

**Asociace finančních zprostředkovatelů  
a finančních poradců  
České republiky, o.s. (AFIZ, o.s.)**

**Association of Financial Intermediaries and  
Financial Advisers of Czech Republic - AFIZ**

# **White Book 2008**

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# 1 AFIZ, o.s.

## 1.1 Status

The Association of Financial Intermediaries and Financial Advisers of Czech Republic (Asociace finančních zprostředkovatelů a finančních poradců České republiky, o.s. - AFIZ) is an independent and voluntary association of interested parties (**independent** persons and corporate bodies) operating on the Czech financial market as financial intermediaries and financial advisers, holding authorization from or being registered with the relevant authorities.

AFIZ was founded by 11 **independent** persons at the general meeting held on December 7, 2002 under the title of Association of Registered Investment Intermediaries of Czech Republic (ARIZ CR) as a non-governmental organization of **independent** persons and corporate bodies providing only investment intermediary services. The Association was established, for an undefined and indefinite period of time, in response to new legislation which stipulated a new line of business outside the framework of the trade law - the investment intermediary, at that time registered with the Securities Commission; it was founded in compliance with Act 83/1990 Coll. in respect of citizens' association, as amended, as an association of **independent** persons and corporate bodies operating in the financial market.

In 2004, the Association's activities expanded to include intermediary and advisory services provided on the financial market. Since then the Association's members have included corporate bodies and **independent** persons operating in the Czech financial market as intermediaries or advisors. In response to the increased membership and business scope, in 2004, the general assembly decided to change the Association's name to AFIZ, o.s.

## 1.2 Goals

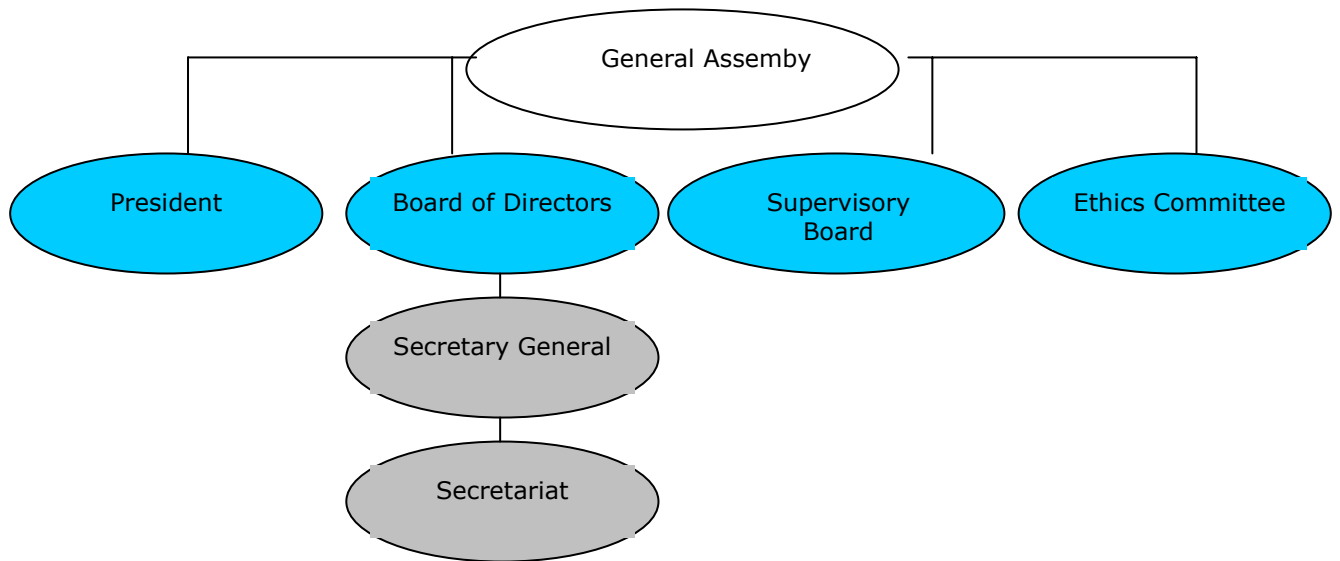
- The Association represents its members in relation to National government and Municipal authorities and institutions that are partners in negotiations over legislative measures affecting the members' interests in respect of administration, economics, tax and other subjects. The Association proactively contributes to the development and understanding of statutory regulations affecting the activities of its members on the financial market.
- The Association's activities help to create and develop a standard environment on the Czech financial market making use of principles and experiences from

similar markets in the Member States and other developed markets.

- The Association processes information, experiences, suggestions and the recommendations of its members, partner organizations, consumer associations in the Czech Republic and abroad and the general public and State authorities in order to define binding standards on the Association's members.
- The Association collects, evaluates, promotes and assists in the implementation of best practices and knowledge that can be used to the benefit of general public and the Association's members, especially in regard to financial services. For this purpose, the Association cooperates with partners from among both local and international organizations. Through information campaigns and its practices, the Association promotes the professional development of its members and public awareness and organizes expert workshops, training, lectures and other educational events.
- The Association is able to create a training system; the development and implementation of a training system is supported by partner organizations, National and Municipal authorities and expert and research institutions.
- The Association pays close attention to continuous cooperation, beneficial to all parties, with similar associations and organizations operating in the financial market; it makes its best efforts to be represented, at all levels, on the advisory boards of National and Municipal authorities in areas related to the Association's activities.
- The Association focuses on the development of the Czech financial market while simultaneously cultivating the entrepreneurial and consumer environment, with a special emphasis on consumer protection; in addition it contributes to the definition of rules and conditions promoting the principles of fair trade, protection of good business ethics and especially the strengthening of general public's confidence in the financial market and its promotion.
- The Association achieves its goals also through directing and coordinating its members' activities and thus contributes to an increased level of general compliance with statutory regulations, the Association's by-laws and internal regulations applicable to the members and adopted by the Association's competent bodies.

## 1.3 Organizational Structure

**Plate 1- The Association's organizational structure**



Source: AFIZ

### **General Assembly**

The General Assembly is the supreme authority of the Association, agreeing and adopting the Association's by-laws and any amendments. It also appoints and removes from office members of the Board of Directors, the Supervisory Board and the Ethics Committee, approves the Activity Report of the Association and makes decisions about its key tasks, goals and issues material to the Association's activities in the forthcoming periods. In addition, it decides on the dissolution of the Association, approves the Disciplinary Rules and other key regulations of the Association and, in addition, elects a President from among the Association's members.

### **President**

The President represents the Association in external relations, and the position integrates all the bodies and institutions of the Association, creating a fundamental framework of cooperation between the Association and other organizations operating in the financial and other segments. Concurrently, the President is also the chairperson of the Ethics Committee.

### **Board of Directors (BoD)**

The Board of Directors is the statutory body of the Association, operating in accordance with applicable legal regulations, the Association's by-laws, decisions made at the

General Assembly and internal regulations. It makes decisions on all matters concerning the Association, unless they are reserved as competencies of another body of the Association. The BoD adopts internal regulations that are binding on the Association's members, including, but not limited to, the Ethical Code and convenes and organizes the General Assembly, with the agenda being developed by the Secretariat. Additionally, the BoD decides on the admission of new members, listens to disputes between the Association's members outside the disciplinary action and discusses suggestions and complaints about the financial service providers. If the parties in dispute have had contractual relations, especially as between a broker and a client, the dispute is neither heard by the BoD or is it a subject of disciplinary action. The BoD appoints, and removes from office, the Secretary General, defines his/her duties and supervises his/her activities. The BoD approves the Association's Budget and has responsibility for performance against the Budget.

The BoD has the right to establish and to dismiss temporary special-purpose committees for individual areas, to define their scope of work and term of existence and structure of the membership. At present, the Association has a single permanent committee - the Legislative and Legal Committee - that discusses members' suggestions of amendments to the existing laws and opinions about draft regulations during commentary periods and closely cooperates with the Association's Legal Department and similar bodies of other associations.

On February 21, 2006, in accordance with the by-laws, the BoD established a working group concerned with the issues of ethics and consumer protection in respect of financial services. The members of the working group include representatives of consumer protection associations, legislators, regulators and supervisors in the financial market and other partner associations; representatives of leading law firms also participate in the activities of the working group.

### **Supervisory Board**

The Supervisory Board is the supervisory body of the Association and checks and reviews the Association's financial statements, balance sheet and proposals of profit distribution or loss coverage. It also discusses the President's reports on key activities and operations of the Association and, if needed, provides the President with recommendations on appropriate actions. The Supervisory Board submits comments and an activity report to the General Assembly.

## **Ethics Committee**

The Ethics Committee receives suggestions and complaints from the Association's members and non-members about the activities of financial service providers and hears cases of alleged professional misconduct and decides on disciplinary measures and termination or suspension of membership in the Association, usually through the Disciplinary Senate convened to that purpose. In addition, the Ethics Committee monitors the compliance with generally accepted ethical principles in the rendering of financial services and, with the Ethical Code, investigates alleged breaches of the Association's internal regulations and the ethical principles generally recognized in respect of the financial market.

