reports.

Current reports and information of investment funds can be divided into two groups:

- current reports and information of open-end investment funds, specialist open-end investment funds and closed-end investment funds provided exclusively for the PFSA,

- current reports of public closed-end investment funds provided for the PFSA and made public.

Apart from semi-annual and annual financial statements of investment funds, the following are also included in the group of periodic statements submitted mandatorily:

- quarterly statements of open-end investment funds, specialist open-end investment funds and closed-end investment funds issuing investment certificates which are provided exclusively for the PFSA,
- quarterly reports of public closed-end investment funds provided for the PFSA and made public.

Periodic statements of investment fund companies include:

- monthly statements,
- annual financial statements,
- semi-annual financial statements for the collective securities portfolio,
- annual financial statements for the securities portfolio,
- annual statements on internal control functioning.

Performing its supervisory tasks in relation to investment fund companies and investment funds, the PFSA also regularly reviews the information sent by investment fund depositaries under Article 231 of the Act of 27 May 2004 on Investment Funds (Dz.U. No 146, item 1546, as amended).

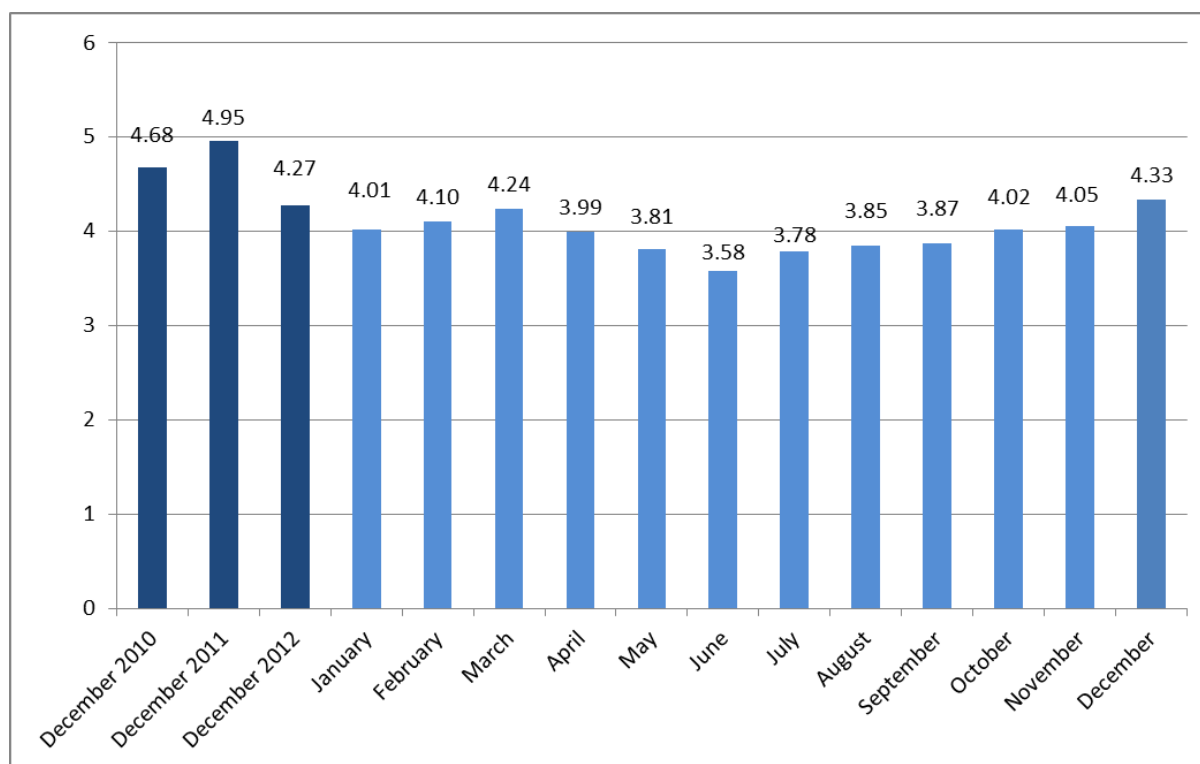
**Table 48. Number of reviewed current and periodic reports of investment funds and investment fund companies, and information submitted to the PFSA from depositaries, 2010-2013**

Type of report/information	2010	2011	2012	2013
Current and periodic reports of investment fund companies	2361	2952	4019	4120
Current and periodic reports of investment funds	12957	15068	17238	21192
Information from depositaries	2421	3446	3978	4214
<b>Total</b>	<b>17739</b>	<b>21466</b>	<b>25235</b>	<b>29526</b>

Source: in-house materials by the PFSA Office

The PFSA also supervises the fulfilment of capital requirements by the investment fund companies.

**Fig. 20. Average capital coverage ratio of investment fund companies at year-end of 2010, 2011 and 2012, and in 2013 (equity to minimum capital requirement)<sup>32</sup>**



Source: in-house materials by the PFSA Office

As it follows from the data presented above, in 2013 the average capital coverage ratio for the entire sector of investment companies remained at a slightly lower level than in the previous year, when it was in the range of 3.77 to 5.11. In 2013, the ratio stood at 3.58 to 4.33. Thus, equity of investment company was on average almost four times higher than the mandatory minimum equity required under the provisions of the Act on Investment Funds. After drops of the average ratio in H1 2013, during H2 it started to grow again.

#### Supervisory Review and Assessment (BION) of investment fund companies

According to the principles of the BION process in relation to TFIs, in 2013 there were four BION studies conducted as at the end of: the fourth quarter of 2012 (12 TFIs), the first quarter of 2013 (13 TFIs), the second quarter of 2013 (13 TFIs) and the third quarter of 2013 (14 TFIs). The assessment of the entities included in the group assessed as at the end of Q4 2013 (14 TFIs) will be conducted in the first quarter of 2014.

**Table 49. Number of investment fund companies subject to BION assessment in 2013**

Quarter	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Number of investment fund companies	12	13	13	14

Source: in-house materials by the PFSA Office

<sup>32</sup> Based on monthly reports filed by investment fund companies. Such reports are not audited or reviewed by statutory auditors, and so they may be subject to subsequent adjustments.

The assessment's general methodology did not change over 2013, i.e., the assessment still covered three areas relating to:

- the risk exposure of investment fund companies;
- the capital held by investment fund companies;
- the quality of management at investment fund companies.

In 2013, 52 TFIs were subject to the BION assessment. Ratings are assigned in the range of 1 (the best rating) to 4 (the worst rating). The ratings awarded to companies in 2013 averaged 1.9.

## SUPERVISION OF ENTITIES OPERATING IN THE EXCHANGE COMMODITIES MARKET

As regards the supervision of the exchange commodities market, the Polish Financial Supervision Authority's tasks consist in:

- performing on-the-spot inspections at supervised entities such as Towarowa Giełda Energii SA (hereinafter referred to as "TGE"), Izba Rozliczeniowa Giełd Towarowych (hereinafter referred to as "IRGiT"),
- preparing reports on the performed inspections,
- supervising implementation of the post-inspection recommendations,
- providing opinions on materials for supervisory board meetings and general meetings of supervised institutions,
- the participation by a PFSA representative in supervisory board meetings and general meetings of supervised institutions.

PFSA representatives took part in 13 meetings of supervisory boards and in 2 general meetings of exchange commodities market institutions, including:

- 5 meetings of the Supervisory Board of TGE SA,
- 2 General Meetings of TGE SA,
- 8 meetings of the Supervisory Board of IRGiT SA.

## 5. INSPECTION ACTIVITIES

### 5.1. BANKING SECTOR

#### INSPECTIONS AT BANKS

In 2013, inspection activities at banks<sup>33</sup> were performed under the regulations and prudential recommendations of the PFSA, considering the EBA and BCBS guidelines, based on uniform standards and procedures of the review as set out in the Inspection Handbook and supplementary specific methodologies.

Inspection activities comprised comprehensive and problem-oriented inspections as well as explanatory proceedings.

**Table 50. Inspection tasks performed by the PFSA Office at banks in 2013**

Inspection activities	Number
Comprehensive inspections, including:	9
– inspections at commercial banks	5
– inspections at cooperative banks	4
Problem-oriented inspections, including	45
– inspections at commercial banks*	20
– inspections at cooperative banks	25
Validation proceedings at commercial banks	4
Explanatory proceedings at commercial banks	1
Explanatory proceedings at cooperative banks	1
Problem-oriented inspections at a credit institution branch	2
Explanatory proceedings at a credit institution branch	1

\*Including one inspection to assess a bank's application for approval of use of statistical methods to calculate capital requirements.

Source: in-house materials by the PFSA Office

As part of the co-operation between the PFSA Office and the National Bank of Poland, inspections designed to check the correctness of calculating and transferring the amount of mandatory reserves required for commercial banks were performed (as part of 5 comprehensive inspections).

As part of the co-operation between the PFSA Office and the National Bank of Poland, inspections designed to check the correctness of calculating and transferring the amount of mandatory reserves required for commercial banks were performed (as part of 5 comprehensive inspections).

In 2013, the structure of audit activities changed fundamentally. The inspection supervision was more focused on examining systemically most important banks, by increasing the number of problem-oriented inspections carried out in these entities in place of comprehensive inspections. The assessment was carried out mainly in the formula of cross-sectional inspections, i.e. inspections focused on a similar set of issues in a number of banks. The objective of introducing cross-sectional inspections was to increase their effectiveness and to identify and evaluate significant issues in systemically important banks.

As part of cross-sectional inspections, the following areas were examined:

- asset quality and credit risk management,

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<sup>33</sup> They included inspection activities as at review dates: 31 December 2012; 31 March 2013; 30 June 2013 & 30 September 2013.

- the bank's involvement in the distribution of insurance products (bancassurance) and investment products,
- internal audit function and compliance function,
- the bank's operation in the interbank market,
- the rules and policy of variable components of remuneration of persons holding managerial positions at the bank,
- the parent's influence on the bank's business and the costs of cooperation agreements.

The activities falling within the scope of comprehensive inspections centred on investigation into the risk management process at banks, and notably into management of credit, liquidity, market and operational risks as well as assessment of the bank's capital adequacy and bank management, considering observance of regulations governing banking operations, the charter and satisfaction of terms and conditions specified in the banking licence.

The implementation of earlier post-inspection recommendations issued by the PFSA was yet another aspect assessed during the inspection activities.

Inspection findings were described in the inspection report; the results of the review of a bank with foreign capital were also provided to the regulator of the bank's parent entity.

The inspection activities conducted in 2013 as part of comprehensive, problem-oriented and cross-sectional inspections at 25 commercial banks showed that their operations did not pose any threat to the safety of funds accumulated in accounts. Nonetheless, for each bank reviewed there were identified instances of breach of laws and prudential regulations as well as risk management irregularities.

There were the following risk management process-related irregularities that occurred most frequently at the commercial banks under review (by risk type, taking into account particularly the findings in the areas audited under cross-sectional inspections):

**Table 51. The most frequent irregularities in credit risk management, as identified in the course of inspection activities at banks in 2013**

Credit risk management	
1.	<p>Too liberal principles for the assessment of creditworthiness:</p> <ul style="list-style-type: none"> <li>– of retail customers (awarding loans without regard to certain provisions of Recommendation T on best practices in managing credit risk related to retail exposures), in particular: <ul style="list-style-type: none"> <li>○ in determining the minimum cost of household and</li> <li>○ in checking the income declared by individuals in the statements of income</li> </ul> </li> <li>– of business entities, in particular: <ul style="list-style-type: none"> <li>○ cases of granting loans to entities without creditworthiness, where the requirements of Article 70(2) of the Banking Law Act of 29 August 1997 (Dz.U. of 2012, item 1376) are not met and</li> <li>○ cases of failure to obtain the information necessary for a reliable assessment of creditworthiness.</li> </ul> </li> </ul>
2.	<p>Partial adaptation of internal regulations to the requirements under the Commission Regulation No 1126/2008/WE of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council (IAS) and Recommendation R concerning the rules for identification of impaired balance-sheet credit exposures, calculation of impairment losses on balance-sheet credit exposures and provisions for off-balance-sheet credit exposure, in particular:</p> <ul style="list-style-type: none"> <li>– in relation to the measurement basis of financial assets (including due to a lack of solutions ensuring the correct identification of indications of impairment due to the deterioration of the debtor's economic and financial position)</li> <li>– in relation to defining the restructuring of the balance sheet credit exposure,</li> <li>– irregularities in the rules for estimating discounted financial cash flows from the current activities of the borrower and established security for credit exposures, including: <ul style="list-style-type: none"> <li>○ failure to specify detailed guidelines for the application of the rules for estimating</li> </ul> </li> </ul>

	<p>cash flows in individual method and the recommended levels of probabilities of cash flow scenarios depending on their sources,</p> <ul style="list-style-type: none"> <li>○ failure to discount cash flows for the purpose of determining the present value of credit exposures, which resulted in a reduction in the recognised loss and breach of § 63 of IAS 39 and paragraph 4.1 of the PFSA's Recommendation R</li> <li>○ failure to specify the parameters and periods of recovery from various types of security;</li> </ul> <p>– irregularities in the rules for estimating losses (including IBNR) and backtesting, including:</p> <ul style="list-style-type: none"> <li>○ failure to carry out a regular review of historical losses (including IBNR) within each homogeneous portfolio,</li> <li>○ failure to formalize the process of backtesting the amount of impairment losses recognized for exposures, and failure to define thresholds for backtesting results the exceeding of which should lead to modifying/changing the methodology, which indicated a failure to take account of indications of paragraph 1.2.4 of the PFSA's Recommendation R</li> <li>○ failure to sufficiently separate the portfolios characterized by a homogeneous risk profile;</li> </ul> <p>– adopting for the portfolio parameters concerning the probability of default (PD) and loss given default (LGD), and in the analysis of the validity of LGD estimations the data based on the average long-term data (Through-The-Cycle philosophy), which does not ensure taking account of a sufficient level of dynamics in adjusting the level of losses to the current economic situation, which indicates failure to take account of the relevant provisions of IAS 39 AG89 (i.e. to make estimates taking into account the nature of the Point-In-Time - the validity criterion),</p> <p>– estimating the parameters used in the process of determining impairment losses and provisions on a discretionary basis, without adequate justification, such as establishing them based on the available data.</p>
3.	<p>Irregularities in the review and classification of credit exposures, consisting in:</p> <ul style="list-style-type: none"> <li>– failure to identify, or untimely identification of, indications of impairment of credit exposures,</li> <li>– errors in the calculation of the basis of the specific provision,</li> <li>– failure to classify credit exposures in accordance with the provisions of the Regulation of the Minister of Finance of 16 December 2008 on the recognition of provisions for risks related to banking activity (Dz.U. of 2008 No 235, item 1589).</li> </ul>
4.	<p>Insufficient scope and quality of management information, which did not support the financing risk management process, including the process relating to the financing of entities from the construction industry, in particular:</p> <ul style="list-style-type: none"> <li>– lack of information about involvement in the construction industry in individual segments of customers and</li> <li>– lack of information on the implementation of the strategy and on the bank's activities in relation to the largest borrowers from the industry.</li> </ul>
5.	<p>Lack of sufficient support by the early warning system for the process of monitoring the economic and financial situation of borrowers - the list of warning signals did not contain the signal related to the deterioration of the economic and financial situation of the debtor.</p>
6.	<p>Ineffective internal control mechanisms for credit risk, which was shown by cases of breach of regulations (including Articles 70-71 of the Banking Law Act (Dz.U. of 2012, item 1376)), internal regulations and external reporting errors.</p>

Source: in-house materials by the PFSA Office

**Table 52. The most frequent and the most significant irregularities in liquidity risk management, as identified in the course of inspection activities at banks in 2013**

Liquidity risk management	
1.	Failure to determine the acceptable level of liquidity risk.
2.	Reservations to the long-term liquidity risk management - the existence of a significant maturity mismatch of assets and liabilities in the long term (particularly in relation to foreign currencies), which was generally partially secured by using off-balance sheet transactions.
3.	Failure to adjust the rules of calculating liquidity measures to resolution No 386/2008 of the PFSA, including:

	<ul style="list-style-type: none"> <li>– incorrect determination of potential growth in receivables due to payment of off-balance sheet liabilities by clients,</li> <li>– incorrect determination of stable liabilities.</li> </ul>
4.	<p>Irregularities concerning the estimation of the deposit base stability or the method of determining stable foreign funds, including:</p> <ul style="list-style-type: none"> <li>– failure to adjust to stable funds by the results of the deposit concentration analysis,</li> <li>– making discretionary adjustments to the funds included in the stable funds, without indicating the rules and frequency of changes,</li> <li>– recognizing in foreign stable funds the instruments that are not eligible for this category.</li> </ul>
5.	<p>Irregularities concerning the liquidity measurement methods:</p> <ul style="list-style-type: none"> <li>– irregularities concerning the realignment of maturities,</li> <li>– insufficient scope of in-depth analysis of long-term liquidity, including failure to analyse the sources of funding individual currencies and concentrations,</li> <li>– insufficient scope and frequency of stress tests.</li> </ul>
6.	<p>Reservations concerning the internal liquidity limits system:</p> <ul style="list-style-type: none"> <li>– reservations about the structure and adopted level of limits,</li> <li>– no written analysis justifying the adopted level of limits and its changes.</li> </ul>
7.	<p>Irregularities concerning the contingency plan to maintain liquidity:</p> <ul style="list-style-type: none"> <li>– insufficiently detailed provisions and insufficient quality of the scenarios adopted in the plan,</li> <li>– failure to review the plan,</li> <li>– no list of contact persons involved in emergency procedures.</li> </ul>

Source: in-house materials by the PFSA Office

**Table 53. The most frequent irregularities in market risk management, as identified in the course of inspection activities at banks in 2013**

Market risk management	
1.	<p>Interest rate risk and FX risk management:</p> <ul style="list-style-type: none"> <li>– violations relating to the provisions of Resolution No 258/2011 of the PFSA, consisting, among other things, in inadequacy of the internal limits system to the scale and complexity of operations and in lack of or improper measurement of the impact of changes in interest rates by 200 basis points on the economic value of the bank's capital,</li> <li>– cases of adoption of incorrect assumptions in the methods of measuring the market risk, and of use of measurement and risk identification methods inadequate to the scale and nature of operations,</li> <li>– the scope, quality and frequency of management reporting were insufficient,</li> <li>– operative IT systems did not ensure full automation of the market risk measurement process.</li> </ul>
2.	<p>In the process of determining and transmitting reference rates for WIBOR and WIBID fixing: failure to perform or unreliable performance of the backtests process, failure to carry out a cyclical internal audit of the process of quoting reference rates, insufficient scope and frequency of management information, failure to define the role and responsibilities of the persons involved in the process, lack of or ineffective internal control, lack of powers of attorney for dealers in respect of the powers to determine and transmit rates for WIBOR and WIBID fixing.</p>
3.	<p>Setting and the functioning of limits for interbank market counterparties: failure to update the criteria taken into account when determining the level of limits, the parent's undue influence on the process of setting limits, insufficient scope of management information, incomplete internal regulations concerning the process of setting limits.</p>
4.	<p>In the area of offering structured products: incomplete or misleading, product information presented to customers, incomplete internal procedures concerning the introduction of and modifications to new products, cases of failure to include the structured products area in internal audit procedures.</p>

Source: in-house materials by the PFSA Office

**Table 54. The most frequent and the most significant irregularities in the operational risk management, as identified in the course of inspection activities at banks in 2013**

Operational risk management	
1.	Instances of breach of Resolution No 258/2011 of the PFSA, including failure to formalize the process of taking actions if the established internal limits for operational risk are exceeded.
2.	Failure to formalize the process of systematic identification of threats in the IT environment.
3.	Failure to carry out the identification and analysis of the risk associated with threats such as Distributed Denial of Service, and failure to consider them in business continuity plans.
4.	Incomplete internal procedures relating to the policy of information security, backup and destruction of electronic media.
5.	Failure to consider the presentation systems for the entities covered by the mandatory deposit guarantee scheme in the overview of critical applications and their omission in business continuity plans.
6.	Insufficient information to clients about the risks associated with the use of payment services of entities for which there is a requirement to provide access data to the online banking system and authorisation codes to carry out the transaction.
7.	Inadequate scope and frequency of management information presentation for the operational risk area.
8.	Failure to fulfil the obligation to report to the National Bank of Poland information about facilities that are subject to mandatory protection by specialist armed security units or by means of appropriate technical protection.

Source: in-house materials by the PFSA Office

**Table 55. The most frequent and the most significant irregularities concerning capital adequacy, as identified in the course of inspection activities at banks in 2013**

Capital adequacy	
1.	Capital requirements' calculation: irregularities in assigning exposures to individual classes and in assigning risk weights to such exposures (breach of the provisions of Resolution No 76/2010 of the PFSA).
2.	Irregularities concerning the calculation of own funds, including failure to make appropriate deductions.
3.	Irregularities in the capital planning process involving, among other things, failure to take into consideration the need to maintain the solvency ratio at the level set by the PFSA; failure to define the demand for internal capital.
4.	Reservations concerning the quality and completeness of internal procedures for capital requirements' calculation and internal capital estimation, as well as failure to formalize stress testing.
5.	Maintaining the solvency ratio at the level inconsistent with the level recommended by the PFSA.
6.	Irregularities concerning the internal capital estimation process, in particular failure to take account of some potentially significant risks; reservations about risk significance assessment criteria used by banks, failure to utilize the results of the internal capital estimation process in risk management, too low frequency of the process review.
7.	Insufficient scope of stress tests, including failure to estimate the cumulative influence of all significant types of risks on capital requirement and internal capital.
8.	Irregularities concerning the management information system, including failure to inform the supervisory board of the amount of internal capital or the results of stress tests.
9.	Irregularities concerning COREP reporting, including irregularities concerning the reported amount of internal capital.

Source: in-house materials by the PFSA Office

**Table 56. The most frequent irregularities in the management process, as identified in the course of inspection activities at banks in 2013**

Management process	
1.	Banks' cooperation with parent entities: – limiting banks' decision-making independence, e.g. due to the matrix structure of the

	<p>organization or the necessity to obtain the parent's opinion on credit decisions, setting limits for counterparties in the interbank market,</p> <ul style="list-style-type: none"> <li>– lack of a comprehensive register of contracts concluded with the parent and with group entities, and lack of formal rules of establishing fees for services provided,</li> <li>– failure to formalize the system of reporting the information provided by the bank to the parent and to related entities.</li> </ul>
2.	<p>Banks' involvement in the distribution of insurance products (bancassurance):</p> <ul style="list-style-type: none"> <li>– irregularities related to non-compliance with disclosure obligations relating to the distribution of insurance products (failure to document the measures confirming the fact of informing customers in a comprehensive manner about the conditions of accession to insurance, failure to provide customers with access to the full content of an insurance contract, failure to inform customers about the fact of covering savings and investment products by the Insurance Guarantee Fund's guarantee, failure to include in insurance contracts provisions on the possibility of cancellation and obtaining a refund of the premium for the unused period etc.),</li> <li>– cases of combining the agent's and the policyholder's functions in the distribution of one insurance product,</li> <li>– making the bank's remuneration for the services provided dependent on the sales of insurance products,</li> <li>– failure to analyse the causes of insurers' refusals to pay claims to customers, and the causes of complaints lodged by customers,</li> <li>– irregularities in accounting for revenue from the sale of insurance products, including frequent cases of one-off recognition of a substantial portion of revenue.</li> </ul>
3.	<p>Internal audit's functioning:</p> <ul style="list-style-type: none"> <li>– lack of proper supervision of the internal audit by the bank's supervisory board and audit committee,</li> <li>– inadequate organizational structure - the president combining the function of supervision of essential elements of the internal control system (audit, compliance) with the supervision of the relevant business areas,</li> <li>– failure to ensure sufficient independence of the audit unit's manager in accordance with the requirements of Resolution No 258/2011 of the PFSA,</li> <li>– no internal audit's functioning strategy,</li> <li>– incomplete, outdated or inadequate internal procedures for the mandatory tasks of the internal audit unit,</li> <li>– lack of action plans and risk maps of the internal audit unit,</li> <li>– deficiencies in human, financial and technical resources (IT tools) hindering the operation of the internal audit unit,</li> <li>– inadequate scope of audit procedures, not taking into account some important areas of operation, cases of lack of proper supervision by the supervisory board / audit committee and the management board of the process of implementing recommendations,</li> <li>– failure to use key performance indicators (KPIs) in the assessment of internal audit effectiveness,</li> <li>– lack of external evaluation of the internal audit as required by recommendation 16 of Recommendation H of the PFSA,</li> <li>– lack of clear rules for the internal audit's cooperation within the banking group.</li> </ul>

4.	<p>Compliance function:</p> <ul style="list-style-type: none"> <li>– lack of proper supervision of non-compliance risk management by the bank's supervisory board and audit committee,</li> <li>– failure to ensure sufficient independence of the non-compliance risk management unit's manager and employees,</li> <li>– incomplete, outdated or inadequate internal procedures for the mandatory tasks of the non-compliance risk unit,</li> <li>– lack of action plans for the non-compliance risk management unit,</li> <li>– lack of defined non-compliance risk tolerance and non-compliance risk maps,</li> <li>– lack of audits of non-compliance risk management by internal audit and lack of clearly defined relationship with the internal audit unit.</li> </ul>
5.	<p>Compliance with the provisions of Resolution No 258/2011 of the PFSA on the policy of variable components of remuneration of persons holding managerial positions at a bank</p> <ul style="list-style-type: none"> <li>– failure to specify the detailed criteria for determining (or analysis) which persons have a significant impact on the bank's risk profile,</li> <li>– failure to include in the policy variable components of remuneration of certain persons who have a significant impact on the bank's risk profile,</li> <li>– failure to take into consideration in the policy variable components of remuneration of persons holding managerial positions at the bank, the bank's scale of operations and risk profile; the policy's significant divergence from the market practice,</li> <li>– lack of clear specification of the fixed to variable remuneration ratio, and of the ratio of remuneration payable in the form of financial instruments and in cash,</li> <li>– lack of clear performance-related metrics for the assessment of responsibilities of individual persons on the list of managerial positions,</li> <li>– lack of the Remuneration Committee's opinion on variable remuneration of persons holding managerial positions at the bank,</li> <li>– failure to take into account in employment contracts with members of the bank's management board, with regard to remuneration on account of termination of the contract, the requirement of assessing the work quality during a three-year period of holding the position,</li> <li>– failure to announce certain legally required information on remuneration of persons holding managerial positions at the bank.</li> </ul>

Source: in-house materials by the PFSA Office

When instances of breach of laws and prudential regulations as well as risk management-related irregularities were identified for a given bank, the said bank was required to develop and deliver to the PFSA a detailed work schedule to implement PFSA recommendations. The implementation of post-inspection recommendations for banks is monitored as part of off-site analyses. It is assessed during the follow-up activities and discussed with the bank's management and the regulator of the bank's parent entity.

#### CONTROL ACTIVITIES AND PROCEEDINGS CONCERNING SUPERVISORY VALIDATION OF STATISTICAL CAPITAL CALCULATION METHODS<sup>34</sup> AND APPLICATIONS FOR APPROVAL OF DELTA RATIO CALCULATION USING IN-HOUSE OPTION VALUATION MODELS<sup>35</sup>

In 2013, the activities relating to the supervisory validation of statistical methods of calculating capital requirements focused on cooperation with banks and consolidating

<sup>34</sup> As referred to in Article 128d of the Banking Law Act (Dz.U. of 2012, item 1376).

<sup>35</sup> As referred to in Article 128(3) of the Banking Law Act (Dz.U. of 2012, item 1376) and §4(2) of Enclosure 2 to Resolution No 76/2010 of the PFSA (as amended).

supervisor, concerning the post-application phase, i.e. activities carried out by a bank after obtaining the approval (or conditional approval) to use the statistical method.

These activities were carried out both during the validation proceedings<sup>36</sup> and as part of the off-site analysis, and included in particular:

- verification of the fulfilment of conditions arising from previous decisions,
- analysis of solutions for exposures covered by internal ratings-based approach, in accordance with gradual implementation plans of individual banks,
- assessment of banks' internal regulations regarding the management of changes in statistical methods,
- analysis of significant changes, considerable changes and extensions in statistical methods,
- monitoring the functioning of statistical methods.

In consequence of the activities, the PFSA:

- submitted to the relevant consolidating supervisor 4 opinions and 1 position on the matters under the post-application phase (verification of the implementation of conditions, gradual implementation plans, considerable changes and extensions in the statistical method),
- participated in the process of issuing decisions / presenting positions by consolidating supervisors on matters arising from the post-application phase (based on the PFSA's opinions presented in 2012 and 2013),
- informed banks of its position on internal regulations concerning the management of changes in statistical methods,
- presented its position on three significant changes to internal ratings-based approach,
- during the meetings on statistical methods, provided banks with information and conclusions resulting from the periodic monitoring of statistical methods' functioning,
- maintained systematic communication and cooperation with consolidating supervisors and banks in relation to other matters relating to statistical methods' functioning.

In 2013, the PFSA issued four permissions for using own option pricing models for the purpose of calculating delta equivalents.

## 5.2. COOPERATIVE SAVINGS AND CREDIT UNIONS SECTOR

In 2013, the PFSA conducted 11 comprehensive inspections at cooperative savings and credit unions and 1 inspection covering selected areas of a cooperative savings and credit union's operations.

The irregularities found at inspected unions were as follows (by audit area):

**Table 57. The most frequent and the most significant irregularities in credit risk management, as identified in the course of inspection activities at cooperative savings and credit unions in 2013**

Credit risk management	
1.	Irregularities in the method of estimating impairment losses on past due receivables, which resulted in understatement of recognised impairment losses.
2.	Measurement of notes received on account of the sale of portfolios of impaired borrowings/loans to third parties not in compliance with the prudence principle (fair value measurement), which significantly underestimated the value of the sale.
3.	Artificial inflation of assets' value (resulting in distortion of the financial performance) through: <ul style="list-style-type: none"> <li>– unreliable measurement of another company's shares acquired in exchange for a part of the union's continuing business, which part was previously separated from the union and contributed to that company,</li> </ul>

<sup>36</sup> Four cases of validation proceedings, including one case of a procedure under a problem-oriented inspection.

	<ul style="list-style-type: none"> <li>– reclassification of investment property not in compliance with the provisions of the Accounting Act of 29 September 1994 (Dz.U. of 1994 No 121, item 591) to long-term investments, as a result of which the union ceased to recognise depreciation charges (despite the fact that the reclassified property was not bringing any economic benefits and its use had not changed).</li> </ul>
4.	<p>Significant irregularities in the organization of the loan process, including:</p> <ul style="list-style-type: none"> <li>– lack of separation of the creditworthiness assessment function from the loan decision function,</li> <li>– too many requests submitted for consideration by the Credit Committee, as a result of which it was impossible to issue collective opinions on credit proposals; granting business loans despite negative own funds,</li> <li>– exceeding the concentration limits by granting business borrowings and loans in excess of 150% of the union's own funds, which resulted in serious breach of Article 32 of the Act of 5 November 2009 on the cooperative savings and credit unions (Dz.U. of 2012, item 855),</li> <li>– exceeding the concentration limits resulting from Article 37(2) of the Act of 5 November 2009 on the cooperative savings and credit unions (Dz.U. of 2012, item 855) by establishing interbank deposits significantly exceeding the maximum level of 8% of assets,</li> <li>– exceeding the concentration limits resulting from Article 37(3) of the Act of 5 November 2009 on the cooperative savings and credit unions (Dz.U. of 2012, item 855) in connection with the purchase of fixed assets despite negative own funds,</li> <li>– large concentration of large-amount loans in the borrowing and loan portfolio,</li> <li>– unjustified rollover of borrowings and loans granted,</li> <li>– lack of internal limits for the borrowing and loan portfolio.</li> </ul>
5.	<p>Failure to adjust internal procedures to the risk profile, including:</p> <ul style="list-style-type: none"> <li>– no obligation to assess the creditworthiness when deciding about the debt's restructuring,</li> <li>– no specification of an acceptable level of credit risk in the credit policy.</li> </ul>
6.	<p>The performance of the creditworthiness assessment process does not ensure a fair identification of the credit risk and is not compliant with Article 36(2) of the Act of 5 November 2009 on the cooperative savings and credit unions (Dz.U. of 2012, item 855) in conjunction with Article 70(2) of the Banking Law Act of 29 August 1997 (Dz.U. of 1997, No 140, item 939), in particular:</p> <ul style="list-style-type: none"> <li>– failure to document the performance of the creditworthiness assessment,</li> <li>– no assessment of the value of security in the case of reduction in impairment losses' calculation basis,</li> <li>– no assessment of creditworthiness of persons covered by restructuring (the instalments established only on the basis of a customer's statement about his or her ability to repay instalments)</li> <li>– no creditworthiness assessment when deciding about extending temporary loans,</li> <li>– extending loans to individuals without creditworthiness,</li> <li>– recognizing the cost of living at a level lower than the subsistence minimum promulgated by the Institute of Labour and Social Affairs (ILSS),</li> <li>– failure to take the following into account when assessing the creditworthiness: certain obligations arising from BIK, temporary loans, monthly instalments under the group insurance contract, the highest loan instalment in the case of decreasing instalments,</li> <li>– failure to take into account the actual cost of living declared by applicants, if higher than the standard cost of living recognised by the union,</li> <li>– failure to assess the member's ability to repay "balloon instalment" in the case of loans and borrowings with a "balloon instalment"</li> <li>– no assessment of guarantors' creditworthiness.</li> </ul>
7.	<p>Irregularities related to the union's debt collection activities consisting in investments in property, i.e.:</p> <ul style="list-style-type: none"> <li>– no policy of investing in property,</li> <li>– no investment property measurement principles.</li> </ul>
8.	<p>Outsourcing important activities related to risk management, especially credit risk management (credit risk analysis and debt collection).</p>

Source: in-house materials by the PFSA Office

**Table 58. The most frequent and the most significant irregularities in liquidity risk management, as identified in the course of inspection activities at cooperative savings and credit unions in 2013**

Liquidity risk management	
1.	Inadequate supervision by the union's management of liquidity risk and failure to establish a formal responsibility for liquidity risk management.
2.	Failure to formalize the liquidity risk management process or insufficient scope and quality of internal regulations in this regard.
3.	Lack of factual knowledge and preparation of the union's employees for liquidity risk management
4.	Limiting the scope of liquidity management to immediate or current liquidity; lack of liquidity monitoring over longer time horizons.
5.	Limiting the methods of liquidity risk measurement to the basic tools, such as cash monitoring, the analysis of current account funds, of mismatch between maturities.
6.	Objections to the measurement approaches used in practice, such as adjustment of payment deadlines and the method of estimating the stability of deposits.
7.	Failure to prepare stress tests or insufficient stress tests in the area of liquidity risk
8.	No limits or insufficient system of limits, including the lack of long-term liquidity risk mitigation.
9.	No contingency liquidity plan or insufficient support from the developed plan in the situation of a potential liquidity risk, including failure to specify reserve sources of funding and failure to sign with third parties contracts guaranteeing support in case of a liquidity crisis, failure to determine actions ensuring the restoration of the required level of a liquid reserve.
10.	Failure to perform internal audits in the liquidity risk area.

