EXPLANATORY MEMORANDUM

on the Act amending certain acts in connection with the development of the capital market

GENERAL PART

1. Assessment of the current legal situation, including an assessment of the current state in relation to non-discrimination and equality between men and women

At its meeting on 4 March 2019 (Resolution No. 156), the Government of the Czech Republic approved the National Strategy for the Development of the Capital Market in the Czech Republic 2019 - 2023 (hereinafter referred to as the "**National Strategy**"). This National Strategy was published on the website of the Ministry of Finance of the Czech Republic (hereinafter referred to as "**MFCR**") on 14 March 2019[1]. The National Strategy contains 27 areas that need to be revised and proposes 34 measures to implement them. Many of these measures are of a legislative nature (a change of the law is required to implement them) and have a deadline of Q4 2019, i.e. the end of 2019. The deadline set in the National Strategy means the planned deadline for submitting a legislative proposal to the Government. This is also in line with the Government's Plan of Legislative Work for 2019, where this amendment is foreseen, but due to the difficulty of some discussions, the deadline has been requested to be postponed until the end of May 2020. The proposed amendment is also in line with the Government's Program Statement[2], which provides inter alia: "We will support the development of the financial market and strengthening of its resistance. We will also focus on protecting the rights of consumers of financial services and developing financial literacy.".

Other parts of the Government's Program Statement are related to the National Strategy and changes in laws proposed in this legislative proposal, such as "We respect the principle of fiscal neutrality. We will ensure the review and merger of tax exemptions and will prevent the introduction of others, which will provide scope for a general reduction in the tax burden. We will push through a proposal for a new conceptual legal regulation of income taxes, which will newly regulate the taxation and the system of insurance contributions from this income with the aim of simplifying taxes and eliminating tax distortions. We will conclude the process of income tax recodification with the preparation of an integrated system of tax and insurance administration that will enable these legal obligations to be paid in one place." (Finance and state management), "We will set up an expert pension reform working team, which will assess proposals, current situation and expected development and which will propose a solution that maintains existing entitlements, defines a standard of security in old age on the principle of solidarity, reinforces the principle of merit and motivates people of working age to use supported forms of individual security in old age. The Ministry of Labour and Social Affairs will submit a proposal preserving the benefits of the current system, such as stability and a high degree of legal certainty, low cost, professionalism and public-administration guarantees in the management of insurance premiums, while separating the revenues and expenditures management of pension insurance from the state budget. The system set up by the future reform must be stable, understandable and financially secured in the long term, so the change will be implemented in a form that will receive broad political and social support." (Social Policy and Employment), "SMEs are a solid and irreplaceable part of the domestic economy and the main driver

[1] https://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2019/ministerstvo-financi-predstavilo-koncepc-34656
[2] https://www.vlada.cz/cz/jednani-vlady/programove-prohlaseni/programove-prohlaseni-vlady-165960/

of the current economic growth.” (Industry and Trade) and “The membership of the Czech Republic in the European Union and enforcement of its interests in the respective bodies is a priority for the Government. Czech Republic must be seen as an active and respected member country.” (Foreign Policy and the European Union).

Here is an overview of the measures contained in the National Strategy. Those marked with a thick arrow ➔, require legislative action and are part of this bill. Those marked with an asterisk ⬋, require legislation but are not part of this bill. Other measures (marked with a circle ♾) are not of a legislative nature.

PLAN	BODIES CONCERNED	DATE
➔ Propose the introduction of an individual savings account and submit to the Government a draft amendment to the relevant laws (in particular the ITA and the Capital Market Business Act)	MF, MLSA, AKAT, APS CR, ČAP, ČBA, ČMKOS	Q4 2019
♾ Initiate discussions on how to reduce the cost of purchasing securities issued by investment funds on the investor’s initiative and potentially propose appropriate regulatory changes to such sales without consulting	MF	Q4 2019
♾ Take into account the topic of capital markets and long-term investment for surplus households as part of the revision of the National Strategy for Financial Literacy	MF	Q4 2019
♾ Actively engage in activities in relation to the examinations of investment advisors so that they fulfil their purpose, i.e., to be effective	MF, EFPA Czech Republic, VŠFS, AKAT, CBA, CASAS, Masaryk University, Kahn School, accredited institutions (e.g. VECTOR Certification)	Q4 2019
♾ Create a web-based information guidepost about securities and their issuers	MF	Q4 2020
♾ Identify and remove barriers to the availability of currency *hedging* for investors	MF	continuously
♾ Further analyse whether the legislation effective from June 2019 requires issuers to send to the Central Depository all relevant information and whether this information is properly passed on to the final investors and possibly propose further measures	MF, MSp, CDCP	Q4 2021
♾ Analyse the possibilities of the most appropriate communication strategy towards SMEs and then implement the recommended measures	MF, European Commission (SRSP), MIT, ME, CzechInvest, HK ČR, PSE, VŠE	Q4 2019

∞ Provide time data collection on *business angels* investment activities and update it annually (similar to existing *venture capital* market data)	MF, MIT	Q4 2019
∞ Carry out an analysis of taxpayers to quantify the number of individuals in the Czech Republic who have the potential to be a *business angel* and repeat this analysis annually	MF, MIT	Q4 2019
∞ Provide an annual demand survey of mapping *start-up* founders and entrepreneurs from *start-ups*	MF, MIT	Q4 2019
∞ Create a Czech National *Business Angels* Association (and become a member of the European *Business Angels Europe* Confederation)	MF, MIT	Q4 2020
→ Introduce a system of self-certification for *business angels* in the Czech Republic.	MF, MIT	Q4 2021
→ Analyse the possibilities of development of investment *crowdfunding* in the Czech Republic and possibly propose further measures	MF, MIT, Fundlift, Czech Fintech Association	continuously
← Consider introducing a simpler form of joint-stock company and, if necessary, propose the necessary legislative changes	MF, MSp, MPO	Q4 2020
∞ Promote disclosure of documents in English by issuers of securities, in particular in relation to listed issuers	MF	continuously
← Revise Czech accounting regulations with respect to IFRS and evaluate the possibility of using IFRS for tax purposes	MF	Q4 2021
∞ Encourage the creation and use of a corporate governance scorecard	MF, MSp, PSE	Q4 2020
∞ Analyse the possibilities of money market development in the Czech Republic and possibly propose further measures	MF, CNB	Q4 2019
→ Propose the introduction of a new participation fund with higher management fees, which will be able to invest in alternative assets (e.g. private equity funds)	MF	Q4 2019
← → Revise the system of state aid in relation to pension funds so that the participants were motivated to higher monthly contributions to transfer accumulated funds from the transformed funds to	MF	Q4 2019

participation funds and also consider limitation of provision of state aid by the age of the participant		
➔ Allow the creation of sub-funds for legal forms other than the SICAV	MF	Q4 2019
← Enable the retention of the so-called time test also for the transition between sub-funds of one SICAV	MF	Q4 2020
➔ Encourage the use of the XML format when searching for financial assets	MF, MSp, GFD, Chamber of Executors, CDCP, Notarial Chamber	Q4 2019
← Consider change of holdings of securities, including multi-step registration and use of technology DLT to register securities in the context of discussions with stakeholders and propose further measures		
➔ Consider options to support trading with corporate bonds	MF, CNB, CSD, PSE, AKAT, CBA	Q4 2019
∞ Develop and publish guidelines on entry *due diligence* for foreign investment funds, such as according to the Vienna Stock Exchange	MF, PSE	Q4 2020
∞ Analyse the influence of government bonds on the Czech capital market and the influence of the Czech capital market on government bonds	MF	continuously
∞ Strive for active cooperation with international organizations that can help develop the Czech capital market	MF, CNB, MIT, Government Office, World Bank, IMF, EIB, EIF, EBRD, EFSI, IOSCO	continuously
∞ Encourage active participation in the negotiation of EU legislation	MF, CNB	continuously
∞ Allowing traineeships for persons who prepare capital market regulation in capital market participants	MF, CNB, AKAT, CBA	continuously
∞ Monitor defined criteria in the Czech Republic with regard to possible future achievement of the "developed capital market" status according to the MSCI index	MF	continuously
∞ Educate state-controlled companies about the possibilities of financing through the capital market	MF, other concerned ministries	continuously
∞ Ensure availability of up-to-date capital market	MF, CNB	continuously

legislation in English		

The above overview shows that this proposal implements (or attempts to implement) 8 measures out of 34 (one of them, mobility of participants in transformed funds, partly). The remaining 22 measures are non-legislative in nature. The last 5 measures are of a legislative nature and will be implemented by other legislative proposals and they are not expected to be submitted to the Government by mid of 2020, but later, for example

- in relation to the self-certification of business angels, the National Strategy envisages a deadline of Q4 2021, however, it is already proving problematic how to define such an investor and for what purposes the self-certification should serve; in addition, the EU is preparing its own definition of a semi-professional investor with concessions at the level of the EU law,
- in relation to investment crowdfunding, this will be regulated by a regulation of the EU, which is to be published in the Official Journal of the EU in mid-2020 and subsequently adapted to the Czech law,
- in relation to a simple joint-stock company, Q4 2020 is foreseen in view of considering the introduction of this type of business corporation,
- in relation to review of the effectiveness of transposition of the directive on shareholder rights (Act no. 204/2019 Coll.), the period of Q4 2021 is anticipated, if necessary (it may result from the analysis that it is not),
- in relation to the revision of Czech accounting standards also the Q4 2021 deadline is envisaged (the substantive intent of the new Accounting Act is to be approved by the Government by the end of 2020)[3],
- in relation to the revision of state aid participation and transformed funds is calculated with a separate amendment that should be discussed during 2020,
- in relation to the holding of securities and use of DLT technology (*blockchain*) the National Strategy envisages a period of Q4 2020 whereas the Ministry of Finance of the Czech Republic has already published a consultation paper titled "Blockchain, virtual currencies and assets"[4]; the European Commission is also implementing a similar consultation by 19 March 2020[5].

The National Strategy itself refers to other related strategy papers and initiatives, such as the revision of the National Financial Literacy Strategy 2.0 (approved by the Government on 13 January 2020)[6], My Taxes initiative[7], State Ownership Policy Strategy (approved by the Government on 17 February 2020)[8], or the creation of a fund of funds of the European Investment Fund[9]. During the finalization of the National Strategy, other strategic documents (or at least the intention to prepare them) related to the development of the capital market in the Czech Republic were approved or

[3] https://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2019/ministerstvo-financi-predklada-navrh-vec-36619
[4] https://www.mfcr.cz/cs/soukromy-sektor/kapitalovy-trh/cenne-papiry/2018/verejna-konzultace-blockchain-virtualni-33613; https://www.mfcr.cz/cs/soukromy-sektor/kapitalovy-trh/cenne-papiry/2019/vyhodnoceni-verejne-konzultace-blockchai-34569
[5] https://www.mfcr.cz/cs/soukromy-sektor/bankovnictvi-a-platebni-sluzby/platebni-sluzby-a-vyporadani-obchodu/aktuality/2020/verejne-konzultace-evropske-komise-ke-ky-37144
[6] https://financnigramotnost.mfcr.cz/cs/aktuality/2020/vlada-schvalila-narodni-strategii-financ-3192
[7] https://www.mfcr.cz/cs/verejny-sektor/dane/moje-dane/aktualni-informace
[8] https://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2020/vlada-schvalila-strategii-vlastnicke-pol-37573
[9] https://www.mpo.cz/cz/rozcestnik/pro-media/tiskove-zpravy/zastupci-eif-a-mpo-predstavili-investice-z-fondu-fondu-op-pik-do-lighthouse-seed-fund-a-nation-1--248937/

elaborated, e.g. that there is a clearly declared interest in transforming the Czech economy into an innovative economy and ensuring access of start-ups to financing. In particular, the Digital Czech Initiative (approved by the Government on 3 October 2018) [10], Innovation Strategy of the Czech Republic 2019-2030[11] (approved by the Government on 4 February 2019), Strategic Framework of the Czech Republic 2030 (approved by the Government on 19 April 2017)[12], Government Memorandum of Cooperation with the Blockchain Republic[13], National Strategy of Artificial Intelligence in the Czech Republic (approved by the Government on 6 May 2019)[14], Economic Strategy of the Czech Republic (Government approved theses on 20 January 2020)[15] or the National Development Fund[16]. An important initiative in terms of the structure of savings of Czech households is the project Bonds of the Republic[17].

The National Strategy refers to foreign models for a national strategy for capital market development, such as Ireland[18], Luxembourg[19], Slovakia[20], Bulgaria[21], Hungary[22] or Latvia[23]. Inspiration in Poland has also recently proved important, where the Polish government approved on 1 October 2019 the national strategy for the development of the capital market "*Strategia Rozwoju Rynku Kapitałowego*"[24] prepared in cooperation with the European Bank for Reconstruction and Development (EBRD).

The Act seeks to respond to the shortcomings of the current legislation identified when preparing the National Strategy:

- Individual savings account: Nowadays, the Czech Republic supports tax investments in life insurance or pension funds (participant or transformed), which puts other products of old-age savings at a disadvantage. In order to settle the conditions in the area of taxation, it is also appropriate to adopt the appropriate sectoral regulation to ensure that at least the minimum requirements are met and the CNB's supervision or, as the case may be, the competence of a financial arbitrator for resolving consumer disputes.
- Alternative Participation Fund: Pension funds (i.e. participation and transformed funds) currently have a very limited investment strategy, which follows almost literally regulation of standard funds (UCITS funds) harmonized by EU law, which is characterized by, inter alia, permanently offering return redemption to its investors, and must therefore invest only in highly liquid assets (typically

[10] https://www.digitalnicesko.cz/; https://www.mpo.cz/cz/podnikani/digitalni-spolecnost/program-digitalni-cesko---243487/
[11] https://www.vyzkum.cz/FrontClanek.aspx?idsekce=866015
[12] https://www.cr2030.cz/
[13] https://www.vlada.cz/cz/media-centrum/aktualne/urad-vlady-se-pripojil-k-memorandu-o-spolupraci-v-oblasti-technologie-blockchain-170425/; https://www.blockchainrepublic.cz/; https://www.blockchainrepublic.cz/s/TZ_Blockchain_memorandum.pdf
[14] https://www.mpo.cz/cz/rozcestnik/pro-media/tiskove-zpravy/cesko-miri-mezi-elitu-a-predstavuje-strategii-umele-inteligence--245980/
[15] https://www.mpo.cz/cz/rozcestnik/pro-media/tiskove-zpravy/vlada-schvalila-teze-hospodarske-strategie--252206/
[16] https://www.cmzrb.cz/nrf/
[17] https://www.sporicidluhopisycr.cz/
[18] http://www.finance.gov.ie/what-we-do/international-financial-services/
[19] http://www.luxembourg.public.lu/en/publications/k/LFF-luxfin-2020-EN-2016/index.html
[20] http://www.rokovania.sk/Rokovanie.aspx/BodRokovaniaDetail?idMaterial=23437
[21] https://abanksb.bg/downloads/Strategy-Development-Bulgarian-Capital-Market-EN.pdf
[22] https://www.bse.hu/About-Us/About-Budapest-Stock-Exchange/BSE-Strategic-Report-2017
[23] http://www.fm.gov.lv/en/s/financial_market_policy/financial_sector_development_plan/
[24] https://www.gov.pl/web/finanse/rzad-przyjal-strategie-rozwoju-rynku-kapitalowego

listed shares and bonds). In addition, there is a limit on the maximum amount of a pension fund’s fee, which is also designed as an *all-in-one* (i.e., no costs can be charged directly to the fund), and an obligation to reduce this remuneration in investments to another fund by a fee paid to manager of such fund. That leads, inter alia, to the fact that the Czech pension funds (participation/transformed) do not invest in assets that are common for pension funds in developed economies, especially in the so-called private equity funds (funds investing with an investment horizon of 10 years to large unlisted companies) and infrastructure projects.

- Increased mobility of participants in transformed funds: Nowadays, majority of participants remain in transformed funds, which are closed to new entrants, but existing participants continue to contribute regularly, whereas transformed funds due to the black zero guarantee (no year should end up in loss, otherwise the pension company has to pay the loss from its own assets) invest very conservatively and in most cases are unable to cover inflation, which in the long run leads to devaluation of the invested funds. In addition, due to a very conservative strategy (enforced de facto by a guarantee), they invest only in government bonds and bank deposits and thus do not contribute to the development of the capital market in the Czech Republic (at the same time they represent a significant share on retirement savings of Czech citizens). Although transformed funds are closed to new entrants, existing participants have no motivation to transfer their funds to participation funds that, while not offering a guarantee (and are also more risky), can offer potentially more attractive returns that easily cover inflation in the long term and can also offer a return, which is higher than inflation (depending on the dynamics of the participant’s chosen investment strategy). As a reason why participants do not switch from transformed funds to participation funds, it is often stated that they do not want to lose their entitlements from the transformed fund (e.g. the so-called retirement pension), where the current law does not allow participants in the transformed fund participate in the participation fund.