## **Secretary General**

The Secretary General is the head of the Secretariat. Through the Secretariat, the Secretary General has responsibility for the administration and operations of the Association, issues related to the reporting obligations of the Association's members, maintaining a list of members of the Association, organizing the meetings of the General Assembly, the Board of Directors, the Supervisory Board, and the Ethics Committee. The Secretary General looks after the achievement of goals and performance of tasks of the Association, acts on the Association's behalf, prepares a budget proposal and supervises the compliance with an approved budget and coordinates the Secretariat's works and the cooperation between individual bodies of the Association and the Association's bodies and special-purpose committees; the Secretary General also initiates and maintains continuous cooperation with similar organizations operating in the financial market in the Czech Republic and abroad

### ***1.4 Members***

AFIZ, o.s. associates both Independent persons and corporate bodies. Individuals may become members of the Association as Independent persons operating on the Czech financial market, especially in the area of financial intermediation and financial advisory, usually on the basis of a permit or registration with the relevant state authorities. However, there are also exceptions when an Independent person cannot become a member of the Association (e.g. an individual who is an employee, a member of a statutory body, a member of a supervisory body or carries out activities for another corporate body or Independent person who is a commercial financial service provider but who is not a member of the Association). Corporations may become members of the Association as corporate bodies operating on the Czech financial market, especially in the area of financial intermediation and financial advisory, usually on the basis of a permit or

registration with the competent state authorities. Also an Independent person may be deemed a corporate member if such a person renders financial services through a third party, especially an investment intermediary of 2<sup>nd</sup> level and a subordinate insurance broker. There are certain exceptions applicable when a corporate body cannot become a member of AFIZ, o.s. such as if the corporate body holds an ownership interest or participates in any other way in an entity that provides commercial financial services but is not a member of the Association.

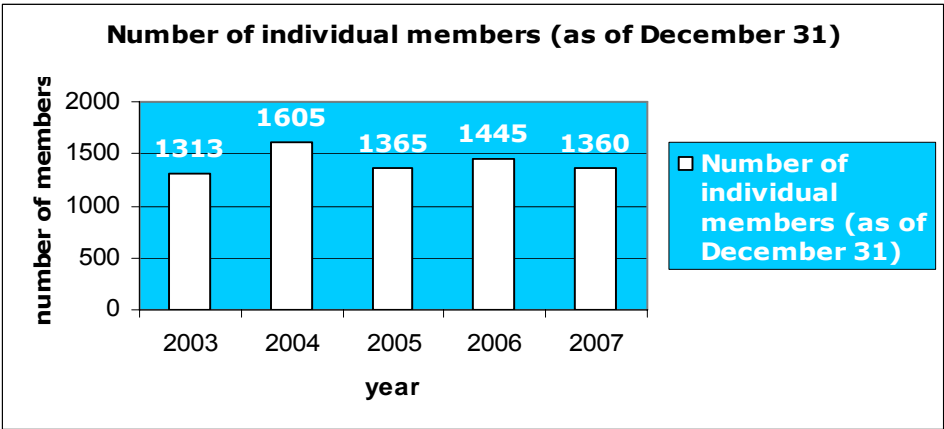
**1.4.1 History (including Statistics)**

The Association was originally founded as the Association of Registered Investment Intermediaries (ARIZ), and only after the merger with the Association of Financial Advisors and Intermediaries (AFPZ) did it become the Association of Financial Intermediaries and Financial Advisors of Czech Republic (AFIZ, o.s.). The table below presents information about the developments in the Association’s membership between 2003 and 2007 for individual and corporate members. For membership developments see also the diagram below. The decrease in membership in 2005 was caused by the departure of several members who founded a new association in 2006.

**Table 1- AFIZ membership in 2003-2007 (as of December 31)**

Year	2003	2004	2005	2006	2007
Individual members	1313	1605	1365	1445	1360
Corporate members	4	16	11	10	10

**Plate 2 - Number of individual members (as of December 31)**



**Plate 3 - Number of corporate members (as of December 31)**



### **1.4.2 Members' Rights and Obligations**

**The Association's members have the right** to participate in the Association's activities in compliance with the Association's by-laws, to elect delegates to the general meeting, and, if an individual member, to be elected a delegate to the General Assembly. Furthermore, the members have the right to be kept updated about the activities and operations of the Association, its bodies and committees, to be registered in an open-access list of the Association's members, to make suggestions and comments to the activities of the Association and its bodies, to nominate candidates for representatives on the Association's bodies, committees and working groups and to advertise their membership of the Association.

**The Association's members are obliged** to proactively contribute to the achievement of the goals and objectives of the Association, to comply with the Association's by-laws and internal regulations, in relation to third parties to respect the goals and interests of the Association, to meet their reporting obligations stipulated in the by-laws and internal regulations, to comply with decisions made by the Association's bodies, to make a timely payment of member's fees, to comply with generally recognized ethical principles applicable to financial services, to agree that the member's information will be published in an open-access list of the Association's members and to meet other obligations arising from the by-laws and internal regulations.

In their activities, the Association's members follow the statutory regulations and the Association's by-laws and cooperate with the Association's bodies and regulators and supervisors of the financial market. The members of AFIZ, o.s. voluntarily accept the obligation to comply with the Ethical Code of AFIZ, o.s. that stipulates the fundamental ethical standards for the provision of financial services. The Association's members provide to their clients qualified, fair, honest and professional services that are in the

client's best interest taking into consideration the preservation of the financial market's integrity and each client's special needs. In relation to other entities of the financial market, the members always act honestly and in accordance with the principles of fair competition, use only true information in advertising their services, disclose all the material information, and do not offer benefits they cannot guarantee. They provide clear and comprehensible, accurate, honest and timely information to their clients to make it easily understandable and to communicate the key facts and issues. They give their clients enough time to process and evaluate the received information and to make a decision without duress; they are polite and open to all clients, following the principle of equal and fair treatment by giving special treatment to none. The members will maintain confidentiality on matters concerning clients, other members of the Association and the Association and its bodies disclosed to them during their work, shall avoid conflict of interest and not misuse any confidential and internal information. The members' general conduct **is conscious of the maintenance of renown and goodwill** of the Association, and the members will be diligent in their continuing education in the area of financial services on the financial market. If the members control or organize or participate in any other way in the activities of other intermediaries and advisors on the financial market - members of the Association, they ensure and spread awareness of the Ethical Code and the compliance therewith and check that their conduct is in accordance with the Ethical Code. The members must put controls in place in their own internal regulations to avoid conflicts of interest and misuse of confidential and internal information.

## ***1.5 Activities of the Association***

The Association carries out activities to the benefit of its members, paying attention to the special needs of individual and corporate members. The Association's services are built around a threefold core:

- 1 The members' interests;
- 2 Ethics;
- 3 Expertise.

### **1.5.1 Protection of the Members' Interests**

All the activities of AFIZ are to protect the members' interests. The Association of Financial Intermediaries and Financial Advisors of Czech Republic represents such interests in negotiations with the financial market regulator, especially in the law-making process, and in relation to the general public not only in the Czech Republic but also

abroad (particularly the European Union). This includes also access to the Association's expertise and professional consulting.

### **1.5.2 Ethics**

The Association was founded with the goal of promoting the development of financial services and improving consumer protection. AFIZ proactively contributes to creating conditions and rules committed to the implementation of the principles of fair trading, protection of good business manners and strengthening of general public's confidence in the financial market. To achieve these goals, AFIZ has published the Ethical Code. In relation to their operations on the financial market, the Association's members are required to comply with the statutory regulations, all the provisions of the Ethical Code and the rules of professional conduct in accordance with the ethical principles generally recognized for the financial market. The Association's members shall carry out their operations on the financial market in accordance with good manners and principles of fair trading. The compliance with the Ethical Code is monitored by the Association's Ethics Committee that investigates any purported breach of the Ethical Code. In the investigation of purported breach of the Ethical Code or other ethical standards for the rendering of financial service the Ethics Committee follows the Association's by-laws and Disciplinary Rules. If justified, the Ethics Committee cooperates with the state authorities regulating or supervising the financial market and other consumer protection association and organizations on the financial market. The Disciplinary Rules stipulate how the Association's bodies should proceed with a disciplinary action concerning misconduct, the powers and authorities of the Association's bodies, disciplinary measures and the rights of parties to the disciplinary proceedings. The term misconduct means any breach of the legal regulations applicable to the financial market, the Association's by-laws and internal regulations binding from the Association's members, the Association's Ethical Code or generally recognized ethical principles in the rendering of financial services. The term disciplinary measures means a written warning, a penalty, suspension of membership in the Association, exclusion from the Association or a public release of information about the disciplinary measure. The Association has already excluded some of its members for a breach of the Ethical Code.

### **1.5.3 Expertise**

In order to ensure a high level of expertise of its members, the Association of Financial Intermediaries and Financial Advisors provide expert and legal consulting to its members and organizes various educational and training events. Furthermore, AFIZ organizes commercial training workshops for the Association's members as well as other

professionals. Since 2005 the Association has organized over 70 workshops and trained over 2,000 people.