Source: in-house materials by the PFSA Office

**Table 59. The most frequent and the most significant irregularities in interest rate risk management, as identified in the course of inspection activities at cooperative savings and credit unions in 2013**

Interest rate risk management	
1.	Cases of non-functioning interest rate risk management system.
2.	Failure to determine the interest rate risk strategy / policy and the acceptable risk level.
3.	Failure to regulate the process of the identification and measurement of the interest rate risk.
4.	No internal procedures governing the process of managing the risk related to outsourcing the interest rate risk management.
5.	Errors in the measurement and identification of the interest rate risk.
6.	Failure to perform internal audits in the liquidity risk area.
7.	Insufficient support of IT systems in the interest rate risk management process.

Source: in-house materials by the PFSA Office

**Table 60. The most frequent and the most significant irregularities in operational risk management, as identified in the course of inspection activities in cooperative savings and credit unions in 2013**

Operational risk	
1.	Failure to formalize the operational risk management process, including failure to define the operational risk profile.
2.	Failure to identify, measure and monitor operational risk; no database of operational incidents.
3.	Failure to specify the limits of the level of losses arising from operational risk, and key risk indicators.
4.	No internal procedures governing the process of managing the risk related to outsourcing IT activities.
5.	Failure to define the critical processes and their inclusion in the business continuity plans.
6.	Failure to define the resources and alternative locations for conducting the operations of the central office and branches in case of emergency.
7.	Giving employees, including members of the management board, too broad powers to access the operational and accounting system.
8.	Insufficient scope and frequency of management information relating to operational risk.

9.	No developed rules for carrying out internal control in the area of operational risk and operational risk management in subsidiaries.
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Source: in-house materials by the PFSA Office

**Table 61. The most frequent and the most significant irregularities in the management process, as identified in the course of inspection activities at cooperative savings and credit unions in 2013**

Management	
1.	Insufficient and ineffective supervision of unions' operations and low efficiency of the management board's and the supervisory board's activities in the area of risk management, especially credit risk management (breach of provisions of Article 44 of the Cooperative Law Act of 16 September 1982 (Dz.U. of 1982 No 30, item 210), and of charters on the supervision and control of cooperatives).
2.	Procedural shortcomings or poor quality of risk management and internal control procedures.
3.	Failure to assign to members of the management board responsibilities for the supervision of individual risk areas, defective functioning of the internal limits system.
4.	Improper functioning of the internal control system and failure to ensure compliance of the union's operations with the law and the charter, on the basis of: <ul style="list-style-type: none"> <li>– violations of the law, as identified during the inspection and failure to comply with the charter and internal regulations,</li> <li>– insufficient frequency and extent of inspections, which results in the inability to inspect all required areas,</li> <li>– limiting internal inspections to the scope ensuring compliance with internal procedures, without assessing their correctness,</li> <li>– failure to make references between internal inspections and compliance with the law, e.g. in connection with counteracting the use of the union's operations for the purposes linked with offences, pursuant to Article 15(2) of the Act of 5 November 2009 on Cooperative Savings and Credit Unions (Dz.U. of 2012, item 855).</li> </ul>
5.	Failure to adjust own funds to the size of the business, overstating funds and the solvency ratio.
6.	Lack of regulation for the management information system, insufficient scope of information for the management board and supervisory board as regards the risk borne, provision of untimely or incorrect information.
7.	Unreliable presentation of the financial position, errors in supervisory reporting.

Source: in-house materials by the PFSA Office

### 5.3. PAYMENT SERVICES SECTOR

In 2013, three inspections were carried out in domestic payment institutions. The inspections assessed the quality of the management system (including the internal control and risk management system).

The irregularities identified at inspected entities are as follows (by audit area):

**Table 62. The most frequent and the most significant irregularities in the management process, as identified in the course of inspection activities at domestic payment institutions in 2013**

Management	
1.	No adopted organizational rules and staff regulations of the management board and of the supervisory board.
2.	No current operational strategy approved by the management board and the supervisory board, divergence between assumptions in the strategy and the financial plan.
3.	Failure to regulate the strategic planning process, the monitoring of implementation of the strategy and the budgeting process.
4.	Failure to define in the internal regulations the procedure for approving internal policies and internal rules, and the classification procedure for internal documents.
5.	Failure to approve, by a resolution of the management board, the risk management system procedure and the internal control procedure.
6.	Irregularities concerning the management information system, including lack of comprehensive internal rules regulating the internal reporting process and too low frequency of reports.
7.	No internal regulations relating to the supervision and control in subsidiaries.

Source: in-house materials by the PFSA Office

**Table 63. The most frequent and the most significant irregularities in the risk management system, as identified in the course of inspection activities at domestic payment institutions in 2013**

Risk management system	
1.	Failure to define in internal procedures some significant types of risk related to payment services (including outsourcing risk, the risk of cooperation with agents, market risk, human resources risk).
2.	Failure to regulate the process of establishing internal limits, and to maintain a register of outsourcing contracts.
3.	Failure to assess the cooperation with external entities in the area of outsourced payment services activities.
4.	Failure to regulate the procedure for transmitting management information relating to the risk management system.
5.	No contingency plans for the event of interruption of activities outsourced to an entrepreneur under a contract.

Source: in-house materials by the PFSA Office

**Table 64. The most frequent and the most significant irregularities in the internal control system, as identified in the course of inspection activities at domestic payment institutions in 2013**

Internal control system	
1.	Irregularities in organizational solutions of the internal control system, such as failure to separate the management functions and the control functions exercised by a member of the management board.
2.	Insufficient adjustment of internal control procedures to applicable laws (for example in the area of controlling the activities of domestic payment institutions' agents and of the entities entrusted with certain operational activities).
3.	Ineffective internal control mechanisms in field units (for example lack of audit recommendations, formal shortcomings in audit reports).
4.	Isolated cases of failure to implement audit recommendations in the area of payment services or delays in their implementation.
5.	Delays in conducting planned audits and failure to include some important areas in internal control.

Source: in-house materials by the PFSA Office

## 5.4. INSURANCE SECTOR

### INSPECTIONS AT INSURANCE UNDERTAKINGS

In 2013, inspections were carried out at 15 insurance undertakings (including 9 inspections at life insurance undertakings and 6 in non-life insurance undertakings) with the aim of examining their activity and assets.

The inspections focused on six material aspects of insurance undertakings' operations and in the area of:

- management of the insurance undertaking - 8 insurance undertakings were inspected,
- accounting policies and preparation of financial statements - 4 insurance undertakings were inspected,
- measurement of technical provisions - 10 insurance undertakings were inspected,
- claims settlement procedures - 6 insurance undertakings were inspected,
- investment policies - 10 insurance undertakings were inspected,
- insurance products - 2 insurance undertakings were inspected.

Four of the above-mentioned inspections were comprehensive inspections covering the main areas of the insurance undertaking's activity. The other inspections were problem-oriented and covered from one to three aspects.

**Table 65. The most frequent irregularities in organisation and management of insurance undertakings, as identified in the course of inspection activities at insurance undertakings in 2013**

Organisation and management of insurance undertakings	
1.	Irregularities in managing an insurance undertaking (breach of the rules of representation, inadequate number of management board meetings, improper preparation of minutes of management board meetings, failure to ensure the functioning of internal regulations, in particular the internal control regulations and the outsourcing regulations).
2.	Irregularities in exercising supervisory functions by the supervisory board (incorrect extension of the powers of the supervisory board, incorrect number of meetings of the supervisory board, insufficient supervisions of the management board activities by the supervisory board, supervisory board member's failure to participate in the supervisory board's work, incorrect assignment of the audit committee's tasks to the supervisory board, the audit committee's failure to monitor the effectiveness of internal control, internal audit and risk management systems).
3.	Violations of the charter of an insurance undertaking
4.	Irregularities in the internal documentation specifying the manner of performing insurance activities, in particular in relation to the provisions of the rules of the supervisory board, of the management board and of internal control and of outsourcing insurance activities (incomplete documentation, inconsistent regulations, failure to follow the adopted regulations etc.).
5.	No internal regulations governing the offering of insurance products and risk assessment at the conclusion of related insurance contracts.
6.	Failure to perform the compliance function.

Source: in-house materials by the PFSA Office

**Table 66. The most frequent irregularities in accounting policies and preparation of financial statements, as identified in the course of inspection activities at insurance undertakings in 2013**

<b>Accounting policies and preparation of financial statements</b>	
1.	Irregularities in the documentation describing the adopted accounting principles (policy) (no introduction to the application of the documentation, no reviews of the documentation, incomplete documentation, inconsistent regulations, regulations inconsistent with the law).
2.	Incorrect functioning of internal regulations in the area of accounting.
3.	Incorrect preparation of financial statement forms
4.	Recognising economic events in the books of accounts not in compliance with the economic substance.
5.	Irregularities in the preparation of accounting documents to be recognized in the books of accounts.
6.	Failure to keep current registers (the register of insurance contracts, of reported claims).

Source: in-house materials by the PFSA Office

**Table 67. The most frequent irregularities in the measurement of technical provisions, as identified in the course of inspection activities at insurance undertakings in 2013**

<b>Measurement of technical provisions</b>	
1.	Irregularities in the documentation describing the adopted accounting principles (policy) in the area of measurement of technical reserves (no introduction to the application of the documentation, no reviews of the documentation, incomplete documentation).
2.	Measuring the technical provisions using methods other than the methods indicated in the documentation describing the adopted accounting principles (policies).
3.	Using incorrect methods and incorrect data to measure technical provisions.
4.	Using negative amounts to calculate technical provisions.
5.	Failure to take into account in the measurement all liabilities and costs arising from insurance contracts.
6.	Incorrect preparation of financial statement forms relating to technical provisions.
7.	Lack of documentation for reconstruction of the calculation of technical provisions.
8.	Failure to take into account in the measurement of technical provisions the actual course of the claim settlement procedure.
9.	Failure to implement the recommendations of the supervisory authority.

Source: in-house materials by the PFSA Office

**Table 68. The most frequent irregularities in the claims settlement procedure, as identified in the course of inspection activities at insurance undertakings in 2013**

<b>Claims settlement procedure</b>	
1.	Improper execution of activities in the claim settlement process (delayed payments, violating disclosure requirements, lack of due diligence in aiming to complete the settlement process as soon as possible and taking the decision on meeting / refusal to meet the claim with delay).
2.	Irregularities in the documentation describing the claim settlement procedure (incomplete claim documentation, failure to follow the adopted regulations etc.).
3.	Irregularities in the internal documentation defining the outsourcing of activities related to the claims settlement (incomplete documentation, failure to follow the adopted regulations etc.).
4.	Improper execution of the provisions of an agreement entered into with an external entity on the outsourcing of claim settlement-related activities.
5.	Practices infringing the interests of insurance contracts' beneficiaries.

6.	Deficiencies in recording or incorrect recording of claims in the claims database.
7.	Deficiencies in the numbering of claim files and deficiencies in the documentation of claim files.
8.	Infringing the interest of insurance contracts' beneficiaries through improper conduct of claims settlement process (failure to comply with the deadline for the payment of the damages / value of redemption as specified in the General Insurance Conditions, failure to inform the beneficiaries of third-party liability insurance contracts of the manner of damages calculation, determining the damages in reduced amount).

Source: in-house materials by the PFSA Office

**Table 69. The most frequent irregularities in investment policies, as identified in the course of inspection activities at insurance undertakings in 2013**

Investment policies	
1.	Irregularities in the documentation describing the adopted accounting principles (policy) in the area of measurement of financial instruments (no introduction to the application of the documentation, lack of reviews of the documentation, incomplete documentation, incorrect measurement bases).
2.	Irregularities in the functioning of internal regulations on the investment policy (lack of updates, inconsistency; failure to follow the adopted regulations).
3.	The investment policy conducted by the management board in violation of internal investment regulations.
4.	Incorrect preparation of financial statements and reporting forms in relation to financial instruments (data quality, incorrect presentation of the measurement of financial instruments, revenues and expenses from investment operations and net assets of unit-linked insurance funds).
5.	Incorrect classification of financial instruments.
6.	Measurement of financial instruments not in conformity with legal requirements.
7.	Failure to verify the financial instruments' valuation received from an external entity.
8.	Failure to recognize a financial instrument in the books of accounts.

Source: in-house materials by the PFSA Office

**Table 70. The most frequent irregularities concerning insurance products, as identified in the course of inspection activities at insurance undertakings in 2013**

Insurance products	
1.	Practices infringing the interests of policyholders, the insured, beneficiaries or persons entitled under insurance contracts (concluding insurance contracts in which there are conflicts of interest resulting from the fact that the bank performs the function of a policyholder and of an insurance agent).
2.	Failure to follow the adopted internal regulations in the area of handling complaints and appeals.
3.	Failure to fulfil the obligation to submit an application for entering into the register of insurance agents entities with which the insurance undertaking concluded an agency agreement.

Source: in-house materials by the PFSA Office

In 2013, there were 69 post-inspection recommendations issued in total for 10 insurance undertakings inspected; they concerned bringing the business of the insurance undertaking into line with the laws and discontinuing to breach the interests of the insuring parties, the insured, the beneficiaries, or the entitled under insurance contracts.

## INSPECTIONS AT INSURANCE UNDERTAKINGS CONCERNING THE USE OF INSURANCE AGENTS

In the period covered by this report, there were 10 inspections carried at insurance undertakings with the aim of verifying the correctness of conduct of insurance agency activities as regards the use of services of insurance agents, and in particular:

- observance by insurance agents of the requirement to perform insurance agency activities by natural persons satisfying the statutory requirements and observance of effective laws by insurance agents in their business,
- correctness of conclusion of insurance agency agreements,
- timely submission of the application for entering into the register of insurance agents the entity with which the insurance agency agreement was concluded,
- timely submission of the application for register entry change or removal of the entity from the register,
- correctness of insurance agents-related data delivered to the regulator by the insurance undertaking along with the application for entering the insurance agent into the register, a change in the agent's data or the agent's removal from the register,
- scope of training courses and examinations for applicants for insurance agents,
- the number and scope of complaints about insurance agents and the result of their examination.

As a result of the inspections performed, in 6 cases the conditions occurred to issue post-audit recommendations, due to the following infringements:

- lack of a professional training completion certificate,
- deficiencies in the documentation of persons acting as agents,
- in respect of failure to meet the deadline for reporting changes in the data subject to entering into the register of insurance agents,
- in respect of failure to meet the deadline for submitting an application for an insurance agent's removal from the register of insurance agents.

## INSPECTIONS AT ENTITIES CONDUCTING BROKERAGE ACTIVITIES

In the period covered by this report, there were 17 on-site inspections performed for brokerage activities. These were primarily aimed at verifying whether the brokerage activities of the entity conducting brokerage activities were in compliance with the law and with the licence obtained, and in particular:

- satisfaction of the requirements preconditioning the obtaining of a licence and conduct of brokerage activities,
- agreements concluded with insurance undertakings, and
- conclusion or causing the conclusion of insurance contracts, preparatory activities for the conclusion of insurance contracts and participation in insurance contract management and performance as well as in claims settlement proceedings, and organisation and supervision of brokerage activities.

The most frequent irregularities identified were as follows:

- training certificates did not satisfy all the formal requirements referred to in §5 of the Regulation of the Minister of Finance on provision of professional training for the persons performing agency activities or brokerage activities,
- failure to bring the brokerage activities into line with the requirements of Article 23(1) of the above-mentioned Insurance Brokerage Act, in particular performance of brokerage activities by the persons not satisfying the requirement set out in Article 28(3)(1e) of the above-mentioned Act,
- untimely submission with the regulator of applications for changing the entry in the register of insurance brokers following a change to the data subject to entry into the register of insurance brokers (Article 46(1) of the Insurance Brokerage Act),

- failure to comply with the obligation under Article 26(1)(2) of the Act on Insurance Mediation, under which an insurance broker, before entering into an insurance contract, is required to provide written advice based on a thorough analysis of the number of offers sufficient to prepare the recommendation for the most appropriate insurance contract, and to explain in writing the grounds on which the recommendation is based.

## 5.5. PENSION SECTOR

In 2013, there were 16 inspections conducted at entities operating in the pension market, including 10 inspections at universal pension fund companies and open-end pension funds, 2 inspections at depositary banks, 2 inspections at transfer agents of open-end pension funds and 2 inspections at occupational pension funds.

Inspections at pension companies and pension funds covered the following areas:

- organisation and management,
- internal control system, audit and risk management,
- the investing policy of a pension fund company and a pension fund,
- agreements with shareholders, members of governing bodies and other group companies, other agreements,
- outsourcing certain activities of pension funds and pension fund companies,
- adopted accounting policies, books of accounts, and preparation of financial statements,
- the process of member transfer under transfer payments,
- maintenance of fund members' individual accounts,
- handling fund members' complaints, and
- the implementation of a post-audit notification.

**Table 71. The most frequent irregularities in organisation and management, as identified in the course of inspection activities at pension market entities in 2013**

Organisation and management	
1.	Delays in reporting changes to the Register of Pension Funds maintained by the Regional Court in Warsaw.
2.	Delays in reporting amendments to the company organisational regulations to the regulator
3.	The management board's failure to take decisions approving the company's financial plans.
4.	Failure to comply with the requirements for the minutes of the management board's resolutions approving the company's financial plans.
5.	Disclosure of trade secret to unauthorised persons,

Source: in-house materials by the PFSA Office

**Table 72. The most frequent irregularities in investing policies of pension fund companies and pension funds, as identified in the course of inspection activities at pension market entities in 2013**

<b>Investing policy of pension fund companies and pension funds</b>	
1.	Infringing the interests of members of the Fund by collecting higher broker's fees than the fees stipulated in the contract.
2.	Infringing the interests of members of the Fund by failure to transfer to the Fund lost benefits in connection with returning overpayments made by the Fund on account of keeping foreign securities.
3.	Failure to control expenses incurred on account of keeping foreign securities.
4.	Keeping deposits in foreign currencies (CZK, HUF, EUR and USD) for purposes other than settlement of current liabilities of the Fund.

Source: in-house materials by the PFSA Office

**Table 73. Irregularities in agreements with shareholders, members of governing bodies and group entities as well as in other agreements, as identified in the course of inspection activities at pension market entities in 2013**

<b>Agreements with shareholders, members of governing bodies and group entities as well as other agreements</b>	
1.	Recognising the costs of shareholder agreements in the company's books of accounts in an unreliable manner and not in accordance with their economic substance.

Source: in-house materials by the PFSA Office

**Table 74. The most frequent irregularities in adopted accounting policies, books of accounts, and preparation of financial statements, as identified in the course of inspection activities at pension market entities in 2013**

<b>Adopted accounting policies, books of accounts and preparation of financial statements</b>	
1.	Irregularities in the documentation describing the accepted accounting principles (policy) (failure to review the documentation, incomplete documentation).
2.	Irregularities in preparing financial statements (failure to recognize material information about the method of measuring assets).

Source: in-house materials by the PFSA Office

**Table 75. Irregularities in the process of member transfer under transfer payments, as identified in the course of inspection activities at pension market entities in 2013**

<b>Member transfer under transfer payments</b>	
1.	Failure to meet the three month time limit to make to the persons named by the deceased member a cash payment of the funds transferred by ZUS after the member's death, where previous payments made from the account of the deceased have already been effected.

Source: in-house materials by the PFSA Office

**Table 76. The most frequent irregularities in maintaining fund members' individual accounts, as identified in the course of inspection activities at pension market entities in 2013**

<b>Maintenance of fund members' individual accounts</b>	
1.	Reporting information to ZUS after the time limit of 6 working days after the conclusion of the membership agreement with the Fund.
2.	Failure to submit information on ZUS's refusal to register the contract.
3.	Failure to send information on withdrawal of membership within 7 working days from the date on which the contract was found void.
4.	Failure to send information on finding the membership agreement void.

5.	Violation of a 14-day time limit to send information on the funds accumulated in the account a member of the Fund, which is performed at the request of members of the Fund.
6.	Violation of a 14-day time limit to send annual information on the funds accumulated in the account a member of the Fund.
7.	Failure to take actions aimed at returning to ZUS unduly received contributions.

Source: in-house materials by the PFSA Office

As far as the area **“Implementation of a post-inspection notification”** is concerned, in 2013 there one case in which the regulator found that a pension fund company failed to implement the notification or implemented the notification in a way that did not result in remedying the irregularity.

In 2013, 10 notifications of identified irregularities were issued for the pension market. One gross irregularity and 43 unclassified irregularities were reported in total.

## 5.6. CAPITAL MARKET

### INSPECTIONS OF INVESTMENT FIRMS AND INVESTMENT FIRMS' AGENTS

In 2013, there were 12 inspections of regulated entities conducting brokerage activities or performing brokerage activities, including brokerage houses and bureaus along with organisational units (client service points and order acceptance points), branches of foreign investment firms conducting activities in the Republic of Poland and investment firms' agents. As part of inspection of brokerage houses, selected branches of Polish investment firms conducting activities in EU Member States were also inspected.

Inspections were problem-oriented and covered selected aspects of licenced operations or operations subject to notification in the Republic of Poland.

The inspections focused in particular on the following material aspects of brokerage activities:

- organisational structures, functioning, and technical conditions of the operations conducted, in particular for Polish investment firms' branches abroad and maintenance of transaction platforms allowing for OTC market deals (in FX or commodity derivatives, for example),
- organizational separation of the bank's brokerage activities,
- functioning of the internal control system, system for supervision of compliance with the law and internal audit system,
- supervision by the investment firm of the business of the investment firm's agent,
- supervision by the investment firm of advertising and promotional activities in connection with brokerage services and financial instruments offered by the investment firm run by third parties (other than the investment firm's agents) on behalf of the investment firm,
- taking actions in connection with the provision of brokerage services,
- the procedure of contacts with clients, including as regards the activities performed by investment firms' agents and other entities cooperating with investment firms in acquiring clients and conducting advertising and promotional activities in connection with brokerage services,
- counteracting the manipulation involving a financial instrument.

The inspections of brokerage activities covered both organised trading and deals made outside the organised trading.

The topics of individual inspections depended on the scope and size of the operations conducted, considering the events and occurrences reported on the capital market in the area of provision of brokerage services.

The audit also included examining the manner and scope of application by investment firms of the following:

- Guidelines on certain aspects of the MiFID compliance function requirements - ESMA/2012/388;
- Systems and controls in an automated trading environment for trading platforms, investment firms and competent authorities - ESMA/2012/122.

**Table 77. The most frequent irregularities in organisational structures, functioning and technical conditions of conducting operations, as identified in the course of inspection activities in 2013**

Organisational structure, functioning and technical conditions of conducting operations	
1.	Lack of proper implementation of the objectives of the internal control system, of the compliance system and of the internal audit system, as provided for by law, and lack of implementation of adequate solutions to provide the persons performing compliance supervision-related tasks with transparent rules of awarding bonuses, which would not in any way affect the objectivity of the actions taken.
2.	Failure to perform correctly the duty to employ the minimum number of securities brokers and investment advisors in connection with the provision of brokerage services
3.	Lack of proper supervision of investing activities by related persons on own account.
4.	Failure to duly satisfy, by investment firms, the duties arising from the regulations on the conclusion and performance of agreements under which an entrepreneur or a foreign entrepreneur is entrusted with performing brokerage activities (outsourcing agreements).
5.	Conducting brokerage activities unlawfully, i.e. outside the brokerage office being the bank's separate organizational unit conducting brokerage activities.
6.	Failure to ensure that the data related to the brokerage activities conducted by an investment firm and to the activities performed by the investment firm's individual organizational units is entered into registers.
7.	Failure to duly satisfy, by investment firms, the duties arising from the law on archiving documents related to brokerage activities.

Source: in-house materials by the PFSA Office

**Table 78. The most frequent irregularities in contacts with clients, as identified in the course of inspection activities in 2013**

Contacts with clients procedure	
1.	Failure to duly satisfy the requirements of the law as regards development and use of assessment of adequacy of the brokerage service or financial instruments for the client.
2.	Provision of brokerage services without verifying the adequacy of the brokerage service for the client, in particular as regards the investment advisory service.
3.	Conduct in breach of the laws due to providing clients or prospects with unreliable, causing doubt or misleading information to advertise or promote the services provided.
4.	Failure to duly satisfy the requirements of the law as regards obligations to disclose information to clients in connection with the provision of the brokerage service.

5.	Failure to duly satisfy the requirements of the law due to insufficient communication to clients or prospects of the risk inherent to investing in financial instruments.
6.	Lack of proper implementation of the law in relation to adopting and transferring by an investment firm of monetary and non-monetary benefits in connection with the provision of brokerage services, in particular as regards the benefits received by an investment firm from interest on bank accounts in which customers' funds are deposited, and from investing customers' funds in bank deposits, including forward deposits.
7.	Failure to duly satisfy legal requirements due to failure to properly inform clients of all charges and fees collected in connection with the provision of brokerage services.
8.	Failure to duly satisfy legal requirements as regards the assessment of a client's financial situation.
9.	Failure to implement or apply correctly the order execution policy.
10.	Circumventing legal requirements relating to the activities of an investment firm's agent or to an outsourcing agreement by outsourcing the verification and validation of customer data to a courier in connection with concluding contracts for the provision of brokerage services by mail.
11.	Provision of brokerage services without observing the principle of the client's best interests.

Source: in-house materials by the PFSA Office

**Table 79. The most frequent irregularities in the provision of brokerage services, as identified in the course of inspection activities in 2013**

Provision of brokerage services	
1.	Conduct in breach of the laws due to provision of brokerage services without the obligatory licence of the Polish Financial Supervision Authority.
2.	Instances of breach of the laws due to acting without due diligence or unprofessionally, contrary to fair trading practices or contrary to the best interests of clients, in particular as regards provision of investment advisory services.
3.	Lack of adequate supervision by an investment firm of the activities performed by third parties (other than the investment firm's agents) acting on behalf of the investment firm.
4.	Provision of brokerage services with unauthorized use of customers' monetary funds held in a bank account, and keeping customers' monetary funds in a way that allows the investment firm to use of customers' funds on its own account.
5.	Lack of correct identification of brokerage activity types, in connection with which a conflict of interest associated with a significant risk of infringing the customer's interests arose or might arise.
6.	Acquisition and disposal of financial instruments on own account by an investment firm in violation of customers' interests (acting in a conflict of interest).
7.	Failure to take sufficient measures to identify and prevent behaviours that lead or might lead to manipulating a financial instrument by customers or persons related to the investment firm in order to properly perform the obligation to counteract manipulation of financial instrument.

Source: in-house materials by the PFSA Office

As a result of the inspections performed, post-audit recommendations were issued for all 12 regulated entities. For some of the inspected supervised entities, a further analysis is conducted involving the initiation of an administrative procedure to impose a fine or to report a suspicion of committing an offence in connection with the identified violations of the law.

#### INSPECTIONS AT INVESTMENT FUND COMPANIES AND INVESTMENT FUNDS

In the period covered by this report, 7 inspections were carried out at investment fund companies and investment funds managed by them, 1 inspection of a depositary, 3 inspections of distributors and 1 inspection of a transfer agent<sup>37</sup>.

The inspections focused on the following material aspects of operations of investment fund companies, investment funds managed by them, a depositary, distributors and a transfer agent:

- managing investment funds and representing investment funds in dealings with third parties,
- the performance of the duties of a depositary in accordance with the law, the provisions of selected investment funds' charters and effective agreements on keeping the register of assets for selected investment funds,
- checking the performance by distributors of activities in accordance with the Act of 27 May 2004 on Investment Funds (Dz.U. of 2004 No 146, item 1546, as amended), and the Regulation of the Minister of Finance of 3 April 2009 on the operations of entities conducting activity in the scope of intermediation in selling and redeeming investment fund units and shares (Dz.U. No 62, item 507),
- checking the performance by distributors of activities in accordance with agreements concluded with investment funds,
- performance by the transfer agent of the obligations arising from agreements concluded with selected funds and the charters of such investment funds,
- servicing investment funds' participants in relation to timely settlement of orders.

The subject matter of individual inspections was determined by the scope and size of operations.

**Table 80. The most frequent irregularities in managing investment funds and representing investment funds in dealings with third parties, as identified in the course of inspection activities at investment fund companies in 2013**

<b>Managing investment funds and representing investment funds in dealings with third parties</b>	
1.	Infringing the interests of investment funds' participants in relation to irregularities in the course of cooperation with the entity entrusted with the management of investment funds.
2.	Submitting to the Polish Financial Supervision Authority information regarding the implementation of recommendations from previous inspections that was inconsistent with the factual situation established in the course of inspection.
3.	Infringing the interests of investment funds' participants, involving failure to ensure the correct keeping of records of concluded transactions.
5.	Failure to inform the fund's liquidator immediately of the occurrence of a condition to resolve the fund.
6.	Failure to publish immediately the information on the occurrence of conditions for the fund's winding up and failure to pass this information to the Polish Financial Supervision Authority.
7.	Failure to inform the entities whom the fund entrusted with performance of its duties, and the entities through which the fund issues or redeems investment certificates about the opening of the fund's liquidation.

<sup>37</sup> Three out of seven inspections instituted in 2013 covered the period at the end of 2013 and at the beginning of 2014,

8.	Failure to provide on time documents relating to the fund's liquidation.
9.	Payment of the fund's income or revenue despite the fact that the fund could not issue investment certificates or redeem investment certificates.
10.	Infringement of the interests of investment funds' participants by failure to act to ensure that decisions related to the management of funds' portfolios are made with particular regard to the interests of funds' participants and are documented in accordance with the agreement and as specified in the applicable internal regulations.
11.	Infringement of the interests of investment funds' participants by failure to take adequate actions in the interests of investment funds' participants in connection with the violations found in funds' activities and by continuing cooperation relating to the management of portfolios of investment funds managed by the controlled entity with an entity that makes investment decisions in violation of the interests of funds' participants and provisions of the agreement and applicable procedures.
12.	Infringement of the investment restrictions set out in the Act on Investment Funds and in funds' charters.
13.	Failure to adjust immediately, by the funds that violated the investment restrictions, the state of own assets to the requirements set out in the Act on Investment Funds and in funds' charters.
14.	Infringing the interests of investment funds' participants by not taking appropriate actions to ensure that decisions relating to the management of funds' portfolios do not lead to the violation of the investment restrictions, both arising from statutes and from the charter; failure to take actions to adapt to investment restrictions and not to exceed the investment restrictions in the future.
15.	Infringing the interests of investment funds' participants by failure to take actions to ensure that the management of portfolios is consistent with the adopted internal regulations on monitoring and measuring the risk of the investment fund's portfolio.
16.	Failure to pay immediately monetary funds from redemption of investment fund units.
17.	Infringing the interests of investment funds' participants by not taking appropriate actions to ensure the liquidity of funds and timely payments on account of redemption of units for investment funds' participants.
18.	Making unlawful transfers of assets between sub-funds.
19.	Taking investment decisions without supervision of an investment advisor.
20.	Failure to archive documents relating to checking investment limits before the transaction.
21.	Failure to archive documents relating to risk assessment.

Source: in-house materials by the PFSA Office

**Table 81. Irregularities concerning performance of duties in accordance with the law, the provisions of selected investment funds' charters and effective agreements on keeping the register of assets for selected investment funds, as identified in the course of inspection activities at depositaries in 2013**

<b>Performance of the duties of a depositary in accordance with the law, the provisions of selected investment funds' charters and effective agreements on keeping the register of assets for selected investment funds</b>	
1.	Failure to ensure the measurement of funds' assets in accordance with the law.
2.	Infringing the interests of investment funds' participants by failure to agree with TFI on the method of measuring the fund's assets early enough to perform and confirm the measurement within the statutory time limit.
3.	Infringing the interests of the investment fund's participants in connection with failure to supervise in an active manner bringing the factual situation to compliance with the law (the fund's portfolio included assets inconsistent with the Act on Investment Funds and the fund's charter).
4.	Infringing the interests of the investment fund's participants in connection with failure to supervise in an active manner bringing the investment restrictions arising from the Act on Investment Funds and the fund's charter to compliance with the law.

Source: in-house materials by the PFSA Office

**Table 82. The most frequent irregularities in performance of activities in accordance with the Act of 27 May 2004 on Investment Funds (Dz.U. of 2004, No 146, item 1546, as amended) and the Regulation of the Minister of Finance of 3 April 2009 on the operations of entities conducting activities in the scope of intermediation in selling and redeeming units and shares in investment funds (Dz.U. No 62, item 507), as identified in the course of inspection of Distributors in 2013**

<b>Checking the performance by Distributors of activities in accordance with the Act of 27 May 2004 on Investment Funds (Dz.U. of 2004, No 146, item 1546, as amended) and the Regulation of the Minister of Finance of 3 April 2009 on the operations of entities conducting activity in the scope of intermediation in selling and redeeming units and shares in investment funds (Dz.U. No 62, item 507)</b>	
1.	Failure to inform the Polish Financial Supervision Authority about changes in the personal data of management board members within 14 days of becoming aware of them.
2.	Failure to keep a register of internal inspections, containing information on the inspections carried out in the entity in a calendar year.
3.	Failure to develop and implement internal regulations.
4.	Failure to prepare a written report on the functioning of the entity.
5.	Failure to designate, from among the employed persons, the person responsible for carrying out inspections covering the operations of taking and transmitting orders.
6.	Failure to keep a register of procedures containing all the procedures related to the business.
7.	Failure to review the implemented internal regulations and procedures in terms of their correctness and effectiveness in fulfilling obligations under the law, and failure to take actions to remedy any irregularities.
8.	Failure to protect the premises against uncontrolled access by unauthorized persons.
9.	Failure to carry out for members of the entity's bodies, persons employed under a contract of employment and individuals working for the entity under a contract of mandate or under a similar legal relationship a training course covering procedures relating to intermediation in the sale and redemption of units or shares of funds before such persons start to perform the function or carry out activities of intermediation in the sale and redemption of units or shares of funds.
10.	Failure to place on the entity's website accurate, understandable and comprehensible information addressed by the entity to its customers and potential customers, including information disseminated by the entity to advertise or promote services provided by the entity.
11.	No register of powers of attorney granted by participants to employees
12.	Irregularities in keeping the register of agreements signed with individual investment funds, foreign funds or companies.

