



Report on Activities of the Polish Financial Supervision Authority in 2007

Pursuant to Art. 4.2 of the Act on Financial Market Supervision of July 21st 2006, the Polish Financial Supervision Authority is obliged to present an annual report on its activities to the President of the Council of Ministers by July 31st of the following year. In order to comply with this statutory obligation, the PFSA approved this Report on Activities of the Polish Financial Supervision Authority in 2007 at its XLIV meeting held on April 1st 2008.

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The background features a low-angle, upward-looking view of several modern skyscrapers with glass facades. The buildings are partially obscured by a semi-transparent grid pattern that covers the entire page. The sky is a pale blue with some light clouds. The overall aesthetic is clean, professional, and modern.

Polish Financial Supervision Authority



Polish Financial Supervision Authority

The Polish Financial Supervision Authority (“PFSA”, “regulator”) commenced its activities on September 19th 2006, i.e. the date when the Act on Financial Market Supervision of July 21st 2006 (DzU of 2006, No. 157, item 1119, as amended) came into force. The new authority took over the powers of the Insurance

and Pension Funds Supervision Commission and the Securities and Exchange Commission, which were abolished by the said Act. As of January 1st 2008, the PFSA took over the powers of the Commission for Banking Supervision.

Mission

In 2007, the Polish Financial Supervision Authority exercised supervision over the funded pension market, the insurance market and the capital market, and supplementary supervision over financial conglomerates which include any of the regulated entities. PFSA's tasks also included:

- ▶ taking actions conducive to correct functioning of the financial market;
- ▶ taking actions aimed at development of the financial market and promotion of its competitiveness;
- ▶ engaging in educational activity and activity related to dissemination of information on the operation of the financial market;
- ▶ participating in the preparation of draft legal acts related to financial market supervision;

- ▶ creating conditions for amicable and conciliatory resolution of disputes between the financial market participants, in particular disputes arising in connection with contractual relations between entities regulated by PFSA and their clients;
- ▶ performance of other statutorily defined tasks.

The purpose of financial market supervision is to ensure correct operation of the financial market, its stability, security and transparency as well as confidence in the financial market; and to ensure protection of the interests of its participants.

The activities of the PFSA are supervised by the President of the Council of Ministers.

Rules of Operation

Within the scope of its competence, the PFSA adopts resolutions and issues administrative decisions and rulings. The PFSA adopts resolutions with a simple majority of votes, in an open vote, in the presence of at least four of its members, including the Chairperson or a Vice-Chairperson. In the case of a voting tie, the Chairperson has the casting vote.

PFSA resolutions are signed on its behalf by the Chairperson, or, in the Chairperson's absence, by an authorised Vice-Chairperson.

Composition

The PFSA is a collective body composed of the Chairperson, two Vice-Chairpersons and four members: the minister competent for financial institutions or such minister's representative, the minister competent for social security or such minister's representative,

President of the National Bank of Poland or Deputy President delegated by him, and a representative of the President of Poland.

In 2007, the Polish Financial Supervision Authority was composed of:

STANISŁAW KLUZA
Chairperson

ARTUR K. KLUCZNY
Vice-Chairperson (from October 1st 2007)

MARCIN GOMOŁA
Vice-Chairperson (until September 30th 2007)

IWONA DUDA
Vice-Chairperson (until December 3rd 2007)

Representative of the Minister of Finance
ADAM PEŹIOŁ
Member from November 8th 2007
ARKADIUSZ HUZAREK
Member until November 7th 2007

Representative of the Minister of Labour and Social Policy
AGNIESZKA CHŁOŃ-DOMIŃCZAK
Member from August 23rd 2007
LESŁAW GAJEK
Member from August 21st 2007 to August 22nd 2007.
ANNA KALATA
Member until August 20th 2007

Deputy President of National Bank of Poland
KRZYSZTOF RYBIŃSKI
Member from February 14th 2007
JERZY PRUSKI
Member until February 13th 2007

Representative of the President of Poland
DANUTA WAWRZYŃKIEWICZ
Member from October 23rd 2007
HENRYK CIOCH
Member until October 22nd 2007

Meetings and Resolutions

In 2007, the PFSA held 25 meetings, and adopted 358 resolutions.

Table 1. List of the resolutions adopted by the PFSA in 2007

Subject matter	Number of resolutions adopted
Matters relating to the insurance market	
authorisation to conduct insurance activity	1
approval of amendments to articles of association of insurance undertaking	41
approval of appointment of member of management board of insurance undertaking	14
approval of appointment of president of management board of insurance undertaking	12
approval of acquisition of or subscription for shares in insurance undertaking	6
objection to acquisition of shares in insurance undertaking	2
decisions relating to imposition of fines	4
upholding previous decisions	1
discontinuation of administrative proceedings	8
approval of agreement on transfer of insurance portfolio	3
other matters	16
	Total: 108
Matters relating to the funded pension market	
approval of amendments to articles of association of general pension fund company	6
approval of amendments to articles of association of open-end pension fund	11
approval of shortening of waiting period for amendments to articles of association of open-end pension fund to become effective	13
approval of appointment of members of management board of general pension fund company	7
approval of amendments articles of association of occupational pension fund company	4
approval of amendments to articles of association of occupational pension fund	1
approval of appointment of members of management board of occupational pension fund company	1
other matters concerning proceedings related to operation of occupational pension schemes	3
determination of weighted average rate of return, minimum required rate of return and amount of deficit for open-end pension funds	2
decisions relating to imposition of fines on general pension fund companies	3
discontinuation of proceedings	2
expiry of decision	1
approval of acquisition of shares in general pension fund companies	3
approval of change of the custodian of open-end pension fund	2
other matters	1
	Total: 60
Matters relating to the capital market	
approval of prospectus in the form of uniform document	7
refusal to approve prospectus in the form of uniform document	2
authorisation to restore certificated form of shares (rematerialisation of shares)	6
authorisation to conduct brokerage activities	7
decisions not to object to subscription for/acquisition of shares in brokerage house	9
decisions to object to subscription for/acquisition of shares in brokerage house	2

authorisation for investment fund company to conduct activities consisting in creation of investment funds	7
authorisation for investment fund company to create closed-end investment fund	13
publication of information	6
establishing violation of law (without imposition of fines)	6
imposition of fines on brokerage houses	3
imposition of fines on other entities	7
imposition of fines on natural persons	16
suspension of authorisation to practice the profession of securities broker	2
deletion of securities broker from register of securities brokers	2
initiation of proceedings following receipt of motion	3
suspension of proceedings following receipt of motion	3
refusal to initiate proceedings	1
discontinuation of proceedings	11
upholding previous decisions	15
ban on publishing misleading advertising materials by investment fund companies	9
approval of change of the custodian of investment funds	27
cancellation of decision	1
other matters	21
	Total: 186
Matters relating to the internal organisation of PFSA's work	
organisation of PFSA meetings	1
other matters	3
	Total: 4

Administrative Decisions and Rulings Issued under Authorisation from the Polish Financial Supervision Authority

Pursuant to PFSA's Resolution No. 22/2006 dated October 13th 2006, concerning authorisation for the Chairperson and Vice-Chairpersons of the PFSA to take actions within the scope of the PFSA's competence, including authorisation to issue administrative decisions and rulings, a total of 1,431 decisions and rulings were issued in 2007, including 815 decisions and rulings concerning the capital market, 308 decisions and rulings concerning the funded pension market, 265 decisions and rulings concerning the financial intermediation market, and 43 decisions and rulings concerning the insurance market.



The PFSA Office



The PFSA Office

Rules of Operation

The Polish Financial Supervision Authority and the Chairperson of the PFSA perform their duties through the PFSA Office ("PFSA Office"), which acts in accordance with its by-laws adopted by Decision No. 172 of the President of the Council of Ministers of November 22nd 2006 (*Monitor Polski* of November 24th 2006).

The PFSA Office is led by the PFSA Chairperson, aided by Vice-Chairpersons, heads of divisions and heads of departments.

As at December 31st 2007, the PFSA Office was organised into the following divisions:

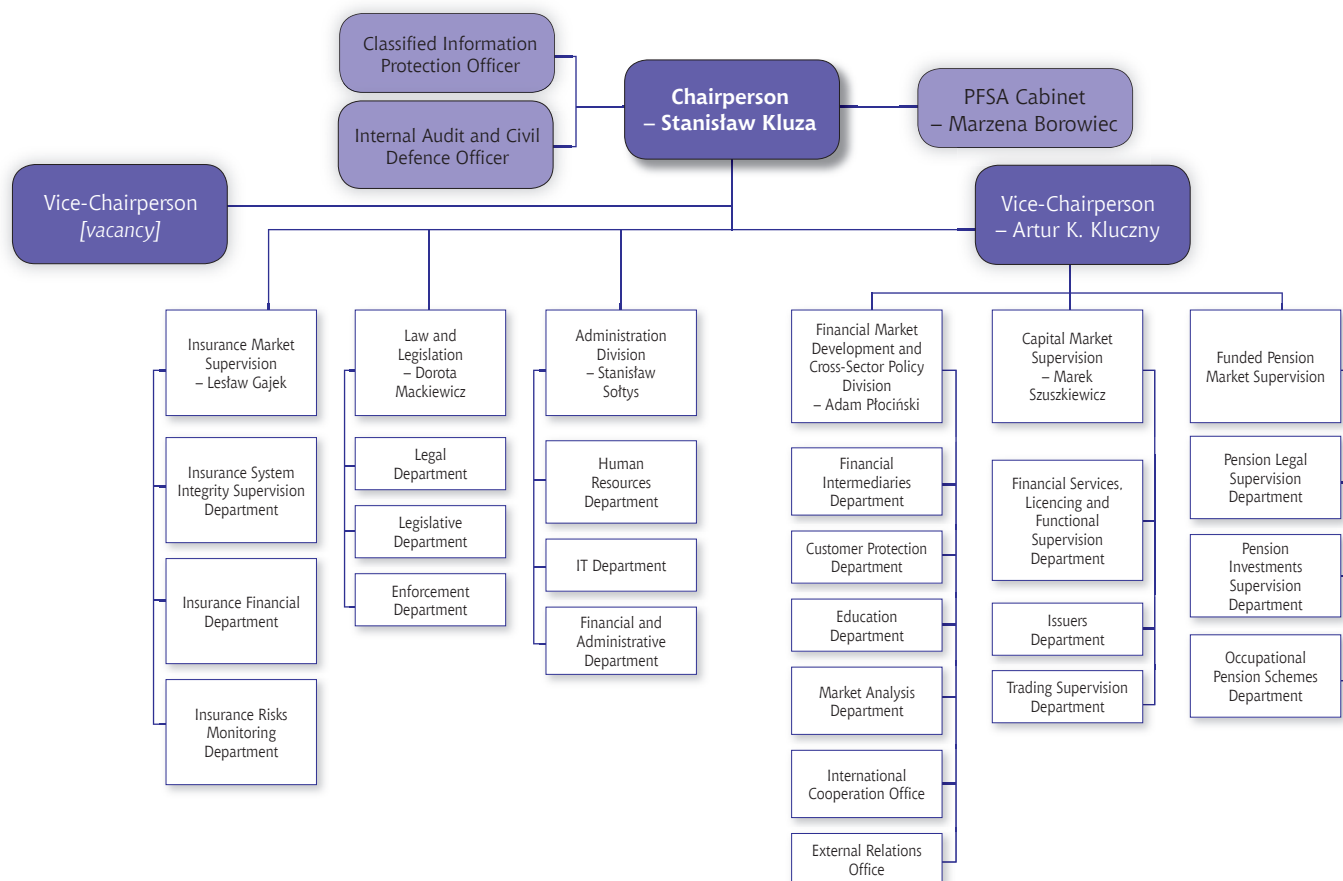
- ▶ **Capital Market Supervision Division** – responsible for exercise of supervision over the capital market,
- ▶ **Insurance Supervision Division** – responsible for exercise of supervision over the insurance market,
- ▶ **Pensions Supervision Division** – responsible for exercise of supervision over the funded pension market,
- ▶ **Financial Market Development and Cross-Sector Policy Division** – responsible for promotion of development of the

financial market and its competitiveness, as well as for exercise of supervision over financial conglomerates,

- ▶ **Administration Division** – responsible for the provision of financial, personnel and administrative services supporting the operations of the PFSA and the PFSA Office,
- ▶ **The PFSA Cabinet** – responsible for the provision of direct assistance to the PFSA, the PFSA Chairperson and Vice-Chairpersons,
- ▶ **Law and Legislation Division** – responsible for the provision of legal support, and
- ▶ Classified Information Protection Officer,
- ▶ Internal Audit and Civil Defence Officer.

The responsibilities assigned to individual organisational units are provided for in the PFSA Office Organisational Rules adopted by virtue of the PFSA Chairperson's decision. In 2007, the Chairperson issued 147 decisions, most of which concerned operations of the PFSA Office.

Organisational chart of the PFSA Office



Human Resources Management

In 2007, the primary objective of the PFSA Office's activities in the area of human resources management was stabilisation of the integrated financial supervision within the PFSA Office's new organisational structure established under the Act on Financial Market Supervision.

To achieve the objective, the organisation was assigned a number of key tasks:

- Preparation and implementation of a restructuring project involving integration of the supervisory functions, which resulted in stabilisation of the personnel and intensified external and internal recruitment activities.

In 2007:

- over 60 recruitment advertisements were posted on dedicated career websites,
 - over 100 recruitment advertisements were posted on PFSA Office's website,
 - over 1,000 applications were registered in PFSA Office's database,
 - analytical skills of approx. 150 candidates were tested.
- Recruitment of new staff across all divisions of the PFSA Office.

Streamlining and unification of rules for:

- Internal and external recruitment – opening to recruitment of internal candidates and sourcing highly-qualified specialists, all with a view to creating an experts office;
- Employees promotion – Promotion and Internal Transfers Instruction was developed and implemented at the PFSA Office;
- Management and use of the Social Benefits Fund – Social Benefits Fund Rules were developed and implemented at the PFSA Office, which enabled the Office to organise team-building events for its employees;

- Policy of employee training and development – an Employees Training Instruction was developed and implemented at the PFSA Office. The Office's training policy was focused on in-house group training programmes (job-related, management and language skills training programmes). The extensive nature of the policy of trainings addressed to a large group of the PFSA Office employees is reflected in the high training participation ratio of 4.35 training days per employee (PFSA Office employees participated in workshops organized by the British regulator – the FSA; its purpose was to clarify certain interpretative issues which arose in connection with the implementation of the MiFID Directive);
- Student traineeship – organisation of student traineeship has become a part of the HR policy, to demonstrate the PFSA Office's interest in attracting graduates from prestigious universities. Approx. 50 student traineeship programmes were developed and implemented.

- Development and implementation of an employee assessment system – an instruction for regular PFSA Office employee evaluation and assessment was prepared. To disseminate the rules of evaluation and assessment, training sessions for the management staff were conducted by an external consultancy. This was followed by internal training sessions for the remaining employees. In Q3 and Q4 2007, the management staff was evaluated as part of a pilot assessment review to prepare the entire organisation for the main round of evaluation and assessment in the following year.
- Laying foundations for the organisational culture – the process was another stage of developing and stabilising the PFSA Office as a new organisation. Development and dissemination of work rules for all employees of the PFSA Office was a formal part of the process.

Tasks Relating to Classified and Sensitive Information, and Physical Security

In 2007, the primary task related to classified and sensitive information was to ensure compliance with the Act on Protection of Classified Information of January 22nd 1999, including in particular:

- Acquisition of classified materials and documentation of the former Securities and Exchange Commission and the former Insurance and Pension Funds Supervision Commission following their merger; preparation for acquisition of materials and documentation of the former General Inspectorate of Banking Supervision;
- Filling the above classified materials and documentation in accordance with the regulations governing protection of classified information;

- Preparation of the required lists of positions and employees, to ensure compliance with the Act on Protection of Classified Information;
- Implementation of detailed procedures governing circulation of privileged information;
- Preparation of a plan for protection of classified information at the PFSA Office;
- Inspection proceedings concerning access to classified information,
- Compliance with Art. 47 of the Act on Organisation and Operation of Pension Funds.

The Classified Information Protection Officer contributed to the development of the policy of protecting and classifying information at the PFSA Office, and refined the rules and manner of protecting professional secrets implemented by virtue of Decision No. 112 of August 10th 2007 of the PFSA Chairperson.

In addition, the Officer liaised with the National Criminal Information Centre in order to perform the obligations resulting from the PFSA Office Organisational Rules, in conjunction with the Act on Gathering, Processing and Transferring Criminal Information of July 6th 2001.

Fulfilment of Obligations under the Act on Disclosure of Information on Documents of the State Security Services Produced in 1944–1990, and Contents of Such Documents

The PFSA Chairperson fulfilled the obligation under the Act on Disclosure of Information on Documents of the State Security Services Produced in 1944–1990 and Contents of Such Documents, dated October 18th 2006 (DzU of 2006, No. 218, item 1592, as amended). Interpretative issues had to be clarified with respect to particular regulations of the Act, including the issue of precise definition of supervised entities.

In total, over 11 thousand vetting notifications were sent out. Following the coming into force of the Constitutional Court verdict of May 11th 2007 (docket No. K 2/07) on the so-called Vetting Act, whereby members of management, supervisory or control bodies of the entities regulated by the PFSA or the Commission for Banking Supervision were released from the obligation to submit to vetting proceedings, the PFSA followed the guidelines given by the Constitutional Court Chairperson and, consequently, all filed vetting declarations were returned to senders.



Funded Pension Market Supervision



Funded Pension Market Supervision

Open-end Pension Funds and Pension Fund Companies

Information on the Market

In 2007, the PFSA supervised 15 open-end pension funds and 15 pension fund companies. According to the data provided by the Social Insurance Institution, as at the end of 2007 there were 13.14m members of the open-end pension funds. The value of the funds' assets exceeded PLN 140bn, having risen 20.1% year on year. The value of contributions transferred to the open-end pension funds by the Social Insurance Institution in 2007 was PLN 17.74bn, including PLN 1.44bn in overdue contributions and interest in the form of bonds.

There were no material changes in the structure of the open-end pension funds market, either in terms of the number of fund members or the value of assets. Respective market shares of the open-end pension funds did not change by more than

one percentage point. The joint market share of the four largest pension funds (Commercial Union OFE BPH CU WBK, ING Nationale Nederlanden Polska OFE, OFE PZU "Złota Jesień", and AIG OFE), measured in terms of net asset value as at the end of 2007, was 72.1% (71.9% a year before). The largest increase in assets was reported by AXA OFE (up by 27%), while Aegon OFE reported the smallest increase (10%).

In terms of the number of fund members, the market structure was similar. The year 2007 did not see any significant changes in the aggregated market share of the four largest funds, and as at the end of the year, the share was 63.6% (64.2% a year before). Pekao OFE posted the strongest increase in the number of members (up 19%), while Aegon OFE was the only fund to have reported a fall (down 5%).

Table 2. Net asset value of open-end pension funds in 2005–2007

Open-end Pension Fund	As at Dec 31 2005		As at Dec 31 2006		As at Dec 31 2007	
	Net asset value (PLN)	Share (%)	Net asset value (PLN)	Share (%)	Net asset value (PLN)	Share (%)
Aegon	2,010,931,858.06	2.34	2,682,474,379.12	2.30	2,945,276,572.07	2.10
AIG	7,301,319,473.32	8.48	9,701,305,329.83	8.32	11,467,587,271.36	8.19
Allianz Polska	2,200,470,991.95	2.56	2,873,353,333.25	2.46	3,458,509,113.01	2.47
AXA	3,230,401,442.91	3.75	4,881,776,473.65	4.19	6,194,058,544.95	4.42
Bankowy	2,749,523,117.09	3.19	3,706,296,600.35	3.18	4,274,602,607.16	3.05
Commercial Union BPH CU WBK	23,459,402,123.03	27.25	30,955,855,925.24	26.55	37,323,999,174.14	26.65
"Dom"	1,342,022,963.34	1.56	1,809,856,008.42	1.55	2,085,230,860.15	1.49
Generali	2,935,620,110.11	3.41	4,186,384,588.99	3.59	5,264,475,686.77	3.76
ING Nationale Neder- landen Polska OFE	19,656,684,523.01	22.83	27,193,845,358.42	23.33	32,870,166,564.97	23.47
Nordea	3,141,238,786.48	3.65	4,224,523,727.50	3.62	4,950,558,199.26	3.54
Pekao	1,351,108,606.38	1.57	1,853,768,553.54	1.59	2,245,213,650.98	1.60
Pocztylion	1,739,875,280.29	2.02	2,367,404,970.72	2.03	2,826,073,495.51	2.02
Polsat	751,635,061.37	0.87	1,084,105,277.20	0.93	1,276,202,967.64	0.91
PZU "Złota Jesień"	11,757,898,803.83	13.66	15,987,325,511.41	13.71	19,301,426,766.86	13.78
Skarbiec-Emerytura	2,456,858,566.88	2.85	3,069,455,678.95	2.63	3,547,512,000.97	2.53
Total:	86,084,991,708.05	100.00	116,577,731,716.59	100.00	140,030,893,475.80	100.00

Table 3. Number of open-end pension fund members in 2005–2007

Open-end Pension Fund	As at Dec 31 2005		As at Dec 31 2006		As at Dec 31 2007	
	No. of members	Market share (%)	No. of members	Market share (%)	No. of members	Market share (%)
Aegon	372,217	3.18	370,943	3.00	351,050	2.67
AIG	976,163	8.33	1,029,101	8.33	1,070,319	8.1
Allianz Polska	292,449	2.5	306,883	2.48	327,001	2.49
AXA	464,721	3.97	535,778	4.34	608,538	4.63
Bankowy	433,149	3.70	441,514	3.57	445,941	3.40
Commercial Union BPH CU WBK	2,562,652	21.87	2,610,638	21.13	2,725,239	20.75
“Dom”	241,498	2.06	281,301	2.28	313,882	2.39
Generali	415,373	3.54	473,560	3.83	538,874	4.10
ING Nationale Nederlanden Polska OFE	2,209,584	18.86	2,401,091	19.44	2,591,613	19.73
Nordea	631,355	5.39	688,580	5.57	731,651	5.57
Pekao	241,600	2.06	245,189	1.98	291,799	2.22
Pocztalio	357,193	3.05	362,777	2.94	431,409	3.28
Polsat	235,002	2.01	267,564	2.17	301,267	2.29
PZU Złota Jesień	1,823,923	15.56	1,894,778	15.34	1,959,058	14.92
Skarbiec-Emerytura	461,780	3.94	443,630	3.59	446,440	3.40
Total:	11,718,659	100.00	12,353,327	100.00	13,134,081	100.00

In 2007, there were only minor changes in the structure of the open-end pension funds' portfolios. The increase in the funds' exposure to equity instruments was small, from 34.8% to 35.2% of the portfolio value, while the share of debt instruments (mainly treasury bonds and bills) fell from 65.2% to 64.8%. The share of equities in total assets of the open-end pension funds rose by 0.4pp, and the increase was smaller compared with a year earlier (2.8pps). The change followed mainly from the overall decline of the Polish equity market, which started in July in the wake of the crisis on global markets.

The equity investments of the open-end pension funds comprised primarily large cap stocks covered by the WIG20 index. The debt portion of the portfolios was dominated by Polish treasury instruments. Foreign investments as at the end of 2007 accounted for 1% of the funds' portfolios, and shrank by 0.3 pp year on year.

In H1 2007, the securities market was on the rise – by July 6th 2007, the weighted average value of the unit of account was up by 12.5%. The crisis on the financial markets worldwide – reflected in the value of domestic stock indices – adversely affected annual rates of return reported by the open-end pension funds relative to a year earlier. In 2007, net-asset-weighted average value of the unit of account rose by 6.2%, i.e. 10.2pp less than in 2006.

Licensing and Authorisation Activity

The operations of pension funds and pension fund companies are subject to relatively extensive regulation. The powers of the Polish Financial Supervision Authority include in particular:

- granting authorisations to establish pension funds and pension fund companies,
- approving amendments to the articles of association of pension funds and pension fund companies,
- approving appointment of members to the management or supervisory boards of pension fund companies,
- approving subscription for or acquisition of shares,
- approving change of the custodian or amendments to the agreement with the custodian,
- approving the takeover of the management of a pension fund by a pension fund company,
- approving mergers of pension fund companies,
- revoking the authorisation to establish a pension fund company.

In its capacity as a licensing and authorisation body in relation to pension fund companies and pension funds, the Polish Financial Supervision Authority performs preventive, informative and controlling functions and responsibilities.

The preventive function consists in examining the applications filed by pension funds and pension fund companies in terms of their compliance with the law and with the interests of fund members. Its purpose is to eliminate any irregularities or potential threats at the stage of administrative proceedings.

The informative function involves preparing answers to questions relating to various aspects of the operations of the regulated entities, and issuing interpretations of the laws and regulations in force in cooperation with other public administration bodies.

The controlling function involves monitoring the operations of the regulated entities and notifying competent organisational units of the PFSA Office of any irregularities identified in such operations, as well as cooperating with the organisational units of the PFSA Office in the undertaken supervisory measures.

In 2007, the PFSA issued 78 decisions concerning administrative and legal control of the market of open-end pension funds and general pension fund companies.

The most significant developments on the funded pension market as a whole included:

- ▶ Acquisition of 100% shares in PTE Ergo Hestia S.A. by Aegon Woningen Nova B.V.,
- ▶ Changes in the shareholder structure of Commercial Union Powszechne Towarzystwo Emerytalne BPH CU WBK S.A.,
- ▶ Change of the custodians of Aegon OFE and OFE Skarbiec-Emerytura,
- ▶ Acquisition of Winterthur companies by AXA Group.

Supervision over Investment Policies

The tasks falling within the scope of supervision over the investment policies of pension funds and pension fund companies were executed by analysing the financial data provided by the regulated entities to the PFSA in the electronic format and monthly, semi-annual and annual statements of net assets. Moreover, particular focus was placed on any instances of exceeding the investment limits and valuation of financial instruments by the regulated entities.

Daily reports and other information were accepted and examined in terms of correctness on an ongoing basis, and any errors identified in the received data were promptly clarified.

The PFSA's tasks falling within the scope of supervision over the investment policies of pension funds and pension fund companies were also carried out through:

- ▶ Analysis of the procedures and statements on investment operations of the regulated entities;
- ▶ Analysis of the financial statements of the regulated entities with regard to their investment operations;
- ▶ Analysis of capital market transactions in terms of their profitability and the risk involved in the acquisition of a given financial instrument, following from its structure and the financial position of its issuer;
- ▶ Monitoring of investment operations of pension funds in terms of their compliance with the overriding principle of investment safety and profitability;
- ▶ Review of the valuations of financial instruments comprised in the investment portfolios of pension funds;
- ▶ Analysis of the structure of the pension funds' investment portfolios, changes in the structure, and the risk incurred;
- ▶ Establishing whether a pension fund's assets are invested in line with the investment categories specified in applicable regulations;
- ▶ Analysis of available financial instruments offered on the capital markets in terms of their suitability for investment by pension funds;
- ▶ Assessment of the efficiency of the pension funds' investment operations in view of the situation on the capital market and the overall macroeconomic conditions prevailing from time to time;
- ▶ Calculation of the average weighted rate of return of all open-end pension funds and the minimum required rate of return of open-end pension funds.

As a result of its ongoing supervision over investment operations, the PFSA identified a number of instances where pension funds failed to comply with the investment limits. In most cases, the immediate causes included increase in the market price of investments and increased proceeds from disposal of portfolio assets.

On all valuation days in 2007, there were 550 instances where 11 regulated entities exceeded the investment limits.

Table 4. Licensing and authorisation functions in relation to pension fund companies and open-end pension funds in 2007

Function	Concluded cases
Approval of amendments to the articles of association of a general pension fund company	6
Approval of amendments to the articles of association of an open-end pension fund	11*
Approval of shortening of the waiting period until amendments to the articles of association of an open-end pension fund become effective	13
Approval of appointment of a member to the management board of a general pension fund company	7
Approval of appointment of a member to the supervisory board of a general pension fund company	22
Approval of change of the custodian of assets of an open-end pension fund	2
Approval of amendments to the agreement concerning keeping custody of assets of an open-end pension fund	12*
Approval of acquisition of shares in a general pension fund company	3
Approval of a takeover of management of an open-end pension fund	1*
Confirmation of expiry of approval of amendments to the articles of association of a general pension fund company	1
Total	78

* The concluded cases include decisions on discontinuation of administrative proceedings or refusal to issue approvals; four applications were not considered due to the applicants' failure to rectify formal deficiencies.

Table 5. Breaches of regulations by open-end pension funds in 2007

Regulation	No. of breaches
Art. 142.2.2 of the Act on the Organisation and Operation of Pension Funds	2
Art. 142.1 of the Act on the Organisation and Operation of Pension Funds	2
Art. 144 of the Act on the Organisation and Operation of Pension Funds	58
Art. 144.1 of the Act on the Organisation and Operation of Pension Funds	53
Par. 1. 3 of the Regulation on maximum amounts of assets of open-end pension funds which can be invested in particular categories of investments and the additional limitations of investments by pension funds	2
Par. 4. 1 of the Regulation on maximum amounts of assets of open-end pension funds which can be invested in particular categories of investments and the additional limitations of investments by pension funds	433

Table 6. Valuation methodologies submitted by the open-end pension funds for approval by the PFSA in 2007

Open-end pension fund	No. of methodologies submitted for approval
AIG OFE	24
Allianz Polska OFE	18
Commercial Union OFE BPH CU WBK	28
OFE "Dom"	27
ING Nationale-Nederlanden Polska OFE	16
Nordea OFE	22
Aegon OFE	8
Pekao OFE	30
Bankowy OFE	24
OFE Pocztylion	6
OFE Polsat	2
OFE PZU "Złota Jesień"	16
OFE Skarbiec-Emerytura	11
AXA OFE	11
Generali OFE	8
Total:	251

Under the existing laws regulating the valuation of assets and liabilities of pension funds, the PFSA was obliged to review, on a case by case basis, the detailed methods of valuing financial instruments for which there is no specific valuation market or which cannot be valued on market terms in line with the conservative principle, provided by pension funds. In the period covered by this Report, 251 valuation methodologies were analysed and approved.

In the period covered by this Report, the PFSA calculated and published the average weighted rate of return for all open-end pension funds twice – for the periods March 31st 2004–March 30th 2007 and September 30th 2004–September 28th 2007. In both periods, all open-end pension funds achieved rates of return higher than the minimum required rate of return.

Supervision over Financial and Operating Activities and Compliance with Disclosure Requirements

The basic scope of the supervision exercised by the PFSA in the area of operating activities and financial standing of pension funds and pension fund companies included control of the financial statements of the regulated entities with respect to their formal and legal compliance, analysis of those financial statements and of compliance with other disclosure requirements specified by law. The detailed scope of the control activities performed by the PFSA included:

- control of the regulated entities' compliance with the statutory disclosure requirements,
- analysis of the financial and operating activities of the regulated entities,
- outsourcing of functions of pension funds and pension fund companies,

Table 7. Statutory rates of return of open-end pension funds calculated and published by the PFSA in 2007

Open-end pension fund	Rate of return Mar 31 2004 to Mar 30 2007 (%)	Open-end pension fund	Rate of return Sep 30 2004 to Sep 28 2007 (%)
Pekao OFE	61.22	OFE Polsat	59.22
OFE Polsat	60.80	Pekao OFE	56.93
Generali OFE	56.61	AIG OFE	54.73
OFE "Dom"	55.27	ING Nationale-Nederlanden Polska OFE	54.50
AIG OFE	55.25	Commercial Union OFE BPH CU WBK	54.30
ING Nationale-Nederlanden Polska OFE	54.92	Generali OFE	53.10
AXA OFE	54.48	OFE PZU "Złota Jesień"	52.66
OFE Pocztylion	54.33	OFE Pocztylion	52.22
OFE PZU "Złota Jesień"	53.88	OFE Skarbiec-Emerytura	51.60
OFE Skarbiec-Emerytura	53.83	OFE "Dom"	51.19
Commercial Union OFE BPH CU WBK	52.96	AXA OFE	51.15
OFE Ergo Hestia	50.52	Aegon OFE	49.97
Nordea OFE	49.97	Nordea OFE	48.81
Bankowy OFE	48.03	Allianz Polska OFE	46.38
Allianz Polska OFE	46.31	Bankowy OFE	43.81
Weighted average rate of return	53.66	Weighted average rate of return	52.50
Minimum rate of return	26.83	Minimum rate of return	26.25

- compliance by pension fund companies with the capital adequacy rules specified by law,
- analysis of the amount of the pension funds' costs incurred and covered from the funds' assets,
- compliance with the solvency requirements in the case of a deficit in an open-end pension fund.

The financial information filed with the PFSA by the regulated entities to comply with the statutory disclosure requirements was reviewed on a regular basis. Most of the information on the financial standing and operating activities of the regulated entities was filed with the PFSA in electronic formats. Such form of reporting included:

- Daily and monthly financial reports of the open-end pension funds, containing their balance sheets with notes, statements of assets comprised in their investment portfolios, statements of operations with notes, statements of concluded transactions and important orders, and information on the value of the unit of account, the funds accumulated in the reserve account and the funds accumulated in the supplementary Guarantee Fund account;

- Open-end pension funds' operating reports containing information on the number of members, concluded membership agreements, contributions paid to the fund, external and internal transfers, number of members at the end of each quarter, and total number of accounts (dormant, non-regular and regular);
- Financial statements of general pension fund companies, including their balance sheets, statements of operations, information on remuneration of their employees, information on fund companies' liabilities and equity links.

The PFSA reviewed also the monthly, semi-annual and annual statements of net assets published by open-end pension funds.

As part of supervision over general pension fund companies, having confirmed the formal correctness of the filed information, the PFSA prepared periodical operating analyses. The PFSA analysed the operating activities of pension funds and pension fund companies (statements of changes in shareholders equity, contribution and management fees, accounting recognition

Table 8. Reports and corrections filed by general pension fund companies and open-end pension funds in the performance of the disclosure requirements (received in 2007), reviewed by the PFSA

Type of report	Correct reports	Report containing errors
Financial reports of open-end pension funds	63,539	454
Operating reports of open-end pension funds	9,362	12
Financial statements of general pension fund companies	498	24

policies) and the amount of equity of general pension fund companies. Any revealed irregularities were clarified on an ongoing basis.

At the same time, during control activities and assessment of the potential risk of deficit, the PFSA analysed the amount of security assets in the reserve capital account of open-end pension funds and in the supplementary Guarantee Fund account, as well as contributions to the supplementary Guarantee Fund capital.

As part of monitoring the amounts of the pension funds' costs incurred and covered from the funds' assets, the PFSA analysed costs paid by the open-end pension funds to their custodian banks. In 2007, three open-end pension funds which incurred relatively high asset custody costs reduced the relevant fees.