### **1.5.3.1 Standard of Expertise**

The segment of financial intermediation in the Czech Republic is an important and booming service area that has gone through major transformations since the Czech Republic's accession to the European Union. It includes the services of banking institutions, building societies and insurance companies, securities trading and foreign exchange services. The workforce in this segment is employees of financial institutions and self-employed persons - financial intermediaries and financial advisors. Their technical and ethical competence is subject to strict expert and moral requirements because most clients for financial services are from the general public.

The Czech Republic does not have a comprehensive certification system that would define individual professional standards. The Association is acutely aware of the fact that unified and consistent qualification standards and requirements are needed for the segment of financial intermediation and advisory. The absence of a professional and guaranteed system of continuing lifelong learning, with a harmonized certification system of professional competencies linked directly to the requirements on the labor market, is a major barrier to further development of the segment due to the limited capacity to adapt to future structural changes. To address this, the Association has proposed a system of professional standards measurement for the segment of financial intermediation. The system is divided into three levels:

- 1 Level I - Common Grounds;
- 2 Level II - Specialization;
- 3 Level III - Comprehensive Knowledge.

**Level I** is structured in such a way so that the successful graduates have general knowledge of the financial market, including financial mathematics and tax legislation related to financial products from the client's viewpoint. The module is expanded by questions concerning the systems and bodies of regulation and supervision on the financial market and questions about applicable laws and regulations; knowledge of the essence and functions of financial products for retail clients is tested. This test includes marketing and sales-skills questions with an emphasis on ethical conduct as a requirement and stepping stone for developing long-term and proper customer relations.

**Level II** is divided into four specializations labeled as Insurance Industry, Investments, Housing, and Pensions. The applicants may choose their specialization and detailed

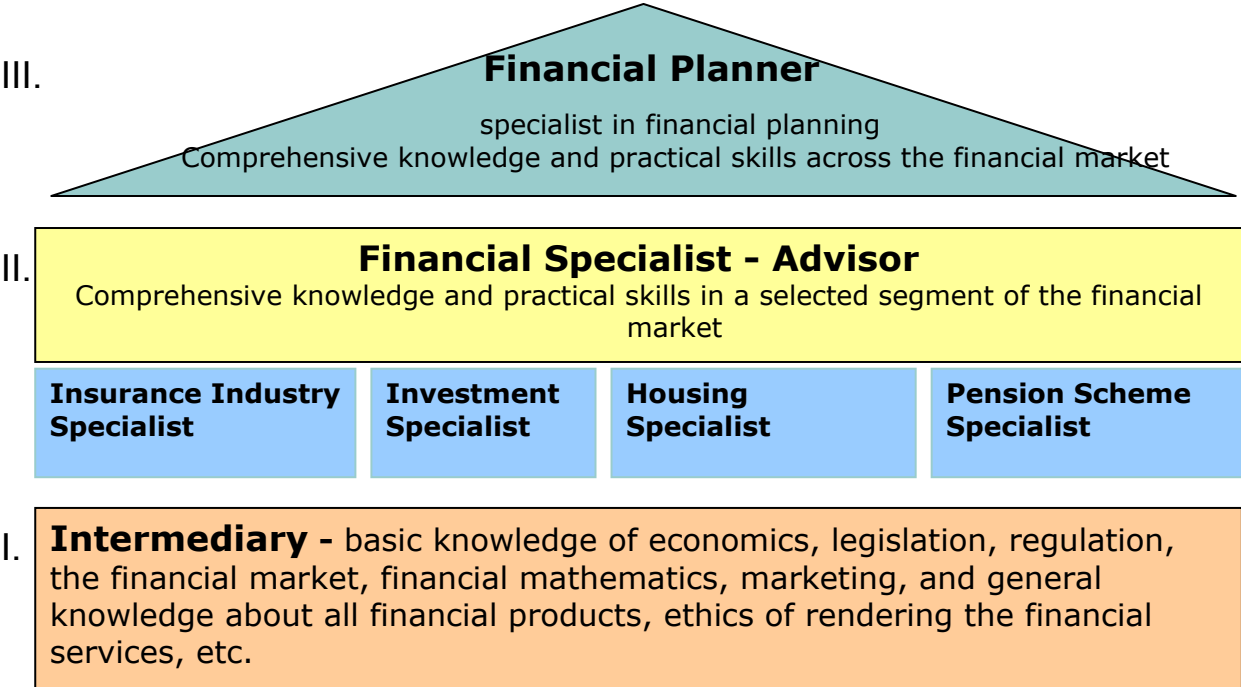
knowledge of the field shall be required. It is expected that the candidate will have passed the Level 1 qualification. The Insurance Industry specialization covers knowledge of applicable legislation and legal regulations for the insurance industry, entities operating in the insurance segment, kinds of insurance products, work of insurance brokers and liquidation of insured events. Also, it includes knowledge of potential risks for long-term unit-linked insurance products. The test questions probe into tax and accounting issues to examine the candidate's understanding of the principles of optimized allocation of client's funds. A successful candidate must be able to analyze the insurance market and insurance products. The test includes questions in the form of case studies that address key principles of customer relations and ethics. The Investments specialization examines knowledge of investment activities in relation to the capital market, applicable legislation and legal standards, regulation and supervision on the capital market, entities offering investment products, including the different types and structures, and operations of investment intermediaries. The test covers issues of collective investment and tax and accounting issues in relation to capital market products and operations. A successful candidate must be able to analyze investment opportunities and investment products. Case studies of investment strategies are included as well as ethics as applied to customer relations. The Housing specialization emphasizes knowledge about the specifics of saving and credit products related to housing, particularly mortgages and saving for building purposes and the combination thereof and knowledge of the legal issues is tested with a special focus on ownership and contractual questions. The test covers issues concerning the Real Estate Register, the government's subsidies for housing and related tax reliefs. A successful candidate is able to analyze credit products and to suggest their use in practice and mutual combination for optimum interest rates and repayment periods. The Pension specialization addresses the area of pension and social security system in the Czech Republic. The test examines the knowledge of legal and legislative frameworks for the pension and social security systems. The questions focus on the institutions and bodies providing social security and pension system, the nature of available products and services, their benefits, risks and related tax issues. This specialization covers also the issues of health insurance and additional medical insurance. A successful candidate is able to analyze the available pension products in view of the existing pension scheme.

**Level III** is meant for candidates with an in-depth interest in financial advice who are expected to be able to analyze the current situation on the financial market and its effects on financial products and services, to analyze macroeconomic development trends and to be acquainted with financial theories and practices, monetary and tax policies and the insurance industry. Level III experts are able to define and diversify risks related to various financial products and evaluate the tools and instruments available on the

financial market. The test covers also practical investment and financial mathematics, tools and methods of financial analysis and case studies. A successful candidate is able to prepare a plan of financial investments for the client that suits the client’s needs and to assist the client in the optimizing of his/her credit needs. Level III includes questions of all specializations at Level II.

The tests will be supplemented with e-learning study texts that will help the candidates to focus their attention on the specificities of selected areas and to gain a comprehensive knowledge of all the relevant issues. The e-learning system will offer also an up-to-date wording of laws and regulations applicable to the financial market. The test questions will emphasize the practical implications of the knowledge gained. If feasible, the questions will have the form of situational and case studies for the candidate to show his/her abilities to use the knowledge in practice and to offer the clients solutions suited to their particular needs. Such qualification standards and unified expertise testing will contribute to the transparency and objective assessment of the skills of financial specialists, giving the successful candidates a competitive edge in relation to the customers on the financial market.

**Plate 4 - Definition and examination of professional expertise as proposed by AFIZ, o.s.**



### **1.5.3.2 Learning System**

The Association of Financial Intermediaries and Financial Advisors of Czech Republic also operates a learning system for the financial and related industries. The Association's workshops are open not only to the members but also to other parties interested in learning about the financial market. The Association pays close attention to ensuring the highest quality of its educational services. The workshops are organized by top experts in the areas of interest. The meeting place is selected to offer a comfortable space for all the participants and the necessary technical equipment. The Association's mission is to contribute also to the education of the younger generation, and a limited number of students of business secondary schools and universities may attend the workshops out of charge. The Association offers preparatory courses for individual interested in obtaining the certification of investment intermediary as per Section 29 of Act 256/4000 Coll. on entrepreneurial operations on the capital market.

AFIZ, o.s. cooperates with other organizations from all sectors of the market, including various consumer associations (SOC, SČS), the Working Group for Ethics and Consumer Protection (PSEOS), or the Working Group of the Ministry of Finance for Financial Education (PSFV).

The goal of the Working Group for Ethics and Consumer Protection (PSEOS) is to contribute to an improvement in the general awareness and knowledge of the public about the financial market for individuals to be able to make informed decisions about their financial issues. Also, it aims at improving the quality of intermediary and advisory services on the financial market promoting the compliance with legal and ethical standards in customer relations, and at being a partner not only for the expert teams of the Ministry of Finance but also other competent authorities (the Ministry of Finance, Ministry of Industry and Trade, and Ministry of Education), the regulators and supervisors of the financial market.

A common educational project, initiated among others by AFIZ, o.s., is the financial website at [www.financnivzdelavani.cz](http://www.financnivzdelavani.cz) It is a joint non-commercial project of financial associations, the Czech National Bank and the Ministry of Finance aiming at improving the level of financial literacy in the Czech Republic. The website is a source of information about the financial market and contributes to the general awareness of the workings of financial products and money-related solutions, needs, objectives and situations.