Source: in-house materials by the PFSA Office

**Table 83. Irregularities in fulfilling obligations arising from agreements concluded with selected funds and from the charters of such investment funds, and in servicing investment funds' participants in relation to timely settlement of orders, as identified in the course of inspection activities as a transfer agent in 2013**

<b>Performance by a transfer agent of the obligations arising from agreements concluded with selected funds and from the charters of such investment funds, and servicing investment funds' participants in relation to timely settlement of orders</b>	
1.	Infringing operational procedures: a written order of acquisition of units, which was placed through POK, did not include the PESEL number of the POK employee who took the order.
2.	Violations of the provisions of funds' charters: delayed execution of orders.

Source: in-house materials by the PFSA Office

As a result of the inspections performed in 2013 at investment fund companies and investment funds managed by them: at a depository, at distributors and at a transfer agent in 2013, post-inspection recommendations were issued for all entities in that category.

#### **INSPECTIONS OF COMPANIES OPERATING A REGULATED MARKET**

In 2013, there was one inspection of a company operating a regulated market. The subject of the inspection was to verify whether the activities performed by the company in the part concerning the organization of the Alternative Trading System are compliant with the law, the company's articles of association, regulations, principles of fair trading and the interests of market participants. The inspection was problem-oriented and its purpose was to examine the correctness of the functioning of the Alternative Trading System.

### **5.7. INSPECTION REGARDING FULFILMENT OF OBLIGATIONS RELATED TO ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM**

Chapter 6 of the Act on anti-money laundering and combating the financing of terrorism of 16 November 2000 (Dz.U. of 2010 No 46, item 276, as amended), hereinafter referred to as the Act, provides for the PFSA's right to carry out inspections of the regulated entities. Under Article 21(3)(2) of the Act, the PFSA exercises control over the discharge of obligations arising under AML/CFT regulations by the obligated institutions, either as part of its supervisory or control functions, in the manner and on the terms set out in separate regulations. The obligated institutions controlled by the PFSA include entities of the banking sector, insurance sector in the life insurance aspect, capital sector, cooperative savings and credit unions as well as payment service institutions and bureaux.

In 2013, the process of evaluating the compliance of the Polish AML/CFT measures with international standards was completed. The process was conducted by the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). The PFSA Office took, in constant cooperation with the Ministry of Finance, an active part in discussions on the report on the evaluation mission, which was adopted at the meeting of Moneyval in April 2013. In view of the positive findings of the evaluation, the Moneyval Committee applied to Poland the so-called regular reporting procedure (every two years).

**Table 84. Inspection activities performed by the PFSA Office at regulated entities in 2013 in the area of anti-money laundering and combating the financing of terrorism**

Inspection activities	Number
– inspections at commercial banks	19
– inspections at cooperative banks	7
– inspections at brokerage houses	6
– inspections at investment fund companies	1
– inspections at life insurance undertakings	2
– inspections at branches of credit institutions	4
– inspections at cooperative savings and credit unions	6
– inspections at payment institutions	1
<b>Total</b>	<b>46</b>

Source: in-house materials by the PFSA Office

Inspection activities focused on the verification of effectiveness of the system for anti-money laundering and combating the financing of terrorism in regulated entities, as well as the compliance of their operations with the law. In particular, in 2013 in systemically important banks, problem-oriented inspections were conducted, which involved the verification of the performance by banks of their statutory duties concerning relations with customers generating an elevated risk of money laundering and the financing of terrorism, as well as the verification of the application of international sanctions by banks.

**Table 85. The most frequent and the most significant irregularities in anti-money laundering and combating the financing of terrorism, as identified in the course of inspection activities in 2013**

Anti-money laundering and combating the financing of terrorism	
1.	Cases of failure to discover suspected transactions
2.	A flawed customer risk assessment process that causes incorrect application of financial security measures (irregularities in relation to adequacy, timeliness and quality of risk assessment).
3.	Weaknesses in the process of analysing transactions for money laundering (mainly insufficient quality and frequency of assessments).
4.	Isolated cases of failure to register transactions subject to registration.
5.	Incorrect definition of the client geographical risk criterion.
6.	Failure to verify the database of clients after each change of the sanctions lists by the European Union.
7.	Weaknesses in the process of applying international sanctions, which do not result in violation of European and international sanction regimes.
8.	Deficiencies in completion or incorrect completion of fields in the register of transactions.
9.	Transaction registration with delay.
10.	Irregularities in the process of identification the beneficial owner.
11.	Delayed delivery to the General Inspector of Financial Information (GIFI) of information about the transactions registered under Article 8(1)(3) of the Act.
12.	Combining the operational and supervisory functions in relation to the performance of statutory duties.

Source: in-house materials by the PFSA Office

In connection with the identified irregularities, the PFSA issued post-inspection recommendations for all inspected entities. Fulfilment of recommendations was monitored on an ongoing basis, with the use of the reports delivered by the entities and during follow-up

inspections. In keeping with Article 21(4) of the Act, GIFI was informed about the results of the reviews made.

Modifications were made to the scope of reporting and the method of analysing quarterly reports of financial institutions, concerning the submission to GIIF of information about suspicious transactions, and thus a new analytical tool has been introduced, which is important in the off-site supervision process.

As in previous years, the PFSA continued co-operation with GIFI as regards:

- mutual transfer of results of inspections carried out at obligated institutions,
- expressing opinions on the performance of statutory duties, and
- participation in working meetings.

## 6. REGULATORY AND PRUDENTIAL TASKS

The key regulatory and prudential regime tasks that were completed in 2013 included the preparation of the PFSA's resolutions and prudential recommendations.

### 6.1. RESOLUTIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

In 2013, the Polish Financial Supervision Authority adopted the following resolution:

**Resolution No 429/2013 of the Polish Financial Supervision Authority of 20 December 2013 amending the Resolution on detailed rules and conditions for considering exposure when determining the observance of the exposure concentration limit.**

The Resolution amends the Resolution No 208/2011 of the Polish Financial Supervision Authority on detailed rules and conditions for considering exposure when determining the observance of the exposure concentration limit. By amending Resolution No 208/2011 of the PFSA, the Authority maintained in the period after 1 January 2014 the existing solutions for exemption from the concentration limit for the bank's subsidiaries covered by consolidated supervision, as provided for in § 6(6) of the Resolution of the PFSA on the exposure concentration, in conjunction with § 12 of Annex 4 to Resolution No 76/2010 of the PFSA of 10 March 2010 on the capital adequacy of banks. In accordance with Article 113(6) of CRR, from 1 January 2014 a corresponding exemption shall be applied, except that it requires banks to obtain the consent of competent supervisory authorities. This would mean that after 1 January 2014, banks could benefit from this exemption after obtaining the consent issued by the PFSA at the request of the bank. The provision introduced by the PFSA is used by banks in the transitional period and gives an option to continue the approach that allows domestic banks to exclude from the concentration limit the exposures to the bank's subsidiaries that are subject to consolidating supervision, without the need to obtain the consent of the PFSA. In terms of substance, the provision being introduced is a continuation of the existing rules and does not provide for any new exemptions from exposure concentration limits, i.e. in relation to the parent or subsidiaries of the parent.

### 6.2. RECOMMENDATIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

In 2013, the Polish Financial Supervision Authority adopted the following amended recommendations:

#### RECOMMENDATION M

Recommendation M on the operational risk management at banks was finally adopted by the Polish Financial Supervision Authority at the meeting on 8 January 2013. The main changes made to Recommendation M include:

- harmonisation of the terminology used for operational risk management, including, among other things, addition of definitions of the risk management policy and strategy, key and critical processes, operational risk profile or risk tolerance/ approval,
- introduction of the document framework in which subsequent stages of the operational risk management process are discussed in accordance with the best international practices, including the guidelines of the Basel Committee on Banking Supervision (BCBS) and the European Banking Authority (EBA),
- specification of the role of the bank's supervisory board and management board as far as the operational risk management strategy is concerned, and specification of the guidelines

- concerning duties of bank bodies as regards establishment of the operational risk management policies and procedures, including general principles of operational risk measurement (assessment), internal control organisation and compliance risk guidelines,
- putting emphasis on the need to have by the bank the structure, processes and resources adequate for the scale and complexity of operations, enabling the bank to manage the operational risk in an effective manner,
  - indication of the need to define the risk mitigation measures which are taken depending on the defined operational risk versus the risk tolerance/ appetite accepted by the supervisory board,
  - definition of the compliance risk expectations for development of new business models or new products - drawing attention to the fact that the products developed should not be oriented at evading the universal laws,
  - indication of the need to apply compliance risk control solutions for clients and transactions such as lists of business partners with whom the bank does not intend to establish co-operation, providing for business partners from countries of unclear legal and political situation, supporting terrorism, subject to sanctions, etc. or the business partners whose operations may be contradictory to the universal laws,
  - more precise specification of recommendations aimed at limiting operational risk information asymmetry for the bank and its environment - strengthening the market discipline by requiring disclosure of the information about operational losses for a given category and the remedies instituted in that connection in the annual capital adequacy-dedicated publications of banks,
  - formulation of recommendations for reporting data quality control, including the quality of data used in the risk management process.

In accordance with the PFSA's expectations, the recommendations were to be implemented by 30 June 2013, save for paragraph 17.3, whose implementation date was set for 31 December 2013.

## RECOMMENDATION T

Recommendation T concerning best practices related to managing risk under retail loan exposures was adopted by the Polish Financial Supervision Authority on the meeting on 26 February 2013.

The most important amendments to Recommendation T include:

- separation of the material scope of Recommendation T from Recommendation S,
- addressing with the Recommendation T directly all banks subject to the Polish laws, and credit institution branches operating in Poland,
- discontinuance by the PFSA to determine the maximum debt-to-income (Dtl) ratio; the Dtl ratio should be determined by the bank's management board and defined in the risk management strategy approved by the bank's supervisory board,
- introduction of the option to apply the short-track procedure for client creditworthiness assessment; a bank may apply the short-track procedure for the following exposures granted to retail clients:
  - instalment-based loans and instalment borrowings for which the loan or borrowing amount does not exceed the fourfold average remuneration in the enterprise sector,
  - loans and borrowings:
    - to clients with at least 6-month history of co-operation with the bank, for whom the loan or borrowing amount does not exceed the six fold average monthly remuneration in the enterprise sector,
    - to clients with at least 12-month history of co-operation with the bank, for whom the loan or borrowing amount does not exceed the twelvefold average monthly remuneration in the enterprise sector,

- to other clients for whom the loan or borrowing amount does not exceed the average remuneration in the enterprise sector,
  - explicit indication of the need to always use the external databases - and in particular the interbank databases built by the institutions which under Article 105(4) of the Banking Law Act are authorised to gather, process and make available information like the amount and history of repayment of credit liabilities by retail clients - by the banks for retail client creditworthiness assessment; the significance of using by banks the information rendered available by credit reference agencies was also emphasized in the recommendation,
- making the requirements for FX credit exposure extension and management more stringent,
  - underlining in the client relationship area of the need for the bank to have written internal procedures defining the form and scope of information provided to each client applying for a retail loan under the Consumer Credit Act; for FX loans - retention of the recommendations stating that the bank should ensure adequate information for the client as regards the exposure-related risk and its impact as well as on impact of FX spread on the amount of the loan provided and repaid; additionally, there was a recommendation introduced that from a client applying for a retail credit exposure the bank should obtain in writing a statement confirming that:
    - the client received the information from the bank as may be needed to take a decision on the loan drawn,
    - the client received from the bank explanations to his or her doubts,
    - the client is aware of the risk related to the loan drawn.

In accordance with the PFSA's expectations, the recommendations were to be implemented by 31 July 2013.

## RECOMMENDATION S

Recommendation S concerning best practices in managing mortgage-backed credit exposures was adopted by the Polish Financial Supervision Authority on the meeting on 18 June 2013.

The solutions recommended by the PFSA enable banks to operate in a sustainable manner in the field of mortgage-backed loans, while maintaining the necessary level of security and at the same time strengthening the position of the borrower through transparent relations with the bank. The solutions will also contribute to creating solid foundations for the development of the market of debt instruments based on homogeneous portfolios of mortgages.

The most important amendments in Recommendation S include:

- restructuring of Recommendation S in accordance with the solutions adopted in Recommendation T,
- exclusion, from the scope of Recommendation S, of credit exposures financing properties that are not secured by mortgage,
- further reduction in foreign currency lending - foreign currency loans indexed or denominated in foreign currencies should be offered only to customers who earn stable income in the loan currency, which guarantees a regular service and repayment of the loan; in the case of customers (or households) who earn income in several currencies, the bank should ensure that the loan currency is the same as the currency in which the borrower (or the household) earns the highest income from all the sources taken as the basis for calculating creditworthiness, and in the case of other currencies, the bank should assume their depreciation by 20%,
- making the approach in relation to the Dtl ratio more flexible - the Dtl ratio should be determined by the bank's management board and defined in the risk management strategy approved by the bank's supervisory board; in the process of assessing the

- creditworthiness of retail customers, the bank should pay particular attention to situations in which the Dtl ratio exceeds 40% for clients with incomes exceeding the average level of salaries in a given region of residence, and 50% for other customers,
- a change of approach in relation to the LTV ratio:
    - the LTV ratio should be determined by the bank's management board and defined in the risk management strategy approved by the bank's supervisory board,
    - in the case of credit exposures secured on residential property, the LTV ratio at the time of extending the loan should not exceed the level of 80% or 90% if the portion of the exposure exceeding 80% of LTV is adequately secured, or if the borrower presented additional security in the form of blocked funds in the bank account or by a pledge on zloty-denominated debt securities of the Treasury or the National Bank of Poland, provided that:
      - for mortgage-backed credit exposures created in the period to 31 December 2014, LTV should not exceed the level of 95%,
      - for mortgage-backed credit exposures created in the period from 1 January 2015 to 31 December 2015, LTV should not exceed the level of 90%,
      - for mortgage-backed credit exposures created in the period from 1 January 2016 to 31 December 2016, LTV should not exceed the level of:
        - ✓ 85% or
        - ✓ 90% if the portion of the exposure exceeding 85% of LTV is adequately secured, or if the borrower presented additional security in the form of blocked funds in the bank account or by a pledge on zloty-denominated debt securities of the Treasury or the National Bank of Poland,
    - in the case of credit exposures secured on commercial property, the LTV ratio at the time of extending the loan should not exceed the level of 75% or 80% if the portion of the exposure exceeding 75% of LTV is adequately secured, or if the borrower presented additional security in the form of blocked funds in the bank account or by a pledge on zloty-denominated debt securities of the Treasury or the National Bank of Poland,
  - the adoption of the principle of proportionality in relation to cooperative banks required to act in association - the recommendation specifies that the bank's Management Board approves maximum levels of Dtl, LTV, the minimum requirements for the downpayment and the principles of stress testing, and then the Management Board informs the Supervisory Board and the associating bank about the adopted parameters or solutions,
  - a change of approach in relation to the loan period - the bank should recommend to retail customers a repayment period of no more than 25 years; if a client chooses a longer repayment period, the bank should not extend a loan whose repayment period exceeds 35 years; if the exposure's expected repayment period is more than 30 years, in the creditworthiness assessment process the bank should assume the exposure repayment period of up to 30 years; when determining the length of the period of a loan to a retail customer, the bank should take into account the borrower's ability to generate income throughout the term of the agreement, paying particular attention to the period in which the borrower is expected to reach the retirement age.

In accordance with the PFSA's expectations, the recommendation was to be implemented by 1 January 2014, save for recommendations 6, 9.1, 12, 14.10, 15.8 and 20, which should be implemented by 1 July 2014.

## RECOMMENDATION D

In 2013, the Polish Financial Supervision Authority adopted Recommendation D concerning management of IT areas and IT environment safety at banks. The objective of Recommendation D is to provide banks with supervisory expectations in relation to prudent

and stable management of IT areas and IT environment safety at banks, and in particular the risk associated with these areas.

When compared with its previous version, the new Recommendation D was expanded with the provisions concerning data management (data quality included), principles of co-operation of business and technology areas, management information system for IT and IT environment safety areas and cloud computing, among other aspects. The expectations for such domains as for example: strategic planning in IT and IT environment safety areas, implementation of new IT solutions and modification of existing ones, co-operation with external service providers as well as IT environment safety risk management were revised and specified.

### 6.3. GUIDELINES AND POSITIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY AND OF THE OFFICE OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

#### THE POSITION ON THE METHOD OF RECOGNIZING INCOME FROM A FEE FOR INSURANCE SERVICES

In March 2013, the Polish Financial Supervision Authority sent to the banking sector a letter with a recommendation describing the correct way of recognizing income from a fee for insurance services. The recommendation developed by the PFSA Office was agreed on with the Accounting Department of the Ministry of Finance. Its objective was to ensure true and fair presentation of the financial position in financial statements, as well as a correctly determined financial result. The negative developments in the accounting area concerned banks' inconsistent approach to recognizing insurance fees in revenue, which in many cases was in violation of the rule of matching of revenues and expenses.

In March 2013, a survey on the method of recognizing income from fees for insurance services was also prepared and conducted. The survey was conducted to obtain detailed information about the impact of the change in the current practice in this area on banks' financial results. Then the PFSA prepared a summary aggregated for three groups of entities: banks operating as a joint stock company, banks operating as a cooperative and branches of credit institutions.

#### POSITION ON THE ACCOUNTING POLICY CONCERNING IMPAIRMENT LOSSES, PROVISIONS FOR IBNR LOSSES, AS WELL AS RECOGNIZING AND ACCOUNTING FOR FEES FOR THE SALE OF INSURANCE PRODUCTS

In December 2013, another letter was sent to the presidents of the management boards of banks on *bancassurance*. It was stated that the accounting policy concerning impairment losses, provisions for IBNR losses, as well as recognizing and accounting for fees for the sale of insurance products, as established by the bank's management board in a clear and unambiguous manner, should also be included in the annual statutory financial statements to enable the recipients of the financial statements to understand these policies.

In addition, the bank's management board should ensure that the accounting policy concerning fees for the sale of insurance products is consistent with the applicable accounting principles in this field, mainly the economic substance over legal form principle and the matching principle. The income should be divided using a clear proportion: the fair value of the financial instrument and the fair value of agency service respectively to the sum of both these values, in accordance with the accounting principles (policies).

The PFSA Office informed banks that it would take appropriate supervisory actions against banks that do not comply with the recommended solutions concerning estimation of credit risk and accounting for income from bancassurance. The presentation, in both financial statements as well as in bank reporting and current and periodic reports prepared by securities issuers, of data that - in the supervisor's opinion - is incorrect may result in the imposition of sanctions provided for in the law.

It was also stated that the supervisor could not ignore the liability of statutory auditors-in-charge for issuing unqualified opinions on the financial statements to which the PFSA Office formulated qualifications regarding the measurement methods, the method of accounting for income for the services performed by banks and the amount of the presented profit or loss. The identified cases of gross violation of the accounting regulations will be reported to KNA.

## POSITION ON THE DIVIDEND POLICY OF FINANCIAL INSTITUTIONS

At the meeting on 10 December 2013, the Polish Financial Supervision Authority adopted unanimously a position on the principles of the dividend policy of banks, insurance undertakings, universal pension fund companies, investment fund companies and brokerage houses in 2014 for the year 2013.

As a result of the dividend policy consistently pursued in recent years in accordance with the PFSA's recommendations, the capital base of the financial sector in Poland strengthened significantly. This situation has a positive effect on external assessments of both the national financial system as a whole as well as on individual financial institutions. In the current market conditions, this is an important aspect, which lowers systemic risk, maintains confidence in the financial sector, particularly in the banking sector, and provides banks with access to funding from the market at reasonable cost, which is a condition for their further development. However, due to the prevailing elevated risk in the external environment of the Polish economy, it is recommended to maintain a strong capital base and, in some cases, to further strengthen it. In the challenging economic environment, capital buffers are the basis for stability and further development of financial institutions.

## POSITION ON THE FUNCTIONING OF INVESTMENT FIRMS

In connection with the observed dynamic development of the area of brokerage services whose subject are derivatives not admitted to trading on organized markets, in particular being the subject of transactions on the so-called Forex market, and having regard to the conclusions of the current supervision and the inspection activities performed, the PFSA Office developed *The position on the operation of investment companies in the Forex Market*. The reason for the announcement of the Position in question was a rapid expansion of investment firms towards the provision of brokerage services on the so-called Forex market. Investment firms became dynamically interested in the development in this segment of the capital market, as a result of which they use, in a fiercely competitive environment, diverse and at the same time intensive forms of advertising and promotion of services and instruments, they develop new ways of suitability assessment and implement a broad spectrum of technological solutions, often using the services provided by third parties. By that Position, the PFSA Office wanted to draw attention to the nature of investments effected in the Forex market, the applicable regulations of fundamental importance in this regard and their practical understanding. The Position does not cover all aspects related to the methods and the mechanism of providing services in the Forex market, but it describes those aspects of the business that were identified in the course of supervision and give rise to comments from the PFSA Office.

## POSITION ON PROVIDING INVESTMENT ADVISORY SERVICES BY INVESTMENT FIRMS

The PFSA Office prepared a study that is a supplement to the 2012 *Position of the PFSA Office on providing investment advisory services by investment firms*. The study is the Office's response to specific interpretative questions, which appear in practice in the operation of investment firms in connection with the provision of investment advisory services, as illustrated by several dozens of actual situations. Referring in general to the issue of investment advisory, the PFSA Office pointed out that the key element to assess whether the provision of investment advisory services occurred are the facts and the context of an investment firm's operations. The occurrence of specific, and - in some situations - special circumstances may determine the occurrence of an investment advisory service. Contrary to that, absence of such circumstances may decide that the activities of an investment firm in relation to the client will not be classified as the provision of an investment advisory service to the client. At the same time, the PFSA Office stated that due to the specific nature of investment advisory services it is not possible to exemplify all (even the most characteristic) categories of factual situations with their absolute, clear classification as investment advisory services or operations that do not meet the conditions of the brokerage activity type in question. Such approach to the issue of investment advisory improves its clarity and usefulness in investment firms' everyday functioning.

## POSITION ON THE DISCLOSURE OBLIGATIONS OF ISSUERS WITH REGARD TO CONFIDENTIAL INFORMATION

In 2013, the PFSA Office prepared a *Position on the disclosure obligations of issuers with regard to confidential information*. The objective of the position was to draw the current and future issuers' attention to the importance of confidential information provided by them, the content of which should enable investors to assess reliably the impact of the described circumstances or events on the price of the issuer's securities.

The Position refers to and interprets regulations concerning the obligation to provide confidential information.

In addition, based on the observed market practice, the PFSA Office presented an exemplary catalogue of information that should be subject to careful evaluation in terms of meeting the criteria of confidential information, and consequently the existence of an obligation of their provision. In accordance with the Position of the PFSA Office, the above-mentioned information includes, in particular, information relating to:

- impairment of assets
- review of long-term contracts;
- failure to comply with the conditions of the issuer's financing;
- reorganization of the issuer;
- recognition of provisions;
- occurrence of the prerequisites to file for bankruptcy;
- the acquisition of a substantial block of shares in another entity.

In addition, the PFSA Office reminded of the obligation to keep a list of individuals who have access to confidential information, emphasizing the importance of such lists for all participants of the capital market, in particular for the prevention of abuse associated with confidential information.

## 7. OTHER ACTIVITIES

### 7.1. MEASURES TAKEN TO COUNTERACT FINANCIAL MARKET ABUSE

#### EXPLANATORY AND ADMINISTRATIVE PROCEDURES RELATED TO SUPERVISION OF THE FINANCIAL MARKET

In 2013, r. the PFSA conducted explanatory procedures for 14 cases in order to determine whether there were grounds for filing a notification of a suspected offence concerning offences specified in the acts regulating the financial market in Poland, or for instigating administrative procedures concerning violation of the law, to the extent falling within the scope of the PFSA's supervision. The procedures pertained to:

- manipulation involving a financial instrument- 1,
- failure to discharge or improper discharge of disclosure obligations - 1,
- execution of transactions during restricted periods - 2,
- failure to disclose the fact of holding public company shares - 4,
- manipulation involving a financial instrument and improper recommendation development - 1,
- trading in financial instruments without an authorisation - 4,
- disclosure and use of confidential information - 1

In 2013, the PFSA conducted administrative procedures for 336\* cases concerning the following acts of law:

- Act on Trading in Financial Instruments - 21,
- Act on Public Offering - 58,
- Act on Investment Funds - 10,
- Act on Insurance Activity - 3,
- Act on Compulsory insurance, Insurance Guarantee Fund and Polish Motor Insurers' Bureau - 11,
- Act on Organisation and Functioning of Pension Funds - 2,
- Act on Insurance Intermediation - 5,
- Act on Payment Services - 225,
- other acts - 1.

\* out of which 225 administrative procedures related to payment service offices.

The administrative procedures conducted concerned:

- manipulation involving a financial instrument (Article 39 of the Act on Trading in Financial Instruments) - 8,
- execution of a transaction on involving issuer's shares during a restricted period (Article 159 of the Act on Trading in Financial Instruments) - 2,
- non-performance or improper performance of disclosure obligations by an issuer (Article 56 of the Act on Public Offering and Article 56 and 57 of the Act on Public Offering, including one case that related to resumption of an administrative procedure and ended with imposition of an administrative penalty on the issuer pursuant to Article 56 of the Act on Public Offering) - 33,
- failure to discharge or improper discharge of duties concerning significant holdings of shares (Article 69 of the Act on Public Offering and Article 69 in conjunction with Article 87 of the Act on Public Offering and Article 69 in conjunction with Article 69 a of the Act on Public Offering) - 17,

- imposition of fines on issuer's management board members due to a gross violation by the issuer of Article 56 of the Act on Public Offering (Article 96(6) of the Act on Public Offering) - 6,
- failure to discharge duties concerning significant holdings of shares within the statutory timelines (Article 70 of the Act on Public Offering) - 1,
- failure to discharge or improper discharge of duties concerning acquisition of issuer's shares outside the call announcement required by the law (Article 74 of the Act on Public Offering) - 1,
- failure to notify or improper notification of transactions of persons being members of the management or supervisory bodies of the issuer or being holders of a commercial power of attorney (Article 160 of the Act on Trading in Financial Instruments) - 1,
- refusal to convene the Extraordinary General Meeting of the insurance undertaking as moved for by a shareholder (Article 399 § 1 in conjunction with Article 400 § 1 of the Commercial Companies Code) - 1,
- failure to convene the General Meeting of Shareholders of an insurance undertaking on demand of the Polish Financial Supervision Authority (Article 211(4) of the Act on Insurance Activity) - 1,
- irregularities in the coverage of technical provisions (Article 155(1)(3) of the Act on Insurance Activity) - 1,
- breach of the rules to maximize the security and profitability in the course of investing activities (Article 30(1) and Article 153 of the Act on Insurance Activity) - 1,
- irregularities related to the operation of undertakings and investment funds (exceeding investment limits, lack of required internal regulations, failure to meet disclosure obligations in a timely and diligent manner, incorrect measurement of assets - breach of the provisions of the Act on Investment Funds and the secondary legislation to the Act) - 6,
- investing in inadmissible instruments (Article 101 of the Act on Investment Funds) - 2,
- breach of the requirement of employing investment advisors (Article 45(4)(1) of the Act on Investment Funds) - 1,
- failure to perform duties of the depositary (Article 72(1)(4) and (6), Article 10 and Article 231(1) of the Act on Investment Funds) - 1,
- irregularities in investment operations (Article 139 of the Act on Organisation and Functioning of Pension Funds) - 1,
- failure to make a transfer payment (violation of the Act on the Organization and Operation of Pension Funds, and of secondary legislation to the Act) - 1,
- failure to meet the deadlines for the claims settlement procedure (Article 14 of the Act on Compulsory Insurance) - 11,
- improper supervision of the performance of the organisational unit under control, unauthorized actions on the customer's account (Article 126 of the Act on Trading in Financial Instruments, internal regulations of the investment firm) - 2,
- irregularities relating to investment firms' brokerage activities, in breach of the law, fair trade rules and the principal's interests (Article 167 of the Act on Trading in Financial Instruments, provisions of the secondary legislation to the Act) - 2,
- disclosure of confidential information being trade secrets at the same time (Article 156(2)(1) of the Act on Trading in Financial Instruments, Article 148(1) of the Act on Trading in Financial Instruments, internal regulations of an investment firm) - 3,
- failure to meet capital adequacy standards (Article 98a(1) of the Act on Trading) - 3,
- payment service offices' failure to comply with reporting obligations to the supervisory authority - 225,
- irregularities consisting in infringing the law in connection with conducting brokerage activities (Article 22(1), Article 23(1), Article 26(1)(2) or Article 46(1) of the Act on Insurance Intermediation) - 5.

In 2013, the PFSA conducted administrative procedures for 61 cases remitted for reconsideration upon a party's request in respect of the following acts of law:

- Act on Public Offering - 37,

- Act on Trading in Financial Instruments - 11,
- Act on Insurance Activity - 2,
- Act on Compulsory Insurance, Insurance Guarantee Fund and Polish Motor Insurers' Bureau - 2,
- Act on Investment Funds - 8,
- Act on Organisation and Functioning of Pension Funds - 1.

The administrative procedures conducted concerned:

- failure to discharge or improper discharge of disclosure obligations by the issuer (Article 56 of the Act on Public Offering) - 14,
- failure to discharge or improper discharge of duties concerning significant holdings of shares (Article 69 of the Act on Public Offering and Article 69 in conjunction with Article 87 of the Act on Public Offering) - 12,
- failure to discharge duties concerning significant holdings of shares within the statutory timelines (Article 70 of the Act on Public Offering) - 1,
- imposition of fines on issuer's management board members due to a gross violation by the issuer of obligations stipulated in the Act on Public Offering (Article 96(6) of the Act on Public Offering) - 8,
- failure to discharge or improper discharge of disclosure duties due to delayed information publication (Article 57(3) of the Act on Public Offering) - 2,
- execution of a transaction on involving issuer's shares during a restricted period (Article 159 of the Act on Trading in Financial Instruments) - 2,
- irregularities relating to brokerage activities of investment firms being in breach of the law, fair trade rules and principal's interests (Article 167 of the Act on Trading in Financial Instruments) - 3,
- breach of the principles of fair trading and the legitimate interests of customers by brokers and advisers (Article 126(1) of the Act on Trading in Financial Instruments) - 1,
- failure to comply with the capital adequacy requirement by a brokerage house due to failure to maintain the supervised capital at the required level (Article 98a(1)(1) of the Act on Trading in Financial Instruments) - 1,
- disclosure, by brokers and advisers, of confidential information and breach of the duty to keep professional secrets confidential (Article 156(2)(1) and Article 148(1)(1) of the Act on Trading in Financial Instruments) - 4,
- breach of law in connection with the planned acquisition of company shares (Article 54 of the Act on Investment Funds) - 1,
- infringing the requirement according to which a company should employ a specific number of investment advisors (Article 45(4)(1) of the Act on Investment Funds) - 1,
- failure to notify of the intention to sell company shares (Article 57(1) of the Act on Investment Funds) - 1,
- failure to act in the interests of investment fund participants, breach of the rules of investing assets and failure to document the sources of an investment decision (Article 10, Article 145(7) and § 11(1)(2) in conjunction with paragraph 3 and § 11(2) of the Regulation on internal control, registration of transactions concluded, counteracting the occurrence of conflicts of interest and documenting the sources that are the basis for investment decisions delivered by those entities to the Polish Financial Supervision Authority) - 1,
- failure to develop and implement detailed procedures for making investment decisions in the investment portfolio management process, and procedures for monitoring and measuring the risk associated with individual subjects of investments, as well as the investment portfolio risk, and breach of the principles of investing asset (Article 65a(1)(1) and (2), and Article 104(5) and Article 93(1)(5) of the Act on Investment Funds) - 1,
- failure to comply with the disclosure obligation (§ 3(1) and §4(1)(23) in conjunction with §19(1) of the Regulation on interim reporting and current information concerning the activity and financial position of investment fund companies and investment funds, delivered by those entities to the Polish Financial Supervision Authority) - 2,

- failure to ensure that the net asset value and the value of each unit of the investment fund is calculated in accordance with the law (Article 72(1)(4) of the Act on Investment Funds) - 1,
- premium determination in breach of the law (Article 18(1) and (2) of the Act on Insurance Activity) - 1,
- breach of the requirement concerning the assets covering technical provisions of an insurance undertaking (Article 155(1)(3) of the Act on Insurance Activity) - 1,
- failure to meet the deadlines for the claims settlement procedure (Article 14 of the Act on Compulsory Insurance) - 1,
- breach of disclosure obligations towards the Insurance Guarantee Fund (Article 102 and Article 105 of the Act on Compulsory Insurance) - 1,
- breach of law by a pension fund company (Article 204 of the Act on Organisation and Functioning of Pension Funds) - 1.

**Table 86. Number of explanatory and administrative procedures instituted and closed, 2010-2013**

Detailed list	2010		2011		2012		2013	
Type	No of procedures instituted	No of procedures closed	No of procedures instituted	No of procedures closed	No of procedures instituted	No of procedures closed	No of procedures instituted	No of procedures closed
Explanatory	6	5	9	7	9	13	8	12
Administrative	69	64	48	44	101	96	319	102
<b>Total</b>	<b>75</b>	<b>69</b>	<b>57</b>	<b>51</b>	<b>110</b>	<b>109</b>	<b>327</b>	<b>114</b>

Source: in-house materials by the PFSA Office

In 2013, the PFSA issued 67 administrative decisions, including:

- 51 decisions imposing a fine,
- 12 decisions discontinuing the administrative procedures (including four decisions in one procedure),
- 4 decisions suspending a securities broker.

In 2013, 35 administrative decisions were issued following the examination of requests for reconsideration of the case, including:

- 25 decisions upholding the decision issued in the first instance,
- 2 decisions revoking the contested decision and imposing a fine in the same amount,
- 7 decisions revoking the contested decision and lowering the imposed fine,
- 1 decision revoking the contested decision and discontinuing the proceedings,

Moreover, in 2013, there was one ruling issued refusing to exclude a member of the PFSA from participation in the proceedings.

The fines imposed in 2013 totalled PLN 22,830,500, including fines imposed on:

- issuers - PLN 3,500,000;
- shareholders - PLN 11,991,000;
- members of the management board in a public company - PLN 350,000,
- investment fund companies - PLN 1,950,000,
- insurance undertakings - PLN 530,000;
- universal pension fund companies - PLN 200,000;

- brokerage houses - PLN 4,300,000;
- insurance brokers - PLN 9,500;

In addition, the Authority imposed 4 administrative penalties on individuals, in the form of suspension of the right to practice as a securities broker.