Inspections at Offices of the Regulated Entities

Pursuant to the applicable laws, as part of its supervision over the pension fund market, the PFSA may carry out inspections of the following entities:

- ▶ Pension fund companies and pension funds – to check whether the operations of a pension fund company or a pension fund are conducted in compliance with the applicable laws, the company's or the fund's articles of association, and the interest of the fund members;
- ▶ Custodian banks – to check whether their operations related to keeping custody of funds' assets are conducted in compliance with the applicable laws, the custody agreement and the interest of the fund members;
- ▶ Third parties to whom a pension fund or a pension fund company delegated certain activities – to check whether their operations related to performance of such activities for the pension fund or pension fund company are conducted in compliance with the applicable laws and the interest of the fund members.

In 2007, 13 inspections were carried out at general pension fund companies and open-end pension funds. All the inspections performed by the PFSA covered the full scope of activities of the general pension fund companies and open-end pension funds, including in particular:

- ▶ Organisation and management of general pension fund companies (including functions performed by their governing bodies);
- ▶ Internal audit within pension fund companies and inspections by external entities (including shareholders);
- ▶ Implementation of investment policies;
- ▶ Agreements with shareholders, members of the governing bodies and group members;
- ▶ Outsourcing of functions of pension funds and pension fund companies;
- ▶ Client acquisition activities;
- ▶ Accounting policies, accounting books and preparation of financial statements;
- ▶ Transfer of members as part of asset transfers between the funds;

- ▶ Maintenance of fund members' individual accounts,
- ▶ Handling fund members' complaints.

Moreover, in 2007 five inspections were carried out at the custodian banks of open-end pension funds.

Post-inspection Follow-up Proceedings Carried Out in connection with Revealed Irregularities

In 2007, the PFSA Office carried out 17 post-inspection follow-up proceedings at general pension fund companies and open-end pension funds. In four cases, the inspected entities filed their objections to post-inspection reports on revealed irregularities. In accordance with relevant regulations, these entities were duly informed on the handling and review of their objections. In 2007, no post-inspection follow-up proceedings were initiated with respect to three inspected entities as no irregularities were revealed in the course of the inspections.

The most frequent irregularities revealed in the activities of the inspected pension funds and pension fund companies were: delays in reporting fund membership agreements to the Social Insurance Institution, irregularities related to the conclusion of fund membership agreements, failure to file statutory reports with the National Court Register, irregularities in adopting resolutions by supervisory and management boards of pension fund companies, charging undue transfer fees, failure to include fund members in transfer lists, and suspension of transfers.

Administrative Proceedings

The PFSA instituted administrative proceedings which led to imposition of a PLN 50,000 penalty on one general pension fund company for exceeding an investment limit by the open-end pension fund (funds are not permitted to hold more than 20% of a single company's shares of various classes if there are no differences in the rights attached to the shares, when the share of the company's securities does not exceed 1% of the fund's assets) (Par. 4.1 and Par. 4.2 of the Regulation of the Council of Ministers, dated February 3rd 2004, on maximum amounts of assets of open-end pension funds which can be invested in particular categories of investments and the additional limitations of investments by pension funds (DzU of 2004, No. 32, item 276, as amended).

The PFSA imposed a pecuniary penalty of PLN 500,000 on a general pension fund company for gross violation of interests of open-end pension fund members, consisting in failure to prevent a conflict of interests between the fund manager and the pension fund concerning management of investments by the pension fund company's employees for their own account.

These proceedings were another attempt to work out and, subsequently, verify internal regulations concerning investments by pension fund companies' employees for their own account and

the use of specific information on allocation of funds' assets for the purpose of the employees' own investments. In the course of the inspection of the internal regulations, the PFSA has observed growing awareness of the significance and role of internal regulations concerning investments for own account or for the account of third parties by managers of pension funds and by all employees having access to information on allocation of the funds' assets.

Decisions of the Supreme Administrative Court

Moreover, decisions of the Supreme Administrative Court upholding the PFSA's position in the cases listed below, were among factors decisive for the shaping of market standards:

- ▶ Confirmation of gross violation of the interest of fund members by limiting fund managers' freedom to perform compensation-based activities;
- ▶ Confirmation of gross violation of Art. 49 (professional secrecy) of the Act on Organisation and Functioning of Pension Funds of August 28th 1997 (DzU of 2004, No. 159, item 1667, as amended);
- ▶ Confirmation of gross violation of Art. 42 (combining functions by persons responsible for pension funds' investments) of the Act on Organisation and Functioning of Pension Funds of August 28th 1997 (DzU of 2004, No. 159, item 1667, as amended).

As these legal decisions concern issues related to infringement of professional secrecy and protection of interests of fund members (which notions are of general nature), they confirmed that the relevant laws and regulations are properly applied and interpreted by the PFSA.

Occupational Pension Schemes

Information on the Market

The voluntary part of the pension system forms the so-called Pillar III of the pension security system and comprises occupational pension schemes (OPS) and individual pension accounts. Pillar III differs from the other system pillars by the voluntary nature of participation and the state's involvement in the market development through definition of the legal framework for accumulation of assets and creation of new financial products. The market development is supported with incentives in the form of tax allowances and fund members' ability to use relieves in social security premiums. The creation of voluntary forms of pension savings accumulation is a part of the social policy of securing appropriate levels of pension savings. Accordingly, numerous legal regulations govern the activities of institutions operating within Pillar III and products offered on the market.

These regulations have been designed to:

- ▶ Protect interests of the members of occupational pension schemes;
- ▶ Guarantee that accumulated assets are applied towards pension financing;
- ▶ Guarantee that pension capital is accumulated regularly, over a long term.

In comparison with the regulations governing the operation of Pillar II, the legal provisions governing the activities of institutions operating within Pillar III provide a narrower scope of administrative regulation, owing to the voluntary nature of additional forms of pension saving.

The market of occupational pension schemes emerged in 1999. In 2004, the regulatory environment was significantly modified by easing the scheme maintenance rules. In particular, under the modified regime, it is possible to suspend contribution remittance and limit the amount of contributions. As part of the

modification, other forms of group accumulation of assets for pension purposes outside Pillar III were transformed into occupational pension schemes, which resulted in an increase in the number of registered OPSs. Table 9 illustrates the growth of the market.

Table 9. Growth of the OPS market – Number of schemes and their participants in 2005–2007

Item	2005	2006	2007
Number of OPSs	906	974	1,019
Number of participants ('000)	260	281	312

Key data on the OPS market in 2007:

- ▶ 1,019 schemes,
- ▶ Over 310,000 participants,
- ▶ PLN 3,000,800 thousand of accumulated assets, with the strong value growth attributable to the continued high share of contributions in the increase of total asset value,
- ▶ Number of applications for registering new OPSs in 2007 by over 60% higher than in 2006,
- ▶ Number of OPSs liquidated in 2007 by half lower than in 2006,
- ▶ Higher base contributions declared in newly submitted applications.

A pension scheme may operate in one of the following forms:

- ▶ As an occupational pension fund;
- ▶ Under an agreement for employee group life insurance in the form of a group unit-linked life insurance, concluded with an insurance undertaking;
- ▶ Under an agreement for payment of contributions to an investment fund,
- ▶ As a scheme managed by a foreign manager.

Table 10 illustrates shares of the particular OPS forms in the market in 2007. In terms of asset value, investment funds hold the largest share, followed by employee group life insurance schemes and occupational pension funds. As at December 31st 2007, no occupational pension scheme was managed by a foreign manager.

Table 10. Structure of the OPS market in 2007 (%)

Form	Number of OPSs	Number of participants	Net asset value
Occupational pension fund	2.6	19.2	27.6
Investment fund	22.2	37.9	40.8
Employee group life insurance	75.2	42.9	31.6
Total	100.0	100.0	100.0

Occupational pension funds (OPFs) and occupational pension fund companies (OPFCs), managing OPSs, are special forms of financial institutions which operate exclusively within Pillar III. As at December 31st 2007, there were five occupational pension fund companies, and they managed five occupational pension funds. The first pension fund company was established in 1999, while the last one started operations towards the end of 2004. The average rate of return generated by the occupational pension funds was 5.54% in 2007 (13.41% in 2006). Contributions to occupational pension funds are free of any charges, and certain OPFCs do not charge management fees, which – from the participants' perspective – makes this form of saving more profitable: the entire amount of contributions to such financial institutions is invested.

The value of assets gathered in the occupational pension funds has been growing steadily. As at the end of Q4 2007, the average value of assets accumulated in a single account exceeded PLN 17 thousand, and the number of participants of occupational pension funds was slightly over 60,000.

Table 11. Investment performance of occupational pension funds in 2005–2007

	Year		
	2005	2006	2007
Rate of return or change in index (%)			
OPF average rate of return	13.5	13.4	5.54
OPF lowest rate of return	12.5	10.6	4.52
OPF highest rate of return	14.8	15.4	6.23
Inflation rate	2.1	1.0	2.5
WIG change	33.7	41.6	10.39
WIG20 change	35.4	23.7	5.19

Table 12. Net assets of occupational pension funds as at the end of 2007

Fund	Net assets [PLN]	Market share [%]	Cumulative market share [%]
PFE Telekomunikacji Polskiej SA	713,704,809.20	68.00	68.00
PFE Nowy Świat	199,429,426.54	19.00	87.01
PFE Słoneczna Jesień	114,024,218.77	10.86	97.87
PFE Unilever Polska	12,611,739.49	1.20	99.07
PFE Nestle Polska	9,732,807.91	0.93	100.00
Total	1,049,503,001.91	100.00	

Supervision over Occupational Pension Schemes

The PFSA exercises comprehensive supervision over the process of establishing and operating occupational pension schemes, including supervision over activities of occupational pension funds and occupational pension fund companies.

The supervision over occupational pension schemes is principally preventive in nature, focused on in-depth analysis of the schemes' agreements, so that their subsequent operation is not disturbed. The effectiveness of such supervision model is attested to by a scant number of complaints against the operations of OPSs (one complaint in 2007, with 310,000 individuals participating in the schemes).

The PFSA carries out these in-depth analyses during proceedings leading to the entry of occupational pension schemes in the register. The proceedings are designed to check whether applications are correct in terms of their form and contents. Formal analysis of applications serves the purpose of ensuring that the schemes' agreements are valid and that the employees' properly selected representatives participate in the process. Analysis of applications' merits focuses on in-depth verification of the agreements under which schemes are to be established (agreements between the employer and the employees' representatives, as well as agreements between the employer and the asset management institution; or articles of association of an occupational pension fund). These actions are designed to ensure compliance of the schemes' terms with relevant laws, and to ensure that the contractual provisions will not disturb the future operation of the schemes.

Occupational pension schemes are legally required to notify the regulator or to seek the regulator's approval of any changes in the data submitted upon registration or of any changes in their terms. This supervision is to prevent modification (after the scheme launch) of schemes' rules with unlawful provisions. The supervisory functions are performed in the course of proceedings leading to the entry of a given OPS in the register.

The regulator also plays a material role in ensuring that the liquidation of an occupational pension scheme is performed in compliance with relevant laws. This power is exercised as part of examination of applications for deleting occupational pension schemes from the register.

Another responsibility of the regulator is to maintain the register of occupational pension schemes.

In the period covered by this Report, the number of operating OPSs totalled 1,019, including:

- ▶ 766 OPSs operating as employee group life insurance contracts in the form of a group unit-linked life insurance;
- ▶ 226 OPSs operating under agreements with employers for payment of employees' contributions to investment funds;
- ▶ 27 OPSs operating as occupational pension funds.

To note, most of the deletions of OPSs from the register related to employers with low numbers of employees, employers in financial distress or employers merged with other organisations. Consequently, the deletions affected less than 1% of all participants of the occupational pension schemes.

An additional task involved in the maintenance of the OPS register is acceptance of filings on changes in individual schemes which do not require the regulator's decision. In the period covered by this Report, the regulator received 115 such filings.

A separate category of cases examined by the PFSA Office concerned determination whether it is legally admissible to register occupational pension schemes organised by public finance organisations. Given its intricate nature and the related legal uncertainties, the issue was discussed at one of the meetings of the Polish Financial Supervision Authority. The PFSA adopted a resolution outlining a policy of handling registration applications of such OPSs. In ten cases, the regulator adopted decisions in line with this policy. Concurrently, steps were taken to remove legal barriers preventing equal availability of OPS to all types of employers.

The supervision over operation of occupational pension schemes is also based on information furnished by employers maintaining OPSs, as such information is filed in the fulfilment of the disclosure requirements. Such information is used for both analytical and supervisory purposes. In accordance with the binding regulations, an employer is obliged to disclose to the regulator

information on the OPS's performance in a calendar year. Given the number and type of the regulated entities (as at the end of 2006, there were 974 OPSs, including a number of inter-company OPSs involving more than one employer), monitoring of the performance of this obligation, data collection and clarification of inconsistencies is a lengthy process. In the period covered by this Report, 165 calls were sent to employers in connection with incorrect fulfilment of their disclosure obligations.

Supervision over Occupational Pension Funds

As the regulator of the occupational pension funds and occupational pension fund companies, the PFSA performs functions similar to those relating to the open-end pension funds and general pension fund companies. In particular, the regulator has the licensing, authorisation as well as inspecting powers with respect to both categories of entities. The PFSA is endowed with both the power to inspect offices of the regulated entities and the tools enabling remote monitoring of the regulated entities' operations using regular filings; the regulator also has the right to demand necessary information on an *ad hoc* basis. The catalogue of administrative sanctions and other forms of ensuring occupational pension funds' compliance with the law is the same as that developed for the market of open-end pension funds. It should be stressed, though, that certain aspects of operations of the OPSs are regulated in a different manner, which is justified by the voluntary nature of participation in the OPSs and the special nature of the relation between occupational pension fund companies and their shareholders. The most important distinctive features of the occupational pension funds include:

- ▶ Shareholders in an occupational pension fund company are employers sponsoring pension schemes, where which remitted contributions are transferred to pension funds managed by that company.
- ▶ An occupational pension fund company may not operate for profit.
- ▶ Costs and expenses of occupational pension fund companies not covered with fees are financed by the shareholders/employers.
- ▶ Half of the members of supervisory boards of occupational pension fund companies are appointed by the members of the funds managed by these occupational pension fund companies.
- ▶ Regulations governing investments of occupational pension funds allow the funds to outsource fund management services.

Table 13. Proceedings concluded in 2007

	OPS entry	Amendments	Entry of agreement referred to in Art. 38.4 of the Act on OPSs	Deletion
Approvals	66	94	4	15
Rejections	15*	2	0	0
Discontinuation of proceedings	2	1	0	0
Applications submitted but not examined or returned	4	12	0	4

* Including 10 rejections of applications for registration of OPSs filed by entities operating in the public finance sector.

- ▶ The disclosure requirements applicable to occupational pension funds and occupational pension fund companies differ from those applicable to the open-end pension funds (different scope and frequency of disclosures).

The scope and policy of supervision over occupational pension funds and occupational pension fund companies are determined not only by legal regulations but also by the stage of development of the regulated market and the special nature of the regulated entities.

Given the large share of day-to-day financing of occupational pension fund companies by employers, a significant part of supervision is performed through indirect supervision, focusing in particular on monitoring uninterrupted financing of occupational pension fund companies necessary to guarantee financial security and uninterrupted operations of the pension fund companies. Another unique feature of occupational pension fund companies is the more extensive outsourcing of services than in the case of general pension fund companies. Accordingly, certain inspection activities relate to entities other than the pension fund companies. This feature of the market requires that a larger number of entities be regulated.

With respect to the PFSA's licensing powers, in the period covered by this Report there were no matters related to establishment of new occupational pension funds or pension fund companies. The regulator did not receive any request for approval of mergers on this market, either. The market's growth was fuelled by new employers joining the existing occupational pension funds and occupational pension fund companies.

Table 14. Licensing and authorisation tasks with respect to occupational pension fund companies, occupational pension funds and their custodians in 2007

Function	Decisions
Approval of amendment to OPFC's articles of association	2
Approval of amendment to OPF's articles of association	3
Approval of amendment to agreement with custodian of OPF	2
Approval of acquisition of shares in OPFC	1
Approval of appointment of member of the supervisory board of OPFC	5
Approval of appointment of member of the management board of OPFC	1

Moreover, during the period covered by this Report:

- ▶ one request for approval of acquisition of shares in an occupational pension fund company was not considered,
- ▶ one request for approval of acquisition of shares in an occupational pension fund company was filed (but not examined before the end of 2007),
- ▶ one request for approval of appointment of a member of the management board of an occupational pension fund company was filed (but not examined before the end of 2007).

The ongoing supervision over occupational pension funds and occupational pension fund companies consisted in the formal and accounting verification of the regulated entities' financial statements. The standing of the entities is primarily assessed based on quarterly and annual accounts filed with the PFSA. In the period covered by this Report, the filed accounts were analysed on a regular basis; the findings of such analyses were presented in standard reports. The regulator also monitored fulfilment of the disclosure obligations. All identified irregularities were clarified on an ongoing basis.

The areas covered during the examination and analysis of the filed accounts and financial reports of the regulated entities included:

- ▶ Structure of assets, equity and liabilities, as well as financial result,
- ▶ Solvency,
- ▶ Liquidity,
- ▶ Value of receivables indicating whether an occupational pension fund company is financed by its shareholders on an ongoing basis, which is required to guarantee the fund's financial security,
- ▶ Value of costs and expenses charged and covered with assets of a pension fund,
- ▶ Return on investments,
- ▶ Activities of the governing bodies of occupational pension fund companies; composition of the supervisory and management boards in terms of compliance with the relevant regulations,
- ▶ Changes in the value of assets and number of members of occupational pension funds.

Whenever doubts arose as to the correctness of financing of an occupational pension fund company, the regulator undertook additional supervisory actions provided for in the law. In one instance, as a result of such actions taken by the PFSA, a shareholder of a company settled its liabilities towards the company contracted in previous years.

Whenever a governing body of an occupational pension fund company was suspected of conducting unlawful activities, explanatory proceedings were carried out. In one instance, activities violating the articles of association were identified; accordingly, inspection proceedings were initiated with a view to, *inter alia*, identifying effects of the irregularities.

In 2007, four general inspections of occupational pension funds and occupational pension fund companies were performed; their objective was to check whether these organisations complied with the relevant laws and observed their respective articles of association, and whether these organisations acted to the best interest of their fund members. The plan of inspections for 2007 covered all occupational pension funds and occupational pension fund companies which had not been inspected since September 2006; thus, all such entities have been inspected since then. In the period covered by this Report, one bank acting as the custodian for two occupational pension funds was inspected by the PFSA.

In the course of the inspections, irregularities were identified, including violation of the law, articles of association or the interest of fund members. Risk areas in the operations of the inspected entities were also identified.

The inspections further revealed special risk areas in the operations of OPFs and OPFCs related to human resources and outsourcing. One of the characteristics of occupational pension fund companies is the significant extent of services outsourced by these companies – also in the areas of the utmost importance to the interests of OPF members, such as asset management, account maintenance and bookkeeping functions. It is further typical of occupational pension fund companies that members of their management boards are employed by other employers – most often members of the same group. While this is not illegal, it nevertheless requires the regulator to continuously monitor the regulated entities' outsourced functions.

In line with the adopted practice, a general inspection covers the following areas of OPFs' and OPFCs' operation:

- ▶ Organisation and management,
- ▶ Internal audit system,
- ▶ Investment policy,
- ▶ Agreements with shareholders, members of governing bodies, entities of the same group and third parties,
- ▶ Outsourcing,
- ▶ Applied accounting policies and procedures, accounting records and preparation of financial statements,
- ▶ Maintenance of accounts of individual members.

In the course of supervision of the occupational pension funds, the Polish Financial Supervision Authority identified instances of exceeding the investment limits. These instances were directly attributable mainly to the inflow of new money to the funds.

In the period covered by this Report, ten instances of exceeding investment limits were identified at three entities.

Table 15. Violations of the law at the OPFs in 2007

Regulation	Violations
Art. 142.2.2 of the Act on Organisation and Operation of Pension Funds	2
Art. 142.1 of the Act on Organisation and Operation of Pension Funds	8

Initiatives Designed to Remove Barriers to the Development of Occupational Pension Schemes

In the period covered by this Report, the regulator focused on removing barriers to the creation of occupational pension schemes in the following two areas:

- ▶ Admissibility of establishing occupational pension schemes by public finance entities,
- ▶ Removal of interpretative doubts as to the construction of tax legislation where it refers to taxation of contributions remitted to occupational pension schemes operating under employee group life insurance contracts in the form of a group unit-linked life insurance.

In both cases, extensive legal analyses of the binding laws were prepared, sources of the barriers were identified and their effects on the market were assessed. The studies thus prepared were presented to the ministers competent for the individual areas of the regulatory policy. The issue of admissibility of establishing occupational pension schemes by public finance entities was proposed for discussion to the Polish Financial Supervision Authority. In the case of the construction of tax legislation where it refers to taxation of contributions remitted to occupational pension schemes operating under employee group life insurance contracts, the regulator's reasoning was later confirmed by the administrative court's decision. Both issues require further actions, including in particular amendments to the binding laws and regulations.



Insurance Market Supervision



Insurance Market Supervision

Information on the Market

As at December 31st 2007, 68 domestic insurance undertakings and one principal branch of a foreign insurance undertaking were authorised to conduct insurance activities in Poland. Of that number, 66 domestic insurance undertakings and the principal branch conducted business (in 2007, Wüstenrot Życie TU S.A. and TUIR Partner S.A. were in liquidation). Compared with 2006, the number of insurance undertakings increased by one – Link4 Life TUnŻ S.A. obtained an authorisation to conduct insurance activity (the company executed its first insurance contracts on November 26th 2007).

Among domestic insurance undertakings, 32 insurance undertakings operated in the area of life insurance, while 34 insur-

ance undertakings and the principal branch operated in the area of non-life insurance (including one reinsurance undertaking). Compared with the record-breaking 2006, the growth of gross premiums written in unit-linked life insurance (Group 3 of Segment I) slowed down. The growth rate was 23% vs. 73% in 2006.

In 2007, the key financial ratios for the insurance sector remained close to flat year on year. The ratios describing statutory solvency requirements showed improvement, while margins, notably in other personal insurance and property insurance, shrank.

Table 16. Basic data on the operations of insurance undertakings (PLNm)

	Life			Non-life			Total		
	2006	2007	Y-o-y change	2006	2007	Y-o-y change	2006	2007	Y-o-y change
Income statement highlights									
Gross premiums written	21,108.6	25,512.7	20.9%	16,424.7	18,234.2	11.0%	37,533.4	43,746.9	16.6%
Market share of 5 the largest undertakings	70.7%	65.5%	-5.2 pp	76.3%	74.3%	-2.0 pp	62.0%	57.9%	-4.2 pp
Gross claims paid	8,462.5	10,431.8	23.3%	8,369.4	9,207.6	10.0%	16,831.9	19,639.4	16.7%
Net operating expenses	3,451.6	4,362.6	26.4%	4,112.0	4,650.8	13.1%	7,563.7	9,013.4	19.2%
Acquisition cost	2,085.3	2,940.8	41.0%	2,669.3	3,143.8	17.8%	4,754.6	6,084.5	28.0%
Administrative expenses	1,397.2	1,534.0	9.8%	2,005.4	1,976.0	-1.5%	3,402.6	3,509.9	3.2%
Technical result	3,223.4	3,414.0	5.9%	1,573.1	1,235.2	-21.5%	4,796.4	4,649.2	-3.1%
Net profit/(loss)	2,882.3	3,287.9	14.1%	3,771.1	2,032.4	-46.1%	6,653.4	5,320.2	-20.0%
Balance-sheet highlights									
Investments	36,949.6	40,457.8	9.5%	35,157.3	40,728.0	15.8%	72,106.9	81,185.8	12.6%
Net assets for life assurance where the investment risk is borne by the policyholders	28,139.5	35,985.8	27.9%				28,139.5	35,985.8	27.9%
Capital and reserves	8,659.4	11,278.5	30.2%	17,574.3	21,393.5	21.7%	26,233.7	32,672.0	24.5%
Subscribed capital	2,243.1	2,315.2	3.2%	2,542.3	2,667.1	4.9%	4,785.4	4,982.3	4.1%
Gross technical provisions	55,575.8	65,812.0	18.4%	22,171.4	24,209.6	9.2%	77,747.2	90,021.6	15.8%
Balance-sheet total	67,435.3	79,743.5	18.3%	41,152.7	47,205.2	14.7%	108,588.0	126,948.7	16.9%

Table 17. Financial ratios of the insurance sector (as at December 31st)

Item	Life			Non-life			Total		
	2006	2007	Y-o-y change	2006	2007	Y-o-y change	2006	2007	Y-o-y change
Solvency ratios of insurance undertakings									
Available solvency margin to required solvency margin	299.9%	352.2%	52.4 pp	634.0%	684.6%	50.6 pp	454.2%	510.3%	56.1 pp
Assets covering provisions to technical provisions	125.0%	119.0%	-6.0 pp	148.7%	154.0%	5.3 pp	135.5%	134.6%	-0.9 pp
Loss ratio - net of reinsurance				58.7%	63.4%	4.6 pp			
Gross loss ratio				57.1%	60.4%	3.3 pp			
Net operating expenses to premiums written net of reinsurance	16.5%	18.0%	1.4 pp	28.6%	28.4%	-0.3 pp	21.5%	22.1%	0.7 pp
Technical result to premiums written	15.3%	13.4%	-1.9 pp	9.6%	6.8%	-2.8 pp	12.8%	10.6%	-2.2 pp
Financial result to capital and reserves	33.3%	29.2%	-4.1 pp	21.5%	9.5%	-12.0 pp	25.4%	16.3%	-9.1 pp
Net profit (loss) to gross premiums written	13.7%	12.9%	-0.8 pp	23.0%	11.1%	-11.8 pp	17.7%	12.2%	-5.6 pp

Licensing and Authorisation Activities

The licensing and authorisation function with respect to the insurance sector is one of the elements of general supervision over the activities of insurance undertakings. In its capacity as the licensing and authorisation authority, the PFSA performs preventive, informative and controlling functions and responsibilities.

The preventive function consists in the examination of applications concerning insurance undertakings in terms of their compliance with the law; its purpose is to eliminate any irregularities already at the stage of administrative proceedings.

The informative function consists in preparing answers to queries concerning the licensing (authorising) of insurance undertakings, interpretation of the laws and regulations in force, cooperation with other public administration bodies in establishing the binding interpretation of the laws and regulations.

The controlling function involves monitoring of insurance undertakings' operations and participation in court registration proceedings concerning domestic insurance undertakings. When any irregularities are revealed, appropriate supervisory measures are undertaken.

The key licensing and authorisation tasks with respect to insurance undertakings include:

- ▶ Granting and revoking authorisations to conduct insurance activity by a domestic insurance undertaking or by a foreign insurance undertaking through a principal branch;
- ▶ Approving changes of insurance undertaking's geographical coverage or scope of operations;
- ▶ Approving changes of the scope of operations of a foreign insurance undertaking's principal branch;
- ▶ Approving appointment of two members of the management board (including the president) of a domestic insurance undertaking or the head (or deputy head) of the principal branch of a foreign insurance undertaking;
- ▶ Monitoring the composition of the management and supervisory boards of an insurance undertaking, as well as changes of the head (or deputy head) of the principal branch of a foreign insurance undertaking;
- ▶ Approving amendments to the articles of association of a domestic insurance undertaking or the principal branch of a foreign insurance undertaking;
- ▶ Performing actions in the course of proceedings concerning purchase of or subscription for shares or rights attached to shares in an insurance undertaking, where the transaction results in exceeding the threshold of 20%, 33% or 50% of the total vote at the general shareholders meeting or of the share capital, or concerning other actions as a result of which a domestic insurance undertaking becomes another undertaking's subsidiary; monitoring compliance of insurance undertakings with the relevant disclosure requirements;
- ▶ Recognising a mutual insurance society as a small mutual insurance society;
- ▶ Approving a resolution of the general meeting of a mutual insurance society concerning its transformation into a joint-stock company;
- ▶ Objecting to proposed mergers of insurance undertakings;
- ▶ Maintaining the register of actuaries;
- ▶ Undertaking actions in connection with notifications received from competent authorities of other EU Member States concerning the plans of insurance undertakings authorised to conduct insurance activities in such Member States to conduct insurance activities in Poland through the

principal branch or otherwise by way of freedom to provide services;

- ▶ Notifying competent authorities of other EU Member States on the plans of domestic insurance undertakings to con-

duct insurance activities in their Member States through the principal branch, or performing actions in the course of proceedings concerning refusal to deliver such notification.

Table 18. Licensing and authorisation functions with respect to insurance undertakings, performed in 2007

Function	No. of cases	Concluded cases
Request for approval of amendments to the articles of association of an insurance undertaking or the principal branch of a foreign insurance undertaking	44	37
Request for approval of appointment of a member (president) of the management board of an insurance undertaking, including request for waiver of the requirement of having proven knowledge of the Polish language	32	32
Request for authorisation to conduct insurance activities	1	1
Revocation of authorisation to conduct insurance activities, including revocation of authorisations pertaining to specific types of insurance	-	-
Request for approval to change the scope of an insurance undertaking's operations	3	2
Notification of the intention to purchase or subscribe for shares or rights attached to shares in an insurance undertaking, where the transaction results in exceeding 20%, 33% or 50% of the total vote at the general shareholders meeting or of the share capital, or to undertake other actions as a result of which a domestic insurance undertaking becomes another undertaking's subsidiary	12	9
Notification of the PFSA Office's participation in registration proceedings relating to insurance undertakings	-	-
Request for entry in the register of actuaries	10	10
Notifications from insurance undertakings from EU Member States concerning their intention to exercise the freedom to provide services in Poland (new undertakings)	80	80
Notifications from insurance undertakings from EU Member States concerning their intention to conduct activities in Poland through a branch	4	4
Notifications from insurance undertakings from Poland concerning their intention to exercise the freedom to provide services in other EU Member States	9	8
Proceedings concerning imposition of penalty	8	1
Instructions to insurance undertakings to ensure compliance with the relevant laws	18	16
Amendments to insurance legislation	21	21

Supervision over the Financial Standing of Insurance Undertakings

In the area of on-going financial supervision, the PFSA's main responsibility is to protect the financial stability of the market through constant monitoring of the financial standing of insurance undertakings and, where a threat of liquidity loss arises – to demand that the regulated undertaking takes appropriate remedial measures. These actions are designed to ensure that insurance undertakings are able to pay benefits due to entitled persons under insurance contracts.

The key tasks in the area of ongoing supervision include:

- ▶ Analysis of reports and statements filed by insurance undertakings in the performance of their statutory reporting obligations, i.e. quarterly and annual financial statements, consolidated financial statements, co-insurance reports, reports on transactions executed within insurance groups, actuarial reports, reports on insurance capital funds and individual pension accounts;
- ▶ Solvency monitoring;
- ▶ Monitoring of the safety, liquidity and profitability of placements and of proper matching of assets with technical provisions;
- ▶ Monitoring of insurance undertakings' performance of their reporting and disclosure obligations towards the PFSA and their clients;
- ▶ Requesting that supervisory measures prescribed by law be undertaken with respect to the regulated entities, and preparing draft administrative acts, including relevant decisions and rulings;
- ▶ Carrying out on-site inspections on the insurance activity and equity of insurance undertakings;
- ▶ Issuing recommendations, monitoring their implementation and imposing sanctions;
- ▶ Examining the regulated entities' requests for specific authorisations or approvals of measures;
- ▶ In the event of revoking authorisation to conduct insurance activities – monitoring of the liquidation proceedings and of the management of the assets by a designated entity;

- ▶ Issuing opinions relating to accounting, reporting and actuarial matters for other Departments of the PFSA Office;
- ▶ Cooperation, within the areas defined above, with domestic and international governmental organisations and authorities.

The assessment of the financial standing of life insurance undertakings, other personal insurance undertakings and property insurance undertakings, including in particular the assessment of their solvency, is performed based primarily on the undertakings' quarterly and annual financial statements filed with the PFSA. Each of the filed financial statements was thoroughly analysed, and findings were presented in uniform reports facilitating adoption of further supervisory decisions.

In the case of three regulated entities, the analysis of their financial statements revealed violation of relevant financial regulations: the undertakings' equity was below the statutory minimum (that is the larger of: the required solvency margin and the guarantee fund).

The PFSA monitored the undertakings' execution of their proposed plans to restore compliance with the relevant minimum equity regulations. In the case of one of the undertakings, the proceedings were not concluded before the end of 2007.

An important element of the assessment of the financial standing of life insurance undertakings and property insurance undertakings is an analysis of the undertakings' investment policies and, separately, an analysis of how the funds covering technical provisions are invested. Such analyses are part of the examination of the quarterly and annual financial statements filed by the regulated undertakings. Moreover, insurance undertakings' investment policies are examined during inspections at the undertakings' offices. If any infringement with respect to the assets covering technical provisions is identified, proceedings are promptly initiated to restore compliance. In 2007, violation of law was revealed at one insurance undertaking, where quantitative requirements for assets covering technical provisions had not been met. Relevant measures in this case were undertaken simultaneously with supervisory actions related to the short-term solvency plan proposed by the undertaking, and had not been concluded before the end of 2007.

Furthermore, in the performance of ongoing supervision over the insurance market:

- ▶ The regulator requested 77 insurance undertakings to provide more detailed explanations and information, including information on solvency, security, liquidity and profitability of placements, amounts of technical provisions, rules of accounting and the manner of preparing financial statements;

- ▶ With respect to 18 insurance undertakings, the regulator reviewed internal rules and policies, including policies governing technical provisions, articles of association, general terms of insurance contracts and premium tariffs;
- ▶ In the case of one insurance undertaking, the regulator imposed a pecuniary penalty;
- ▶ In the case of seven insurance undertakings, the regulator issued recommendations, including post-inspection recommendations in the case of five insurance undertakings.
- ▶ In the case of 13 insurance undertakings, the regulator reviewed the implementation of recommendations issued to these undertakings.

In addition to the analysis of the financial standing and solvency ratios, the assessment of the filed financial statements also included assessment and review of accounting policies applied by the regulated undertakings. Following the assessment, the PFSA prepared 11 opinions on accounting and reporting issues relevant to the insurance undertakings. These opinions were prepared in cooperation with other public administration bodies and other institutions whose participation was necessary to establish the position presented in these opinions.

The regulator also analysed:

- ▶ Activities outsourced by insurance undertakings from other entities; the analysis resulted in preparation of a report *Outsourcing in Insurance Undertakings*.
- ▶ Potential ramifications of the sub-prime crisis in the United States for the insurance undertakings operating in Poland; the analysis resulted in preparation of a report *The Impact of the Crisis on the American Mortgage Market on the Polish Insurance Market*.
- ▶ Effectiveness of internal audit at insurance undertakings; the analysis resulted in preparation of a report *Internal Control and Internal Audit Functions at Insurance Undertakings*.
- ▶ Method of assessing deferred tax assets; the analysis resulted in preparation of a report *Deferred Tax*.

Apart from its core regulatory functions, the PFSA is also responsible for examining the regulated entities' requests for specific authorisations or approvals of regulated actions. In 2007, the PFSA examined applications for:

- ▶ Approval of agreements on transfer of insurance portfolio – three undertakings;
- ▶ Approval for recognising specific assets as assets covering technical provisions – with respect to eight undertakings,
- ▶ Approval for recognising a subordinated loan as an available solvency margin – with respect to one undertaking,
- ▶ Positive opinions on reinsurers – five undertakings; and
- ▶ Opinions on the financial standing of undertakings – six undertakings.

