SUMMARY OF THE FINAL RIA REPORT

1. Basic identification data

Title of the proposal: Draft law amending some laws in connection with the development of the financial market

Processor / representative of the submitter:	Expected date of entry into force, in case of divided entry into force, please specify
Ministry of Finance	*1. 1. 2024* *1/1/2025* *1st day of the 4th calendar month after the date of announcement* *1st day of the 9th calendar month after the day of announcement*

Implementation of EU law: No ; (if you select Yes):

- indicate the deadline set for implementation: -

- indicate whether the proposal goes beyond the requirements set by the EU regulation?: -

2. Objective of the bill

The purpose of the bill is to implement some legislative measures to contribute to the development of the financial market in the Czech Republic. The main proposed measures are the so-called long-term investment product and some changes in III. pension pillar. The draft law builds on the concept of the development of the capital market in the Czech Republic 2019–2023, which was approved by the government on March 4, 2019.

3. Aggregate impacts of the bill

3.1 Impacts on the state budget and other public budgets: Yes

The introduction of tax support for a long-term investment product will have a negative impact on the national collection of personal income tax.

Adjustment of the provision of state allowance in III. pension pillar will likely have a positive impact on the state budget due to the expected reduction in the costs of paying state contributions to participants in supplementary pension insurance and supplementary pension savings.

The change in the legal regulation of the recording of telephone calls will mean significant cost savings for participants in the financial market.

In some cases, the proposed legislation may mean increased costs for the CNB.

3.2 Impacts on the international competitiveness of the Czech Republic: Yes

An increase in international competitiveness is expected, as the financial market is expected to develop as part of this amendment, through modernization and solving the shortcomings of the existing legislation. The proposed legislative solutions are intended to help develop and make the environment of the financial market in the Czech Republic more attractive.

3.3 Impacts on the business environment: Yes

The proposed legislation should mainly have a positive impact on the business environment, consisting in the development of the financial market.

3.4 Impacts on territorial self-governing units (municipalities, regions): No

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3.5 Social impacts:Ano

Proposed adjustments to the long-term investment product and adjustments to the new alternative participation fund and the provision of a state contribution in III. pension pillars should have positive effects on the savings of Czech households.

3.6 Impacts on consumers: Yes

The proposed legislation should not have any negative effects on consumers. The amendment in the Bond Act should lead to greater protection of bond investors. In connection with the adjustment of the provision of the state allowance in III. pension pillar, state contributions will no longer be paid to participants of retirement age, and some participants in supplementary pension insurance and supplementary pension savings who have not reached retirement age may lose the right to receive state benefits if they do not adequately increase their participation contributions.

3.7 Environmental impacts:Ne

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3.8 Impacts in relation to the prohibition of discrimination and in relation to gender equality :Ne

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3.9 Impacts on the performance of the State Statistical Service:Ne

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3.10 Corruption risks:Ne

–

3.11 Impacts on the security or defense of the state:Ne

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ABBREVIATIONS

List of abbreviations of legal regulations

E	Act No. 120/2001 Coll., on bailiffs and execution activities and on the amendment of other laws, as amended
ZDl	Act No. 190/2004 Coll., on bonds, as amended
VAT	Act No. 586/1992 Coll., on income taxes, as amended
ZDPS	Act No. 427/2011 Coll., on supplementary pension savings, as amended
ZPKT	Act No. 256/2004 Coll., on doing business on the capital market, as amended

List of other abbreviations

APS CR	Association of pension companies of the Czech Republic
CNB	Czech National Bank
CR	Czech Republic
EU	European Union
FA	Financial Arbiter
CZK	Czech crown
MF	Ministry of Finance
OECD	Organization for Economic Cooperation and Development
TF	transformed funds
UF	participating funds
ÚNRR	Office of the National Budget Council

A. GENERAL PART

A. Final Policy Regulatory Impact Assessment (RIA) Report

1. REASONS FOR SUBMISSION AND OBJECTIVES

1.1 Title

Draft law amending some laws in connection with the development of the financial market

1.2 Definition of the problem

The capital market in the Czech Republic does not fulfil its main function sufficiently, i.e. to effectively redistribute free financial resources from savers and investors (households) to entrepreneurs who need to finance their development. Also for historical reasons, traditional bank financing (deposits and loans) prevails in the Czech Republic today, while reliance on subsidies from the EU plays an important role for the time being. In summary, it can be concluded that the obstacles to the development of the capital market in the Czech Republic are mainly the conservative distribution of household assets, small savings for old age, low awareness of entrepreneurs about the possibilities of financing business and research through the capital market, and a small range of domestic investment instruments available to small investors compared to Western Europe.