- Sub-funds for legal forms other than the SICAV: Currently, it is only permitted to create sub-funds for investment funds of the SICAV type (joint-stock company with variable share capital), although other legal forms, namely a closed joint-stock company or limited partnership with investment certificates. There has not been any limited partnership with investment certificates established in the Czech Republic yet, although amendments have been made in the past to make it more attractive. According to market proposals, this legal form could be used, for example if it were allowed to create sub-funds. Similarly, there is a demand for the possibility of sub-funds in a closed joint-stock company, which is an investment fund. Making the legal form of a limited partnership on investment certificates more attractive could also be made possible by making the otherwise mandatory regulation of profit distribution in the Business Corporations Act more dispositive. The amendment also proposes a new designation for the name of the investment fund, which is a joint stock company: “investment fund with fixed registered capital”. This designation may be replaced by the abbreviation “SICAF” (in French: *Société d'Investissement à Capital Fixe*), since this abbreviation is worldwide known and comprehensible, thus making the company more attractive.

- Support for the use of XML format by executors: Executors are now obliged to

use the XML format only when communicating with banks. This causes unjustified market inequality and higher costs for non-banking financial institutions in executing executors' requests.

- Promotion of trading with corporate bonds: Currently, the issuing terms and conditions of the bonds basically do not contain any information about the issuer, so they cannot be used to assess the issuer's ability to pay up these bonds. Typically, the prospectus contains information on both the issue and the issuer, however, the prospectus is not prepared for bond issues up to EUR 1 million. MF CR published in January 2020 for public consultation a second version called Corporate Bond Scorecard[25] (labeled 2.0), which allows investors to better assess the risk of corporate bonds. However, the problem is that the bond issuer does not disclose its financial information (typically in the Collection of Deeds of the Commercial Register), or the published information is out of date and does not reflect the planned bond issue. It is also proposed to make changes in relation to insolvency or debt recovery with respect to subordinated bonds, respectively subordinated claims in general.

The current legal situation is neither contrary to the prohibition of discrimination, nor is it contrary to the principle of equality between men and women.

2. Justification of the main principles of the proposed legislation, including an evaluation of the act in relation to non-discrimination and equality between men and women

This amendment proposes to amend a number of acts, none of which is dominant, and therefore no specific act is included in the title of the amendment and amendments to individual acts are listed by number in the Collection of Laws. In particular, it is proposed to amend the following acts:

- Act No. 229/1992 Coll., On Commodity Exchanges, as amended (hereinafter referred to as the "**ZoKB**"), which proposes to extend the jurisdiction of the arbitral tribunal in a manner similar to that proposed for an arbitration court at a regulated market (Stock Exchange Arbitration Court)). In particular, the aim is to ensure equal conditions, whereas the development of the capital market is rather foreseen in the second type of arbitration court, but it would not be appropriate to extend the scope to only one of them. In principle, the proposed amendment affects only the International Arbitration Court attached to the Czech-Moravian Commodity Exchange.

- Act No. 586/1992 Coll., On Income Tax, as amended (hereinafter referred to as the "**ZDP**"), which proposes to combine existing limits for savings products for retirement and to extend their application to the newly introduced long-term account investments. At the same time, it reacts to the emergence of new types of sub-funds, which are recognized as independent taxpayers of corporate income tax, as well as in the case of the existing sub-funds of a joint-stock company with variable capital.

- Act No. 120/2001 Coll., On Court Executors and Execution (Enforcement Code) and on amending other laws, as amended (hereinafter referred to as "**EŘ**"), where it is proposed to extend the scope of the decree of the Ministry of Justice on the use of XML by executors to all financial institutions (referred to in Section 33 (4)

[25] https://www.mfcr.cz/cs/soukromy-sektor/kapitalovy-trh/podnikani-na-kapitalovem-trhu/2020/verejna-konzultace--scorecard-korporatni-37189

of the Enforcement Code), who are obliged to provide the executor with free assistance. However, the mandatory use of this format applies only to the information required from banks (financial institutions).

• Act No. 229/2002 Coll., On the Financial Arbiter, as amended (hereinafter referred to as the "**ZoFA**"), which proposes to extend the scope of the Financial Arbiter also to disputes between the consumer and the administrator of the individual savings account.

• Act No. 190/2004 Coll., On Bonds, as amended (hereinafter "**ZoDluh**"), where it is resolved that the issuance conditions include only information on the bond issuance and do not contain information about the issuer. Information about the issuer is essential to enable the investor to assess the riskiness of the bonds and the issuer's ability to meet its obligations. The inspiration regarding the required data comes mainly from the document called Corporate Bond Scorecard, which was published for public consultation on the website of the Ministry of Finance. Furthermore, it is proposed to make several changes resulting from public consultation and practice needs. These include changes eliminating unnecessary duplications in issuance conditions and prospectus, revision of the need for a meeting of owners to approve minor changes to issuance conditions, abolition of the obligation to publish the issuance conditions of government bonds in the Collection of Laws, regulation of subordinated bonds respecting the ability to create multiple levels of subordination (usually distinguish at least three - Senior , junior and mezzanine) and the right of early repayment for certain bonds harmonized by EU law.

• Act No. 256/2004 Coll., On Capital Market Business, as amended (hereinafter the "**ZPKT**"), where are mainly regulated the basic requirements of the individual savings account. For instance, regulation of type of the assets, which can be registered on this account. It is also proposed to extend the competence of the Stock Exchange Arbitration Court (see also the amendment of the ZoKB above), in which the market is very interested.

• Act No. 182/2006 Coll., On Insolvency and Methods of its Resolution (Insolvency Act), as amended (hereinafter referred to as "**InsZ**"), where the issuance of subordinated bonds issued under foreign law is addressed.

• Act No. 427/2011 Coll., On Supplementary Pension Savings, as amended (hereinafter "**ZDPS**"), where it is proposed to introduce a new type of participation fund, so-called alternative participation fund, within which it will not be so strict regulation of fees and investment strategies (e.g. law will allow these funds to invest in so-called alternative assets). The aim is to fulfil the plans of the Commission for fair pensions (to increase the effectiveness of the third pillar), as well as the objectives of the National strategy by allowing participation funds to invest in *private equity* funds or infrastructure. It is also proposed that simultaneous participation in both the transformed fund and the participations fund should be possible in order to allow participants to transfer more easily to the participation funds without having to cancel their participation in the transformed fund.

• Act No. 240/2013 Coll., On Management Companies and Investment Funds, as amended (hereinafter referred to as "**ZISIF**"), where, following the National strategy, it is proposed to allow limited partnership for investment certificates and closed joint-stock company, which is an investment fund, to create sub-funds. To

support the legal form of closed joint stock company, a new denomination for its business firm is proposed – "SICAF" (following the "SICAV"). For private equity funds, the possibility of using the protected abbreviation "SICAR" is being introduced. For a limited partnership on investment certificates, it is also proposed to make the distribution of profits more dispositive and it is also proposed to allow an investment company not harmonized by EU law to be a trustee of a trust, which is not an investment fund. These were requests coming from the market. In addition, it is proposed to make a series of practical technical adjustments that have resulted from the CNB's findings during the application of ZISIF. The market did not contradict these proposals. For example, the decision statement about permission or the maintenance of CNB lists are simplified. The terminology in relation to the concept of "human resources" is also unified in line with other regulations regulating the financial market. An annual fee is introduced for persons according to Section 15 of the ZISIF so that persons, who no longer wish to be registered in the list, are not present in this list. The regulation of the offering and custody of participation certificates, which is currently unclear and causes interpretative difficulties in the application of ZISIF, is proposed to be simplified. Moreover, it is stated that, in the case of investment funds constituting sub-funds, the depositary only carries out its activities in relation to those sub-funds (similarly it is proposed to require the statute only in respect of those sub-funds). Also the possibility of providing services in the form of outsourcing by licensed entities is stated. Uncertainties over the question of whether EuVECA and EuSEF funds must have depositaries are removed (this should not be required under EU regulations, but the interpretation of Czech law is not without difficulty in this respect). The depositary's obligation to keep the physical assets of the investment fund in custody is removed. It is stated that funds can pay out a share of income even if they are at a loss (this addresses the issue of the so-called flowing dividends). The deadlines for certain licensing procedures are also harmonized.

- Act No. 634/2004 Coll., On Administrative Fees, as amended (hereinafter referred to as the "**ZoSP**") is proposed to be modified in relation to the ZISIF by introducing a maintenance fee for persons pursuant to Section 15 of the ZISIF (in the amount of CZK 10,000), the fee for the registration of the investment fund is increased (from CZK 2,000 to CZK 10,000) and the fee for the registration of the investment fund depository is increased (from CZK 2,000 to CZK 35,000). It is also proposed to introduce a fee for the registration of a person under Section 15 of the ZISIF (CZK 10,000). The fee for assessing comparability with a special fund also increases (from CZK 5,000 to CZK 20,000). These fees are increased or introduced to better reflect the related administrative requirements.

Effectiveness is proposed to 1 January 2022, while it is expected that the amendment should be approved by the Chamber of Deputies before the parliamentary elections in October 2021. According to the Government Legislative Work Plan for 2019, the amendment should have been submitted to the Government by the end of 2019, but this deadline was extended until the end of May 2020.

3. Explanation of the necessity of the proposed legislation as a whole

The proposed legislation is necessary because of the need to develop the Czech capital market, as follows from the National Strategy and the reasons stated therein. In order to achieve the respective measures from the National Strategy, a change of legislation is necessary, only non-legislative steps cannot achieve the objective. It is particularly useful to address some of the identified shortcomings of the Czech national regulation

which does not follow the directives of the EU. This will strengthen the competitiveness of the Czech capital market in relation not only to advanced western European regulations, but also to those of neighbouring countries and other states in the region of Central and Eastern Europe.

4. Evaluation of compliance of the proposed legislation with the constitutional order of the Czech Republic

The proposed act is in accordance with the constitutional order of the Czech Republic which is established by the Constitution. The constitutional order of the Czech Republic does not contain any specific legal norms relating to the capital market. The proposed act takes into account especially Section 98 (1) of the Constitution, according to which activities of the CNB can be intervened solely on the basis of law.

The bill respects the general principles of the constitutional order of the Czech Republic, for example principles resulting from the concept of democratic legal state (Section 1 of the Constitution) and the principle of enumeration of public law requisitions (Section 2 (2) of the Charter of Fundamental Rights and Freedoms). It also takes into account that ownership is binding and that what is not prohibited is allowed.

5. Assessment of the compatibility of the proposed legislation with European Union legislation, case law of the European Union judiciary bodies or general principles of European Union law

The European Union law, the case law of the judicial authorities of the European Union and the general legal principles of the European Union law do not apply to the area of the proposed regulation. The draft law, by which certain laws in connection with the implementation of the European Union legislation concerning the Capital Market Union are changed, reacts to European Union legislation in the field of the Capital Market Union. This amendment was submitted to the inter-ministerial comment procedure on 5 July 2020.

6. Assessment of compliance of the proposed legislation with international treaties by which the Czech Republic is bound

No international agreement by which the Czech Republic is bound applies to the area of the proposed regulation.

Possible human rights interventions are not foreseen by the amendment to the act.

7. The expected economic and financial impact of the proposed legislation on the state budget, other public budgets and the business environment of the Czech Republic

The proposal to introduce an individual savings account (and the resulting tax relief) may have a negative impact on public budgets. Basically, it is proposed to extend the possibilities of tax relief to a new product - individual savings account. Negative impacts can be generated in two ways, corresponding to forms of tax relief:

1. Payments by employers as income of an employee exempt from income tax

In this case, the negative impact would be generated solely because of the extension of the titles to which the employer can contribute, while the employees would be exempt from income tax. For the existing titles the limit is already unified to CZK 50,000 and the proposed act does not change anything for them. The impact could therefore be generated in cases where the following would apply: the employee will have an individual savings account and the employer will be willing to newly contribute, i.e., beyond the existing exempted contributions (in compliance with statutory conditions).

The negative impact of titles which can be contributed to cannot be assessed due to lack of data sources. In addition, other factors, such as the development of unemployment, wages or conjuncture or the recession of the Czech economy or real interest rates, may also affect the impact. However, given the current level of employers' contributions and the assumed individual savings account parameters, which are similar to the existing supported products, we do not expect a massive increase in employers' interest in contributing to this new product. We would rather expect a change in structure. Based on this assumption, an impact on public budgets of hundreds of millions of CZK per year can be considered. In this case, a negative impact would already occur during 2022, however, given that the individual savings account does not currently exist, a potential full-year impact can be expected in 2023.

2. Application of the deduction from the tax base with respect to contributions paid by the taxpayer

The total maximum amount by which the tax base can be reduced is proposed in the amount of CZK 48,000, i.e., corresponds to the sum of the existing limits. With regard to the proposed effectiveness of the act as of 1 January 2022, it is expected that the potential negative impact will occur in 2023 at the earliest (taxpayers will apply the non-taxable part according to the new rules only within the tax return), however with respect to the fact, that the individual savings account does not currently exist, a potential full-year impact can be expected in 2024. In case of applied deductions from the tax base, the negative impact may generate both unification of limits for claiming the deduction in case of already existing products (taxpayers who prefer one product to which the maximum deduction is applied, will now be able to apply a higher deduction), and also extending the possibilities for applying deductions to another product. Currently, the estimated tax relief from tax base deductions is CZK 2.6 billion. Considering the total amount of the estimated tax relief, we estimate the negative impact of the unification of the deduction limits to be maximum in lower hundreds of millions of CZK. The negative impact of extending the possibility of deductions cannot be assessed due to lack of data sources. In addition, other factors, such as the development of unemployment, wages or conjuncture or the recession of the Czech economy or real interest rates, may also affect the impact. If, for example, 100,000 taxpayers would newly deduct CZK 10,000 from tax base from paid contributions to the individual savings account, this would have a negative impact of CZK 150 million per year on DPFO direct debit at the level of public budgets.

With regard to the extension of the Financial Arbiter's material scope in relation to the individual savings account, the proposal to introduce this institute into the legal system may entail negative costs for the Financial Arbiter, or public budgets.

8. Assessment of social impacts of the proposed legislation

The proposed adjustments to the individual savings account and the adjustment of the new alternative fund should have a positive impact on the savings of Czech households.

9. Environmental impact assessment of the proposed legislation

The bill has no impact on the environment.

10. Assessment of the current situation and impacts of the proposed solution in relation to non-discrimination

The proposed act is not contrary to the prohibition of discrimination, nor is it contrary to the principle of equality between men and women.

11. Impact assessment of the proposed solution in relation to privacy and personal data protection (DPIA)

The proposed amendment has no impact on the protection of privacy and personal data.

The decision-making of the administrative body is governed by the Act on Administrative Procedure and special legal regulation, which this proposed act does not change in any way. The decision-making system is formalized and transparent at both private and public levels; it is always possible to unambiguously identify those persons responsible for a particular decision. It also anticipates standard remedies. Each administrative act must contain both the identification of the authority which issued the decision and the signature of the official, together with name, surname and occupation, and the stamp of the official or, where appropriate, the recognized electronic signature of the official. In this way, the originator of the decision can always be clearly and personally identified.

Moreover, the CNB admits an appeal against the CNB's decision in the form of an administrative action. The instruction on the remedy is part of the relevant decision and is fully in accordance with the legal system, in particular Act No. 500/2004 Coll., The Act on Administrative Procedure, as amended. From the point of view of remedies, there is also the possibility of effective defence against maladministration by the administration in the form of regular and extraordinary remedies. In addition to legal remedies, the Act on Administrative Procedure also permits other means of protection, such as a complaint or a request for action against inaction.

The proposed act does not create any new organizational structure that would require the creation of new control mechanisms. The control is ensured by a system of regular and extraordinary remedies and in the form of supervision by the CNB, central state administration bodies, the professional and general public. In addition, where applicable, the principles of liability under administrative and criminal law also apply.

12. Evaluation of corruption risks

The proposed legislation was assessed in accordance with the government's approved *Corrupt Impact Assessment* (CIA) methodology. As part of the CIA procedure (including their hidden forms), the authors of the proposal concluded that the legislation does not facilitate corruption in any way or make it more difficult to detect.

The proposed legislation does not anticipate the emergence of new or existing corruption risks.

13. Assessment of impacts on national security or defence

The bill has no impact on the security or defence of the state.