Supervision over Compliance with the Disclosure Requirements

The laws regulating insurance activities impose a number of disclosure requirements on the insurance undertakings towards both the PFSA and the insured. Please note that the disclosure requirements vary depending on the insurance market segment. The PFSA's duty is to both check whether the required information has been published and review its contents.

In 2007, the PFSA received and analysed the following documents filed by the insurance undertakings in the performance of the disclosure requirements:

- ▶ Announcements convening the general shareholders meeting – 99 undertakings;
- ▶ Notifications on convening meetings of supervisory boards – 19 undertakings;
- ▶ Notices of changes in the composition of supervisory boards – 35 undertakings;
- ▶ Notices of appointment of the auditor – 58 undertakings;
- ▶ Notices of appointment of the actuary – 10 undertakings;
- ▶ Notices of changes in the composition of management boards – 39 undertakings;
- ▶ Notices of appointment of a person responsible for maintenance of accounting records – 11 undertakings;
- ▶ Notices of changes in premium tariffs – 23 undertakings;
- ▶ Website publication of semi-annual financial statements of insurance capital funds as at December 31st 2006 – 23 undertakings;
- ▶ Website publication of annual financial statements of insurance capital funds as at December 31st 2006 – 23 undertakings;
- ▶ Website publication of semi-annual financial statements of insurance capital funds as at June 30th 2007 – 24 undertakings.

A few instances were reported where insurance undertakings failed to properly meet the disclosure requirements. However, no sanctions were imposed since the undertakings accounted for the improper compliance, which suggested that measures had been undertaken to ensure a correct fulfilment of the said requirements in the future.

Inspections Carried Out at the Offices of Insurance Undertakings

In 2007, inspections were carried out at 22 insurance undertakings (both planned comprehensive and thematic inspections, and ad hoc inspections). Four of them were inspected twice. The inspections covered the organisation and management of the insurance undertakings, accounting, internal control, technical provisions, investment activities, records of concluded insurance contracts and gross premiums written, investment capital

funds, loss adjustment, compliance with Art. 13 of the Insurance Activity Act, and fulfilment of requirements arising from the Act on Preventing the Use in Financial Trading of Assets Derived from Illegal or Undisclosed Sources and on Preventing Terrorism Financing of November 16th 2000 (consolidated text DzU of 2003, No. 153, item 1505, as amended).



Capital and Commodity Market Supervision



Capital and Commodity Market Supervision

Information on the Regulated Market

Stock-exchange Market

Despite the stock slump seen at the Warsaw Stock Exchange in November and December, 2007 should be considered a successful year. The WIG20 index closed the year with a more than 5% gain. Moreover, the primary market enjoyed buoyant conditions and the stock exchange capitalisation rose substantially.

Table 19. Number of instruments traded at the Warsaw Stock Exchange in 2006-2007

Number of traded instruments	2007	2006
Equities	351	284
including foreign equities	23	12
Number of debuts	81	38
Number of delistings	14	9
Bonds	57	65
including foreign bonds	4	4
Futures	42	48
Options	98	154

In 2007, 81 companies made their debuts at the Warsaw Stock Exchange. Given the fact that in 2006 38 companies went public, 2007 should be seen as a record-breaking year.

Table 20. Rates of return of the Warsaw Stock Exchange indices in 2006-2007

Index	2007	2006
WIG20 (%)	5.19	23.75
mWIG40 (%)	7.9	69.1
sWIG80 (%)	25.17	132.42
WIG (%)	10.39	41.6
TechWIG (%)	-12.43	42.29
NIF (%)	0	0
WIG-PL (%)	9.23	42.76

The year 2007 saw lower index growth rates relative to 2006. This was chiefly an outcome of the global downturn on stock markets observed in the closing months of 2007. Nonetheless, practically all indices (except for the high-tech index) scored gains, which attests to the market's strength and is indicative of the scale of the stock rally which preceded the downturn.

Table 21. Warsaw Stock Exchange's capitalisation in 2006-2007

Capitalisation	2007	2006
Polish companies (PLNm)	509,887	437,719
Foreign companies (PLNm)	570,370	198,190
Polish bonds (PLNm)	348,535	323,556
Foreign bonds (PLNm)	719	720

The 2007 stock exchange capitalisation (including both Polish and foreign equities) soared by 70%. The rise is chiefly attributable to share floatations by foreign companies, whose market capitalisation rose on this account by approximately 180%.

Table 22. Value of turnover at the Warsaw Stock Exchange in 2006-2007

	2007	2006
Equities		
Total turnover value (PLNm)	479,480	338,696
Bonds		
Total turnover value (PLNm)	3,495	5,536
Futures		
Turnover value (PLNm)	674,132	380,939
Options		
Turnover value (PLNm)	28,511	19,453

With a rise of 42%, 2007 was another record-breaking year in terms of the turnover value on the Warsaw Stock Exchange. The increase in the futures turnover volume at 78% was even more impressive.

Multilateral Trading Facilities

August 30th 2007 was the launch date of NewConnect – a new, multilateral trading facility operated and managed by the Warsaw Stock Exchange, designated for young and

developing growth companies. On the first day, shares of five companies were traded, while by the end of 2007 the market had a total of 24 debuts.

The 2007 NewConnect capitalisation was PLN 1,184.79m, while the turnover reached PLN 5,180 thousand.

Information on the Investment Funds Market

2007 was another year of dynamic quantitative development of the investment funds market. According to estimates, in 2007 the funds' net asset value rose to approximately PLN 131bn, up by ca. 32% year on year. Please note that such growth occurred against the background of the strong decline at the Warsaw Stock Exchange and the resulting losses reported by the funds as well as withdrawal of some investors in the heavily bearish environment.

In 2007, the PFSA issued a total of 74 authorisations to create investment funds, including:

- ▶ 13 authorisations to create open-end investment funds (FIO),
- ▶ 7 authorisations to create specialist open-end investment funds (SFIO),
- ▶ 54 authorisations to create closed-end investment funds (FIZ).

In addition, the PFSA issued seven authorisations to create investment fund companies (TFI).

In 2007, new investment funds were created based on:

- ▶ authorisations to create new investment funds,
- ▶ transformation of the existing investment funds into umbrella funds.

The previous year saw a higher number of umbrella funds. Ten such funds were launched in 2007, including:

- ▶ 6 funds created as a result of transformation of the existing open-end funds,
- ▶ 4 newly created funds.

The larger popularity of umbrella funds led to a higher number of subfunds comprised in such funds – from 70 operating in January 2007 to 140 at the end of December 2007.

In 2007, growth was also seen in the number of newly created closed-end funds. During the year, authorisations were issued to create 54 closed-end investment funds, of which 13 funds issued public investment certificates and 41 – private investment certificates. Investment fund companies' interest in establishing closed-end funds is attributable to the fact that the investment opportunities available to such funds are far wider (they may invest in private limited liability companies, real estate or debt instruments) and that they offer more freedom in tailoring investment policies to the preferences of particular investors. For this reason closed-end investment funds are increasingly more frequently dedicated products designed for specific investors.

Securitisation funds, created as non-standardized funds, were another important group of new investment products in 2007. Such funds can be used to build flexible investment portfolios with a large number of different debt pools. The considerable interest in such securitisation funds is attributable mainly to banks' growing activity as sellers of debt, as the legislator offered the banks certain reliefs if they decide to sell their receivables to investment funds.

Another noteworthy phenomenon is the growing interest in creating private equity funds. Such funds are designed for relatively high-net worth investors. What makes investment in such funds attractive is the ability to implement flexible investment policies reflecting investors' preferences while ensuring security of the assets – primarily due to the fact that the funds are regulated, and the investment fund companies are regulated by the PFSA.

In terms of the value of assets under management, the highest growth rates in the period December 2006–December 2007 was recorded by¹:

- ▶ Equity funds – growth of 100%, from PLN 21,150m to PLN 42,243m,
- ▶ Mixed funds – growth of 41%, from PLN 30,383m to PLN 42,953m,
- ▶ Stable growth funds – growth of 16%, from PLN 22,497m to PLN 25,985m,
- ▶ Moneymarket funds and cash funds – growth of 11%, from PLN 7,574m to PLN 8,372m,
- ▶ Real-estate funds – growth of 35%, from PLN 1,159m to PLN 1,559m,
- ▶ Securitization funds – growth of 7%, from PLN 524m to PLN 562m.

The strong growth of real-estate funds also deserves a mention. It was driven both by the booming construction market in 2007, which spurred the fund companies to create new funds (creation of funds investing real estate developers), as well as by the relatively small risk related to the funds' investment policy. In view of the uncertain environment on the equity markets, real-estate funds may come as an alternative solution for investors who withdraw their assets from aggressive growth funds and are not satisfied with the rates of return offered by bank deposits.

¹ Source: Anality Online, <http://www.anality.pl>, data of January 2008.

Table 23. Number of investment fund companies and investment funds in 2005-2007

	2005	2006	2007
Investment fund companies	23	26	33
Investment funds	190	241	277

As at December 31st 2007, there were 33 investment fund companies authorised by the PFSA. In total, these companies were authorised to manage 277 funds, including 130 open-end investment funds, 33 specialist open-end investment funds, and 114 closed-end investment funds.

Licensing and Authorisation Activities

Warsaw Stock Exchange, National Depository for Securities, MTS-CeTO SA, Polish Power Exchange, NewConnect

On the basis of the Act on Trading in Financial Instruments of July 29th 2005 (DzU of 2005, No. 183, item 1538, as amended) and the Act on Commodity Exchanges of October 26th 2000 (DzU of 2005, No. 121, item 1019, as amended), the PFSA approves or authorises:

- ▶ Amendments to the rules of the National Depository for Securities, the Warsaw Stock Exchange, Multilateral Trading Facility, MTS-CeTO S.A. (other than stock regulated market) and the Polish Power Exchange; the PFSA also approves the rules of the Multilateral Trading Facility;
- ▶ Amendments to the articles of association of the Warsaw Stock Exchange, MTS-CeTO S.A. and the Polish Power Exchange;
- ▶ Changes in the composition of the management board of a company operating an exchange;
- ▶ Changes in the composition of the management board of a company operating an other than stock regulated market;
- ▶ Acquisition of shares in a company operating an exchange or the company operating an other than stock regulated market by domestic and foreign legal persons other than those indicated in the Act;
- ▶ Exercise of more than 5% of the total vote in a company operating an exchange;
- ▶ Exercise of more than 10% of the total vote in the company operating an other than stock regulated market.

On the basis of the Acts referred to above, the PFSA also:

- ▶ Issues opinions on applications filed with the minister competent for financial institutions requesting the authorisation to operate an exchange;

- ▶ Grants authorisations to operate other than stock regulated market;
- ▶ Issues opinions on notifications of intended direct or indirect acquisition of or subscription for shares in the National Depository for Securities or companies operating an exchange, with respect to which the PFSA has the right to raise objections.

In 2007, the PFSA issued:

- ▶ Three decisions approving amendments to the Rules of the Warsaw Stock Exchange;
- ▶ One decision approving the Rules of Poland's first Multilateral Trading Facility;
- ▶ One decision approving amendments to the Rules of the Multilateral Trading Facility;
- ▶ One decision approving amendments to the Articles of Association of the Warsaw Stock Exchange;
- ▶ Seven decisions approving amendments to the Rules of the National Depository for Securities;
- ▶ One decision approving amendments to the Rules of the Clearing Fund of the National Depository for Securities;
- ▶ Three decisions approving amendments to the Rules of the Polish Power Exchange.

As follows from Article 42 (6) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments (MiFID), foreign entities operating regulated markets may provide appropriate IT systems and technical facilities in the territory of Poland enabling entities operating in Poland to access the regulated market. The precondition for such arrangements is that the competent authority which authorised the entity to operate a regulated market sends a relevant notification to the PFSA.

In 2007, the PFSA sent notifications pursuant to Article 42(6) of the MiFID to foreign regulated markets for the first time.

Table 24. Foreign regulated markets notified on the basis of Articles 42(6) of the MiFID.

Name	Address	Home Member State	Competent authority	Notification receipt date
The London Metal Exchange	56 Leadenhall Street, London EC2A 2BJ	UK	FSA	Oct 22 2007
ICE Futures Europe	International House, 1 St. Katherine's Way, London E1W 1UY	UK	FSA	Oct 23 2006
LIFFE Administration and Management	Cannon Bridge House, 1 Cousine Lane, London ECR 3XX	UK	FSA	Oct 25 2007
Vienna Stock Exchange	Wallnerstraße 8, 1014 Vienna	Austria	FMA	Nov 8 2007

Table 25. Multilateral trading facilities operated by foreign regulated markets notified pursuant to Articles 31 of the MiFID.

Name	Address	Home Member State	Competent authority	Notification receipt date
AIM – Alternative Investment Market (MTF) operated by London Stock Exchange MTF	10 Paternoster Square, London EC4M 7LS	UK	FSA	Oct 22 2007
Third Market – operated by Vienna Stock Exchange MTF	Wallnerstraße 8, 1014 Vienna	Austria	FMA	Nov 8 2007

Pursuant to Article 31 of the MiFID, entities operating foreign regulated markets and organising multilateral trading facilities are entitled to provide in Poland IT systems and technical facilities enabling entities operating in Poland to access the multilateral trading facilities. The precondition for such arrangements is that the competent authority which authorised the entity to operate a regulated market sends a relevant notification to the PFSA.

In 2007, the PFSA sent notifications on the basis of Article 31 of the MiFID to multilateral trading facilities operated by foreign regulated markets for the first time.

Approval of Prospectuses or Supplements to Prospectuses

The PFSA approves prospectuses and supplements containing updates of their contents. A prospectus is the key document on the basis of which an issuer or a selling shareholder carries out a public offering or seeks admission of securities to trading on a regulated market. A prospectus may be prepared as a sin-

gle document or as three separate documents – the registration document, the securities note and the summary (in the latter case, the registration document may be approved separately from the securities note and the summary).

During the period of validity of a prospectus, the issuer or the selling shareholder are required to immediately file with the PFSA – in the form of a supplement to the prospectus, and together with an application for its approval – information on any events which could significantly affect the assessment of the security, and which occurred or of which the issuer or the selling shareholder became aware after the approval of the prospectus.

In 2007, the PFSA issued 744 such decisions, including:

- 133 decisions approving a prospectus (prepared as a single document or as three separate documents);
- 581 decisions approving a supplement to a prospectus,
- 14 decisions approving prospectuses for investment certificates issued by closed-end investment funds,
- 16 decisions approving supplements to prospectuses for investment certificates issued by closed-end investment funds.

Table 26. Issuers whose prospectuses were approved by the PFSA in 2007

Issuer	Prospectus approval date
Zakłady Odzieżowe Bytom SA (together with the registration document approved on Sep 25 2007)	Dec 20 2007
Mostostal Zabrze Holding SA (together with the registration document approved on Mar 30 2007)	Dec 19 2007
Krosglass SA	Dec 17 2007
PRO-BUD SA	Dec 11 2007
Masters SA	Dec 11 2007
Elektrobudowa SA	Dec 5 2007
Comp SA	Nov 30 2007
Nepentes SA	Nov 19 2007
VARIANT SA	Nov 15 2007
Firma Handlowa "Jago" SA	Nov 15 2007
Europejski Fundusz Hipoteczny SA	Nov 7 2007
Drop SA	Nov 7 2007
City Interactive SA	Nov 6 2007
Seco/Warwick SA	Oct 31 2007
Wielton SA	Oct 31 2007
Konsorcjum Stali SA	Oct 29 2007
Ferrum SA	Oct 16 2007

Bank Ochrony Środowiska SA	Oct 16 2007
Ponar – Wadowice SA	Oct 11 2007
Bank Polska Kasa Opieki SA	Oct 10 2007
Complex SA	Oct 9 2007
Yawal SA	Oct 9 2007
Zakłady Mięsne Herman SA	Oct 9 2007
ASBISc Enterprises	Oct 4 2007
Asseco Business Solutions SA	Sep 28 2007
BIPROMET SA	Sep 28 2007
Hoopla.pl SA	Sep 28 2007
Integer.pl SA	Sep 28 2007
INTROL SA	Sep 28 2007
Pani Teresa SA	Sep 28 2007
Tras – Intur SA	Sep 28 2007
PC Guard SA	Sep 27 2007
Sovereign Capital SA	Sep 27 2007
Północ Nieruchomości SA	Sep 27 2007
Prima Moda SA	Sep 27 2007
Polnord SA	Sep 27 2007
Zakłady Odzieżowe Bytom SA	Sep 25 2007
Doradztwo Gospodarcze DGA SA	Sep 25 2007
Emperia Holding SA	Sep 25 2007
Tell SA	Sep 21 2007
Orzeł Biały S.A. (together with the registration document approved on Aug 13 2007)	Sep 21 2007
CP Energia SA	Sep 13 2007
Hygienika SA	Sep 13 2007
Fabryka Obrabiarek Rafamet SA	Sep 13 2007
TUP SA	Sep 12 2007
Kancelaria Biegłych Rewidentów Auxilium SA	Sep 13 2007
Rainbow Tours SA	Aug 29 2007
Wola Info SA	Aug 29 2007
Magellan SA	Aug 28 2007
Energoinstal SA	Aug 13 2007
Oponeo.pl SA	Aug 13 2007
Orzeł Biały S.A.	Aug 13 2007
POL-MOT Warfama SA	Aug 13 2007
Arcus SA	Aug 13 2007
Alchemia SA	Jul 31 2007
Krakchemia SA	Jul 31 2007
Triton Development SA	Jul 31 2007
PPH Bomi	Jul 19 2007
Quantum Software SA	Jul 17 2007
ATM Grupa SA	Jul 17 2007
Advanced Distribution Solutions	Jul 11 2007
Krakowska Fabryka Armatur	Jul 11 2007

Hydrobudowa Włocławek SA	Jul 10 2007
Zakłady Urządzeń Kotłowych Stąporków SA	Jul 5 2007
EFH Żurawie Wieżowe SA	Jul 5 2007
Hydrobudowa Włocławek SA – issue withheld	Jul 3 2007
Mercor SA	Jul 3 2007
Przedsiębiorstwo Robót Inżynieryjnych "Pol-Aqua" SA	Jun 29 2007
ATM SA	Jun 29 2007
Polskie Przedsiębiorstwo Wydawnictw Kartograficznych im. Romera SA	Jun 29 2007
Firma Chemiczna "Dwory" SA	Jun 27 2007
eCARD SA	Jun 26 2007
ABM Solid SA	Jun 25 2007
Ceramika Nowa Gala SA	Jun 20 2007
P.A. Nova SA	Jun 20 2007
Swarzędz Meble SA	Jun 19 2007
Makrum SA	Jun 18 2007
Zakłady Lniarskie "Orzeł" SA	Jun 15 2007
BRE Bank Hipoteczny SA	Jun 14 2007
Narodowy Fundusz Inwestycyjny Octava SA	Jun 14 2007
Petrolinvest SA	Jun 13 2007
Komputronik SA	Jun 12 2007
Kopex SA	Jun 12 2007
Elkop SA	Jun 6 2007
Karen Notebook SA	Jun 6 2007
LC Corp SA	Jun 6 2007
PMKSiUG Pemug SA	Jun 4 2007
Sfinks Polska SA	May 21 2007
MOJ SA	May 16 2007
Grupa Finansowa Premium SA	May 16 2007
Kredyt Inkaso SA	May 14 2007
Sfinks Polska SA – issue withheld	May 11 2007
J.W. Construction Holding SA	May 9 2007
Energomontaż Południe SA	Apr 30 2007
Polrest SA	Apr 27 2007
Noble Bank SA	Apr 26 2007
Energopol – Południe SA	Apr 25 2007
Novitus SA	Apr 16 2007
Radpol SA	Apr 12 2007
BUDVAR Centrum SA	Mar 30 2007
Erbud SA	Mar 30 2007
HAWE SA	Mar 30 2007
Mostostal Zabrze Holding SA	Mar 30 2007
Ponar Wadowice SA	Mar 30 2007
Pronox Technology SA	Mar 27 2007
Gant Development SA	Mar 27 2007
BBI Capital Narodowy Fundusz Inwestycyjny SA	Mar 22 2007

Centrostal SA	Mar 22 2007
Makarony Polskie SA	Mar 22 2007
Internet Group SA	Mar 19 2007
Fortis Bank Polska SA	Mar 16 2007
Polski Koncern Mięсны Duda SA	Mar 16 2007
Helio SA	Mar 16 2007
Zachodni Fundusz Inwestycyjny NFI SA	Mar 14 2007
Elektrotim SA	Mar 14 2007
Polimex-Mostostal SA	Mar 14 2007
BBI Development Narodowy Fundusz Inwestycyjny SA	Mar 14 2007
Fabryka Kotłów Rafako SA	Mar 8 2007
NTT System SA	Mar 2 2007
TelForceOne SA	Feb 27 2007
SEKO SA	Feb 21 2007
FAM – Technika Odlewnicza SA	Feb 21 2007
ES-System SA	Feb 7 2007
TIM SA	Feb 7 2007
Graal SA	Feb 7 2007
Polnord SA	Jan 24 2007
MNI SA	Jan 18 2007
Grupa Kolastyna SA	Jan 15 2007
Gadu-Gadu SA	Jan 15 2007
Hutmen SA	Jan 10 2007
Inwest Consulting SA	Jan 4 2007
Computerland SA	Jan 4 2007
Teta SA	Jan 3 2007

Table 27. Closed-end investment funds whose prospectuses were approved by the PFSA in 2007

Closed-end investment funds - Issuers	Prospectus approval date
KBC Kapitał Plus IV Fundusz Inwestycyjny Zamknięty	Feb 14 2007
KBC Europejski Fundusz Inwestycyjny Zamknięty	Feb 14 2007
PKO/Credit Suisse Bezpieczna Lokata II Fundusz Inwestycyjny Zamknięty	Feb 22 2007
Opera Za 3 Grosze Fundusz Inwestycyjny Zamknięty	Mar 8 2007
Investor Bułgaria i Rumunia Fundusz Inwestycyjny Zamknięty	Mar 8 2007
Secus Pierwszy Fundusz Inwestycyjny Zamknięty Spółka Niepublicznych	Apr 18 2007
KBC Rynków Azjatyckich Fundusz Inwestycyjny Zamknięty	Apr 25 2007
KBC Index Nieruchomości II Fundusz Inwestycyjny Zamknięty	Apr 25 2007
KBC Bric Fundusz Inwestycyjny Zamknięty	Jun 19 2007
KBC Nowa Europa Fundusz Inwestycyjny Zamknięty	Jul 24 2007
Investor LBO Fundusz Inwestycyjny Zamknięty	Aug 16 2007
KBC Kapitał 50 Plus Fundusz Inwestycyjny Zamknięty	Sep 24 2007
KBC Polska 2012 Fundusz Inwestycyjny Zamknięty	Nov 15 2007
Arka BZ WBK Fundusz Rynku Nieruchomości 2 Fundusz Inwestycyjny Zamknięty	Dec 21 2007

The PFSA received 10 notifications of public offerings and application for admission of securities to trading on the regulated market.

The PFSA received from the competent authorities in other states 58 confirmations of approval of prospectuses.

In 2007, issuers carried out 191 public offerings: 8 non-cash offerings and 183 public cash offerings, including 15 public bond offerings and 168 public equity offerings, of which 36 were public sale offerings and 132 – public share subscriptions.

Twenty-five of the public offerings were carried out by foreign issuers, including 20 on the basis of prospectuses approved by other competent authorities (17 equity offerings, 3 bond offerings), and 1 equity offering – by a foreign issuer on the basis of a prospectus approved by the PFSA. Seventeen public offerings were carried out without the need to prepare, obtain approval for or publish a prospectus (including 4 offerings by foreign issuers), of which 12 were equity offerings and 5 – bond offerings.

In 2007, the total value of the public cash offerings carried out was PLN 13,920.4m; the value of share issues was PLN 9,830.9m; bond issues – PLN 896.6m; and of public sale offerings – PLN 3,192.9m.

Table 28. Number and value of public cash offerings in 2006-2007

	2007		2006	
	No. of offerings	Value (PLNm)	No. of offerings	Value (PLNm)
Public share issues	132	9,830.9	95	4,904.6
Public bond issues	15	896.6	7	375.8
Public share sale offerings	36	3,192.9	20	1,761.2
Total public offerings	183	13,920.4	122	7,041.6
Including				
Initial public offerings	77	8,297.6	45	3,933.1

Qualified Investors

In 2007, the PFSA entered three entities in the register of qualified investors pursuant to Art. 9 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (DzU of 2005, No. 184 item 1539, as amended; the “Public Offering Act”). As at December 31st 2007, the register of qualified investors

contained eight entries in the part “Small and medium-sized enterprises” and five entries in the part “Natural persons”.

Authorisation to Restore the Certificated Form of Shares

In 2007, the PFSA received six applications from listed companies (Grupa Onet.pl SA, Lubelskie Zakłady Przemysłu Spirytusowego Polmos SA, Broker FM SA, Przedsiębiorstwo Polmos Białystok SA, Unimil SA, Provimi-Rolimpeks SA), filed on the basis of Art. 91 of the Public Offering Act, requesting the authorisation to re-certificate shares. The PFSA issued positive decisions with respect to all the applications (including the application filed by Iławskie Zakłady Drobiarskie Ekodrob SA in 2006).

Investment Fund Companies and Investment Funds

On the basis of the Act on Investment Funds of May 27th 2004 (DzU of 2004, No. 146, item 1546, as amended), the PFSA's powers include in particular:

- Authorisation to operate as an investment fund company, as well as authorisation to extend the scope of investment fund company's activities to include discretionary management of securities portfolios or advisory services in the area of securities trading;
- Authorisation to create an open-end investment fund, a specialist open-end investment fund or a closed-end investment fund;
- Approval of amendments to the articles of association of an investment fund;
- Approval of merger of two open-end investment funds or two specialist open-end investment funds;
- Authorisation to transform open-end investment funds or specialist open-end investment funds into one umbrella fund;
- Approval of change of the custodian;
- Approval for an investment fund to invest its assets in securities or money market instruments traded on an organised market in a state other than Poland or an OECD Member State;
- Authorisation to conclude an agreement on the servicing of securitised debt with an entity other than a Polish bank.

The PFSA maintains a register of foreign investment funds, open-end investment funds registered in the European Economic Area (EEA) Member States and open-end investment funds registered in OECD Member States other than EU Member States or EEA Member States, which sell units in Poland.

Table 29. Authorisations and approvals issued in 2007 on the basis of the Act on Investment Funds of May 27th 2004

Authorisation/approval	No. of authorisations and approvals issued
Authorisation to operate as an investment fund company	7
Authorisation to extend the scope of an investment fund company's activities to include discretionary management of securities portfolios	1
Authorisation to create an open-end investment fund	13
Authorisation to create a specialist open-end investment fund	7
Authorisation to create a closed-end investment fund (authorisation to create a closed-end investment fund issuing public investment certificates is equivalent to the approval of such fund's prospectus)	54
Approval of amendments to the articles of association of an investment fund and of a shorter period after which such amendments become effective	85
Approval of merger of two open-end investment funds or two specialist open-end investment funds	3
Authorisation to transform open-end investment funds or specialist open-end investment funds into one umbrella fund	7
Approval of a change of the custodian	27
Approval for investment fund to invest its assets in securities or money market instruments traded on an organised market in a state other than Poland or an OECD Member State	19
Authorisation to conclude agreement on the servicing of securitised debt with an entity other than a Polish bank	14
Total	237

In 2007, seven foreign funds and 141 subfunds of the foreign funds selling units in Poland were entered in the register of foreign funds by the PFSA. The regulator sent notifications to six fund companies which notified the PFSA of their intention to operate in Poland. In 2007, the PFSA also imposed a ban on selling units of one foreign fund in Poland.

Licensing of Investment Firms, Custodian Banks and Commodity Market Participants

INVESTMENT FIRMS AND CUSTODIAN BANKS

The PFSA is the competent authority to deal with all matters related to the licensing of entities which seek a brokerage license or an authorisation to keep securities accounts.

Moreover, the PFSA accepts and analyses notifications of the intention to start brokerage activities in Poland by foreign entities, and communicates to the competent authorities in other EU Member States the notifications by Polish entities which intend to conduct brokerage activities in an EU Member State other than Poland.

In 2007, the PFSA issued seven authorisations to conduct brokerage activities (five for brokerage houses and two for banks conducting brokerage activities). Eight applications for authorisation to conduct brokerage activities were under consideration.

One decision granting authorisation to conduct brokerage activities was revoked, one application for revoking such a decision was under consideration, one proceeding concerning authorisation to conduct brokerage activities was discontinued at the request of the interested party.

Table 30. Authorisations to conduct brokerage activities issued in 2007

Authorised entities	Authorisation issue date
First International Traders Dom Maklerski SA	Jan 16 2007
Prebon Yamane (Polska) SA	May 22 2007
ECM Dom Maklerski SA	Jul 3 2007
Dom Maklerski Navigator SA	Sep 27 2007
OPERA – Kwiatkowski i Wspólnicy SKA	Sep 27 2007
Bank Polska Kasa Opieki S.A.	Oct 10 2007
Bank Handlowy w Warszawie S.A.	Nov 26 2007

Table 31. Number of entities conducting brokerage activities and operating securities accounts in 2005-2007

	2005	2006	2007
Banks conducting brokerage activities	9	10	12
Brokerage houses	34	37	41
Custodian banks	15	14	13

Table 32. Number of securities accounts in 2005-2007

	2005	2006	2007
Banks conducting brokerage activities	621,600	606,821	555,434
Brokerage houses	525,887	568,440	646,711
Total	1,147,487	1,175,261	1,202,145

In 2007, the PFSA considered 14 notifications of an intention to purchase or subscribe for shares in brokerage houses. In nine cases the PFSA issued decisions stating no objection to the intended acquisition or subscription for shares in brokerage houses and setting the deadline by which the acquisition of subscription may be effected; in two cases an objection was made against the intended acquisition of shares in a brokerage house; and in three cases the deadline for lodging an objection expired. One notification was withdrawn and one was under consideration in 2007.

In 2007, the PFSA received 393 notifications from foreign investment firms of an intention to conduct operations in Poland. Ten entities (9 foreign investment funds, 1 foreign credit institution) decided not to conduct operations in Poland.

Table 33. Number of notifications submitted by foreign investment firms as at December 31st 2007

Entity	No. of notifications as at Dec 31 2007
Foreign investment firm operating without opening a branch	652
Foreign credit institution operating without opening a branch	161
Foreign investment firm operating through a branch	2
Foreign credit institution operating through a branch	14

In 2007, the PFSA received two notifications of an intention to operate through branches in other Member States (Italy, Spain) by Polish brokerage house: X-Trade Brokers Dom Maklerski SA.

As at December 31st 2007, the intention to conduct brokerage activities in an EU Member State other than Poland was notified by three Polish brokerage houses, including:

- ▶ two brokerage houses operating without opening a branch,
- ▶ one brokerage house operating through three branches.

Supervisory Activities

The Warsaw Stock Exchange, the National Depository for Securities, MTS-CeTO S.A., the Polish Power Exchange

The PFSA's tasks consist in:

- ▶ Carrying out inspections at the offices of the regulated institutions, including the National Depository for Securities, the Warsaw Stock Exchange, MTS-CeTO S.A. (other than stock regulated market), Polish Power Exchange,
- ▶ Preparing post-inspection reports,
- ▶ Supervising the institutions' implementation of post-inspection recommendations,

POWER UTILITIES KEEPING COMMODITY REGISTERS OR ACCOUNTS

The PFSA is the competent authority to deal with all matters related to the granting of a commodity brokerage license or an authorisation to keep commodity registers or accounts.

Power utilities holding licenses to generate, transmit, distribute or trade in electricity and corporate electricity consumers authorised to use transmission services have the right to be members of the power exchange and act as parties to power exchange transactions, subject to certain conditions. These entities may enter into power exchange transactions (involving commodities such as electricity, production and emission allowances or property rights whose price directly or indirectly depends on the value of mass products, specific types of energy, measures and production or emission allowances) on their own account, provided that they employ a commodity broker (to represent them in the exchange transactions), and further provided that:

- ▶ they enter into an agreement on clearing of the transactions with a commodity brokerage house which is a member of the exchange clearing house, or
- ▶ they obtain an authorisation from the PFSA to keep commodity accounts or commodity registers (in the case of these entities, the commodity register would serve to register electricity and specific allowances, and the commodity account – to register property rights).

In 2007, the PFSA issued 8 authorisations to power utilities to keep commodity accounts or registers and 4 decisions extending existing authorisations to keep commodity registers or commodity accounts.

Moreover, one decision granting an authorisation to keep commodities registers and accounts was revoked, and one application to revoke such a decision was under consideration.

As at December 31st 2007, there were 46 entities conducting activities consisting in the keeping of commodity registers or accounts (39 in 2006).

- ▶ Preparing opinions to be included in the materials presented at supervisory board meetings and general shareholders meeting of the regulated institutions,
- ▶ Participation of PFSA representatives in supervisory board meetings and general shareholders meeting of the regulated institutions.

In the period covered by this Report, the PFSA carried out 1 inspection at the offices of a regulated institution and the PFSA representative participated in 35 supervisory board meetings, including:

- ▶ 10 supervisory board meetings of the Warsaw Stock Exchange,

- ▶ 14 supervisory board meetings of the National Depository for Securities,
- ▶ 6 supervisory board meetings of MTS-CeTO S.A.,
- ▶ 5 supervisory board meetings of the Polish Power Exchange.

Issuers

The tasks of the PFSA include exercising supervision over the discharge of the statutory obligations specified in the Public Offering Act and the Act on Trading in Financial Instruments by issuers whose securities are sought to be admitted or have been admitted to trading on a regulated market. In this respect, the PFSA verifies the formal and legal compliance of all the confidential, current and interim reports filed by these entities. In particular, the PFSA checks whether the timing of the filed reports was appropriate and whether the reports contain all the elements required by law.

Furthermore, the PFSA issues decisions relating to applications filed under the Public Offering Act:

- ▶ Art. 56.4 of the Public Offering Act – extension of the deadline for publication of interim reports,
- ▶ Art. 62.1 of the Public Offering Act – request for release from the obligation to disclose information which is not inside information,
- ▶ Art. 71 of the Public Offering Act – request for release from the obligation to file the notification referred to in Art. 69 of the Act,
- ▶ Art. 91 of the Public Offering Act – request for authorisation to re-certificate shares)

and checks the issuers' compliance with the decisions.

In 2007, the PFSA received 9 applications filed under Art. 56.4 of the Public Offering Act, requesting extension of the deadline for publication of interim reports. The PFSA issued 10 decisions (one of which referred to an application submitted in 2006) and approved the extension of the deadline in 7 cases (in the case of 1 application proceedings were discontinued).