1.3 Description of the existing legal status in the given area

Before 1989, we cannot talk about a business environment in our country, because it did not exist due to the state-planned economy. Since the fall of the Iron Curtain, nothing has been done by the state to support the capital market. The unfortunate experience with coupon privatization also did not contribute to its attractiveness, but rather stigmatized it to a large extent. Also with regard to the above, the government approved on 4 March 2019 (Resolution No. 156) the Capital Market Development Concept in the Czech Republic 2019–2023. This document is an initiative signalling that the Czech Republic is interested in supporting the capital market.

Currently, the state only supports pension funds and life insurance in the form of tax deductions, although it is possible to create savings for old age by using other financial products. The current legislation is in the Income Tax Act.

Today, executors are obliged to use the XML format only when communicating with banks. This creates an unjustified inequality in the market and higher costs for non-bank financial institutions in handling executor requests. The current legislation is in the Enforcement Code.

Nowadays, the issue terms and bonds basically do not contain any information about the issuer, so it is not possible to assess the ability of the issuer to repay these bonds based on them. At the same time, the prospectus typically contains information about both the issue and the issuer, however, no prospectus is drawn up for bond issues of up to €1 million. In April 2019, the Ministry of Finance published for public consultation the so-called Scorecard of corporate bonds, which enables investors to better assess the risk of corporate bonds, however, the problem is often encountered that the bond issuer does not publish its financial information (typically in the collection of documents of the commercial register), or the information is outdated and do not take into account the planned bond issue. In addition, even if the information were part of the issue conditions (or are today part of the prospectus), this does not allow investors to make a simple comparison of individual issues for the scope of these documents, which, in addition, do not mention some indicators at all, and it is therefore necessary to look at the financial statements (which, however, may not be current). The current legislation is in the Act on Bonds.

Pension funds have a very limited investment strategy, which copies almost verbatim the regulation of standard funds (UCITS funds) harmonized by EU law, which are characterized, among other things, by permanently offering buybacks to their investors, and therefore must invest only in highly liquid assets (typically listed stocks and bonds). In addition, the limitation of the maximum amount of payment to the pension company, which is also constructed as *an all-in-one* (i.e. no costs can be charged directly to the fund) and, in addition, the obligation to reduce this payment by the payment paid to the manager of this fund when investing in another investment fund, leads, among other things to the fact that Czech pension funds do not invest in assets that are common for pension funds in developed economies, especially in so-called *private equity* funds (funds investing with an investment horizon of 10 years in large unlisted companies) and in infrastructure projects. The majority of participants still remain in the transformed funds, which are closed to new participants, but the existing participants continue to contribute regularly, while the transformed funds, due to the black zero guarantee (no year must end in a loss, otherwise the pension company must cover the loss from its assets) invest very conservatively and in most cases are not able to cover inflation, which in the long term leads to the devaluation of invested funds. In addition, due to a very conservative strategy (forced in fact by the guarantee), they only invest in government bonds and bank deposits and thus do not contribute to the development of the capital market in the Czech Republic (while at the same time representing a significant and non-negligible share of Czech citizens' savings for old age). Although transformed funds are closed to new participants, existing participants have no incentive to transfer their funds to participating funds, which, while not offering a guarantee (and also more risky), can offer potentially more interesting returns that easily cover inflation in the long term and they can also offer a return above inflation (depending on the dynamism of the investment strategy chosen by the participant). The reason why participants do not switch from transformed funds to participating funds is often given that they do not want to lose their entitlements from the transformed fund (e.g. the so-called retirement pension), when the current law does not allow being a participant in a transformed fund if the person in question is also a participant of the participating fund.

The low amount of the average participant contribution in the III. pension pillar (CZK 791 as of 30/09/2022) and its slow growth, which probably will not allow existing participants to sufficiently supplement their income from the first pillar of the pension system during retirement. Therefore, options for adjusting the provision of direct state support in III should be considered. pension pillar with the aim of motivating participants to make higher monthly deposits. With the possible adjustment of the provision of state subsidies, it is appropriate to consider whether with the aim of III. of the pension pillar, the payment of state allowances to participants of retirement age is also in line.

The draft law, which pursued a similar goal as the current draft, was already prepared and submitted to the legislative process in the last election term (House Press 993, 8th term of the Chamber of Deputies), but its legislative process was not completed before the end of the term of the Chamber of Deputies. The proposal presented now differs from the previous proposal in several directions, which are described in detail in the general part of the explanatory report. Above all, the amendment to the Act on Investment Companies and Investment Funds and the subsequent amendment to the Act on Administrative Fees are not included in the current bill. The reason for this is the fact that the area of fund investing will need to be subjected to a more thorough revision in the future anyway, which will soon require another amendment to the aforementioned law. Two relatively complex amendments to the same law, which would follow each other in a short period of time, are not desirable from the point of view of the stability of the legal order, and therefore it is more appropriate to wait and make all the necessary changes in the same draft law.