## NOTIFICATIONS OF SUSPECTED OFFENCE

In 2013, the PFSA Office filed 78 notifications of justified suspected offences with the Regional Public Prosecutor's Office of Warsaw, including notifications relating the following acts:

- Act on Trading in Financial Instruments - 43,
- Act on Public Offering - 10,
- Banking Law Act - 15,
- Criminal Code Act - 4,
- Act on Insurance Activity - 2,
- Accounting Act - 3,
- Act on Payment Services - 1.

**Table 87. Notifications filed, by type of offence, 2010-2013**

Offence	Number of notifications			
	2010	2011	2012	2013
Breach of Article 183 of the Act on Trading in Financial Instruments (financial market manipulation)	6	9	13	20
Breach of Article 180 and Article 181 of the Act on Trading in Financial Instruments (information disclosure and insider trading)	6	12	8	8
Breach of Article 100 of the Act on Public Offering (misrepresentation and concealment of facts in a prospectus or reports)	14	6	1	2
Breach of Article 178 of the Act on Trading in Financial Instruments (unauthorized trading in broker-traded financial instruments)	3	2	3	12
Breach of Article 171(1) of the Banking Law Act (unauthorized banking activity)	4	7	16	14
Other *	20	35	18	22
<b>Total</b>	<b>53</b>	<b>71</b>	<b>59</b>	<b>78</b>

Source: in-house materials by the PFSA Office

\* The following provisions were breached:

- Article 99 of the Act on Public Offering (unauthorised public offering of securities),
- Article 103 of the Act on Public Offering (failure to provide the annex to the prospectus or information memorandum),
- Article 179 of the Act on Trading in Financial Instruments (disclosure or use of trade secret),
- Article 171(5) of the Banking Law Act (disclosure of banking secret),
- Article 77 of the Accounting Act (keeping books of accounts in breach of the rules provided for the Act, developing the financial statements in breach of the provisions of the Act),
- Article 35(1) of the Act on anti-money laundering and combating the financing of terrorism (failure to discharge the registration duty for the transactions subject to registration),
- Article 280 of the Act on Investment Funds (breach of trade secret),

- Article 287 of the Act on Investment Funds (unauthorised operations being depositing funds of natural persons, legal persons and organisational units without legal personality non-corporate entities, gathered under the proposal to conclude an agreement concerning participation in the said joint venture, in securities, money market instruments or other material rights),
- Article 295 (unauthorised operations as regards the operations referred to in Article 32(2), Article 45(1) or (2) or Article 209) and Article 296 of the Act on Investment Funds (unauthorised use of the term referred to in Article 14(4) of the Act),
- Article 289 of the Act on Investment Funds (disclosure or use of trade secret),
- Article 57 of the Act on Commodities Exchanges (unauthorised commodity exchange operations),
- Article 47(1) and Article 48(1) and (2) of the Act on Insurance Intermediation (unauthorised agency operations, unauthorised use of the terms indicating insurance intermediation operations),
- Article 54 of the Personal Data Protection Act (failure to discharge by the data controller the duty of notification of the person concerned of his/her rights or provision thereof with the information enabling the latter to use his/her rights under the Act),
- Article 51 of the Personal Data Protection Act (providing or granting access to data files to unauthorised persons),
- Article 225 of the Act on Insurance Activity (unauthorised insurance or reinsurance operations),
- Article 230 of the Act on Insurance Activity (use in the name or to define the operations or in advertising of the words indicating insurance or reinsurance operations by an unauthorised entity),
- Article 232 of the Act on Insurance Activity (disclosure of insurance contract-related secret),
- Article 219(2) Act on Organisation and Functioning of Pension Funds (offering extra material benefits in exchange for accession to a certain open-end fund or continued membership),
- Article 267a of the Cooperative Law Act (acting to the detriment of a cooperative),
- Article 47 of the Electronic Signature Act (use of an electronic key by an unauthorised person),
- Article 150 of the Act on Payment Services (non-registered payment services provision-related operations),
- Article 585 of the Commercial Companies Code Act (acting to the detriment of a company),
- Article 191 of the Criminal Code Act (unlawful threat),
- Article 226 of the Criminal Code Act (insult of a shareholder),
- Article 270 of the Criminal Code Act (falsification),
- Article 276 of the Criminal Code Act (destruction, deletion of documents),
- Article 286 § 1 of the Criminal Code Act (fraud),
- Article 296 § 3 of the Criminal Code Act (sizeable material damage following abuse of rights of failure to discharge the duty),
- Article 297 § 1 of the Criminal Code Act (loan obtainment under false pretences).

Based on the notifications filed with the Public Prosecutor's Office in 2013, 58 preliminary investigation procedures were instituted (with 6 dismissed); institution of investigation was refused in 5 cases.

## INDICTMENTS

In 2013, the PFSA Office was notified that 11 indictments were filed by the Public Prosecutor's Office with common courts of law based on the notifications of suspected offence received from the PFSA Office.

**Table 88. Indictments filed by the Public Prosecutor's Office with courts, by type of offence, 2010-2013**

Detailed list Offence	Indictments			
	2010	2011	2012	2013
Breach of Article 183 of the Act on Trading in Financial Instruments (financial market manipulation)	3	9	6	2
Breach of Article 180 and Article 181 of the Act on Trading in Financial Instruments (information disclosure and insider trading)	1	1	2	1
Article 171(1) and (3) of the Banking Law Act (unauthorised banking operations)	-	-	1	3
Other *	3	5	6	5
<b>Total</b>	<b>7</b>	<b>15</b>	<b>15</b>	<b>11</b>

Source: in-house materials by the PFSA Office

\* The following provisions were breached:

- Article 100 of the Act on Public Offering (misrepresentation and concealment of facts in a prospectus),
- Article 99 of the Act on Public Offering (offering of securities in breach of the statutory requirements),
- Article 178 of the Act on Trading in Financial Instruments (unauthorized trading in broker-traded financial instruments),
- Article 38 of the Act on Bonds (issuing bonds without meeting the conditions specified in the Act),
- Article 77 of the Accounting Act (keeping books of accounts in breach of the rules provided for the Act, developing the financial statements in breach of the provisions of the Act),
- Article 225 of the Act on Insurance Activity (unauthorised insurance operations),
- Article 286 of the Criminal Code Act (fraud),
- Article 296 § 1 and § 2 of the Criminal Code Act (abuse of rights, failure to discharge duties),
- Article 297 § 2 of the Criminal Code Act (loan obtainment under false pretences),
- Article 302 of the Criminal Code Act (repayment or collateralisation of certain lenders only),
- Article 47(1) of the Act on Insurance Intermediation (unauthorised agency operations and unauthorised use of the name),

## CONVICTIONS AND CONDITIONAL DISCONTINUATION OF PROCEEDINGS

In 2013, common courts issued 11 convictions in cases brought under the PFSA Office's notifications of a justified suspicion of an offence under the following acts:

- Act on Trading in Financial Instruments - 9 convictions,
- Banking Law Act - 1 conviction,
- Accounting Act - 1 conviction.

Sentence passed by the District Court for Warszawa-Śródmieście in Warsaw on 11 January 2013 in the case under Article 183(1) of the Act on Trading in Financial Instruments. The Court sentenced the defendant to a fine of PLN 50,000 (the sentence is final). The notification was submitted on 17 September 2009.

Sentence passed by the District Court for Warszawa-Śródmieście in Warsaw on 19 March 2013 in the case under Article 183(1) of the Act on Trading in Financial Instruments. The Court sentenced the defendant to a fine of PLN 10,000 (the sentence is not final). The notification was submitted on 2 October 2003.

Sentence passed by the District Court for Warszawa-Śródmieście in Warsaw on 17 May 2013 in the case under Article 181 of the Act on Trading in Financial Instruments. The defendant submitted voluntarily to a fine of PLN 40,000. In addition, the court ruled forfeiture of proceeds derived from crime in the amount of PLN 7,000 (the sentence is final). The notification was submitted on 28 December 2011.

Sentence passed by the District Court for Warszawa-Śródmieście in Warsaw on 24 May 2013 in the case under Article 183(1) of the Act on Trading in Financial Instruments. The District Court sentenced the defendant to a fine of PLN 3,600 (the sentence is final). The notification was submitted on 17 September 2009.

Sentence passed by the District Court for Szczecin Centrum in Szczecin on 12 June 2013 in the case under Article 183(1) and Article 178 of the Act on Trading in Financial Instruments. The Court sentenced three defendants to a fine of PLN 5,000 and one defendant to a fine of PLN 7,000. In addition, the court ruled against two defendants forfeiture of proceeds derived from a crime in the amount of PLN 11,000 and PLN 34,995 (the sentence is not final). The notification was submitted on 26 July 2004.

Sentence passed by the District Court for Warszawa-Śródmieście in Warsaw on 4 September 2013 in the case under Article 183(1) of the Act on Trading in Financial Instruments. The defendant submitted themselves voluntarily to a fine of PLN 8,000 (the sentence is final). The notification was submitted on 31 August 2006.

Sentence passed by the District Court in Łańcut on 13 June 2013 in the case under Article 77 of the Accounting Act. The Court conditionally dismissed the criminal proceedings for two years' probation and required the defendants to pay an allowance of PLN 3,000 and PLN 1,000 (the sentence is final). The notification was submitted on 14 July 2010.

Sentence passed by the District Court in Dzierżoniów on 25 July 2013 in the case under Article 171(1) of the Banking Law Act. The Court sentenced the defendant to six years of imprisonment with execution suspended for two years' probation, and to a fine of PLN 500 (the sentence is final). The notification was submitted on 7 December 2012.

Sentence passed by the District Court for Warszawa-Śródmieście on 10 October 2013 in the case under Article 183 of the Act on Trading in Financial Instruments. The defendant submitted themselves voluntarily to a fine of PLN 5,000 (the sentence is final). The notification was submitted on 26 July 2007.

Sentence passed by the District Court for Warszawa-Śródmieście on 18 October 2013 in the case under Article 183 of the Act on Trading in Financial Instruments. The Court sentenced the defendant to a fine of PLN 5,000 (the sentence is not final). The notification was submitted on 24 October 2007.

Sentence passed by the District Court for Warszawa-Śródmieście on 29 October 2013 in the case under Article 183 of the Act on Trading in Financial Instruments. The Court sentenced the defendant to a fine of PLN 10,000 (the sentence is not final). The notification was submitted on 30 December 2008.

Details for the sentences being final or not were given as available as at 31 December 2013.

**Table 89. Convictions and conditional discontinuations, by type of offence, 2010-2013**

Detailed list	Number of convictions			
Legal grounds for conviction	2010	2011	2012	2013
Article 177 of the Act on public trading in securities / Article 183 of the Act on Trading in Financial Instruments (financial market manipulation)	5	5	4	8
Article 176(1) and (2) of the Act on public trading in securities / Article 180 and Article 181 of the Act on Trading in Financial Instruments (information disclosure and insider trading)	2	-	1	1
Other *	-	2	3	2
<b>Total</b>	<b>7</b>	<b>7</b>	<b>8</b>	<b>11</b>

Source: in-house materials by the PFSA Office

\* Legal grounds for conviction

- Article 178 of the Act on Trading in Financial Instruments (unauthorized trading in broker-traded financial instruments),
- Article 100 of the Act on Public Offering (misrepresentation and concealment of facts in a prospectus),
- Article 296 of the Criminal Code (abuse of rights or failure to discharge the duty by the person obligated to handle property-related affairs or the business conducted by a natural person),
- Article 171(1) of the Banking Law Act (unauthorised banking operations),
- Article 77 of the Accounting Act (keeping books of accounts in breach of the rules provided for the Act, developing the financial statements in breach of the provisions of the Act).

## POWERS EXERCISED IN CRIMINAL PROCEEDINGS

In exercise of the PFSA's powers, attorneys duly authorised by the Chairman of the PFSA act as plaintiff's attorneys or as proxies for auxiliary prosecutors in criminal proceedings.

In 2013, attorneys duly authorised by the Chairman of the PFSA acted as plaintiff's attorneys during preliminary investigation proceedings in 80 cases, and as proxies for auxiliary prosecutors during court proceedings in 24 cases.

The attorneys also lodged 22 appeals against the decisions of the Public Prosecutor's Office concerning refusal to start or discontinuation of preliminary investigation proceedings.

**Table 90. Number of instances of attorneys duly authorised by the Chairman of the PFSA in criminal proceedings, 2010-2013**

Detailed list	2010	2011	2012	2013
Acting as plaintiff's attorney	35	65	77	80
Acting as proxy for auxiliary prosecutor	15	15	26	24
<b>Total</b>	<b>50</b>	<b>80</b>	<b>103</b>	<b>104</b>

Source: in-house materials by the PFSA Office

## POWERS EXERCISED IN CIVIL PROCEEDINGS

In civil cases arising from the relationships involving participation in trading on the financial market or relating to the entities operating in that market, Chairman of the PFSA may act in the capacity of the public prosecutor set out in Article 60 of the Code of Civil Procedure, among other laws.

In 2013, the Chairman of the PFSA exercised the powers of the public prosecutor in civil proceedings once.

## 7.2. PARTICIPATION IN LEGISLATIVE PROCEEDINGS

The statutory tasks of the PFSA include participation in drafting laws regulating supervision of the financial market. In this process, the PFSA Office acts as an advisor and gives opinions to authorities and agencies that, under separate legal regulations, initiate and conduct legislative work. The PFSA's activity includes in particular co-operation with the Minister of Finance and the Minister of Labour and Social Policy. In 2013, experts of the PFSA Office were involved in drafting and advising on several dozen of proposals of legal acts. This Chapter outlines the most important legislative work in which the PFSA Office participated. See Annex 4 for the list of regulations and proposals of regulations that the PFSA Office advised on in 2013.

### ACTS AND PROPOSALS OF ACTS

- 1) *Act of 11 October 2013 concerning mutual assistance for the recovery of taxes, duties and other monetary receivables (Dz.U. of 2013, item 1289).* The Act implementing Council Directive 2010/24/EU of 16 March 2010 concerning mutual assistance for the recovery of claims relating to taxes, duties and other measures (OJ L 84/1, 31.3.2010). The comments were submitted in July 2013 (with reference to the administrative enforcement authority, it significantly broadens the scope of information that the authority may require from financial institutions, which was challenged by the PFSA without success).
- 2) *Act of 26 July 2013 amending the Energy Law Act and certain other acts (Dz.U. of 2013, item 984).* The objective of the work was to implement into the national law the provisions of the so-called Third Energy Package. The PFSA questioned amendments to the Act of 26 October 2000 on commodity exchanges (Dz.U. of 2010, No 48, item 284, as amended). The PFSA's proposals have been granted.

- 3) *Act of 8 March 2013 amending the Act on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies, and certain other acts (Dz.U. of 2013, item 433).* The purpose of the amendments was to implement the Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010 amending the Directives 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading and 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (OJ L 327/1, 11.10.2010). Moreover, the objective was to specify more precisely certain provisions of the Act on Public Offering, which implemented the provisions of Directive 2003/71/EC. In addition, certain provisions that are closely related to making public offering and the prospectus approval procedure, as referred to in the afore-referred Directives, were specified more precisely.
- 4) *Proposal for an Act amending the Act on Trading in Financial Instruments and certain other acts.* The work is related to the alignment of the Polish system to the provisions of Regulation No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps (OJ L 86/1, 24.3.2012) and Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties (CCPs) and trade repositories (TRs) (EMIR) (OJ L 221/1, 27.7.2012). Until the end of 2013, the proposal was subject to inter-departmental consultations.
- 5) *Proposal for an Act amending the Banking Law Act, the Act on Trading in Financial Instruments and certain other acts.* The work related to adjusting the Polish system to Regulation of the European Parliament and of the Council (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176/1, 27.6.2013) and implementation of Directive of the European Parliament and of the Council 2013/36/EC of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC. Until the end of 2013, the proposal of the act was the subject of work in Ministry of Finance.
- 6) *Proposal for an Act amending acts governing the conditions of access to practice certain professions.* The so-called deregulation of the securities broker and the investment adviser professions, abolishing restrictions for the commodity exchange broker profession, changing the concept of the investment firm's agent profession - the PFSA's demands were partially taken into account. Until the end of 2013, the proposal was subject to inter-departmental consultations.
- 7) *Proposal for an Act amending the Act on the supplementary supervision of credit institutions, insurance undertakings, reinsurance undertakings and investment firms in a financial conglomerate, and certain other acts.* The changes made to the proposal of the Act result from the need to implement into the Polish legal system of the provisions of Directive 2011/89/EU of the European Parliament and of the Council of 16 November 2011 amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate (OJ L 326/113, 8.12.2011) The proposed amendment to the Act is designed to adjust the following definitions to the modified Community provisions: a financial conglomerate, a parent undertaking, a subsidiary undertaking and supplementary supervision. One of the amendments is the inclusion of alternative investment fund managers in the supplementary supervision. The new provisions will be more flexible in terms of the parameters used for supervisory purposes, for imposing, limiting and revoking the supervision, as well as the coordination and cooperation of supervisors. Except for the amendments to the Act on the supplementary supervision, the proposal also provides, although to a lesser extent, for amendments to the Banking Law Act, the Act on Trading in Financial Instruments and the Act on Insurance Activity. The expression "podmiot stojący na czele grupy" ("an entity at the head of the group") raised doubts of the PFSA (the issue was explained in the framework of a legal committee). In 2013, the work of

the Council of Ministers on the proposal was completed and the proposal was referred to the Sejm.

- 8) *Proposal for an Act on Bonds.* The changes are aimed primarily at supporting the development of the market of long-term non-Treasury debt instruments. In addition, after more than a decade from the entry into force of the amendment liberalizing the act on bonds, it was recognized that there is a need to adapt the national regulations to the regulations effective in the developed financial markets - to expand the range of institutions and instruments available to issuers). Until the end of 2013, the proposal was subject to inter-departmental consultations.
- 9) *The government's proposal for an Act amending certain acts in connection with defining the principles for the payments of pension from the funds accumulated in open-end pension funds.* In 2013, the work on the proposal of the Act that fundamentally changed the functioning of the pension market, primarily open-end pension funds, was initiated and completed. The proposal introduced the principle of voluntary participation in OFEs (it provides for a "transfer window" in which individuals will be able to decide whether to save money in OFEs or to resign from the participation in OFE), changed the rules of investing OFEs' assets, in particular OFEs were forbidden to invest in Treasury securities. As a result of the latter issue, OFEs were ordered to transfer 51.5% of their assets to the Social Insurance Institution (ZUS). The PFSA expressed its critical position on the proposal of the Act as regards its general principles (pointing to the risk of reducing the importance of the capital pillar of the pension security system), as well as individual legal solutions (e.g. the ban to advertise OFEs during the "transfer window").
- 10) *Proposal for an Act on facilitating access to practice certain regulated professions / Proposal for an Act on facilitating access to practice financial, construction and transportation jobs.* In relation to the insurance market, the proposal of the act provides for the removal of the requirement that insurance intermediaries should have at least secondary education. Moreover, with respect to insurance agents, the proposal of the act proposes a resignation from verifying the knowledge of candidates for insurance agents in the form of an examination conducted by an insurance undertaking, and in the case of actuaries and insurance brokers, the proposal provides for an option to replace the requirement of a professional qualifying examination with the requirement of suitable professional experience as well as of exemption from certain parts of the examination to the extent to which the relevant knowledge has been confirmed by examinations passed during studies. In 2013, the work of the Council of Ministers on the proposal was completed and the proposal was referred to the Sejm.
- 11) *MPs' proposal for an Act on Reverse Mortgage.* In 2013, a parliamentary legislative initiative was started on regulating a new financial product that in essence provides for the situation where a credit institution (a bank, a branch of a credit institution or a branch of a foreign bank) pays out some funds to the borrower in exchange for the title to his or her property after death. The parliamentary project essentially corresponds to the previously adopted government principles of a similar proposal of the act; as pointed by MPs-movers, their initiative is associated with insufficient progress of governmental work. The PFSA generally expressed a positive opinion on the project, which did not go beyond the Sejm's Public Finance Commission.
- 12) *Proposal for an Act amending the Act on corporate income tax, personal income tax and certain other acts.* The government proposal of the Act, in addition to numerous solutions unrelated to the financial market, contained, among other issues, a proposal to tax profits from the so-called investment policies (which have the form of protective life and endowment insurance, but actually function a savings and investment instrument). Due to doubts about the scope of the regulation and the wording of the provisions in this respect, the proposed solutions were excluded from the proposal of the act and covered by a separate procedure.
- 13) *Proposal for a Cooperative Law Act and a proposal of an Act on Cooperatives.* The two proposals of acts moved by MPs due to the absence of a modern systemic cooperative act and inconsistencies in the binding regulations regarding cooperatives, which supports criticism of cooperative form of management and has an impact on

irregularities in the functioning of such organizational structures. The PFSA's participation in the work on these proposals of acts results from the fact of participation of cooperative organizations in the financial market, which is supervised by the PFSA. The solutions adopted in the proposals of acts consists in the regulation of the operation of cooperatives that is as exhaustive as possible, by re-regulating the issues relating to the establishment, organization and operation of cooperatives: defining the rights and obligations of members of a cooperative, the principles of operation of its bodies, the management, inspections and organizational transformation and the activities of certain types of cooperatives. After the first reading at a session of the Sejm, the proposals of acts were referred to the extraordinary committee for examination of the proposals of acts on cooperative law.

- 14) *Proposal for an Act on Macro-prudential Supervision of the Financial System.* The introduction of the solutions planned in the proposal is necessary to implement the recommendations of the European Systemic Risk Board of 16 January 2012 on the macro-prudential mandate of national authorities. These solutions will strengthen the stability of the national financial system by reducing systemic risk by implementing in the Polish law a formal macro-prudential policy framework for the evaluation, monitoring and limiting the systemic risk of the national financial system, and establishing the Systemic Risk Board, which will be an authority responsible for the national macro-prudential supervision in relation to the national financial system. The proposal for an act was prepared after the consultative conference.
- 15) *Proposal for an Act amending the Act on the Bank Guarantee Fund, and amending certain other acts.* The amendment to the Act was to establish a new own fund - the stabilization fund in the Bank Guarantee Fund. The purpose of its creation, in line with the trends developed in the legislation of some EU Member States, was to transfer, from the public sector to financial market sectors, the burden of support extended to financial institutions struggling with problems. The Act was passed on 26 July 2013 (Dz.U. No 1012).
- 16) *Proposal for an Act on the Bank Guarantee Fund, resolution of banks, and amending certain other acts.* The purpose of the Act is to create a legal framework for conducting the resolution of banks, investing the Bank Guarantee Fund with powers to conduct such proceedings, and to determine the sources of funding for these processes. The work was conducted at the same time as the work on BRRD (directive establishing a framework for the recovery and resolution of credit institutions and investment firms). After conducting four consultative conferences, the shape of the proposal began to diverge significantly from the solutions adopted in the proposal for BRRD. Therefore, following the PFSA's comments, it was considered appropriate to present a new proposal corresponding to the solutions proposed in the proposal for BRRD. The legislative process had not been finalised until the end of 2013.

## DRAFT GUIDELINES FOR PROPOSALS FOR ACTS

- 1) *Draft guidelines for the proposal for an Act on insurance and reinsurance activity.* In 2013, the work continued on the draft guidelines prepared by the Ministry of Finance for the proposal for an act aimed at implementing Directive 2009/138/EC introducing new principles of regulating the operation and solvency rules for insurance undertakings, based not only on quantitative criteria, but also on qualitative ones. By a decision of the Council of Ministers, the Ministry of Finance was obligated to agree on the final proposal with the PFSA, which, despite some progress in the work on the proposal in 2013, had not happened until the end of that year (in the meantime, the EU postponed the implementation date of Directive 2009/138/EC to 1 January 2016).
- 2) *Draft guidelines for the proposal for an act on alternative investment fund managers.* Implementation of Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives

2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EC) No 1095/2010 (OJ L 174/1, 1.7.2011). The legislative process had not been finalised until the end of 2013.

- 3) *Draft guidelines for the proposal for an Act on amending the Act on Financial Market Supervision, the Banking Law Act and certain other acts.* The objective of the work is to enhance the protection of the consumers using the services of financial institutions, through the introduction of, among other things, restrictions on the activity involving consumer lending, limiting the possibility of collecting undue fees, commissions and interest under consumer credit agreements, expanding the powers of the PFSA to conduct explanatory investigations in respect of all financial sector entities in the case of suspected unlicensed operations, strengthening criminal sanctions for unauthorised collection of funds of other persons to burden them with a risk. The PFSA raised the need to supplement the proposal with a prohibition on the financing of lending activity from the proceeds from bonds issued by the future lender, and with the regulatory changes relating to transactions in the Forex market, for example in relation to the provisions of the Act on Trading in Financial Instruments.). The legislative process had not been finalised until the end of 2013.
- 4) *Draft guidelines for the proposal for an Act on amending the Act on the National Bank of Poland and certain other acts.* The amendments are intended to revise the regulations on the National Bank of Poland and to adapt its activities to the situation of the financial market, including the following issues: the participation of the NBP in international organizations, the professional and public activity of members of the NBP's bodies, the regulation of the problem of transferring individual accounts operated by the NBP to other banks. The PFSA's comments concerned the need to specify in the draft guidelines more precisely the areas relating to the Act on Trading in Financial Instruments, which areas would be changed as a result of offering the NBP the ability to buy and sell debt securities, also outside open market operations.

## GUIDELINES

*The guidelines for regulating the life annuity institution in exchange for the transfer of the title to property.* In 2013, the Committee of the Council of Ministers held intensive consultations on the regulation of the instrument of life annuity in exchange for the transfer of property ownership, as part of draft guidelines for the proposal for an act on reverse mortgage. The Polish Financial Supervision Authority presented the view that in view of the financial security of customers, the activities in this area should be reserved exclusively for insurance undertakings due to the similar nature of risks (mainly the risk of the length of human life). The Council of Ministers assumed that life annuities would be offered by entities that meet the conditions set out in the proposal. By the end of 2013, no proposal for an act had been prepared based on the guidelines, for referral to the Sejm.

## 7.3. INTERNATIONAL CO-OPERATION

Activity of the PFSA Office on the international arena is steered by the specificity of the Polish financial sector (dominated by entities belonging to international groups) and the dynamics of global and EU regulatory processes. Co-operation with financial supervision bodies from other countries - both bilateral and through sitting on colleges of supervisors - directly contributes to execution of supervisory goals. By dint of active participation in the works of the European Supervision Authorities, the PFSA Office can exert influence on regulatory and supervisory processes initiated throughout the EU. In the case of many legislative projects, the PFSA Office does not limit its activities to this field, but it also co-operates with the Polish government and the EU institutions to force through the solutions that are most instrumental to the safety of the Polish financial sector.

## CO-OPERATION WITH SUPERVISORY AUTHORITIES FROM OTHER COUNTRIES

### Colleges of supervisors

Co-operation with supervisory authorities from other countries is a crucial element of the PFSA Office's activity. The colleges of supervisors are the primary ground for such co-operation.

In 2013, the PFSA Office participated in 13 colleges of supervisors for cross border banking groups as well as in 5 crisis management groups and 1 cross border stability group. The goal of the above-referred colleges and groups is to coordinate supervisory actions taken towards banking groups, with preparations for potential anti-crisis measures included. As part of the colleges of supervisors, consultations were conducted with foreign supervisors, concerning joint assessment of risk and capital adequacy (Joint Risk Assessment and Decision Process) and the use of advanced methods for the purposes of calculating capital requirements (decisions on AMA and IRB). The anti-crisis groups focused mainly on formalizing their activities and implementing the recommendations of the FSB, including the preparation of recovery plans for the largest banking groups. Except for supervisors, also other authorities responsible for financial stability, especially ministries of finance and central banks, were involved in this work.

In the period covered by the report, the PFSA Office also participated in the work of 20 international colleges of supervisors for insurance groups. As part of the cooperation in colleges, representatives of the PFSA Office participated in meetings aimed at sharing information and experience by the regulators overseeing the insurance undertakings belonging to insurance groups and evaluating the financial standing of groups and the manner in which they conduct their activities. At the meetings of the colleges of supervisors, the status of preparation of individual groups and companies being their members for implementation of the Solvency II system and internal models-related topics were discussed as well. In addition, the PFSA Office performed the tasks associated with performing the function of a group supervisory authority for the PZU Group. Representatives of the PFSA Office also attended the meetings of colleges of supervisors and study visits (conducted as part of the work of colleges) dedicated to internal models and pre-application processes underway for 7 foreign insurance groups. During the said meetings, we strived to take into account the specific nature of Polish companies in group internal models of foreign insurance groups.

### Bilateral co-operation

The PFSA Office is engaged in ongoing co-operation with other supervisors. Bilateral relationships cover sharing supervisory information as well as opinions and experience and are fostered both on the working and executive levels. In 2013, the Chairman of the PFSA, accompanied by other Office representatives, held a series of meetings with heads of financial supervision authorities in the home states of most significance for Poland: France, Spain, Italy and Germany. During the meetings, first and foremost, topics from the following two blocks were discussed: various aspects of intragroup relationships (between Polish banks and their foreign owners) and European regulations-related issues.

Bilateral co-operation is facilitated by agreements on co-operation and information exchange, which the PFSA has already concluded with the regulators from 28 jurisdictions (besides the multilateral agreements under IOSCO and IAIS). In 2013, such agreements were signed with the Ukrainian National Commission for the State Regulation of Financial Services Markets and with the Securities and Commodities Authority of the United Arab Emirates.

## PARTICIPATION IN THE EUROPEAN SYSTEM OF FINANCIAL SUPERVISION

The goal of the European System of Financial Supervision that has been in place for three years now is to enhance financial supervision throughout the European Union. The system is underpinned by three central authorities: the European Banking Authority (or EBA), the European Insurance and Occupational Pensions Authority (or EIOPA) and the European Securities and Markets Authority (or ESMA). The EBA, the EIOPA and the ESMA promote convergence of supervisory practices within the EU, develop technical standards and guidelines supplementary to EU regulations, and facilitate exercise of supervision of cross border finance groups. Further, the European Systemic Risk Board (or ESRB) deals with macro supervision of the financial system. Although these are the EU institutions, their executive bodies are composed of representatives of supervisory authorities from the Member States. By their activity on the forum of EBA, EIOPA, ESMA and ESRB, the representatives of the PFSA Office want these institutions to become a useful complement to national authorities rather than bureaucratic entities detached from financial markets' reality. In 2013, the review of the functioning of the European System of Financial Supervision started, and in 2014 legislative proposals from the European Commission are expected.

### European Banking Authority (EBA)

The European Banking Authority performs a wide array of tasks relating to the banking sector, payment and electronic money institutions, corporate governance, audit and financial reporting.

In 2013, the PFSA Office representatives were present at each meeting of the Board of Supervisors, the principal decision-making body of the EBA. They also participated in decision-making procedures carried through written voting. At the meeting of the Board of Supervisors on 1-2 July 2013, a representative of the PFSA Office was elected for a 2.5-year term of office on the Management Board of the EBA.

Representatives of the PFSA Office participated in the works of EBA Committees, working teams and groups involving assessment of risks and threats for the banking sector in the EU, assessment of quality of bank operation models, cross border operations of the electronic money institutions and payment institutions, register of credit institutions, customer protection, money laundering, liquidity monitoring, capital requirements, audit, reporting and supervisory assessment practice applied.

Due to the finalization of the work on the so-called CRD IV / CRR package that contained a number of mandates to the EBA to develop binding technical standards (BTS), including regulatory technical standards (RTS) and implementing technical standards (ITS), as well as EBA guidelines, the most important activities carried out by the EBA in 2013 included mainly the preparation of the delegated acts under the CRD IV / CRR package. In addition, under CRD IV / CRR, uniform international and national reporting requirements entered into force on 1 January 2014 to eliminate differences in the reporting items list as well as in the format of reports. It should be noted that the European Banking Authority was required to establish uniform standards in the above-mentioned respect, i.e. the XBRL standard, which allows entities to increase the accuracy of the data reported before the relevant reports are sent to the supervisory authority. In connection with the necessity of proper implementation and of subsequent ongoing monitoring of the operation of the new XBRL standard, on the initiative of the PFSA Office an XBRL training seminar was held in Warsaw on 1-2 October 2013. The seminar was organized in cooperation with the EBA. It should be noted that the above-mentioned seminar was the largest seminar organized within the framework of the European Supervisory Authorities in 2013.

As a result of the completion of negotiations of the legislative proposal of the European Commission on the EU framework for the recovery and resolution of credit institutions and investment firms, EBA was required to intensify work on developing numerous technical standards and guidelines resulting from the request of the European Commission.

The current work of EBA in 2013 also covered the preparation of guidelines, opinions and analyses on, among other things, the supervisory assessment and corporate governance, the preparations to carry out in 2014 a further stress test and monitoring the stability of the banking sector in the EU. In 2014, works will continue on developing a single rule book, increasing convergence of supervisory practices and enhancing consumer protection, in order to arrive at equal competition conditions for financial institutions and improve the quality of regulations of the financial sector as well as the overall functioning of the single market.

### European Insurance and Occupational Pensions Authority (EIOPA)

A substantial part of the PFSA Office's activities within the work of the EIOPA in 2013 related to Solvency II, and notably to development of draft technical standards and supervisory guidelines accompanying the Solvency II Directive<sup>38</sup>, the so-called level 3 legislation. Representatives of the PFSA Office coordinated the preparation of draft documents related to: determining the base risk-free interest rate based on government bonds and credit risk adjustment of government bonds, certain modules of the standard formula of the capital solvency requirement, methods of integrating the results of a partial internal model with the results of the standard formula. The PFSA Office's representatives contributed significantly to the preparation of other draft documents (including a template agreement on the cooperation under the college of supervisors, the XBRL taxonomy for reporting to supervisors). They also participated in the development of EIOPA guidelines on preparing for Solvency II, for example, they coordinated public consultations on the risk management system.

A significant event in 2013 was also the participation of the PFSA Office in conducting a study on insurance products with long-term guarantees (Long-Term Guarantees Assessment, LTGA) for the purposes of negotiating Omnibus II Directive<sup>39</sup> (described in more detail in chapter 4). In addition, the PFSA Office joined in the work of the newly created EIOPA Solvency II sub-groups: the group solvency subgroup (develops the relevant guidelines) and the supervisory review process subgroup (developing a guide for the surveillance, which is a set of good practices). Due to their highly valued commitment to the work on the Solvency II system, the representatives of the PFSA Office were invited by EIOPA as speakers to the seminars conducted for European supervisors. In 2013, they spoke at seminars on the Solvency Capital Requirement standard formula, on the insurance group solvency and assessment of internal models.