In 2007, the PFSA commenced 9 administrative proceedings to determine whether a public company properly discharged its disclosure obligations referred to in Art. 56 of the Public Offering Act. Two proceedings were closed (in one case, violation of the regulations was revealed; however, in view of the company's financial standing, the PFSA decided not to impose a fine; in the other case, the PFSA imposed a PLN 100,000 fine). Other proceedings were not closed in 2007 due to their complex nature. In 2007, two proceedings initiated in 2006 were closed, resulting in total pecuniary penalties of PLN 50,000 being imposed.

Moreover, in 2007, the PFSA verified the legal compliance of approximately 27,000 current, interim and inside information reports filed by public companies, and approximately 2,000 notifications filed by the obligated entities under Art. 160 of the Act on Trading in Financial Instruments.

In the period covered by this Report, the PFSA issued 1 decision concerning a request to suspend trading in shares of a public company listed on the Warsaw Stock Exchange.

Investment Fund Companies and Investment Funds

PFSA's supervisory powers with respect to authorised investment fund companies and investment funds comprised ongoing monitoring of their situation through analysis of their current reports and financial statements; inspections at their offices; and explanatory proceedings.

Current reports of investment funds may be divided into two main groups:

- ▶ Current reports of investment funds which are issuers and whose reports are published,
- ▶ Current reports of other investment funds, filed exclusively with the PFSA.

Interim reports of investment funds, other than their financial statements, may also be divided into two groups:

- ▶ Quarterly reports investment funds which are issuers and whose reports are published,
- ▶ Quarterly reports of other funds, filed exclusively with the PFSA.

Current reports of investment fund companies are filed exclusively with the PFSA.

Table 34. Number of analysed current and interim reports of the investment funds and investment fund companies, and information filed by the custodian in 2007

Type of report/information	Number of reports
Current and interim reports of investment fund companies	1,972
Current and interim reports of investment funds	9,724
Information from the custodian	2,514

The supervisory functions related to analysis of the information contained in current and interim reports filed by investment funds and investment fund companies may – if any irregularities are revealed – lead to the initiation of administrative proceedings and application of such measures as penalties imposed on the regulated entities. The same procedure can be applied if any irregularities are revealed in the course of inspections.

In 2007, the PFSA carried out 2 inspections at investment fund companies and 1 inspection at a transfer agent.

Investment Firms and Custodian Banks

The PFSA's main supervisory task with respect to investment firms and custodian banks is carrying out inspections in order to determine whether a given entity operates in compliance with the law and the principles of fair trading and whether it operates in a way which is not detrimental to the interests of its clients.

Moreover, the PFSA supervises the entities' financial situation by analysing financial statements filed by them in accordance with the applicable laws.

The key regulatory activities include:

- ▶ Carrying out inspections of investment firms, custodian banks, and foreign investment firms operating in Poland through branches;
- ▶ Issuing recommendations and monitoring their implementation;
- ▶ Analysis of financial statements filed by the regulated entities in discharge of their statutory obligations, i.e. monthly, semi-annual and annual financial statements and semi-annual reports on operations and functioning of internal audit at entities conducting brokerage activities.

In 2007, the PFSA carried out 16 inspections at investment firms, including 13 inspections at brokerage houses and 3 inspections at banks conducting brokerage activities.

Explanatory and Administrative Proceedings with respect to Capital Market Supervision and Notifications of Suspected Offences²

In order to determine whether there were grounds for filing a notification of a suspected offence concerning offences specified in the acts referred to in Art. 18.2 of the Act on Capital Market Supervision, or for instigating administrative proceedings concerning violation of the law, to the extent falling within the scope of the PFSA's supervision, the PFSA Chairperson had powers to order explanatory proceedings to be carried out.

The explanatory proceedings conducted in 2007 by the PFSA pertained to:

- ▶ Disclosure and use of inside information;
- ▶ Manipulation involving a financial instrument;
- ▶ Trading in broker-traded financial instruments without authorisation;
- ▶ Operating an exchange or a commodity brokerage house without authorisation;
- ▶ Concluding transactions during a restricted period;
- ▶ Failure to disclose true information in a prospectus;
- ▶ Failure to discharge or improper discharge of the obligations relating to significant blocks of shares;
- ▶ Failure to discharge or improper discharge of the disclosure obligations under Art. 160 of the Act on Trading in Financial Instruments.

In the period covered by this Report, the PFSA conducted 49 administrative proceedings relating to:

- ▶ Manipulation involving a financial instrument;
- ▶ Concluding transactions during a restricted period;
- ▶ Failure to discharge or improper discharge of the obligations relating to significant blocks of shares;

² including insurance market

- ▶ Failure to discharge or improper discharge of the disclosure obligations under Art. 160 of the Act on Trading in Financial Instruments;
- ▶ Irregularities in brokerage activities conducted by investment firms (Art. 167 of the Act on Trading in Financial Instruments);
- ▶ Irregularities in maintaining securities records by foreign investment firms (Art. 169 of the Act on Trading in Financial Instruments);
- ▶ Failure to discharge the obligation to notify the PFSA of the intended disposal of shares by a brokerage house (Art. 107 of the Act on Trading in Financial Instruments).

Table 35. Number and type of proceedings conducted by the PFSA in 2007

Type of proceedings	Number of proceedings initiated	Number of proceedings completed
Explanatory proceedings	27	50
Administrative proceedings	37	35
Total:	64	85

In the first and second instance of the proceedings, the PFSA imposed pecuniary penalties for a total of PLN 1,400,000, including PLN 625,000 on brokerage houses and PLN 50,000 on investment funds. Pecuniary penalties imposed on natural persons totalled PLN 725,000.

In 2007, the PFSA filed 47 notifications of suspected offences with the Regional Public Prosecutor's Office of Warsaw, relating to violation of:

- ▶ Act on Trading in Financial Instruments – 20 notifications,
- ▶ Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies – 9 notifications,
- ▶ Act on Investment Funds – 14 notifications,
- ▶ Act on Commodity Exchanges – 3 notifications,
- ▶ Insurance Brokerage Act – 1 notification.

Indictments

In 2007, the PFSA Office was notified that the prosecutor's office filed 6 indictments concerning capital market with common courts of law. Three indictments involved violation of Art. 183 of the Act on Trading in Financial Instruments (manipulation), while the other three involved violation of Art. 181 of the Act on Trading in Financial Instruments (use of inside information). In the case of one of the indictments, in addition to the charges under Art. 181 of the Act on Trading in Financial Instruments, the defendants were also charged with violation of Art. 100.1 and Art. 100.2 of the Public Offering Act (delivery of untrue information or holding back true information in a prospectus or listing particulars).

Table 36. Regulations violated and number of notifications of a suspected offence in 2007

Regulation violated	Number of notifications
Art. 100 of the Public Offering Act – presentation of untrue information or holding back true information in a prospectus	4
Art. 103 of the Public Offering Act – failure to deliver supplement to a prospectus or information memorandum	5
Art. 178 of the Act on Trading in Financial Instruments – trading in broker-traded financial instruments without authorisation	4
Art. 180 and Art. 181 of the Act on Trading in Financial Instruments – disclosure and use of inside information	8
Art. 183 of the Act on Trading in Financial Instruments – manipulation involving a financial instrument	8
Art. 296 of the Act on Investment Funds – unauthorised use in the investment fund’s name of the term referred to in Art. 14.4 of the Act.	14
Art. 57 of the Act on Commodity Exchanges – unauthorised operation of a commodity exchange	3
Art. 47 and Art. 48 of the Insurance Brokerage Act – conducting activities as an agency, broker and insurance agent without authorisation, and unauthorised use of terms indicating that such activity is conducted	1
Total:	47

Convictions

In 2007, common courts of law passed the following sentences:

- ▶ Sentence of the District Court for Warszawa Śródmieście of February 1st 2007, in a matter relating to violation of Art. 183 of the Act on Trading in Financial Instruments (manipulation involving a financial instrument). Each of the two defendants voluntarily accepted a fine of PLN 15,000.
- ▶ Sentence of the District Court for Warszawa Śródmieście of March 12th 2007, in a matter relating to violation of Art. 100 of the Public Offering Act (delivery of untrue information and holding back true information in current reports). The court imposed a fine of PLN 15,000 on the defendant. On November 23rd 2007, the Regional Court of Warsaw upheld the sentence of the District Court.
- ▶ Sentence of the District Court for Warszawa Śródmieście of April 26th 2007, in a matter relating to violation of Art. 183 of the Act on Trading in Financial Instruments (manipulation involving a financial instrument), sentencing each of the two defendants to one-year imprisonment, suspended for four years, imposing a fine of PLN 50,000 and a four-year ban on practicing the profession of securities broker and investment adviser. The sentence is not final.
- ▶ Sentence of the Regional Court of Katowice of May 15th 2007, in a matter relating to violation of Art. 183 of the Act on Trading in Financial Instruments (manipulation involving a financial instrument), upholding the sentence of the District Court for Katowice, whereby one of the defendants was sentenced to one-year imprisonment, suspended for two years, and the other one to two-year imprisonment, suspended for four years. Moreover, a fine of PLN 3,000 was imposed on both defendants.
- ▶ Sentence of the Supreme Court of June 14th 2007, in a matter relating to violation of Art. 183 of the Act on Trading in Financial Instruments (manipulation involving a financial instrument) issued in response to cassation filed by the defendant’s proxy. The Supreme Court found the cassation groundless and rejected it, thus upholding the sentence of the District Court, sustained by the Regional Court, which imposed the fine of PLN 20,000 on the defendant.
- ▶ Sentence of the Regional Court of Bielsko Biala of June 18th 2007, in a matter relating to violation of Art. 183 of the Act on Trading in Financial Instruments (manipulation involving a financial instrument). The Regional Court upheld the sentence of the District Court of April 26th 2006, sentencing the defendant to one-year imprisonment, suspended for three years, and imposing a fine of PLN 6,000.
- ▶ Sentence of the District Court for Zabrze of June 28th 2007, in a matter relating to violation of Art. 178 of the Act on Trading in Financial Instruments (unauthorised business activity related to broker-traded financial instruments). The defendant voluntarily submitted to penalty. The court sentenced him to six-month imprisonment, suspended for two years, imposed a fine of PLN 400 and a four-year ban on practicing the profession of securities broker and investment adviser.
- ▶ Sentence of the District Court for Poznań of August 27th 2007, in a matter relating to violation of Art. 183 of the Act on Trading in Financial Instruments (manipulation involving a financial instrument). The defendant voluntarily submitted to penalty. The court imposed a fine of PLN 4,000.
- ▶ Sentence of the District Court for Poznań of October 16th 2007, in a matter relating to violation of Art. 181 of the Act on Trading in Financial Instruments (use of inside information). At the prosecutor’s request and the defendant’s consent, the court imposed on the defendant a fine of PLN 120,000 without hearing the case.
- ▶ Sentence of the District Court for Warszawa Wola of October 18th 2007, in a matter relating to violation of Art. 183 of the Act on Trading in Financial Instruments (manipulation involving a financial instrument). The defendant voluntarily submitted to penalty. The court sentenced him to one and a half year’s imprisonment, suspended for five years, and imposed a fine of PLN 3,000.
- ▶ Sentence of the District Court for Skierniewice of October 29th 2007, in a matter relating to violation of Art. 183 of the Act on Trading in Financial Instruments (manipulation involving a financial instrument). The defendant voluntarily submitted to penalty. The court imposed a fine of PLN 80,000 on him.

Final and non-final court verdicts as at January 1st 2008.

Table 37. Convictions by common courts of law in 2007

Grounds	Number of convictions
Art. 178 of the Act on Trading in Financial Instruments	1
Art. 181 of the Act on Trading in Financial Instruments	1
Art. 183 of the Act on Trading in Financial Instruments	8
Art. 100 of the Public Offering Act	1
Total	11

Powers Exercised in the Course of Criminal Proceedings

In 2007, legal counsels authorised by the Chairperson of the PFSA acted as subsidiary prosecutors in 27 cases. Eleven cases were closed. In 11 cases sentences were passed or the sentences passed by courts of lower instances were upheld.



Inter-sectoral Activities



Inter-sectoral Activities

Financial Intermediaries

The PFSA's regulatory tasks related to financial intermediation include:

- ▶ Keeping registers of: insurance agents, insurance brokers, persons authorised to acquire clients for pension funds, and investment firm agents;
- ▶ Keeping registers of: securities brokers, investment advisers and commodity brokers;
- ▶ Considering applications for:
 - issuing an authorisation to conduct insurance and reinsurance broker activities;
 - issuing an authorisation to act as an intermediary in selling and redeeming investment fund units;
 - entry in the register of insurance agents;
 - entry in the register of persons authorised to acquire clients for pension funds;
 - entry in the register of investment firm agents;
 - entry in the registers of securities brokers, investment advisers and commodity brokers;
- ▶ Inspections with respect to:
 - use of insurance agent services by insurance undertakings;
 - fulfilment by insurance agents of the obligation to buy civil liability insurance;
 - insurance and reinsurance brokers;
 - client acquisition activities of pension funds and activities of entities engaged by pension funds to carry out client acquisition activities;
 - investment firm agents;
 - intermediaries in selling and redeeming investment fund units;
 - practice of the profession of securities brokers, investment advisers and commodity brokers;
- ▶ Administrative proceedings concerning:
 - ban on use by an insurance undertaking of insurance agents services;
 - insurance brokers and reinsurance brokers;
 - persons authorised to acquire clients for pension funds;
 - investment firm agents;
 - intermediaries in selling and redeeming investment fund units;
 - securities brokers, investment advisers, and commodity brokers.

Insurance Agents

The regulatory duties include the keeping of an electronic register of insurance agents.

In 2007, the PFSA carried out 50,722 actions in the register, including registration of applications for entry in the register, change of data, and deletions from the register. The agents' data were changed 26,056 times, and the data concerning persons carrying out insurance agent activities were changed 65,211 times. Following termination of 7,923 agency agreements, 5,504 agents were deleted from the register, and the data of 2,419 multi-agents were changed. 21,255 persons carrying out insurance agent activities were deleted from the register, including 10,815 persons whose data were completely deleted, and 10,440 persons whose data were changed.

Table 38. Number of registered insurance agents and persons carrying out insurance agent activities as at the end of 2007.

Agents	Total	39,300
	Exclusive agents	24,600
	Multi-agents	14,700
Persons carrying out insurance agent activities	Total	111,100
	Representing one agent	88,700
	Representing at least two agents	22,400

In 2007, there were also 78 registrations of entities conducting insurance agency activities through persons employed under employment contracts, with respect to whom applicable regulations provide for simplified authorisation procedures, including:

- ▶ 23 banks and four saving-and-loan cooperatives conducting insurance agent activities through persons required to complete training courses only on general and detailed insurance terms offered by the insurance undertaking with which the registered entity cooperates, information on tariffs, principles of calculating insurance premiums, quantity and value settlements under concluded insurance contracts, and collection of insurance premiums;
- ▶ 51 entrepreneurs who, under agreements with Segment II insurance undertakings, conduct insurance agent activities as supplement to their core business if such insurance agent activities:
 - are directly connected with the entrepreneur's core business,
 - do not require detailed knowledge of the insurance business,
 - terms of insurance contracts do not exceed 12 months.

Insurance and Reinsurance Brokers

Broker activities consist in concluding or soliciting conclusion of insurance contracts, preparing execution of insurance contracts, participating in the management and execution of insurance contracts, involvement administration of claims, and organising and supervising insurance and reinsurance broker activities. Brokers are insurance intermediaries acting on behalf of persons seeking insurance protection. A broker should act exclusively in the interest of the client, and in particular choose solutions which are the most appropriate for a given client and negotiate the best contract terms irrespective of his/her own preferences and potential benefits. For this reason it is necessary to ensure brokers' independence of insurance undertakings and high quality of their services.

Authorisation to conduct insurance brokerage activities may be issued to natural and legal persons. The PFSA examines whether a candidate meets the legal requirements and ensures proper performance of the insurance brokerage activities.

In 2007, the PFSA issued 69 authorisations to conduct insurance brokerage activities, including 52 authorisations to natural persons and 17 to legal persons. In the same period, the PFSA did not issue any authorisations to conduct reinsurance brokerage activities (only one such authorisation was issued to a legal person in 2006).

Table 39. Authorisations for insurance brokerage activities issued by the PFSA in 2006–2007

	2006	2007	Change (%)
Natural persons	34	52	+52.9
Legal persons	17	17	0.0
Total (excl. reinsurance)	51	69	+35.3

Table 40. Register of brokers as at December 31st 2007

Brokers	Natural persons	Legal persons	Total
Total	632	257	889
– insurance brokers	626	247	873
– reinsurance brokers	6	10	16

During the period covered by this Report, 16 inspections were carried out at brokers' offices. As a result, three penalties were imposed and five post-inspection recommendations were issued to insurance brokers.

In 2007, 24 pecuniary penalties were imposed on insurance brokers for violation of the law.

The knowledge requirements applicable to brokers are more stringent than in the case of insurance agents. Therefore, broker examinations are organised by the PFSA and held by the Exami-

nation Board appointed by the Minister of Finance, and not – as in the case of agents – by insurance undertakings

In the period covered by this Report, nine examinations were held, including two for reinsurance brokers and seven for insurance brokers. 225 persons took the examination (including 218 who took the reinsurance broker examination), and 92 persons passed (including 89 who passed the reinsurance broker examination).

Notified Insurance Intermediaries

In 2007, the PFSA received 496 notifications of insurance intermediaries intending to operate in Poland, from registration bodies / competent authorities in EU Member States. As at December 31st 2007, the number of notified intermediaries was 6,470.

Open-end Pension Funds' Sales Agents

One of the PFSA's key tasks falling within the scope of supervision over client acquisition activities of open-end pension funds is the keeping and updating of the register of the funds' authorised sales agents. The register is used by the PFSA to establish the identity of sales agents, especially when considering complaints or establishing whether client acquisition activities are carried out properly.

The PFSA registers the sales agents on the basis of notifications filed by open-end pension funds. As at December 31st 2007, the register contained data on 123,215 active sales agents.

Table 41. Keeping of the register of funds' sales agents in 2007

New entries of sales agents in the register (new agents in the register)	15,305
Changes in register entries (change of the entity or fund or change of personal data)	4,550
Entry of information on discontinuing client acquisition activities	12,390
Deletion of notice on discontinuing client acquisition activities (resumption of client acquisition activities for the same entity and fund)	546

Securities Brokers

A securities broker is involved primarily in professional trading in securities and other financial instruments. The typical tasks of securities brokers include accepting, forwarding and executing orders placed by investors and providing services related to public offerings. Moreover, persons entered in the register of securities brokers after the Act on Trading in Financial Instruments of July 29th 2005 came into force and persons who passed the supplementary examination may, pursuant to Art. 218 of the Act,

provide investment advisory services. The brokers are employed mostly by investment firms, i.e. brokerage houses, banks conducting brokerage activities, and foreign investment firms conducting brokerage activities in Poland through their branches.

The profession of a broker may be practiced by persons entered in the register of securities brokers. To be entered in the register, a person must meet the conditions specified in Art. 127 of the Act on Trading in Financial Instruments. One of the conditions is to pass the examination for securities broker. A person holding an appropriate authorisation and practicing the profession of a broker in other countries may be entered in the register without having to pass the examination if the PFSA determines that the qualifications of such person guarantee that he or she will practice the profession properly.

A broker licence is not only an authorisation to practice the profession, but also a confirmation of the broker's extensive knowledge of the capital market. In practicing their profession, brokers are obliged to act in compliance with the law and the principles of fair trading, and to take into account the legitimate interests of their clients. As at December 31st 2007, the number of licensed securities brokers was 1,861.

In 2007, 45 persons were entered in the register of securities brokers.

In 2007, the PFSA issued:

- ▶ Two decisions to delete securities brokers from the register of securities brokers due to violation of the law, rules of procedure and other internal regulations which they were obliged to observe in practicing their profession;
- ▶ One decision to suspend the securities broker authorisation for six months due to violation of the law, rules of procedure and other internal regulations which the broker was obliged to observe in practicing the profession;
- ▶ One decision to suspend the securities broker authorisation for three months due to violation of the law, rules of procedure and other internal regulations which the broker was obliged to observe in practicing the profession;
- ▶ One decision upholding the PFSA's decision whereby a securities broker was deleted from the register of securities broker due to violation of the law, rules of procedure and other internal regulations.

In 2007, two examinations for securities broker were held. They were taken by 393 persons and passed by 76 persons. To date, 2,059 persons have passed the securities broker examination.

There were also two supplementary examinations for securities brokers in 2007, taken by 65 persons and passed by 35 persons. To date, 58 persons passed the supplementary securities broker examination.

The above examinations for securities broker and the supplementary examinations were conducted by the Examination Board (whose members are appointed by the Chairperson of the PFSA) composed of (as at December 31st 2007):

- ▶ Chairperson – Witold Pochmara,

- ▶ Deputy Chairperson – Marta Kłosińska,
- ▶ Secretary – Beata Ciężkowska,
- ▶ Members: Maciej Bombol, Grzegorz Łętocha, and Krzysztof Witczak.

Commodity Brokers

Commodity brokers are employed primarily by power utilities.

The profession of a commodity broker may be practiced by persons entered in the register of commodity brokers. In practicing their profession, commodity brokers are obliged to act in compliance with the law and the principles of fair trading, and to take into account the legitimate interests of their clients.

To be entered in the register of commodity brokers, a candidate must meet the conditions specified in Art. 27 of the Act on Commodity Exchanges. One of the conditions is to pass the examination for commodity broker. A person holding an appropriate authorisation and practicing the profession of a commodity broker in other countries may be entered in the register if the PFSA determines that the qualifications of such person guarantee that he or she will practice the profession properly.

As at December 31st 2007, the number of licensed commodity brokers was 133.

In 2007, 11 persons were entered in the register of commodity brokers.

Two examinations for commodity brokers were held in 2007. 51 persons took the examination, 16 persons passed. To date, 138 persons have passed the commodity broker examination.

The examination was conducted by the Examination Board (whose members are appointed by the Chairperson of the PFSA) composed of (as at December 31st 2007):

- ▶ Chairperson – Witold Pochmara,
- ▶ Deputy Chairperson – Marta Kłosińska,
- ▶ Secretary – Beata Ciężkowska,
- ▶ Members: Maciej Bombol, Piotr Radziwonka, and Jacek Tomaszewski.

Investment Advisers

Investment advisers manage portfolios comprising one or more broker-traded financial instruments and provide investment advisory services. Investment advisers are employed by investment firms providing asset management services, investment fund companies, general pension fund companies managing open-end pension funds, and insurance undertakings.

In practicing their profession, investment advisers are obliged to act in compliance with the law and the principles of fair trading, and to take into account the legitimate interests of their clients. The profession of an investment adviser may be practiced by persons entered in the register of investment advisers.

To be entered in the register of investment advisers, a candidate must meet the conditions specified in Art. 127 of the Act on Trading in Financial Instruments. One of the conditions is to pass the examination for investment adviser. A person holding an appropriate authorisation and practicing the profession of an investment adviser in other countries may be entered in the register if the PFSA determines that the qualifications of such person guarantee that he or she will practice the profession properly. Holders of the "Certified International Investment Analyst" (CIIA) title may also be entered in the register.

The investment adviser licence evidences top qualifications and thorough knowledge of all aspects of the functioning of capital markets.

As at December 31st 2007, the number of licensed investment advisers was 257.

19 persons were entered in the register of investment advisers in 2007.

In 2007, the PFSA issued:

- One decision upholding the decision issued by the former Securities and Exchange Commission to suspend an investment adviser authorisation for three months due to violation of the law, rules of procedure and other internal regulations, and to waive the penalty;
- One decision upholding the decision issued by the former Securities and Exchange Commission whereby violation of the law and rules of procedure by an investment adviser and a securities broker was established; penalty was waived.

On February 18th 2007, Stage 3 of the examination for investment adviser was held (Stages 1 and 2 were held in 2006). Stage 3 examination was taken by 15 candidates and passed by 13 candidates. On March 25th 2007, another round of examinations for investment advisers, consisting of three stages, started. Stage 1 examination was taken by 83 candidates and passed by nine candidates, while Stage 2 examination was taken by 33 candidates and passed by six candidates. Eight candidates took Stage 3 examination; six persons passed.

The examination for investment advisers was conducted by the Examination Board (whose members are appointed by the Chairperson of the Financial Supervision Authority) composed of (as at December 31st 2007):

- Chairperson – Marek Szuszkiewicz,
- Deputy Chairperson – Ewa Dudkowska,
- Secretary – Weronika Gabryszewska,
- Members: Adam Drozdowski, Jerzy Gajdka, and Piotr Osiecki.

Investment Firm Agents

An investment firm agent is an intermediary acting on behalf of an investment firm (such intermediary may be a natural person, legal person, or an organisation without legal personality). An investment firm agent promotes the services provided by the investment firm and acquires new clients for the firm. An invest-

ment firm may, under a written agreement, mandate the agent to act as an intermediary with respect to the activities conducted by the firm.

The PFSA keeps a register of entities authorised to perform the activities of an investment firm agent. To be entered in the register, a natural person must meet the conditions specified in Art. 81.1 of the Act on Trading in Financial Instruments. One of the conditions is to pass the examination for investment firm agents. Securities brokers and investment advisers holding the authorisation to practice their profession are deemed to meet these conditions without having to pass the examination.

As at December 31st 2007, the register of investment firm agents showed 34 persons, including 20 legal and 14 natural persons.

In 2007

- 5 legal persons,
 - 10 natural persons
- were entered in the register of investment firm agents.

As at December 31st 2007, three foreign investment firms conducting cross-border operations notified the PFSA of their intention to use the services of 17 foreign investment firm agents in Poland.

On September 2nd 2007, an examination for investment firm agents was held. The examination was taken by 14 candidates and passed by five of them.

The examination for candidates for investment firm agents was conducted by the Examination Board (whose members are appointed by the Chairperson of the Financial Supervision Authority) composed of (as at December 31st 2007):

- Chairperson – Marek Szuszkiewicz,
- Deputy Chairperson – Piotr Radziwonka,
- Secretary – Weronika Gabryszewska,
- Members: Maciej Bombol, Maciej Kurzajewski, and Anna Zubik.

Intermediaries in Selling and Redeeming Investment Fund Units or Units in Foreign Investment Funds

The year 2007 saw a strong growth of the investment funds market in Poland. Consequently, an increasingly higher number of entities operating on the financial markets were applying for the authorisation from the PFSA to act as intermediaries in selling and redeeming investment fund units or units in foreign investment funds. Pursuant to Art. 32.2 of the Act on Investment Funds of May 27th 2004, investment fund units or units in foreign investment funds, open-end investment funds with registered offices in EEA Member States, and open-end investment funds with registered offices in OECD Member States other than EU or EEA Member States, may be sold through an entity other than an entity conducting brokerage activities. Authorisations are granted at the request of entities interested in conducting such activities.

The scope of the authorisation to act as an intermediary in selling and redeeming investment fund units or units in foreign investment funds, granted by the PFSA pursuant to Art. 32.2 of the Act, is general in nature and encompasses the authorisation to act as an intermediary in selling and redeeming units in any open-end investment funds and specialist open-end investment funds with registered office in Poland or units in foreign investment funds.

In the group of entities applying for the authorisation to act as intermediaries in selling and redeeming investment fund units

or units in foreign investment funds, the largest number of applications was filed by cooperative banks and limited liability companies, which are demonstrating increasingly stronger interest in conducting such activities. In 2007, the PFSA issued 82 authorisations to act as intermediaries in selling and redeeming investment fund units or units in foreign investment funds. Cooperative banks received 64 authorisations, limited-liability companies – 12 authorisations, and other entities – six authorisations. In comparison, in 2006 the PFSA issued 32 authorisations to act as intermediaries in selling and redeeming investment fund units or units in foreign investment funds.

Risk-based Approach to Financial Supervision

The PFSA's long-term objective is to develop a risk-based supervision system, which could ensure that the most substantial resources are focused on high-risk market activities. By implementing the risk-based approach, Poland follows the steps of more mature markets where successful attempts to change the approach to financial supervision are seen.

The PFSA commenced the concept development phase in 2007. The project activities are performed on a continuous basis, and the project itself will be implemented during the next few years. So far, international experience in the area of risk-based supervision models has been analysed (the *Arrow* framework in the United Kingdom, the *Firm* system in the Netherlands and *The Traffic Light* framework in Sweden). The bank scoring model, applied in banking supervision in Poland for many years, has also been analysed. The new supervision framework will help optimise the allocation of limited resources – they will be deployed in the areas marked by highest risks. A simpli-

fied supervision reporting system will offer the most substantial benefits to financial groups comprised of large numbers of entities regulated by the PFSA. The new system is also aimed at enhancing the PFSA's controlling capabilities. The goal is to be achieved by assembling a single team of supervisors made up of experts in a wide variety of risk types (including market risk, credit risk, operating risk, IT risk and legal risk). Such a team of experts would be able to successfully exercise supervision over undertakings operating in various segments of the financial market.

In April 2007, President of the PFSA appointed a task force for implementation of the risk-based supervision system. The task force's activities included a review of regulations applicable to particular areas of the financial market, and a review of employed supervisory practices. An internal survey was developed to identify differences and similarities between supervisory practices applied at the PFSA Office.

Good Practices on the Financial Market

In February 2007, work started on the Code of Good Practices of the Financial Market. As many as 30 organisations comprising financial products and services providers, organisations and institutions representing clients' interests, and other market organisation participate in the project. The group of participants also includes academics recognised as noted authorities on market and business ethics. The PFSA Office – apart from direct participation in the work – assumed the role of the organiser and

created a dedicated website where updates and documents sent in and drawn up by the participants are gathered, thus facilitating their active involvement in the project. In 2007, during 14 meetings held by the project participants a collection of 16 universal rules applicable to the entire financial market was drawn up. The work on the final text of the Code is to be completed in March 2008.

Cooperation with Financial Market Participants

Cooperation and Information Exchange Agreements

In order to strengthen its cooperation with financial market institutions, the PFSA executed the following agreements:

- Agreement with the Capital Market Education Foundation (*Fundacja Edukacji Rynku Kapitałowego*) of May 21st 2007 – provides for cooperation on organising and implementing educational initiatives addressed to secondary and post-secondary students, as well as to teachers and instructors specialising in finance;
- Agreement with the Insurance Ombudsman of June 21st 2007 – defined rules for cooperation, particularly with respect to handling of the insured parties' complaints, reviewing contract forms, educational and awareness initiatives aimed at protecting the rights of the insured, holders of rights under insurance contracts, members of pension funds and occupational pension schemes; as well as rules for cooperation in drafting amendments to the laws and regulations covered by the agreement. Under the agreement, the parties have undertaken to exchange information and expertise in a number of fields, including complaint handling;
- Agreement with Junior Achievement Foundation (*Fundacja Młodzieżowej Przedsiębiorczości*) of July 12th 2007 – defines the rules for implementation of educational programme under the name of *Certificate of Excellence. Academy of Entrepreneurship (Certyfikat Jakości. Szkoła Przedsiębiorczości)*;

- Agreement with President of the Office of Competition and Consumer Protection of July 25th 2007 – on cooperation in protecting the interests of the financial market participants, and preventing and eradicating practices that violate collective consumer interests. The cooperation will also embrace educational and awareness initiatives aimed at protecting consumer rights on the financial market.

Furthermore, on December 21st 2007, an agreement was signed between the Polish Minister of Finance, the President of the National Bank of Poland and the Chairperson of the PFSA on cooperation designed to enhance stability of the domestic financial system. Under the agreement, the Financial Stability Committee was appointed. The agreement also specifies the rules for undertaking joint actions aimed at developing financial contingency plans. The agreement is an embodiment of the concept to build efficient crisis management systems in each of the EU Member States.

Meetings with Market Participants

In 2007, the PFSA Office arranged a series of meetings attended by the PFSA's management and heads of the organisations comprising members of the capital, banking, insurance and pension fund markets. These meetings provided a platform for discussion of the most challenging problems involved in the functioning of particular segments of the financial market.

Financial Services Client Protection

An important area of the PFSA's activities is monitoring, analytical and supervisory actions aimed at protecting the consumer interests of non-professional participants of the financial market. The PFSA monitors market practices in this respect on an ongoing basis and undertakes intervention measures, with a particular emphasis on those areas of the regulated entities' operations which are exposed to the risk of law infringement or abuse of rights held by non-professional market participants.

The PFSA monitors market practices by exercising its supervisory powers, which enable it to demand information and clarifications directly from the regulated entities, and by obtaining relevant data on its own account. The supervisory activities are undertaken as a reaction to problems identified on the market, and in response to requests for intervention, queries and complaints filed with the regulator.

The range of tasks performed to protect non-professional market participants covered in particular:

- consideration of individual complaints,
- monitoring advertising communications,

- monitoring market practices,
- supervising the activities of regulated undertakings in cases where the interests of non-professional participants of the financial market might have been threatened,
- organisation of the Court of Conciliation at the PFSA.

Complaint Consideration

As part of the task of protecting the interests of the insuring parties, the insured, holders of rights under insurance contracts, pension fund members, as well as small retail investors, the PFSA accepts complaints and responds to other individual interventions concerning various irregularities revealed in the operations of the regulated entities. The information thus gathered on disputes between the regulated entities and their clients is a source of valuable knowledge of developments on the market. The PFSA examines how regulated entity acted in the case brought by a complaining party. Upon considering a complaint, the authority may decide to take steps intended to establish the facts and legal aspects of the case with a view to applying (if required) supervisory measures and no-

Table 42. Number of complaints received by the PFSA Office in 2007

Complaint	Number of complaints
Complaints about life insurance undertakings	131
Complaints about other personal insurance and property insurance undertakings	872
Complaints about open-end pension funds	1,147
Complaints about investment firms	94
Complaints about investment funds, investment fund companies, custodians, transfer agents, and distributors of units	91
Complaints about listed companies	59
Complaints about stock-exchange operators	4
Complaints about the behaviour of capital market participants	20
Total	2,418

Table 43. Complaints about activities of insurance undertakings

Complaints made to the PFSA, by segments	H1	%	Q3	%	Q4	%	2007	%
Segment I – life insurance undertakings	67	15	26	12.38	38	11.38	131	13.1
Segment II – other personal insurance and property insurance undertakings	392	85	184	87.62	296	88.62	872	86.9
Total	459	100	210	100	334	100	1003	100

tifying the interested party of how it can enforce its claims under the applicable laws if the PFSA determines that a given dispute should be resolved pursuant to civil law provisions.

In 2007, as a result of irregularities or violation of interests of non-professional participants by the undertakings, the PFSA issued five recommendations obligating the regulated undertakings to ensure compliance with applicable laws.

COMPLAINTS: OVERVIEW

In 2007, a total 2,418 complaints were filed with the PFSA Office by clients of insurance undertakings, entities operating in the capital market and open-end pension funds.

COMPLAINTS ABOUT ACTIVITIES OF INSURANCE UNDERTAKINGS

In 2007, a total of 1,003 complaints about activities of insurance undertakings were filed, including 131 complaints about life insurance undertakings and 872 complaints about other personal insurance and property insurance undertakings. Complaints filed with the PFSA about particular insurance undertakings, by segments:

- Segment I – life insurance undertakings – 131 complaints (13.1% of the total number);
- Segment II – other personal insurance and property insurance undertakings – 872 complaints (86.9% of the total number).