## **1.6 Services to the Association's Members**

- AFIZ INFO Klient - expert consulting provided by the Association's Legal Department.
- AFIZ INFO Člen - expert consulting of the Association's Legal Department provided within 72 hours.
- AFIZ HELP Člen - the Association's assistance with administrative procedure and disputes.
- AFIZ AUDIT Korporace - the corporate membership in the Association is conditioned upon an entry audit. The audit is performed by the Association's Legal Department. The audit performed as part of AFIZ AUDIT is free of charge. It focuses on the assessment of the candidate's position for the membership as regards legal requirements applicable to the activities of financial intermediaries and financial advisors.
- AFIZ COMPLIANCE Korporace - this is a paid service by Association providing compliance officer services required by law - applicable to corporate members.
- AFIZ SMÍR - The service of "AFIZ SETTLEMENT" offers the Association's members who believe to have suffered damages in relation to the services of financial intermediation or advisory to make an out-of-court settlement of All the concerned parties (the client and the advisor) must agree with such procedure. The Association offers a way of reaching a settlement with the assistance of a representative of the Association's Legal Department who is present at all the negotiations and provides his/her qualified opinions about the arising issues. This way, the client will be indemnified in case of any actual damage suffered as a result of the advisor's actions, and on the other hand, the advisor may be sure that such indemnification is made only if justified and substantiated. The Association's representative provides only his/her legal opinions and does not act as an arbitrator. Thus, these proceedings are based only on an agreement between the client and the advisor. Such agreements are usually made in writing.
- Investment Intermediary Registry - KIS (Client Information System). The Association has developed the Client Information System (KIS) in cooperation with the software company of Petr Just- MATIK as a special program for financial intermediaries and financial advisors. The software provides records and managing customer relations, their personal financial plants, product portfolio, and possibly also generated profits.

## 2 Intermediation and Advisory Services on the Czech Financial Market

The financial and intermediation services in the Czech Republic are structured as follows:

Commercial consulting paid for by the client

- Is not subject to any special regulations, a free trade license is required with no proof of qualification;
- Upon the MiFID implementation the investment services cannot be rendered under a free trade license and the investment service providers are required to be registered with the Czech National Bank;
- These are offered only by few companies and individuals, further development is prevented by the mental barrier of making a direct payment and the non-existence of "net" products, i.e. productions exclusive of brokerage fees to be made use of by the advisors' clients.

Brokerage consulting

- Most entities operating on the market combine consulting with an offer of financial products for which remuneration is paid in the form of brokerage fee (commission) for intermediated products. In this case the client makes no direct payment to the consultant-intermediary;
- This principle is used by all major corporations (distribution companies) on the market - ZFP akademie, a.s., OVB, AWD, Broker Consulting, Partners, Fincentrum, etc.
- These firms operate as non-exclusive representatives, i.e. they offer products from several competing financial institutions;
- The firms operate through a network of brokers/sales representatives (self-employed persons), usually working as tied agents for whom the parent company is responsible. The sales representatives are organized into multi-layered networks (the principle of multilevel marketing);
- Besides the non-exclusive intermediaries there are also exclusive representatives being either subsidiaries of a financial institutions (the largest being Kapitól, a.s. as a subsidiary of Kooperativa pojišťovna, a.s.) or a direct sales network with direct contractual links to a financial institution;

- As per Article 3 of MiFID, besides securities dealers, also investment intermediaries operate on the market. Most non-exclusive intermediaries are also investment intermediaries;
- The operation of financial intermediaries is regulated by segments through special regulations applicable to insurance brokers and investment intermediaries. The intermediation for banking products, building saving plans and additional pension insurance is not regulated by any special legislation, and the general trading regulations apply.

#### Over-the-counter sale

- Besides the model of active sale of financial products, there is also the passive sales option, especially in banks offering traditional banking products and other financial products of the same financial group, e.g. insurance, building saving, additional pension insurance, and unit trusts. Banks act as passive intermediaries for financial products of their subsidiaries within the same financial group;
- Česká pošta, s.p. (Czech Post Office) is a major passive intermediary, operating as an over-the-counter seller.

## ***2.1 Acts applicable to financial intermediation and advisory***

### Investment intermediation and investment consulting

Key legal regulations applicable to the services of intermediation and advisory on the financial market are Act 256/2004 Coll. on entrepreneurial operations on the capital market and Act 189/2004 Coll. on collective investment.

Furthermore, Decree 429/2004 Coll. stipulating the rules of investment intermediaries' relations with customers, administrative procedures and rules of internal control required for the duly performance of investment intermediation, and Decree 261/2004 Coll. on the requirements and keeping of a security dealer's log and principles of keeping records of reception and transmission of orders.

Also the methodologies published by the Czech National Bank (formerly the Securities Commission) are important for the work of investment advisors and investment intermediaries, e.g. the Methods of Investment Intermediation or the Methods of Advertising Some Financial Services.

## Banking

Important legal regulations for the banking segment are the Act on banking no. 21/1992 Coll., the Act on the Czech National Bank no. 6/1993, and Act 57/2006 Coll. on amendments to some acts resulting from the integration of supervision over the financial market. Furthermore, Decree 247/2007 Coll. stipulating some requirements for the management and controlling systems of banks and savings and credit cooperatives, or Decree 123/2007 Coll. on rules of cautious operations of banks, savings and credit cooperatives and securities dealers.

## Insurance industry

For the insurance industry the key legal regulations include Act 363/1999 Coll. on insurance industry, Act 38/2004 Coll. on insurance brokers and independent liquidators of insured events, Act 168/1999 Coll. on liability insurance for motor vehicles; and Decree 582/2004 Coll. on the implementation of some provisions of the act on insurance brokers and liquidators of insured events, Decree 303/2004 Coll. on the implementation of some provisions of the act on insurance industry.

## Other segments

Other legal regulations important for the financial market include Act 591/2002 Coll. on securities, Act 190/2004 Coll. on bonds, Act 377/2005 (Act on Financial Conglomerates) on supplementary supervision over banks, savings and credit cooperatives, institutions of electronic money, insurance companies and securities dealers in financial conglomerates, and on amendments to some other acts, and Act 42/1994 Coll. or on state-subsidized additional pension insurance and on amendments to some acts related to the implementation thereof. Furthermore, Act 96/1993 Coll. on building saving, Act 634/1992 Coll. on consumer protection, Act 61/1993 Coll. on measures against legalization of profits from criminal activities.

## ***2.2 Changes after the MiFID implementation***

The Czech Republic is obliged to implement EC directives related to the financial market, including but not limited to MiFID (the Markets in Financial Instruments Directive 2004/39/EC of the European Parliament and the Council), which brings amendments to the act on entrepreneurial operations on the capital market. A new draft bill was prepared to amend Act 256/2004 Coll. on entrepreneurial operations on the capital market. A major change in the area of financial intermediation introduced by the amendment is the classification of investment advice as a main investment service which means that this kind of service can not be anymore provided under a free trade license.

Together with other countries, the Czech Republic will make use of the exception stipulated in Article 3 of MiFID and shall retain the current status of investment intermediaries. The fact that MiFID does not use the existing two-level model of investment intermediaries of 1<sup>st</sup> and 2<sup>nd</sup> level would otherwise mean that the 1<sup>st</sup> level investment intermediary would transform into a security dealer, and the 2<sup>nd</sup> level investment intermediary would become a "tied agent". However the exception allows for preservation of the investment intermediary (today's IZ1), and 2<sup>nd</sup> level investment intermediaries will have to transform into "tied agents".

### ***2.3 Members' Performance***

As regards to the portfolio of products offered by the Association's members, it includes investments, insurance products, building savings, mortgages or additional pension insurance. At the meeting on May 4, 2005, the Board of Directors of AFIZ, o.s. adopted an internal regulation of "Rules for Information Disclosure by Corporate Members" and decided that the regulation is to be effective as of June 1, 2005. This regulation stipulates the rules for information disclosure by corporate members of AFIZ, o.s. and the rules for handling such information and confidentiality obligation. The reported data are provided by the Association to the regulatory and supervision bodies (the Ministry of Finance, the Czech National Bank) and published on the Association's website, and since 2006 they are presented also in the annual report of AFIZ, o.s. Besides their summary results, the corporate members may report the information separately in details for each of their firms. The tables below include summary results for the years 2006 and 2007.