Other significant activities include participation of the PFSA Office's representatives in the preparation of principles for European stress tests for the insurance sector, which will be conducted in 2014. The PFSA Office was also involved in conducting EIOPA peer reviews relating to: the pre-application process for internal models of insurance groups, the functioning of colleges of supervisors of insurance groups, exercising the supervision of branches of insurance undertakings established in the Member States of the European Economic Area and the terms of operation of occupational pension schemes. In addition, representatives of the PFSA Office participated in the development of guidelines on the handling of complaints by insurance intermediaries.

On 13 June 2013, a 2.5-year term of office of a representative of the PFSA Office on the Management Board of EIOPA ended. At the same time, a representative of the PFSA Office

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<sup>38</sup>Directive of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 335, 17.12.2009, p. 1, as amended.

<sup>39</sup>Proposal for a Directive of the European Parliament and of the Council amending Directives 2003/71/EC and 2009/138/EC in respect of the powers of the EIOPA and ESMA, document No 16330/13 (version of 27 November 2013, available on the Public Register of Documents of the Council: [www.consilium.europa.eu](http://www.consilium.europa.eu) - Documents - Public Register).

was elected Chairperson of EIOPA's Review Panel, which is investigating national regulations of Member States and the practices of their application in relation to the insurance and pension sector.

### European Securities and Markets Authority (ESMA)

Representatives of the PFSA Office participated in the work of ESMA's Board of Supervisors, nine Standing Committees and twelve working groups and task forces. The effects of the work of these bodies comprise mainly development of draft implementing technical standards, regulatory technical standards, advice to the European Commission, recommendations and guidelines. In terms of guidelines, the year 2013 was very fruitful. The Investor Protection and Intermediaries Standing Committee prepared "Guidelines on remuneration policies and practices (MiFID)". The Market Integrity Standing Committee developed guidelines on exemption for market making activities and primary market operations under the Regulation on short selling and certain aspects of credit default swaps, and in connection with the work carried out in relation to EMIR - "Guidelines and recommendations regarding writing agreements between members of CCP colleges" were issued. In relation to the investment management, the following documents were published: "Guidelines on sound remuneration policies under the AIFMD", "Guidelines on key concepts of the AIFMD" and "Guidelines on ETFs and other UCITS issues".

Additionally, the Task Force on the Legal Framework for Cooperation Arrangements and Information Exchange between Competent Authorities and ESMA developed "Guidelines on cooperation arrangements and information exchange between competent authorities and between competent authorities and ESMA", according to which the members of ESMA undertake to co-operate and exchange information based on the Multilateral Memorandum of Understanding annexed to the Guidelines. These guidelines will come into effect in 2014 and will enable the PFSA Office a secure exchange, with other national supervisors, of information relating to capital market.

The aim of developing the guidelines is to establish consistent, efficient and effective supervisory practices within the European System of Financial Supervision, and to ensure a common and uniform application of the EU law by all supervisors in Member States. By taking part in creating these guidelines by working in the mentioned standing committees and task forces, the employees of the PFSA Office contributed to the development of guidelines corresponding to the rules prevailing in the domestic market, which in turn enabled the PFSA Office to confirm that the Office will adhere to the requirements contained therein.

### European Systemic Risk Board (ESRB)

Representatives of the PFSA Office participated in meetings of the European Systemic Risk Board General Board (the primary decision-taking body of the ESRB), during which discussions were held on the most important risk areas for the stability of the financial system in the European Union. One of the important topics was implementing macro-prudential supervision instruments in the European Union and the Board decided to issue a recommendation on intermediate objectives and instruments of macro-prudential policy (Recommendation ESRB/2013/1).

The General Board approved the report on the implementation by the EU Member States of the ESRB Recommendation of 21 September 2011 on lending in foreign currencies. Out of the 27 assessed Member States, Poland was among 12 countries that in the opinion of the ESRB were fully compliant with the provisions of the Recommendation.

Representatives of the PFSA Office participated in meetings of the ESRB Advisory Technical Committee (or ATC) working on identification and assessment of the materiality of systemic risks (a quarterly analysis). The PFSA Office's delegates also participated in the meetings of specialized sub-groups of ATC, i.e.: Stress Testing Expert Group, Sovereign Debt Expert Group and Instruments Working Group.

## PARTICIPATION IN REGULATORY REFORMS IN THE EU

2013 was another year of post-crisis restructuring of the financial sector regulations in the European Union. After four years of work, the legislation making up the CRD IV / CRR package was finally adopted. Intensive negotiations on the banking union project continued. The work on the MiFID, EMIR and MAR regimes reached the final phase. The final versions of the Omnibus II<sup>40</sup> and Quick-Fix II<sup>41</sup> directives, which modified the Solvency II Directive<sup>42</sup>, were agreed on. When participating in the EU regulatory processes, the PFSA Office strived to present such opinions and formulate such proposals as may best express the interests of Poland.

### CRD IV package

2013 brought decisive resolutions in the work on the new Capital Requirements Directive (CRD IV) and the accompanying regulation (CRR)<sup>43</sup>. Both legal acts came into force on 17 July 2013, but the majority of their provisions became effective on 1 January 2014. The solutions contained in the CRD IV/CRR package transpose the Basel III regulations into the EU framework. In 2013, the PFSA Office worked on the above regulations in two parallel streams. In the former, opinions to the documents presented by EU institutions (the Council, the Commission and the Parliament) were drafted for the Ministry of Finance. In the latter, the PFSA Office was active at the level of the European Banking Authority, where it participated in drafting binding technical standards that today constitute secondary legislation to the CRD IV/CRR package regulations. Both of these lines of action were relevant for the final shape of the regulations and will affect the future regulatory practice concerning capital and liquidity requirements as well as the actual management of credit institutions. The objective of the PFSA Office was to promote solutions reinforcing the stability of the banking sector both locally and on the European level. Hence, the PFSA Office postulated that the Member States retain the tools allowing for imposition of more stringent prudential requirements on credit institutions, and also the capacity to enforce maintenance of adequate capital base and satisfaction of liquidity norms by them.

### Banking union

In H2 2012, a proposal to establish a so-called banking union was floated in the EU. The concept was formulated as a response to the crisis that affected banking sectors of several euro area countries. Insufficient supervision of the banking sector in certain states, too varied regulations and supervisory approaches jurisdiction by jurisdiction as well as too strong ties of the banking sector with the local politics are seen as some of the crisis root causes. According to the target concept, the banking union is to be based on three pillars: a single supervision exercised by the European Central Bank, single European regulations on the recovery and resolution of credit institutions, and a uniform deposit guarantee scheme.

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<sup>40</sup>Proposal for a Directive of the European Parliament and of the Council amending Directives 2003/71/EC and 2009/138/EC in respect of the powers of the EIOPA and ESMA, document No 16330/13 (version of 27 November 2013, available on the Public Register of Documents of the Council: [www.consilium.europa.eu](http://www.consilium.europa.eu) - Documents - Public Register)

<sup>41</sup>Directive 2013/58/EU of the European Parliament and of the Council of 11 December 2013 amending Directive 2009/138/EC (Solvency II) as regards the date for its transposition and the date of its application, and the date of repeal of certain Directives (Solvency I), OJ L, 18.12.2013, p. 1.

<sup>42</sup>Directive of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 335, 17.12.2009, p. 1, as amended.

<sup>43</sup>Directive of the European Parliament and of the Council 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

In December 2012, the creation of the banking union's first element was agreed on, namely the Single Supervisory Mechanism (SSM). The relevant provisions<sup>44</sup> were published in October 2013, and the operation of SSM is expected to begin in November 2014. The work on the second pillar of the banking union resulted in the presentation by the European Commission in July 2013 of a proposal to create a Single Resolution Mechanism (SRM)<sup>45</sup>. SRM will be a Eurozone structure responsible for the application of the provisions resulting from the Bank Recovery and Resolution Directive, as well as for managing a single resolution fund. The PFSA Office was actively involved in supporting the Ministry of Finance in each stage of the negotiations on the EU forum. The position of the Council of the European Union on a single recovery and resolution mechanism was adopted in December 2013, and then a trilogue with the European Parliament began.

The positions and opinions plus the modifications to the proposed solutions, as developed by the PFSA Office, were to ensure the best possible terms of co-operation with the newly created supervision and resolution structures for the countries outside the euro area. Additionally, the PFSA Office endorsed all changes that offered Member States a possibility to impose more stringent prudential requirements and thus address challenges to stability of the banking sector.

In parallel to the work on the above-mentioned two pillars of the banking union, the work on integration of deposit guarantee schemes continued and the PFSA Office was involved in it to a similar extent as in the case of other projects. However, EU-level arrangements concerning deposit guarantee schemes are still very little advanced.

### Bank Recovery and Resolution Directive

In 2012, the European Commission published the text of a legislative proposal concerning recovery and resolution of credit institutions and investment firms (the so-called Bank Recovery and Resolution Directive or BRRD)<sup>46</sup>. The purpose of the document is to establish the framework for overcoming crisis occurring in the above entities in such a manner as to minimise the adverse impact on the financial system and reducing the potential costs incurred in that case by taxpayers. 2013 was a year of intensive work on the directive, which ended in December in reaching an agreement under a trilogue between the Commission, the Council and the European Parliament. The PFSA Office cooperated closely with the Ministry of Finance, which held negotiations, by preparing numerous opinions to subsequent compromise versions of proposals of the directive. PFSA Office employees also participated in the crisis management-related works of the European Banking Authority. The result of this work was, first of all, the preparation of initial proposals of delegated acts to the Directive, some of which have already been subject to public consultations.

### Solvency II - Omnibus II and Quick-Fix II Directives

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<sup>44</sup> Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, and Regulation (EU) No 1022/2013 of the European Parliament and of the Council of 22 October 2013 amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority) as regards the conferral of specific tasks on the European Central Bank pursuant to Council Regulation (EU) No 1024/2013.

<sup>45</sup> Proposal for a Regulation of the European Parliament and of the Council establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Bank Resolution Fund and amending Regulation (EU) No 1093/2010 of the European Parliament and of the Council /\* COM/2013/0520 final - 2013/0253 (COD).

<sup>46</sup> Proposal for a Directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directives 77/91/EEC and 82/891/EC, Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC and 2011/35/EC and Regulation (EU) No 1093/2010 [COM(2012)0280 final]

Participation in tripartite negotiations (the so-called trilogue) of the Omnibus II Directive was one of the priority tasks of the PFSA Office in the Solvency II project in 2013. The Office recognized the need to include in the Directive the solutions for reducing the inefficiencies of short-term market valuation that could be used by domestic insurance sector entities. This ineffectiveness may cause an undesirable effect called artificial volatility of balance sheet items of insurance undertakings.

The text of the Directive, which was agreed in November 2013, gives the insurance sector entities the possibility to apply a matching adjustment, which in - the opinion of the PFSA Office - is very important in this context. In addition, as a result of the demands of the PFSA Office, one of the conditions of the matching adjustment's applicability was modified so that the absence of the category "separate fund" in national accounting regulations relating to insurance or reinsurance undertakings was not an obstacle to the adjustment's application by these entities. Other solutions under the so-called LTG package (*Long-Term Guarantees*), which were contained in the agreed version of the Directive, included volatility adjustment and transitional provisions relating to the amount of base risk-free interest rate and the amount of technical provisions.

The adoption of the Quick-Fix II Directive<sup>47</sup>, whose proposal was presented by the European Commission in October 2013, ended an almost two-year period of uncertainty as to the timetable for the implementation of the Solvency II system in the European Union. The directive provides for new time limits for the application of the provisions of the Solvency II Directive (1 January 2016) and for their transposition into the national law (31 March 2015). In the opinion of the PFSA Office, the new time limits are demanding but realistic in the current conditions. The provisions on supervisory authorities' decisions on the application of internal models, determining own funds, group supervision etc. are to be subject to earlier application (from 1 April 2015). In practice, their application will require a prior issue of the European and national regulations that will specify more precisely or transpose the provisions of the Solvency II directive.

### Proposals of capital market regulations

In 2013, representatives of the PFSA Office provided opinions on the proposals of amendments introduced to the MiFID<sup>48</sup>. The culmination of the work in this area is the agreement of the European Parliament and of the Council on MiFID II, which was reached at the beginning of 2014 (on 14 January 2014). The new regulations significantly increase the security of the European financial market by focusing the attention on the protection of investors. In addition, MiFID II also provides for a supplementation of provisions on the cooperation between the national authorities supervising the compliance with MiFID. Considerable attention of the PFSA Office was also absorbed by consultations focused on EMIR<sup>49</sup>, and especially on its provisions on the financing of trade repositories. The work also focused on the problems associated with the Regulation being implemented as well as ambiguities, for example the issue of allocating LEI (*Legal Entity Identifier*) numbers, without which the conclusion of transactions on OTC derivatives is to be prohibited in the future. In 2013, the work was undertaken on the proposals of the Irish Presidency in relation to the so-called Transparency Directive<sup>50</sup> responsible, among other things, for the harmonization of legislation on quarterly reports and interim reports of the Management Board.

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<sup>47</sup> Directive 2013/58/EU of the European Parliament and of the Council of 11 December 2013 amending Directive 2009/138/EC (Solvency II) as regards the date for its transposition and the date of its application, and the date of repeal of certain Directives (Solvency I), OJ L, 18.12.2013, p. 1.

<sup>48</sup> Directive 2004/39/CE on markets in financial instruments.

<sup>49</sup> Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties (CCPs) and trade repositories (TRs) (EMIR)

<sup>50</sup> Directive 2004/109/CE on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC

Representatives of the PFSA Office also participated in consultations on the Regulation of the European Parliament and of the Council on insider dealing and market manipulation (Market Abuse Regulation, MAR). The work focused on the list of supervisors' powers for efficient execution of their duties related to the prosecution of capital market offenses. On 20 June 2013, a political trilogue was held with the participation of all representatives of EU institutions, during which a compromise version of MAR<sup>51</sup> was agreed. In relation to the above-mentioned proposals, the PFSA Office's actions constituted substantive support to the Ministry of Finance, which represents the Polish government in the EU inter-institutional negotiations. In other matters related to the processes taking place in the capital market, the Office was presenting its individual position during the public consultations conducted by the European Commission (e.g. crowdfunding).

In September 2013, the European Commission presented a proposal of a regulation on money market funds. The proposal is the outcome of a long discussion on the role of such funds during the financial crisis. The discussion was held in the Financial Stability Board, the IOSCO and the ESRB. In the opinion presented for the purpose of developing the position of the government of the Republic of Poland, the PFSA Office pointed out that the European Commission's proposal responds to threats that in practice are characteristic for only some EU Member States. As a rule, the proposal deserves initial support, however due to its failure to recognize the specific nature of the investment fund sector in the new EU countries it may also generate a number of risks. In the opinion of the PFSA Office, Poland's support for the initiative should depend primarily on the possibility to give the proposal the form of a directive rather than a regulation (which will ensure the necessary degree of flexibility and consistency with national regulations), as well as on ensuring that its adoption will not mean the necessity to automatically authorise money market funds to operate in the CNAV formula, i.e. a constant/guaranteed net asset value per unit of the fund.

In October 2013, the European Commission presented a proposal of a regulation on indices used as benchmarks in financial instruments and financial contracts<sup>52</sup>. In this way, the Commission entered another area previously reserved for EU Member States, some of which, following the LIBOR scandal, had already taken steps to regulate the interbank market indices. The PFSA Office, at the request of the Ministry of Finance, presented its opinion on the proposed legislation and participated in the work of ESMA special task force.

### Building Coalitions with Regulators from Host States (CEE Forum)

To leverage its positions in the negotiations concerning the regulatory initiatives discussed hereinabove, the PFSA Office co-operates with partners having a similar vision of the regulatory and supervisory architecture within the European Union. These are, first and foremost, the financial supervision bodies from "new" EU Member States. The CEE Forum - an informal forum of regulators from ten Central and Eastern Europe states established in 2010 upon the initiative of the PFSA Office - is the most important ground for co-operation. Its primary objective is to bring closer the positions of members towards proposals of the EU regulations so as to secure as far as possible the interest of host states.

In 2013, there were two high level meetings of the CEE Forum held. At the February meeting in Budapest, the discussions focused on the ways to neutralize the risks associated with the activities of systemically important branches of foreign banks, and the status of the work on the CRD IV package. During the meeting, opinions were also exchanged on EIOPA guidelines on early implementation of elements of Solvency II. The October meeting in Ljubljana was primarily devoted to an exchange of views and information on the progress of the banking union project.

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<sup>51</sup> [http://ec.europa.eu/internal\\_market/securities/abuse/index\\_en.htm](http://ec.europa.eu/internal_market/securities/abuse/index_en.htm)

<sup>52</sup> COM(2013) 641 final

Consultations were also conducted at the working level within the CEE Forum, which concerned, for example, presenting common candidates for the management boards of the EBA and EIOPA (the host countries managed to fill one position at both institutions).

## CO-OPERATION WITH INTERNATIONAL ORGANISATIONS

### International Association of Insurance Supervisors (IAIS)

As part of the membership in the Association, the PFSA Office engages first and foremost in the activities of the Technical Committee, the Financial Stability Committee and the Implementation Committee. In addition, the Office is involved in the work of the Insurance Groups and Cross-Sectoral Issues Subcommittee.

In the past year, representatives of the PFSA Office engaged in the following areas of the work conducted in the Association: the common framework for the supervision of cross-border insurance groups; the review of the Insurance Core Principles to the extent concerning group supervision; a document on the supervision of cross-border insurance activities conducted through a branch; rules for supervision of Global Systemically Important Insurers (G-SII).

Under the IAIS, the PFSA Office acts as the regional coordinator for Central and Eastern Europe and Transcaucasia. The tasks of the coordinator include analysis of training needs, coordination of relevant initiatives, and propagation of basic insurance principles in the countries that have not joined the IAIS yet.

### International Organisation of Securities Commissions (IOSCO)

In 2013, representatives of the PFSA Office participated in works of 9 standing committees and working groups of the IOSCO.

While participating in the Screening Group, a representative of the PFSA Office engaged in the work on the development of a new version of the Multilateral Memorandum of Understanding (or MMoU)). The work started in autumn 2013 will continue for the next two years, and it should end in an agreement providing for an exchange of information to a considerably wider extent than the currently applicable version of MMoU. In addition, an employee of the PFSA Office, as a representative of the IOSCO, continued involvement in the Financial Action Task Force (FATF), i.e. the most important international body establishing standards on anti-money laundering and combating the financing of terrorism. The representative participated in developing a methodology for examining countries' compliance with the new FATF Recommendations.

### International Organisation of Pension Supervisors (IOPS)

In 2013, the Organization's work related primarily to the analysis of pension systems' costs in various countries and stress tests in defined contribution pension systems devoted to the modelling of pension schemes' investment risk. The PFSA Office was also involved in the IOPS work dedicated to establishing best practices for internal management of pension regulators and determining current supervisory practices for the systems with defined contribution and defined benefit.

### Basel Committee on Banking Supervision

The PFSA Office is not a member of the Committee, since the Committee gathers banking regulators from 27 states of most significance for the world financial system. Nonetheless, we participate in public consultations conducted by that institution and in its several working groups. In addition, our Office takes part in the meetings of the Financial Stability Board Regional Consultative Group for Europe, where discussions are held on some of the issues

raised by the Committee. The PFSA Office is also a member of the BSCEE - a regional organisation gathering banking regulators and co-operating with the Basel Committee. In 2013, the Committee developed a number of documents specifying more precisely the Basel III agreement. The most important of these concerned the methodology for calculating the short-term liquidity standard and the leverage ratio. In both areas, the final solutions turned out to be less demanding than the previously discussed proposals. In view of the PFSA Office, some of these changes may adversely affect the actual significance of the Basel III system.

### Banking Supervisors from Central and Eastern Europe (BSCEE)

Since 2006, the PFSA Office has been running the Secretariat of the BSCEE Group - an organisation gathering banking regulators from 23 Central and Eastern Europe countries with the aim to share information and experience. In contrast to the CEE Forum, the BSCEE is focused on supervisory and not regulatory matters.

In 2013, the work of the BSCEE Secretariat operated by the PFSA Office covered co-organizing and coordinating: a high-level meeting on 12 March in Basel in cooperation with the Financial Stability Institute and the Basel Committee (topic: *Strengthening Financial Sector Supervision and Current Regulatory Priorities*), 26<sup>th</sup> Conference of Members of the Group, which was held in Sarajevo on 12-14 June (topics: *Modalities of the NPL Resolving, BSCEE vs Basel III: Capital Requirements*), and the regional BSCEE seminar in Yerevan on 14-16 May in cooperation with the Financial Stability Institute (topic: *The Revised Core Principles and Basel III*).

### International Monetary Fund, World Bank

In 2013, the Financial Sector Assessment Programme (FSAP) was conducted in Poland. It is a comprehensive assessment of the situation of banks and other financial sector entities, of the quality of state supervision of such institutions and of the degree of financial market development. The assessment is conducted by the International Monetary Fund and the World Bank. As part of the FSAP, in January and February 2013, the delegation of both international institutions paid a visit to the PFSA Office. During the visit, the delegation conducted a series of meetings with the management and employees of the Office and familiarized themselves with the legislation and internal documents of the PFSA Office. The Polish financial system was considered resistant to shocks. The recommendations for the Polish authorities are contained in the comprehensive documents: the Financial System Stability Assessment<sup>53</sup> and the Financial Sector Assessment, as well as in thematic studies: the Technical Note on Impaired Loans<sup>54</sup> and the Technical Note on Stress Testing the Banking Sector<sup>55</sup>.

### Organization for Economic Cooperation and Development

The PFSA Office participates in the work of the following committees and working groups of the OECD: the Committee on Financial Markets, the Corporate Governance Committee and the Insurance and Private Pensions Committee (including the subgroup: Working Party on Private Pensions). The work of the Committee on Financial Markets covered the review of the OECD Guidelines on Long-term Financing by Institutional Investors. In 2013, the Corporate

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<sup>53</sup> *Financial System Stability Assessment*, <http://www.imf.org/external/pubs/ft/scr/2013/cr13221.pdf>

<sup>54</sup> *Technical Note on Impaired Loans*, <http://www.imf.org/external/pubs/ft/scr/2013/cr13373.pdf>

<sup>55</sup> *Technical Note on Stress Testing the Banking Sector*, <http://www.imf.org/external/pubs/ft/scr/2013/cr13261.pdf>

Governance Committee initiated the review process of the OECD Principles of Corporate Governance. In addition, representatives of the PFSA Office participated in meetings and drew up materials for an OECD mission conducting the review of the Polish economy.

### European Statistical Office (EUROSTAT)

The PFSA Office regularly submits to Eurostat selected data on the supervised market. In 2013, for the purpose of the study "Structural Statistics of Businesses", data on the 2012 performance of insurance undertakings in Poland was prepared.

## ASSISTANCE AND EDUCATIONAL PROJECTS

### Training Initiative for Financial Supervision (TIFS)

The Training Initiative for Financial Supervision (or TIFS), established by the PFSA Office in 2009 is a training centre for regulators of all financial market sectors from the European countries. The purpose of the TIFS is to create capacity for upgrading professional expertise and sharing experience by regulators' employees.

In 2013, two seminars were held under the TIFS Initiative: the first one on the issues related to the supervision of the banking sector (*topic: Changes in PFSA regulations for exposures secured by mortgages and retail credit exposures in the context of the situation of the Polish banking sector and international guidelines*) was held on 9-11 October, whereas the second one concerning the insurance supervision was held on 19-21 November (*topic: Internal Models' assessment: qualitative and quantitative approach*). The seminars hosted 37 attendees from 22 countries.

### Twinning Project for Capital Supervision in Azerbaijan

Since 2012, the PFSA Office has been carrying out a twinning project for the benefit of the State Committee for Securities (SCS) of the Republic of Azerbaijan under ENPI<sup>56</sup>. The twinning project, with a budget of almost EUR 1m, has three components, under which the following activities are carried through in close co-operation with the SCS employees:

- review and analysis of as well as support in adaptation of local securities market regulations in Azerbaijan to the EU legislation,
- familiarisation of SCS employees and market players with relevant EU directives and regulations as well as best practices and standards used by the regulators,
- preparation and development of guidelines, manuals, templates of forms and working papers, including for regulation, control and supervision of the securities market in Azerbaijan,
- support in review of SCS framework and development of SCS procedures;
- support in information activities dedicated to the securities market and its regulations in Azerbaijan
- delivery of training courses in Baku for SCS employees and securities market players, and
- study visits and traineeships of SCS employees at EU Member States' regulators'.

In 2013, the PFSA Office's experts (in cooperation with ad hoc experts from KDPW - Central Securities Depository of Poland, Warsaw Stock Exchange and BaFin), in line with plans, carried out 20 project activities (out of which 6 blocks of activities will be continued in 2014),

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<sup>56</sup> *European Neighbourhood and Partnership Instrument* - is an initiative of the European Commission, primarily aimed at developing cooperation between the European Union and partner countries outside the EU through ensuring integrated and sustained regional development. The global ENPI coverage: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Libyan, Libya, Moldavia, Morocco, the Palestinian Authority, Syria, Tunisia, Ukraine.

involving 22 expert missions in Baku and two study visits and an internship of representatives of the Azerbaijani administration at the Polish and German supervisor. The project will be completed by July 2014.

#### Technical Assistance under TAIEX

Upon request of the EC Directorate-General for Enlargement and regulators of the states being beneficiaries of the technical assistance instrument TAIEX<sup>57</sup>, experts of the PFSA Office actively participated in the missions for Azerbaijan and the Turkish Republic of Northern Cyprus, and in organizing and conducting a study visit of representatives of Moldova in the Office.

#### Development cooperation project for the support and improvement of the financial market of the Republic of Moldova

As a result of a positive decision of the Ministry of Foreign Affairs, the PFSA Office received funding in the amount of PLN 500,000 for the execution of the development cooperation project 19/2013 "Support and improvement of the financial market of the Republic of Moldova" under the Polish Development Cooperation Programme of the Ministry of Foreign Affairs in 2013<sup>58</sup>. The project was carried out by the PFSA Office for the benefit of the Office of the Prime Minister of the Republic of Moldova, as well as the institutions and public administration bodies involved in the supervision of Moldova's financial market (including the National Financial Markets Commission and the National Bank of Moldova) in the period from April to December 2013.

The project was a response to the current needs of the supervision of the financial market in Moldova, as reported to the Polish supervision by the Office of the Prime Minister of Moldova. The project involved the preparation and the successful conduct, by PFSA Office experts, of 14 expert missions in Chisinau under two project components i.e. the legal and institutional assessment and support, and institutional development of the National Financial Markets Commission and of the related entities.

All of the project's objectives and results have been successfully achieved. The advisory activities conducted by PFSA Office experts focused on strengthening the supervision, protecting investors and customers of services in the financial market of Moldova by identifying gaps in the existing institutional and legal structure of Moldova, together with the presentation, in the form of 14 reports, of recommendations and action plans for the required changes in the supervision of the capital and banking market, and raising qualifications and expertise of representatives of regulators of Moldova's financial market.

## 7.4. PROTECTION OF FINANCIAL MARKET PARTICIPANTS

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<sup>57</sup> TAIEX (Technical Assistance and Information Exchange) is a technical assistance instrument financed by the European Commission and addressed to public institutions of the EU Member States remaining the beneficiaries of post-accession assistance (Bulgaria, Romania), of EU member candidates (Croatia, the former Yugoslav Republic of Macedonia, Turkey) as well the states with status of potential candidates (Albania, Bosnia and Herzegovina, Montenegro, Kosovo, Serbia), and also public institutions in the states being the beneficiaries of the European Neighbourhood and Partnership Instrument (ENPI) and Russia.

<sup>58</sup> Polish Development Cooperation Programme ("Polish Aid") - financed from the funds of the Ministry of Foreign Affairs and the specific state budget provision for the development cooperation, aimed at providing humanitarian and development aid to countries that are poorer and less developed than Poland. According to the "Long-term development cooperation programme 2012-2015", Poland's involvement in development cooperation focuses on two areas covering the Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) and the countries of the region of East Africa (Burundi, Ethiopia, Kenya, Rwanda, Somalia, South Sudan, Tanzania, Uganda), North Africa (Libya, Tunisia), Afghanistan, Kyrgyzstan, Tajikistan and the Palestinian National Authority.

## BASIC AREAS OF OPERATION

One of the statutory objectives behind the financial market supervision is to ensure protection of interests of the market participants. The supervisory activities of the PFSA Office in this respect involve monitoring of market practices on an ongoing basis and intervention measures, focusing in particular on those areas of the regulated entities' operations that are exposed to the risk of law infringement or abuse of rights of non-professional market participants.

The PFSA Office monitors market practices by exercising its supervisory powers, which allow it to demand information and clarifications directly from the regulated entities, and by obtaining relevant data on its own. The supervisory measures are taken in response to the current market problems identified, among other things, on the basis of the information provided in complaints.

The tasks performed by the PFSA to protect non-professional participants of the financial market include in particular:

- performing analytical and explanatory activities as regards signals reported in complaints of non-professional financial markets participants about regulated entities,
- supervision of market practices by financial market participants,
- monitoring advertising communication concerning regulated entities,
- analytical activities regarding model agreements and the construction of products,
- educational activities,
- expert and administrative support for the Arbitration Court at the PFSA.

In the course of the performed activities, based on the issues reported in complaints, the regulator performed analytical activities. The detailed information in this regard is presented in Table 5.1 in Annex 5.

## EXPLANATORY PROCEEDINGS FOLLOWING COMPLAINTS

Complaints about regulated entities sent to the PFSA Office by non-professional financial market participants are an important source of information on the occurrence of unfavourable phenomena as regards practices applied by financial institutions. The analysis of the information provided in complaints consists in particular in verification of actions taken by regulated entities in the context of their compliance with the law. Following the findings of analytical and explanatory actions there may be supervisory actions taken towards the regulated entities in order to eliminate the doubtful market practices.

## COMPLAINTS IN GENERAL

In 2013, the PFSA Office received a total of 10,696 complaints of clients of insurance sector entities, capital market entities, banking sector entities, open-end pension funds, voluntary pension funds, payment service providers and cooperative savings and credit unions.

When compared to 2012, when the PFSA Office received 8,342 complaints, there was a 28% growth of complaints in the period covered by the report.

### Complaints concerning the functioning of banking sector entities

In the period covered by the report, the PFSA Office received 5,050 letters concerning incorrect functioning of the banking sector. Against 2012, the number of complaints concerning banking sector went up by approx. 18%.

The most frequently reported issues concerned the following:

- the quality of services (bank customers reported problems concerning improper or incompetent service provided by bank employees and raised the problem of lack of reliable information on the bank's products/services, lack of response to complaints or prolonged term of their examination),
- improper sales practices applied when offering insurance products of investment nature,
- loans and borrowings, as well as mortgage loans (the issues raised related to the problems associated with extending and servicing loans, including irregularities in the execution of an order of total repayment of the loan, as well as delayed repayment of the loan)
- reservations regarding the due review of creditworthiness by banks before granting the loan, and the method of conducting debt collection activities by banks,
- establishment of legal security of loan repayment,
- maintaining bank accounts (in particular with overdue execution of instructions or lack of their execution, account blockade as a result of judicial debt enforcement proceedings, erroneous settlement of operations in accounts, or exercising of heirs' rights),
- credit card handling (incorrect settlement of transactions made with the use of the card, settlement of credit card debt, issuing cards on the bank's initiative to persons that have not applied therefor and issues related to fees for card issue or use).

**Table 91. Number of complaints about the banks activity, 2012-2013**

Complaints sent to the PFSA	Year 2012	%	Year 2013	%
Commercial banks	4180	97.94	4967	98.36
Cooperative banks	88	2.06	83	1.64
<b>Total</b>	<b>4268</b>	<b>100</b>	<b>5050</b>	<b>100</b>

Source: in-house materials by the PFSA Office

The list of complaints about the operation of commercial banks and cooperative banks, sent to the PFSA Office in 2012-2013, broken by subject, is presented in Tables 6.1 and 6.2 in Annex 6.

#### Complaints about cooperative savings and credit unions

In the period covered by the report, the PFSA Office received 208 complaints about cooperative savings and credit unions. The issues complained about included, among other things, servicing loans and borrowings, including problems associated with debt collection and sale of debt, placing data in the Credit Information Bureau, repayment or settlement of liabilities.

#### The complaints regarding payment services provided by entities other than banks

In 2013, the PFSA Office received 66 complaints concerning irregularities as regards payment services provision. The problems raised in these complaints concerned: the timeliness of transfer orders' execution or irregularities relating to their execution, the method of settling a transaction, or the complaint procedure.

#### Complaints about the activity of insurance undertakings

In the period covered by the report, the PFSA Office received a total of 4,972 complaints about activity of the insurance sector, including 462 complaints against life insurers (9.29% of all complaints) and 3933 complaints against non-life insurers (79.10% of all reported complaints), as well as 4 complaints regarding brokerage activities, 72 complaints concerning the operations of insurance agents and 501 complaints about the operations of branches of insurance undertakings from the EU Member States.

The number of complaints about the operations of insurance undertakings in 2013 increased (by 42%) compared to 2012.

**Table 92. Number of complaints about the activity of insurance undertakings in 2012-2013**

Complaints sent to the PFSA	2012	%	2013	%
Segment I - Life insurance	372	11.12	462	9.44
Segment II - Non-life insurance	2731	81.62	3933	80.33
Branches of insurance undertakings of EU Member States	243	7.26	501	10.23
<b>Total</b>	<b>3346</b>	<b>100</b>	<b>4896</b>	<b>100</b>

Source: in-house materials by the PFSA Office

For life insurance, the problems most commonly reported by customers covered lack of adequate information on insurance products' characteristics, in particular on the method of their presentation by the entity's representative at the stage of contract conclusion. Reservations reported by individuals filing complaints focused on two areas: service-related irregularities at the selling stage (preceding agreement conclusion), consisting in providing by the entities offering the said products only some information on material features of the product or providing this information in a way that may be misleading and structuring insurance conditions in a complicated and incomprehensible manner).

Some of the complaints also concerned issues relating to the surrender value of an insurance policy in case of early termination of the contract, refusal to pay the claim or negligence of the insurance agent.