Abbreviations

List of abbreviations of legislation

ER	Act No. 120/2001 Coll., on Court Executors and Enforcement Activities (Enforcement Code) and on Amendments to Other Acts, as amended
InsZ	Act No. 182/2006 Coll., on Insolvency and Methods of its Resolution (Insolvency Act), as amended
ZDP	Act no. 586/1992 Coll., on Income Taxes, as amended
ZDPS	Act No. 427/2011 Coll., on Supplementary Pension Savings, as amended
ZISIF	Act No. 240/2013 Coll., on Management Companies and Investment Funds, as amended
ZoDluh	Act No. 190/2004 Coll., on Bonds, as amended
ZoFA	Act No. 229/2002 Coll., on the Financial Arbiter, as amended
ZoKB	Act No. 229/1992 Coll., on Commodity Exchanges, as amended
ZoSP	Act no. 634/2004 Coll., on Administrative Fees, as amended
ZPKT	Act No. 256/2004 Coll., on Capital Market Business, as amended

List of other abbreviations

CNB	Czech National Bank
CR	Czech Republic
EU	European Union
CZK	Czech crown
MFCR	Ministry of Finance of the Czech Republic
NAV	fund capital (*net asset value*)
SICAV	joint-stock company with variable registered capital (*société d'investissement à capital variable*)
XML	eXtensible Markup Language

SPECIAL PART

Part One, Article I

Amendment of the Act on Commodity Exchanges

Re points 1 to 3 (Section 28, including the heading):

With regard to equal access, when it is proposed that a permanent arbitration court of the regulated market operator (i.e., Exchange Arbitration Court) would be substantially unlimited and could decide property disputes in general, it is proposed that this extended material scope should also be held by the permanent exchange arbitration court establishment by the commodity exchange (International Arbitration Court attached to the Czech-Moravian Commodity Exchange Kladno). The newly unlimited substantive and local jurisdiction of the permanent exchange arbitration court is proposed for the resolution of property disputes between natural and legal persons. In the current legal situation, where, for example, consumer disputes have been excluded from arbitration, it seems appropriate to establish competition between institutions operating permanent arbitration courts. Thus, a competition which, given the sophistication of the parties to the dispute (and their legal representatives), can be expected to increase the quality and integrity of arbitration rather than the opposite. Such development can be expected in particular in cases where the permanent arbitration court is operated by an institution for which the credibility of the business is crucial, and thus it can be assumed that the quality and integrity of the operated permanent court of arbitration will be paid special attention to in order to preserve is trustworthiness. The operator of commodity exchange is a person for which credibility plays a crucial role and can therefore be reasonably assumed that if such person operates permanent arbitration court, the principles of quality and integrity of its decision-making, regardless of whether the subject of dispute are securities or commodities traded on the relevant regulated market or whether the dispute arose from other trades. The current limitation of the legal jurisdiction of these permanent arbitration courts limits the number of cases entrusted to these courts, making it difficult to operate economically. The proposed legislation would put the activities of these permanent arbitration courts on a more rational commercial basis. At the same time, it can be reasonably expected that the proposed amendment to the legislation will benefit domestic entrepreneurs who are looking for a court to which they could entrust the resolution of their property disputes without fear of lack of management integrity or quality of decision-making. Last but not least, the proposed change could also benefit domestic civil courts, which could reduce the volume of major property disputes and, ultimately, other parties to civil proceedings before domestic civil courts; free judicial capacity would be available for faster decision-making on other judicial agendas.

Part Two, Article II

Amendment of the Income Tax Act

Re point 1 [Section 4 (1) (l)]:

A new wording of Section 4 (1) (l) due to the lack of clarity and inaccuracy of its current wording is proposed. Newly, each point of this provision concerns one product and clearly states which transactions from that product are exempt from tax. In the case of supplementary pension insurance with a state contribution, supplementary pension savings and pension insurance, there are no material changes compared to the current legislation. In the case of benefits from personal insurance, only insurance benefits are newly exempt from tax (with the above exceptions, which are taken over from the current regulation – i.e. one-off benefits or pensions, for which a collection period of less than 10 years is defined, paid from life insurance

or in the event of reaching a specified age or earlier death or from pension insurance), however, no benefit is exempt from tax that is not an insurance benefit, i.e. regardless of whether it establishes the termination of the insurance contract or not (e.g, redemption or so-called regular withdrawals by investment life insurance).

The legal regulation of taxation of individual transactions is summarized in the following table:

Supplementary pension insurance with a state contribution (Section 4 (1) (l) (1))	
Old-age, disability or retirement pensions (always lifelong)	Tax exempt
Survivors's pension set to a period of less than 10 years	Not tax exempt
Survivors' pension set to a period of 10 years or more	Tax exempt
One-time settlement	Not tax exempt
Surrender value	Not tax exempt
Supplementary pension savings (Section 4 (1) (l) (2)	
Old-age pension set to a period of less than 10 years	Not tax exempt
Old-age pension set to a period of 10 years or more	Tax exempt
Disability pension set to a specified period	Tax exempt
One-time settlement	Not tax exempt
Surrender value	Not tax exempt
Payment of a one-off premium for a lifelong pension or for a pension set to a precisely specified period and precisely specified amount of the pension	Tax exempt
Pension insurance (Section 4 (1) (l) (3)	
Pension other than disability pension for a period of less than 10 years	Not tax exempt
Pension other than disability pension for a period of 10 years or more	Tax exempt
Disability pension	Tax exempt
One-time settlement	Not tax exempt

Surrender value	Not tax exempt
Redemption	Not tax exempt
Insurance for case of survival or survival to a stipulated age or an earlier death and pension insurance (Section 4 (1) (l) (4)	
Pension for a period of less than 10 years	Not tax exempt
Pension for a period of 10 years or more	Tax exempt
One-time settlement	Not tax exempt
Settlement that is not an insurance settlement	Not tax exempt
Other personal insurance (e.g. sickness insurance, accident insurance) (Section 4 (1) (l) (4)	
Insurance settlement	Tax exempt
Settlement that is not an insurance settlement	Not tax exempt

The general purpose of these exceptions is not to provide a tax advantage in cases, where the insurance derives income other than its primary purpose. In the case of supplementary pension insurance with a state contribution, supplementary pension savings and pension insurance, the main purpose is to obtain a pension in old age, either long-term or lifelong. Therefore, one-time settlements and pensions to be received for a period of less than 10 years are not exempt. An exception is a disability pension, where disability is an unforeseen event that can occur without the taxpayer's fault when he has not yet saved enough funds to receive a pension for a longer period. The regulation of the exemption in the case of survival or survival to a stipulated age or an earlier death and pension insurance has a similar logic, nor here is it purposeful to support one-time settlement and pensions for a period of less than 10 years. In the case of other personal insurance, all insurance settlements are exempt from tax, because in the case of these insurance products, the purpose is not to obtain long-term income in old age, but always precisely the insurance benefit that results from the given insurance. Benefits from personal insurance other than insurance benefits, i.e. redemption or regular disbursement, are not exempt from tax, because in such a case it is income from capital assets (see Section 8 (1) f) of the ZDP), which is not a reason exempt from tax. However, for the purposes of determining the tax base, the taxpayer deducts the payments paid from these benefits, see Section 8 (6) of the ZDP.

Re point 2 [Section 6 (9) (p)]:

The amendment of the provisions is linked to a change in the legislative approach to the support of taxpayer savings for old age. The newly inserted Section 15a and 15b of ZDP defines the products of old-age savings that are tax-supported, including all the conditions that these products must meet in order to use the tax benefits. These conditions then do not need to be repeated in individual provisions stipulating the specific form of tax support, i.e. in Section 6 (9) (p) and Section 15 (5) of ZDP.

According to Section 6 (9) (p) of ZDP, the employer’s contribution to the employee’s old - age

savings product will continue to be exempt from the tax on the side of the taxpayer with income from employment, and it will be up to the amount of CZK 50,000, which applies to the total employer's contributions to all employee tax-supported old-age savings products. The concept of product saving for retirement will be under the newly proposed Section 15a (1) of ZDP and will continue to include pension schemes with state contributions, additional pension savings, pension insurance and private life insurance, as has been the case until now, and in addition includes an individual savings account newly introduced by the amendment of ZPKT. Therefore, there are no substantial changes in the scope of the exemption of employer's contributions; for more details see the explanation to Section 15a and 15b of ZDP.

Re point 3 [Section 6 (16)]:

The deletion of the provision defining the institution of pension insurance is linked to a comprehensive change in the legislative approach to support for taxpayers' savings for retirement, in which all the definition of savings for retirement products is concentrated in the newly inserted Section 15a of ZDP. The pension insurance institution will therefore be newly defined in Section 15a (2) of ZDP.

Re point 4 [Section 8 (1) (e) and (f)]:

In connection with the new concept of tax support for retirement savings products, the definition of certain income, which represents income from capital assets, is adjusted. Letter (e) is legislative-technically adjusted to follow the terminology used for these transactions in Section 15a of ZDP and also removes reference to the reduction pursuant to paragraph 6. The revenues referred to in letter (e) are revenues from capital assets in full, decrease according to the said paragraph is made only for the purpose of determining the tax base of such income.

Letter (f) is also legislatively-technically regulated. Firstly, the term "private life insurance" for the purposes of income taxes newly does not include any private life insurance, but only insurance which meets the conditions of Section 15a (3) of ZDP, however, income from capital assets are all benefits from life insurance or insurance for case of survival or survival to a stipulated age or an earlier death and pension insurance. As far as other personal insurance is concerned, income from capital assets only represents benefits that are not insurance benefits, i.e. in particular redemption and regular withdrawals. Insurance benefits other than those specified in this provision continue to be other income pursuant to Section 10 of the ZDP.

Re point 5 [Section 8 (6)]:

Paragraph 6 newly stipulates rules for determining the tax base for revenue pursuant to Section 8 (1) (e) and (f) of ZDP, which has so far been subdivided into paragraphs 6 and 7. A new rule, according to which each income shall be reduced by contributions (insurance premium) paid for the product resulting from it, regardless of who paid them. The tax base determined by the above-mentioned rules ensures that only the yield on the products in question, i.e. the appreciation of the savings, is taxed. The option of deduction of own savings (insurance premiums paid by the taxpayer) ensures that the payer's own funds, which are now paid to the payer from the product, are not taxed. It is de facto expenditure of the tax payer. The possibility of deducting contributions paid by the employer for a given product ensures that those contributions are not delivered, either for the first time in the case of contributions to a tax-supported retirement savings product which have been exempt under the Section 6 (9) (p) of ZDP, or a second time, when the employer's contributions were not exempt, because it was not a tax-supported retirement savings product. There exist some exceptions to this rule in cases of refunded tax aid, see Section 15b of the ZDP. State contributions paid by the Czech Republic always reduce the tax base, otherwise they would be delivered.

The rule for determining the tax base in the case of payment of the pension, or pension in case

of insurance for case of survival or survival to a stipulated age or an earlier death and pension insurance, is the same as under the previous legislation. Newly, this provision no longer applies for exceptions to the eligibility of contributions paid by the employer, as this is dealt with as part of the refund of tax support for pension savings products in Section 15b (5) (e) of the ZDP.

Of course, for the determination of the tax base applies that the contributions paid, state contributions paid by the Czech Republic and paid insurance premiums can only be counted once for the purposes of determining the tax base. Thus, if a product results in a taxable benefit in the form of a pension, or pension in case of insurance for case of survival or survival to a stipulated age or an earlier death and pension insurance, or several successive transactions, the tax base may not be reduced by contributions or premiums for which the tax base has already been reduced in the case of a previous transaction for that product. With regard to the fact that it is the tax base from which the tax is levied by deduction according to a special tax rate [see Section 36 (2) (k) of the ZDP], the tax base cannot be set negative, i.e. contributions paid, state contributions paid by the Czech Republic or premiums paid higher than the performance of the product cannot be claimed.

Re point 6 [Section 8 (7)]:

As a result of shifting the legislation determining the income tax base under the Section 8 (1) (f) of the ZDP, the paragraph 7 is deleted.

Re point 7 [Section 15 (5) and (6)]:

The amendment to paragraph 5 follows a change in the legislative approach to the support of taxpayers' retirement savings, specifically the definition of products that are tax-supported in the newly inserted Sections 15a and 15b of the ZDP. For the reason that in these newly inserted provisions are defined all products of retirement savings, which are tax supported, including all conditions of tax support, therefore these products no longer have to be defined in Section 15 (5) and (6) of the ZDP and only a mere reference through the use of the term 'tax-supported retirement savings product' is sufficient. Also remains the rule, according to which the taxpayer of natural persons can deduct from the tax base contributions paid in the given tax period for his supplementary pension insurance with the state contribution, pension insurance, supplementary pension savings and private life insurance. Newly is, between supported products, classified individual savings account introduced in the amendment to the Capital Market Business Act.

Another change compared to the current situation is that the total limit of CZK 48 thousand, which can be deducted from the tax base and into which the contributions for all mentioned products are included; Not valid are the separate limit of CZK 24 thousand for contributions to supplementary pension insurance with state contribution, pension insurance and supplementary pension savings and, in addition, a separate limit of CZK 24 thousand for contributions to private life insurance, as was the case under the current wording of Section 15 (5) and (6) of the ZDP.

Paragraph 6 contains derogations from the general rule referred to in the paragraph 5, according to which the contributions paid during the tax year are deducted from the taxable amount; these deviations result from the nature of some retirement savings products. The first sentence concerns supplementary pension insurance with state contribution and supplementary pension savings and takes over the existing regulation contained in Section 15 (5) (a) and (c) of the ZDP. These products are specific to other retirement savings products in a way that, in addition to tax support, they also receive direct support from the state budget in the form of a state contribution. The state contribution is provided in the maximum amount of CZK 230 per month in case that the taxpayer's contribution for the given month is at least CZK 1 thousand (see

Section 14 (2) of the ZDP; pursuant to Section 191 (6) of the ZDPS, the Act on Supplementary Pension Savings also governs the provision of a state contribution to the benefit of a supplementary pension insurance participant). In Section 15 (6), in the first sentence of the ZDP will be stated that the taxpayer's contributions to supplementary pension insurance and supplementary pension savings can only be deducted from the tax base in excess of the amount of the maximum state contribution, thus avoiding a situation where to his contribution to those products got state contribution and at the same time part of the contribution, to which was given this contribution could also be deducted from the tax base and thus would occur in this part of the dual advantages of this product. Practically, the rule set out in the first sentence means that for the purposes of Section 15 (5) of the ZDP, the taxpayer will have to deduct CZK 1 thousand from his / her monthly supplementary pension insurance or supplementary pension savings. CZK and deduct only the amounts thus obtained from the tax base. If the taxpayer's monthly contribution to supplementary pension insurance or supplementary pension savings is less than or equal to CZK 1 thousand, the deduction from the tax base pursuant to Section 15 (5) of the ZDP cannot be used.

The second sentence in paragraph 6 edits the specific situation in the case of private life insurance where contributions (premiums) do not have to be paid regularly for each taxation period, but for a single insurance period, i.e. for several taxation periods in advance. Therefore, for the purposes of deduction from the tax base, this contribution (insurance premium) is budgeted for individual tax periods falling within the insurance period, with an accuracy of days. Thus, the contribution to private life insurance will be taken into account in those taxation periods in which it falls economically (although paid once, it covers the insurance for the entire insurance period) and at the same time the taxpayer will be able to use the limit of CZK 48 thousands for each tax period in which the insurance period runs separately, and with this limit will not be compared the entire single premium, as if it were deducted from the tax base in the tax period in which it was paid.

Regarding the conditions of deduction of contributions to the products, see the justification for the newly inserted Section 15a and 15b of the ZDP.

Re point 8 [new Sections 15a and 15b]:

Re Section 15a:

Section 15a of the ZDP defines the product of retirement savings for income tax purposes. Section 15b of the ZDP then regulates under what conditions this product is tax-supported, i.e. when contributions to it can be deducted from the tax base pursuant to Section 15 (5) of the ZDP and when contributions paid by the employer for his employee to this product are exempt according to Section 6 (9) (p) of the ZDP.

The range of retirement savings products referred to in paragraph 1 corresponds to the existing tax-supported products referred to in Section 6 (9) (a) (p) and Section 15 (5) and (6) of the ZDP, in the current version with the fact, that the individual savings account is added to the list, which is a newly introduced amendment to the Act on ZPKT, and its analogues can be found in other Member States of EU and US forming the European Economic Area.