**Table 2 - Performance of Corporate Members for 2006**

<i>Reporting obligation of AFIZ's corporate members for 2006</i>	<b>Total for the 1<sup>st</sup> half-year of 2006</b>	<b>Total for the 2<sup>nd</sup> half-year of 2006</b>	<b>Total for 2006</b>
<b>Investments - number of contracts executed</b>	8 186	13 541	21 727
<b>Purchase volume - investment certificates</b>	1 089 791 610	1 612 516 818	2 702 308 428
<b>Purchase volume - shares</b>	6 435 251 934	33 579 130 484	40 014 382 418
<b>Purchase volume - bonds</b>	0	5 562 263	5 562 263
<b>Saving accounts - number of contracts executed</b>	N/A	N/A	N/A
<b>Insurance industry - number of contracts executed - life insurance</b>	58 745	81 941	140 686
<b>Annual production insurance - life insurance</b>	937 077 099	926 970 531	1 864 047 630
<b>Insurance industry - number of contracts executed - NP</b>	26 155	38 850	65 005
<b>Annual production insurance - NP</b>	164 781 508	64 570 114	229 351 622
<b>Building savings - number of contracts executed</b>	22 387	35 872	58 259
<b>Building savings - volume of target amounts</b>	7 010 443 388	7 347 021 294	14 357 464 682
<b>Building savings - number of credit contracts executed</b>	2 520	3 531	6 051
<b>Building savings - credit volume</b>	879 741 861	1 522 509 550	2 402 251 411
<b>Mortgages - number of contracts executed</b>	811	3 855	4 666
<b>Mortgages - volume</b>	1 081 079 168	5 603 584 584	6 684 663 752
<b>Additional pension insurance - number of contracts executed</b>	46 729	53 328	100 057
<b>Additional pension insurance - volume of monthly payments</b>	26 238 691	24 156 024	50 394 715
<b>Number of clients</b>	2 028 278	1 958 124	1 958 124
<b>Number of PPZ</b>	8 260	10 734	10 734
<b>Number of IZ2</b>	1 394	2 510	2 510

Source: AFIZ, o.s

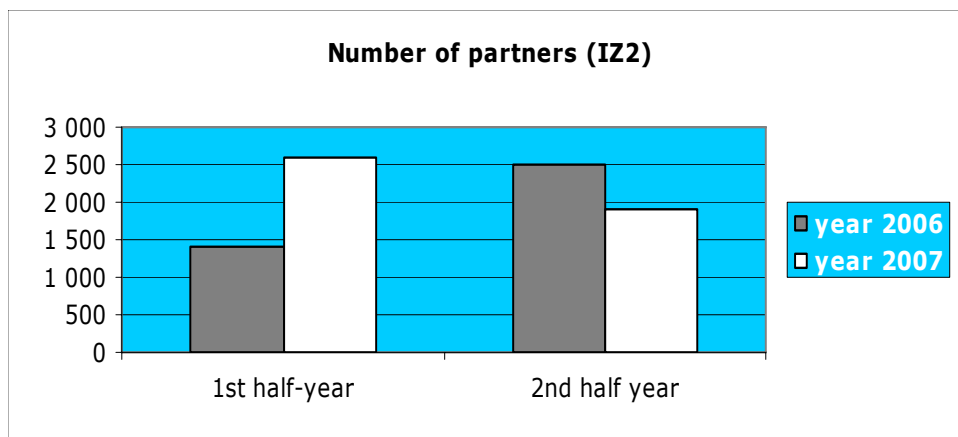
**Table 2 - Performance of Corporate Members for 2007**

<i>Reporting obligation of AFIZ's corporate members for 2007</i>	<b>Total for the 1st half-year of 2007</b>	<b>Total for the 2nd half-year of 2007</b>	<b>Total for 2007</b>
<b>Investments - number of contracts executed</b>	12 116	7 891	26 226
<b>Purchase volume - investment certificates</b>	1 037 003 806	1 913 764 141	2 950 767 947
<b>Purchase volume - shares</b>	7 123 641 444	1 087 752 958	8 211 394 402
<b>Purchase volume - bonds</b>	2 473 372	11 260 035	13 733 407
<b>Saving accounts - number of contracts executed</b>	N/A	6 219	N/A
<b>Insurance industry - number of contracts executed - life insurance</b>	89 293	74 865	164 158
<b>Annual production insurance - life insurance</b>	1 081 878 884	1 018 255 401	2 100 134 285
<b>Insurance industry - number of contracts executed - NP</b>	51 910	57 535	109 445
<b>Annual production insurance -NP</b>	221 573 295	268 483 910	490 057 205
<b>Building savings - number of contracts executed</b>	33 592	43 673	77 265
<b>Building savings - volume of target amounts</b>	8 515 559 687	20 071 484 454	28 587 044141
<b>Building savings - number of credit contracts executed</b>	3 307	3 717	7 024
<b>Building savings - credit volume</b>	1 323 196 627	2 085 034 712	3 408 231 339
<b>Mortgages - number of contracts executed</b>	4 787	3 915	8 702
<b>Mortgages - volume</b>	7 278 869 392	6 490 170 100	13 769 039 492
<b>Additional pension insurance - number of contracts executed</b>	55 196	52 764	107 960
<b>Additional pension insurance - volume of monthly payments</b>	28 939 060	29 694 348	58 633 408
<b>Number of clients</b>	2 028 561	1 939 867	1 939 867
<b>Number of PPZ</b>	10 864	11 912	11 912
<b>Number of IZ2</b>	2 583	1 903	1 903

Source: AFIZ, o.s. Source: AFIZ, o.s.

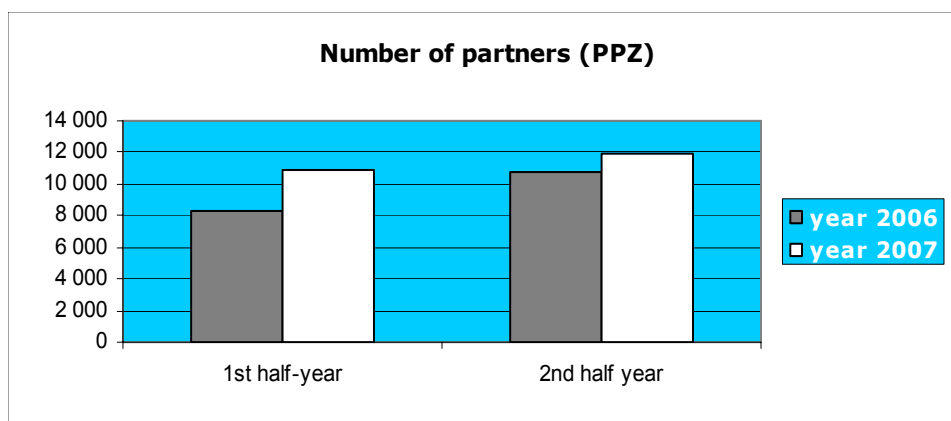
The diagrams below show the developments in the corporate members' performance in the years 2006 and 2007, divided by individual segments. Each year is presented as two half-years. Data for 2005 are not included because the Association's internal regulations on reporting obligations changed on the break of 2005 and 2006.

**Plate 5 - Number of Partners (IZ2) in 2006 and 2007**



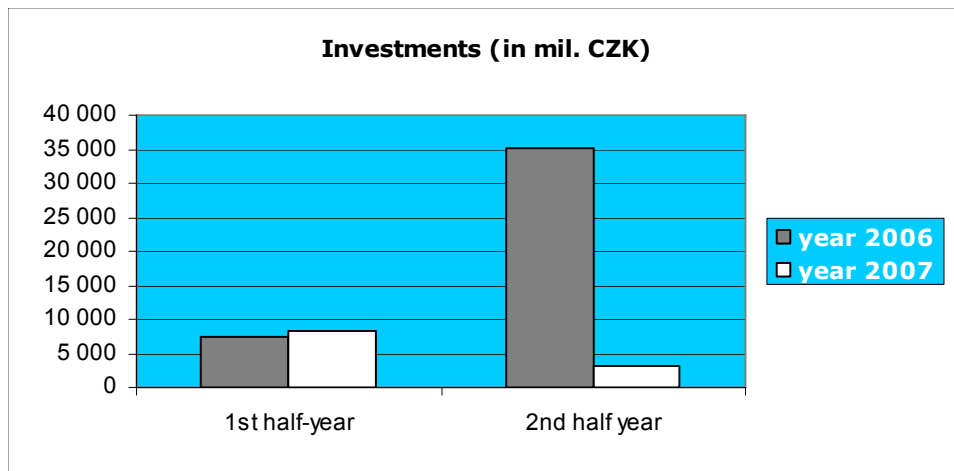
Source: AFIZ, o.s.

**Plate 6 - Number of Partners (PPZ) in 2006 and 2007**



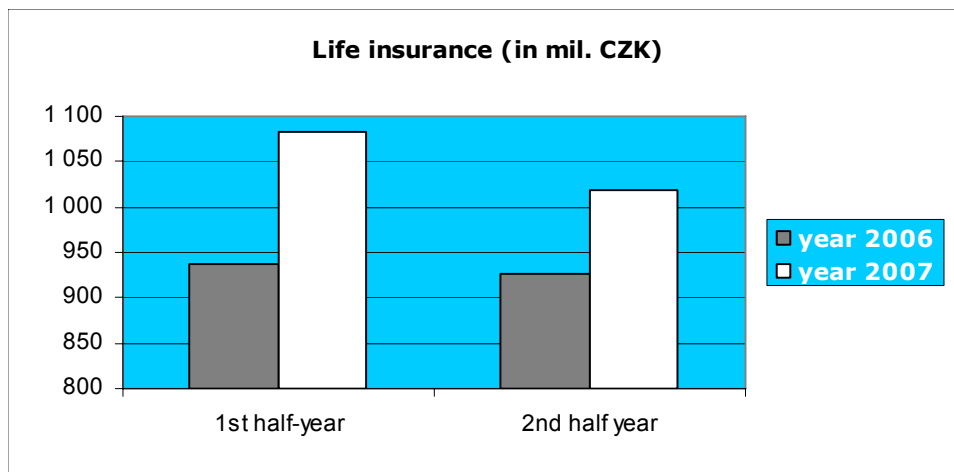
Source: AFIZ, o.s.