As far as non-life insurance is concerned, the most commonly identified problems included:

- the amount of compensations paid, and failure to meet the time limits for claim settlement,
- tardiness in settling claims relating mainly to motor insurance, especially TPL insurance of motor vehicle owners,
- issues concerning the refusal to pay the compensation, refusal of an insurance undertaking to make the loss files available, the exercising of the right to terminate an insurance contract (in particular motor TPL insurance contract by vehicle buyers), as well as failure to provide adequate information as regards the characteristics of insurance products
- issues concerning the refusal to refund the insurance premium for the unused period of cover.

The list of complaints about life insurance undertakings sent to the PFSA Office in 2012-2013 broken by subject is presented in Table 6.3 in Annex 6 and the list of complaints about non-life insurance undertakings - in Table 6.4 in Annex 6.

Moreover, Table 6.5 in Annex 6 presents the list of complaints about branches of insurance undertakings of the European Union Member States received by the PFSA Office in the period covered by the report, broken by subject.

#### Complaints about the operations of open-end pension funds

In 2013, 37 complaints relating to the improper functioning of open-end pension funds were received, as well as two complaints relating to the Voluntary Pension Funds operated by PTEs.

A drop of 90% in the number of complaints was recorded against 2012, which seems to be a consequence of eliminating acquisition activity of funds due to amended legal regulations.

The biggest number of complaints about the activity of open-end pension funds, which were received by the PFSA Office, concerned irregularities in the division and payment of funds accumulated in the account.

The majority of those complaints were related to lack of knowledge or understanding of the relevant regulations. The complaints in that scope, broken by subject are presented in Table 6.6 in Annex 6.

#### Complaints concerning the functioning of capital market entities

In 2013, the PFSA Office received 361 letters concerning incorrect functioning of the capital market. Against 2012, the number of complaints went up by approx. 30%.

It should be noted that the number of complaints relating to other financial market participants increased significantly (by almost 100%). This was influenced by the number of complaints relating to the fulfilment of reporting obligations by the companies listed on both the regulated market and the alternative market, as well as signals relating to the issues of managing a public company and exercising shareholders' corporate rights, as well as signals of suspected manipulation of a financial instrument's price.

The most frequently reported problems related to the management of a public company, the price of a financial instrument and shareholders' corporate rights.

As far as investment fund companies are concerned, the reservations concerned most often the irregularities in the investment policy's implementation. In addition, the reservations were associated with the quality of service provision, valuation of open-end investment fund units and the rules of executing purchase orders and unit redemption orders.

The remarks made as to the operations of investment firms concerned the quality of service provided, including but not limited to the execution of orders.

**Table 93. Number of complaints about the activity of capital market entities, 2012-2013**

Complaints sent to the PFSA on capital market operations	2012	%	2013	%
Investment Fund Company	75	27.08	65	18.01
Quotes on the regulated market	10	3.61	12	3.32
Investment firms	92	33.21	88	24.38
Stock-exchange operators	4	1.44	5	1.39
Other capital market participants	96	34.66	191	52.91
<b>Total</b>	<b>277</b>	<b>100</b>	<b>361</b>	<b>100</b>

Source: in-house materials by the PFSA Office

The list of complaints about capital market entities' activities sent to the PFSA Office in 2012-2013 broken into individual market segments is presented in Annex 6 in Tables 6.7, 6.8 and 6.9, respectively.

## SUPERVISORY ACTIVITIES OVER MARKET PRACTICES BY FINANCIAL MARKET PARTICIPANTS

The PFSA's monitoring of market practices employed by the regulated entities and directly affecting their clients' results from the comprehensive approach to the protection of interests of non-professional financial market participants.

The activities of the PFSA conducted in 2013 focused on identifying and eliminating market practices generating material legal risk for financial institutions, in particular the practices violating the law or infringing interests of non-professional financial market participants in particular areas. To achieve this objective, the PFSA undertook relevant supervisory measures and encouraged self-regulation of the market. The measures undertaken by the PFSA were targeted, among other things, at the following market practices of regulated entities:

### **Analysis of payment service providers' practice regarding adjustment of their activity to the provisions of the Act on Payment Services of 19 August 2011 ("Act")**

The analysis covered issues related to meeting, by payment service providers, of their duty to disclose and transfer to users the necessary information required by the Act, the evaluation of advertising material and the evaluation of risks associated with the interpretation of the provisions of the Act. As a result of the examination of the practice in question, it was confirmed that there are irregularities in the fulfilment of obligations, including disclosure obligations imposed by the Act. In connection with the above results, individual supervisory actions were taken in justified cases.

### **The analysis of banks' practice regarding the possibility of an overdraft**

The analysis indicated that there is a practice in a number of banks, which consists in offering the possibility of an overdraft. Such a practice usually results from the content of model agreements developed unilaterally by banks. Such model agreements do not cover the full scope of information required by the Consumer Credit Act. This practice raised concerns of the supervisory authority. In view of the above, the Polish Financial Supervision Authority prepared a position on this issue, which in January 2014 was forwarded to ZBP and KZBS.

### **The analysis of banks' practice of offering payment cards equipped with contactless payment functionality**

The analysis of the security level of payment cards equipped with contactless payment functionality, from the point of view of their respective owners showed the possibility of additional risk factors associated with this type of payment cards. However, due to the integrated contactless payments security features, the risk level should not be significantly greater than the risks associated with the use of so-called traditional payment cards. The results of the analysis were used in conducting the work on contactless cards by the Payment System Board, the members of which were also representatives of the supervisory authority. The result of this work was the development of the recommendation of 30 September 2013 on contactless cards security.

### **The analysis of model contracts for use of the clauses identical or similar to the clauses in the register of prohibited contractual clauses regarding the liquidation fee**

As part of the analysis of model contracts for the collection of fees in connection with redemption of life insurance, a number of clauses were found that essentially correspond to the clauses previously challenged by the Court of Competition and Consumer Protection as abusive clauses.

The application of clauses having equivalent effect to the provisions already entered in the register carries a serious risk to insurance undertakings. In addition, the supervised entities operating in other sectors of the financial market also include in their model agreements the provisions that function similarly to the prohibited clauses. Therefore a supervisory position is being prepared, whose objective is to draw the supervised entities' attention to the consequences of application of such clauses, as well as the need for exercising due diligence in designing model contracts.

**Other activities aimed at eliminating the market practices infringing the interests of financial institutions' customers concerned, among other things, the following:**

- a bank's practice of providing customers, in a diligent and correct manner, with information materials concerning the interest charged on deposits,
- the analysis of the occurrence of the risk of illegal use of prepaid cards
- banks' practices related to the application of the Consumer Credit Act,
- a bank's practice related to investment products selling practices,
- a bank's practice related to organising promotions,
- a practice, by an entity cooperating with a payment services provider, relating to the delivery of payment services,
- the analysis of a bank's practice relating to the provision of information on the amendment to the model contract, and provision of the text of the amended model contract.

#### **Analysis of fairness of advertising communication by the regulated entities**

In order to protect the interests of non-professional participants of the financial market against dishonest advertising information, the Polish Financial Supervision Authority conducted monitoring of advertising messages, which consisted in a review of information and advertising materials published by, or on behalf or for the benefit of the entities supervised by the PFSA.

The monitoring covered advertising messages in selected press titles and TV channels. The monitoring also covered selective review of supervised entities' websites, as well as of popular sites where advertising messages are disseminated. A fragmentary review of supervised entities' advertising leaflets and information materials was also conducted. In addition, information was collected about irregularities reported by financial services customers, including irregularities reported through the form made available on the PFSA website, which enables individuals to signal objectionable advertising messages.

The purpose of the reviews of advertising communications was to establish whether the reviewed content complied with the law and respected the interests of non-professional financial market participants - in particular whether these communications did not mislead the target audience at the pre-contractual stage.

In 2013, the PFSA Office questioned 72 potentially misleading advertising communications published by financial institutions. In 62 cases, the supervisory interventions concerned improper fulfilment of the obligations imposed by the law as regards the Consumer Loan Act of 12 May 2011 (Dz.U. of 2011, No 126, item 715). The measures taken are the result of the monitoring of websites of cooperative savings and credit unions and of cooperative banks, which was conducted in the first half of the year. Most other interventions related to the violation of provisions of the Act of 23 August 2007 on combating unfair market practices, and consisted in using misleading wording in advertisements of banking, insurance and capital products and services.

#### **SUPPORT FOR THE ARBITRATION COURT AT THE PFSA**

In May 2013, in order to improve the efficiency of functioning of the Arbitration Court at the PFSA, the Polish Financial Supervision Authority adopted unanimously the new Rules of the Court.

The main objectives of the new regulation included:

- stimulating the market by inviting chambers and associations of supervised entities to contribute to the composition of the Arbitration Court, by offering a possibility to recommend to the PFSA Chairman candidates for these functions (half of arbitrators and mediators)
- providing parties with an actual influence on the selection of an arbitrator and a mediator by the introduction of three-person adjudicating panels and two-person mediation teams,
- making the selection of an arbitrator more flexible by offering the President of the Court in consultation with the PFSA Chairman a possibility to appoint an ad hoc arbitrator from outside the list of Arbitrators,
- reducing the cost of mediation proceedings in cases where the amount in dispute does not exceed PLN 10,000.

The promotional activities undertaken in 2013 covered informational and promotional media initiatives (publication of new leaflets, of a poster, modification of the Court's website) as well

as initiatives improving communication between arbitrators and mediators (establishing a forum of arbitrators and mediators).

In 2013, the work concerning the Arbitration Court at the PFSA covered expert and administrative support of the applications received.

**Table 94. Handling petitions filed with the Arbitration Court (AC) at the PFSA in 2013.**

Detailed list	Total	Arbitration proceedings	Mediation proceedings
Petitions	171	40	131
Consents	12	1	11
Cases adjudicated for the petitioner without starting a dispute (settlement or settlement proposal was made)	14	1	13
Refusals	140	36	104
Other (no jurisdiction of the AC, the petitioner's failure to supplement the petition)	1	1	0
Pending (no response from the entity)	4	1	3

Source: in-house materials by the PFSA Office

On 28 June 2013, the First General Meeting of Arbitrators and Mediators of the third term of the Arbitration Court at the Polish Financial Supervision Authority was held. During the General Meeting, the PFSA Chairman stressed the legitimacy of the Arbitration Court at the PFSA and the need to support its further development. The key subject discussed during the discussion held during the meeting were issues concerning the promotion of the Arbitration Court at the PFSA. In accordance with the expectations of the PFSA Chairman, as well as with the post-inspection conclusions of the Supreme Audit Office (NIK), in 2014, the promotional activities supporting further development of the amicable settlement, in the Arbitration Court at the PFSA, of disputes in the financial market will be continued.

## **7.5. EDUCATIONAL AND INFORMATION ACTIVITIES**

In order to fulfil its statutory task of a regulator as regards popularising knowledge of the financial market's functioning, since 2009 the PFSA Office has been carrying out the Educational Centre for Market Participants project (CEDUR), under which it organized training and publishing initiatives in the period covered by the report. In 2013, the PFSA Office held 72 seminars and training workshops, which were addressed mainly to the representatives of regulated entities, judiciary, prosecutors and law enforcement officers, consumer protection institutions, teachers of Basic Entrepreneurship and Economy in Practice as well as methodologists of these subjects at secondary schools. The meetings were attended by nearly 4,800 participants.

The list of seminars and training workshops organized under the CEDUR project in 2013 is shown in Annex 7.

In addition, representatives of the PFSA Office participated as speakers in 108 external events, including panels, conferences and congresses, in the second edition of the Public Shareholding 2012/2013 programme launched by the Ministry of the Treasury, and in 5 workshops for investors, which were attended by 665 people.

The PFSA Office's employees also held a series of meetings on financial subjects, which were entitled "Finanse na wesoło (Finance is fun), dedicated to juniors as part of Warsaw's Summer in the City programme.

In the period covered by the report, three educational brochures were published and distributed under the Financial Services Customer Guide cycle: "Bank jako instytucja

zaufania publicznego. Gwarancje prawne i instytucjonalne” (The bank as an institution of public trust. Legal and institutional guarantees), „Czy rata mojego kredytu nie jest za wysoka?” (Is my loan instalment not too high?) "Podstawy matematyki finansowej" (Basics of Financial Mathematics) and Elektroniczne metody płatności. Istota, rozwój, prognozy” (Electronic payment methods. The essence, development, forecasts". Other forms of educational initiatives carried out in 2013 included organisation of the second edition of the Competition for the PFSA Chairman's Award for the best PhD thesis on the financial market, and participation in the 17<sup>th</sup> Science Picnic organized by the Polish Radio and Copernicus Science Centre, the Europe largest outdoor event popularizing science.

The main tool used by the PFSA Office to disseminate information is its official website with nearly 8 million views in 2013.

In 2013, the media released 58,445 publications containing references to the Polish Financial Supervision Authority or the PFSA Office, of which 49,706 were on-line publications (including approximately 31,000 ESPI reports), 5,021 were press publications and 3,718 references were made on the radio and on television.

When co-operating with the media, the PFSA Office pursues open communication policy. The tasks in this area include, but are not limited to:

- presentation of positions and results of work of the PFSA and the PFSA Office to the public,
- informing the public of activities, initiatives and programmes managed by the PFSA and the PFSA Office,
- commenting on financial market developments,
- responding to questions of the media representatives.

As required by the Act of 6 September 2001 on access to public information (Dz.U. No 112, item 1198, as amended) and the accompanying regulation of the Ministry of Internal Affairs and Administration, the PFSA is obliged to publish certain information on the web pages of Biuletyn Informacji Publicznej (BIP, Public Information Bulletin) assigned to particular entities, representing an autonomous part of the PFSA on-line service. In execution of the provisions of the Act on access to public information, 136 requests for access to public information were considered in 2013.

## 7.6. CO-OPERATION WITH THIRD PARTIES

### CO-OPERATION WITH FINANCIAL MARKET PARTICIPANTS

In 2013, meetings of the PFSA Office's management with representatives of regulated entities and financial trade organisations were continued. The main purpose of the initiative is to improve the standards of communication and co-operation with the market and to facilitate the assessment of satisfaction of all market participants.

### SOCIAL CAMPAIGN “NIE DAJ SIĘ NABRAĆ. SPRAWDŹ, ZANIM PODPISZESZ” (DON'T GET FOOLED, CHECK BEFORE YOU SIGN)

In 2013, the PFSA Office continued the activities under the social campaign “Nie daj się nabrać. Sprawdź, zanim podpiszesz”. (Don't get fooled, check before you sign)

The aim of the campaign is to draw public attention to the risk involved with conclusion of financial agreements, mainly taking out high-interest bearing short-term borrowings, the so-

called “temporary loans” and using financial services that are not regulated by the state. The social campaign is organised by seven public institutions: the Bank Guarantee Fund, the Polish Financial Supervision Authority, the Ministry of Finance, the Ministry of Justice, the National Bank of Poland, the Police and the Office of Competition and Consumer Protection.

The website [www.zanim-podpiszesz.pl](http://www.zanim-podpiszesz.pl) provides basic information on security in financial market, presents four principles of secure loan taking, provides financial calculators and warns about loopholes in agreements; the website also provides access to key legal acts. The PFSA Office also operates a helpline where one can get information whether a given entity is covered by the PFSA supervision.

## THE RESULTS OF THE WORK OF THE WORK GROUP FOR DEVELOPMENT OF PUBLIC MARKET OF LONG-TERM BANKING DEBT SECURITIES

The objective of the Team's operation was to develop legal, tax and regulatory solutions contributing to the development of the public market of long-term bank debt instruments, which solutions would create favourable conditions for a change in the adverse balance-sheet structure of banks in which the dominant items are long-term mortgages financed mostly through short-term deposits or credit lines from the international banking market. Another aspect taken into consideration was the need to start adjustment work to the new directive on capital adequacy of banks (CRD), in which much attention is paid to the liquidity and long-term financing.

In addition to the PFSA Office's employees, representatives of the Ministry of Finance, Ministry of Justice, the National Bank of Poland, the Polish Bank Association, Giełda Papierów Wartościowych w Warszawie SA, the Chamber of Pension Funds, the Polish Chamber of Insurance and the Chamber of Fund and Asset Managers participated in the work of the team.

The working groups functioning within the Team developed three reports containing an assessment of the situation and proposals for action in the following areas:

- issue of own long-term bonds by banks, both in the domestic currency and in foreign currencies,
- securitization of bank debt, including mortgage debt, using a form of sub-participation,
- the development of the covered bond market and the use of mortgage banks to raise long-term financing on the basis of homogeneous mortgage portfolios.

Among the most important barriers to development, as identified by all of the three mentioned groups, tax issues (numerous taxes, ambiguous regulations and inconsistent tax interpretations, unnecessary formalities, unequal treatment of different groups of purchasers of securities), insufficient regulation of insolvency proceedings and not fully efficient land and mortgage registry system (labour-intensive entries and their cost) come to the fore. These barriers reduce the confidence of business and discourage potential investors.

It was also stated that the issue of own bonds by banks does not constitute a significant source of funding of their activities. In addition, some banks may have difficulty in maintaining the NSRF, a long-term liquidity measure, at a minimum level, as proposed under the Basel III package. The current market price, i.e. the market level of interest rate of long-term issues, which represents a significant cost for potential issuers, was recognized as the basic and most important barrier affecting the low level of banks' own bond issue.

Another problem is a small share of mortgage banks in the banking sector's assets. The regulations on the issue of covered bonds that are currently in force in Poland are quite restrictive, but it is necessary to maintain a high level of security of such financial instruments. Particularly important is the fact that only specialized mortgage banks may be issuers of covered bonds. It is therefore necessary to clearly distinguish between the existing

barriers to the development of individual market segments and the regulatory solutions that promote the security of trading and increase the attractiveness of issued financial instruments to investors, especially pension funds, insurance undertakings and certain investment funds, which due to the nature of their operations are natural and at the same time solid buyers of long-term securities.

Detailed results of the Team's and its working groups' work are published on the PFSA Office's websites.

## INTERBANK MARKET TEAM

In 2013, on the initiative of the PFSA Office, the Interbank Market Team was established with the aim to agree on the key elements for the future shape of the interbank market in Poland in relation to setting the WIBID and WIBOR reference rates, in particular to develop an adequate form of supervision of that process. The team included representatives of the PFSA Office, the NBP, ZBP, the Financial Markets Association ACI Poland and several commercial banks, including banks associating cooperative banks.

The tasks carried out by the Team covered, in particular:

- developing a proposal of the form, and principles of supervision, of the process of setting WIBID/WIBOR reference rates, including the composition, powers and the form of funding the WIBID and WIBOR *Reference Rates Council*
- analysing the process of setting WIBID/WIBOR reference rates for compliance with the EBA/ESMA guidelines on setting reference rates, and recommendations directed by EBA/ESMA to EURIBOR-EBF, together with the development of proposals for the necessary adjusting changes,
- analysing the process of setting WIBID/WIBOR reference rates for meeting the CRR criteria of inclusion in the so-called broad market indices,
- developing a proposal for banks' eligibility criteria to participate in a panel quoting WIBID / WIBOR reference rates, ensuring the optimum number of panellists,
- analysing and developing proposals for solutions in other selected issues, such as the number of WIBID/WIBOR tenors, transaction amounts.

The regulations for *fixing WIBID and WIBOR reference rates*, which provided for the fixing's functioning according to the new formula, including the establishment of the *WIBID and WIBOR Reference Rates Council* ensuring the quality and reliability of these rates, entered into force on 1 July 2013.

## CO-OPERATION WITH THE AUDIT OVERSIGHT COMMISSION ("KNA") AND WITH STATUTORY AUDITORS

There is a Committee for Relations with Statutory Auditors established by the Chairman of the PFSA within the PFSA Office.

In 2013, the Committee for Relations with Statutory Auditors took the following actions within its powers:

- co-operation with representatives of the PFSA Office being members of KNA,
- organizing a meeting with statutory auditors auditing the financial statements of banks and insurance undertakings to discuss the bancassurance-related issues in the so-called sub-tables,
- organising meetings of representatives of the PFSA Office with statutory auditors auditing financial statements of securities issuers, banks and insurance undertakings,
- advising on the proposed Directive amending the Directive on statutory audits of annual accounts and consolidated accounts as regards auditing accounts and Regulation of the European Commission on specific requirements regarding statutory audit of public-interest entities.

## COOPERATION WITH THE NATIONAL BANK OF POLAND

The PFSA Office cooperates in a permanent and bilateral manner in exchanging the information necessary to perform the statutory tasks of the central bank and the financial market supervisory authority. The principles of cooperation are set out in a bilateral agreement on cooperation and exchange of information between the PFSA and the NBP. Under the agreement, the supervisory authority passed in 2013 to the NBP much data on the insurance sector. It also collaborated in the preparation of a study evaluating the costs of introducing the insurance sector's reporting for the purposes of the European Central Bank (fact-finding survey). The study was conducted by the NBP among domestic insurance undertakings in June and July 2013.

## CO-OPERATION WITH OTHER INSTITUTIONS

In the period covered by the report, the PFSA Office co-operated with the following institutions:

- Central Statistical Office (GUS): providing to GUS data on the insurance and reinsurance sector, relating to the Statistics Research Programme of the Public Statistics for 2013, and preparation of study programmes for 2014 and 2015,
- Insurance Guarantee Fund ("UFG"). The principles of cooperation between the PFSA and UFG are set out in the agreement on cooperation and exchange of information between the PFSA and the NBP. Under the agreement, the PFSA and UFG exchanged information on motor and mandatory insurance,
- The Polish Insurance Association ("PIU"), by participation of the PFSA Office's employees as speakers during the conferences organised by PIU as well as in work of Committees, Sub-Committees, Task Forces and Working Groups functioning in PIU.

## 8. ORGANISATION OF THE PFSA OFFICE

The Polish Financial Supervision Authority and its Chairman perform their tasks with the aid of the Office of the Polish Financial Supervision Authority operating under the charter granted by Order No 172 of the President of the Council of Ministers of 22 November 2006 (M.P. of 2013, item 798), which was amended several times. The last amendment to the charter was made by Order No 96 of the President of the Council of Ministers of 2 November 2012 amending the Order on granting the charter to the Office of the Polish Financial Supervision Authority (M.P. of 2012, item 833).

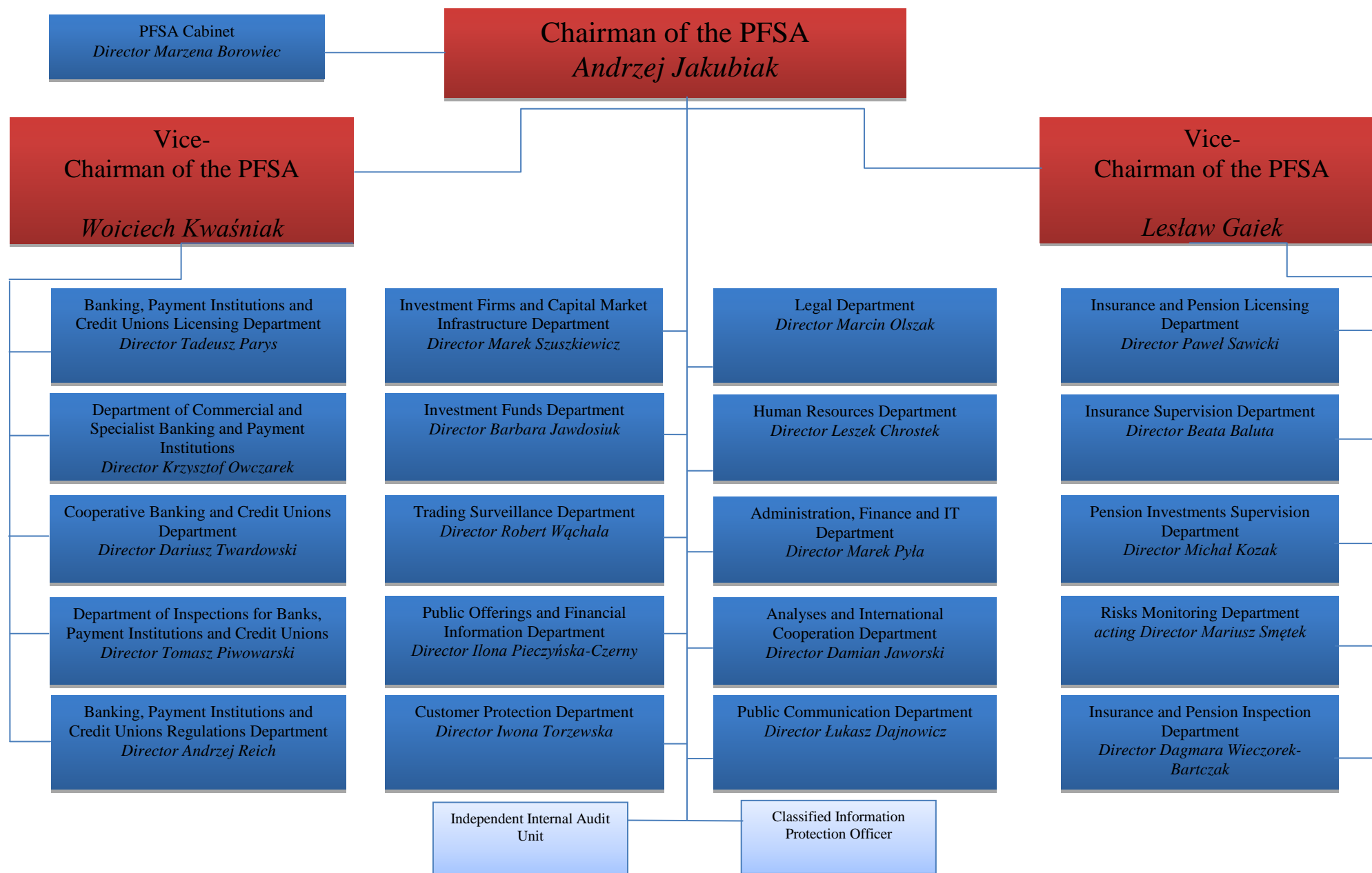
The PFSA Office is led by the PFSA Chairman, aided by Vice-Chairmen and heads of organisational units. The tasks of the PFSA Office's organisational units are specified in the organisational by-law of the PFSA Office imposed under the order of the PFSA Chairman.

The management control system defined as a set of actions to ensure that the goals and tasks are performed in accordance with applicable laws, and in a cost-effective, efficient, competent and timely manner functions in the Office. The aim of the management control is to ensure in particular compliance of operation with legal provisions and internal procedures as well as the effectiveness of operations, reliability of reports, protection of resources, compliance with and promotion of ethical rules, effectiveness and efficiency of information flow and risk management.

In addition, in order to ensure adequacy, effectiveness and efficiency of management control, the risk management principles were introduced at the PFSA Office. They are aimed at providing mechanisms of identifying risks that constitute a threat to efficient, cost-effective, timely and compliant in legal terms execution of goals and tasks of the PFSA Office, determining the results and weights of those risks and taking adequate preventive measures to mitigate the identified risks.

2013 was another year in which the PFSA Office functioned under the performance budget, in accordance with the Act on public finances.

Diagram: Organisational structure of the Office of the Polish Financial Supervision Authority as at 31 December 2013.



## BUDGET OF THE PFSA OFFICE

The PFSA Office is a publicly financed entity. Expenditure of the Office is covered directly from the state budget. The Office's revenue is the budget revenue transferred to the state budget account. As a public sector entity, the Office manages its finances in accordance with applicable laws, in particular the Act on public finances of 27 August 2009 (Dz.U. of 2009, No 157, item 1240, as amended), the Public Procurement Law Act of 29 January 2004 (consolidated text Dz.U. of 2010, No 113, item 759, as amended), and the Budget Act, as well as the annual financial plan.

Like in many other European countries, in Poland the costs of state supervision of the financial market are borne from mandatory charges paid by regulated entities.

Fees collected by the PFSA Office for official duties related to examinations for brokers and actuaries represent state budget revenue not allocated to cover the costs of supervision. Fines imposed by the Polish Financial Supervision Authority on regulated entities and on members of their governing bodies for any illegal activity also count towards state budget revenue.

The budget revenue of the PFSA Office in 2013 was planned at PLN 209,960,000, while measured on an accrual basis and cash basis it amounted to PLN 243,540,000 and PLN 127,132,000, respectively. A bulk of the revenue was derived from payments made by regulated entities to cover the costs of supervision. The fines imposed on regulated entities and paid by them as well as other revenue not classified as costs of supervision totalled PLN 4,705,000.

For 2013, a budget of PLN 202,749,000 was prepared (PLN 202,734,000 and PLN 15,000), which is by PLN 6.1m i.e. by 2.9 percentage points lower than the budget for 2012, while at the same time the Office had significantly more supervisory responsibilities arising from the increase in the scale of the financial market's operations and an increase in the number of supervised entities, and despite the imposition by the legislator on the Polish Financial Supervision Authority of additional supervisory tasks arising from covering new market segments by state supervision, including payment service offices, domestic payment institutions and cooperative savings and credit unions.

Expenditure in the budget for the Authority's activities in 2013 was planned in the amount of PLN 206,015,000, including:

- expenditure in section 758 Miscellaneous settlements	PLN 202,734,000,
- expenditure in section 752 Defence	PLN 15,000,
- specific provisions	PLN 3,266,000,

In connection with the planned self-amendment to the Budget Act for 2013, the Polish Financial Supervision Authority carried out a detailed analysis of expenditure planned to be incurred by the end of 2013. The analysis was carried out on the basis of an analysis of the obligations arising from agreements concluded in previous years, the spending as at 30 June 2013 and the Procurement Plan of the PFSA Office for the second half of 2013, taking into account the principles indicated in the letter from the Minister of Finance, i.e.:

- expenditure savings should not have a negative impact on citizens,
- savings may not result in the creation of Treasury obligations,
- no negative consequences will occur in the performance budget.

As a result of the analysis, after consultations with the College of the Office of the Polish Financial Supervision Authority, a decision was made to reduce the planned expenditures for purchases of investment (paragraph 6060 of the budget classification) in 2013 by PLN 7m and postpone the purchases until 2014. Then, according to the self-amendment to the

Budget Act, capital expenditure was reduced by PLN 7m, as a result of which the financial plan of the PFSA Office for 2013 amounted to PLN 199,015,000. The amount actually spent in 2013 amounted to PLN 187,784,000, which means that the budget performance rate amounted to 94.4%.

In 2013, the public funds were spent in a rational, appropriate and economical manner.

In performance of the Minister of Finance's Regulation on the detailed manner, procedure and deadlines for the preparation of materials for the proposal of a Budget Act for 2013, of 31 May 2012, the PFSA developed, and submitted to the Minister of Finance, its draft budget for the budget year, prepared in the standard and performance layout.

Tables 95 and 96 present, in the traditional layout, the plan and the performance of budget revenues and expenditure carried out in 2013, compared to 2012.

**Table 95. Execution of the PFSA's 2013 budget revenue plan**

Budget revenue	2012 planned (PLN '000)	2012 actual (accrual basis)		2013 planned (PLN '000)	2013 actual (accrual basis)		Planned 2013 vs. 2012 (%)	Actual - 2013 vs. 2012 (%)
		(PLN '000)	(%)		(PLN '000)	(%)		
1	2	3	4	5	6	7	8	9
Fees towards the costs of supervision of insurance and brokerage activities paid by insurance undertakings	24 680.0	28 198.9	114	26 700.0	30 998.0	116	108	109.9
Fees towards the costs of supervision of open-end pension funds paid by universal pension fund companies	16 454.0	17 643.9	107	16 400.0	20 322.5	124	99.7	115.2
Fees towards the costs of supervision paid by the capital market	39 077.0	39 729.6	102	37 000.0	37 585.7	102	94.7	94.6
The payments by supervised entities of the banking market to cover the costs of supervision (commercial banks, cooperative banks, cooperative savings and credit unions, payment service offices, domestic payment institutions)	128 656.0	202 457.6	157	125 400.0	149 929.0	120	97.5	74.1
Fees for official duties connected with examinations for brokers, actuaries and insurance agents	360.0	554.3	154	400.0	475.2	119	111.1	85.7
Fines imposed on supervised entities	4 000.0	3 215.7	80	4 000.0	3 906.5	98	100.0	121.5
Other	108.0	2535.7	2 348	60.0	323.1	540	55.6	12.7
<b>Total</b>	<b>213 335.0</b>	<b>294 335.7</b>	<b>138</b>	<b>209 960.0</b>	<b>243 540.0</b>	<b>116</b>	<b>98.4</b>	<b>82.7</b>

Source: in-house materials by the PFSA Office

**Table 96. Execution of the PFSA's 2013 expenditure plan**

Budget expenditure	2012 planned (PLN '000)	2012 actual		2013 planned (PLN '000) after changes	2013 actual		Plann ed 2013 vs. 2012 (%)	Actual - 2013 vs. 2012 (%)
		(PLN '000)	(%)		(PLN '000)	(%)		
Payroll, including overheads	119 038.0	114 990.7	97	124 456.8	119 145.0	95.7	104.6	103.6
Non-payroll expenditure	89 829.0	58 089.1	65	74 558.2	68 639.0	92.1	83.0	118.2
including:								
- out-of-pocket expenses	60 129.0	42 086.0	70	53 558.2	50 634.0	94.5	89.1	120.3
- assets-related spending	29 700.0	16 003.1	54	21 000.0	18.005.0	85.7	70.7	112.5
<b>Total</b>	<b>208 867.0</b>	<b>173 079.8</b>	<b>83</b>	<b>199.015.0</b>	<b>187 784.0</b>	<b>94.4</b>	<b>95.3</b>	<b>108.5</b>

Source: in-house materials by the PFSA Office

Pursuant to Article 2(1) of the Act of 22 January 2010 on the Supreme Audit Office, the execution of the state budget in section 70 *Polish Financial Supervision Authority* is audited annually by the Supreme Audit Office. The audit results, i.e. publicly available information on the audit results and a post-audit statement, are published on the website of the Public Information Bulletin of the Supreme Audit Office. Moreover, pursuant to Article 182 of the Act on public finances 27 August 2009, a report on the execution of the PFSA Office's budget, in the form of tables and descriptions, is submitted to the Ministry of Finance, and by the end of the second quarter of each year a report on the execution of the PFSA Office's budget is submitted to the Public Finance Committee of the Sejm (lower chamber of the Polish Parliament) and to the Budget and Public Finance Committee of the Senate (upper chamber of the Polish Parliament).