Pursuant to paragraph 1 (a) is the product of retirement savings also a supplementary pension insurance with state contribution according to the law regulating supplementary pension insurance with state contribution. This Act is Act No. 42/1994 Coll. and pension insurance with state contribution is defined in Section 1 (2). Pursuant to paragraph 1 (b) the product of retirement savings is also supplementary pension savings according to act regulating supplementary pension savings, which is Act No. 427/2011 Coll., on Supplementary Pension Savings, as amended, and supplementary pension savings are defined in this law – specifically

in Section 1 (2).

Pursuant to paragraph 1 (c) the product of retirement savings is also a pension insurance by a pension insurance institution. A pension insurance institution is defined in paragraph 2. In paragraph 1 (c) it is only stated, according to the product itself, that only provides that it has to be pension insurance. Pension insurance and pension insurance institutions are defined in such a way that they are *de facto* equivalent to a supplementary pension scheme or supplementary pension savings referred to in points (a) and (b).

Private life insurance referred to in paragraph 1 (d) is defined in paragraph 3.

The newly assigned product is the individual savings account, which introduces an amendment to the Capital Market Business Act, see Section 193a to 193c. According to ZPKT, this account may be held only by a person authorized to keep records of investment instruments or accept deposits from the public under the Banking Act. However, the provisions of Section 15a (1) (e) of the ZDP also grants the same treatment to a similar account held by a person authorized to do so under the legislation of another Member State of the European Union or a State constituting the European Economic Area.

Paragraph 2 defines the institution of pension insurance, whereas taking over the definition of the current Section 6 (16) of the ZDP. The only difference is that the term is not only defined for the purposes of ZDP, but in general for the purposes of income taxes, so it will be applicable to other legislation governing income taxes, such as Act No. 593/1992 Coll. , on reserves for determining the income tax base, as amended.

Paragraph 3 defines the concept of private life insurance. It means life insurance or life expectancy at a specified age or earlier death or insurance of the pension, to which the right arises at the earliest in the calendar year in which the taxpayer reaches the age of 60, and that always by an insurance company, which authorized to carry on insurance business in the territory of an EU Member State or a State constituting the European Economic Area. Thus, the product of old-age savings is not pension insurance, in which, for example, only the taxpayer's invalidity in the third degree would be arranged as an insured event, because in such a case the taxpayer would not save for old age, but only for this life event; Third-degree invalidity pension insurance may be included in the contract, but always together with old-age pension insurance.

At the same time, in the case of insurance for case of survival or survival to a stipulated age or an earlier death, it must be an insurance with a fixed sum insured for survival; therefore, the product of retirement savings for income tax purposes is not insurance for case of survival or survival to a stipulated age or an earlier death, for which only a repeated insurance benefit is concluded. The sum insured must be at least 40 thousand CZK, if the insurance period is at least 5 and at most 15 years, and 70 thousands CZK, if the insurance period is longer than 15 years. There is no requirement for an insurance period of less than 5 years because, given the condition of the product's tax support for old age stipulated in Section 15b (1) (a) point (1) of the ZDP, according to which the payment of funds or benefits must be allowed no earlier than 60 calendar months after the inception of the retirement savings product, private life insurance with less than five years may never be tax-supported. In the case of pension insurance, the sum insured is not agreed, therefore paragraph 4 sets out the legal fiction according to which the sum corresponding to a one-time survival benefit, which is calculated on the basis of the agreed pension, is considered to be the sum insured for this product. The condition of negotiating a sum insured of a certain amount is set for private life insurance because it is effective to support such a type of insurance, which guarantees the insured person payment of the accumulated amount. Hence, only in this way is fulfilled he goal of state support, which is to motivate to postpone some savings for future consumption.

Re Section 15b:

Provision 15b lays down the conditions for tax support for retirement products as defined in Section 15a of the ZDP and the consequences of a tax-assisted product ceasing to qualify for tax support. The basic consequence of the violation of the conditions for tax support, which results also from the construction of the relevant standards, is that the contributions to this product no longer benefit from the benefits mentioned in the Section 6 (9) (p) and Section 15 (5) of the ZDP, because these provisions in the newly proposed wording only apply to tax-supported retirement savings products.

The basic conditions for tax support are set out in paragraph 1 and relate to the conditions under which an old-age savings product may give rise to a cash outflow or a payment or, in the case of a long-term investment account, may transfer assets from that product. These conditions are to be agreed or otherwise determined, while another determination is typically defined directly in the law governing the given old-age savings product. The provision distinguishes the concepts of “disbursement of cash” and “settlement” and “assets transfer”, taking into account the different nature of the various retirement savings products. Disclosure of supplementary pension insurance, supplementary pension savings, pension insurance and private life insurance is that the taxpayer pays contributions to the person with whom this product has been established, and after some time he goes right to certain benefits of the product from that person, whether he in the form of benefits stipulated in the Act on Supplementary Pension Insurance or in the ZDPS , or insurance benefits from private life insurance (in the case of pension insurance, the form of benefits depends mainly on the foreign legislation governing them). In the case of the individual savings account, however, the situation is different, it is the taxpayer's account and the funds and other assets (see Section 193c (1) of the ZPKT) on it have been in the ownership of this taxpayer for the whole time of its existence, i.e. the taxpayer first transfers its funds from one of its individual savings account or deposits funds on this account and then the transfer occurs in the opposite direction or the disbursement of the funds occurs. As regards the transfer of assets between two accounts belonging to the same taxpayer or the withdrawal from an account, it is not a transfer of ownership and therefore no settlement, but only the management of one's own assets. Therefore, the wording “disbursement of funds” and “transfer of assets from the individual savings account” were chosen, which in this case mean the actual handling of funds and other assets. In the case of the individual savings account, there is also a transfer of ownership of the property to another person (this can be done under the conditions specified in Section 193b of the ZPKT). The term “transfer of assets from the individual savings account” includes these cases.

Point (a) regulates the conditions under which the payment of funds and settlement from the product and the transfer of assets from the individual savings account, which accrue to the taxpayer, who arranged the product, may therefore apply to the drawing of the savings by the taxpayer himself.

There are three options for the timing of disbursement, benefits or transfer, and it means alternatively, i.e. the product may not allow disbursement, benefits or transfer in all of the mentioned cases, but never be allowed to be disbursed in a situation other than one of three of the above-mentioned options.

The condition referred to in point 1 , i.e. the expiry of 60 calendar months from the inception of the product and the attainment of the taxpayer's 60 years, reflects the main purpose of tax support for retirement savings products. Taxpayers are encouraged to postpone part of their disposable income for a period when their earning capacity is likely to be reduced, i.e. after the age of 60, and at the same time it is desirable to start preparing for this phase of life in advance, that is, at least 60 calendar months. The origin of a product means the origin of a specific

product of a given taxpayer, in the case of supplementary pension insurance it is in the sense of Section 12 of the ZDPS with a state contribution and in the case of supplementary pension savings according to Section 4 of the ZDPS, on the effective date of the contract and in the individual savings account on the date of its establishment on the basis of a contract pursuant to Section 193a of the ZPKT. In the case of supplementary pension savings, however, it is possible to draw benefits even before reaching the age of 60, at the age of 5 years lower than is necessary for the entitlement to retirement pension under Act No. 155/1995 Coll. on Pension Insurance, as amended, see Section 22 (4) and Section 23 (6) of the ZDP, the so-called pre-retirement pension. This sets a special rule for this product, i.e. even in such a case, the supplementary pension insurance is considered to be a tax-supported retirement savings product.

Point 2 complements point 1 as regards situations where the taxpayer's ability to earn is substantially reduced, in a situation where that taxpayer becomes disabled at third instance. Payment, performance or transfer in this case is not conditional on a certain duration of the product, since the occurrence of third-degree invalidity is an unforeseen and unforeseeable fact and does not intend to limit the taxpayer's tax advantages on the ground that it did not take long enough at the time of the third degree of invalidity of the product. Thus, the payment, performance or transfer of the taxpayer's invalidity in the third instance does not lead to the obligation to pay back the tax aid, even if the condition '60 calendar months, 60 years of age' has not been complied with, see paragraph 4(a) of the Basic Regulation. point 1.

Point 3 refers to the case of payment, performance transfer, which, although not in line with the meaning of tax support for old-age savings products, is possible for each product of old-age savings and must therefore be stated in the provision; if it were established that only products with a possible payment under points 1 and 2 are tax-supported, no product would fulfil the condition of tax aid. Of course, the taxpayer always has the right to terminate the product, i.e. terminate the contract that established it. In such a case, he usually has the right to obtain the funds and assets he has to save, typically the right to disposal in the case of supplementary pension insurance or supplementary pension savings and to redeem in the case of private life insurance; an exception is, in particular, the termination of the supplementary pension insurance contract within 12 calendar months, see Section 23 para. 1 of the Supplementary Pension Insurance Act or supplementary pension savings within 24 calendar months, see Section 25 para. 1 of the supplementary pension Act. As a general rule, the disappearance of an old-age savings product will result in an obligation to refund the tax aid, see paragraphs 4 and 5, since in this case the taxpayer will, of his own choice, stop saving for old age and recover the saved funds, the purpose of the tax support for the product in question is denied.

Point b) shall regulate the conditions under which payment, performance or transfer from a tax-supported product of old-age savings may be made possible to a taxpayer other than the one who negotiated the product. The purpose of tax support is to encourage taxpayers to save for their own old age. Saving for another person's age is not tax-supported, therefore, in general, funds should not flow from the product to other persons, but a few exceptions should be provided for in view of the functioning of the products. Point 1 provides for an exception in the event of the death of the taxpayer who negotiated the product, since in the event of death, of course, there is no payment, performance or transfer of assets from the product to the taxpayer who negotiated it, but to another person, whether specified in the contract or by law. This can be both a one-off payment of savings and, for example, a survivor's pension from supplementary pension insurance. The exception in point 2 concerns the remuneration paid by the taxpayer to the product provider for the management of the product and related services. As a rule, the management of an old-age savings product is charged on the basis that the provider counts this remuneration for the funds held on the product, as well as, for example, individual business

transactions carried out on a long-term investment account. While this is a reduction in the amount of funds on the product in question, given that it is a standard method of paying those fees, this may be possible for the product and does not lead to the need for recovery of the tax aid [see the paragraph 4(b) point 2].

Point 3 provides for an exception for the long-term investment account in which the trading of investment instruments referred to in Section 193c of the Capital Market Business Act. Transfers of assets from this account in the context of this business, i.e. for reasonable compensation, are permissible and their implementation does not give up the obligation to recover the tax aid, even though the assets are transferred from the long-term investment account to another person [see paragraph 4 point b) (point 3).

The last exception is provided for in cases of fulfilment of obligations laid down by other legislation, e.g. the transfer of assets within the framework of enforcement to the taxpayer's assets. The fulfilment of these obligations cannot be excluded in the contract for the establishment of an old-age savings product, but if this occurs, it will result in an obligation to return the tax aid, see paragraph 4 point b), where this reason for payment, performance or transfer to another taxpayer is not listed among the exemptions from the obligation to pay back tax aid.

Paragraph 2 shall supplement the conditions for tax support for the product of old-age savings, and only for the purpose of exempting contributions paid by the employer to the product of his employee from income tax pursuant to Section 6 paragraph 9 letter p) Supplementary Pension Savings Act. If it were agreed or otherwise determined that, in the event of the death of an employee, funds or benefits would flow from his product of saving for old age to the employer or the assets from the long-term investment account would be transferred to that employer, the employer would potentially contribute to his future income, which is not intended to support tax. However, the taxpayer may deduction his own contributions to such an old-age savings product from his tax base in accordance with Section 15 paragraph 5 of the Supplementary Pension Savings Act.

Paragraph 3 provides for an obligation for a taxpayer who is an employee, i.e. who has income from dependent activity, to notify his employer if his tax-supported old-age savings product has ceased to be tax-supported until the end of the calendar month in which this occurred. An old-age savings product shall cease to be tax-supported if it no longer fulfils any of the conditions referred to in paragraphs 1 or 2. The employer needs this information because he is the taxpayer of income tax on the dependent activities of the taxpayer and it is therefore necessary that he no longer treats the contributions paid by employees for this product as tax-exempt under Section 6 paragraph 9 point p) of the Supplementary Pension Savings Act, but included them in the sub-base of income tax on the dependent activities of this taxpayer.

Paragraph 4 defines situations in which the taxpayer is obliged to pay back tax support; the method of recovery of the tax aid is set out in paragraph 5. The basic precondition for the obligation to pay back tax support is that 60 calendar months have not yet passed since the creation of the old-age savings product or the calendar year in which the taxpayer reached the age of 60 has not yet occurred. After the expiry of both of these moments, the tax aid will never be recovered, regardless of the reason for payment of funds, performance from the product or transfer of assets from the long-term investment account (i.e. whether it is a “proper” payment, performance or transfer as agreed in the contract, or whether, for example, the product will be expelled by the taxpayer) , or even if the product disappears and the payment, performance or transfer does not take place at all (but this is rather a theoretical case, since after 60 calendar months the taxpayer usually saves sufficient funds to qualify for a certain performance or payment of funds even after the product has been destroyed). By reaching the stated duration

of the product and the age of the taxpayer, the product has already fulfilled its purpose, which is long-term (five-year) saving for old age (i.e. the fact that the taxpayer has the saved funds available after reaching the age of 60).

Recovery of tax aid always takes place during the tax period in which one of the facts referred to in point a) b) c) or d), or occurred, so there is no need to file additional tax returns for the previous tax years in which the tax aid was drawn.

According to point a), recovery of tax aid occurs if, before the expiry of 60 calendar months from the date of the creation of the product in question, old-age savings or before the calendar year in which the taxpayer reaches 60 years of age, the payment of funds or the transfer of assets from the long-term investment account occurs to the taxpayer who negotiated the product. However, there are 3 exceptions to this rule.

The exception in point 1 is provided for in cases where such payment, performance or transfer occurs in the event of the taxpayer's third-degree invalidity. Invalidity in the third instance also constitutes the life event for which the savings are intended (see paragraph 1 a) point 2, according to which it is possible to allow payment, performance or transfer in the conditions of the product even in the case of invalidity at third instance), since even in this case the taxpayer's ability to earn is reduced. It is therefore not desirable to penalize him in this situation by the obligation to refund the tax aid he has received in the past for this tax-supported product.

Point 2 shall provide for an exception for situations where payment, performance or transfer occurs due to the disappearance of the product provider or because the authorization to provide the product has been withdrawn from the provider. In such a case, the conditions of the tax support are not violated by the fault of the taxpayer, but for reasons on the part of the product provider, so it is not the taxpayer's desire to punish the taxpayer by the need to recover the tax aid granted for this product. However, the condition is that the taxpayer who has received the saved money within 1 month of their receipt will deposit savings for the same type of age on another tax-supported product, thus continuing to save for old age. The special regulation concerns supplementary pension insurance with a state contribution, which can no longer be newly established but has been replaced by the Supplementary Pension Savings Institute, so the saved funds must be deposited on this product.

Another exception is provided for in point 3 in the case of benefits from supplementary pension savings, which under the Supplementary Pension Savings Act is linked to reaching an age 5 years lower than the retirement age under Act No. 155/1995 Coll., on Pension Insurance, as amended, see Section 22 paragraph 4 and Section 23 paragraph 6 of the Supplementary Pension Savings Act S, so-called pre-days. In the event of such benefit drawdown, there shall be no obligation to recover the tax aid referred to in paragraphs 4 and 5.

Point b) shall provide for the obligation to recover the tax aid in the event of payment, performance or transfer from the old-age savings product to another taxpayer who has negotiated the product. The exceptions to this rule shall correspond to the cases in which such payment, performance or transfer may be made possible pursuant to paragraph 1 point b) with the exception of the fulfilment of obligations laid down by other legislation. Therefore, if payment, performance or transfer is made to another taxpayer due to the death of the taxpayer who negotiated the product, due to remuneration to the provider of that product or in the context of trading in a long-term investment account, there is no obligation to return tax support, in other cases such payment, performance or transfer arises.