**Plate 7 - Investments as the number of contracts executed (in mil. CZK)**



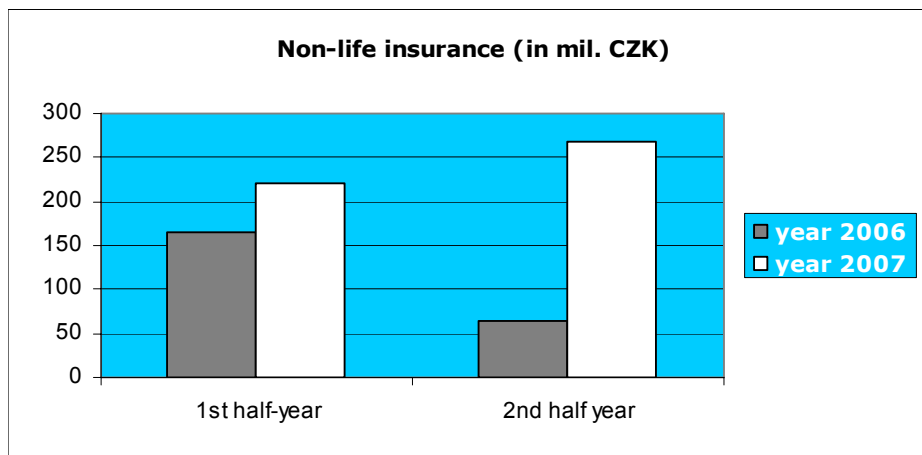
Source: AFIZ, o.s.

**Plate 8 - Life Insurance as the Annual Production Insurance (in mil. CZK)**



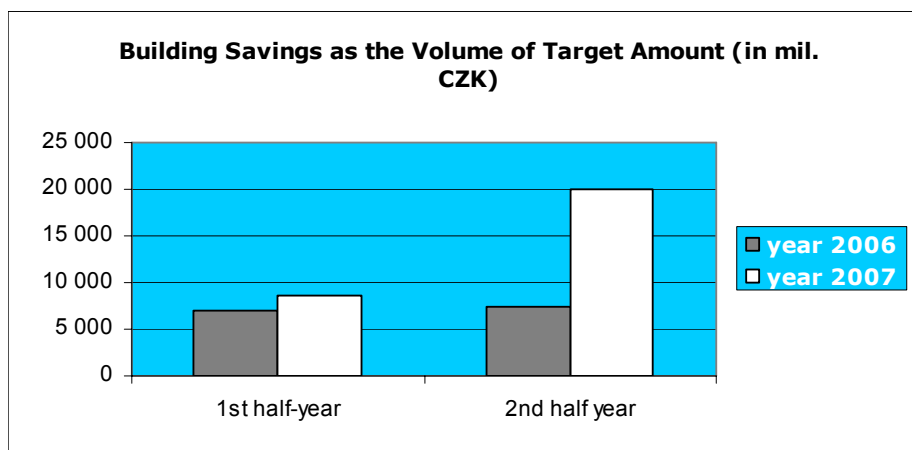
Source: AFIZ, o.s.

**Plate 9 - Non-life Insurance as the Annual Production Insurance (in mil. CZK) in 2006 and 2007**



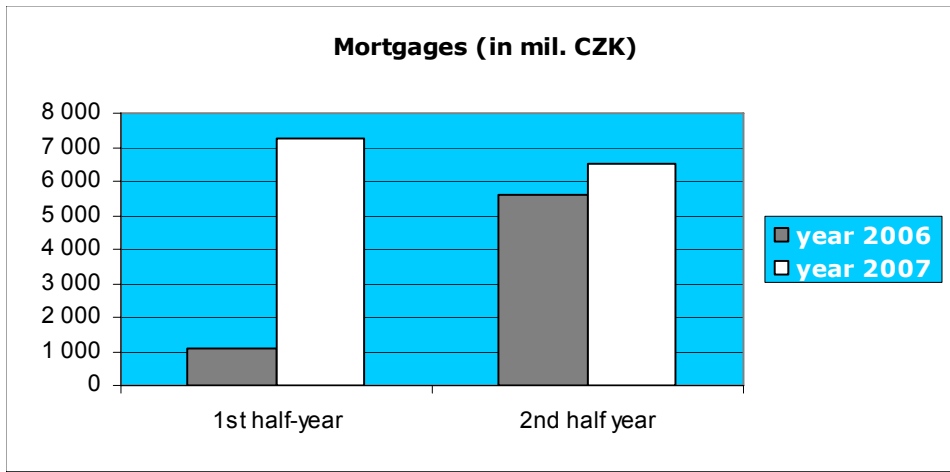
Source: AFIZ, o.s.

**Plate 10 - Building Savings as the Volume of Target Amount (in mil. CZK)**



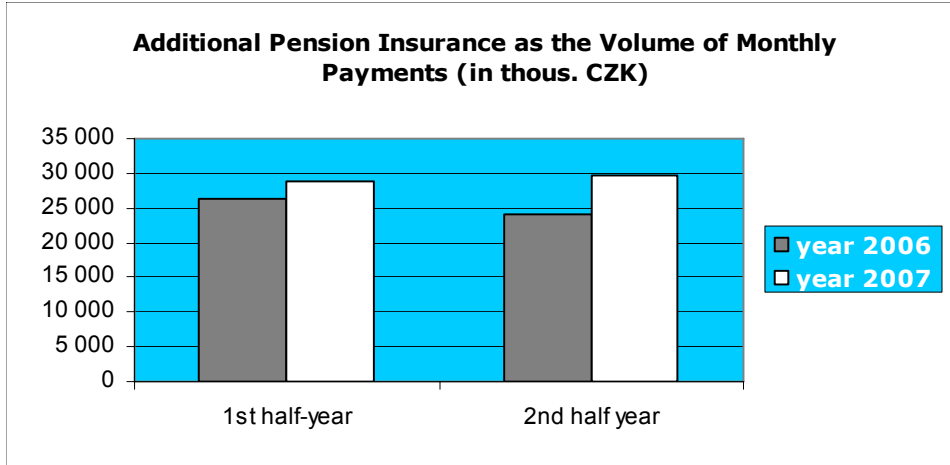
Source: AFIZ, o.s.

**Plate 11 - Mortgages as the Volume (in mil. CZK) in 2006 and 2007**



Source: AFIZ, o.s.

**Plate 12 - Additional Pension Insurance as the Volume of Monthly Payments in 2006 and 2007**



Source: AFIZ, o.s.

## 3 Financial Market in Czech Republic

### 3.1 Background Information

The Czech economy grew by 6.4% in 2006 and continued in 2007 (by 6.1%) The most important driving force for such growth was local demand and primarily household consumption spending. In the 2<sup>nd</sup> quarter 2007 the unemployment rate dropped to its lowest level in ten years (5.3%). The balance of trade continues to improve. The table below includes macroeconomic indexes for the Czech economy for 2006 and the first six months of 2007.

**Table 3 - Macroeconomic Indexes for Czech Republic**

	2006				2007				
	1st Q	2 <sup>nd</sup> Q	3 <sup>rd</sup> Q	4 <sup>th</sup> Q	1st Q	2 <sup>nd</sup> Q	3 <sup>rd</sup> Q	4 <sup>th</sup> Q	5 <sup>th</sup> Q
<b>GDP growth (% , constant prices)</b>	6.6	6.5	6.3	6.1	6.4	6	6	6,6	6,5
<b>Household consumption spending (change, %, constant prices)</b>	3.8	4.1	4	5.6	7.2	6.5	5,5	-	5,7
<b>Government consumption spending (change %, constant prices)</b>	3.8	-0.5	-1.1	2.4	0.2	-1.6	-0,4	-	0,1
<b>Gross fixed capital formation (change, %, constant prices)</b>	6.8	7.5	7.8	8.1	4	4.2	5,7	-	6,1
<b>Inflation rate (HICP, period average, %)</b>	2.4	2.5	2.4	1.1	1.7	2.6	2,5	4,8	2,8
<b>Unemployment rate (period average, %)</b>	8	7.1	7	6.5	6	5.3	5,2	4,9	5,3
<b>Balance of GDP current account (% , current prices)</b>	-1.8	-2	-2.3	-3.1	-3.1	-3.4	-	-3,5	-2,5
<b>Balance of GDP trade account (% , current prices)</b>	2	1.9	2	2.1	2.5	2.8	-	-	-

Source: Czech Statistical Office, Czech National Bank

In the first six months of 2007 the PX index on the Prague Stock Exchanged grew by 17.01% and reached historical highs. At the end of June it attained 1859.1 points. In the second six months of 2007 and the first quarter of the current year the developments are a slightly volatile, as shown in Plate 13, with the PX developments between March 2006 and March 2008. As of March 19, 2008, the PX index was at 1520.4 points. A major event during 2007 was that, effective March 5, 2007 the Prague Stock Exchange founded the Energy Stock Exchange Prague, focusing on trading contracts for electricity supplies.