Table 44. Complaints about life insurance undertakings filed with PFSA Office, by subject matter

Complaints about insurance undertakings, broken down by subject matter	H1	%	Q3	%	Q4	%	2007	%
Refusal to pay claims	22	32.83	15	65.21	9	23.68	46	35.11
Procrastination	3	4.47	0	0.00	6	15.78	9	6.87
Surrender value	6	8.95	1	4.34	3	7.89	10	7.63
Compensation amount	7	10.44	0	0.00	2	5.26	9	6.87
Premium amount	1	1.49	0	0.00	1	2.63	2	1.52
Contract termination	3	4.47	2	7.69	0	0.00	5	3.81
Changes in terms of contract	5	7.46	0	0.00	1	2.63	6	4.58
Amount of sum insured	0	0.00	0	0.00	1	2.63	1	0.76
Refusal to provide access to files/documentation	1	1.49	0	0.00	0	0.00	1	0.76
Other	19	28.35	7	30.43	15	39.47	41	31.29
Total	67	100	26	100	38	100	131	100

Table 44. Complaints about life insurance undertakings filed with PFSA Office, by subject matter

Complaints about insurance undertakings, broken down by subject matter	H1	%	Q3	%	Q4	%	2007	%
Refusal to pay claims	22	32.83	15	65.21	9	23.68	46	35.11
Procrastination	3	4.47	0	0.00	6	15.78	9	6.87
Surrender value	6	8.95	1	4.34	3	7.89	10	7.63
Compensation amount	7	10.44	0	0.00	2	5.26	9	6.87
Premium amount	1	1.49	0	0.00	1	2.63	2	1.52
Contract termination	3	4.47	2	7.69	0	0.00	5	3.81
Changes in terms of contract	5	7.46	0	0.00	1	2.63	6	4.58
Amount of sum insured	0	0.00	0	0.00	1	2.63	1	0.76
Refusal to provide access to files/documentation	1	1.49	0	0.00	0	0.00	1	0.76
Other	19	28.35	7	30.43	15	39.47	41	31.29
Total	67	100	26	100	38	100	131	100

Table 45. Complaints about property insurance undertakings filed with PFSA Office, by subject matter

Subject matter of complaint	H1	%	Q3	%	Q4	%	2007	%
Refusal to pay claims	74	18.9	22	11.96	56	18.92	152	17.59
Compensation amount	96	24.5	46	25.00	78	26.35	212	24.54
Procrastination	136	34.7	55	29.89	114	38.51	305	35.30
Premium amount	4	1	1	0.54	4	1.35	9	1.04
Contract termination	11	2.8	1	0.54	3	1.01	15	1.74
Changes in terms of contract	0	0.00	0	0.00	0	0.00	0	0.00
Amount of sum insured	1	0.3	0	0.00	0	0.00	1	0.12
Refusal to provide access to files/documentation	7	2	6	3.26	7	2.36	20	2.31
Surrender value	0	0.00	0	0.00	0	0.00	0	0.00
Power of attorney	0	0.00	3	1.63	1	0.34	4	0.46
Other	63	16.1	50	27.17	33	11.15	146	16.90
Total	392	100	184	100	296	100	872	100

Table 46. Complaints about open-end pension funds filed with PFSA Office, by subject matter

Subject matter	H1	%	Q3	%	Q4	%	2007	%
Irregularities related to inter-fund transfers	506	96.40	299	96.14	191	61.41	996	86.83
Absence of advice on consequences of joining a fund	1	0.20	0	0.00	0	0.00	1	0.08
Alleged forging of party's signature on fund membership agreement	7	1.30	0	0.00	6	1.93	13	1.13
Execution of membership agreement based on false information on the fund or against the complainant's will	4	0.80	1	0.32	2	0.64	7	0.61
Doubts as to the manner of collection or amount of fees charged by the fund	0	0.00	1	0.32	0	0.00	1	0.08
Fund's refusal to deliver a copy of the agreement	0	0.00	0	0.00	0	0.00	0	0.00
Cash disbursements after decease of fund member	6	1.10	0	0.00	3	0.96	9	0.78
No information on the account balance	1	0.20	1	0.32	0	0.00	2	0.17
Delays in transfer of contributions	0	0.00	0	0.00	88	28.30	88	7.67
Social Security Institution's refusal to enter the complainant to the Central Register of Open-end Pension Fund Members	0	0.00	1	0.32	0	0.00	1	0.08
Conversion of contributions	0	0.00	0	0.00	0	0.00	0	0.00
Other	0	0.00	8	2.57	21	6.75	29	2.52
Total	525	100	311	100	311	100	1147	100

COMPLAINTS ABOUT ACTIVITIES OF OPEN-END PENSION FUNDS

In 2007, 1,147 complaints were filed with the PFSA on activities of open-end pension funds.

In addition, in 2007, 254 queries on matters connected with open-end pension funds were received.

COMPLAINTS ABOUT ENTITIES OPERATING IN THE CAPITAL MARKET

In 2007, the PFSA received 268 letters concerning irregularities in the functioning of the capital market.

Table 47. Complaints about entities operating in the capital market filed with the PFSA Office, by type of entities

	2007	%
Public companies	59	22
Investment firms	94	35.07
Investment funds, investment fund companies, custodians, transfer agents, distributors of fund units	91	33.95
Stock-exchange operators	4	1.49
Behaviour of market participants	20	7.46
Total	268	100

Table 48. Complaints about public companies filed with PFSA Office, by subject matter

Public Companies	2007	%
Disclosure requirements	25	42.37
Public subscription for shares	8	13.56
Other	26	44
Total	59	100

Table 49. Complaints about investment firms filed with PFSA Office, by subject matter

Investment Firms	2007	%
Provision of online services	14	14.89
Recommendations	1	1.06
Asset management performance	3	3.19
Order execution	17	18
Execution of tender offers	1	1.06
Handling of public offerings	8	8.51
Other	50	53.19
Total	94	100

Table 50. Complaints about investment funds, investment fund companies, custodians, transfer agents and distributors of fund units, by subject matter

Investment funds, investment fund companies, custodians, transfer agents and distributors of fund units	2007	%
Valuation of units	25	27.47
Price of acquisition or redemption of fund units	23	25.27
Amount of fees and provisions	13	14.28
Other	50	54.94
Total	91	100

Monitoring of Advertising Communications

In order to protect interests of financial market participants against unreliable advertising information, the PFSA monitors advertising communications, i.e. it reviews information and advertising materials published by, at the request of or for the entities regulated by the PFSA.

The monitoring covers advertising communications published in selected newspapers and broadcast on selected television channels. Websites maintained by the regulated entities and popular websites where communications of advertising nature are disseminated are also subject to periodic reviews. In addition, random checks of advertising and information leaflets of the regulated entities are performed. Furthermore, the PFSA gathers information on irregularities related to advertising communications, reported by consumers of financial services; such information is gathered, *inter alia*, through the PFSA website which enables submission of complaints on advertising communications.

The purpose of the reviews of advertising communications is to establish whether the reviewed contents comply with the law and respect the interests of non-professional financial market participants – in particular whether these communications do not mislead the target audience during the pre-contractual stage. It must be noted that the advertising communications are assessed from the perspective of a typical consumer of financial services. Key standards in assessing the reliability of advertising communications include considering advertising from a global perspective, within the context of the advertising campaign, and taking into consideration the manner and form of presentation of advertising information, which affects perception of its content.

The monitoring activities carried out in 2007 identified material irregularities with regard to advertising information on investment funds disseminated by investment fund companies.

In order to eliminate instances where advertising communications on investment funds violate the law and mislead consumers, the PFSA initiated extensive analyses, educational efforts and regulatory steps. In particular, the PFSA adopted a resolution concerning the PFSA's statement on the forms of investment funds' advertising communications, dated July 3rd 2007, which set the standards of proper dissemination of advertising information. Also, the PFSA issued nine administrative decisions in which investment fund companies were banned from further dissemination of advertising information which could mislead consumers, and the entities concerned were ordered to publish appropriate corrections to the previously disseminated information. As a result, advertising communications on investment funds were to a large extent enhanced.

In 2007, the PFSA also started work on amending the laws regulating particular segments of the financial market, insofar as they relate to the publication of advertising information by the regulated entities. The work aims at standardising the rules of publication of advertising information, requirements pertaining to advertising communications, and the powers of the regulator relating to elimination of unreliable advertising information concerning the financial market regulated by the PFSA.

Monitoring of Market Practice

The PFSA's monitoring of market practices employed by the regulated entities results from the comprehensive approach to the protection of interests of non-professional financial market participants. The regulator must have an up-to-date knowledge of regulated entities' activities directly affecting their clients. The PFSA's activities conducted in 2007 focused on identifying and eliminating market practices violating the law or infringing interests of non-professional financial market participants. Other objectives also included formulation of recommendations with regard to supervisory tasks and proposals of other activities to be taken, whether of educational nature or related to self-regulation. In 2007, the activities related to the protection of interests of non-professional financial market participants undertaken by the PFSA included in particular:

- Actions relating to the issue of including VAT in the value of claims paid under motor vehicles compulsory insurance, calculated with the cost-estimate method. In 2007, the PFSA undertook actions to counteract the practice, adopted by insurance undertakings against the law and interests of insurance contract beneficiaries, consisting in assessment of the amount of claims paid to non VAT payers under motor vehicles compulsory insurance on the basis of the estimated cost of repair. In order to standardise the practice and ensure its compliance with the law, recommendations were issued to 21 insurers, and two insurance undertakings were ordered to comply with the recommendations issued in 2006 by the former regulator, the Insurance and Pension Fund Supervision Commission. As a result, the regulated insurers no longer employ the practice.
- Actions relating to the issue of deduction by insurance undertakings of funeral benefits from the amount of claims paid under motor vehicles compulsory insurance. In 2007, the PFSA analysed the practice consisting in reduction of the value of claims paid under motor vehicles compulsory insurance by the amount of funeral benefits paid, where the funeral costs were covered by the persons referred to in Art. 77.1 of the Act on Pensions and Disability Pensions from Social Security Fund dated December 17th 1998. In 2007, the PFSA issued 15 recommendations whereby insurance undertakings were ordered to discontinue such practice. Thirteen of such recommendations were complied with. Two insurance undertakings refused to comply with the recommendations. As at the end of 2007, administrative proceedings concerning the issuance of decisions ordering those insurance undertakings to comply with the recommendations were not yet completed.
- Actions relating to the issue of restricting the ability of clients to terminate motor vehicles compulsory insurance contracts. Following complaints filed with the PFSA, the regulator established that some insurance undertakings infringed the interests of the insured by restricting their ability to serve notices of termination of motor vehicles compulsory insurance contracts on the insurance agents with whom they had originally concluded the contracts. Even though such practice does not violate the law, it infringes the interests of the insured. In order to eliminate the practice, the PFSA issued recommendations to two insurance undertakings in 2007. In December 2007, work began on preparation of similar recommendations to all other insurance undertakings which apply the challenged practice.
- Actions relating to the issue of unilateral modification by insurance undertakings of terms of life insurance contracts with respect to charges to be paid by the insuring party. On April 27th 2007, the regulator maintained in force its decision concerning imposition of a PLN 45,000 fine on an insurance undertaking, issued on November 30th 2006. The former Insurance and Pension Fund Supervision Commission revealed such irregularity at one life insurance undertaking. The PFSA shared the Insurance and Pension Fund Supervision Commission's opinion on the practice.
- Actions relating to the issue of loss adjustment under motor vehicles compulsory insurance in relation to the so-called "total loss". The regulator started a review to determine whether the insurance undertakings do not abuse the possibility of paying out claims adjusted as the difference between the pre- and post-accident value of vehicles (the law permits such manner of loss adjustment only if the cost of repair would exceed the pre-accident value of the vehicle). Initial findings indicated that the market practice must be unified in this respect. Therefore, the PFSA started correcting the dealings of these insurance undertakings whose practices in this respect were challenged.
- Actions relating to the issue of direct sale of insurance policies. In 2007, the PFSA reviewed the issue of concluding insurance contracts via the Internet and telephone (i.e. directly). For insurance products, remote or direct sale of insurance policies has become an increasingly popular distribution channel. The

possibility of entering into insurance contracts via the Internet and telephone can be convenient for consumers but may also be a source of certain risks, especially with respect to provision to the insuring party of reliable information on the insurer, insurance coverage, payment modalities, and other material information which is necessary for the consumer to make an informed decision. In May 2007, the PFSA commenced an analysis to determine whether insurance contracts entered into via the Internet and telephone comply with the law, and whether interests of consumers executing insurance contracts via the Internet and telephone are respected. The work included an analysis of websites of the insurance undertakings which offer on-line insurance services, and the procedures involved in concluding insurance contracts via telephone. The analysis identified a number of irregularities related to such remote execution of insurance contracts. The findings of the analysis will be used as the basis for relevant regulatory actions designed to ensure the insurance undertakings' compliance with the relevant regulations.

- ▶ Actions relating to standard contract forms used by the regulated entities. In order to provide the insured with the most comprehensive protection, the regulator inspected – within the limits of its statutory powers – standard insurance contracts used by the insurance undertakings. The inspection was conducted *a posteriori* and it is not performed regularly. During the analysis, the PFSA focused on forms of the most popular insurance contracts, i.e. those used by the largest insurers. In addition, standard contracts were also inspected as part of review of complaints concerning insurance undertakings. In the period covered by this Report, over ten sets of general terms of insurance were analysed. Based on the findings, the PFSA demanded that several insurance undertakings clarified uncertain issues, and advised these undertakings to review certain aspects of their operations. The activities undertaken so far do not prevent the PFSA from using means of authoritative nature to which it is entitled if explanations presented by the insurance undertakings prove to be insufficient or unacceptable given the laws in force or interests of insuring parties, beneficiaries or holders of rights under insurance contracts.

Apart from the tasks of strictly supervisory nature, the PFSA also takes preventive measures to protect the interests of consumers. These activities involve educating the public on the principles of functioning of the financial market, and increasing their awareness of the rights of consumer of financial services (such actions included preparation and publication of certain education materials in the press). On June 22nd 2007, to supplement these activities, the PFSA adopted a resolution on supporting the initiative of adopting the Code of Good Practices of the Financial Market. The resolution demonstrates the PFSA's approval for adoption by the financial market institutions and organisations of the Code of Good Practices of the Financial Market that would be based on such virtues as integrity, professionalism and trust. The PFSA also recommended that the Code should include a principle whereby financial entities should act in good faith, in compliance with the law and the principles of fair trading, and to take into account the legitimate interests of their clients.

Inspection of Regulated Entities with regard to Infringing Interests of Non-professional Financial Market Participants

The PFSA conducts both general and incidental inspections of the regulated entities. As part of its consumer protection policy, the PFSA uses inspections as quick and effective means of establishing the actual state of affairs. Once the facts are established, they form the basis for appropriate supervisory intervention. Therefore, inspections focusing on relations of the regulated entities with their clients are incidental.

In 2007, two inspections were conducted to establish whether interests of non-professional financial market participants have not been infringed. The first inspection, conducted at an investment fund company, focused on preparation and dissemination of advertising information by the company, and the reliability of published advertising information concerning the investment funds managed by the company. The findings exposed the urgent need for legislative efforts to be taken to eliminate legal loopholes preventing PFSA's effective actions against irregularities in advertising materials published by investment fund companies.

In December 2007, the PFSA commenced an inspection at an insurance undertaking to establish whether the undertaking's declaration on compliance with the recommendation in respect of VAT inclusion in the value of claims paid under motor vehicles compulsory insurance was true and correct.

Organisation of the Court of Conciliation at the Polish Financial Supervision Authority

In order to fulfil its statutory obligation under Art. 18 of the Act on Financial Market Supervision of July 21st 2006 (DzU of 2006, No. 157, item 1119, as amended), the regulator commenced work on establishing a Conciliation Court at the PFSA. In the course of the work, the following constitutive documents for the Court of Conciliation were drafted:

- ▶ Rules of Procedure of the Court of Conciliation at the PFSA,
- ▶ Tariffs,
- ▶ Code of Ethics for the arbitrators and mediators of the Court of Conciliation at the PFSA,
- ▶ Decision of the Chairperson on remuneration of arbitrators and mediators of the Court of Conciliation at the PFSA,
- ▶ Decision of the Chairperson on appointment of the arbitrators of the Court.

Organisations representing both the regulated entities and consumers of financial services were consulted on the draft Rules of Procedure of the Court of Conciliation and amendments thereto. The work on regulations defining the organisational framework of the Court of Conciliation was completed in December 2007.

On January 7th 2008, the PFSA adopted the Rules of Procedure of the Court of Conciliation and amendments thereto.

The Court of Conciliation will resolve disputes between all participants of the financial market, i.e. the consumers of financial services and the entities regulated by the PFSA, as well as between the regulated entities.

The Court can offer an effective alternative to lengthy proceedings before common courts of law. Costs of proceedings conducted by the Court of Conciliation should prove lower than costs of proceedings before common courts. Case consideration will involve fewer formal requirements, thus shortening dispute resolution. Renowned theoreticians and practitioners of the Polish financial market will form the team of arbitrators of the

Court. The Court will be independent of the PFSA and other authorities. When adjudicating, the arbitrators will use as exclusive guidance the commonly-binding provisions of the law or the ethical principles outlined in the Code of Ethics for the Arbitrators and Mediators of the Court of Conciliation at the PFSA. The composition of the team of arbitrators and mediators should ensure achievement of the highest standards of dispute resolution, both in terms of dispute substance and its ethical aspects. The Court of Conciliation should become an important pillar of the financial market in Poland, resolving all disputes related to the intricate nature of the market quickly and in a professional manner.

Dissemination of Information

Access to Public Sector Information

Under the Act on Access to Public Sector Information of September 6th 2001 (DzU of 2001, No. 112, item 1198, as amended) along with the accompanying Regulation of the Minister of Internal Affairs and Administration concerning the Public Information Bulletin of January 18th 2007 (DzU of 2007, No. 10, item 68), the PFSA is required to provide access to a clearly defined scope of information on the PFSA pages of the Public Information Bulletin ("BIP") website, which form an autonomous section of the PFSA internet service.

To satisfy the statutory requirements, in 2007 the PFSA reviewed 67 requests for access to public information.

Internet Service

The Internet service is the main tool used by the PFSA to disseminate information. The PFSA website at www.knf.gov.pl was developed by combining the on-line resources of the liquidated Insurance and Pension Funds Supervision Commission and the Securities and Exchange Commission. The internet service in its current form was launched on January 1st 2007.

The information presented on the PFSA website includes description of the organisational structure of the PFSA Office, the PFSA's statutory tasks and composition, competence of its individual departments, reports of its meetings, public procurement announcements, public warnings, contact details and career opportunities. In addition, the service contains information on the regulated markets, including an up-to-date list of entities operating in particular sectors, financial data and statistics, publications (reports and thematic papers), legal acts, including the European Community legislation, and information on the PFSA's activities as part of the EU institutions.

In view of the planned consolidation of the regulated areas, work commenced on development of a new website which would cover also the banking sector.

PFSA Information Centre

The PFSA Information Centre, operated by the Public Relations Office, is a place where the PFSA may be directly contacted by the public. The materials available at the Information Centre in hard copy include prospectuses, current and interim reports published by the regulated entities as well as books and brochures published by the PFSA. The PFSA Information Centre also provides reports in the electronic form via the Electronic Market Supervision System (ESNAR).

Relations with the Press

Openness is key to the information policy pursued by the PFSA. Its tasks in this area include:

- Public presentation of the PFSA's and the PFSA Office's opinions and results of their work;
- Presentation of information on actions, initiatives and programmes undertaken by the PFSA;
- Commenting on the financial market developments.

These tasks are carried out through:

- press releases,
- press conferences,
- interviews,
- Press Centre section on the Internet website,
- publication of articles authored by the PFSA's representatives.

Statistical Releases, Reports, Papers and Analyses

STATISTICAL RELEASES

The PFSA releases periodic publications comprising financial data and statistics pertaining to the regulated markets. In 2007, the series of publications included:

- Quarterly Bulletin – Insurance Market;
- Quarterly Bulletin – Market of Open-end Pension Funds.

In addition, the following statistics on the pension market were published:

- ▶ monthly statistical releases,
- ▶ annual statistical releases,
- ▶ fund membership draws,
- ▶ transfer payments statistics.

The publications are available at the PFSA website (www.knf.gov.pl).

REPORTS, PAPERS AND ANALYSES

Catastrophic Risks in Poland – Case Study of Hurricane Cyril

In view of the increasingly frequent occurrences of natural disasters in Europe and Poland, the PFSA produced a report *Catastrophic Risks in Poland – Case Study of Hurricane Cyril* covering catastrophic phenomena such as natural and anthropogenic disasters that affect the insurance business. The report contains commonly used definitions and classification of these phenomena, discussion of insurance systems related to natural disasters, and key statistics on the effects of natural disasters.

The report extensively discusses the risks related to hurricanes and high winds, focusing on Hurricane Cyril. Moreover, based on the results of surveys conducted among the non-life insurance undertakings, the report outlines the effects of Hurricane Cyril on the financial situation of the insurance undertakings in Poland.

Solutions for the Cross-Border Activity of Insurance Undertakings in the European Union

In August 2007, the PFSA Office published a report on certain aspects of cross-border activity of insurance undertakings in the EU. The report, based on the 2004–2005 data, covered regulations applicable to cross-border activity and statistics pertaining to activities conducted by both foreign insurance undertakings in Poland and Polish insurance undertakings operating on international markets.

Reports on the pension funds market

The PFSA monitors the market environment based on regularly collected data concerning activities of the regulated entities.

The following papers were released:

- ▶ *Market of Occupational Pension Schemes in 2006*
- ▶ *Personal Pension Accounts in 2006*
- ▶ *Personal Pension Accounts after First Half of 2007.*

These reports were presented during meetings of the PFSA and published on the PFSA website. They are a unique source of information since they are based on the data delivered by all market participants as part of their disclosure obligations. Prior to publication, such data is systemised and verified to ascertain its accuracy and reliability. Thanks to regularity of data collection and the statutorily prescribed consistent reporting format, the outcomes of analyses are comparable in subsequent periods. Thus, the analyses provide the regulatory authorities, academic circles and the media with valuable information about the market.

The following reports on activities of the pension market participants were presented at the PFSA's meetings:

- ▶ *Financial Standing of the General Pension Fund Companies as at December 31st 2006*
- ▶ *Financial Standing of the General Pension Fund Companies as at June 30th 2007*
- ▶ *Investment Activities of the Pension Funds in the Period March 31st 2004 – March 30th 2007.*
- ▶ *Investment Activities of the Pension Funds in the Period September 30th 2004 – September 28th 2007*
- ▶ *Competition on the Market of Open-end Pension Funds*
- ▶ *Market of Open-end Pension Funds in 2006.*

Papers and analyses concerning the capital market

In 2007, an analysis was carried out concerning the rules of procedure to be applied by the PFSA Office after November 1st 2007, in case Directives 2004/39 and 2006/73 were not implemented. Following the analysis, the PFSA Office published a press release listing directly applicable articles of the directives.

Other reports and papers

In July 2007, the PFSA Office continued work on its report on integrated supervision. The published report discusses benefits and costs of the integrated supervision, especially in view of the growing significance of cross-sector groups, including financial conglomerates. The report also reviews the extent to which global and domestic financial conglomerates have made their presence felt on the market. The document is available at the PFSA website (www.knf.gov.pl).

In 2007, the PFSA Office also prepared a report *Attempt to Identify Factors Affecting the Prices of Residential Property in Poland*. The analysis was to answer the question whether the residential property market is considerably overvalued, in which case the stability of the financial system in general could be threatened. The new econometric model was developed in two versions to allow for comparison of the results. To some extent it explained the price rise on the residential property market. The general conclusion (discussed in detail in the report) was that the price rise was not extensive relative to the market as a whole.

The PFSA Office prepared commentaries to *Government Programme for Housing Development* for the Polish Ministry of Construction. For this purpose, the PFSA also commissioned a more extensive analysis of such aspects of residential property market as securitisation and REIT funds.

In 2007, as the problems on the global financial markets were becoming increasingly more serious, the PFSA collected materials and carried out preliminary studies of the European banks in financial distress, including Rijecka Banka (Croatia) and Northern Rock (Great Britain), with a view to using international experience to strengthen the Polish financial supervision systems.

Moreover, the PFSA prepared regular reports – macroeconomic data weeklies – containing information on important events and macroeconomic data released during a given week.

Educational Activity

The PFSA's statutory task is to educate the public in financial matters.

Financial education undertaken by the PFSA comprises an array of tasks aimed at promotion and dissemination of financial literacy and understanding of how the financial market operates.

The PFSA's educational activities are targeted at:

- Non-professional participants of the financial market: students of secondary schools and colleges, consumers and investors, including in particular teachers, the judiciary, prosecutors and members of the press;
- Professional participants of the financial market.

The key areas of the PFSA's interest are:

- Enhancement of the importance of economics education at all levels of the educational system through the introduction of basic entrepreneurship as a subject of choice at the secondary school leaving examination;
- Improvement of professional qualifications of teachers of Economics and financial subjects;
- Improvement of the knowledge of the financial market among non-Economics students;
- Support of initiatives of higher education institutions designed to improve the quality of financial-market-related conferences, seminars and workshops;
- Improvement of the quality of manuals and other teaching aids used to teach Economics and financial matters;
- Promotion of financial literacy and development of confidence in the financial market among prospective consumers of financial services.

The PFSA is interested in cooperation with institutions and organisations involved in financial education initiatives.

In 2007, the PFSA implemented the following educational projects addressed to students and teachers:

- Educational Forum: a part of the PFSA website since July 6th 2007. The PFSA-developed Educational Forum (<http://fe.knf.gov.pl>) is a dedicated interactive application supporting communication and consultations within the community of teachers of Economics, education methodologists, secondary school and college students. The Forum also supports the presentation of scholars' and consultants' achievements in the field of educational projects. It serves as a source of information on various educational initiatives – from publications (books) to multimedia presentations, and e-learning courses. It presents high-quality educational initiatives in the areas of Economics and finance, accompanying and supplementing school curricula. By the end of 2007, nearly 300 users (mainly teachers) registered in the Forum pages.
- Draft changes in the curriculum of basic entrepreneurship, prepared with a view to introducing basic entrepreneurship or similar Economics subjects as a subject of choice at the *matura* examination. The project included the submission, to the Ministry of National Education, of two proposals for

enhancement of the curriculum base, prepared by teams of business and methodology experts and consultants. The proposals were related to the initiative of curriculum enhancement and introduction of the subject as a subject of choice at the *matura*. The PFSA Office's Department of Education invited a number of scholars to participate in the project, and these represented the Cracow University of Economics, Warsaw School of Economics (SGH), Pedagogical University of Cracow and other universities. The project won support from 20 institutions operating in the public domain (foundations for Economics education and other institutions, such as: the National Bank of Poland, Polish Chamber of Insurance (PIU), Junior Achievement (FMP), Capital Market Education Foundation (FERK), Commercial Chamber of Pension Fund Companies (IGTE) and Association for the Financial Security of Citizens of Poland (STOB). The implementation process included a meeting of the coalition for Economics education held on July 4th 2007. The first of the aforementioned projects, comprising three enhancement options, was prepared by a team headed by Dr. Tomasz Rachwał (Pedagogical University of Cracow); it was subsequently proposed to the Ministry of National Education by the PFSA Office's Department of Education on July 24th 2007. The other project, prepared by a team headed by Dr. Roman Sobiecki (Warsaw School of Economics), was proposed by the PFSA Office's Department of Education to the Department of General Education at the Ministry of National Education on September 10th 2007.

- Educational initiatives focusing on improvement of professional qualifications of teachers in capital market subjects. On May 21st 2007, the PFSA and the Capital Market Education Foundation entered into cooperation agreement to initiate and implement joint educational initiatives for school and university students, as well as teachers involved in finance education.
- The following events for teachers of basic entrepreneurship and other economics subjects, heads of secondary schools and students were organised:
 - 3rd National Conference of Entrepreneurship Teachers "How to Safely Invest on the Capital Market" (May 29th 2007; venue: the WSE Trading Room);
 - 8th Seminar for teachers of basic entrepreneurship (October 18th 2007, the National In-Service Teachers Training Centre in Warsaw) designed to familiarise the teachers with the operation of the stock exchange and capital markets, as well as with effective methods of education in this area;
 - 1st Seminar for heads of secondary schools "The Stock Exchange Teaches Entrepreneurship" (December 5th 2007; venue: Centrum Giełdowe S.A.) designed to increase the awareness of the need to provide young people with capital market education and to familiarise the participants with the operation of the stock exchange and capital markets. The Seminar also included a discussion on the importance and feasibility of teaching Economics subjects, including in particular the introduction of basic entrepreneurship as a *matura* subject. The participants were also informed on actions undertaken in this area by various groups.

- Series of nine *Invest Safely* workshops (in different Polish cities) for teachers of entrepreneurship and Economics subjects. The workshops were designed to familiarise the participants with the operation of the capital market, stock exchange and capital market institutions. During the workshops, the Director of the PFSA Office's Department of Education discussed issues relating to risk of and return on investing on the capital market and protection of consumers of financial services; the Director also presented the educational initiatives of the PFSA. A total of 450 teachers of basic entrepreneurship participated in the series.
- Conference "The Capital Market as the Foundation of Modern Economy", organised under the auspices of the PFSA by the Regional In-Service Teacher Training and Pedagogical Information Centre WOM in Rybnik (December 7th 2007). The objective of the Conference was to disseminate knowledge of the capital market among secondary school teachers in the western part of the Katowice Province.
- Project "Lesson of Entrepreneurship: No Risk – No Return" organised for secondary school students, in cooperation with the Association of Issuers; venue: the WSE Trading Room. Students could participate in one of a number of lessons conducted by a capital market expert who discussed the relations between the risk and return on stock-exchange transactions. The students, guided by the expert, could also participate in workshops, received educational materials and visited the Warsaw Stock Exchange, where they were provided with more insight into its operations. All represented schools received certificates of participation. The first lesson within the Project was held on September 17th 2007. The Project is scheduled to conclude in April 2008. As this initiative has raised remarkable interest among schools, the second issue of the Project is planned. Approximately 700 students participated in the Project in 2007.

Teaching Aids for Educational Institutions. The disc is also available from the PFSA website. The CD-R contains the following PowerPoint presentations: *Description of the Capital Market, Investing, No Risk – No Return* and *What to Do to Do Nothing (and How Financial Mathematics May Help Here)*. A presentation is a modern tool for transferring knowledge to students, support teachers in the introduction and explanation of difficult notions, as well as in the discussion of basic economic processes such as operation of the capital market and stock exchange, capital market investments and investing-related risk.

- ▶ The PFSA's publications for the general public. As part of its publishing activities, the PFSA prepares and publishes free educational materials dealing with financial matters. In 2007, the PFSA published the following updated pamphlets of "The Investor's Guide" series (with circulation of 15,000):
 - *How to Read an Issue Prospectus*,
 - *How to Participate in the General Shareholders Meeting*,
 - *How to Invest in the European Union*.

The PFSA also issued 1,000 copies of the third, updated issue of *Rights and Obligations of Shareholders in Public Companies*. The publications were sent out to libraries at higher education institutions, secondary schools and entities active on the financial market; they are also available on the PFSA website (www.knf.gov.pl) in the "Publications" tab.

As part of streamlining the process of considering applications for registration of occupational pension schemes, and given the significant number of incorrectly prepared applications, the PFSA analysed of most frequent errors found in the filed registration documents. To supplement these actions, the PFSA published a guide *How to Establish an Occupational Pension Scheme*, which explains the registration process in an easy format and describes how to avoid situations where scheme's registration protracts due to errors in the scheme agreements and other documents attached to the application. The guide is available on the PFSA website.

Educational Publications and Studies

- ▶ Educational pack for teachers. Given the positive feedback and interest expressed by teachers of basic entrepreneurship, the PFSA Office initiated the development of an educational pack for secondary school teachers of subjects related to the capital market. The pack, published by the Capital Market Education Foundation, includes:
 - the PFSA-prepared course book for teachers,
 - class scenarios selected in the contest for teachers, organised by the Capital Market Education Foundation,
 - presentations on the capital market,
 - CD-R
- ▶ CD-R *Basic Entrepreneurship. Educational Presentations*. Upon a motion of the Polish Financial Supervision Authority, the publication *Basic Entrepreneurship. Educational Presentations* issued on CD-R by the PFSA and Capital Market Education Foundation was entered into the list of teaching aids recommended for school use by the Minister of National Education (Recommendation No. 2300/2007) and included in the Ministry of National Education's Internet database *General Education*

Educational initiatives for employers continued with the preparation of the guide's sequel: *The Guide for Employers Maintaining Occupational Pension Schemes*; it discusses employers' obligations following the registration of occupational pension schemes. The guide is to provide information on the relevant obligations of scheme sponsors to entities intending to establish schemes as well as to those organisation which have already registered their schemes.

- ▶ E-learning course *The Stock Exchange and Capital Market*. From October 1st to December 16th 2007, the first issue of the e-learning course *The Stock Exchange and Capital Market* was run with nearly 250 participants. The course concluded with an examination taken by 60 participants. 58 persons passed the examination, including 10 with distinction. Each participant who passed the examination obtained a certificate of the Capital Market Education Leader. The next two issues of the course will begin on March 3rd 2008. The objective of the course is to educate local leaders by transferring the knowledge of the capital market to them, as well as disseminating the knowledge of stock-exchange and financial subjects, prin-

cipally among students and teachers of secondary education, but also among university students, economics and pedagogy majors. Participation in the course was free of charge. The curriculum of the course consisted of ten extended e-learning modules. The modules also included scenarios for classroom use. The participants had access to micro modules – examples of how to use the knowledge in the curricula of subjects other than basic entrepreneurship. The course was conducted in the distant learning mode, supported by an e-learning platform (virtual classes conducted by scholars). A dedicated website can be found at <http://kapital.edu.pl>. The project was implemented by the Capital Market Education Foundation in cooperation with the Foundation for Promotion and Accreditation of Economic Education. The course is certified by the Polish Financial Supervision Authority (the referee of all parts of the course) and the Warsaw Stock Exchange.

- ▶ “School of Entrepreneurship” Quality Certificate – the project, addressed to upper and secondary schools across the country, covered 20 thousand pupils in 2007. The project was organised by Junior Achievement, with sponsor and organisational support from the PFSA (under an agreement between the PFSA and Junior Achievement of July 12th 2007), the National In-Service Teacher Training Centre, the Polish Agency for Enterprise Development, and the Foundation for Promotion and Accreditation of Economic Education. The project’s objectives included:
 - Improvement of the quality of entrepreneurship education at schools;
 - Promotion of economic education of students as a material indicator of the quality of school operation;
 - Promotion of school-based programmes and projects relating to entrepreneurship and economic education;
 - Building of entrepreneurship culture at schools.

“School of Entrepreneurship” Quality Certificate confirms that a certified school is a local entrepreneurship education centre for young people. The certificate is granted for three school years.