Point c) shall provide for the obligation to recover tax aid in the event that an old-age savings product is destroyed without any money being paid out of it or from it or the transfer of assets in the case of a long-term investment account. These are not very common cases where the

product disappears and at the same time the taxpayer has not deposited a sufficiently large amount to qualify for any performance, payment or transfer from it, in the case of supplementary pension insurance and supplementary pension savings, these products may be situations where these products are denied by the taxpayer before the right to disposal arises, see above. The exemption is again provided for extinction due to the death of the taxpayer, termination due to the termination of the product provider or withdrawal of the authorization to provide the product in question, as well as for a situation where the product of old age savings disappears, but at the same time the taxpayer transfers the saved funds and assets to another tax-supported savings product for the same type of age. The type of old-age savings product means the items in the individual letters Section 15a paragraph 1 of the Supplementary Pension Savings Act . The exemption from the obligation to refund tax support provided for in the event of the transfer of savings funds to another tax-supported product of savings to an age of the same kind allows taxpayers to change the party with which they have established the product (e.g. due to the granting of higher interest or lower taxpayers for the management of the product) without losing tax support due to early termination of the product. Such a transfer preserves the meaning of the tax support, the money saved and the assets are only transferred elsewhere, and the taxpayer continues to save for old age. As a special case, there is an exception for the transfer of savings from supplementary pension insurance to supplementary pension savings, which is possible in Section 191 of the Supplementary Pension Savings Act. If, after such a transfer, the taxpayer fulfils the conditions for the reimbursement of tax support to the product of old-age savings support, it shall also refund the tax support used at the time when the funds and assets on the already defunct product were old-age savings.

Point d) relates only to a long-term investment account and a similar account and provides that recovery of tax aid also occurs when the proceeds of assets held in that account are not paid to the taxpayer in that account, but elsewhere, typically to another account. The purpose of tax support for old-age savings products is to encourage the accumulation of funds on a given product until the condition of '60 calendar months, 60 years of age' is met, not only by the taxpayer's contributions or by his employer, but also by the proceeds arising from the assets on that product. Therefore, if the taxpayer has the proceeds of the assets in the long-term investment account or similar account paid out of this account, that is, he can immediately dispose of them and does not save them for old age, the obligation to recover the tax support for this product arises.

Paragraph 5 lays down what is understood to mean the recovery of tax aid to an old-age savings product. If any of the facts referred to in paragraph 4 occurs, there are five consequences for the taxpayer.

According to point a), the taxpayer is generated income under Section 10 of the tax income Act in the amount of the total contributions paid to the product of old-age savings to which the fact referred to in paragraph 4 relates, which were deducted from the tax base for the immediately preceding 10 tax years. This increases the tax base by the amount by which it was reduced in the previous 10 tax periods. The 10-year period chosen is based on the maximum time limit for determining the tax, as well as the period during which proof of contributions deducted from the tax base and contributions paid by the employer who have been exempted may be required.

Point b) shall supplement the rule referred to in point a) and shall apply to situations where one of the facts referred to in paragraph 4 occurs during the tax period and the taxpayer has already paid contributions for the product in question to save for old age in one of the previous calendar months, i.e. in the calendar month in which the product was still tax-supported. The product ceases to be tax-supported until one of the facts referred to in paragraph 4 occurs. Point (b) therefore prevents the taxpayer from reducing its taxable amount by the contributions paid for the product in question to old age before it ceases to be tax-supported. At the same time, as a

result of point b), the taxpayer is prevented from deducting from the taxable amount contributions paid for such an old-age savings product in the future, even if the conditions for its tax support referred to in paragraph 1 are again fulfilled (i.e. the contract has been amended); therefore, once a situation has been reached which results in the recovery of the tax aid for the product in question, the contributions paid for that product may never be deducted from the taxable amount. The same applies to the exemption of an employee's income in the form of a contribution paid by the employer to his tax-supported product, see point c).

According to point (d), the taxpayer will receive income under Section 6 of the income tax Act, i.e. income from dependent activities, in the amount of the total contributions paid by the employer to this product, which were exempt from income tax during the tax period in which the tax aid is recovered and in the 10 immediately preceding tax periods. This de facto increases the tax base by the employer's contributions, which were exempt during those periods. In contrast to the income generated under Section 10 of the income tax Act pursuant to point a), income is generated here also in the amount of employer's contributions paid in the tax period in which the tax aid is refunded, on the grounds that the employer pays monthly advances on tax on income from dependent activities for the taxpayer and the exemption of contributions paid by the employer for the previous part of the tax period, when it was still a tax-supported product , has already been reflected in these backups. In order not to allow the employer to correct advances already paid, it is stipulated in the part of the sentence after the semicolon that the income thus generated pursuant to Section 6 of the tax income Act is not considered to be income paid by the taxpayer of income tax on dependent activities. The advances paid by the employer thus remain unchanged even if any of the facts referred to in paragraph 4 occurs, and the employee is obliged to return the tax support by stating in the tax return the income referred to in Section 15b paragraph 5 point d) of the tax income Act. Since the income generated is not considered to be paid by the taxpayer, it does not pay social security contributions and contributions to the state employment policy or public health insurance premiums, and this income is therefore the taxable amount without an increase to the so-called super-gross wage, see Section 6 paragraph 12 income tax Act *a contrario*.

Pursuant to point e), the recovery of tax aid relates to the determination of the taxable amount for tax on transactions arising from old-age savings products pursuant to Section 8 paragraph 6 of the income tax Act, i.e. only supplementary pension insurance with a state contribution, pension insurance, supplementary pension savings and private life insurance. Neither the long-term investment account nor the similar account held in the territory of another Member State of the European Union shall apply from the logic of the case, since these products do not result in performance. This method of recovery of the tax aid is based on the existing legislation contained in the current Section 8 para. 6 and 7 of the income tax Act, which, for certain transactions of those products, limited the tax reduction to contributions paid by the employer. In the context of the new concept of tax aid, this rule is generally laid down for all transactions which result from such products after the conditions for tax aid have been infringed.

However, there are four exceptions. According to point 1, in order to determine the taxable amount, employers' contributions which constitute income under point d) of that provision will be taken into account, since their non-recognition in determining the taxable amount of the transactions on that product would result in double taxation (once as income under Section 6 and the second time in the context of a transaction on a given product which would not be reduced by the amount of those contributions for the purpose of determining the taxable amount). According to the second exception, referred to in point 2, for the purposes of the tax base, account will be taken of employer contributions which have not been exempted from income tax pursuant to Paragraph 6 paragraph 9 point p). This is, for example, a situation where an old-age savings product has ceased to be tax-supported due to a change in product conditions

so that the conditions referred to in paragraphs 1 or 2 are no longer met and the employer's contributions are no longer exempt from the product. The third exception, referred to in point 3, is taken over from the existing Section 8 para. 6 of the income tax Act and concerns situations where, after the entry into force of this Act, the taxpayer would transfer to his newly created supplementary pension savings funds with a state contribution to which the employer contributed before 1 January 2000. The employer's contributions paid at that time were not exempt from income tax on the part of the taxpayer, so they had already been taxed once and had to be reduced by the tax base when paying benefits from supplementary pension savings, otherwise they would have been double taxation. The fourth exception, referred to in point 4, is similar to the exception provided for in point 3 and is taken over from the existing Section 8 para. 7 oh the income tax Act. It concerns situations where the taxpayer transferred his funds from one private life insurance to another after the entry into force of this Act. If the employer had contributed to his original private life insurance before 1 January 2001, those contributions were not exempt and must therefore be reduced in payment of the benefits in order not to be taxed twice. The provisions of points 3 and 4 shall not apply to situations other than those relating to the transfer of funds between two old-age savings products, since, pursuant to the transitional provision under point 2, this proposed new arrangement applies only to old-age savings products resulting from the entry into force of this Law; the existing legislation, including Section 8(2) of the Act, therefore applies to products for old age established before the date of entry into force of this Act, to which the employer contributed before 1 January 2000 and 1 January 2001 counting.

Re point 9 (Section 17 paragraph 1 point (d) and Section 17b paragraph 1 c) introductory part of the provisions):

Following the proposed amendments to the Management Companies and Investment Funds Act, where Section 170 of the Management Companies and Investment Funds Act newly allows an investment fund which is a limited partnership for investment certificates to be created, and in Section 186a of the Management Companies and Investment Funds Act, this allows an investment fund which is a public limited company and is not a public limited company with variable registered capital, to be given the same tax treatment as the existing sub-funds of a variable capital public limited-liability company. It is therefore stipulated that the new types of sub-funds are also corporate taxable and the tax treatment is similar to the tax treatment of the legal form of the investment fund that makes them up. This is because these sub-funds are also essentially separate units, where accounting, including reporting of profits and losses, is separate and any distribution of profits among individual investors is carried out at the level of individual sub-funds. Normally, within one investment fund, one sub-fund is profitable and distributes profit, while the other sub-fund shows a loss for a given tax period. Therefore, from a tax point of view, it is appropriate to tax individual sub-funds separately.

At the same time, the general designation 'investment fund sub-fund' is chosen, under which both those sub-funds and the existing sub-fund of a variable capital public limited-liability company fall.

Following the modifications made in Section 17 para. 1 point d) income tax Act, according to which, in addition to the sub-fund of a public limited-liability company with variable capital, other sub-funds that can be newly created as a result of the change in the Management Companies and Investment Funds, is the subject of income tax, it is necessary to adjust the definition of the basic investment fund. It is therefore proposed to extend the effectiveness of the provisions of Paragraph 17b of the income tax Act, which defines the conditions under which a sub-fund may be a basic investment fund, as well as those sub-funds (sub-fund of limited partnerships for investment certificates and sub-fund of a joint stock company which is an investment fund and is not a public limited-liability company with variable registered

capital). At the same time, the general designation 'investment fund sub-fund' is chosen, under which both those sub-funds and the existing sub-fund of a variable capital public limited-liability company fall.

Re point 10 (Section 19 paragraph 12):

Following the proposed change to the Management Companies and Investment Funds Act, when Section 186a of the Management Companies and Investment Funds Act newly allows an investment fund which is a public limited-liability company and is not a public limited company with variable registered capital to create sub-funds, the current rule is generalized to apply to these joint stock companies and their sub-funds.

Re point 11 (Section 23f point h):

Following the modifications made in Section 17 para. 1 point d) of the income tax Act, according to which the income tax payers are, in addition to the sub-fund of a public limited-liability company with variable registered capital, as well as other sub-funds that can be created as a result of the change in the Management Companies and Investment Funds Act, it is necessary to exclude these sub-funds (sub-fund of limited liability companies for investment certificates and sub-fund of a joint stock company that is an investment fund and is not a public limited company with variable share capital) from the scheme of limiting the deductibility of excessive borrowing expenses. At the same time, the general designation 'investment fund sub-fund' is chosen, under which both those sub-funds and the existing sub-fund of a variable capital public limited-liability company fall.

Re point 12 (Section 35ba paragraph 1 point b):

A legislative technical regulation is proposed, supplementing references to the relevant laws and at the same time abolishing the abnormal reference in the footnote.

Re point 13 (Section 36 paragraph 2 point k):

A legislative and technical regulation is proposed following the new wording of Section 8 para. 1 points (e) and (f) and Section 8 para. 6 of the income tax Act.

Re point 14 (repeal of Section 36 paragraph 2 point o):

The Section 36 para. 1 point o) of the income tax Act, is deleted because the transactions regulated there in it are covered by the new wording of Section 36 para. 2 letter k) of the income tax Act.

Re point 15 (repeal of Section 37c):

It is proposed to repeal the existing provision according to which the provisions of the Income Tax Act applicable to an open-ended unit trust and a unit trust apply to a sub-fund of a public limited-liability company with variable capital and to an investment share. The current adjustment is inaccurate and superfluous. The funds of the investment fund, which is a public limited company, do not have separate legal personality, it is part of a joint stock company, but the individual sub-funds are completely separate, including separate accounting and dividend payments. From the point of view of the income tax Act, these sub-entities are therefore granted tax personality [see Paragraph 17(1)(d) of the income tax Act] and there is no reason why their tax regime is not similar to that of a public limited-liability company, taking into account that the sub-funds do not have legal personality. Thus, from the income tax Act´s point of view, there is no need to standard the other tax regime, unlike a limited partnership on investment certificates and their sub-funds, where this need is due to a specific tax regime for limited partnerships. For this reason, it was also inaccurate to compare the investment share scheme to unit shares, since they are shares, although of a different kind.

Re point 16 (Section 37d):

The amendment follows the proposed changes to the Management Companies and Investment Funds Act, where Section 170 of the Management Companies and Investment Funds Act newly allows an investment fund, which is a limited partnership on investment certificates, to create sub-funds. It is stipulated that these sub-funds will have the same tax regime as limited partnerships on investment certificates. Unlike Section 37c of the income tax Act, it is retained that the provisions applicable to the limited partnership shareholding apply mutatis mutandis to investment certificates (sub-fund or investment fund). This is due to the fact that, without explicit adjustment, it would not be clear whether the investment paper is subject to the provisions on the shares of a limited partnership or complementary.

Re point 17 (Section 38g para. 6):

With a view to changing the legislative grasp of old-age savings support, the provision according to which personal income tax payers are obliged to file a tax return in the event of a breach of the conditions under which the contribution paid to their old-age savings product by their employer is exempt is amended. The obligation to provide such contributions at the time when the conditions for tax support for such a product are infringed is no longer provided for private life insurance only, as was the case under the existing legislation [see the current wording of Section 6 para. 9 point p) point (3) of the income tax Act), but is generally provided for all tax-supported old-age savings products in the newly proposed Section 15b para. 5 point d) income tax Act. Therefore, if the taxpayer incurred income from dependent activity under that provision, he is obliged to state that income in the tax return, since according to Section 15b para. 5 point d) of the income tax Act, this income is not considered to be income paid by the taxpayer of income tax on dependent activities and therefore does not make a withholding of tax on such income.

Re point 18 (Section 38k para. 5 point f) and g):

Following the establishment of the aggregate limit in Section 15 para. 5 the income tax Act adjusts the facts to be stated by the taxpayer with the taxpayer. The new taxpayer will make a statement to the taxpayer as to the amount to which he wants to deduct the contributions paid for those products from the tax base pursuant to Section 15 para. 5 of the income tax Act in the calculation of the tax and the annual settlement of advances made by the taxpayer. The adjustment is designed in order to make it clear, when the tax aid is subsequently recovered, what amount of contributions deducted by the taxpayer from the tax base must be added in connection with the recovery of the tax aid for an individual product.

Re point 19 (Section 38k para. 5 point h):

Following the extension of the range of amounts which can be deducted from the tax base pursuant to Section 15 para. 5 of the income tax Act, by contributions to a Capital Market Business Act long-term investment account or similar account in the EU or in the State constituting the European Economic Area (see definition of the old-age savings product in Section 15a(1) of the income tax Act), is added that the taxpayer must make a declaration with the taxpayer on the amount of the funds transferred in this way from the tax base in the context of the tax calculation and annual settlement of advances made by the taxpayer.

Re point 20 (Section 38l para. 1 point j):

Following the extension of the range of amounts which can be deducted from the tax base pursuant to Section 15 para. 5 The ZDP, by contributions to a ZPKT long-term investment account or similar account in the EU or in the State constituting the European Economic Area (see definition of the old-age savings product in Section 15a(1) of the ZDP), is supplemented

by how the taxpayer proves the existence of that account and the amount of contributions paid to it to its taxpayer.

Part Two, Article III

Transitional provision

Re point 1:

This transitional provision stipulates that the legislation in force until the day preceding its effective date (existing legislation) for the application of the tax as well as the rights and obligations arising from the law for tax periods started before the effective date of this Act.

Re point 2:

The transitional provision concerns the payment of funds of a participant in pension savings, i.e. a performance that was provided under Act No. 376/2015 Coll., the termination of pension insurance Act, as amended by Act No. 183/2017 Coll. These payments should already are terminated, therefore their adjustment is already contained in the newly proposed wording of Section 4 para. 1 point l) of the income tax Act, however, a transitional provision is proposed for sure, on the basis of which Section 4 para. 1 point 3) in current wording.

Re point 3:

The purpose of this transitional provision is to ensure that taxpayers who have concluded a supplementary pension insurance contract with a state contribution, supplementary pension savings, pension insurance or private pension scheme before the date of entry into force of this Act can continue to benefit from a tax regime for those products that was effective at the time of conclusion of the contract, including payments from those products. Thus, there is no false retroactivity where the tax treatment of those products changes during the existence of those products and the legitimate expectations of the taxpayers are respected.

Re point 4:

According to the proposed transitional provision, the maximum total limit of the employer's contributions to tax-supported products for old age which are exempt from income tax pursuant to Section 6 paragraph 9 point p) of the income tax Act, as effective from the date of entry into force of this Act, i.e. an amount of 50 000 czk. Czk, reduces by the amount of employer's contributions exempted under that provision, as effective before the date of entry into force of this Act, i.e. the amount of the employer's exempt contributions to supplementary pension insurance with a state contribution, supplementary pension savings, pension insurance and private life insurance arising before the date of entry into force of this Act; the existing legislation shall apply to such contributions as a result of the transitional provision referred to in point 3. This construction ensures that the taxpayer will be exempted from employer's contributions to old-age savings products in the maximum amount of CZK 50,000.