The description of the existing legal status in the given area is described in detail for each variant.

1.4 Identification of affected entities

Among the so-called affected entities, on which the variants under consideration will have an impact, are primarily:

Subject	Reason
• **issuers of securities**	The issuer is a company or public corporation (e.g. municipality, state) that issues securities primarily for the purpose of obtaining funds for the development of its business. Various types of securities can be issued, the most well-known of which are shares, bonds and unit certificates.
• **investors**	An investor is a person who wants to evaluate his free financial resources. The investor is mainly an investment fund, bank, pension fund, insurance company or natural person. Participants III. of the pension pillar as a natural person investing in pension funds are motivated to increase their contributions through the introduction of a constant share of the state contribution to the participant's contribution and the increase of both the lower limit of the participant's contribution for awarding the minimum amount of state contribution and the upper limit of the participant's contribution for awarding the maximum amount of state contribution. With an adequate increase in their contribution, participants can reach a higher absolute amount of state contribution than at present. If some participants do not increase their contribution sufficiently, in their case either the absolute amount of the state contribution may be reduced or they may lose the right to receive it. All participants of retirement age automatically lose their right to the payment of the state allowance.
• **CNB**	The CNB is the supervisory body for the financial market.
• **securities traders**	Securities dealer, as a legal entity that provides investment services and mediates access to the capital market for its customers.
• **pension companies**	It is a joint-stock company with a CNB license to implement supplementary pension insurance and supplementary pension savings. This company will be able to create an alternative participating fund. Due to the removal of the right to the payment of state benefits to all participants III. of the pension pillar who have reached retirement age, the funds saved by these participants in pension funds can be expected to be withdrawn. A temporary decrease in the volume of funds managed in pension funds will

Subject	Reason
	reduce the amount of fees for managing fund assets paid by pension funds, which will lead to a short-term decrease in the income of pension companies with a possible subsequent impact on the amount of their profits.
• **executors**	Court executor is a free legal profession, which, according to the EŘ, ensures execution of executions. It concerns the introduction of the XML format.
• **financial arbiter**	The financial arbitrator is the competent authority to resolve disputes out of court. It is proposed to expand its substantive scope with regard to disputes in connection with long-term investment products. Given that a long-term investment product is always an investment or deposit product by nature, i.e. a product that already falls under the jurisdiction of the financial arbitrator, the proposed extension of jurisdiction will in practice only mean that the financial arbitrator will be within the scope of disputes that already addresses, assess the fulfilment of certain new obligations.

1.5 Description of the target state

The main objective of this proposal is to realize the target state identified below through legislative measures.

In general, the following target state requirements can be identified:

- by improving the quality and durability of savings of Czech households (including means of saving for old age),
- by reducing the "dependence" of small and medium-sized enterprises on bank financing (and on subsidies from the EU),
- by increasing the number of jobs with high added value (strengthening the purchasing power of Czech citizens) a
- higher support for innovation (more investment in the innovative economy)

The target state should be realized through:

- **measures to support households (investors):** supporting the creation of savings for old age by introducing a tax-supported long-term investment product and by adjusting the provision of the state allowance in III. pension pillar, greater protection when investing in risky securities;
- **measures to support businesses (issuers):** elimination of duplicates between the issue conditions and the prospectus. This liberalization will have a positive impact on issuers' costs, as the issuance conditions will not be unnecessarily robust by eliminating duplicate information.
- **measures to support professional participants in the capital market (market infrastructure):** enabling investments of pension funds (i.e. transformed and participating funds) in *private equity* funds, support for the use of the XML format when

requesting information from financial institutions (especially as part of foreclosures), support for trading with corporate bonds.

1.6 Risk assessment

The proposed legislation aims to contribute to the development of the financial market in the Czech Republic through some legislative measures.

By not adopting the proposed legislation, the Czech Republic will not be exposed to the risk of breaching EU obligations. However, by not removing some of the shortcomings of the current regulation, the development of the financial market in the Czech Republic will not occur, specifically it will not be possible to alternatively save for old age through a new type of tax-advantaged product, it will not be possible for a new type of participating fund to invest more dynamically, and it will not be possible for the investor to be more transparent and in a wider compulsorily informed about the issuer and its sub-limit issue of bonds, duplications between the prospectus and issue conditions will not be eliminated, nor will the costs of foreclosures on the financial market be reduced.