Projects Addressed to Academic Community

- ▶ *University syllabus Supervision over Financial Markets*. In 2007, a team of experts representing the PFSA Office prepared a university syllabus *Supervision over Financial Markets*. The objective of the syllabus, prepared by a team of experts connected with the PFSA Office to support preparation of quality academic lectures, is to present the financial market supervision in Poland in an organised manner, supplemented with basic information on the market supervision in the European Union. The subjects of the syllabus cover individual financial market sectors: capital market, insurance, pension funds, occupational pension schemes and banking. The issues of comparability of supervision standards across different sectors and countries are discussed, as are the issues of supervision arbitration. The discussion is focused on legal, economic and organisational aspects of the environment. The lecture proposal is principally addressed to scholars reading lectures for

students, and to graduate and post-graduate university students specialising in finance (banking, insurance, capital market, pensions). Selected modules of the lecture may also be used as a teaching aid in trainings, seminars and workshops for the management and employees of selected functions at the regulated entities.

- ▶ Contest for the best masters or doctoral thesis, for the PFSA Chairman Prize. In September 2007, the PFSA announced a contest for the best masters or doctoral thesis with the prize founded by the PFSA Chairman. The contest is to disseminate knowledge of the regulation of and supervision over the financial market and to promote the knowledge within the academic community. Information on the contest, including the rules, is available at the PFSA website, in the “Education” tab.

Educational Projects Addressed to Various Groups of the Public

- ▶ The “Savings Week” campaign with the Polish celebration of the 2007 World Savings Day. The project was implemented by the Think! Foundation – Instytut Rozwoju Komunikacji i Edukacji (Institute for Development of Communication and Education), in cooperation with the Leopold Kronenberg Foundation and the PFSA, and with media support from Interia.pl (www.tdo2.interia.pl) as well as 16 regional stations of Polskie Radio and the TVN television channel. The multifaceted campaign was designed to draw the public’s attention to the variety of forms of saving and investing. To reach both objectives, the message of the campaign and its individual initiatives were addressed to various groups of the society. The most important, direct target groups of the campaign were:
 - Upper and secondary school students,
 - Teachers and other school communities,
 - Members of the press,
 - General public.

The countrywide “Savings Week” campaign proceeded with the active participation of upper and secondary school students and teachers, as well as members of the local and national press. At the campaign climax, the World Savings Day marked the end to educational projects on management of personal finance at 270 schools. Over 800 students presented their personal projects for the contest “Why Does It Pay to Save Money?” Over 60 media titles, including Internet portals, covered the World Savings Day, and the dedicated website was visited by several thousand users.

- ▶ Training for journalists. In 2007, 14 training sessions for members of the press were organised. They were attended by nearly 60 people. The subjects covered included:
 - Public offerings in Poland – regulation and supervision (October 18th 2007),
 - Legal and penal aspects of disseminating untrue or unreliable information (October 25th 2007),
 - Supervision over confidential information at public companies (November 8th 2007),
 - Brokerage activities and multilateral trading facilities (November 15th 2007),

- Investing activities of pension funds – legal and institutional framework, and the interests of members of open-end pension funds (November 22nd 2007).
 - Construction and operation of occupational pension schemes (November 22nd 2007).
 - Supervision over financial intermediaries (November 29th 2007).
 - Inspection of investment firms (November 29th 2007).
 - The PFSA's activities in European and other international organisations – insurance and pension funds (December 6th 2007).
 - Risk-based supervision – fashion or necessity (December 6th 2007).
 - Protection of the interests of non-professional financial-market participants (December 7th 2007).
 - Operation of investment funds (December 7th 2007).
 - Financial statements of insurance companies; statutory solvency and insurance reserve requirements (December 13th 2007).
 - Solvency II Project (December 13th 2007).
- ▀ PFSA patronage. Conferences for the academic community – the PFSA co-organised the 4th Methodological Scientific Conference “The Role of Entrepreneurship in Knowledge-Based Economy”, organised by the Pedagogical University of Cracow and the Cracow University of Economics (October 8th–9th 2007). Given the financial market’s development in Poland and the PFSA’s educational mission, a number of projects relating to the regulated markets were also implemented under the regulator’s patronage. All initiatives supported by the PFSA were non-commercial and were organised by non-profit entities, including public higher education institutions, scientific institutes, associations and public institutions. The PFSA also lent its patronage support to the First Forum of Students Study Groups (November 16th–17th 2007 at the Gdańsk School of Banking), addressed to students and lecturers wishing to extend their interest in finance, economics, the stock exchange and capital markets; and the Conference of Students Study Groups at the Jagiellonian University of Kraków (November 2007). In 2007, the PFSA provided its patronage support to a total of 24 projects.

Legislative Efforts

In 2007, the PFSA was involved in the preparation and assessment of numerous drafts of legal acts pertaining to the financial market.

Draft Act Amending the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies

The proposed amendments to the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (DzU of 2005, No. 184, item 1539) are intended to implement to provisions of Directive 2004/109/EC of the European Parliament and of the Council of December 15th 2004 on the harmonisation 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 (“Transparency Directive”), and Directive 2004/25/EC of the European Parliament and of the Council of April 21st 2004 on takeover bids. The proposed amendments are also intended to refine certain provisions of the Act.

The draft act provides for, *inter alia*, changes relating to entitled entities and procedures for seeking admission of securities to trading on the regulated market, as well as changes concerning disclosure requirements and tender offers to acquire or exchange shares in a public company.

In connection with the prepared amendments, the PFSA Office has developed draft implementing measures to the Act, including:

- ▀ Draft regulation of the Minister of Finance on:
 - Manner of maintaining registers,
 - Scope of the information referred to in Art. 10.4 of the Public Offering Act,
 - Procedures for making the register available for perusal, including its publication on the PFSA website;
- ▀ Draft regulation of the Minister of Finance on:
 - Type, scope and form of current and periodic information to be published by issuers of securities for whom the Republic of Poland is the home Member State, admitted to trading on the official stock-exchange market within the meaning of the Act on Trading in Financial Instruments or on the regulated market of another Member State,
 - Deadlines and frequency of publication of the above information,
 - In the case of issuers having registered offices in a state other than a Member State, for whom the Republic of Poland is the home Member State and whose securities are admitted to trading on the official stock-exchange market within the meaning of the Act on Trading in Financial Instruments – the conditions for recognising the information required by the laws of the state where the issuer’s registered office is situated as equivalent to the above information.

Draft Act Amending the Act on Trading in Financial Instruments

The amendments to be introduced to the Act on Trading in Financial Instruments of July 29th 2005 (DzU of 2005, No. 183, item 1538 and DzU of 2006, No. 104, item 708, No. 157, item 1119) follow primarily from the need to implement in the Polish legislation the provisions of Directive 2004/39/EC of the European Parliament and of the Council of April 21st 2004 on markets in financial instruments ("MiFID"), Commission Regulation (EC) No. 1287/2006 of August 10th 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards recordkeeping obligations for investment firms, transaction reporting, market transparency, admission of financial instruments to trading, and defined terms for the purposes of that Directive; as well as Directive 2006/49/EC of the European Parliament and of the Council of June 14th 2006 on the capital adequacy of investment firms and credit institutions.

In addition to the implementation of the directives, the amendments also introduce solutions promoting development of the Polish capital market, including solutions facilitating short sale transactional mechanisms.

In particular, the bill proposes extension of the catalogue of available financial instruments, introduces more detailed provisions concerning execution of transactions by investment firms directly with entities placing orders (as part of order execution services), and changes the settlement system regulations and the existing commodity market supervision model.

In connection with the proposed amendments to the Act on Trading in Financial Instruments, the PFSA Office has prepared draft implementing measures to the Act, e.g.:

- Recording executed transactions and archiving documents and other carriers of information prepared in connection with brokerage or custodian bank activities;
- Creating and realising collateral for loans advanced to finance acquisition of financial instruments, and creating security interests in financial instruments to secure claims if creation of such security interest is possible given the structure of such instruments;
- Draft regulation of the Minister of Finance on the scope and detailed rules for determination of capital requirements and on the maximum ratio of loans and issued debt securities to equity;
- Draft regulation of the Minister of Finance on the conditions to be met by a multilateral trading system operated by an investment firm and the scope, manner and form of publishing information on transactions and turnover in the system, taking into account the need to ensure secure and transparent trading in financial instruments;
- Draft regulation of the Minister of Finance on the scope, procedure, form and dates for provision of information specified in Art. 86.4, concerning the activities of investment firms and custodian banks and the financial standing of brokerage houses, banks conducting brokerage activities and foreign legal persons conducting brokerage activities in Poland;
- Draft regulation of the Minister of Finance on the technical and organisational requirements for investment firms and custodian banks and on detailed conditions for estimating internal capital by a brokerage house and reviewing the process of estimating and maintaining such capital;
- Draft regulation of the Minister of Finance on the scope, procedures, form and dates for publishing and delivering to the PFSA of information related to calculating and maintaining capital requirements by brokerage houses;
- Draft regulation of the Minister of Finance on the reporting requirements for brokerage houses, banks conducting brokerage activities, foreign investment firms conducting brokerage activities in Poland through a branch, and foreign legal persons referred to in Art. 115 conducting brokerage activities in Poland through a branch, custodian banks, the entities referred to in Art. 4.1.2, the National Depository for Securities and the company to which the National Depository for Securities delegated the tasks specified in Art. 48.1.1–48.1.6, as well as the National Bank of Poland, related to trading in securities issued by the State Treasury so that the financial statements prepared by such entities make it possible to perform analyses of the condition, dynamics and structure of the state budget's debt under treasury securities by groups of investors and types of such securities;
- Draft regulation of the Minister of Finance on the criteria to be met by long-term transactions which a brokerage house may execute without holding the initial capital in the amount specified in Art. 98.1;
- Draft regulation of the Minister of Finance on conditions to be met by applications for issuing the authorisation referred to in Art. 105a.1, taking into account the fact that such applications are to serve as a basis for the evaluation of possible effects of the activities covered by the applications with respect to proper security against the risk associated with the activities of a brokerage house;
- Draft regulation of the Minister of Finance on conditions to be met by a regulated market;
- Draft regulation of the Minister of Finance on detailed conditions to be met by the official stock-exchange market and issuers of securities admitted to trading on such market;
- Draft regulation of the Minister of Finance on the manner, scope and deadlines for the delivery to the PFSA of information on shares admitted to trading on a given regulated market or shares sought to be admitted to trading on the regulated market, by companies operating the stock exchange and companies operating the over-the-counter-market, taking into account the need to enable the PFSA to make the calculations and estimates referred to in Art. 33 of Regulation 1287/2006 in accordance with the provisions of the article;
- Draft regulation of the Minister of Finance on the procedures and conditions to be followed by investment firms and custodian banks in the course of their activities related to:
 - Promoting their brokerage services and maintaining relations with prospective clients,
 - Executing and clearing transactions,
 - Providing brokerage services, including brokerage services for various categories of clients,

- ▶ Draft regulation of the Minister of Finance on:
 - Detailed conditions whose fulfilment by an external credit rating institution is necessary for the PFSA to recognise the institution;
 - Criteria for determining the manner of associating the risk weights of the individual exposure classes of a brokerage house with relevant credit ratings developed by an external credit institution recognised by the PFSA;
 - Detailed manner of use of credit ratings by brokerage houses, taking into account the need to ensure that brokerage houses determine capital requirements in a prudent and reliable manner;
- ▶ Draft regulation of the Minister of Finance on conditions to be met by applications for the authorisations referred to in Art. 105c.1.1 or 105c.1.2, taking into account the need to evaluate the possible effects of the implementation of a given method on proper security against the risk associated with the activities of a brokerage house;
- ▶ Draft regulation of the Minister of Finance on conditions to be met by applications for the authorisation referred to in Art. 105d.1, taking into account the need to evaluate the possible effects of the implementation of a given method on proper security against the risk associated with the activities of a brokerage house;
- ▶ Draft regulation of the Minister of Finance determining:
 - Amount of fees for a supplementary examination,
 - Rules for conducting a supplementary examination, and
 - Manner of determining the remuneration of the members of the examination board for participation in the board meetings, carrying out a supplementary examination and preparing draft questions for a supplementary examination.

Draft Act Amending the Act on Investment Funds

The draft act amending the Act on Investment Funds of May 27th 2004 (DzU of 2004, No. 146, item 1546, as amended) transposes into the Polish legislation relating to investment funds the provisions of the following directives:

- ▶ Directive 2004/39/EC of the European Parliament and of the Council of April 21st 2004 on markets in financial instruments (MiFID), amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council Re-Casting Directive 93/22/EC;
- ▶ Commission Directive 2006/73/EC of August 10th 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and the terms defined for the purposes of the Directive;
- ▶ Commission Directive 2007/16/EC of March 19th 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions.

The bill envisages a number of systemic changes as well as changes aimed at enabling the PFSA to exercise more efficient supervision over investment funds. In connection with the proposed amendments to the Act on Investment Funds, the PFSA Office prepared draft implementing measures to that Act, e.g.:

- ▶ Draft regulation of the Minister of Finance on the procedures and conditions to be met by investment fund companies managing portfolios comprising one or more financial instruments or providing investment advisory services, with respect to provision of services, promotion of provided services and relations with prospective clients, taking into account the need to act with due care and protect the client;
- ▶ Draft regulation of the Minister of Finance on:
 - Procedures, conditions and detailed scope of internal audit at an investment fund company;
 - Manner of keeping records of transactions executed by investment funds and transactions executed for the account of the investment fund company or a collective securities portfolio or for the account of clients who signed with the investment fund company an agreement on management of portfolios comprising one or more financial instruments;
 - Methods of preventing conflicts of interests, including rules for entering into transactions by employees, management board members and supervisory board members of the investment fund company or by other natural persons who entered into a mandate contract or another similar legal relationship with the investment fund company, who have access to information on existing or planned investments by investment funds and assets acquired for the portfolios of the clients to whom the investment fund company provides management services relating to portfolios comprising one or more financial instruments or advisory services;
 - Manner of documenting sources used as the basis for investment decisions;
- ▶ Draft regulation of the Minister of Finance on the scope of reports and information specified in Art. 225. 1, as well as the form and deadlines for their delivery;
- ▶ Draft regulation of the Council of Ministers on full and simplified prospectuses of open-end investment funds and specialist open-end investment fund.

Draft Act on Reinsurance Activities

The draft act is intended to implement into the Polish legal system the provisions of Directive 2005/68/EC of the European Parliament and of the Council of November 16th 2005 on reinsurance and amending Council Directives 73/239/EEC, 92/49/EEC as well as Directives 98/78/EC and 2002/83/EC.

The Directive on reinsurance imposes community regulation on reinsurance activities performed within the Community by specialist entities.

The absence of uniform rules governing reinsurance in the EU has given rise to material differences in the level of supervision over European reinsurance undertakings. The simultaneous

existence of differing national regulations is a source of uncertainty for insurance undertakings (and the insured), disrupts exchange on the internal market, causes various problems and administrative burdens and undermines Europe's position in international trade negotiations. In order to remedy those deficiencies and protect the interests of insurance undertakings, insuring parties and the insured, the directive on reinsurance has been adopted with a view to establishing a legal framework imposing prudential supervision of reinsurance undertakings in the Community.

According to the draft act, proper reinsurance will protect insurance undertakings against financial losses in the event of risk accumulation or catastrophic losses. Cooperation with reinsurers enables insurance undertakings to minimise financial losses in periods when payments of claims and benefits under insurance contracts are high in relation to collected insurance premiums. Reinsurance also gives insurance undertakings financial stability through more secure investment of free funds.

The PFSA Office provided comments on the draft act on reinsurance (prepared by the Ministry of Finance) in order to ensure a correct and precise implementation of the Directive.

Draft Act Amending the Accountancy Act

The amendment to the Accountancy Act of September 29th 1994 (DzU of 2002, No. 76, item 694, as amended) is intended to transpose into Polish law the provisions of Directive 2006/46/EC of the European Parliament and of the Council of June 14th 2006 amending Council Directives 78/660/EEC on the annual accounts of certain types of companies, 83/349/EEC on consolidated accounts, 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions and 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings.

The objectives behind the amendment include the introduction of obligation to disclose the following information in the accounts of an entity: nature and economic objective of agreements concluded by the entity and not disclosed in the balance sheet to the extent necessary to evaluate their effect on the entity's assets, financial standing and performance; information on transactions with related parties, including their amounts; information on the nature of the relations if the transactions are not carried out on an arms' length basis.

In connection with the prepared amendment to the Accountancy Act, the PFSA Office participated in drafting the secondary legislation.

Draft Act Amending the Act on the Banking Guarantee Fund

The amendment to the Act on the Banking Guarantee Fund of December 14th 1994 (DzU of 2007, No. 70, item 474) has

been prepared in connection with the need to finally harmonise the Act with the EU law, as well as in view of the call to strengthen the main scope of activities of the Banking Guarantee Fund, i.e. protection of client deposits. In general, the laws effective in Poland comply with the EU standards in the area of deposit guarantees, as specified in Directive 94/19/EC of the European Parliament and of the Council of May 30th 1994 on deposit-guarantee schemes. Pursuant to the Directive, the primary obligation of the Member States is to ensure common availability of the deposit-guarantee scheme and equal treatment of credit institutions. Moreover, the Directive stipulates that the cost of financing such schemes must be borne, in principle, by credit institutions themselves. This concerns in particular the exclusion of financing of the deposit-guarantee schemes with funds originating from the Member States themselves. At the same time, the Directive provides that the financing capacity of such schemes must be in proportion to the liabilities incurred by the scheme participants towards their clients.

To ensure consistency of the Act on the Banking Guarantee Fund with the Community laws, it is necessary to liquidate the co-financing of the Fund by the National Bank of Poland (the mechanism indicated by the European Commission in the 2006 Convergence Report) as such an arrangement violates the prohibition to provide financing from national central banks or establish privileged access to financial institutions, as specified in Article 101 of the Treaty establishing the European Community. In connection with the prepared amendment to the Banking Guarantee Fund, the PFSA Office participated in the legislative work on the Act.

Draft Act on Payments from Open-end Pension Funds and on Pension Undertakings

Relying on the analyses, studies and position papers prepared by the Liquidated Pension Funds Supervisory Authority, Insurance and Pension Funds Supervision Commission and Securities and Exchange Commission, and taking into account the current status of the discussion on the proposal submitted by the Ministry of Labour and Social Policy and the position of entities from the financial services market as well as academic research, in January 2007 the PFSA Office prepared its position on payments from open-end pension funds. In the position, adopted in February 2007, the PFSA presented its recommendations regarding the direction of work on the Act on Payments from Open-End Pension Funds. The recommendations were as follows:

- The issue of payments from open-end pension funds needs to be promptly resolved. In the first place, institutions offering products on the market should have time to develop an IT and technical infrastructure based on the legal framework concerning such payments. The issue is made even more urgent by the fact that payments from the capital portion of the compulsory pension system are due to start on January 1st 2009.
- At least in the initial period of payments from open-end pension funds, the only permitted form of payment should be

a lifetime pension. Such a pension provides protection against the longevity risk and should be indexed for inflation. The protection against inflation and lower purchasing power prevents the transfer onto the public budget of the risk of having to pay the minimum pension.

- ▶ Providers of lifetime pensions, i.e. competing market institutions, will be regulated by the PFSA.
- ▶ The Social Security Institution (ZUS) would be responsible for centralised acquisitions and making payments of funds from the pension undertakings along with payments from the pay-as-you-go portion. Such model would eliminate acquisition costs, ensure equal access to information, and reduce the cost of payment of pension benefits from the new pension system. Moreover, ZUS should, based on ratios provided by pension undertakings, provide each person planning to retire with information on the amount of monthly payments at each pension undertaking. Prior to retirement, a potential pensioner would be obliged to select a pension undertaking. Such a solution would mitigate communication problems and reduce acquisition costs; it would also in fact contribute to reducing the costs of the system as a whole.
- ▶ Technical provisions created in connection with the conducted activities should be invested only in secure financial instruments. The system should have in place appropriate security mechanisms, such as a guarantee fund and the state treasury guarantee as the ultimate element of the system security.
- ▶ The admissibility of paying different contributions depending on the sex or other criteria, selection from available lifetime pensions, as well as the scale of the state treasury guarantee are issues of a social and political nature and, as such, extend beyond regulatory supervision.
- ▶ The lifetime pension would promote the importance and development of financial instruments linked with demographic risk. In this way the development of the market of such instruments would facilitate the operations of the entities offering lifetime pensions. It is also vital to ensure an appropriate supply of inflation-indexed debt securities.
- ▶ The PFSA Office did not resolve on the types of lifetime pensions – whether it should be an individual or family pension or a pension with or without a guaranteed period.

The announcement of the PFSA's position triggered a broader discussion on preparing an act regulating payments from open-end pension funds. A special Inter-Ministerial Team for Social Insurance Supervision was established to develop legal solutions

necessary to complete the pension system reform. The team includes a separate working group responsible for payments from open-end pension funds.

Given the scale of the work and the problems to be solved in preparing the working group's position, the largest scope of responsibilities was assigned to the representatives of the PFSA. The key objective was to define the relationship between the draft act and the EU law, resolve the matter of the product range offered by pension undertakings, determine the rules governing establishment and operation of pension undertakings, and regulate the question of supervision over pension undertakings. Another important area of interest for the representatives of the PFSA Office within the working group was the definition of financial management rules at pension undertakings, including in particular specification of financial security parameters, investment limits for the undertakings' investment policies, as well as the scale of financial charges paid by pensioners.

The group's work resulted in developing a draft act on organisation and functioning of pension undertakings.

In December 2007, the Ministry of Labour and Social Policy released another draft act on payments from open-end pension funds and on pension undertakings, on which the regulator issued an opinion.

Work on Other Draft Acts

In 2007, the PFSA Office participated in inter-ministerial consultations concerning, *inter alia*, the following draft acts:

- ▶ Act on Prevention of Unfair Market Practices,
- ▶ Act amending the Act on Prevention of Money Laundering Practices and Financing of Terrorism,
- ▶ Act amending the Act on Compensation for Real Estate and Certain Assets Taken Over by the State,
- ▶ Act amending the Act on Compulsory Insurance, Insurance Guarantee Fund and the Polish Motor Insurers' Bureau and the Act on Insurance Activity,
- ▶ Act amending the Cooperative Law,
- ▶ Act amending the Polish Civil Code and the Polish Currency Law,

as well as in the work on numerous draft regulations.

Financial Market Development Council formed by the Minister of Finance

In 2007, representatives of the PFSA Office participated in the work of the Financial Market Development Council, advisory and consultative body formed by the Minister of Finance. The PFSA representatives sat on the following working groups and teams:

- ▶ Reinsurance Directive Transposition Working Group, which proposed the first legislative solutions to meet the obligation

to implement Directive 2005/68/EC of the European Parliament and of the Council of November 16th 2005 on reinsurance and amending Council Directives 73/239/EEC, 92/49/EEC as well as Directives 98/78/EC and 2002/83/EC;

- ▶ Working Group for review of the law on business insurance, which sought to review and analyse the insurance legislation

and formulate a concept of changes in the regulations concerning insurance business and mandatory insurance;

- ▶ Working Team for defining the procedures to be followed by investment firms and custodian banks; the Team was to propose preliminary legislative solutions to meet the obligation to implement Directive 2004/39/EC on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC (MiFID) and Directive 2006/73/EC implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (MiFID2);
- ▶ Working Team for capital adequacy of investment firms, which sought to implement the provisions of Directive 2006/49/EC

of the European Parliament and of the Council of June 14th 2006 on the capital adequacy of investment firms and credit institutions. The team drafted a resolution of the Minister of Finance concerning the extent and detailed rules of defining capital requirements for brokerage houses and maximum amounts of credits, loans and debt securities issued, relative to equity;

- ▶ Working Group for securities lending and short selling, whose objective was to propose amendments to the Act on Trading in Financial Instruments dated July 29th 2005 which would ensure legal solutions fostering the development of short sale and securities lending mechanisms on the regulated market;
- ▶ Working Group for omnibus accounts, which worked on legal solutions enabling the establishment and regulation of omnibus securities accounts.

Integration with Banking Supervision

Pursuant to the Act on Financial Market Supervision of July 21st 2006, as of January 1st 2008 the PFSA took over the tasks previously handled by the Commission for Banking Supervision. This was an effect of combination of two processes – separation of banking supervision functions from the National Bank of Poland and their inclusion in the structure of the PFSA Office.

Work on integration with the banking supervision bodies and cooperation with the National Bank of Poland in this respect were started by the PFSA Office already in 2006. The PFSA Office and the NBP formed working groups to ensure direct cooperation between these institutions in the processes of transferring banking supervision functions. Since the idea of establishing a joint Steering Committee was not approved by the NBP management, the work on the transfer process was coordinated solely through the working groups. They covered the following areas:

- ▶ Cooperation and exchange of information,
- ▶ IT systems,
- ▶ Assets
- ▶ Human resources.

Apart from the working groups, the PFSA Office formed a special team to work on incorporation of the banking supervision bodies into the PFSA. The team's task was to supervise the activities of the working groups and other activities necessary to properly prepare the PFSA to take over the new area of responsibility.

One of the most important tasks was to draw up the PFSA budget for 2008, which would take into account the new banking supervision tasks, with respect to financing of day-to-day operations, capital expenditure and payroll. The budget was prepared based on the information on costs of the General Inspectorate of Banking Supervision provided by the National Bank of Poland. With respect to the payroll budget, the Ministry of Finance only took into account the increase connected with the transfer of the Inspectorate employees to the PFSA Office. Prior to the in-

corporation into the PFSA, the General Inspectorate of Banking Supervision was not a self-sufficient organisational unit – it used the legal, administrative, personnel and IT facilities of the NBP. It was estimated that 85 full-time employees of the NBP supported the activities of the Inspectorate. These employees were not transferred to the PFSA Office by an act of law but were provided for in the draft budget. The lack of sufficient funds in the final budget to ensure the services of the former staff of the General Inspectorate of Banking Supervision may lead to work overload at the PFSA Office units.

Other preparatory tasks concerning the budgeting and administrative aspects included securing the necessary office space (leased from the NBP), taking over movables, archives and current documentation, securing supplies of stationery and press, providing means of transport for inspectors visiting banks, and other supportive activities. Thanks to these efforts, after January 1st 2008 the banking supervision functions could be continued with minimum changes to the working environment.

Keeping the changes to a minimum was one of the main priorities in the process of incorporating the General Inspectorate of Banking Supervision into the PFSA Office. The ultimate goal was to ensure continuity of supervisory functions. These included the IT systems supporting the banking supervision functions. Analysis of the basic work environment configuration at the Inspectorate showed that a number of IT standards (such as e-mail program, office pack or anti-virus system) were the same as used by the PFSA Office. This greatly facilitated the user migration to the IT infrastructure of the PFSA Office. The question of applications supporting the substance of supervisory functions proved far more complex. The National Bank of Poland stated that because these applications were tightly integrated with the NBP systems, they could not be separated and transferred to the PFSA. This meant that the PFSA Office would have to build all banking supervision systems in short time. Aware of the risk of such a major project, the PFSA Office and the NBP agreed that

the banking supervision applications will be outsourced to the PFSA, which was of course in line with the principle of making minimum changes to the work environment.

Personnel-related activities focused on ensuring HR and payroll services for the banking supervision staff, creating as similar working conditions as possible, providing information and integration opportunities, and monitoring the risk of employee resignations connected with the integration process. Organisational changes, especially involving a change of the employer, always cause concerns and the risk of losing qualified staff. Therefore, the HR department of the PFSA Office made every effort to provide full information to the banking supervision employees. Apart from the meetings of the working groups, information meetings were arranged with the management of the Inspectorate and with the representatives of the trade unions active in the NBP. An indication of effectiveness of these measures may be the positive response given by 95% of the Inspectorate employees to the PFSA Office's request for consent to the processing of personal data (which was necessary for the purposes of the integration).

The information dissemination activities, cooperation within the working groups and the ongoing recruitment processes at the Inspectorate minimized the risk of losing substantial number of the banking supervision staff (except for the team of 15 employees involved in the SIS project and – by NBP's decision – retained by the Bank).

A major and successfully completed task was migration of the HR and payroll data of the Inspectorate employees to the HR and payroll system of the PFSA Office. This ensured timely delivery of the employee data to the Social Insurance Institution (ZUS), computation of salary in accordance with the algorithm applied by the NBP, and timely payment of the money.

Concurrently, the formal framework for cooperation and exchange of information between the NBP and the PFSA was being prepared. The Act on Financial Market Supervision imposed on the institutions the obligation to exchange information necessary to perform the statutory functions, and (Art. 17.2) provided a basis for entering into a relevant agreement.

The key terms of the agreement on cooperation and exchange of information were agreed upon already in June 2007. The parties then focused on the appendices, which precisely determined the procedure for and extent of the information exchange. Six appendices included 148 forms. The agreement was signed on December 14th 2007.

An important aspect of the preparations to the taking over of the banking supervision functions was adjustment of the PFSA in-house regulations to the requirements of banking supervision. Having analysed the rules of operation of the General Inspectorate of Banking Supervision, the PFSA decided to implement the internal regulations concerning banking supervision to the fullest extent possible. This was reflected in the resolutions drafted for the first meeting of the PFSA after the integration and adopted on January 7th 2008. Furthermore, on that day new organisational rules of the PFSA Office, which account for the new situation that emerged following the incorporation of the banking supervision bodies, were adopted. Necessary amendments to the By-Laws of the PFSA Office were also prepared. On January 3rd 2008, they were signed by the President of the Council of Ministers and on January 8th 2008 they were promulgated in *Monitor Polski* No. 2.

The issues presented above are the key elements of the complex process of incorporating the General Inspectorate of Banking Supervision into the PFSA Office which lasted over a year.



Cooperation within the European Union



Cooperation within the European Union

Solvency II

In 2007, international cooperation within the European Union concerning insurance was dominated by Solvency II. The activities of the PFSA Office focused on the work carried out by the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), of which the PFSA is a member. The PFSA also expressed its opinions on documents discussed in the course of work of the European Commission and the Council of the European Union, upon request of the Ministry of Finance, which represents Poland during meetings of the organisations.

The Committee of European Insurance and Occupational Pensions Supervisors was established along with two other committees (for banking and securities sectors) to advise the European Commission in the process of creation and implementation of Community laws concerning the financial market. CEIOPS is an independent advisor to the European Commission, whose tasks include:

- ▶ presenting opinions on legal acts of the Community, both at the request of the European Commission and on its own initiative,
- ▶ promoting and facilitating coherent implementation of directives in the European Union, and convergence of supervisory practices,
- ▶ facilitating cooperation between regulators in the EU members states,
- ▶ ensuring correct and complete implementation of legal acts of the Community concerning the EU financial market.

CEIOPS is required to conduct open and extensive public consultations on the opinions and projects it prepares. All categories of entities operating in a given sector of the financial market must be invited to take part in these consultations, including both the business world and consumers.

Solvency II is a new framework for regulation of insurance activities, including regulation of solvency of insurance and reinsurance undertakings. It significantly changes the present approach to supervision over undertakings' solvency, by adopting a risk-based approach. Within this concept, specific risk factors affecting an undertaking are identified, based on which capital requirements – depending on the undertaking's business profile – are established, and appropriate measures are taken to mitigate the risk. Under the new supervision system, high emphasis is put on reporting and appropriate internal controls within an undertaking. The purpose of the project is to improve the competitiveness of European insurers and to establish an

efficient and economic insurance market by adjusting the regulator's requirements imposed on an undertaking to the type of its business. Solvency II is of profound importance to European consumers. The changes will result in ensuring greater security for the insured and beneficiaries of insurance contracts. Under the existing regulations, the requirements are largely dependent on the scale of operations of an undertaking, rather than its risk profile.

Work on Solvency II has continued in the European Union for a number of years. The most noteworthy outcome so far is the draft Directive of the European Parliament of the Council on the taking-up and pursuit of insurance and reinsurance activities, published on July 10th 2007 by the European Commission. Solvency II (COM(2007)361). In addition, legislative work on the related implementing acts was performed (and will continue in 2008) (second level legislation of the Lamfalussy process).

Cooperation within the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

In 2007, the PFSA Office employees were actively involved in the work of four CEIOPS expert groups (participation in the meetings, involvement in preparation of documents), established for the purpose of implementing Solvency II project:

- ▶ Financial Requirements Expert Group,
- ▶ Internal Models Expert Group,
- ▶ Internal Governance, Supervisory Review and Reporting Expert Group,
- ▶ Insurance Groups Supervision Committee,

and in the work of the Financial Stability Committee, of which some works relate to Solvency II (the Committee is responsible for preparing the methodology and organisational solutions for the tasks carried out by CEIOPS in respect to the impact assessment of implementing measures currently developed).

In 2007, representatives of the PFSA Office also took part in all plenary meetings of CEIOPS, where solutions developed by Expert Groups are approved, and directions for future work are outlined. The meetings were held on March 12th–13th (Frankfurt), June 27th–28th (Amsterdam) and October 29th–30th (Frankfurt). In addition, two extraordinary (*ad-hoc*) meetings were held in Frankfurt, on September 14th and December 17th 2007.

In 2007, all Expert Groups within CEIOPS, established for the purpose of implementing Solvency II, were involved in Quantitative Impact Studies – QIS3 and QIS4. Solutions were sought to be incorporated into the implementing measures to the directive. Works also concerned the principle of proportionality, under which the Solvency II framework must distinguish between undertakings exposed to non-complex risk, which can apply simplified methods, and other undertakings which adopt standard methods.

QUANTITATIVE IMPACT STUDIES – QIS

At the request of the European Commission, CEIOPS prepared and conducted the third Quantitative Impact Study (QIS 3), which culminated in the preparation and publication of a report. CEIOPS developed also the first version of the technical specification for the fourth Quantitative Impact Studies (QIS 4). The studies are carried out to identify the effects of the solutions proposed within Solvency II project on the insurance undertakings operating on the European market, and – indirectly – on the entire market. The studies also aim at assessing the economic effects of implementing Solvency II and at preparing insurance undertakings to implement the system.

The third Quantitative Impact Study in Poland was coordinated by the PFSA. 24 Polish insurance undertakings and two insurance groups participated in the study. Out of these 24 insurance undertakings, 9 were life insurance undertakings and 15 – other personal and property insurance undertakings. Prior to, and during the study, the PFSA Office supported the entities participating in it. On completion, the PFSA Office prepared a country report showing the results of the Polish insurance undertakings and delivered it to CEIOPS in August 2007.

FINANCIAL REQUIREMENTS EXPERT GROUP – FINREQ

Until June 2007, FinReq had operated as an Pillar I Working Group. Within Solvency II, the Group is responsible for developing solutions concerning the financial standing of insurance undertakings, and in particular, the valuation of technical provisions, establishing the amount of own funds, establishing models and methods for calculation of the minimum capital requirement (MCR) and the solvency capital requirement standard formula (SCR). As far as valuation of technical provisions and calculation of SCR are concerned, the Expert Group prepares both standard methods and simplified versions to be applied by insurance undertakings which are exposed to low, simple and non-complex risk. The Expert Group is also responsible for the preparation and execution of Quantitative Impact Studies among insurance undertakings.