Re point 5:

The transitional provision provides that the maximum total limit for contributions to tax-supported products for old age, which may be deducted from the tax base pursuant to paragraph 15 of the income tax Act, as effective from the date of entry into operation of this Act, i.e. an amount of EUR 48 000 Czk is reduced by the total contributions deducted by the taxpayer from the tax base for the tax year in question pursuant to Section 15 para. 5 and 6 of the income tax Act, as effective before the date of entry into force of this Act, i.e. the amount of contributions to supplementary pension insurance with a state contribution, supplementary pension savings, pension insurance and private life insurance incurred before the date of entry into force of this

Act; the existing legislation shall apply to such contributions as a result of the transitional provision referred to in point 3. This construction ensures that contributions to old-age savings products of a maximum amount of CZK 48,000 will always be deducted from the taxpayer's tax base. including contributions to the long-term investment account.

Part Three, Article IV

Amendment of the Code of the Enforcement

Re points 1 and 2 [Section 34 (3)]:

In practice, there are unnecessary costs in providing synergies on the part of financial market entities to bailiffs. For example, some bailiffs send questions about a single debtor to all financial institutions on the financial market without any pre-order, e.g. in accordance with the procedure laid down in Section 33d of the Code of the Enforcement. According to the financial institutions, in some cases these have to deal with over one million requests for synergies per year, resulting in millions of costs. It is proposed to extend the regulation in Paragraph 34 of the Code of the Enforcement (for financial institutions) which is used as well as other financial market entities for which the EA uses the abbreviation of financial institutions (insurance companies, investment companies and investment funds, securities dealers, pension companies, pension funds under specific legislation and the Financial Market Guarantee System). This adjustment should address the problem of excessive costs in providing synergies in a similar way as it has been resolved for financial institutions.

Part Four, Article V

Amendment to the Financial Arbiter Act

Re points 1 and 2 [Section 1 (1) new point (l) and Section 3 (1) new point (l)]:

The authority of the Financial Arbiter is also extended to individual savings account managers**.**

Part Five, Article VI

Amendment to the Bonds Act

Re point 1 [Section 6 para. 1 point (g)]:

The terminology of the requisites of the bonds is specified, specifying the identification of the first acquirer who is the owner of the bond only until it is transferred by the endorsement (the change of the owner is therefore not marked on the front copy). A security is validly issued when it meets the statutory requirements and becomes the property of the first acquirer. See also Section 4 para. 2 of Bonds Act.

Re point 2 (Section 9):

The purpose of the amendments is to eliminate duplication between the issuance conditions and the prospectus, if prepared. According to the currently valid and effective legislation contained in Section 9 of Bonds Act, the issuance conditions always contain at least a reference to the information contained in the prospectus. Thus, where a prospectus is prepared, the relevant information is either duplicated in both the issuance conditions and the prospectus, or the issuance conditions merely refer to the information contained in the prospectus. In our opinion, this does not provide the investor with any extra comfort or protection and unnecessarily burdens the issuance conditions with the information already included in the prospectus. The

proposed text contains an obligation to refer in the issuance conditions to the information contained in the prospectus only with respect to the most essential information in case of which this duplication does not represent a serious problem (paragraph 1) or information that is relevant to each of the specific cases provided for in Bonds Act or different types of bonds (paragraph 3). In other cases, an obligation to refer to the issuance conditions of the information provided in the prospectus is proposed to be omitted and such information should be contained in the issuance conditions only in the event that the issuer does not prepare and publish a prospectus (paragraphs 2 and 4). The extent and form of the information in the prospectus is governed by EU regulations.

Re point 3 (new Section 9a):

Re paragraph 1: If a bond is publicly offered and if prospectus is not published until the date of the issue and if it is so-called below-the-limit issue, the issuance conditions must also contain other requirements. Section 9a of Bonds Act is proposed also with regard to the so-called Corporate Bond Scorecard, the aim of which is to provide retail investors who do not have experience with a similar form of investment, or who lack advanced financial literacy, a simple and fast tool for initial assessment of bonds. Based on this non-legislative tool which was created by the Ministry of Finance, the legislator subsequently formulated legal provisions which must be included in the issuance conditions, so that the investor could have a picture of the overall situation and the creditworthiness of the issuer, the history of its emissions, the reason why emits etc. The addition of the issuing conditions in paragraph 2 to this effect aims to increase the protection of bond investors. The issuer must respect these obligations of extended issuance conditions whenever it does not prepare a prospectus and it is a so-called below-the-limit issue, i.e. emission of up to EUR 1 million.

Re paragraph 2 (b): Bonds currently emit also recently established companies, for which there is the risk that they will not be able to meet their commitments still higher than is the case of companies, which have been operating for some time. The problem is also the difference between the issuer's commencement date of operating and the date of its establishment, as the issuer can purchase a “ready-made” company that did not operate but was founded e.g. five years ago. Another thing are special purpose companies (SPV) financing companies within the holding that also do not have a long history. Indication of the year and month of commencement of operation will help investors to better assess the risk associated with short-term operating companies and, in the case of special-purpose companies, together with other points in this proposal, indicates the need to verify the liability statement, financial guarantee and consolidated results of the group.

Re paragraph 2 (c): The issuer's primary business description enables the investor to obtain a better understanding of the sector, in which the issuer operates. Based on such information, the investor assesses the potential of the industry, the company's market position, market saturation and other information. This, in the context of other information, provides a more comprehensive view of the issuance.

Re paragraph 2 (d): The minimum investment threshold’s main goal is to inform investors about the minimum amount they must spend to buy bonds. Investor can be particularly interested in this due to the diversification, since he/she distributes a limited investment budget resources among several investments. The main reason is therefore an increase in transparency and awareness, which contributes to the overall evaluation of the issue.

Re paragraph 2 (e): The main reason for including this provision (total issue volume) is again to raise the transparency and awareness, which contributes to the overall evaluation of the issue, primarily in terms of future financial analytical projections.

Re paragraph 2 (f): The purpose of the issue, together with the business plan, informs, why the company issues bonds, more precisely, answers the question, why the company borrows. Also based on this, the likelihood of an investor's return on investment can be better assessed in the overall context of the issue. Purpose of the issue should be one of the first information that investor examines, as he should invest in industries, which are known to him or he is able to gather enough information about them.

Re paragraph 2 (g): The planned debt-to-equity ratio (active debt policy) is a very important factor for the investor. The investor usually lends the money to the company at the time it makes sense for him, but if the company would use twice as much of another debt in the next period and the investor had known this in advance, then he would have not probably invested in that company before.

Re paragraph 2 (h): In the prospectus, the investor shall acquaint himself with important and additional information. In case, in which the prospectus has not been approved by the Czech National Bank or the supervisory authority of another Member State of the EU, this information should also be communicated to the investor.

Re paragraph 2 (h): Provision of the Section 21a of the Act on Accounting regulates the mandatory disclosure of financial statements for entities, which are listed in the public register or for those, for which a special regulation requires so. However, in practice, not all issuers publish their financial statements or do not publish them before the deadline. It is therefore proposed that the issuance conditions should also include this information on the issuer's annual reports and financial statements. It is required to publish financial statements or annual report for the last two financial years, and since those two financial years mostly contain a reference to a previous period, it is possible to take into account the situation retrospectively for the past three years. The audited financial statements then determine the accuracy and increase the credibility of the data, and if the auditor's issues a qualified opinion, the going concern of the company is then questioned. The cash flow statement provides information on income and expenses and thus shows the actual flow of cash. Its existence is very important annex to the balance sheet and profit and loss account as on the basis of this statement can be better determined, for example, the solvency of the issuer. All information included in this provision thus aim at the necessary increase in transparency and a better ability to evaluate risk by the investor through financial analysis.

Re paragraph 2 (j): Very important provisions is amended in particular with regard to holding structures and special purpose companies (SPVs), which finance assigned companies within the holding. In the case of bonds being issued by subsidiaries, it is important to assess the issue in terms of holding structure using consolidated statements, financial guarantees and liability statements. Therefore, in the case of a liability statement or a financial guarantee by the parent company, the investor should also check that guarantor. It is therefore important to attach such facts and financial statements. All information included in this provision thus aim at the necessary increase in transparency and a better ability to evaluate risk by the investor through financial analysis.

Re paragraph 2 (k): Distributors and arrangers of an issue are also indicators, by which the quality and risk of the issue can be assessed. If it is an established, large, well-known, reputable institution under the supervision of the CNB, it will not automatically be a non-risky investment, but it will certainly be an investment with a probably lower risk than in a case of a distributor (person, institution), which is not supervised by the CNB. The name, registered office and identification number of these persons help the investor to identify and distinguish the persons, who are offering the issues.

Re paragraph 2 (l): Collateral is considered an important factor in the purchase of a bond,

especially if the issuer is already in debt. The importance of collateral grows with the probability of repayment problems. In the case of a bond purchase from an issuer with a higher rate of loans or worse financial results / indicators, collateral is absolutely essential. Information on what is secured or not secured repayment of the amount owed greatly helps in the selection and investment in the bond and possibly reduces losses in case of default.

Re paragraph 2 (m): The company management and information about its individual members point to the transparency, quality, skills and experience of the company. In practice, it may also happen that management members bankrupt one company and then start or work for another, which may or may not indicate risk. Publication of information about individual management members helps investors in the overall assessment of the issue.

Re paragraph 2 (n): This provision is particularly important with regard to holding structures and ready-built companies financing companies and subsidiaries within the holding. Where bonds are issued by subsidiaries, it is important to assess the issue in terms of holding structure using consolidated financial statements, guarantees and overall ownership structure. This, among other things, helps the investor to determine, for example, whether or not the owner is a fraudulent person, information about companies within the holding, associated risks, etc.

Re paragraph 3: In view of transparency and increased protection of investors, it is proposed that the issuer or other person offering the bond should be obliged to publish the issuance conditions on its website.

Re points 4 [Section 10 (2) (b)]:

It is proposed that, in cases where there are only changes of an administrative or technical nature, or where there is a change that does not adversely affect bondholders, the issuer is not obliged to convene a meeting of bondholders. This amendment is intended to help to provide greater flexibility, and investor protection will not be affected. When changing the issuance conditions in accordance with these points, the issuer will have to exercise considerable caution, precisely in view of any future disputes with bondholders. However, this does not mean that this regulation will not be used in practice by issuers under certain conditions, precisely for the purpose of administrative changes (change of the issuer's registered office or other data of the issuer or one of the agents, etc.) or corrections of certain errors in the emission conditions. In practice, the original text “for a change that does not concern the position or interests of bondholders” did not work precisely because it did not allow changes in the emission conditions that would be neutral in their impact or even positive in relation to bondholders.

Re point 5 [Section 11 (3) (a)]:

This is a legislative-technical change of references.

Re point 6 [Section 21a (2)]:

This is a legislative-technical change returning the unintentionally omitted legislative abbreviation.

Re points 7 and 8 [Section 23 (5)]:

The provision is liberalized in favour of the issuer. Provisions regarding rights of owner of the bond who disagreed with a change adopted in the holders meeting and in this respect could apply for early repayment of the nominal value of the bond, are proposed as dispositive. In view of the principle of *vigilantibus iura scripta sunt,* it seems just that a person who has not even attended a meeting of owners does not have the right to early repayment. Even non-professional bondholders should, in accordance with the principle of *vigilantibus iura scripta sunt*, actively exercise and exercise their rights, including voting at the owners' meeting. The law here quite

rightly gives the possibility of early repayment to bondholders who voted against the proposal for a change of fundamental nature at the meeting, i.e. exercised their right to vote, but were over-voted by a majority of other bondholders. At the same time, there should be no departure from the law to the detriment of the weaker party, since the law will not newly grant this right to any bondholder, whether from the ranks of professional customers or retail.

Re point 9 [Section 23 new paragraph 6]:

It is necessary to eliminate debt type MREL (minimum capital requirements and eligible liabilities) with regard to the right to early repayment.

Re points 10 to 13 [Section 25 (7) and Section 26 (1), (2) and (3)]:

These are mainly changes of legislative and technical character. It is also proposed in Section 26 (1) of the Bonds Act to simplify and speed up the process of issuing government bonds. It is newly proposed to publish the issue conditions in a manner allowing remote access and not further in the Act Collection.

Re point 14 [Section 26 (4)]:

The current legislation entrusts the sale of government bonds issued under Czech law exclusively to the Czech National Bank. However, the Czech National Bank ensures the sale of government bonds through the organisation of auctions. However, in some cases this format may be limiting for the issuer (e.g. foreign-change issues under Czech law, non-public offer, etc.). Since there is no substantiated reason to restrict the way government bonds are sold under Czech law, it is proposed that the range of entities that could sell government bonds be extended. For other types of bonds, there is no limit to how they are to be sold on the primary market. The sale of government bonds through another person will be carried out on the basis of an agreement of the Ministry with the Czech National Bank, as significant sales can affect the pricing and stability of the financial market.

Re point 15 (Section 34):

The provision pre-ceases the definition of subordinated bond and lays down rules for satisfying claims on subordinated bonds. Measures similar to entry into liquidation, and in particular measures similar to the issuance of a bankruptcy decision in the case of a foreign person, means the relevant foreign equivalents of the issuer's entry into liquidation or insolvency. The provision is not for preventive restructuring. In view of the fact that this is a reference to a foreign regulation, the provision cannot be formulated in case terms and in this respect it copies the current wording of Section 34 of the Bonds Act.

The points 16 to 18 (heading of part four, new Section 40a and a change of Section 41):

The provision is supplemented with regard to administrative punishment in relation to the new Section 9a of the Bonds Act. A fine of up to 10 million may be imposed for breaches of the prospectus rules. Czk, here the severity is lower, therefore a fine of CZK 1 million is proposed.

Part Seven, Article VIII

Amendment of the Capital Market Business Act

Re point 1 (Section 54 para. 2):

It proposes the newly unlimited factual and local jurisdiction of the permanent arbitral tribunal of the regulated market organizer to decide property disputes between natural and legal persons. In the current legal situation, where, for example, consumer disputes have been excluded from arbitration decisions, it seems appropriate that competition should be established between

institutions operating permanent arbitral courts. That is, competition that can be expected to improve the quality and integrity of arbitration. The operators of regulated public markets are credible persons and therefore it can reasonably be assumed that, with regard to the operation of a permanent arbitral tribunal, they will promote the quality and integrity of its decision-making activities, regardless of whether the subject matter of the disputes decided is securities or commodities traded on the relevant regulated market or whether the dispute arises from other transactions.

The extension or unification of the possibility of dispute resolution under uniform rules in the form of institutionalized arbitration, which is regulated in a way that provides sufficient guarantees of transparent dispute resolution, will contribute to the re-establishment of the credibility of arbitration as an out-of-court way of dispute resolution in the Czech Republic.

The current limitation of the legal jurisdiction of these permanent arbitral courts limits the number of cases entrusted to those courts, making it difficult for them to operate. The proposed legislation would place the work of these permanent arbitral courts on a more rational commercial basis. At the same time, it can reasonably be assumed that the proposed change in legislation will benefit local entrepreneurs who are looking for a settlement to which they can entrust the decision-making of their property disputes without fear of a lack of integrity of management or quality of decision-making. Last but not least, the proposed amendment could also benefit domestic civil courts, which could lose the idea of larger property disputes and, after all, parties that conduct other proceedings before domestic civil courts, since the spare judicial capacity would be available for faster decision-making of other judicial agendas.

Re point 2 and 3 (Section 163 para. 4 and 7)

By inserting a new part of the 13th part into the Capital Market Business Act, a number of obligations are imposed on the persons referred to therein, i.e. the managers of the long-term investment account, some of which should be enforced by public sanctions, since private law sanctions would be manifestly insufficient. Therefore, the following offences are adjusted to the selected obligations. The penalty for breaches of the obligations of the above persons is a fine of up to CZK 5 million.

Re point 4 (Section 193 para. 3 and repealment of the footnote n. 27)

This is a legislative-technical regulation, where the references in the footnote are clearly outdated and, moreover, they are just examples. It is preferable to leave the edit without these references.