**Plate 13 - PX Developments between March 2006 and March 2008**



Source: RM-systém

In the year 2007, the banking sector's structure did not change in any major way. The Czech banking sector has witnessed more mergers and acquisitions. The banking sector has maintained its position in the transmission mechanism of the Czech financial market.

The table below presents the number of service providers on the financial market in the period 2002-2007 (the data are always for the first half-year of a given year, only last data are for 31.3.2008).

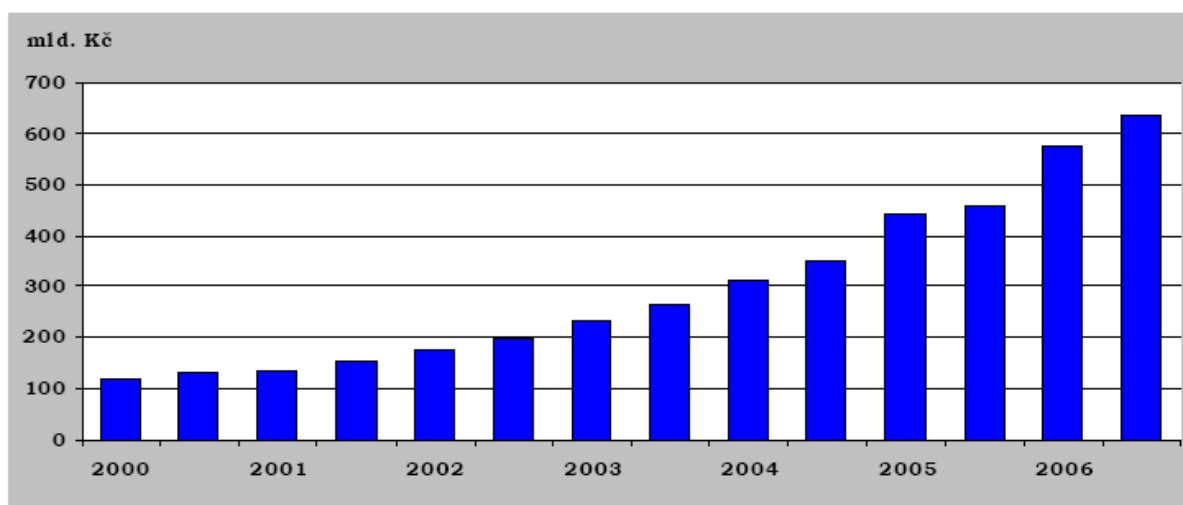
**Table 4 - Number of Service Providers on the Financial Market**

<b>As of June 30</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Banks</b>	38	36	35	36	37	37
- of which international banks	8	8	8	10	12	13
- of which building societies	6	6	6	6	6	6
<b>Credit unions</b>	25	30	32	20	19	20
<b>Securities dealers</b>	81	71	58	52	48	44
<b>Investment companies</b>	60	54	47	27	29	33
<b>Open unit funds</b>	92	66	62	65	69	105
- of which special open unit funds	–	–	–	–	45	74
- of which standard open unit funds	–	–	–	–	24	31
<b>International funds/subsidiary funds</b>	651	723	911	1 038	1 167	1 368
- of which those operating under the unified EU license	–	–	–	1 025	1 158	1 354
- of which special funds	–	–	–	13	9	14
<b>Investment intermediaries (in thous.)</b>	–	–	–	–	9,67	12,12
<b>Pension funds</b>	13	12	11	11	11	11
<b>Insurance companies</b>	42	39	40	44	45	52
- of which subsidiaries of international ins. companies	8	6	7	10	12	18
<b>Insurance brokers (in thous.)</b>	40,7	42,6	41,9	39,4	42	59,05

Source: Czech National Bank

During the first six months of 2007 the Czech National Bank increased interest rates at the beginning of June by 0.25 p.b., to 2.75%, at the beginning of June and, during the second half of the year, twice more to 3.25%. The total indebtedness of households with banks and other financial institutions reached in 2007 CZK 726 billion. Household debts are primarily in respect of satisfying housing needs. The table below shows the growth in household debts with banks and other financial institutions during the period 2000-2006.

**Plate 14 - Household Indebtedness with Banks and Other Financial Institutions**



Source: Czech National Bank - ARAD, ČLFA

In 2007 the segment of building savings the total number of contracts in the saving phase equaled approximately CZK 5.1 mil. The total number of credit contracts grew of 32% to approx. CZK 922 thous. with a simultaneous increase in the total volume to CZK 179.3 billion.

The volume of mortgages granted to households has doubled compared with the volume of credits under building saving schemes. The rapid growth in mortgage volume resulted from an increase in VAT for construction works and continued rent deregulation and an increase in interest rates.

The total volume of investments in unit funds was over CZK 300 billion in the first six months of 2007, and grew by 25% compared to the last year. More and more investments are made into shares funds, despite a major change on the break of May and June of 2007. In future, the local funds might benefit from a competitive advantage they have under the

existing laws.

After a period of stagnation the insurance market has once again revitalized. The main stream in the growth is life insurance. However, the structure of the local insurance market is still dominated by non-life insurance (59:41).

The number of pension schemes in the end of 2007 reached CZK 3.96 mil, which is 9.7% more than at the end of 2006. The contributions made by participants in the first six months and the state subsidies are the highest in the history of the scheme.

### ***3.2 Regulation and Supervision over the Financial Market***

The key bodies act as the regulators and supervisors of the financial market in the Czech Republic: the Ministry of Finance of Czech Republic as a law-making body deciding about the regulatory environment of the financial market and the Czech National Bank, as of April 1, 2006, the supervisor over the entire financial market and the regulator and issuer of secondary normative legal decrees (implementing regulations). These two bodies cooperate closely in defining a unified concept and other rules of regulation and supervision over the financial market.

#### **3.2.1 Ministry of Finance**

The Ministry of Finance of the Czech Republic was established by the central governmental body's decree ČNR 2/1969 Coll. on the establishment of ministries and other central bodies of state administration of the Czech Republic (the "Competency Act").

The key duties of the Ministry of Finance correspond to the competencies defined in the act above. These include the state budget, the state closing account, national treasury, financial market and consumer protection on the financial market, except for supervision over the capital market in the scope of competences assigned to the Czech national Bank, taxes, fees and custom duties, financial management, financial controlling, review of the economic activity of independent self-governing areas, accounting, auditing and tax consulting, foreign exchange issues, including receivables and payables of the state from and to foreign countries, protection of foreign investments, raffles, lotteries and similar games, management of the state property, privatization of the state property, contributions to savings for building purposes, and state contributions to additional pension schemes, prices, measures against legalization of profits from criminal activities, review of import of subsidized products, including measures against the import of such products, managing

memberships in international financial institutions and financial bodies of the OECD, EU, and other international economic groups (unless such membership falls within the competences of the Czech National Bank), coordination of foreign aid. The competences of the Ministry of Finance include also the review of social affairs, analyses of results and measures taken in relation to topical issues. The Ministry also develops concepts for the financial industry and looks after appropriate legislation, including the drafting of bills and other regulations. Its competencies include international treaties, relations and cooperation, and managing the tasks and duties arising for the Czech Republic from international treaties and membership in international organizations.

### **3.2.2 Czech National Bank**

As per Act 6/1993 Coll. on the Czech National Bank, the Czech National Bank ("CNB") is responsible for the supervision of the financial market in the Czech Republic. The CNB became the supervisor of the financial market as of April 1, 2006 when it took over the agenda of the Securities Commission, the Agency for Supervision over the Insurance Industry and Additional Pension Insurance of the Ministry of Finance, and the Agency for Supervision over Credit Unions upon their dissolution. The CNB is a supervising body for the banking sector, capital market, insurance industry and additional pension schemes, credit unions, foreign exchange operations and electronic money institutions. It stipulates the rules protecting the stability of the banking sector, capital market, insurance industry and additional pension scheme, and systematically regulates, inspects, assesses and imposes sanctions for a breach of applicable regulations.

The first Czech central bank was established in April 1, 1926, six years after the Czech currency was introduced, and had operated under the name of the National Czechoslovak Bank up until the beginning of World War II. It has gone through many restructuring projects. Today's Czech National bank was established in 1993, after the split of the Czech and Slovak Republics. The CNB's key duty is to look after the currency policies, e.g. setting the basic interest rates and thus affected and maintaining the value of money on the market. Furthermore, it issues banknotes and coins or exchanges damaged banknotes for new ones. It is also the central bank of the Czech Republic providing banking services to state agencies. As of April 1, 2006, the Czech National Bank has had new competencies, including but not limited to the supervision over financial institutions.