In 2007, in total ten meetings of the Group were held (including five meetings of the Financial Requirements Expert Group, and five meetings of the Pillar I Working Group). Representatives of the PFSA Office participated in nine meetings. Over the year, the Expert Group prepared the final version of CEIOPS's advice to the European Commission in the Framework of the Solvency II project on Pillar I issues – further advice, developed the techni-

cal specification for the third Quantitative Impact Study (QIS3) and a draft technical specification of the fourth Quantitative Impact Study (QIS4).

INTERNAL MODELS EXPERT GROUP (IMEG)

The Internal Models Expert Group was established in July 2007 to work on the Solvency II Framework Directive Proposal. The tasks of the Expert Group are:

- to conduct preparatory work on provisions for design and approval of full and partial internal models used to calculate the solvency capital requirement (SCR) for solo insurance undertakings and insurance groups,
- to address issues related to statistical analyses, calibration and validation of internal models, assessment of the quality of input and output data, documentation requirements standards for full and partial internal models etc.
- to act as a communications link to disseminate and exchange knowledge on internal models across national supervisors within the EU and EEA.

The Internal Models Expert Group has organised three sub-groups, each to deal with quantitative issues, qualitative issues, and common elements of the standard formula and internal models.

In 2007, four IMEG meetings were held. During the period, IMEG prepared itself for making a contribution to a stock-take exercise (quantitative queries) and was responsible for preparing the section on internal models in the QIS 4 Technical Specification.

INTERNAL GOVERNANCE, SUPERVISORY REVIEW AND REPORTING EXPERT GROUP (IGSRR)

The Internal Governance, Supervisory Review and Reporting Expert Group was established in mid-2007 by combining existing Pillar 2 Group and Pillar 3 Group. Its core tasks include the following:

- conducting preparatory work on the appropriateness and consequent requirements related to qualitative aspects of management, such as risk management and internal control system
- conducting preparatory work on appropriateness and consequent requirements related to all the phases of the supervisory action, and its harmonisation at European level, in terms of process, supervisory reporting and prudential tools;
- dealing with supervisory powers of intervention as well as transparency and accountability of supervisory practice;
- carrying out the preparatory work needed for the fulfilment of CEIOPS' tasks concerning Pillar III of the Solvency II project;
- dealing with accounting issues which are of interest to the EU supervisors, and in particular:
 - following the developments of the work of the IASB and to carry out the preparatory work for the participation and contribution of CEIOPS both to the IFRS-making process

and to the EU endorsement process (EFRAG/ARC consultation);

- carrying out exploratory work on linkages and convergence of solvency public disclosure requirements and financial statements.

In 2007, representatives of the PFSA Office participated in the IGSRR's discussion on IASB's project concerning the second stage of work on IFRS 4 *Insurance Contracts*, as well as other accounting and financial reporting projects implemented internationally at the time. Furthermore, the PFSA Office took an active part in drafting a document dedicated to the principle of proportionality applied in the Solvency II Framework Directive Proposal, and in consultation sessions on public disclosure held with the European organisations assembling market entities.

INSURANCE GROUP SUPERVISION COMMITTEE – IGSC

In 2007, the Committee focused on the practical application of solutions proposed by the European Commission in the draft framework directive concerning supervision over insurance groups.

The European Commission proposes that insurance groups should be regarded as a single insurance undertaking. It is a completely new solution, absent in the existing regulations, which will affect the functioning of competent authorities and the entire insurance market to a great extent. A natural consequence of such treatment will be the consolidation of the EU insurance market, since the Solvency II requirements pertaining to insurance groups are much more favourable than requirements for single insurance undertakings. This approach will also result in the shifting of the burden of supervision over insurance operations from the local regulator (competent authority from the state in which services are provided or risk is concentrated) to the group supervisor (competent authority from the Member State in which the parent entity of an insurance group is based). This causes numerous doubts and reservations concerning the division of duties and responsibilities between competent authorities, and the ensuring of adequate protection to the insured. Concerns arise also in connection with the practical execution of the so-called Group Support Declaration. In accord-

ance with the draft directive, the parent undertaking of an insurance group will be allowed to promise to cover future financial deficit, if any, of a subsidiary undertaking, in return for competent authority's approval of the present insufficient coverage of capital requirements at a subsidiary undertaking (which will enable freeing-up of some assets of the subsidiary undertaking and their transfer for use by the group).

Representatives of the PFSA Office were actively involved in the tasks of the Committee, and not only participated in all its meetings, but also prepared documents and engaged in contacts, in order to clarify all uncertainties and resolve issues which arose in connection with the newly proposed solutions concerning insurance groups.

Cooperation with the Ministry of Finance

The employees of the PFSA Office participate in the issuing of opinions and formulation of Poland's official position on documents and matters related to the Solvency II project, brought up on the fora of EU institutions, on which Poland is represented by the Ministry of Finance. In doing so, the PFSA Office complies with the Ministry's requests for assistance (advisory role of the PFSA). In 2007, the tasks focused on expressing comments on the draft framework directive discussed within the Working Party on Financial Services of the Council of the European Union.

Since autumn, meetings of the group have been held on average three times a month. During the meetings, amendments to specific articles proposed by individual Member States were discussed. The works were conducted according to the sequence of topics defined by the Presidency (initially Portuguese, then Slovenian). The PFSA submitted its comments to the Ministry of Finance and presented its positions both in correspondence and during working meetings. Such cooperation aims at promoting, as widely as possible, favourable solutions for the Polish insurance market within the European Union.

In 2007, the employees of the PFSA also provided support to the translation services of the European Commission in translating the content of the draft framework directive into Polish.

Other Issues Related to the Insurance Sector and pertaining to Cooperation within the European Union

Cooperation of Regulators in the Area of Supervision of Insurance Groups

Directive 98/78/EC of October 27th 1998 on supplementary supervision of insurance undertakings in an insurance group sets

out a need (as well as the general terms) of closer cooperation of the competent authorities of the EU Member States in the area of supervision of insurance groups operating in such states.

Specific arrangements concerning the terms of such cooperation are set out in the Helsinki Protocol signed by the regulators of

the EU Member States on May 11th 2000, under which (Par. 1.5) the regulators are required to supervise the activities of insurance groups by cooperating with each other in the coordination committees.

The details of organisation and operation of the coordination committees are provided for in Par. 2.2 *et seq.* of the Helsinki Protocol. In particular:

- ▶ A committee should be established by the regulator of the parent undertaking of a group;
- ▶ All regulators of the group members are required to cooperate within the committee;
- ▶ Committee meetings should be attended by the employees of the regulators who are responsible for on-going supervision of a given entity;
- ▶ Committee members may appoint the leading supervisor;
- ▶ Coordination committee meetings are to be as frequent as the committee members consider appropriate.

In 2007, the PFSA Office representatives attended the meetings of the coordination committees. At the committee meetings, our employees presented information on the financial standing of the Polish members of the insurance groups and the manner in which they conduct their operations. Our employees also familiarised themselves with similar presentations of the representatives of other regulators and took part in discussions concerning the risk factors and threats associated with the operations of the insurance groups.

CEIOPS Seminar on Insurance Group Supervision. Meeting of the Insurance Groups Supervision Committee (October 22nd–24th 2007, Kraków, Poland)

To improve harmonisation of the application of the Community law and convergence of regulatory practices in the EU, the PFSA Office, in cooperation with the CEIOPS, organised a training seminar on the practical aspects of supervision over insurance groups, which was held in Kraków on October 22nd–23rd 2007. Subsequently, on October 24th 2007, a meeting of the Insurance Groups Supervision Committee was held.

The seminar was organised as part of the CEIOPS training programme for the representatives of the CEIOPS Members and Observers (supervisory authorities of the EEA). The PFSA Office was the main organiser and the host of the training. The training programme was carried out under the personal auspices of Patrick Brady, Chairman of the Insurance Groups Supervision Committee. The speakers at the conference included the representatives of the PFSA Office and the regulators from Germany, France, UK, the Netherlands and Spain, a representative of the European Commission as well as the representatives of selected insurance groups (Aviva, Allianz, Generali and PZU). The seminar was attended by approx. 60 people, including mainly the employees directly involved in the supervision process or inspec-

tions at their home regulators, to whom the training programme was addressed. The seminar was concluded with workshops at which the participants could improve their practical supervision and interpersonal communication skills.

Supervision over Financial Conglomerates

As a result of cooperation between CEIOPS and CEBS (Committee of European Banking Supervisors), the Interim Working Committee on Financial Conglomerates (IWCFC) was formed. In 2007, the IWCFC worked on:

- ▶ Identification of financial conglomerates which operate in Europe and meet the requirements specified for financial conglomerate in the Community law;
- ▶ Reports on the operation of the existing Financial Conglomerate Directive (at the request of the European Commission, the effect of inter-sectoral differences on the determination of capital adequacy was analysed);
- ▶ Determination of which of the regulators of the individual Member States in which members of the identified financial conglomerates are active is the relevant competent authority for a given conglomerate, i.e. which regulator, apart from the coordinator (the regulator of the ultimate parent entity), should exercise the direct supervision over the conglomerate.

By taking part in the work of the IWCFC, the PFSA Office employees not only support the Committee in the performance of its tasks, but also promote solutions beneficial to the Polish financial market.

Financial Stability Committee (FSC)

The CEIOPS Financial Stability Committee was established in October 2003. Its main tasks include:

- ▶ Development and implementation of prudential scheme for monitoring relations between the insurance and occupational pension funds sectors, and their financial stability;
- ▶ Producing reports on financial stability of the insurance and occupational pension funds sector;
- ▶ Work on monitoring inter-sectoral risks.

In 2007, the PFSA provided the FSC with information on condition of the insurance market and occupational pension funds market, and contributed to spring and autumn edition of the report on financial stability.

The PFSA Office was also engaged in the FSC's preparatory work for assessing the impact of the framework directive's implementing measures (being under preparation) on the market and supervisory authorities. The measures need to be drawn up and adopted with a view to implementing the Solvency II system. The CEIOPS' recommendations concerning draft secondary legislation should be submitted to the EC in October 2009. The acts are planned to be implemented in the second half of 2010.

In addition, the PFSA Office participated in the FSC's work on draft general guidelines, currently prepared by the European

Commission, to be followed during impact assessment of the new regulations. The first draft general guidelines, agreed upon in 2007, were submitted for public consultation. After the public consultation, the work on the document will be completed and the document will be published in the first half of 2008.

Cooperation of Regulators with respect to Supervision over Cross-border Activities of Insurance Undertakings. Siena Protocol Revision Task Force within CEIOPS (SPRTF)

The Siena Protocol (relating to the collaboration of the competent authorities from the European Community with particular regard to the application of the Directives on life insurance and non-life insurance) regulates cooperation between EU Member States concerning the application of the Directives. These Directives introduce a uniform license for business activity and a standard supervision over undertakings enjoying freedom of performing services on the EU market. The supervision is to be provided by a competent authority from the country of origin of the undertaking concerned. The Protocol was adopted by the competent authorities associated in CEIOPS with the intention of a more precise definition of cooperation between the competent authorities in this respect than the one provided for in the Directives (e.g. exchange of information based on Art. 44 of the third Directive on non-life insurance, and Art. 43 of the third Directive on life insurance).

Based on the Siena Protocol, the competent authorities formulate a common standpoint on such matters as the intention to transfer insurance portfolio by an insurance undertaking authorised to operate in a Member State to another undertaking authorised to operate in another Member State, withdrawal of authorisation of an insurance undertaking operating in the EU, merger of insurance undertakings operating in the EU, and opening by an insurance undertaking of a branch office in another Member State. In addition, the competent authorities prepare reports on operations of the entities regulated by them in the EU. The Protocol enables the competent authorities to oblige national or international insurance undertakings to complete the notification procedure.

In 2007, in order to comply with the provisions of the Protocol, the PFSA Office participated in an exchange of statistics with the competent authorities from other Member States and responded to eight inquiries of the British regulator concerning approval of the transfer of insurance portfolio between insurance undertakings based in the EU, addressed to the PFSA Office due to the fact that the insurance risk was concentrated in Poland.

In December 2006, CEIOPS members resolved to revise the Siena Protocol. To this end, a separate Task Force was formed within CEIOPS. The PFSA has participated in the work of the Task Force since the beginning. The first step leading to the revision was to conduct a questionnaire among the competent authori-

ties from EU Member States to determine the current state of affairs and the functioning of the Siena Protocol. Based on the results, the Task Force identified weaknesses of the existing solutions and prepared a draft of an amended Protocol. The amendments concern, *inter alia*, the inclusion of a number of issues, primarily related to the protection of consumers and procedures for settling complaints outside the courtroom. In October 2007, CEIOPS members approved the draft of the amended Protocol and – in accordance with the procedure applied by CEIOPS – it was sent for public consultation. Approval of the new version of the Protocol and its adoption by CEIOPS members is scheduled for March 2008.

Facilitated Implementation and Application of the Insurance Mediation Directive (CEIOPS Insurance Mediation Expert Group – IIEG)

In the EU, the insurance intermediaries operate under Directive 2002/92/EC of the European Parliament and the Council of December 9th 2002 on insurance mediation. The CEIOPS Insurance Mediation Expert Group was established to facilitate more complete and uniform implementation of the directive in the EU. The PFSA experts have participated in the group's work since the beginning.

In 2007, the group focused on the following matters:

- Completion of work on the report concerning implementation of the directive – detailed report along with five annexes was approved by the CEIOPS members in March 2007 and submitted to the European Commission. The document describes how the Member States implemented the key provisions of the directive, including the provisions concerning establishment of the register(s) for insurance intermediaries, implementation of professional requirements for the insurance intermediaries and imposing on them disclosure obligations towards their clients.
- For the European Commission – preparing a definition of the insurance intermediaries' activity under the principle of freedom to provide services (defining the way in which insurance intermediaries may operate in accordance with the principle of freedom to provide services in the Member States other than the state in which a given insurance intermediary is registered). The proposed definition was approved by the CEIOPS members in October 2007 and was submitted to the European Commission.
- Proposal of various amendments to the insurance intermediation directive and the Luxembourg Protocol (including detailed arrangements with regard to cooperation between competent authorities on execution of the directive's provisions, as approved by CEIOPS in April 2006) submitted by certain Member States and market associations. Given that the implementation of the directive has been completed recently, for the time being no material amendments will be made and the functioning of the adopted law will be examined in practice. The group approved some proposed amendments to the Protocol, in particular the proposal to include in the Protocol a proce-

cedure for handling of complaints that will correspond to the procedure proposed as part of revision of the Siena Protocol, and implementation of the appendix containing a list of competent authorities of particular Member States responsible for maintaining the register for insurance intermediaries.

Occupational Pensions Committee – OPC and OPC Solvency Sub-Committee

The Occupational Pensions Committee has operated as part of CEIOPS since 2004. It is engaged in:

- ▶ Developing common understanding of Directive 2003/41/EC of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision (the IORP Directive);
- ▶ Facilitating cooperation between the competent authorities of the Member States;
- ▶ Preparatory work under general tasks of CEIOPS concerning the occupational retirement provision.

In 2007, the Group was preparing a report on experiences related to implementation of the IORP Directive in view of the expected review of the directive. The Group was primarily engaged in the issues including ring fencing, use of subordinated loans, disclosure obligations towards members, beneficiaries and competent authorities, as well as interpretative problems which occurred when defining the cross-border activity. The work on the report was divided into two stages. The first stage, comprising the aforementioned issues, was completed in 2007. The work will continue in the first half of 2008. The Polish side submitted relevant information on the domestic experiences with regard to all activities, monitored the progress of discussion and drew conclusions regarding possible consequences for the Polish market and regulatory activities.

The OPC Solvency Sub-Committee's task is to produce a report on review of the existing solutions for and rules of operation of the occupational pension funds in the EU Member States with regard to the IORP Directive. The sub-committee is primarily focused on investigating the pension products which are based on

the defined benefit model (DB). Firstly, the actual arrangements are made with respect to the solutions adopted by the Member States. As a result of the consultations, the sub-committee is to produce a report aimed at explaining all irregularities and other doubts concerning the solutions adopted by particular countries with respect to solvency issue and other mechanisms ensuring security of the pension products.

Convergence Committee – ConCo

The Convergence Committee is a CEIOPS permanent working group established at the beginning of 2007 as a result of transformation of the Convergence and Impact Assessment Task Force ("Compass") operating since February 2006. It is worth noting that Compass was established on the Polish insurance supervisory authority's initiative. In 2007, the PFSA continued to participate in work of this group in its new organisational form.

The ConCo work is the CEIOPS' response to the recommendations of the Council for Economic and Financial Affairs (ECOFIN) whereby the Level 3 Committees of the Lamfalussy procedure (CESR, CEIOPS, CEBS) are called to take consistent actions to enhance the convergence of supervision practices in the EU.

When participating in the committee's work, the PFSA contributed to the preparation of:

- ▶ New mandate for the group (scope of tasks) – approved by the CEIOPS Members during the plenary meeting in March 2007.
- ▶ Protocol regarding the mechanisms of mediation between the competent authorities of different EU/EEA Member States – endorsed by the CEIOPS Members during the plenary meeting in October 2007.
- ▶ Tools facilitating exchange of personnel (organisation of training) among the competent authorities of different EU/EEA Member States (new structure of the CEIOPS website; *European Supervisory Culture; Toolkit for organising secondments and study visits between CEIOPS Members* project). The work will be completed in the first half of 2008.
- ▶ Basis for implementation of peer reviews at CEIOPS – the work will be completed in 2008.

Cooperation within the European Union focused on Capital Markets. CESR – the Committee of European Securities Regulators

In 2007, the PFSA Office took an active part in the work of the Committee of European Securities Regulators (CESR). CESR is an advisory body to the European Commission and a consultative body to the European Securities Committee (ESC). The members of the Committee comprise securities market regulators from all Member States.

As one of the so-called "Level 3 Committees" (the other being CEIOPS and CEBS), CESR is responsible for the performance of the following tasks:

- ▶ Provision of advisory services to the European Commission on the preparation of the implementing measures to Level 1 acts, i.e. framework directives adopted as part of the Financial Services Action Plan;

- ▶ Strengthening of cooperation among the competent authorities from the Member States in the area of interpretation and application of the Community laws, and delivering convergence of supervision practices at the EU level.

In 2007, CESR's efforts were focused on the latter task. Due to intensive work carried out to design and launch IT systems, aimed at facilitating the implementation of the Markets in Financial Instruments Directive (MiFID), regulators' financial commitments to CESR were substantially increased (membership fee).

Crucial decisions are reached by CESR during its plenary meetings, although the majority of current work is undertaken by permanent expert, operational and task groups. These include:

- ▶ Review Panel (a working group);
- ▶ CESR operational groups:
 - CESR-Fin (including EECS),
 - CESR-Pol (including the *Surveillance and Intelligence Group*);
- ▶ CESR expert groups:
 - MiFID Level 3 Expert Group (including the *Markets* subgroup and the *Intermediaries* subgroup),
 - Prospectus Contact Group (issues related to Directive 2003/71/EC and Regulation 809/2004),
 - Transparency Group (issues related to Transparency Directive),
 - Investment Management Group,
 - Post-Trading Expert Group,
 - Econet,
 - CESR-Tech;
- ▶ CESR Corporate Governance Network.

The PFSA Office's representatives were attending all CESR plenary meetings and participated in the work performed by all of these groups, whose key outcomes are presented further in this Report.

Moreover, the PFSA Office's representatives participated in talks held internally at CESR, which focused on the assessment of work conducted by Level 3 Committees. The activities of the *ad hoc* Beyond 2007 Task Force led to the preparation of a CESR report representing a contribution to the European Union institutions' periodic assessment of the Lamfalussy process. The PFSA Office took the stance that Level 3 Committees properly discharge their responsibilities and there exist no grounds for changing their status or operational procedures. Notwithstanding the foregoing, a final conclusion was reached that a discrepancy arises between the unofficial mandate given to CESR by the European Commission – which feeds the notion that capital market directives will be implemented consistently across the EU – and legal regulations applicable in individual Member States, which must be fully complied with by the local competent authority.

Review Panel

Representatives of the PFSA Office participated in the work performed by the Review Panel (a permanent working group) whose core mandate is to monitor a consistent implementation

by all CESR members of directives governing the capital market, as well as non-legislative Level 3 measures (CESR standards, guidelines and recommendations). Such monitoring constitutes a practical tool providing for the fulfilment of CESR's major task, which is to achieve convergence in supervision practices across the EU. The Review Panel addressed the following issues:

- ▶ Deregulation exercise – removal of FESCO and CESR standards, recommendations and guidelines considered as redundant. Standards issued by CESR, and its predecessor FESCO (1999–2005), were put under scrutiny with a view to fully or partially eliminating those that have been replaced by Level 1 measures, i.e. directives adopted under the Financial Services Action Plan (FSAP).
- ▶ UCITS – regulators' self-assessment exercise concerning the implementation of CESR guidelines to simplify the notification procedure followed by foreign funds. Self-assessment serves as a tool exploited by the Review Panel to review ongoing supervision practices of CESR members. It constitutes the initial stage of a peer review to be effected in the second quarter of 2008.
- ▶ Upon conclusion of its work, the Review Panel prepared a report which will be published in 2008. Each Member State has been assessed with the use of a scoring system, in which every individual guideline was assigned a weight, depending on the level of its significance towards market entities. In the assessment exercise, Poland was ranked low (in the case of PFSA, the implementation rate was 69%) due to the fact that the PFSA Office was unable to shorten the two-month statutory deadline for consideration of requests to authorise the distribution of units of foreign funds. The 2007 draft amendments to the Act on Investment Funds provide for such a solution. CESR guidelines are presented on the PFSA website at www.knf.gov.pl, in the "Regulacje UE" tab.

The methodology adopted for the self-assessment exercise will continue to be used during peer reviews in the future; in 2008 there will be a peer review of the implementation of Standard No. 2 on financial information.

- ▶ Mapping exercise is intended to explore the implementation of the Prospectus Directive and Market Abuse Directive. Findings of the mapping exercise are presented in a tabular format, disseminated among the CESR members, which contains a list of inconsistencies in the manner of implementing the directives at the national level, along with regulators' explanations. The PFSA has a full capacity to effectively discharge its duties under the Market Abuse Directive and the Prospectus Directive.

CESR Operational Groups

CESR-FIN

The main task of CESR-Fin is to support the cooperation among the EU competent authorities (as well as the enhance cooperation with non-EU countries) in the areas ranging from supervision of the disclosure of financial information by issuers to the performance of the required actions, such as: evaluating the application of CESR Standard No. 1 on enforcement of standards on financial information, evaluating the implementation and

supervision over the application of IAS/IFRS (*International Accounting Standards/International Financial Reporting Standards*) by issuers whose securities are traded on a regulated market.

In 2007, four CESR-Fin meetings were held, with the participation of an expert representing the PFSA Office. As part of the activities of CESR-Fin:

- ▶ Activities of IASB (*International Accounting Standards Board*) and IFRIC (*International Financial Reporting Interpretations Committee*) were monitored;
- ▶ Work on the report on initial experiences with the application and enforcement of IAS/IFRS in 2005 was completed,
- ▶ Consultations were held on the work on determination of equivalence of accounting standards applied in the United States, Japan, and China with IAS/IFRS,
- ▶ Cooperation was maintained with the Securities and Exchange Commission (US SEC), which led to signing of a protocol on information exchange with the US SEC, and US SEC's acceptance of IAS/IFRS financial statements prepared by foreign issuers without reconciliation to US GAAP.

EECS (*European Enforcers Coordination Sessions*) is a CESR-Fin subcommittee. The objective of the EECS meetings is to exchange information on decisions and practices related to the supervision of financial information disclosed in prospectuses and financial reports of issuers of securities admitted to trading on regulated markets. In 2007, eight EECS meetings were held. According to the new Terms of Reference of CESR-Fin, the meetings of EECS, currently the only CESR-Fin subcommittee, will continue to be held approximately 10 times a year.

In order to ensure coordination and consistency of the regulatory activities related to enforcement of standards on financial information, the competent authorities have been provided with access to the EECS database. The database contains information on important decisions made by the authorities in connection with supervision over financial reporting and application of IAS/IFRS by issuers. Furthermore, enforcement decisions on financial information, recorded in EECS's database, are posted on the CESR website (www.cesr.eu) to additionally facilitate consistent application of IAS/IFRS in the EU Member States.

CESR-POL

CESR-Pol's activities concentrate on developing a uniform approach to implementation and application by each Member State of the Market Abuse Directive and implementing directives thereto. To attain the goal, CESR-Pol draws up guidelines governing the application of directives on financial market abuse. The other set of core responsibilities of CESR-Pol includes examination of individual cases of abuse, and, as part thereof, sharing opinions and information among the Member States.

In 2007, four CESR-Pol meetings were held. CESR-Pol proposed for adoption the final version – reflecting the opinions of market participants – of the draft document “Level 3 – second set of CESR guidelines and information on the common operation of the Directive to the market”, which refers to the following four issues:

- ▶ What constitutes “inside information”? (a catalogue of events which might constitute inside information was indicated);
- ▶ When are there legitimate reasons to delay the publication of inside information?
- ▶ When does information relating to a client's pending orders constitute inside information?
- ▶ Insider lists – list of natural persons with access to specific inside information for the issuers whose financial instruments are traded on regulated markets in more than one Member State (dual listing).

Moreover, CESR-Pol, upon the request of the European Commission, drafted a report on administrative measures and penal sanctions imposed in connection with the implementation of the Market Abuse Directive.

Surveillance and Intelligence Group

The Surveillance and Intelligence Group operates within the CESR-Pol structure as a working group which provides a platform for the exchange of experience in countering capital market abuse and the regulators' opinions on specific capital market practices that could indicate market abuse under the legal regime of the Market Abuse Directive. The Group met three times during 2007.

Group members participate in the work conducted by Urgent Issue Groups, appointed on an *ad hoc* basis by relevant CESR members, under circumstances which could indicate a cross-border market abuse. In 2007, the Surveillance and Intelligence Group also carried out surveys among national competent authorities which covered the following issues:

- ▶ Treatment of issues connected with disclosure of the total balance of client orders pertaining to a given financial instrument by investment firms;
- ▶ Execution of prearranged transactions – as a practice constituting market manipulation with respect to a financial instrument;
- ▶ Cancellation of orders prior to commencement of trading – as a practice constituting market manipulation with respect to a financial instrument;
- ▶ Interpretation of provisions set forth in Regulation No. 2273/2003/EC, regarding public disclosure of information on buy-back programmes and stabilisation of financial instruments.

CESR Expert Groups

CESR PROSPECTUS CONTACT GROUP

In the period covered by this Report, the Prospectus Contact Group held four meetings whose outcome was the common standpoint on several dozens of issues, including the format of presenting *pro forma* financial data in prospectuses and certain aspects relating to the disclosure of information in the prospectus which does not contain the final price or number of the offered securities. In January 2007, as part of the consultations with

the market participants concerning mode of operation of the new “prospectus system”, the market participants took part in an open hearing with the representatives of CESR. As a result of consultations and the open hearing, a report was produced and supplemented with a number of statistics by the CESR members. The report will serve as a basis for the contact group’s further work on standardising the application of the new prospectus system across the EU and the measures that may be taken to revise the EU laws pertaining to prospectuses.

MIFID EXPERT GROUP

The MiFID Expert Group (MIFID Level 3) was established to quickly and efficiently implement new regulatory regime stemming from Directive 2004/39/ (MiFID) with respect to the capital market. The group is divided into two subgroups: intermediaries subgroup and markets subgroup, which carry out the majority of the Group’s activities.

The representatives of the PFSA Office participated in 12 meetings of the Group and its subgroups, assisting in the execution of the following tasks:

- ▶ Adoption of the protocol on supervision of branches under MiFID, which defines the form of cooperation between Member States in this respect;
- ▶ Adoption of the Consumer’s Guide to MiFID, a document significant for the investors, containing a summary of rights and obligations of retail clients under MiFID;
- ▶ Discussion of the forward FX market as well as discussion of the extent to which MiFID provisions apply to forward FX transactions. This issue has not been resolved yet as the standpoint of the European Commission is awaited;
- ▶ Analysis of the issue whether to maintain or cancel standards developed by CESR and FESCO (CESR’s predecessor) prior to adoption of MiFID. The European Commission is in favour of cancelling the existing standards in view of the new legal regime to be implemented under MiFID. The group agrees with the EC;
- ▶ Development and adoption of the passport under MiFID – recommendations for the implementation of the Directive and statement on practical arrangements regarding the late transposition of MiFID in certain states. As regards the practical arrangements, the PFSA Office adopted temporary rules that will be effective until coming into force of the provisions implementing MiFID in Poland;
- ▶ Interpretation of Art. 41 of MiFID – suspension and removal of financial instruments from trading. The Group analysed differences in interpretation of this rule on the level of the state law.
- ▶ Analysis of the functioning of the MiFID database, which contains the catalogue of shares admitted to trading on the regulated market under MiFID.

POST-TRADING EXPERT GROUP

In 2007, the Post-Trading Expert Group commenced work as part of CESR. The Group took over the suspended activities of the Expert Group for Clearing and Settlement. Initially, the Group was engaged exclusively in monitoring Target 2-Securities – the sys-

tem developed by Eurosystem – whose development process is to be watched by CESR in accordance with the agreement with the European Central Bank. Subsequently, the Group’s tasks will relate to CESAME Clearing and Settlement Advisory and Monitoring Expert Group established in 2004 by the European Commission which is working on coordination of private and public initiatives with a view to removing barriers to cross-border clearing and settlement of transactions in securities.

The Group’s activities also include implementation of the third stage of the Code of Conduct for the companies engaged in clearing and settlement – service unbundling and accounting separation.

INVESTMENT MANAGEMENT EXPERT GROUP

In 2007, the Investment Management Expert Group held five meetings, all of which were attended by a representative of the PFSA Office. Additionally, the representative of the PFSA Office was invited by the European Commission to participate in public debate on amendments to the UCITS Directive proposed by the EC.

The Group’s most important work in 2007 included:

- ▶ Completed work on CESR guidelines concerning permitted investments of UCITS, approved in March 2007, and supplementary CESR guidelines concerning classification of hedge fund indices as a base of derivatives eligible for the UCITS funds, approved in July 2007. Those documents supplement Directive 2007/16/EC of March 19th 2007 implementing the UCITS Directive, insofar as it pertains to the requirements to be fulfilled by particular types of financial instruments, so that they can be included by the UCITS funds in their investment policy. In 2007, the Ministry of Finance and the PFSA drafted provisions of the act on investment funds aimed at adapting the provisions of Directive 2007/16/EC to the Polish law.
- ▶ Work under the special mandate granted by the European Commission concerning the analysis of format and contents of the new listing particulars (Key Investor Information (KII)) for investors in UCITS funds, which in accordance with amendments to the UCITS Directive, being drafted by the European Commission, are to replace the current simplified prospectus. The new listing particulars would address particularly the needs of the retail investors, should contain only the information that will allow the investor to make investment decision, and should be comprehensible to a typical consumer. The document should have universal form across the EU so that it is possible to compare UCITS funds from various EU Member States. Concurrently, the document, whose size should be up to two A4 pages, should apply to each kind of fund, irrespective of their structure and complexity. Based on the concept formulated by CESR, in 2008 the European Commission intends to carry out public consultation and prepare special tests. In several states, the EC will investigate in detail how the addressees respond to the new KII;
- ▶ Group and CESR’s contribution to EC’s work on amendments to the UCITS Directive;
- ▶ Establishment of a special team for resolving current problems occurring in the course of operation of the investment fund

regulators in various EU Member States, and analysing the principles of supervision in particular Member States, with a view to enhancing the regulators' cooperation. In 2007, the team commenced its activities related to supervision over the UCITS funds as well as monitoring and investment risk management systems of the UCITS funds as applied by the management firms.

TRANSPARENCY EXPERT GROUP

In 2007, CESR established the Transparency Expert Group to ensure proper implementation of Directive 2004/109/EC and the secondary legislation. In 2007, two meetings of the group were held and attended by the representative of the PFSA Office. The most important issues addressed by the Group include:

- ▶ Analysis of the Directive implementation in particular Member States,
- ▶ Observance of regulations concerning discharge of disclosure obligations in Member States,
- ▶ Difficulties with development of systems for collection and storage of regulated information – Official Appointed Mechanism (OAM) – in Member States,
- ▶ Exchange of information on decisions concerning equivalence of third states' laws, pursuant to Art. 23 of the Transparency Directive.

CESR-TECH

The Group's task is to develop and implement TREM stemming from Art. 25 of MiFID. Under the article, investment firms are obliged to report details of transactions to the competent authority.

TREM (Transaction Reporting Exchange Mechanism) comprises structures, procedures, software and devices for the exchange

of transaction reports among capital markets' competent authorities. TREM should be perceived as a set of technological conditions, as well as programming, procedural and hardware solutions aimed at facilitating discharge of daily reporting obligations (exchange of information) by capital markets' competent authorities with respect to certain groups of transactions. The information on transactions is to be exchanged among the competent authorities. The transaction reports are sent in accordance with the IT standard developed by the group.

In 2007, the expert of the PFSA Office participated in seven meetings of the working group and one seminar on starting up TREM.

On November 1st 2007, i.e. the date set forth in MiFID, the CESR members implemented TREM.

The work on TREM will continue in 2008. At the end of 2007, the TREM User Network subgroup was established, which is engaged in removing errors occurring during reporting via TREM. In the course of work on the project, it was found necessary to simultaneously commence work on developing assumptions for and implementing two IT projects: AI – Alternative Instrument Identifier and RDI – Reference Data Interface. Both projects are required to fully standardise transmitted data.

CESR Corporate Governance Network

In December 2007, Corporate Governance Network was established to serve as a platform for discussion and sharing experience related to implementation and application of corporate governance rules. The representative of the PFSA Office participated in preparatory work on establishing the Group and in 2007 he was involved in the Group's work.

Capital Requirements Directive Working Group

In the period covered by this Report, the first meeting of the Capital Requirements Directive Working Group (CDRWG) of the DG Internal Market and Services of the European Commission was held. Poland's representative on the Group is the Ministry of Finance, and the representative of the competent authority acts in an advisory capacity. The meeting (held in December 2007) was attended by a PFSA officer (who represented the capital market supervisor) and by a representative of the General Inspectorate of Banking Supervision. Following the integration of the financial supervision authorities in Poland, at subsequent meetings of the CRDWG the PFSA representatives take common position on the proposed changes concerning the banking and capital markets supervision. Changes to the CRD concern:

- ▶ Structuring of cooperation and exchange of information between host and home competent authorities (which supervise parent companies of European groups and their subsidiaries, respectively) within the, so called, joint supervisory bodies. The bodies are to be coordinated by competent authorities responsible for consolidated supervision.
- ▶ Other important technical issues, such as inclusion of hybrid instruments in Tier 1 capital of banks and investment firms; solutions concerning large exposures, inclusion of security for receivables and exclusions with respect to selected investment firms, issues concerning trading books, risk transfer, etc. Depending on specific arrangements, these issues relate in various degrees to the banking sector and investment firms.