Re point 5 (new part 13, Section 193a to 193c):

Re part 13: New provisions on the so-called individual savings account, which is a financial product aimed at generating savings for old age, are inserted. It is an alternative to the already existing and state-supported financial products in the financial market (participation/transformed funds and life insurance) focused on the accumulation of assets for security purposes in post-productive age. One of the motives is from the World Bank's report on the capital market in the Czech Republic, which recommends the development of the capital market in the Czech Republic and according to which the introduction of some form of individual savings account (ISA) would be a key step to stimulate investors' interest in the capital market). The ISA account is widely used in developed markets and helps generate greater investor interest in managing its retirement savings. With this new financial product, the state would allow citizens to invest in other financial products that can offer a higher possible return, even if at the cost of a higher risk of devaluation of the invested funds. This account could record, for example, shares, bonds, shares in an investment fund or a foreign investment fund, bank accounts (receivables for payment of funds from an account in Czech or

foreign currency) or hedging derivatives to cover interest rate or currency risk. The 60 + 60 rule (the product cannot be cancelled or withdrawn before the age of 60 and the product has to be negotiated for at least 60 months) would be maintained even if the assets in this account were "transformed", for example if the shares were sold and bonds would be purchased instead of them or the money raised would be deposited in a bank account. Similarly, it will be possible to change the portfolio of investment funds and eventually use the money obtained from the repayment of bonds. Should the 60 + 60 rule be breached, the funds collected in this way would have to be taxed as income (they would be deposited on the account untaxed).

In relation to long investment account, it is a new product, especially in terms of tax support, otherwise it is a kind of superstructure for existing products - existing products will be registered in this account and the same rules will apply to them. In this respect, there is no change in the fact that deposits are accepted by banks and individual portfolio management is provided by securities trader and some investment companies. The introduction of long investment account does not violate existing legal obligations, only new obligations related only to long investment account are added. The long investment account administrator can use outsourcing services, the existing rules apply. It is the responsibility of the long investment account manager to manage the long investment account as the obligation to manage the long investment account results from the contract on the long investment account. Only the long investment account administrator has a relationship with the customer (and is thus also responsible for the outsourcing provider). In other words, the introduction of long investment account is without prejudice to the actual provision of related financial services.

Any dispute may be resolved alternatively before the Financial Arbiter.

Re Section 193a: The provision sets out the basic parameters of an individual savings account contract. Under this agreement, the manager of the individual savings account undertakes to set up an individual savings account for its owner, to maintain this account, to allow depositing of funds into it, withdrawing funds from this account or transfer assets from this account to another individual savings account of the same owner. At the same time, the manager of an individual savings account may undertake to manage the assets held in that account in accordance with his authority.

Re Section 193b: Due to the fact that the provisions expect tax advantage of this financial product, including the impact in case of premature withdrawals from this account, there is an obligation to of the administrator of this account to strongly warn the owner of the individual savings account on the tax implications and to request written confirmation of understanding of these consequences before the assets are taken out of the an individual savings account. Breach of this obligation is an offense. The administrator of the individual savings account to transfer the assets without a legal reason – i.e. for example without the owner of such an account being asked to do so or on the basis of an execution carried out on the debtor's assets. Transfer shall also be deemed to have been effected if the corresponding consideration is not provided (e.g., the sale of securities at a price which does not correspond to their actual value).

Re Section 193c: The provision regulates what financial products may constitute assets on the individual savings account. First of all, it is cash, whether in the form of cash and or cash accounts. Furthermore, these are simple investment instruments, typically stocks and bonds traded on the stock exchange. They may also be securities issued by investment funds, government bonds and covered bonds. Riskier instruments should not represent more than 10% of the value of the portfolio unless it is a so-called wealthy investor who is able and willing to bear the potential risk of higher losses. Due to the need to hedge against currency or interest rate risks, hedging derivatives may also be recorded on the account. When selling an asset that is held in the individual savings account, the acquired cash received from sale stays of the

account.

Part Seven, Article XIII

Amendment to the Act on Administrative Fees

<u>Re points 1 to 7 [item 65 point 9 (d), (f) and (i) and new point 12, heading to note in item 65, new note 2, and item 66 point 9 (q)]:</u>

The adjustment of administrative fees related to acts in the collective investment sector is revised. In particular, the new regulation reflects the real cost and complexity of individual activities within the licensing or registration procedure (especially for the depositary's registration, today's fee of CZK 2,000 is inadequate, when it is effectively equivalent to a licensing procedure). The administrative fee for renewal of registration shall be paid by the legal person pursuant to paragraph 1 Section 15 of the Act on Management Companies and Investment Funds no later than 30 days before the expiry of the registration. This period shall be set in the light of the experience of the supervisory authority, which, in the event of a period of less than 30 days prior to the expiry of the registration, might have difficulties in administering that registration. The proposed provision limits the duration of registration to a specified period, while allowing the registration to be extended by payment of an administrative fee. The maturity of the administrative fee for the extension of registration is regulated in the subsequent amendment to the Act on Administrative Fees in the note to item 65 of the administrative fee list. In others, the procedure of the administrative authority and the taxpayer in collecting and paying the administrative fee is governed by a general regulation in the Act on Administrative Fees (see in particular Section 5 Administrative Fees Act). With the same optics, a fee is also introduced for the registration of the person referred to in Section 15 (1) Act on Management Companies and Investment Funds. At the same time, entry fees are common in other sectors and correspond, among other things, to the costs of the activities related to the licensing procedure. It is therefore proposed to introduce entry fees for all types of domestic funds (currently some types of mutual funds are not subject to a fee). The fee for proceedings no longer in place in relation to the authorisation of the designation of an investment fund shall be abolished.

To Article IX

Transitionary provision

In view of the consistent approach, it is proposed to introduce a transitional provision also in this case where it is interfering with the adjustment of the rates for individual subjects in the tariff (i.e. substantive law). For amendments encroaching on procedural law, a transitional provision is necessary with regard to legal certainty, in the event of such a change, there is no transitional measure to the detriment with regard to legal certainty and it follows a consistent approach in the drafting of legislation.

Part eighth, Article X

Amendment to the Act on Bankruptcy and Ways of its Resolution (Insolvency Act)

<u>Re Section 172 (2):</u>

The proposed amendment also aims to incorporate receivables from subordinated bonds issued under the law of a foreign state into the relevant regulation.

To Article XI

Transitionary provision

The transitional provision is intended to address the satisfaction of claims already lodged to which the new regulation is not to be covered for reasons of legal certainty.

Part Nine, Article X

Amendment to the Act on Supplementary Pension Savings

Re point 1 (Sections 94 new para. 3):

The change responds to the introduction of a new type of dynamic participation fund – the so-called ad fund – and ensures that pension save participants will create more types of funds, not just conservative and alternative. The aim of this regulation is to prevent all existing participating funds from being converted into alternative funds with lower regulation. From the point of view of the Supplementary Pension Savings, the alternative participant fund is a fund of a pension company pursuant to Section 17 (1) (e) of the Supplementary Pension Savings and is therefore a separate taxpayer. From the point of view of Act No. 235/2004 Coll., on Value Added Tax, as amended, the alternative participation account is classified under the term "participation fund".

Re point 2 [new Title VI - Sections 108a to 108c]:

New form of a participation fund is introduced, which may be oriented on very dynamic investments, the so-called alternative participation fund.

Re Section 108a: Participation funds have the amount of fees regulated by law, which is not a significant limit in investments of such fund to potentially profitable assets, such as in private equity funds. Such investments may be unavailable to current participation funds, as they are cost-demanding. It is proposed to allow the emergence of a new type of participation fund that would not be so regulated in terms of fees.

Re Section 108b and 108c: The investment possibilities of the alternative participation fund shall be adjusted, which are wider than in the case of a normal participant fund. For example, investments in public infrastructure (see definition of the concept in the Construction Act), real estate or unlisted companies are explicitly permitted. It is assumed that the assets in which it will actually be invested will be more specified under the alternative participation fund statute and the chosen investment strategy will be communicated appropriately to the client. The intention is to allow more competition between pension companies. They are expected to continue to act with professional care and in the best interests of participants.

Re point 3 and 4 [Section 115 para. 4 and deletion of para. 5]:

The amendments are designed to align these provisions with applicable accounting standards. With a view to introducing, appreciating and providing information about financial instruments in the notes in the financial statements under international accounting standards (IFRS), certain provisions of the law and its implementing legislation are superfluous or even contradictory. It is therefore proposed to omit the fair value adjustment and the authorisation to issue an implementing regulation in Section 115 para. 4 and 5 of the Supplementary Savings Pension Act and remove the reference to valuation under the Supplementary Pension Insurance Act (Section 188 para. 3 of the Supplementary Savings Pension Act) and the exemption for the valuation of government bonds of OECD Member States (Section 193 para. 4 of the

Supplementary Savings Pension Act).

Re point 5 [Section 136 para. 3 and 4]:

Legislation follows up to a new type of alternative participation fund and sets out that pension company cannot comply with a party's request to conclude a contract on supplementary pension savings with the strategy of saving including alternative participation fund if the participant rejects to provide information specified in Section 136 para. 1 of Supplementary Savings Pension Act or submits information evidently incomplete, inaccurate or false.

Re point 6 and 7 [Section 170 para. 1 and Section 188 para. 3]:

The amendments are designed to align these provisions with applicable accounting standards. With a view to introducing, appreciating and providing information about financial instruments in the notes in the financial statements under international accounting standards (IFRS), certain provisions of the law and its implementing legislation are superfluous or even contradictory. It is therefore proposed to omit the fair value adjustment and the authorisation to issue an implementing regulation in Section 115 para. 4 and 5 of the Supplementary Savings Pension Act and remove the reference to valuation under the Supplementary Pension Insurance Act (Section 188 para. 3 of the Supplementary Savings Pension Act) and the exemption for the valuation of government bonds of OECD Member States (Section 193 para. 4 of the Supplementary Savings Pension Act).

Re points 8 to 10 [Section 190 and Section 191 para. 3]:

The restriction according to which it was not possible to be a participant in the supplementary pension savings and a participant in the transformed fund at the same time is removed. This should now be possible, but such a party loses the right to state contribution to contributions paid to pension insurance (i.e. in relation to the transformed fund). The restrictive provisions allowing the transfer of the participant's funds from the transformed fund to the participation funds by concluding a supplementary pension savings contract only with the pension company that managed the transformed fund, are repealed. Another accompanying measure addresses not counting the same saving time twice. It is possible to transfer assets from the transformed fund to the participation funds, the reverse transfer is not allowed. It is possible to transfer from the transformed fund to the participation fund of another pension company. The aim of these changes is to support the mobility of participants from transformed funds to participant funds.

Re point 11 [Section 192 para. 3]:

This is a clarification of the provisions on the calculation of a pension fund's remuneration from the profits of a transformed fund so that it is clear that it generally applies to any profit or loss of the transformed fund, whether in the current or previous financial years, and how to proceed when calculating the remuneration.

Re point 12 [Section 193 para. 4]:

The amendments are designed to align these provisions with applicable accounting standards. With a view to introducing, appreciating and providing information about financial instruments in the notes in the financial statements under international accounting standards (IFRS), certain provisions of the law and its implementing legislation are superfluous or even contradictory. It is therefore proposed to omit the fair value adjustment and the authorisation to issue an implementing regulation in Section 115 para. 4 and 5 of the Supplementary Savings Pension Act and remove the reference to valuation under the Supplementary Pension Insurance Act (Section 188 para.3 of the Supplementary Savings Pension Act) and the exemption for the valuation of government bonds of OECD Member States (Section 193 para. 4 of the Supplementary Savings Pension Act).

Part Tenth, Article XII

Amendment of the Capital Market Business Act

Re points 3 to 5 [Section 11 para. 6 and new paragraphs 6 and 7]:

The amendment now allows an investment company that is not entitled to exceed the applicable limit to be, as an entrepreneur, a trustee of a trust and to be entitled to value the assets thus managed and keep accounts for these assets. This adjustment will be in line with Article 6(3) point a) of UCITS and article 6 (4) point a) AIFMD, which enable investment companies to carry out these activities. Section 11 article 6 and 7 have been adjusted in such a way as not to distinguish between a sublimation and an over-the-top investment company if the investment company is to be a trustee. In paragraph 8, following European Union rules (article 6 (4) of the UCITS and Article 6(6) of the AIMFD), the trustee's activities are subject to the client negotiation rule (in relation to the individual portfolio of management) and to the capital rules, where 0,02 % of the value of the assets requires both the K-factor for the assets managed and the rules on the capital of the investment company. The management of the trust fund implies significant liability risks for the investment company (in the role of trustee). However, the investment company capital at a certain standard level, which, according to Section 31 of the management companies and investment funds Act, is increased by '0,02 % of the sum of the assets of the investment funds and foreign investment funds managed by it exceeding eur 250 000 000, but not more than EUR 10 000 000'. Assets managed individually by an investment company shall be taken into account in the capital requirement pursuant to Section 33 para. In this article, it is not the first time that the commission has However, assets in managed trusts are not taken into account at all and should therefore be taken into account in principle in the same way as assets entrusted to the management of a securities trader, also in view of the conditionality of such activity of investment services licenses. Both Directives require this service (management of individual investment portfolios) to be covered by Article 2 para. 2 and Article 15, 16, 24 and 25 of MiFID II. In this way, it is not the first time that the aid has been 2 is transposed in Section 4b para. 3 of the Capital Market Business Act and its application in this case is irrelevant. Article. 15 regulates the initial capital (it will now be regulated by IFD) in relation to the granting of the authorization, but again it is not clear how this should apply when investment companies have their own requirements of the ZISIF and the introduction of an initial capital requirement for sub-subsidiary investment companies, which is not included in this amendment and is foreseen to be a solution within the framework of the IFD transposition. Article. 16 of the MiFID regulates organizational requirements and largely complies with the requirements for the manager's management and control systems. Finally, Articles 24 and 25 of MiFID modify the rules of conduct or approx. Section 15 to 15k Capital Market Business Act. If IS is governed by Section 33 of the ZISIF, then it must comply with this. It appears appropriate to apply 'reasonably' as they are neither investment instruments nor similar products. IS which have a license service pursuant to Section 11 para. (c) the ZISIFs will continue to benefit as they will be able to manage a wider portfolio of trusts. IS licensed under UCITS will not be able to be trustees. The different wording of UCITS and AIFMD makes this possible, as is also the result of the ZISIF in force today, which has not yet been contradicted. Additional own fund means capital held in excess of the requirements under Sections 30 and 31 of the ZISIF and according to capital requirements in relation to investment services (see Section 33 of the Managements companies and investing funds Act).

Re point 6 [Section 15 new paragraphs 2 to 4]:

The amendment provides for a registration fee and an annual renewal fee for persons pursuant to Section 15 of the ZISIF, since their registration is naturally associated with costs. The related

rules, including erasure, shall be laid down.

Re points 7 to 8 [Headings of Section 21 and 48, amendments in Section 21 para. 1, Section 48 para. 1 and Section 517 para. 1]:

The amendment terminologically aligns the concept of "personnel equipment" with the Capital Market Business Act and the Act on Banks into "personnel resources".

Re points 9 to 16 [Section 38 para. 1 point s), new point t) and amendments in point u), repealment of para. 2, amendments in Section 39 para. 2 and 5 and new paragraphs 3 and 4]:

The amendment repeals the special regime of activities pursuant to Section 38 para. 2 Management Companies and Investment Funds Act following Section 38 para. 1 point s) of the Management Companies and Investment Funds Act. The administrator of the investment fund can therefore continue to entrust another person with the performance of the individual activities in which the administration is based, but it is always a delegation and the responsibility for their implementation remains with the administrator. This regulation clarifies and facilitates the administration regime for the entities concerned in the collective investment sector. Article 38(1) of the the Management Companies and Investment Funds Act included a list of services usually included under the concept of administration, for which the Czech law considered that they always fulfilled the definition of an investment service. In the first subparagraph of paragraph 1, the following s) it was established that these activities can be carried out both on their own and can be procured, in the event that the conditions for their performance are not met (in particular pursuant to Section 39 of the Management Companies and Investment Funds Act), i.e. in particular if the person does not have the appropriate authorization. The main reason for the new regulation is that EU directives provide for only one administrator who is responsible for carrying out all the activities listed in the Annexes to those Directives. Even in the case of the duality of the operator and the administrator following the national arrangements in the Management Companies and Investment Funds Act, it should not be permissible to allow the transfer of liability to another person, as is the case where, following Section 38 para.1 point s) of the Management Companies and Investment Funds Act the administrator only "procures" the performance of activities pursuant to Section 38 para. 2 of the Management Companies and Investment Funds Act. The amendment also amends Section 39 of the Management Companies and Investment Funds Act so that a person authorized to administer an investment fund does not need additional authorization to provide investment services to carry out these activities. A special authorization would therefore only be needed if these activities were delegated by the administrator to another person who would already have to have the relevant authorization (which may be an investment company's authorization to provide investment services or an authorization under the Capital Market Business Act). Furthermore, the amendments in Sections 38 and 39 of the Management Companies and Investment Funds Act are also adapted to the regulation in Sections 482, 483, 485 and 487 of the Management Companies and Investment Funds Act.