**Table 97. Costs of supervision of particular markets in 2013 vs. 2012**

Market	2012		2013		in relation to the previous year	
	planned (PLN '000)	actual (PLN '000)	planned (PLN '000)	actual (PLN '000)	planned (2012=100)	actual (2012=100)
Capital market	39 077.0	36 551.0	37 000.0	39 135.0	94.7	107.1
Insurance market	24 680.0	25 832.0	26 700.0	29 920.0	108.2	115.8
Pension market	16 454.0	12 535.0	16 400.0	12 470.0	99.7	99.5
Banking market	128 656.0	98 162.0	125 400.0	105 873.0	97.5	107.9
<b>Total</b>	<b>208 867.0</b>	<b>173 080.0</b>	<b>205 500.0</b>	<b>187 398.0</b>	<b>98.4</b>	<b>108.3</b>

Source: in-house materials by the PFSA Office

In connection with the Regulation of the Minister of Finance on the detailed manner, procedure and deadlines for the preparation of materials for the proposal of the Budget Act for 2013, dated 31 May 2012, the Polish Financial Supervision Authority also developed a draft budget in performance layout. For execution of the task 4.4 Supervision of the capital, insurance, pension and banking markets in 2013, in line with the "Catalogue of functions, tasks, subtasks and actions for 2013" the Polish Financial Supervision Authority allocated the amount of PLN 199 000 thousand. For the task 11.4.2.4.W "The defence training of public

administration and businesses", the Polish Financial Supervision Authority planned the amount of PLN 15,000

The PFSA Office's budget in performance layout is presented in Table 98.

**Table 98. State budget expenditure by activity (section 70 - the Polish Financial Supervision Authority)**

No	Function/activity/sub-activity	Planned for 2013 after changes	Actual as at 31.12.2013
<b>4.</b>	<b>Management of public finances</b>	<b>199 000.0</b>	<b>187 769.0</b>
4.4.	Supervision of the capital, insurance, pension and banking markets	199 000.0	187 769.0
4.4.1.	Supervision of capital market entities	39 250.0	39 208.0
4.4.2.	Supervision of insurance undertakings	30 000.0	29 976.0
4.4.3.	Supervision of the pension market	12 500.0	12 494.0
4.4.4.	Banking supervision	117 250.0	106 091.0
11.	External security and inviolability of borders	15.0	15.0
11.4.2. 4.W	The defence training of public administration and businesses	15.0	15.0

Source: in-house materials by the PFSA Office

#### **Task 4.4. Supervision of the capital, insurance, pension and banking markets.**

The objective of the task was to ensure compliance of operations of regulated entities with financial market regulations and ensure the protection of interests of the financial market participants. This objective was to be achieved by:

- performing control activities (comprehensive and problem-oriented inspections) in the regulated entities; the mode of performance thereof depended on the selected inspection activities in individual cases, control-related legal provisions and the complexity of a problem, which translated into the scale of dedicated resources,
- conducting administrative procedures consisting in considering requests filed by the regulated entities and issuing decisions the examination of which depended on the complexity of cases and the quality and completeness of documentation submitted by a party.

The following metric was applied to monitor the execution of task 4.4:

- weighted average number of completed administrative procedures concerning the financial market in relation to the number of requests for these procedures, as filed by the supervised entities, and the number of completed inspection procedures in the supervised entities in relation to the number of planned inspection procedures.

The adopted measure was used for the first time in the performance budget of the Polish Financial Supervision Authority for the year 2013 and amounted to 100.95%.

## IT DEVELOPMENT

Under the capital expenditure plan for the development of IT technology for the years 2012-2016, which was developed in 2012, the activities in the IT area in 2013 focused in particular on:

- the initiation of actions to ensure two fully professional independent Data Processing Centres for the PFSA Office's IT environment,
- modernization and improvement of the efficiency of the technical platform for key IT systems in the PFSA Office.

In 2013, an independent audit was conducted in the area of IT infrastructure and IT systems of the PFSA Office, as a result of which the following was presented to the management of the PFSA Office:

- a comprehensive analysis and assessment of the functioning of the IT infrastructure and systems in the Office of the Polish Financial Supervision Authority,
- the assessment of the risk and hazards associated with the operation of the audited areas,
- a recommendation to take the necessary action in the audited areas.

The audit results will have an impact on:

- the optimization of the operation of the IT area in the PFSA Office,
- the mitigation of operational risk and the risks associated with IT infrastructure and systems, which may affect the continuity of the PFSA Office's functioning,
- the PFSA Office's computerization strategy in the medium and long-term perspective.

The most important tasks performed in 2013 include:

- creation of a cluster for the reliability of the Electronic Information Transfer System (ESPI) in order to improve the efficiency and reliability of the information transmission process in the capital market while maintaining the required level of security,
- the production start-up of one of the two planned centres of High-Availability Data Processing Environment in the PFSA Office,
- improving the security of data processed in the PFSA Office as a result of the modernization of the e-mail environment and backup environmental.
- adjusting the PFSA Office's systems to working with the new IT system of the Stock Exchange,
- implementing new solutions in the area of IT support for the process of analysing banks' reporting information in relation to technology and application solutions,
- starting the work on the implementation, in the PFSA Office, of systems implementing the requirements of the European Union in the area of financial reporting in the banking, capital and insurance markets (ITS (Implementing Technical Standards) project).

## HUMAN RESOURCES MANAGEMENT

The priority actions taken by the PFSA Office in 2013 in the human resources management area focused on ensuring appropriate resources for the execution of increased supervisory tasks.

These activities are part of the process initiated by adding FTEs to the organizational units dealing with payment institutions and cooperative savings and credit unions. Further work involving the process of analysis of human resources, including the employment structure and the results of employee assessments has led in several cases to reorganizing the internal structure of the Office's organizational units and to internal staff movements, a consequence of which was a further optimization of management processes and better adjustment of official tasks to the changing supervisory requirements. Thanks to the optimization of staff processes and human resources, it was possible to acquire employees with the required qualifications corresponding to existing or newly created positions.

In total, in 2013, except for the current filling of vacancies resulting from the current fluctuation, 28 new FTEs were filled, which were dedicated to the work resulting from increased supervisory responsibilities. Additionally, after using in the fourth quarter of 2013 the specific provision for additional FTEs related to the supervision of new entities, another 4 people were employed still in the same year. This represented a major organizational challenge due to the nature of the supervisory tasks performed by the PFSA and requirements for candidates, in terms of both economic and legal knowledge as well as analytical and regulatory skills, and knowledge of the functioning of financial markets.

The employment plan for 2013 amounted to 949 FTEs and was increased by 28 FTEs allocated from the specific provision in October 2013. As at 31 December 2013, the headcount was 930.28 FTEs (not including replacement agreements).

The employee turnover rate in 2013 was 7.25%. For comparison, in 2009-2012 the rate was 17.01%, 7.1%, 9.73% and 8.24%, respectively. The above ratios prove that the employment was stable and the employee turnover rate was maintained at a low level of several per cent, which favours optimisation of the process of work and its organisation.

Due to the number of supervised entities and the type of services they provide, the inspection activities undertaken by the staff of the Office include a wider and wider scope of the business of the supervised entities, for example the IT area. The challenge in the field of human resource management in the coming years will be to create job profiles corresponding to this area, and attracting candidates with qualifications covering the broadly understood IT competence and knowledge in the field of information security. In a broader context, a major challenge will be the effective management of the salaries fund, both in terms of increasing competency requirements and recruiting new employees, as well as retaining the skilled staff of the PFSA Office.

In 2013, as part of the actions aimed at improving qualifications of employees, many training initiatives reported by individual organisational units of the PFSA Office were carried out. To meet the expectations of the staff and the PFSA Office's needs as fully as possible, all the training programmes were prepared based on relevant guidelines and detailed descriptions of programme assumptions and consulted with experts in a given field, and subsequently approved by the management of the organisational units that proposed subjects for the training programmes. Group training courses on 82 subjects were held throughout the year, including 11 e-learning training courses available for all employees. The training courses covered mainly the following areas: banking and risk, reporting and accounting, financial markets, investment funds, insurance and widely understood legal issues.

As a result of the systematic analysis of needs, the group training processes were supported by individual training courses, which in 2013 were attended by 526 employees, including 388 employees attended domestic training courses and 138 attended international training courses. In 2013, the rising trend of employees' participation in training abroad was maintained. The following number of employees participated in training abroad in subsequent years: 94, 127, 104 and 143. This is important due to the extensive co-operation with the EU supervisory authorities and the presence of the PFSA Office in the international forum.

The intensity of 2013 training is illustrated by the ratio of 4.9 training man-days per employee, i.e. 39 training hours per employee. For comparison, this ratio in 2009-2012 was 38, 26, 37 and 43 hours, respectively.

## TASKS IN THE AREA OF SECURITY AND PROTECTION OF INFORMATION PROCESSED BY THE PFSA OFFICE

In 2013, the PFSA Office executed tasks related to security and protection of classified information, physical protection and defensive preparations. The most important of them included:

- performance of obligations under the provisions of acts on the protection of classified information and on the protection of persons and property, as well as other sectoral acts,

- performance of obligations related to defence planning and non-military defence planning,
- ongoing co-operation with Krajowe Centrum Informacji Kryminalnych (National Centre for Criminal Information),
- fulfilment of the obligation under Article 47 of the Act on the organisation and functioning of pension funds,
- co-operation with bodies and institutions ensuring state security in the area of counteracting threats to the financial system security,
- supervising and monitoring IT security systems,
- supervising and monitoring physical security systems in the PFSA Office's premises and buildings,
- supervising and monitoring tasks in the area of crisis management, emergency planning and business continuity.

As regards the above-mentioned tasks, in the period covered by the report:

- the system of protection of classified information in the PFSA Office was strengthened, in particular in terms of the protection zones and a special protection zone,
- a cycle of training courses concerning state's defences in the context of the tasks of the PFSA Office was held,
- the Operational Plan of the PFSA Office Functioning and the Non-Military Defence Planning Questionnaire in the PFSA Office context were updated.
- the PFSA Office's Contingency Plan was reviewed and the project of the review of the Business Continuity Plan was launched,
- the access control systems and fire alarm systems were extended at the Office's premises,
- the audits of IT systems security were conducted (external tests and analysis of security of the interactive web applications made available),
- internal regulations as part of the Information Security System in the PFSA Office were developed.

#### INTERNAL INSPECTIONS AND COMPLAINTS ABOUT THE OPERATIONS OF THE OFFICE OF THE POLISH FINANCIAL SUPERVISION AUTHORITY AND CONDUCT OF THE EMPLOYEES OF THE OFFICE OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

In 2013, the PFSA Office executed tasks related to performing internal inspections aimed at:

- ongoing checks of effectiveness of exercising functional control in the PFSA Office;
- control of compliance of operations of organisational units, working teams or committees with the effective legal provisions and internal regulations of the PFSA Office;
- review of the PFSA Office functioning as regards lawfulness, usefulness and timeliness of the exercised tasks, and determining the procedure and measures that should be undertaken in order to correct irregularities and prevent them in the future.

Between 1 January 2013 and 31 December 2012, the internal control unit in the PFSA Office conducted 9 planned problem-oriented inspections and 1 ad-hoc problem-oriented inspection.

In 2013, explanatory activities were performed as regards handling complaints and requests concerning the work of the PFSA Office and conduct of PFSA Office employees. A total of 65 letters from 52 complaining parties were received in that scope.

#### INSPECTIONS BY EXTERNAL BODIES

Despite some irregularities, the Supreme Audit Office assessed positively the execution of the state budget in 2012 in section 70 Polish Financial Supervision Authority. The Supreme

Audit Office assessed positively the planning and execution of the budget revenue and actions taken to collect debts, and assessed positively the execution of expenditure under the PFSA budget. The irregularities indicated during the audit by NIK inspectors related to the classification of certain expenses to the relevant paragraphs of the budget expenditures classification, and the functioning of the financial reporting system. All irregularities were corrected during the audit. The post-audit comments and conclusions of the Supreme Audit Office were fully implemented in 2013.

In addition, during the period covered by the report, NIK audited the functioning of the system of protecting financial institution customers' rights. Following the audit, the Supreme Audit Office assessed positively the activity of the Polish Financial Supervision Authority and of its Office in relation to the protection of financial institution customers' rights in the period from the beginning of 2011 to the end of the first half of 2013.

## ANNEXES

### ANNEX 1. INFORMATION ON RESOLUTIONS, ADMINISTRATIVE DECISIONS AND RULINGS ISSUED BY THE PFSA IN 2013

**Table 1.1. Number of resolutions adopted by the PFSA in 2013**

Resolution subject	Number of adopted resolutions
<b>Issues regarding banking sector</b>	
Granting consent to appoint a management board president in a bank	27
Granting consent to appoint a management board member in a bank	11
Granting an authorisation to a merger of banks	5
Dismissing an administrator supervising the execution of rehabilitation proceedings	1
Stating that there are no grounds to raise an objection to the planned purchase of shares	4
Suspension of the person holding the position of the President of the Management Board from their duties	2
Suspension of the person holding the position of the Vice-President of the Management Board from their duties	2
Granting an authorisation to acquire the bank's continuing business	4
Indicating the conditions that the branch of a credit institution will be obliged to meet for the common good while pursuing business in the Republic of Poland	3
Decision to request the Management Board of the bank to convene an extraordinary general meeting	1
Other	14
<b>Total:</b>	<b>74</b>
<b>Cases concerning the sector of cooperative savings and credit unions</b>	
Defining a model application for the issue of an authorisation to establishing a cooperative savings and loan union	1
Specifying other forms of maintaining a liquidity provision in cooperative savings and credit unions	1
Appointing an administrator	3
Refusal to approve the president of the management board of a cooperative savings and loan union	1
Approval of the president of the management board of a cooperative savings and loan union	9
Refusal to issue an authorisation to the merger of unions	1
Other	1
<b>Total:</b>	<b>17</b>

Issues regarding payment services sector	
Granting an authorisation to provide payment services as a domestic payment institution	16
Refusing authorisation to provide payment services as a domestic payment institution	1
<b>Total:</b>	<b>17</b>
Issues regarding insurance market	
Granting consent to appoint a management board member in an insurance undertaking	7
Granting consent to appoint a management board president in an insurance undertaking	11
Imposing a fine	10
Discontinuation of proceedings	3
Upholding the decision	2
Revoking the decision	1
No grounds to raise an objection to the purchase of shares in a domestic insurance undertaking	5
Granting an authorisation to amend the object of activity of an insurance undertaking	1
Notification of a merger plan of insurance undertakings	1
<b>Total:</b>	<b>41</b>
Issues regarding pension market	
Granting an authorisation to amend the charter of a universal pension fund company	8
Granting an authorisation to amend the charter of an open-end pension fund	10
Granting an authorisation to accelerate the implementation date of amendments to the charter of an open-end pension fund	10
Granting an authorisation to amend the charter of a voluntary pension fund	6
Granting an authorisation to accelerate the implementation date of amendments to the charter of a voluntary pension fund	7
Granting an authorisation to purchase shares of a universal pension fund company	3
Granting an authorisation to the take-over of management in an open-end pension fund by a universal pension fund company	1
Withdrawing an authorisation to establish a universal pension fund company	1
Granting an authorisation to appoint a management board member in a universal pension fund company	8
Determining the weighted average rate of return and a minimum required rate of return of open-end pension funds and the deficit amount in open-end pension funds	2
Imposing a fine on a universal pension fund company	1
Granting an authorisation to amend the charter of an occupational pension fund company	2
Granting an authorisation to amend the charter of an occupational pension fund	5
Granting an authorisation to purchase shares in an occupational pension fund	1

Granting an authorisation to appoint a management board member in an occupational pension fund company	2
Upholding the decision	1
<b>Total:</b>	<b>68</b>
<b>Issues regarding capital market</b>	
Granting an authorisation to convert shares into certificated form (rematerialisation of shares)	5
Granting an authorisations to conduct brokerage activities	10
Granting an authorisation to conduct activity by an investment fund company	1
Granting consent to changing a depositary	27
Imposing fines on TFIs	6
Imposing fines on entities	24
Imposing fines on natural persons	6
Upholding the decision	23
Discontinuation of administrative procedure	2
Revoking the decision	11
No grounds to raise an objection to the planned purchase of shares of an investment fund company	2
Notifying a relevant regulator of another member state of the intention to conduct brokerage activities in this state	6
Objection to the purchase of shares of a company	1
Objection as to the intention of becoming an indirect parent	3
Objection as to the intention of becoming a direct parent	1
Granting consent to suspension of redeeming sub-fund units	1
Resolution on making the information on the issue of an administrative decision public	47
Suspending the powers of a securities broker	4
Granting consent to changes in the composition of the Management Board of GPW S.A.	5
Granting consent to changes in the composition of the Management Board of BondSpot S.A.	3
Decision on indicating a company as a news agency	1
Decision refusing consent to shorten the period of expiry of an authorisation to conduct brokerage activities	1
Decision ordering the transfer of financial instruments, cash and documents related to maintaining the accounts referred to in Article 69(4)(1) of the Act on trading	2
No grounds to raise an objection to the intent to perform brokerage activities-related operations outside the bank unit in which the brokerage activities are conducted.	2
No grounds to raise an objection to the purchase of shares in a brokerage house	1
Raising an objection to the purchase of shares in a brokerage house	3
Other	11
<b>Total:</b>	<b>209</b>
<b>Issues regarding internal organisation of the PFSA's work</b>	
Other	4
<b>Total:</b>	<b>4</b>

<b>Total</b>	<b>430</b>
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Source: in-house materials by the PFSA Office

**Table 1.2. Number of decisions and rulings issued under the authorisation granted by the PFSA in 2013**

Subject of decisions and rulings	Number of issued decisions and rulings
<b>Issues regarding banking sector</b>	
Discontinuation of proceedings on appointment of a new president/ member of the bank's management board (request withdrawal)	13
Discontinuation of proceedings in cases concerning the purchase of or subscription for shares or rights attached to shares or as to becoming a parent of a domestic bank	4
Granting an authorisation to amend the bank's charter	205
Discontinuation of proceedings on amendments to the bank's charter	2
Ruling on examination of testimonial evidence	9
Ruling on correcting editorial and other obvious errors	1
Ruling to resume proceedings	
Acceptance of recovery/ merger proceedings programmes	10
Calling upon banks to develop a recovery proceedings programme	5
Calling upon banks to develop another version of the recovery proceedings programme	7
Calling upon banks to develop an adjusted recovery proceedings programme	2
Decision on recognising subordinated loan liabilities under own funds	28
Decisions on recognising cash from the issue of long-term bonds under supplementary funds	21
Ruling refusing to issue a certificate of the determination of the power to issue bank enforcement titles	1
Expressing consent to limiting the scope of the translation of the consolidated financial statements	10
Caution due to the bank's failure to comply with the PFSA's recommendations to suspend profit distribution	1
Authorisation to enter into or amend the inter-company service agreement with a foreign entrepreneur	4
Ruling on taking a stand in the case for entering a bank into the list of guarantors referred to in Article 52(1) of the Customs Law Act	3
Granting an authorisation to open a representative office by a foreign bank or credit institution	3
Stating expiry of the authorisation to open a representative office of a foreign bank and credit institution	2
Authorisation to sell the bank's registered shares within a year of the entry into the register	
Granting an authorisation to the extension of the territory of operation of a cooperative bank	2
Notification of initiation of proceedings <i>ex officio</i>	11
Ruling on initiation of proceedings <i>ex officio</i>	3

Ruling stating non-observance of the time limit to file a request for the case reconsideration	1
Granting an authorisation to early repayment of cash under the subordinated loan recognised as the bank's Tier 2 capital	2
Discontinuation in other procedures	9
Other	15
<b>Total</b>	<b>374</b>
<b>Issues regarding payment services sector</b>	
Returning the request for entry into the Payment Service Register	1
Suspension of proceedings in the case of issuing an authorisation to the provision of payment services as a domestic payment institution	2
Discontinuing the proceedings in the case of issuing an authorisation to the provision of payment services as a domestic payment institution	6
Notification of initiation of an administrative procedure (for breach of Article 125(6) of the APS and Article 128(1)(2) of the APS or of both Articles)	42
Repeated notification of initiation of an administrative procedure (for breach of Article 125(6) of the APS and Article 128(1)(2) of the APS or of both these Articles)	13
Notification of initiation of an administrative procedure (for breach of Article 125(6) of the APS and Article 128(1)(2) of the APS or of both Articles)	183
<b>Total</b>	<b>247</b>
<b>Issues regarding cooperative savings and credit unions sector</b>	
Approval of the charter of a cooperative savings and loan union	51
Approval of amendments to the charter of a cooperative savings and loan union	5
Ruling refusing the initiation of proceedings	2
Discontinuation of proceedings on amendments to the charter of a cooperative savings and loan union	6
Discontinuation of proceedings on approving the president of a cooperative savings and loan union	3
Ruling admitting the National Union to proceedings on cooperative savings and credit unions	121
Ruling admitting cooperative savings and credit unions to proceedings on the National Union	6
Ruling on returning the petition	3
Ordering a cooperative savings and loan union to develop a recovery proceedings programme	44
Ordering a cooperative savings and loan union to develop another version of the recovery proceedings programme	47
Discontinuation of an administrative procedure due to the lack of grounds	2
Notification of initiation of proceedings ex officio	24
Discontinuation in other procedures	2
<b>Total</b>	<b>316</b>

Issues regarding insurance market	
Granting an authorisation/extending the scope of activity	1
Approval of amendments to the charter of an insurance undertaking	32
Stating the expiry of the decision	1
Decisions in cases concerning a direct or indirect purchase of or subscription for shares or rights attached to shares or as to becoming the parent of a domestic insurance undertaking	1
Entry into the register of actuaries	30
Recognising qualifications to perform a regulated profession - actuary	1
Ruling on suspension of the proceedings	7
Ruling on setting a new date for handling the case	30
Granting consent to recognise the subordinated loan as own funds	3
Discontinuation of proceedings	13
Granting an authorisation to recognise certain assets as assets for covering provisions other than the ones defined in Article 154(4) of the Act on Insurance Activity	73
Granting an authorisation to conduct brokerage activities as regards insurance	109
Granting an authorisation to conduct brokerage activities as regards reinsurance	7
Imposing a fine	4
Issuing a decision revoking an authorisation to conduct brokerage activities	35
<b>Total</b>	<b>347</b>
Issues regarding pension market	
Granting an authorisation to appoint a supervisory board member in a universal pension fund company	13
Granting an authorisation to change the depositary of an open-end pension fund	2
Granting an authorisation to amend an agreement with the depositary of an open-end pension fund	2
Granting an authorisation to change the depositary of a voluntary pension fund	2
Granting an authorisation to amend the agreement with a depositary of a voluntary pension fund	7
Granting an authorisation to appoint a supervisory board member in an occupational pension fund company	1
Granting an authorisation to amend the agreement with a depositary of an occupational pension fund	1
Expiry of the decision on granting an authorisation to partial amendment to the charter of a universal pension fund company	1
Expiry of the decision on granting an authorisation to accelerate the effective date of an amendment to the charter of an open-end pension fund	1
Entry of an occupational pension scheme to the register	33
Entry of amendments to an occupational pension scheme to the register	110
Removal of an occupational pension scheme from the register	55
Entry of the agreement on limiting the amount of calculated contributions to the register	4

Entry of the agreement on suspending calculation and payment of contributions to the register	11
Ruling on refusal to initiate proceedings	2
Ruling on suspending the proceedings	4
Ruling on resuming the suspended proceedings	5
Ruling on setting a new date for handling the case	5
Ruling on restoring the date for correction of formal defects/ irregularities	13
Refusal to extend the period for adjustment of a pension fund's investment activity to statutory requirements	2
Discontinuation of proceedings	7
Notification of identified irregularities in the operations of a pension fund, a pension fund company or depository bank	8
Notification of consideration of reservations made by the pension fund company to the content of the notification of identified irregularities in the operations of the pension fund	3
Approval of the annual financial statements of the basic part of Guarantee Fund developed by the Central Securities Depository of Poland.	1
<b>Total</b>	<b>293</b>
<b>Issues regarding capital market</b>	
Granting an authorisation to keeping commodity registers or accounts	5
Consent to internal merger of two sub-funds of an open-end investment fund or a specialist investment fund	4
Consent to internal merger of two open-end investment funds or specialist open-end investment funds	3
Authorisation to manage securitised debts of the securitisation fund by an entity other than the company	4
Authorisation to transform an open-end investment fund into a new sub-fund of the existing open-end investment fund with separated sub-funds, or a specialist open-end investment fund into a new sub-fund of the existing specialist open-end investment fund with separated sub-funds	4
Authorisation to amend the charter of an investment fund and to accelerate the implementation date of amendments to the fund's charter	53
Authorisation to establish a public closed-end investment fund, which is tantamount to approval of the issue prospectus of investment certificates	1
Authorisation to establish a specialist open-end investment fund	4
Authorisation to establish an open-end investment fund	1
Approval of the issue prospectus of investment certificates of a closed-end investment fund	2
Approval of the annex to the issue prospectus of investment certificates of a closed-end investment fund	10
Approval of amendments to the By-laws of Krajowy Depozyt Papierów Wartościowych S.A. (Central Securities Depository of Poland)	8
Approval of amendments to the Transaction Clearing Rules at KDPW_CCP S.A.	5
Approval of the Rules of the Settlement Guarantee Fund at KDPW_CCP S.A.	1

Granting consent to amend the charter of Towarowa Giełda Energii S.A.	1
Granting consent to amend the By-laws of Towarowa Giełda Energii S.A.	2
Granting consent to changes in the Trading Regulations of the OTC market BondSpot S.A.	2
Granting consent to amend the Rules of Giełda Papierów Wartościowych w Warszawie S.A. (WSE)	1
Granting consent to amend the Regulations of Giełda Papierów Wartościowych w Warszawie S.A. (WSE)	3
Approval by the Polish Financial Supervision Authority of the terms of trading in financial instruments other than securities	3
Granting an authorisation to intermediation in selling and redeeming investment fund units or shares of foreign funds	5
Entry into the register of investment firm agents	21
Recognising qualifications to perform the regulated profession of a securities broker, investment advisor or commodity broker	2
Refusal to admit a motion for evidence	1
Refusal to recognise qualifications to perform the regulated profession of a securities broker, investment advisor or commodity broker	1
Determining the need to complete an adaptation traineeship or to take a test of skills concerning the exercising of a regulated profession;	2
Revoking the decision	1
Decision on stating the expiry of the decision	4
Approval of an issue prospectus	29
Approval of an information memorandum	1
Approval of an annex to the issue prospectus	106
Approval of an annex to the information memorandum	1
Approval of the registration document	1
Stating equivalence of the information memorandum and the issue prospectus	2
Suspension of an administrative procedure	47
Resumption of an administrative procedure	16
Instigation of an administrative procedure ex officio	8
Discontinuation of administrative procedure	60
Instigating proceedings on a demand to change the call's content	1
Demand to change the call's content	1
Decision on a demand to suspend trading in shares of a public company	4
Decision on indicating a company as a news agency	1
Entry into the register of qualified investors	2
Entry into the list of investment advisors	67
Entry into the list of commodity brokers	47
Entry into the list of securities brokers	84
Granting an authorisation to extending the thematic scope of operation of an investment fund company to include management of portfolios comprising one or more financial instruments	4

Granting an authorisations to extend an investment fund company's operations to include investment advisory	2
Appointing a liquidator of an investment fund	2
Other	30
<b>Total</b>	<b>670</b>
<b>Cross-sectoral issues</b>	
Other	23
<b>Total</b>	<b>23</b>
<b>TOTAL</b>	<b>2270</b>

Source: in-house materials by the PFSA Office

## ANNEX 2. ISSUERS WHOSE ISSUE PROSPECTUSES WERE APPROVED BY THE POLISH FINANCIAL SUPERVISION AUTHORITY IN 2013

**Table 2.1. Issuers whose issue prospectuses were approved by the Polish Financial Supervision Authority in 2013**

Item	Issuer	Date of the issue prospectus' approval
1.	Polski Holding Nieruchomości SA	18.01.2013
2.	Mabion SA	28.02.2013
3.	Invista SA	26.03.2013
4.	Feerum SA	3.04.2013
5.	Dom Maklerski WDM SA	16.04.2013
6.	Getin Noble Bank SA	7.05.2013
7.	Pharmena SA	17.05.2013
8.	Tarczyński SA	17.05.2013
9.	Polski Koncern Naftowy ORLEN SA	24.05.2013
10.	OT Logistics SA	6.06.2013
11.	BNP Paribas Bank Polska SA	19.06.2013
12.	SEKO SA	24.06.2013
13.	Polimex-Mostostal SA	26.06.2013
14.	Jastrzębska Spółka Węglowa SA	2.07.2013
15.	e-Kancelaria Grupa Prawno-Finansowa SA	26.08.2013
16.	Tele-Polska Holding SA	17.09.2013
17.	PKP Cargo SA	4.10.2013
18.	MLP Group SA	7.10.2013
19.	Mercator Medical SA	18.10.2013
20.	Marvipol SA	30.10.2013
21.	Kruk SA	8.11.2013
22.	"Newag" SA	8.11.2013
23.	Vistula Group SA	12.11.2013
24.	Capital Park SA	14.11.2013
25.	Energa SA	15.11.2013
26.	Polnord SA	19.11.2013
27.	Elemental Holding SA	20.11.2013
28.	MFO SA	22.11.2013
29.	Vistal Gdynia SA	5.12.2013

Source: in-house materials by the PFSA Office

**Table 2.2. Issuers' memoranda whose equivalence with an issue prospectus was stated by the PFSA in 2013**

Item	Issuer	Date
1.	Makrum SA	28.02.2013
2.	EDF Rybnik SA	22.04.2013
3.	ZUE SA	30.10.2013

Source: in-house materials by the PFSA Office

**Table 2.3. Public closed-end investment funds whose issue prospectuses were approved by the PFSA in 2013**

Item	Fund	Date of the prospectus' approval
1.	PKO Globalnej Strategii FIZ (series A, B, C, D)	14.06.2013
2.	LEGG MASON Akcji Skoncentrowany FIZ (series D, E, F)	26.08.2013

Source: in-house materials by the PFSA Office

### ANNEX 3. THE LIST OF ITEMS OF THE OFFICIAL JOURNAL OF THE POLISH FINANCIAL SUPERVISION AUTHORITY ISSUED IN 2013

Item 1 of 11 January 2013. Announcement No 4/2012 of the Examination Board for Securities Brokers of 24 December 2012 on the date of the examination for securities brokers.

Item 2 of 11 January 2013. Announcement No 5/2012 of the Examination Board for Securities Brokers of 24 December 2012 on the thematic scope of the examination for securities brokers.

Item 3 of 22 January 2013. Announcement of the Polish Financial Supervision Authority of 17 January 2013 on the maximum technical rate.

Item 4 of 27 February 2013. Resolution No 359/2012 of the Polish Financial Supervision Authority of 20 December 2012 on the list of documents concerning the business of the entrepreneur or a foreign entrepreneur, annexed to the application for authorisations referred to in Article 6a(1)(1m) and Article 6d(1) the Banking Law Act.

Item 5 of 27 February 2013. Resolution No 7/2013 of the Polish Financial Supervision Authority of 8 January 2013 on the issue of Recommendation D concerning management of IT areas and IT environment safety at banks.

Item 6 of 27 February 2013. Resolution No 8/2013 of the Polish Financial Supervision Authority of 8 January 2013 on the issue of Recommendation M concerning operational risk management at banks.

Item 7 of 27 February 2013. Announcement of the Polish Financial Supervision Authority of 21 December 2012 on changing the data in the list of commodity brokers.

Item 8 of 5 March 2013. Resolution No 22/2013 of the Polish Financial Supervision Authority of 29 January 2013 on specifying the model application for granting an authorisation to establish a cooperative savings and loan union.

Item 9 of 18 March 2013. Resolution No 46/2013 of the Polish Financial Supervision Authority of 12 February 2013 on establishing other forms of maintaining a liquidity provision in cooperative savings and credit unions.

Item 10 of 29 March 2013. Announcement of the Chairman of the Polish Financial Supervision Authority of 27 March 2013 on the costs of supervision of payment service offices.

Item 11 of 25 April 2013. Resolution No 59/2013 of the Polish Financial Supervision Authority of 26 February 2013 on issue of Recommendation T concerning good practices related to the risk management of retail credit exposures.

Item 12 of 25 April 2013. Resolution No 70/2013 of the Polish Financial Supervision Authority of 12 March 2013 on the adoption of the Rules of the Arbitration Court at the Polish Financial Supervision Authority.

Item 13 of 19 June 2013. Announcement of the Polish Financial Supervision Authority of 4 June 2013 on changes to the data in the list of securities brokers.

Item 14 of 21 June 2013. Announcement of the Polish Financial Supervision Authority of 21 June 2013 on the publication of a uniform text of Resolution No 208/2011 of the Polish Financial Supervision Authority on detailed rules and conditions of considering exposures.

Item 15 of 21 June 2013. Announcement of the Polish Financial Supervision Authority of 21 June 2013 on the publication of a uniform text of Resolution No 384/2008 of the Polish Financial Supervision Authority on the requirements for identifying, monitoring and controlling exposure concentrations, including large exposures.

Item 16 of 28 June 2013. Announcement of the Polish Financial Supervision Authority of 7 June 2013 on changes to the data in the list of commodities brokers.

Item 17 of 11 July 2013. Announcement of the Chairman of the Polish Financial Supervision Authority

of 4 July 2013 on the amount of costs of supervision of payment institutions, the sum of payments made by all domestic payment institutions and the maximum amount due from all domestic payment institutions in 2012.

Item 18 of 25 July 2013. Announcement No 141 of the Examination Board for Investment Advisors of 2 July 2013 on the date of the first stage of the examination for investment advisors.

Item 19 of 25 July 2013. Announcement No 142 of the Examination Board for Investment Advisors of 2 July 2013 on the thematic scope of the examination for investment advisors.

Item 20 of 26 July 2013. Announcement No 1/2013 of the Examination Board for Securities Brokers of 19 July 2013 on the date of the examination for securities brokers and the supplementary examination.

Item 21 of 26 July 2013. Announcement No 2/2013 of the Examination Board for Securities Brokers of 19 July 2013 on the thematic scope of the examination for securities brokers and the supplementary examination.

Item 22 of 30 July 2013. Announcement of the Chairman of the Polish Financial Supervision Authority of 25 July 2013 on the amount of gross premium written of insurance undertakings and reinsurance undertakings and the costs of insurance supervision in 2012.

Item 23 of 13 August 2013. Resolution No 148/2013 of the Polish Financial Supervision Authority of 18 June 2013 on issue of Recommendation S concerning good practices related to the management of credit exposures

Item 24 of 14 August 2013. Announcement No 144 of the Examination Board for Investment Advisors of 7 August 2013 on the new date of the first stage of the next examination for investment advisors.

Item 25 of 26 August 2013. Order No 51/2013 of the Chairman of the Polish Financial Supervision Authority of 22 August 2013 on the thematic scope of the examinations for commodity brokers.