### ***3.3 Professional Associations***

In the Czech Republic no defined model currently exists of supervision over the operations of financial service providers that would be built on the principle of professional self-regulation through obligatory membership in specific organizations (as is the case of physicians or architects and their chambers). Professional voluntary self-regulation means that obligations or rules are stipulated for a group of organizations carrying out similar activities, either in the form of statutory regulations or voluntarily (in the form of professional associations). We can give as examples associations such as AFAM or AFIZ, o.s. The self-regulating organizations usually follow the principle of membership with the members having responsibilities the breach of which may result in a disciplinary action. Self-regulating organizations established under the applicable laws are usually delegated by the state **also the exercising of public authorities, this usually being the disciplinary powers** AFIZ, o.s. is now promoting a change in the law to amend the model that would shift some powers over certain organizations to self-regulating professional associations, i.e. a model based on the idea of co-regulation dividing the competences of supervision between the Czech National Bank and professional associations. The idea of co-regulation means that some powers of the supervisory body are delegated to a third party under the condition that the exercising of such powers is under the control of the supervisory body. The powers may be delegated directly to a supervised organization or an association of supervised organizations.

#### **3.3.1 Banking Sector - Czech Banking Association (CBA)**

The Czech Banking Association was founded in 1990 under the original name of Banking Association. Since 1992, the Czech Banking Association operates as a voluntary association of corporate bodies doing business in banking and related areas. The membership has two forms: a full membership reserved for banks and branches of foreign banks license by the Czech National Bank, and an associate membership opened primarily to representative offices of foreign banks and to auxiliary organizations related to the banking sector. Currently, the Czech Banking Association associates 35 banks and branches of foreign banks with a full membership status, representing over 99% of the banking sector.

The CBA's key activities include: the representation and promotion of common interests of its members in relation to the Parliament, Government, Czech National Bank and other entities; the presentation of the role and interests of the banking sector to the general public and abroad; participation in the standardization of banking practices and support of the harmonization of the banking laws with the EU legislation.

The pillar of the CBA's activities is an active involvement in the drafting of laws and subsidiary legal standards (regulating the banking supervision, credit transfer, capital market, securities, mortgage banking, accounting and taxes, and auditing), in the prevention of financial crime and in taking measures against the legalization of the proceeds of criminal activities, the organization of professional workshops, in the development of working contacts with the regulatory bodies and other players on the financial market and in the issue of recommendations for banking activities (focusing mostly on questions of banking and financial security).

As of July 1, 2004, the CBA became a full member of the European Banking Federation (EBF/FBE), and on June 1, 2004, it acceded to the European Payments Council (EPC).

### **3.3.2 Capital Market - Czech Capital Market Association (AKAT) - (+ AFAM CR)**

The Czech Capital Market Association aims at developing, standardizing and popularizing the capital market in the Czech Republic. The AKAT organizes various lectures, workshops, conferences and professional certification testing, publishes papers, legal opinions and ethical standards, contributes to the comments on acts and decrees with an impact on the capital market and supports professional and public education about the capital market.

On January 9, 2008, the general meetings of the Czech Capital Market Association (AKAT) and the Association of Funds and Asset Management of the Czech Republic (AFAM CR) decided to merge the two associations under the name of the CZECH CAPITAL MARKET ASSOCIATION (AKAT). The merged AKAT has a total of 64 members, of which 39 are full members and 25 are associate members.

### **3.3.3 Pension Funds - Association of Pension Funds of the Czech Republic (APF CR)**

The Association of Pension Funds of the Czech Republic (APF CR) is a voluntary joint-interest association of corporate bodies, in particular pension funds with judicial subjectivity, established on June 25, 1996. For the purpose of carrying out its tasks, APF CR has set up specialized commissions (sections) for **informatics**, operating management of funds, legislation, economy, ethics, insurance mathematics, PR activities, and external relations. Post the mergers, it has 10 members including all the pension funds operating on the Czech financial market. The APF CR has two associate members.

The APF CR's objectives are to : coordinate, represent, defend and further the joint interest of its members, promote the idea of additional pension insurance, comment on legislative proposals and other measures concerning additional pension insurance and other interests of pension funds and to initiate changes thereto, function as an advisory and information centre, support and organize education and scientific activities, represent the joint interests of its members at the international forum, establish and expand relations with similar institutions abroad, participate in the process of harmonizing the operating conditions of additional pension insurance schemes in the Czech Republic with the EU standards, ensure the observance of ethical principles of relations between the APF CR members and persons participating in additional pension insurance schemes, eliminate differences between the APF CR members, organize professional, legal and specific cooperation in regard to the processes of mergers, amalgamations and dissolutions of pension funds, for the purpose of eliminating potential adverse consequences for the image of additional pension insurance and the participants.

### **3.3.4 Insurance Industry - Czech Insurance Association (CAP)**

The Czech Insurance Association is a joint-interest association of commercial insurance companies that was established on January 1, 1994. The CAP's mission is to represent, protect and assert common interests of member insurance companies and their clients in relation to the state administration authorities, legislative authorities and other entities, to advance the interests of the Czech insurance market vis-a-vis the European Union, to cooperate with associations and institutions abroad and to support the development of insurance industry and insurance market in the Czech Republic.

### **3.3.5 Insurance Brokers - Association of Czech Insurance Brokers (ACPM)**

The Association of Czech Insurance Brokers was founded in March 1994 by the **merger of national brokers'** companies who felt the need to unite these competitors in order to promote their common professional interests and to cultivate the prestige of the new profession on the Czech financial market. The ACIB sees its main mission in the areas of legislation, ethics, publicity, education, professional issues and international contacts. In October 1998, ACIB became a member of BIPAR (the European Federation of Insurance Intermediaries) and since then it has been proactively involved in BIPAR's activities.

### **3.3.6 Mortgage Market - Association of Mortgage Brokers**

The Association of Mortgage Brokers is a professional association of corporate bodies operating on the Czech mortgage market. The Association's mission is to standardize the services of mortgage brokers, to continuously improve the professional standards of its members with a special focus on ethical issues of the profession, and to promote the prestige of mortgage brokers.

### **3.3.7 Leasing Companies - Czech Leasing and Financial Association (CLFA)**

In September 1992, an independent joint-interest association of the Czech leasing industry was established. In the years to come, it has turned its attention also to other non-banking financial products and welcomed members from among the providers of consumer credits, hire-purchase and factoring services. On January 24, 2005, the general meeting decided to adopt the name of the Czech Leasing and Financial Association. The Association participates in the drafting of material legal regulations related to non-banking financial products and the position of companies offering leasing services, consumer credits, hire-purchase and factory services. It assists its members with the interpretation and application of legal regulations in effect. The Association prepared the general terms and conditions for leasing and other documents ensuring the ownership and other rights of leasing companies during leasing transactions. The Association promotes the compliance with the Ethical Code by the members. It keeps a list of arbitrators available for disputes arising from leasing and hire-purchase contracts. An important task of the Association is to represent the members in various negotiations of the local non-banking financial community in non-commercial relations with international associations and other foreign entities. This is achieved primarily through the membership in the European Federation of Leasing Company Associations (LEASEUROPE). Currently, the Czech Leasing and Financial Association has 76 members covering about 97% of the volume of all local leasing transactions and most non-banking credits and hire-purchase consumer services.

### **3.3.8 Building Savings Banks - Association of Czech Building Savings Banks (ACSS)**

The Association of Czech Building Savings Banks was founded on June 29, 2000 with the aim of protecting and promoting the common interests of building savings banks operating on

the Czech financial market. Since the Association's establishment all the six building savings banks operating on the Czech market have been members. The basic goal of the Association of Czech Building Savings Banks is to create an optimum system of building savings and the cultivation of trust among citizens in terms of credibility, functionality, stability, continuity and performance of the building savings sector.

### **3.3.9 Consumer Associations - Consumers Defense Association (SOS); Association of Czech Consumers (SCS)**

**The Consumers Defense Association** is a civil-action organization established to protect consumer interests and rights. The Association's priorities are consumer education, collection, protection and publication of information related to consumer protection. It provides extensive consulting services for consumers to address their problems. It comments on the laws affecting consumer protection and publicizes illegal or unethical conduct of businesses.

**The Association of Czech Consumers** is a civil-action association founded in 1990 and aiming at the protection of justified interests and rights of consumers on the local market, cooperate with inspection and supervision state authorities and other organizations in order to continuously improve the quality of consumer products and services, cooperate with international consumer protection organizations, participate in the drafting of legal regulations related to consumer protection, execute contracts and agreements on cooperation with bodies, organizations and civil-action associations as required for the duly performance of the Association's tasks.

### **3.3.10 Financial Arbitrator of the Czech Republic**

As per Act 229/2002 Coll. on financial arbitrator, the office of financial arbitrator of the Czech Republic was established as of January 1, 2003. It is a special body for out-of-court settlements of disputes arising between providers of payment services and their clients or between issuers and users of electronic means of payment. The financial arbitrator was appointed as part of harmonizing the Czech laws with the EU legislation. An important aspect of the financial arbitrator's work is the open relations to the public. It is a part of prevention activities of the financial arbitrator who may notify the concerned institutions about defaults in their operations, or brought the case to the attention of the supervisory body. The financial arbitrator may repeatedly impose a penalty of up to CZK 1 mil. The

financial arbitrator is independent and unbiased and should refrain from any actions challenging his/her impartiality, provided the financial arbitrator and his/her deputy are natural persons in the position of public officers. The financial arbitrator reports to the Lower House of the Czech Parliament.

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