Re point 17 [Section 15 new paragraphs 2 to 4]:

The current arrangements go beyond the requirements of EU law, where EU law (Article 21(8) of the AIFMD as well as In Articles 90 and 91 of AIFMR) requires owning only in relation to financial instruments and not to other assets.

Re point 18 [Section 15 new paragraphs 2 to 4]:

A similar change is made as in Section 68 ZISIF. At the same time, the obligation to have depositaries with the so-called EuVECA and EuSEF funds is explicitly removed. This obligation goes beyond European law for the so-called EuVECA and EuSEF funds and should

be inferred from existing legislation, so it is not a change in kind.

Re point 19 [annulment of Section 112]:

The provision is generalized and moved to the new Section 187a.

Re point 20 (Section 162 para. 3):

It simplifies the arrangements for convening a general meeting in relation to owners of non-voting investment shares, where they do not have to be invited and publication on the website is sufficient.

Re point 21 (Section 169 para. 1):

The provision that the sub-fund statute may be incorporated into the Statute of the Investment Fund shall be deleted, in so doing, if this does not reduce the comprehensibility of the Investor Statute. A rule is laid down that an investment fund which creates sub-funds must have a status only in relation to those sub-funds. The amendment aims to make the status of investment funds creating sub-funds clearer and simple.

Re point 22 (new Part 5):

The amendment creates a new designation for the trading company of the investment fund, which is a joint stock company – “investment fund with fixed capital”. This designation may be replaced by the abbreviation “SICAF” (in French: Société d'Investissement à Capital Fixe), since this abbreviation is worldwide known and comprehensible, thereby making it more attractive. The administrator of a closed-end investment fund issues securities with which the right of repurchase by their issuer is not attached and, after raising capital from investors, it is closed. The purpose is also to allow ordinary fixed-capital joint stock companies to create sub-funds similarly to a variable share capital company, which also compares the disadvantage of the domestic capital market compared to foreign markets, where “normal” joint stock companies can create sub-funds.

Re point 23 (Section 170 new paragraphs 4 to 6):

It is proposed that an investment fund, which is a limited partnership for investment certificates, could create sub-funds. The current legislation allows only variable share companies (SICAV) to create sub-funds, but there is no reason to prevent this possibility from extending to limited partnerships to investment certificates. The amendment introduces a new rule that a social contract may determine a different division of profits and losses than permitted by Section 126 para. 1 sentence of the First Commercial Corporations Act, for example, that profit or loss is borne only by the company and not by general partners.

Re point 24 (new Section 187a):

The obligation to treat investors equally between the manager and the administrator with regard to all types of investment funds is expressly laid down. Already today, this obligation implies implicitly from the general obligation of the manager and the manager of the investment fund to act fairly and in the best interests of investors, with regard to mutual funds being explicitly enshrined in the Management companies and investment funds. It is a generalized regulation contained today in Section 112 of the Management companies and investment funds.

Re points 25 to 27 (Section 193 para. 2 point c), d) and new paragraph 6)

The deadline for determining the value of an investment fund unit trust investing in real estate or participating in real estate companies shall be aligned with relevant EU rules. The AIFMD provides that the rules on the valuation and determination of the value of participations in investment funds are regulated by national law and in the core documents of the investment

fund (Article 19(2) and (3) of the AIFMD). At the same time, however, it introduces basic conditions and that the valuation and determination of the value of participation in the Fund must be carried out with regard to the investment strategy and, at the very least, whenever take place. It also sets a fixed maximum period once a year (Article 19(3) second subparagraph of the AIFMD and Article 72(1) of the AIFMR).

The right to purchase the unit certificates of these investment funds is also adapted to this. At the same time, the period from 3 years to 2 years, which has been running since the creation of the fund, when the unit certificates of these funds do not have to be purchased, is shortened. However, it is proposed to maintain the current deadline for entities that are not harmonized by EU law (i.e. qualifying investor sub-limit funds).

Re point 28 (new Section 193a):

There is an obligation for funds other than mutual funds and SICAV to issue holdings at the value of fund capital (NAV). The purpose of this adjustment is to prevent distortions of the assets of existing investors in the event of participations being issued at a different price.

Re point 29 (new Section 196):

It is aligned with the rules on collective investment with applicable accounting standards. First of all, a possible collision of the text of the Management Companies and Investment Funds Act with Section 4a of Decree No. 501/2002 Coll. is avoided.

Re point 30 (new Section 283b):

Funds that invest as private equity may use the internationally recognized abbreviation "SICAR", and this abbreviation also provides related protection in Sections 614, 618 and 636 of the Management Companies and Investment Funds Act..

Re point 31 (Section 295a):

The change is related to the change in Section 325a of the Management Companies and Investment Funds Act

Re points 32 and 33 (Section 315 para. 1, Section 316 para. 2, Section 318 para. 1 and 2, Section 319 para. 1 and 2, Section 320 para. 1, Section 322 para. 3 and 4, Section 324 para. 1 and 2 a Section 325 odst. 1, 2 and 4):

Lists of foreign investment funds in Section 597 of the Management Companies and Investment Funds Act are merged. The current regime is a specific national regulation that is not used by foreign entities and causes the Czech national bank's lists to be chaotic.

Re point 34 (Section 325a):

Due to overregulation entailing disproportionate costs, the mandatory entry in the CNB list of funds whose home state is not an EU Member State that is managed by a manager not authorized to exceed the applicable limit and which are publicly offered in the Czech Republic is abolished Section 325a of the Management Companies and Investment Funds Act expressly mentions the conditions of public offering, so it can be concluded, that offerings that do not achieve the quality of private placement can be carried out even without fulfilling the condition set out in this provision. However, the provisions must be interpreted in conjunction with Section 296 and Section 297 para. 2 of the Management Companies and Investment Funds Act, which lays down restrictions in relation to this category of funds – only a qualified investor can become an investor.

Re point 35 (Section 362a para. 1):

In view of the changes made to Section 381 and the insertion of a new Section 7, it is necessary

to make a legislative-technical change consisting in the abolition of the legislative abbreviation.

Re point 36 (Section 376 new paragraph 3):

Some procedural aspects of the liquidation of the unit trust are clarified. This is, among other things, the disclosure of information about the ongoing liquidation in the CNB's lists pursuant to Section 597 point (b) of the Management Companies and Investment Funds Act in order to ensure transparency. Instead of the manager or liquidator of the unit trust, the administrator submits a request for the deletion of the unit trust from the list of mutual funds without undue delay, after the distribution of the liquidation balance of the unit trust. Related changes are also made in Section 506a of the Management Companies and Investment Funds Act.

Re point 37 (Section 381 new point g):

In practice, there have been interpretive problems as to whether or not the Management Companies and Investment Funds Act allows or expressly excludes a conversion carried out on behalf of a unit trust (a unit trust managed by an investment company) other than those expressly mentioned. In particular, it was a case of merging an investment company with a capital company into the account of a unit trust, in a situation where a unit trust is registered as a 100% owner (partner) of the company being a member, with the rights of the owner being exercised for the unit trust by the investment company that managed the fund (see Section 102(2) of the Management Companies and Investment Funds Act). The Registry Court has registered such a transformation several times in the past in the case of qualifying investor funds, although there are doubts as to whether such a conversion is even permissible by reference to the explicit regulation of the Management Companies and Investment Funds Act (see Section 381(2) of the Management Companies and Investment Funds Act). In view of the legal uncertainty of these legal circumstances, it is therefore proposed to expressly provide for the transfer of the assets of a capital company (limited liability company or joint stock company) to a unit trust. In fact, it can be considered that there is no reason to oppose such a transfer or transfer of assets, since, in the case of an over-the-frontiers situation or any other situation in which the interests of the shareholders could be harmed by the conversion, such conversion will not cause damage to the shareholders. It therefore appears appropriate to explicitly regulate such a conversion and remove the existing legal uncertainty as to whether it is permissible.

Re point 38 (new Part 7):

Section 432a: The transfer of the assets of a capital company to a mutual fund is expressly permitted under conditions that must be fulfilled cumulatively. Such transfer is only possible if the unit trust is in the position of the sole shareholder of the company being void. An investment company with a duty of professional care must assess in advance the effects of the merger on the interests of shareholders. The law expressly states that the transfer of assets may not be carried out if such transfer would harm the shareholders or violate the fund's status. The transfer of assets may be decided only by the supreme body, the statutory body of the managing party within the competence of the general meeting or the assembly of shareholders, in the event that, according to the Statute (Section 113(1) of the Management Companies and Investment Funds Act), the issues of transformation fall within the scope of its decision-making. Before making a decision, the depositary must express whether the status of the unit trust will be infringed as a result of the transfer of assets. The possibility of annulling the transfer is excluded on the ground that, if the shareholder is a single shareholder, the possibility of invalidating the transfer of meaning is lost. It is proposed to provide explicitly that failure to comply with the conditions of admissibility will not cause legal effects.

Section 432b: The equity transfer project is drawn up by the fund administrator and the

company of the capital company that is being withered. It must be in writing, although there is no need for a form of notarial deed. The project for the transfer of assets must contain the requirements laid down by law.

Section 432c: The transfer of assets requires the authorization of the CNB in the case of collective investment funds, due to the need to insist on greater protection of these investors, with the exception of collective investment funds that invest in real estate, because there is an exception today. For funds of qualified investors, permission from the CNB is not required due to their supposed erudition.

Section 432d to 432f: The application procedure with the CNB has the character of an administrative procedure. The transfer is registered in the Commercial Register with legal effects at the time of registration. After registration in the Commercial Register, it is still necessary to fulfil some other legal obligations with regard to the transparency of such a transformation.

Re point 39 (Section 434):

Change with a view to aligning deadlines according to the Accounting Act.

Re point 40 (Section 467 new paragraph 6):

Some procedural aspects of the liquidation of the unit trust are clarified. This is, among other things, the disclosure of information about the ongoing liquidation in the CNB's lists pursuant to Section 597(a). (b) of the Management Companies and Investment Funds Act in order to ensure transparency. Instead of the manager or liquidator of the unit trust, the administrator submits a request for the deletion of the unit trust from the list of mutual funds without undue delay, after the distribution of the liquidation balance of the unit trust. Related changes are also made in Section 506a Management Companies and Investment Funds Act.

Re points 41 and 42 (Section 479 para. 1 point f) and Section 482 point f):

It is proposed to adjust the licensing requirements for the capital of the investment company, the self-governing investment fund and the chief administrator. A thorough review of these requirements by the CNB is one of the basic prerequisites for ensuring that entities have capital in the amount ensuring their proper functioning, including transparency of the origin of this capital. The current wording of the Management Companies and Investment Funds Act did not explicitly state that the CNB is examining compliance with the amount of initial capital in the licensing procedure and, at the same time, that the amount that allows proper administration/management of investment funds (as required by the Management Companies and Investment Funds Act in the context of the licensing procedure as amended) is in line with the requirements in Sections 30, 31 and 57 of the Management Companies and Investment Funds Act. In the case of management requirements, this is an explicit transposition of Article 8 (1) b) of the AIFMD and Article 7(1) of the UCITS.

Re point 43 (Section 482 point g) repeal of the point h):

The amendment relates to changes in Sections 38 and 39 of the Management Companies and Investment Funds Act.

Re point 44 (Section 483 paragraph 1):

The deadlines for certain licensing procedures under the Management Companies and Investment Funds Act are unified, as they are similarly administratively demanding administrative procedures in which more or less similar conditions for the performance of the activity are assessed (managers, qualified holdings, management and control system, etc.). The related amendment is also made in Section 510 para. 3 of the Management Companies and

Investment Funds Act.

Re points 45 to 47 (Section 485 para. 1 point c) points 5 and 6, repeal of point d) and new paragraph):

The changes are related to changes in Sections 38 and 39 of the Management Companies and Investment Funds Act. The amendment simplifies over-regulation. The act does not lay down different conditions for the performance of the administration with regard to the authorization of the manager of the investment fund in question (whether or not it is entitled to exceed the applicable limit). At the same time, it does not set different requirements in terms of substantiation of the conditions for the performance of the administration's activities, and therefore there is no reason to distinguish in this respect in the context of the licensing procedure. The special scheme of activities referred to in Paragraph 38 of the 1990 Act of Accession is hereby abolished. 2 Management Companies and Investment Funds Act, therefore the wording of point (b) in Section 487 of the Management Companies and Investment Funds Act must be deleted.

Re points 48 nad 49 (Section 506a para. 1 point a) and para. 2 point b):

The changes are related to changes in Sections 376 and 467 of the Management Companies and Investment Funds Act. Section 506a (1) a) of the Management Companies and Investment Funds Act is newly stipulated that the CNB will also decide to delete it from the CNB's list in the case of an investment fund or foreign investment fund if requested by an administrator or liquidator if it is an investment fund with a legal personality. The operator was also able to submit this application under the previous legislation. At the same time, Section 506a (2) (b) of the Management Companies and Investment Funds Act the words "termination of the mutual fund or", since this provision does not make sense in connection with Section 108 of the Management Companies and Investment Funds Act, according to which the unit trust disappears on the date of deletion from the CNB list. Furthermore, during liquidation, it is also advisable to include this information in the CNB's list and thus make it available to all persons who are based on the CNB list.

Re point 50 (Section 506b new paragraph 3):

The amendment simplifies the procedure for deletion from lists pursuant to Section 596 or Section 597 of the Management Companies and Investment Funds Act. All the situations referred to in Section 506b of the Management Companies and Investment Funds Act are similar, i.e. there is no review, nor is it reasonable to leave the possibility of submitting an appeal. Where a review is necessary, there is still a review outside the decomposition or re-examination procedure or, where appropriate, judicial protection.

Re point 51 (Section 510 new paragraph 3):

The change is related to the change in Section 483 of the Management Companies and Investment Funds Act.

Re point 52 (Section 532):

Access to all applications submitted by the CNB under the Management Companies and Investment Funds Act is unified.

Re points 53 to 55 (Section 597 point d) and e) and new points f) and g):

New lists maintained by the CNB distinguishing types of investment funds are being introduced. This distribution will simplify the traceability of information on the collective investment sector as well as information on individual investment funds on the CNB website.

Re points 56 (Section 599 paragraph 1 point h) and Section 604 para. 1 point h):

The amendment terminologically aligns the concept of “personnel equipment” with the Capital Market Business Act and the Act on Banks into “personnel resources”.

Re points 57 and 58 (Section 604 paragraph 1 point m) and para. 3 new point e):

New offences are introduced in connection with changes in Sections 376 and 467 of the Management Companies and Investment Funds Act.

Re points 59 to 61 (Section 611 new paragraphs 5 and 6 and para. 7 and 8):

In connection with the changes in Section 467 of the Management Companies and Investment Funds Act, the offence is added to the obligation to inform the CNB of changes in the facts on the basis of which the authorization to operate under the Management Companies and Investment Funds Act was granted.

Re point 62 (Section 614 paragraphs 1 point b) and Section 618 para. 1 point b):

Since amendment Management Companies and Investment Funds Act No. 119/2020 Coll., Section 531 no longer regulates the procedure for the authorization of the designation of a mutual fund.

Re point 63 (Section 614 para. 1 point o), Section 618 para. 1 point o) and Section 636 para.1):

SICAR abbreviation protection is being introduced.

Re point 64 (Section 625 para. 2):

The provision adapts to the modifications in Section 38 of the Management Companies and Investment Funds Act.

Re point 65 and 66 (Section 633 para. 1):

The amendment point extends the concept of 'investment fund assets' in the Management Companies and Investment Funds Act to be more in line with EU law. It now means the assets in this mutual fund. The problem is that the concept of asset is broader than assets under the Civil Code. This problem exists not only with regard to European legislation, but also, for example, the Accounting Act, which explicitly says 'assets and other assets' in several places. At the same time, in practice, investment funds calculate NAVs by assets and not assets, because this is a way that realistically provides a real picture of their situation.

To part eleventh, article n. XIII

Efficiency

It is proposed to take effect on 1 January 2022, as we consider it desirable that the new regulation should take effect at the beginning of the calendar year and the date of 1 January 2022 appears to be the earliest possible date, also with regard to the elections to the Chamber of Deputies in October 2021 and taking into account the length of the legislative process in the Czech Republic. In order to be more flexible in ensuring the prefinancing of the government's budgetary needs, there is an interest in ensuring that the provisions of Section 26(4) of the Bonds Act came into effect as soon as possible. In relation to the amendment to the Enforcement Code, it is proposed that effectiveness be deferred by 12 months so that entities can adapt to the new regulation and modify their information systems.

Prague, 24 August 2020

Prime Minister:
Ing. Andrej Babiš

Deputy Prime Minister and Minister of Finance:
JUDr. Alena Schillerová, Ph.D.