Item 26 of 11 September 2013. Announcement No 35 of the Examination Board for investment firms' agents of 3 September 2013 on the date of examination for investment firm agents.

Item 27 of 11 September 2013. Announcement No 36 of the Examination Board for investment firms' agents of 3 September 2013 on the thematic scope of the examination for investment firm agents.

Item 28 of 16 October 2013. Announcement of the Chairman of the Polish Financial Supervision Authority of 14 October 2013 on suspending advance payments for costs of supervision of insurance activity, reinsurance activity and insurance agency in 2013.

Item 29 of 20 December 2013. Announcement No 147 of the Examination Board for Investment Advisors of 3 December 2013 on the date of the first stage of the examination for investment advisors.

Item 30 of 20 December 2013. Announcement No 148 of the Examination Board for Investment Advisors of 3 December 2013 on the thematic scope of the examination for investment advisors.

Item 31 of 23 December 2013. Resolution No 429/2013 of the Polish Financial Supervision Authority of 20 December 2013 amending the Resolution on detailed rules and conditions for considering exposure when determining the observance of the exposure concentration limit.

Item 32 of 30 December 2013. Announcement No 3/2013 of the Examination Board for Securities Brokers of 23 December 2013 on the date of the examination for securities brokers and the supplementary examination.

Item 33 of 30 December 2013. Announcement No 4/2013 of the Examination Board for Securities Brokers of 23 December 2013 on the thematic scope of the examination for securities brokers and the supplementary examination.

Source: in-house materials by the PFSA Office

## ANNEX 4. LIST OF REGULATIONS AND DRAFT REGULATIONS WHICH THE PFSA OFFICE ADVISED ON IN 2013

**Table 4.1. List of regulations the PFSA Office advised on in 2013**

Item	Regulations
1.	Regulation of the Minister of Finance of 8 August 2013 on the detailed conditions for an information memorandum in connection with the public offering or seeking the admission of financial instruments to trading on a regulated market (Dz.U. of 2013, item 988).
2.	Regulation of the Minister of Finance of 25 July 2013 on the mode of keeping records of financial instruments by the Polish Financial Supervision Authority (Dz.U. 2013, item 987).
3.	Regulation of the Minister of Finance of 16 July 2013 on the operations of entities conducting activity in the scope of intermediation in selling and redeeming investment fund units and shares and the related investment advisory services (Dz.U. 2013, item 847).
4.	Regulation of the Minister of Finance of 22 May 2013 on issue prospectuses of open-end investment funds and specialist open-end investment funds, and on the calculation of the profit to risk ratio of such funds (Dz.U. 2013, item 673).
5.	Regulation of the Minister of Finance of 30 April 2013 on the manner, mode and conditions of pursuing business by investment fund companies (Dz.U. 2013, item 538).
6.	Regulation of the Minister of Finance of 30 April 2013 on concluding by an open-end investment fund of agreements concerning derivative instruments, including non-standard derivative instruments (Dz.U. 2013, item 537).
7.	Regulation of the Minister of Finance of 30 April 2013 on making investments by a closed-end investment fund in derivatives and some property rights (Dz.U. 2013, item 536).
8.	Regulation of the Minister of Finance of 4 April 2013 on the agreement setting out the terms of cooperation between the basic fund and the related fund, and internal rules of pursuing the business of basic fund and related fund management (Dz.U. 2013, item 470).
9.	Regulation of the Minister of Finance of 2 April 2013 on the scope of information contained in the information document of an investment fund (Dz.U. 2013, item 451).
10.	Regulation of the Minister of Finance of 28 March 2013 on the agreement specifying the rules of cooperation between entities authorised to audit financial statements of the basic fund and the related fund (Dz.U. 2013, item 450).
11.	Regulation of the Minister of Finance of 28 March 2013 on the agreement specifying the rules of cooperation between the depositaries of the basic fund and the related fund, and the types of irregularities that are considered to have a negative influence on the related fund (Dz.U. 2013, item 449).
12.	Regulation of the Minister of Finance of 1 July 2013 amending the Regulation on payments made to the Polish Financial Supervision Authority by regulated entities operating in the capital market (Dz.U. 2013, item 794).

Source: in-house materials by the PFSA Office

The legal acts indicated in items 1 and 2 of the above table are executory acts to the Act of 8 March 2013 amending the Act on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies, and certain other acts (Dz.U. of 2013, item 433).

The legal acts indicated in items 3-12 are executory acts prepared in connection with entry into force of the Act of 23 November 2012 amending the Act on Investment Funds and the Act on Financial Market Supervision (Dz.U. of 2013, item 70) implementing Directive 2009/65/EC.

**Table 4.2. List of proposals for regulations the PFSA Office advised on in 2013.**

Item	Proposals for regulations
1.	Proposal for a Regulation of the Minister of Finance on reporting obligations relating to trading in securities issued by the Treasury (opinion expressed in November 2013),
2.	Proposal for a Regulation of the Minister of Health on the specific scope and terms of determining the amount of benefits in the event of a medical occurrence.
3.	Proposal for a Regulation of the Minister of Finance on mandatory TPL insurance of real estate administrator.
4.	Proposal for a Regulation of the Minister of Finance on mandatory TPL insurance of real estate agent.
5.	Proposal for a Regulation of the Minister of Finance on mandatory TPL insurance of an entrepreneur pursuing the business of property expertise.
6.	Proposal for a Regulation of the Minister of Agriculture and Rural Development on the maximum sum insured for individual crops and livestock for 2014.
7.	Proposal for a Regulation of the Minister of Finance amending the Regulation on payments to cover the costs of operation of the Insurance Ombudsman and the Office of the Insurance Ombudsman.
8.	Proposal for a Regulation of the Minister of Finance on mandatory TPL insurance of an entrepreneur applying for the conclusion of an agreement to pursue the business of civil aviation protection in airports.
9.	Proposal for a Regulation of the Minister of Finance amending the Regulation on mandatory TPL insurance of brokerage activities.
10.	Proposal for a Regulation of the Minister of Finance amending the Regulation on mandatory TPL insurance of the agency business.
11.	Proposal for a Regulation of the Minister of Finance on model forms of a bank guarantee agreement and insurance guarantee agreement required in connection with effecting, by the payment service office, payment transactions under the agreement for the provision of payment services.
12.	Proposal for a Regulation of the Minister of Finance amending the Regulation on the percentage of the contribution paid by insurance undertakings for the Insurance Guarantee Fund and on payment dates.
13.	Proposal for a Regulation of the Minister of Finance on mandatory TPL insurance of an entrepreneur pursuing the business of personal and property security.
14.	Proposal for a Regulation of the Council of Ministers on the mode and dates of informing the Social Insurance Institution by an open-end pension fund about the conclusion of an agreement with a member and making a transfer payment.
15.	Proposal for a Regulation of the Council of Ministers on determining the maximum portion of assets of an open-end pension fund that may be invested in individual investment categories.
16.	Proposal for a Regulation of the Council of Ministers on additional limitations as regards conducting investment activities by pension funds.
17.	Proposal for a Regulation of the Minister of Labour and Social Policy on determining the model statement on having a spouse, on material relations of the insured with his or her spouse and indicating persons authorised to receive funds after the insured's death.
18.	Proposal for a Regulation of the Minister of Labour and Social Policy on detailed rules for the financial management of the Social Insurance Fund.
19.	Proposal for a Regulation of the Council of Ministers on the model statement by a member of an open-end pension fund to transfer contributions to an open-end pension fund, and on reading the information on the universal pension system and the current information on open-end pension funds.
20.	Proposal for a Regulation of the Council of Ministers on the Guarantee Fund.
21.	Proposal for a Regulation of the Minister of Labour and Social Policy on investing the funds of the Demographic Provision.
21.	Proposal for a Regulation of the Council of Ministers on the detailed method and mode of transfer of assets by open-end pension funds to the Social Insurance Institution (ZUS).
22.	Proposal for a Regulation of the Council of Ministers on disclosure requirements of pension funds.
23.	Proposal for a Regulation of the Council of Ministers on the manner and mode of concluding an agreement under which one may become a member of an open-end pension fund
24.	Proposal for a Regulation of the Council of Ministers on determining the maximum portion of

	assets of an open-end pension fund that may be invested in individual investment categories.
25.	Proposal for a Regulation of the Council of Ministers on additional limitations as regards conducting investment activities by pension funds.
26.	Proposal for a Regulation of the Council of Ministers on disclosure requirements of pension funds.

Source: in-house materials by the PFSA Office

## ANNEX 5. PROTECTION OF FINANCIAL MARKET PARTICIPANTS - ANALYTICAL ACTIONS TAKEN BY THE PFSA OFFICE

**Table 5.1 Protection of financial market participants - analytical actions taken by the PFSA Office**

Insurance Sector	
	Analysis of the practice of four insurance undertakings in relation to the correctness of providing access to claims files at the request of the aggrieved party, on the basis of Article 16(4) of the Act on Insurance Activity.
	Analysis of the three insurance undertakings in relation to the correctness of determining the amount of the insurance premium to be refunded for the unused period of insurance in the event of early repayment of the loan by the insured.
	Analysis of the practice applied by three insurance intermediaries in relation to the way of offering life insurance with unit-linked insurance funds to clients.
	Analysis of the practice of one insurance undertaking as regards renewing a voluntary insurance contract sold in a package with the mandatory TPL insurance of farmers and of agricultural buildings.
	Analysis of the practice of one insurance undertaking as regards insuring the policyholder's employees under group life insurance contracts.
	Analysis of the practice of two insurance undertakings as regards the manner and the dates of charging fees related to the management of unit-linked insurance funds in the context of the provisions of the general conditions of insurance.
	Analysis of the practice of two insurance undertakings as regards the premium calculation for the new owner (buyer) of the vehicle.
	Analysis of the practice of one insurance undertaking as regards settlement proposals, which was treated by the insurance undertaking as the fulfilment of the obligation under Article 14(1) of the Act on compulsory insurance, UFG and PBUK, without the simultaneous payment of the undisputed part of the compensation.
	Analysis of the practice of one insurance undertaking as regards determining the rate of renting a replacement car.
	Analysis of the practice of an insurance broker as regards the timeliness of transferring, to the insurance undertaking, requests for payment of the compensation.
	Analysis of signals about the operations of an insurance intermediary of one life-insurance undertaking as regards the identified cases of fraud and obtaining money under false pretences.
	Analysis of provisions of the general conditions of insurance and the practice of one insurance undertaking as regards the method of selecting the fund to which the policyholder's funds are transferred if they fail to indicate a specific unit-linked insurance fund(s).
	Analysis of the practice of one insurance undertaking as regards the cooperation with agents, in particular the transferring of insurance documentation by agents.
	Analysis of the practice of insurance undertakings as regards assistance to the aggrieved parties and the insured in selling the residues of the vehicle under the TPL insurance of vehicle owners and comprehensive motor insurance.
	Analysis of the practice of one insurance undertaking as regards the review of received insurance applications, on the basis of which life insurance contracts with a unit-linked insurance fund were concluded.
	Analysis of the practice of one insurance undertaking as regards the method of confirming the coverage under group life insurance contracts.
	Analysis of the general terms of life insurance with unit-linked life insurance plans applied by the selected insurance undertakings, as regards making payments of the redemption value and charging the associated fees (liquidation fee, redemption ratio).
	Analysis of the practice of two insurance undertakings as regards their compliance with Article 105(2) of the Act on insurance obligations.
	Analysis of the practice of two insurance undertakings as regards the manner of claim settlement in the

cost estimate variant, in the context of provisions of the general terms of comprehensive motor insurance.
Analysis of the practice of one insurance undertaking as regards the adopted rules of terminating or withdrawing, by customers, from the insurance contracts concluded by means of communication at a distance.
Analysis of the practice of one insurance undertaking as regards the rules of refunding the costs of renting a replacement car as the claim settlement under the mandatory TPL insurance of vehicle owners.
Analysis of the practice of one insurance undertaking as regards acceding to the agreement of group insurance of an insured acting through an attorney.
Analysis of the practice of two insurance undertakings as regards the refund of the insurance premium for the unused period of insurance under the TPL insurance of a vehicle owner.
Analysis of the practice of one insurance undertaking as regards the method of measuring the unit in a unit-linked insurance fund in several structured insurance products.
Analysis of the practice of one insurance undertaking as regards the rule of verifying the persons acting as attorneys of the aggrieved party.
Analysis of the practice of one insurance undertaking as regards the cooperation with insurance agents, in particular as regards collecting and accounting for the insurance premiums collected.
Analysis of the practice of one insurance undertaking as regards the rules of payment of compensation for individual insurance occurrences in the context of the provisions of the general terms of insurance.
<b>Pension sector</b>
Analysis of the practice of one open-end pension fund as regards the correctness of preparing individual questionnaire of participation in an occupational pension scheme.
<b>Banking sector</b>
Analysis of the practice of one bank as regards the monitoring and oversight of Private Banking portfolios in the context of security of transactions.
Analysis of the practice of one bank as regards the compliance of the fees charged with TOPiR.
Analysis of the practice of one bank as regards the termination of a group life insurance contract of borrowers with a loan for housing purposes.
Analysis of the practice applied by the selected banks as regards offering customers only payment instruments with the contactless functionality.
Analysis of the procedure of one bank as regards lack of possibility to appoint an attorney to the IKE account.
Analysis of the practice applied by one bank as regards the correctness of repaying the funds from expired fix-term deposits.
Analysis of the practice applied by one bank as regards making the history of expired deposits available in the electronic banking system and informing customers of this fact.
Analysis of the practice of one bank as regards the irregularity involving the transfer of funds from expired deposits, together with interest, to the bank's internal account instead of the accounts specified by the customers.
Analysis of the practice of one bank as regards the manner of charging interest in the case of total repayment of credit card debt.
Analysis of the practice applied by one bank as regards its cooperation with the banking product distributor in the context of correct service of customers.
Analysis of the practice of one bank as regards the divergence in presenting information about the amount of loan instalments on statements in the paper form and electronically.
Analysis of the practice of one bank as regards the issue of indefinite adjustments to amounts in the customer's bank account, without the customer's consent and prior notice.
Analysis of a bank's practice involving the use of the rate of interest on deposits not from the date of opening a deposit but from the date of the actual opening of the deposit in the bank's IT system (these dates could be different).
Analysis of a case of payment by a bank of funds from the bank account of a deceased holder to an unauthorized person.
Analysis of the practice of one bank as regards making credit enquiries in Biuro Informacji Kredytowej S.A.
Analysis of a bank's practice involving the differentiation, in terms of fees, transfers in foreign currency and payments in foreign currency of cash to the account for repayment of long-term loan denominated in a foreign currency in the context of Article 75b of the Banking Law Act.
Analysis of the practice applied by one bank as regards confirming the receipt of a complaint submitted electronically.

Analysis of the practice applied by one bank as regards the correctness of setting revolving credit limits.
Analysis of a bank's practice of establishing the rules for setting and changing the interest rate of a loan in the context of the possibility to apply contractual clauses identical to the clauses deemed abusive.
Analysis of a bank's practice of application of the provisions of TOPiR defining the bank's right to charge fees for the "enforcement of a writ of execution and a document having the same legal validity" in the context of the application of contractual clauses identical to the clauses deemed abusive.
Analysis of the case occurring in one bank, involving the possibility to make card transaction using a contactless feature in excess of the awarded credit limit.
Analysis of the practice of one bank as regards opening bank accounts through a website in the context of security of this operation.
Analysis of the practice of one bank as regards the manner of conducting debt collection activities and collection costs charged.
Analysis of the practice of one bank as regards the authorisation of card transactions and blockade of funds after the approval of the authorisation.
Analysis of the practice applied by one bank as regards establishing the amount of credit instalments following a change in the interest rate.
Analysis of the case of selling the same claim by banks twice.
Analysis of the practice of one bank as regards the correctness of charging a fee for transfers from the savings account.
Analysis of the practice applied by one bank as regards reservation of the documents of the bank's customers or persons other than the bank's customers.
Analysis of the practice of one bank as regards the processing of card complaints in the chargeback mode.
Analysis of the practice of one bank as regards the processing of debt collection from the bank account at the request of a competent execution authority.
Analysis of the practice of one bank as regards the applied rules of charging fees for the service of payments from all ATMs
<b>Capital sector</b>
Analysis of the practice applied by one brokerage house as regards the correctness of presenting information in the online trading system.
<b>Payment services provided by entities other than banks</b>
Analysis of the accuracy of data presented on the service website of one of the payment service providers as regards identifying the entity that owns the site.
Analysis of the accuracy of data presented on the service website of one of the payment service providers as regards identifying the entity that owns the site.
<b>Cooperative savings and loan unions</b>
Analysis of the practice followed by one union as regards the rules of conduct in the case of seizure by a bailiff.
Analysis of the practice as regards the manner of conducting debt collection activities by a third party on behalf of a union.

Source: in-house materials by the PFSA Office

## ANNEX 6. COMPLAINTS TO THE PFSA, BY SUBJECT

**Table 6.1. Complaints filed with the PFSA Office about the operations of commercial banks, by subject, 2012-2013**

Complaint subject	2012	%	2013	%
Service quality	1080	25.84	1331	26.80
Loans and borrowings	948	22.68	1197	24.10
Account maintenance	934	22.34	1113	22.41
Mortgage loans	488	11.67	427	8.60
Credit cards	148	3.54	168	3.38
Payment cards	106	2.54	148	2.98
Other bank operations	91	2.18	141	2.84
Merger	3	0.07	7	0.14
Other complaints	382	9.14	435	8.76
<b>Total</b>	<b>4180</b>	<b>100</b>	<b>4967</b>	<b>100</b>

Source: in-house materials by the PFSA Office

**Table 6.2. Complaints filed with the PFSA Office about the operations of cooperative banks, by subject, 2012-2013**

Complaint subject	2012	%	2013	%
Account maintenance	24	27.27	14	16.87
Service quality	24	27.27	19	22.89
Loans and borrowings	16	18.18	23	27.71
Mortgage loans	0	0.00	4	4.82
Other bank operations/ services	3	3.41	2	2.41
Other complaints by clients	21	23.86	21	25.30
<b>Total</b>	<b>88</b>	<b>100</b>	<b>83</b>	<b>100</b>

Source: in-house materials by the PFSA Office

**Table 6.3. Complaints to the PFSA Office about life insurance undertakings, by subject, 2012-2013**

Complaint subject	2012	%	2013	%
Information policy of insurance undertakings	86	23.12	131	28.35
Refusal to settle the claim	67	18.01	71	15.37
Repurchase amount	36	9.68	76	16.45
Tardiness	33	8.87	20	4.33
Agent's negligence	31	8.33	69	14.94
Claim amount	25	6.72	22	4.76
Valuation of UFK units	23	6.18	12	2.60
Problems with agreement termination	14	3.76	21	4.55
Premium reimbursement	13	3.49	9	1.95

Agent's complaint about the insurance undertaking	8	2.15	0	0.00
Refusal to provide access to files	8	2.15	8	1.73
Amount of sum insured	6	1.61	6	1.30
Withdrawal from an agreement	6	1.61	7	1.52
Premium amount	5	1.34	5	1.08
Change of contractual conditions	4	1.08	1	0.22
Refusal to insure	3	0.81	0	0.00
Personal data protection	2	0.54	0	0.00
GCI interpretation	1	0.27	0	0.00
Premium indexation	1	0.27	3	0.65
The method of contract performance	0	0.00	1	0.22
<b>Total</b>	<b>372</b>	<b>100</b>	<b>462</b>	<b>100</b>

Source: in-house materials by the PFSA Office

**Table 6.4. Complaints filed with the PFSA Office about non-life insurance undertakings, by subject, 2012-2013**

Complaint subject	2012	%	2013	%
Tardiness	1034	37.86	1098	27.92
Claim amount	867	31.75	1803	45.84
Refusal to settle the claim	419	15.34	549	13.96
Refusal to provide access to files	149	5.46	228	5.80
Problems with agreement termination	98	3.59	84	2.14
Information policy of a non-life insurance undertaking	59	2.16	70	1.78
Premium amount	42	1.54	48	1.22
Premium reimbursement	35	1.28	20	0.51
Withdrawal from an agreement	8	0.29	7	0.18
Refusal to insure	5	0.18	5	0.13
Amount of sum insured	4	0.15	1	0.03
Agent's negligence	2	0.07	8	0.20
GCI interpretation	2	0.07	3	0.08
Agent's complaint about the insurance undertaking	2	0.07	3	0.08
Change of contractual conditions	2	0.07	1	0.03
Personal data protection	2	0.07	1	0.03
Questioning power of attorney by an insurance undertaking	1	0.04	0	0.00
Breach of insurance secret	0	0.00	1	0.03
The method of contract performance	0	0.00	3	0.08
<b>Total</b>	<b>2731</b>	<b>100</b>	<b>3933</b>	<b>100</b>

Source: in-house materials by the PFSA Office

**Table 6.5. Complaints to the PFSA Office about branches of insurance undertakings of EU Member States, by subject, 2012-2013**

Complaint subject	2012	%	2013	%
Tardiness	125	51.44	241	48.10
Claim amount	50	20.58	159	31.74
Refusal to settle the claim	16	6.58	43	8.58
Information policy of an insurance undertaking	15	6.17	11	2.20
Premium amount	13	5.35	5	1.00
Refusal to provide access to files	11	4.53	27	5.39
Problems with agreement termination	7	2.88	4	0.80
GCI interpretation	2	0.82	1	0.20
Agent's negligence	1	0.41	3	0.60
Withdrawal from an agreement	1	0.41	3	0.60
Premium reimbursement	1	0.41	1	0.20
Change of contractual conditions	1	0.41	0	0.00
Personal data protection	0	0.00	1	0.20
Amount of sum insured	0	0.00	2	0.40
<b>Total</b>	<b>243</b>	<b>100</b>	<b>501</b>	<b>100</b>

Source: in-house materials by the PFSA Office

**Table 6.6. Complaints to the PFSA Office about open-end pension funds, by subject, 2012-2013**

Complaint subject	2012	%	2013	%
Irregularities in making transfers to other funds	327	91.09	7	18.92
Conducting acquisition activity	16	4.46	1	2.70
Funds gathered in the account in an open-end pension fund	6	1.67	8	21.62
Information activity of the fund	4	1.11	2	5.41
Irregularities concerning the distribution and payments of funds gathered in the account	3	0.84	14	37.84
Complaints concerning data in the register of open-end pension fund members and changes thereto	2	0.56	3	8.11
Irregularities in the process of concluding membership agreements	1	0.28	0	0.00
Pending	0	0.00	2	5.41
<b>Total</b>	<b>359</b>	<b>100</b>	<b>37</b>	<b>100</b>

Source: in-house materials by the PFSA Office

**Table 6.7. Complaints filed with the PFSA Office about the operations of companies listed on the regulated market, by subject, 2012-2013**

Complaint subject	2012	%	2013	%
Corporate rights of shareholders	4	40.00	0	0.00
Disclosure obligations	3	30.00	1	8.33

Public subscription for shares	1	10.00	0	0.00
Market price of the security	0	0.00	6	50.00
Other	2	20.00	5	41.67
<b>Total</b>	<b>10</b>	<b>100</b>	<b>12</b>	<b>100</b>

Source: in-house materials by the PFSA Office

**Table 6.8. Complaints filed with the PFSA Office about the operations of investment firms, by subject, 2012-2013**

Complaint subject	2012	%	2013	%
Quality of services provided	27	29.35	33	37.50
Execution of recommendations	20	21.74	0	0.00
Recommendations	15	16.30	3	3.41
Rate of fees and commissions	9	9.78	5	5.68
Service provision via Internet	4	4.35	5	5.68
Public issue support	3	3.26	3	3.41
Management result	2	2.17	4	4.55
The amount of tax collected	2	2.17	0	0.00
Distribution of units in investment firm	1	1.09	0	0.00
Distribution of investment certificates	1	1.09	1	1.14
Execution of calls	1	1.09	11	12.50
The collection of capital gains tax	0	0.00	2	2.27
Maintenance of IKE	0	0.00	1	1.14
Other	7	7.61	20	22.73
<b>Total</b>	<b>92</b>	<b>100</b>	<b>88</b>	<b>100</b>

Source: in-house materials by the PFSA Office

**Table 6.9 Complaints filed with the PFSA Office about the operations of investment fund companies, by subject, 2012-2013**

Complaint subject	2012	%	2013	%
Implementation of investment policies	23	30.67	16	24.62
Valuation of units in investment firm	13	17.33	5	7.69
Order execution period (refers to units in investment firm)	7	9.33	6	9.23
The rate of charged capital gains tax	6	8.00	0	0.00
Valuation of investment certificates	6	8.00	4	6.15
Quality of services provided	4	5.33	13	20.00
Quality of service relating to individual pension accounts	4	5.33	0	0.00
Actions of an investment fund company after a member's death	3	4.00	0	0.00
Rate of fees and commissions	2	2.67	1	1.54
Fund liquidation	2	2.67	3	4.62
Service provision via Internet	1	1.33	1	1.54
Merger of investment funds	1	1.33	3	4.62

Order execution date (refers to investment certificates)	0	0.00	1	1.54
Succession to units in investment firms	0	0.00	2	3.08
Maintenance of IKE	0	0.00	3	4.62
Other	3	4.00	7	10.77
<b>Total</b>	<b>75</b>	<b>100</b>	<b>65</b>	<b>100</b>

Source: in-house materials by the PFSA Office

## ANNEX 7. SUMMARY OF SEMINARS AND TRAINING WORKSHOPS ORGANIZED BY THE PFSA OFFICE UNDER THE CEDUR PROJECT IN 2013

**Table 7.1. Training seminars for representatives of regulated entities (broken by sector) as part of the CEDUR (Educational Centre for Market Participants) initiative**

Item	Seminar subject	Seminar date
<b>Banking sector</b>		
1.	Consumer rights in contractual relationships regarding the selected banking activities. Part One (consumer protection, the bank's information obligations, bank accounts)	22 January 2013
2.	Consumer rights in contractual relationships regarding the selected banking activities. Part two (institutional protection of the banking system, bank accounts - payment services, electronic payment instruments, loans, borrowings)	5 February 2013
3.	Consumer rights in contractual relationships regarding the selected banking activities. Part Three (special protection of consumer rights - consumer loans, consumer disputes)	19 February 2013
4.	Legally protected secrets in banking operations	19 March 2013
5.	Legal aspects of the relationship of the payer and the recipient in relation to payment service providers	11 April 2013
6.	Amendment to Recommendation M	17 April 2013
7.	Experiences from inspections at banks as regards anti-money laundering and combating the financing of terrorism. Changes resulting from the proposal of the EU Fourth AML/CFT Directive from the banking market perspective (first edition)	14 May 2013
8.	Experiences from inspections at banks as regards anti-money laundering and combating the financing of terrorism. Changes resulting from the proposal of the EU Fourth AML/CFT Directive from the banking market perspective (second edition)	24 May 2013
9.	Assumptions for the proposal of the Reverse Mortgage Act.	11 June 2013
10.	Principles of the incurrence of banking supervision cost by banks	8 August 2013
11.	Bank's debt collection. Part One	3 September 2013
12.	Principles of debt concentration in the aspect of Article 71 of the Banking Law Act and the resolutions of the PFSA	19 September 2013
13.	Outsourcing in banking operations	26 September 2013

14.	Bank's debt collection. Part Two	29 October 2013
15.	Relations with non-professional participants of the financial market in the context of the disclosure obligations arising from the law and the PFSA guidelines	30 October 2013
16.	The Act on Payment Services and its impact on the operations of banks in Poland (a seminar addressed also to the payment services sector entities)	14 November 2013
17.	The new requirements resulting from the amendment of the Act on consumer credit	19 November 2013
<b>Cooperative savings and credit unions (SKOK) sector</b>		
1.	Issues related to the protection of confidential information in SKOKs; interpretation of the binding legislation	7 June 2013
2.	Reporting of cooperative savings and credit unions in practice	18 July 2013
3.	The method of calculating solvency ratios in cooperative savings and credit unions	5 September 2013
4.	The role of internal audit in cooperative savings and credit unions	10 October 2013
5.	Contractual relations in the practice of SKOKs operations: consumer credit agreement	12 December 2013
6.	Contractual relations in the practice of SKOKs operations: (personal and material) debt security	17 December 2013
<b>Payment services sector</b>		
1.	The rules for determining, paying and accounting for payments on account of the cost of supervision of payment service offices (first edition)	18 April 2013
2.	The rules for determining, paying and accounting for payments on account of the cost of supervision of payment service offices (second edition)	19 April 2013
3.	Principles and procedures for financing the costs of the payment services sector supervision (domestic payment institutions)	2 July 2013
4.	The Act on Payment Services and its impact on the operations of banks in Poland (a seminar addressed also to the banking sector entities)	14 November 2013
5.	Performing operations relating to the provision of payment services by payment service providers - selected legal issues	3 December 2013
<b>Capital market</b>		
1.	Experiences from inspections at capital market entities as regards anti-money laundering and combating the financing of terrorism. Changes resulting from the proposal of the EU Fourth AML/CFT Directive from the capital market perspective	21 May 2013
2.	Changes in regulations relating to the public offering and the prospectus	6 June 2013
3.	Substantial block of shares in public companies	8 October 2013
4.	Irregularities in respect of the disclosure obligations - the experience based on the penalties imposed by the PFSA and a list of persons having access to confidential information	5 November 2013

5.	Interim reporting - compliance with the financial framework	18 November 2013
6.	New disclosure obligations of issuers	21 November 2013
7.	Selected aspects of protecting the interests of investment fund participants	28 November 2013
<b>Insurance Sector</b>		
1.	BION as a tool of risk-based supervision	20 March 2013
2.	Experiences from inspections on the insurance market as regards anti-money laundering and combating the financing of terrorism. Changes resulting from the proposal of the EU Fourth AML/CFT Directive from the insurance market perspective	28 May 2013
3.	Principles and procedures for financing the costs of the insurance sector supervision	4 July 2013
4.	Register of Insurance Agents - the correct preparation of applications	4 November 2013
5.	Problems in selected risk modelling aspects	11 December 2013
<b>Pension sector</b>		
1.	The principles of supervision of voluntary pension funds operating individual pension accounts (IKE) and individual pension security accounts	23 May 2013
2.	Amendment to the Act on Organisation and Functioning of Pension Funds	3 June 2013
3.	The rules of incurring the costs of supervision by universal pension fund companies	16 July 2013
4.	Administrative sanctions as provided for in the Act on Organisation and Functioning of Pension Funds	24 September 2013
5.	The status of a depositary as provided for in the Act on Organisation and Functioning of Pension Funds	15 October 2013
<b>Cross-sectoral</b>		
1.	The role of the audit committee in a financial institution and a public company	20 June 2013

Source: in-house materials by the PFSA Office

**Table 7.2. Seminars for judges and public prosecutors as well as representatives of law enforcement agencies, as part of the CEDUR (Educational Centre for Market Participants) initiative**

Item	Seminar subject	Seminar date
1.	Deposit and lending activity of banks and its legal protection. Part Three	7 March 2013
2.	Protection of confidential information in a bank, and the powers of a prosecutor to their acquisition	8 March 2013

3.	Money deposits in banks - protection of a depositary. Part Two	16 April 2013
4.	Legal risk in banking operations. Part Two	25 April 2013
5.	Issues associated with anti-money laundering and combating the financing of terrorism based on the PFSA experiences	20 May 2013
6.	A bank - the institution of public trust, and the boundaries of legality of banking activities	21 May 2013
7.	The system of anti-money laundering and combating the financing of terrorism in financial institutions - experiences of the financial supervision	27 September 2013
8.	Selected aspects of the legal protection of financial market participants - offences related to pursuing business without an authorisation of the PFSA (first edition)	3 October 2013
9.	Selected aspects of the legal protection of financial market participants - offences related to pursuing business without an authorisation of the PFSA (second edition)	4 October 2013
10.	Deposit and lending activity of banks and its legal protection. Part Four	17 October 2013
11.	Legal protection of operations of banks, and the operations of near-banks	18 October 2013
12.	Lectures for police officers: "Pyramid schemes - how they raise funds and how to identify them? Can near-banks operate legally in Poland? The offense of unauthorized operations according to the types set out in the financial market regulations. The scope of cooperation of the Polish Financial Supervision Authority with the Police; Alternative payment tools - virtual currencies (first edition) "- as part of training workshops on combating economic crime, organized by the Police Headquarters	6 November 2013
13.	The banking offenses not specified in the code from a system perspective. Part One	13 November 2013
14.	The banking offenses not specified in the code from a system perspective. Part Two	14 November 2013
15.	Lectures for police officers: "Pyramid schemes and public warnings" - as part of the training organized by the Police Headquarters	21 November 2013
16.	Lectures for police officers: "Pyramid schemes - how they raise funds and how to identify them? Can near-banks operate legally in Poland? The offense of unauthorized operations according to the types set out in the financial market regulations. The scope of cooperation of the Polish Financial Supervision Authority with the Police; Alternative payment tools - virtual currencies (second edition) "- as part of training workshops on combating economic crime, organized by the Police Headquarters	12 December 2013
17.	Lectures for police officers: "Pyramid schemes - how they raise funds and how to identify them? Can near-banks operate legally in Poland? The offense of unauthorized operations according to the types set out in the financial market regulations. The scope of cooperation of the Polish Financial Supervision Authority with the Police; Alternative payment tools - virtual currencies (third edition) "- as part of training workshops on combating economic crime, organized by the Police Headquarters	16 December 2013

Source: in-house materials by the PFSA Office

**Table 7.3. Seminars for local and regional consumer ombudsmen, as part of the CEDUR (Educational Centre for Market Participants) initiative**

Item	Seminar subject	Seminar date
1.	Complaints of insurance market participants - the analysis of problems	15 April 2013
2.	Banking Law from the point of view of consumer protection	22 May 2013
3.	The pursuit of claims by a bank, trading in bank debt	23 May 2013
4.	The Act on Payment Services and the protection of payment services customer	7 November 2013

Source: in-house materials by the PFSA Office

**Table 7.4. Workshops for teachers of economic subjects, as part of the CEDUR (Educational Centre for Market Participants) initiative**

Item	Seminar subject	Seminar date
1.	Various forms of investing in the financial market and the resulting risk	13 March 2013
2.	Stock exchange trading mechanisms	13 March 2013
3.	Market circulation of money	13 March 2013
4.	Principles of safe investment and the rudiments of the capital market functioning	26 November 2013
5.	Consumers in the banking market - rights and responsibilities	26 November 2013
6.	Analysis of bank offers with particular emphasis on deposit and credit products	26 November 2013

Source: in-house materials by the PFSA Office

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