Review of the Lamfalussy Process

The Lamfalussy Process is a special process of developing, consulting, adopting and implementing new legislation concerning the capital, insurance, pension institutions, and banking markets in the European Union. In place since in 2003 (or 2001 for the capital market), the Lamfalussy Process originally aimed at ensuring better and faster lawmaking, as well as consistent and full implementation of the EU laws regulating the sensitive and fluctuating financial market. The process corresponds to the special four-level institutional and functional structure (four levels: framework directives; implementing acts; standards, recommendations and instructions; supervision over implementation and application of law by Member States).

In 2007, the European Commission, the European Council and the European Parliament assessed the functioning of the Lamfalussy Process in terms of accomplishment of the assumed objectives. The assessment was completed in December 2007 when the Economic and Financial Affairs Council (ECOFIN) issued recommendations on further functioning and improve-

ment of the Process. Furthermore, throughout 2007 both the European Commission and the Council of the European Union – acting through their working groups – prepared reports on this matter.

The PFSA actively participated in the assessment and review of the Lamfalussy Process by co-producing CEIOPS and CESR recommendations for the European Commission and by preparing opinions for the Ministry of Finance, whose representatives took part in the review of the Lamfalussy Process at the level of the European Commission and the Council of the European Union. In November 2007, Artur K. Kluczny, Vice-Chairperson of the PFSA, attended the 3L3 Meeting of the European Regulators, which in a substantial part was devoted to this matter.

The wide-ranging discussion on the functioning of Level 3 Committees was summed up by the ECOFIN on December 4th 2007. Its conclusions include recommendations about work on modification of the rules of procedure of the three committees. The work is to continue in 2008.

Eurostat – the Statistical Office of the European Communities

The PFSA delivers data pertaining to the regulated market to the Eurostat on a regular basis. In 2007, it prepared data on pension funds for the Structural Business Statistics Survey 2006.

PFSA's Participation in "Improvement of Quality of National Accounts"

Based on the agreements No. 1/RN/2007 and 2/RN/2007 reached between the PFSA and the Central Statistical Office

(GUS) on November 27th 2007, the PFSA has been taking part in the project entitled "Improvement of quality of national accounts". The project's objective is to work out methods of measuring insurance undertakings' output volume. It is executed by the European Commission and co-financed by the GUS, in accordance with agreement no. 40100.2006.001-2006.403 reached between the European Commission (EUROSTAT) and the GUS on December 22nd 2006. The deadline for the project is December 31st 2008 (August 27th 2008 for the part to be carried out by the PFSA).

European Union Funded Projects

Phare Twinning Project BG/2004/IB/FI/02 for the Bulgarian Financial Supervision Commission

Following Poland's accession to the European Union, which opened up new opportunities for the Polish public administration bodies to participate in EU funded programmes, such as Phare³, not only can Poland be a beneficiary of the programmes but also take part in EU advisory capacity for candidates and potential candidate countries. According to the European Com-

mission decision, the former Polish Insurance and Pension Funds Supervisory Commission, thereafter the Polish Financial Supervision Authority which ascended the rights and obligations of preceding eliminated Supervisory Authorities and the Spanish General Directorate for Insurance and Pension Funds (*Dirección General de Seguros y Fondos de Pensiones*) were selected for the contractor for the strengthening the administrative capacity of the Bulgarian Financial Supervision Commission *Strengthening of the administrative capacity of the Financial Supervision Commission to implement the acquis in the field of securities, insurance and pensions.*

³ including insurance market

Pending the consolidation of the Polish Financial Market Supervision, the project was also implemented in cooperation with the former Securities and Exchange Commission. The project implementation began on December 1st 2005. By the end of October 2007 all the planned and additional tasks were completed. The Final Report on implementation of the project is to be approved by the European Commission services in Q1 2008, so that the project can be officially settled and closed.

The Polish side implemented the project as a lead partner (i.e. in the light of EU regulations, it was responsible for all the project assumptions and budget) with the support of the Spanish regulator as a junior partner. The project management team included two Project Leaders (appointed by the Polish and Bulgarian financial supervisors), co-leader from the Spanish regulator, and Long-Term Resident Twinning Advisor in Sofia delegated by the project lead partner (the PFSA).

The main objective of this almost EUR 1.3m project was to assist the Bulgarian side in implementation of EU directives and standards in the field of Bulgarian financial market supervision through development, strengthening and harmonisation of the laws, structures and control procedures in accordance with the requirements resulting from Bulgaria's accession to the EU on January 1st 2007.

The areas of support for the Bulgarian Commission included issues regarding the capital, pension funds and insurance market and were implemented in four thematic blocks.

Component 1 – development of a supervision strategy and an administrative infrastructure, including issues covering supervision strategies at the level of respective markets (capital, insurance and pension funds) and at the integrated level. Harmonized strategies defined the long-term tasks, as well as tactical and medium-term objectives and priorities, which reflect the directions to be taken in the process of developing supervisory measures to meet the underlying objectives. The formulated strategy also covered human resources management policy. In particular, it included descriptions of positions, employee recruitment and selection rules, training policy, employee evaluation, motivational systems and issues regarding team communication.

Component 2 – development of the legal infrastructure. It covered issues related to implementation of EU directives (UCITIS, MAD, ISD, MIFID, Prospectus Directive, directive on data disclosure, directive on technical reserves and solvency).

Component 3 – implementation of EU-wide best practices and trainings for financial supervision staff. It covered issues related to the capital, insurance and pension funds market.

Each group discussed questions relating to all of these markets, e.g. consumer education, corporate governance, scope of disclosure requirements, or register of agents, as well as issues

respective for each market, e.g. investment strategies, pension products, TPL and motor insurance, reinsurance.

Component 4 – strengthening international cooperation. It included development of an international cooperation strategy and action plan to improve international cooperation, legislative process in the EU, exchange of information between Supervision Authorities and support in organizing international conferences in Sofia.

The implemented activities were accomplished within the effort of more than 110 experts from Poland, Spain and 7 other EU countries (Germany, Austria, the Netherlands, United Kingdom, Greece, France and Hungary) through more than 200 missions lasting from 2 to 5 days.

Due to the to budget savings following Bulgarian side expectations, the additional missions in Sofia were implemented e.g. supervision system based on risk analysis, integrated supervision strategy, supervision of entities operating under single European passport, and international trainings for the Bulgarian Commission staff. Furthermore, several study visits were carried out to the Polish, Spanish, German and Hungarian supervision authorities, as well as in institutions cooperating with the Polish regulator, such as the National Depository for Securities, Insurance Guarantee Fund or the Polish Chamber of Insurance.

Preparation and then implementation of the project posed a major challenge for the PFSA Office. It required series of important decisions and innovative actions on the notably part of its employees. Since the Polish Insurance and Pension Funds Supervisory Commission, and later the PFSA Office, was one of the first Polish public administration bodies providing support as an EU representative in a twinning, the project was implemented in the situation that required creation of new procedures and adjustment of national to the EU regulations requirements. Nonetheless the main benefit for the PFSA Office was improvement of the qualifications of employees involved in the project as short-term experts. Also other relevant advantage was creating the image of the country and PFSA Office that is mature to operate within the EU structures, take up new challenges on the international arena, and partnerships with other EU supervisory authorities. In the opinion of the Bulgarian Commission, the key indirect benefit was strengthening of administrative capacity, especially in the field of international cooperation, legal regulations, exchange of information and best practices. The project direct effects include inter alia development of financial (excluding banking) supervision strategy in Bulgaria, advancement of legal infrastructure, drawing up and introduction of rules and procedures regarding international cooperation, international trainings and conferences. Both the contractor and the beneficiary of the project expressed very positive opinions on the project implementation.

Multi-sector Project for Strengthening Administrative Capacity: “Enhancing the protection of victims in the light of motor insurance directives through analysis of functions and tasks of respective insurance market institutions.”

According to the European Commission decision of August 2nd 2005, within the allocation of Transition Facility 2005⁴, the PFSA Office became beneficiary of a multi-sector project for strengthening the administrative capacity: *Enhancing protection of victims in the light of motor insurance directives through analysis of functions and tasks of respective insurance market institutions*.

The main objective behind this EUR 165 thousand project (of which EUR 150 thousand are EU funds) is to improve the qualifications and knowledge of the PFSA's employees on the EU solutions in the field of compulsory motor insurance, including insurance tariffs, risk assessment and creation of technical provisions.

Moreover, the project's purpose is to support Polish institutions involved (Insurance Guarantee Fund, Polish Motor Insurers Bureau and the Polish Chamber of Insurance, etc.), by acquainting them with the best practices and experience from the other EU Member States, regarding the harmonization of the national law in the field of motor insurance.

The project also envisages educational initiatives and dissemination of information with the aim of enhancing the public awareness regarding the rights and duties of the insured resulting from the EU Motor Insurance Directive.

As a result of the third open tender, on December 15th 2007 agreements with two contractors of the Transition Facility 2005/017-488.01.02.01 project were signed.

The project is to be implemented from January to May 2008.

Technical Assistance Project for Russian Insurance Sector

As a result of winning the tender procedure in December 2007, the PFSA Office, as a member of international consortium, acceded the Technical Assistance Project for the Russian insurance sector within the programme of external actions of the European Union for the Commonwealth of Independent States (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kirghizia, Moldova, Russia, Tajikistan, Turkmenia, Ukraine and Uzbekistan).

The project beneficiaries are the Ministry of Finance of the Russian Federation, the Federal Service for Insurance Supervision of the Russian Federation and the All-Russian Insurance Association,

including insurance companies and associated members. The project budget, financed from EU funds, is almost EUR 2.8m.

The project's purposes are as follows:

- ▶ To enhance the regulation of the insurance sector by the Ministry of Finance of the Russian Federation;
- ▶ To enhance the supervision of the insurance sector by the Federal Service for Insurance Supervision;
- ▶ To support the All-Russian Insurance Association in their effort to develop a competitive insurance sector;
- ▶ To assist insurance companies in the transition to the International Financial Reporting Standards and in application of corporate governance best practices;
- ▶ To improve the qualifications and knowledge of the Russian Insurance Supervision Authority's employees on the European Union solutions (Directives) and international best practice for insurance sector.

The project is to be implemented from March 2008 to March 2010 (24 months).

Transition Facility 2006 – Flexible Reserve

In Q2 2007, the PFSA Office started the procedure to acquire EU funds within the Transition Facility 2006 programme. Together with the Office of the Committee for European Integration, the PFSA Office elaborated two project fiche applications:

- ▶ “Implementation of the methodology of Supervisory Review Process for investment firms in accordance with Capital Requirements Directive. Strengthening the supervising capacities of the Polish Financial Supervision Authority in the field of capital market”.
- ▶ “Strengthening of supervising capacities of Polish Financial Supervision Authority in the field of pension funds market and occupational pension schemes”.

According to the background of the Transition Facility 2006 programme, both projects are meant to strengthen the administrative capacity of the PFSA Office within the twinning light contracts. The budget of the project regarding the capital market amounts to EUR 111,222.75 (of which EUR 108,422.75 is provided by the EU), and the budget of the other project (concerning the pension funds market) is EUR 130,539.90 (of which EUR 123,539.90 are EU funds).

In December 2007 in line with the European Commission decision the PFSA Office became a beneficiary of the project entitled “Implementation of the methodology of Supervisory Review Process for investment firms in accordance with Capital Requirements Directive. Strengthening the supervising capacities of the Polish Financial Supervision Authority in the field of capital market”, and began to modify the second project fiche application upon the request from the European Commission.⁵

⁴ Phare – a programme within the scope of projects implementation in which Polish public administration institutions, as the EU side, provide support to the EU candidate countries on a twinning basis financed from EU pre-accession funds.

⁵ Transition Facility is a tool used as extension of the Phare programme and addressed to the 10 new Member States. The programme covers the period from 2004 to 2006 and continues the process of strengthening the administrative capacity, administration of justice, and implementation of the EU legislation.

Under both projects, the PFSA Office employees are to participate in several seminars including training workshops, as well as in study visits in EU Member States.

The two projects are planned to be implemented in Q3 and Q4 2008.



International Activity



International Activity

IAIS – International Association of Insurance Supervisors

The PFSA has been a member of the International Association of Insurance Supervisors (IAIS) since 1996. Established in 1994, IAIS associates competent authorities from about 120 countries. The association was founded in order to promote cooperation among the institutions supervising the insurance sector, but also other sectors of the financial market. IAIS develops rules and standards in the area of insurance and organises training for specialists from the new markets. The purpose of these activities is to promote a stable, fair and efficient insurance market, where the interests of policyholders are well protected.

In 2007, representatives of the PFSA Office participated in plenary meetings for IAIS members. The most recent one was held during IAIS annual conference, which was devoted to global changes in the context of insurance market supervision and during which the participants discussed a wide array of topics, such as international accounting standards, emerging markets or ageing of societies.

The PFSA Office representative acts as IAIS regional coordinator (for Central and Eastern Europe and the Transcaucasus). In this capacity, he coordinates PFSA's support to countries from the region in organisation of regional seminars, implementation of translation programme, identification of training needs or implementation of standards, to facilitate reaching of the targets set in IAIS's "Roadmap for Standard Implementation Activities".

The PFSA Office also appointed representatives to participate in the IAIS Technical Committee, which in 2007 worked on mutual recognition of competent authorities in the area of reinsurance, supervision over insurance groups, operational risk management standards with respect to solvency, and microinsurance (simplified, thus more affordable versions of classic insurance products).

IOPS – International Organisation of Pension Supervisors

The PFSA has been a member of the International Organisation of Pension Supervisors (IOPS) since that body's inception in 2004.

IOPS is an independent international organisation with global reach bringing together supervisors of private pension systems. Among its various objectives there is conduct of research and analyses related to private pension schemes and supervision over such schemes, facilitation

of dissemination and exchange of the findings of academic research in this field, and gathering – in cooperation with other international organisations and institutions – of information on the subject.

In 2007, the PFSA Office representatives attended three IOPS meetings held to discuss the matters related to the review of supervision systems, management of pension funds, best practices in risk management and licensing of entities seeking to operate in the pension market.

IOSCO – International Organization of Securities Commissions

The Polish regulator has been a member of the International Organization of Securities Commissions (IOSCO), associating the financial markets regulatory and supervisory bodies from various countries, since 1990. IOSCO has 188 members, including ordinary members (each ordinary member has one vote, and has the right to participate in all IOSCO committees as their member), associated members (the associate members have no vote and are not eligible for the Executive Committee; however, they are members of the Presidents' Committee) and affiliated members

(the affiliate members have no vote, are not eligible for the Executive Committee and are not members of the Presidents' Committee; however, their affiliate member status enables them to cooperate with IOSCO, e.g. with respect to preparation of standards, recommendations, etc.).

IOSCO's main objectives are:

- ▶ to cooperate to establish common standards of regulation in order to maintain just, efficient and sound markets,

- ▶ to exchange experience and information in order to promote the development of domestic securities markets,
- ▶ to unite efforts to establish standards and an effective surveillance of international securities transactions,
- ▶ to provide mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against financial offences.

The PFSA is a member of the Executive Committee and the Emerging Markets Committee. As part of the activities of the Emerging Markets Committee, the PFSA presided over the work performed by *Working Group No. 4 on enforcement and exchange of information*. Given its presidency of EMC WG4, the PFSA was an observer of Standing Committee No. 4 of the Technical Committee and a Member of the Emerging Markets Committee Advisory Board. The PFSA also co-presides over the Screening Group, which assesses the qualification of the particular regulators to join the IOSCO Multilateral Memorandum of Understanding (MMoU). Moreover, the PFSA is a member of the Monitoring Group, which associates signatories of the MMoU. The Monitoring Group is responsible for analysing the exchange of information among the regulators under the MMoU.

Activity of the Emerging Markets Committee Working Group No. 4

In 2007, the Emerging Markets Committee Working Group No. 4, which is presided over by the PFSA, dealt with two mandates.

WG4's mandate concerning obstacles to join the IOSCO Multilateral Memorandum of Understanding

During one of the meetings of the WG4, a decision was made that the Group will take up a new mandate, related to the obstacles encountered by the particular members of the Emerging Markets Committee in becoming signatory to the IOSCO Multilateral Memorandum of Understanding. After preparing, discussing and approving a survey questionnaire, the questionnaire was passed to the Group members. Fifteen countries responded to the survey questionnaire within the set deadline. On the basis of the responses, a draft report on the obstacles to joining the MmoU was prepared, which was discussed during a WG4 meeting, where comments and reservations as to its contents were collected. 32 countries provided their responses to the survey questionnaire. On the basis of these responses, the report was updated; additionally the remarks made during the meeting were incorporated. The final version of the report was presented and approved during the 32nd IOSCO Annual Conference in April 2007.

WG4's mandate concerning the Fit & Proper Assessment of candidates to key positions (under the competent authority's control) at regulated entities

The Fit & Proper Assessment involves approving of candidates to key functions (under the competent authority's control) at

the regulated entities, e.g. candidates to management or supervisory boards. The aim of the assessment is to determine – using objective criteria – whether a candidate is fit and proper to perform a given function in the regulated entity.

Key factors taken into account in the assessment:

- ▶ integrity and personal ethics;
- ▶ competence, reliability and qualifications;
- ▶ professional experience;
- ▶ financial stability.

The assessment process is continued also after a candidate is approved, i.e. while he/she is performing his/her functions.

The PFSA and the Israel Securities Authority drafted a questionnaire, which was circulated among the Group members for comments. At the end of 2007, the final version of the questionnaire was being updated. In Q1 2008, the questionnaire is to be sent to the members of the Emerging Markets Committee.

In 2007, the PFSA representative chaired two meetings of the WG4.

Participation in Standing Committee No. 4 of the Technical Committee, and in the Screening Group

SCREENING GROUP

The group, which assesses the qualification of particular regulators to become signatory to the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information, markedly increased its activity in 2007. It is assumed that by January 1st 2010 all existing IOSCO ordinary members should become signatories to the MMoU. That is why the group receives more applications, which forces all members of the Verification Teams to intensify their efforts.

In Q1 2007, the PFSA completed verification of the application submitted by the Securities Commission of Malaysia, and in December 2007 it received the application of the Albanian Financial Supervision Authority. Work on the application is in progress.

STANDING COMMITTEE NO. 4 OF THE TECHNICAL COMMITTEE

Given its presidency of EMC WG4, the PFSA was an observer of Standing Committee No. 4 of the Technical Committee. In 2007, the group completed work on two important mandates – Preservation of Property in Cross-border Enforcement Cases (which led to producing a report on the legal grounds for competent authorities to seek to create mechanisms which would allow the freezing of assets derived from cross-border abuse on securities markets on behalf of foreign regulators) and Investigating Cross-border Boiler Room Scams (which led to developing guidelines

on practical aspects of trans-border proceedings concerning abuse by boiler rooms, i.e. businesses which use false or misleading information to attract inexperienced investors).

The group also focuses on starting and developing cooperation with the so called “non-cooperative jurisdictions”. The group’s priority is to formulate rules governing cooperation with the competent authorities which would enable exchange of information with such institutions.

In 2007, the representative of the PFSA Office attended the meetings of the Screening Group and the Standing Committee No. 4.

Technical Committee Task Force on Corporate Governance

Since March 2007, the PFSA Office representative has participated in the work of the Task Force, which – together with the OECD – analyses the means to protect minority interests in companies whose shares have been introduced to trading on regulated market. The Task Force has prepared a special questionnaire which will provide basis to carry out comparative analysis in the Member States participating in the group’s work.

Organisation for Economic Cooperation and Development

In the area of insurance and pension funds, the PFSA Office representatives participate in the meetings of the working groups of the OECD Insurance and Private Pension Committee.

The main objective of the Committee is to develop and promote modern solutions in the area of insurance and pension systems structures, in particular in those countries where the market economy is only developing. Pursuant to a resolution by the Polish Council of Ministers, the PFSA Office is a “participating body”, which means that it supports the Ministry of Finance in its activities. In 2007, the PFSA Office representatives participated in the meetings of the Working Party on Private Pensions, held on July 2nd–3rd and December 3rd–5th. Furthermore, it performed certain tasks – such as consultation, sending data and surveys, or commenting on documents between the sessions of the WPPP – for the Task Force on Funded Pension Statistics.

The Commission responded to or commented on the following documents and surveys:

- ▶ Request on Financial and Non-Financial Assets of Institutional Investors,
- ▶ Request on Financial and Non-Financial Assets of Households,
- ▶ Questionnaire for the Global Pension Statistics project (2006 Pension statistics questionnaire),

Conclusion of Bi- and Multi-lateral Memorandums

The International Organization of Securities Commissions approved a standard on the basis of which its members undertake to cooperate and exchange information with a view to promoting efficient market supervision. The PFSA, relying on the IOSCO recommendations, prepared a draft agreement to be concluded with its counterparts in other countries. By the end of 2007, the PFSA concluded 21 such agreements.

Furthermore, the PFSA is a signatory of two multilateral agreements on cooperation and the exchange of information: the IOSCO Multilateral Memorandum of Understanding (since November 4th 2003), signed by IOSCO members (by the end of 2007 44 institutions supervising the financial markets in various countries became signatories of the MMoU), and the Multilateral Memorandum of Understanding on the Exchange of Information and Surveillance of Securities Activities (since May 1st 2004), constituting the basis for cooperation and exchange of information between the institutions supervising the capital markets in the 27 countries of the EU, associated in the Committee of European Securities Regulators (CESR).

- ▶ Survey of Investment Regulations of Pension Funds,
- ▶ Answers to questions concerning the mandatory and voluntary pension systems in Poland.

In addition, the PFSA Office gathered information on pension funds in 2006, necessary to answer the survey on assets held by households in pension funds, as well as the survey on assets held by institutional investors.

One of the areas where the OECD concentrates its efforts is promotion of corporate governance. To this end, the Steering Group on Corporate Governance was established. In 2007, the Group worked on the influence of private equity and hedge funds on corporate governance, observance of corporate governance rules by private enterprises, and implementation of the methodology for the assessment of implementation of corporate governance formulated in 2006.

In 2007, a representative of the PFSA Office took active part in the Steering Group’s work by participating in its meetings and preparing remarks and proposals to the newly developed methodology.

MONEYVAL and FATF – International Cooperation in Preventing Money Laundering and Financing of Terrorism

In 2007 the PFSA Office's international activity related to preventing money laundering and financing of terrorism concentrated on the participation in the work of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) – through the General Inspector of Financial Information – and the Financial Action Task Force (FATF), which was formed by the G-7.

Established in 1997, MONEYVAL has 28 members, and its main objective is to evaluate on the anti-money laundering and counter terrorist financing systems in Member States of the Council of Europe which are not members of the FATF. MONEYVAL members meet at plenary sessions held four times a year in Strasbourg and at typologies meetings.

The FATF was founded at the 1989 Economic Summit by the G-7 nations (it has 34 members). Its purpose is harmonization of international policies to combat money laundering and terrorist financing by undertaking such tasks as evaluation missions or issuing recommendations.

The PFSA Office's cooperation with these two organisations in 2007 involved:

- Participation of the PFSA representative in the MONEYVAL typologies meeting in December 2007,
- Commenting on the conducted evaluation missions (in Estonia),
- Assessment of evaluation reports (Canada and Singapore),
- Participation in preparation of more precise definitions of the terms used in the 3rd Money Laundering Directive (particularly, of equivalent third countries).



Appendix



Appendix I

Budget of the PFSA Office

The PFSA Office is a publicly financed entity, which means that its expenditure is funded directly from the state budget, while its income constitutes an item of revenue of the state budget and is transferred to the state budget account. As a publicly financed entity, the Office conducts its financial management in accordance with the applicable legal provisions, in particular the Public Finance Act, the Public Procurement Act and the Budget Act. It is also obliged to adhere to an annual financial plan.

Like in many other European countries, in Poland the costs of state supervision over various markets are borne by the industry. According to statutory rules, the costs of insurance and brokerage market supervision are covered by insurance undertakings – up to 0.14% of gross premiums written, while the costs of funded pension market supervision are covered by general pension fund companies – up to 0.14% of contributions paid in a given year by members of open-end pension funds managed by those companies.

The level of fees towards the costs of supervision over insurance and brokerage activity, the method of their computation, and deadlines for their payment by insurance undertakings and general pension fund companies have been defined by regulations. In 2007, the level of monthly advance fees payable to the state budget by insurance undertakings was equal to 0.0665 of monthly total gross premiums written. The level of monthly advance fees payable to the state budget by general pension fund companies was equal to 0.1064% of monthly total contributions paid to open-end pension funds managed by those companies.

The costs of capital market supervision are defined in the Act on Capital Market Supervision. They are funded from fees specified in the Act on Investment Funds, the Act on Commodity Exchanges, the Act on Trading in Financial Instruments and the Public Offering Act, as well as from other proceeds transferred to the income account of the PFSA Office.

The level, method of computation, terms and deadlines for payment of fees towards the costs of capital market supervision have been defined by regulations. Fees collected by the PFSA Office for official duties related to the conduct of examinations for brokers and actuaries constitute revenue of the state budget which is not allocated towards the costs of supervision. The same applies to fines for infringement of the law imposed by the PFSA on the regulated entities and members of their governing bodies.

In 2007, the PFSA Office reported budget revenue of PLN 67,460,769. It derived mainly from fees paid by the industry to cover the costs of supervision. The fines incurred and paid by the industry amounted to PLN 1,803,657.

The expenditure allocated in the 2007 state budget to the PFSA operations, amounted to PLN 57,762,000. The actual spend was PLN 54,844,699, which means that the PFSA 's expenditure was 5% lower than the budgeted amount.

Tables show the 2007 budget revenue and expenditure of the PFSA, along with the specification of key items in each category, and in comparison to the budgeted amounts.

Table 51. Execution of the PFSA's 2006 budget revenue plan in 2007

Budget revenue	Planned (PLN)	Actual	
		(PLN)	(%)
Key items:			
Fees towards the costs of supervision over insurance and brokerage activity paid by insurance undertakings	21,213,000	23,735,675	112
Fees towards the costs of supervision over open-end pension funds paid by general pension fund companies	13,160,000	12,986,931	99
Fees towards the costs of supervision paid by the capital market	23,389,000	28,198,492	121
Fees for official duties connected with examinations for brokers, actuaries and insurance agents	185,000	208,080	112
Fines imposed on the industry	2,990,000	1,803,657	60
Other	29,000	527,934	1,820
Total:	60,966,000	67,460,769	111

Table 52. Execution of the PFSA's 2007 expenditure plan

Budget expenditure	Planned, as amended (PLN)	Actual	
		(PLN)	(%)
Payroll expenditure, including overheads	43,621,000	41,327,278	95
Non-payroll expenditure	12,089,000	11,742,114	97
Purchase of assets, including computer hardware and software	2,052,000	1,775,307	87
Total:	57,762,000	54,844,699	95

Appendix II

Legal Acts referred to in the Report on Activities of the Polish Financial Supervision Authority in 2007

- ▶ Act on Financial Market Supervision of July 21st 2006 (DzU of 2006, No. 157, item 1119, as amended)
- ▶ Act on Protection of Classified Information of January 22nd 1999 (consolidated text: DzU of 2005, No. 196, item 1631)
- ▶ Act on Disclosure of Information on Documents of the State Security Services Produced in the Years 1944–1990 and the Content of Such Documents, of October 18th 2006 (DzU of 2006, No. 218, item 1592, as amended)
- ▶ Act on Organisation and Functioning of Pension Funds of August 28th 1997 (consolidated text: DzU of 2004, No. 159, item 1667)
- ▶ Act on Occupational Pension Schemes of April 20th 2004 (DzU of 2004, No. 116, item 1207, as amended)
- ▶ Regulation of the Council of Ministers on maximum amounts of assets of open-end pension funds which can be invested in particular categories of investments and the additional limitations of investments by pension funds, of February 3rd 2004 (DzU of 2004, No. 32, item 276, as amended)
- ▶ Act on Insurance Activity of May 22nd 2003 (DzU of 2003 r., No. 124, item 1151, as amended)
- ▶ Act on Prevention of Money Laundering Practices and Financing of Terrorism of November 16th 2000 (consolidated text: DzU of 2003, No. 153, item 1505, as amended)
- ▶ Act on Trading in Financial Instruments of July 29th 2005 (DzU of 2005, No. 183, item 1538, as amended)
- ▶ Act on Commodity Exchanges of October 26th 2000 (consolidated text: DzU of 2005, No. 121, item 1019, as amended)
- ▶ Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (DzU of 2005, No. 184, item 1539, as amended)
- ▶ Act on Investment Funds of May 27th 2004 (DzU of 2004, No. 146, item 1546, as amended)
- ▶ Act on Capital Market Supervision of July 29th 2005 (DzU of 2005, No. 183, item 1537, as amended)
- ▶ Insurance Brokerage Act of May 22nd 2003 (DzU of 2003, No. 124, item 1154, as amended)
- ▶ Act on Retirement and Disability Pensions Payable from the Social Security Fund of December 17th 1998 (consolidated text: DzU of 2004, No. 39, item 353, as amended)
- ▶ Act on Access to Public Information of September 6th 2001 (DzU of 2001, No. 112, item 1198, as amended)
- ▶ Regulation of the Minister of Internal Affairs and Administration on Public Information Bulletin of January 18th 2007 (DzU of 2007, No. 10, item 68)
- ▶ Accountancy Act of September 29th 1994 (DzU of 2002, No. 76, item 694, as amended)
- ▶ Act on the Banking Guarantee Fund of December 14th 1994 (consolidated text: DzU of 2000, No. 9, item 131, as amended)
- ▶ Public Finance Act of June 30th 2005 (DzU of 2005, No. 249, item 2104, as amended)
- ▶ Public Procurement Act of January 29th 2004 (consolidated text: DzU of 2006, No. 164, item 1163, as amended)

Appendix III

EU Regulations referred to in the Report on Activities of the Polish Financial Supervision Authority in 2007

- ▶ Directive 2004/39/EC of the European Parliament and of the Council of April 21st 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC ("MiFID")
- ▶ Commission Directive 2006/73/EC of August 10th 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and the terms defined for the purposes of the Directive
- ▶ Commission Regulation 1287/2006/EC of August 10th 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards recordkeeping obligations for investment firms, transaction reporting, market transparency, admission of financial instruments to trading, and defined terms for the purposes of that Directive
- ▶ Directive 2004/109/EC of the European Parliament and of the Council of December 15th 2004 on the harmonisation 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 ("Transparency Directive")
- ▶ Directive 2004/25/EC of the European Parliament and of the Council of April 21st 2004 on takeover bids
- ▶ Directive 2006/49/EC of the European Parliament and of the Council of June 14th 2006 on the capital adequacy of investment firms and credit institutions
- ▶ Commission Directive 2007/16/EC of March 19th 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions
- ▶ Directive 2005/68/EC of the European Parliament and of the Council of November 16th 2005 on reinsurance and amending Council Directives 73/239/EEC, 92/49/EEC as well as Directives 98/78/EC and 2002/83/EC
- ▶ Directive 2006/46/EC of the European Parliament and of the Council of June 14th 2006 amending Council Directives 78/660/EEC on the annual accounts of certain types of companies, 83/349/EEC on consolidated accounts, 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions and 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings
- ▶ Directive 94/19/EC of the European Parliament and of the Council of May 30th 1994 on deposit-guarantee schemes
- ▶ Directive 98/78/EC of the European Parliament and of the Council of October 27th 1998 on the supplementary supervision of insurance undertakings in an insurance group
- ▶ Directive 2002/92/EC of the European Parliament and of the Council of December 9th 2002 on insurance mediation
- ▶ Directive 2002/87/EC of the European Parliament and of the Council of December 16th 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council
- ▶ Directive 2003/41/EC of the European Parliament and of the Council of June 3rd 2003 on the activities and supervision of institutions for occupational retirement provision (IORP Directive)
- ▶ Directive 2003/71/EC of the European Parliament and of the Council of November 4th 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC
- ▶ Commission Regulation (EC) No 809/2004 of April 29th 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements
- ▶ Directive 2003/6/EC of the European Parliament and of the Council of January 28th 2003 on insider dealing and market manipulation (market abuse)
- ▶ Commission Regulation (EC) No 2273/2003 of December 22nd 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments.

Motor Insurance Directives

- ▶ Council Directive 72/166/EEC of April 24th 1972 on the approximation of the laws of the Member States relating to insurance against civil liability in respect of the use of motor vehicles, and to enforcement of the obligation to insure against such liability (First Motor Insurance Directive)
- ▶ Second Council Directive 84/5/EEC of December 30th 1983 on the approximation of the laws of the Member States relat-

ing to insurance against civil liability in respect of the use of motor vehicles

- ▶ Third Council Directive 90/232/EEC of May 14th 1990 on the approximation of the laws of the Member States relating to insurance against civil liability in respect of the use of motor vehicles
- ▶ Council Directive 90/618/EEC of November 8th 1990 amending, particularly as regards motor vehicle liability insurance, Directive 73/239/EEC and Directive 88/357/EEC which concern the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance
- ▶ Directive 2000/26/EC of the European Parliament and of the Council of May 16th 2000 on the approximation of the laws of the Member States relating to insurance against civil liability in respect of the use of motor vehicles and amending Council Directives 73/239/EEC and 88/357/EEC (Fourth Motor Insurance Directive)
- ▶ Directive 2005/14/EC of the European Parliament and of the Council of May 11th 2005 amending Council Directives 72/166/EEC, 84/5/EEC, 88/357/EEC, 90/232/EEC, and Directive 2000/26/EC of the European Parliament and of the Council relating to insurance against civil liability in respect of the use of motor vehicles.

Life Assurance Directives

- ▶ Council Directive 92/96/EEC of November 10th 1992 on the coordination of laws, regulations and administrative provisions relating to direct life assurance and amending Directives 79/267/EEC and 90/619/EEC (Third Life Assurance Directive)
- ▶ Directive 2002/83/EC of the European Parliament and of the Council of November 5th 2002 concerning life assurance.

Directives on Property Insurance and Personal Insurance other than Life Assurance

- ▶ First Council Directive 73/239/EEC of July 24th 1973 on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of direct insurance other than life assurance
- ▶ Council Directive 73/240/EEC of July 24 1973 abolishing restrictions on freedom of establishment in the business of direct insurance other than life assurance
- ▶ Council Directive 76/580/EEC of June 29th 1976 amending Directive 73/239/EEC on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of direct insurance other than life assurance
- ▶ Council Directive 87/344/EEC of June 22nd 1987 on the coordination of laws, regulations and administrative provisions relating to legal expenses insurance
- ▶ Second Council Directive 88/357/EEC of June 22nd 1988 on the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance and laying down provisions to facilitate the effective exercise of freedom to provide services and amending Directive 73/239/EEC
- ▶ Council Directive 92/49/EEC of June 18th 1992 on the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance and amending Directives 73/239/EEC and 88/357/EEC (Third Non-Life Insurance Directive)
- ▶ Directive 2002/13/EC of the European Parliament and of the Council of March 5th 2002 amending Council Directive 73/239/EEC as regards the solvency margin requirements for non-life insurance undertakings
- ▶ Directive 2005/60/EC of the European Parliament and of the Council of October 26th 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (Third Money Laundering Directive).

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