2. DRAFT SOLUTION OPTIONS

In the following part, within the framework of the assessment of the impact of the regulation, the individual evaluated questions are described, including the proposed solution and the evaluation of variants. The questions were consulted through the consultation material published on the website of the Ministry of Finance. Considering that the draft law, which aimed to contribute to the development of the capital market, was already prepared and submitted to the legislative process in the last election term (House Press 993, 8th election term of the Chamber of Deputies), but its legislative process was not completed, the results of the public consultation on this earlier draft law were used in the assessment of the impact of the regulation.

On August 8, 2019, a document titled "Planned legislative measures resulting from the Capital Market Development Concept in the Czech Republic 2019–2023" was published for public consultation. In this context, the Ministry of Finance also invited participants in the capital market and the professional public to send any specific proposals with justification of the proposed change, which could be taken into account when preparing the amendment. One supervisory authority, one ministry, 6 market associations, one international market association, one trade union representative, one educational institution, 5 market entities and 5 private individuals responded to the call.

Legend to evaluation and solution proposals

The analysis of solution variants aims to carry out a basic evaluation of whether it is desirable in individual cases to change the current situation and create a new legal regulation.

The submitter carried out an evaluation of costs and benefits with regard to the defined affected entities. During the evaluation of the impacts, the submitter held consultations with the affected entities. The goal was to obtain data that is otherwise unavailable and to reach relevant conclusions within the framework of the analysis. The impacts of the proposed variants are not presented in aggregate, but in a structured form, according to the individual specific areas to which the affected entities fall, and the groups of affected entities on which they impact. A so-called multi-criteria analysis was used in the assessment and solution proposals.

Multicriteria analysis deals with the evaluation of possible alternatives according to several criteria, while the alternative evaluated according to one criterion is usually not the best evaluated according to another criterion. Multi-criteria decision-making methods then resolve conflicts between mutually opposing criteria. It is a method that aims to summarize and sort information about variant projects. Multi-criteria decision-making arises wherever the decision-maker evaluates the consequences of his choice according to several criteria, namely quantitative criteria, which are usually expressed in natural scales (we also talk about numerical criteria) or qualitative criteria, when we introduce a suitable scale, e.g. a classification scale or a scale "very high - high - average - low - very low" and at the same time we define the direction of better evaluation, i.e. whether the maximum or minimum value (descending or rising values) is better.

Step by step method

Alternatives are identified. It will decide on the criteria (factors) that will be decisive in the decision-making process. A detailed assessment of the impact of each alternative on each criterion. Where possible, it will be expressed in numbers (not necessarily money). Each of the criteria (factors) is determined by its relative weight (importance). In this way, indicators of the significance of the main impacts will actually be created.

Evaluation of design alternatives

In the evaluation of the alternatives of the proposals, the following criteria were determined in particular, while each criterion is assigned the same importance except for the first criterion, which is absolutely crucial in view of the objectives of this amendment.

1. Whether the proposed alternative sufficiently implements the Capital Market Development Concept in the Czech Republic 2019–2023
2. Is the existing legal regulation insufficient or unsatisfactory. Why?
3. Whether it is not a regulation that could be solved by other, non-legislative means.
4. What is the purpose pursued by the (considered) legal regulation?
5. Impacts on individual subjects.
6. Protection of primarily small, but also qualified investors.
7. Capital market development.
8. Possible risks associated with implementation.

Considering the fact that the proposal is based on the Concept, which contains legislative and non-legislative measures, and the submitter is obliged to fulfil these non-legislative measures according to the task list resulting from the government's resolution, the evaluation focuses primarily on legislative measures, while before creating the Concept, it was considered whether it is possible to reach the target state also in a non-legislative way.

The following variants of the legal solution are being considered for legislative measures resulting from the Concept:

- Option 0 – maintaining the current state

Maintaining the status quo would mean that no changes would be made to the laws in question.

- Option 1 – legislative change through the amendment of one of the laws in question

The amendment of the relevant laws would take into account the shortcomings that are contrary to the development of the capital market and the shortcomings that have become apparent during the application practice, and these shortcomings would be eliminated,

- Option 2 or 3 – an alternative legislative proposal through the amendment of one of the laws in question

Amending the relevant laws with an alternative legislative proposal to option 1 would take into account the shortcomings that are contrary to the development of the capital market and the shortcomings that have become apparent during application practice, and these shortcomings would be eliminated.

Content

2.1 Introduction of a long-term investment product

Current status and applicable legislation

The financial market offers a wide range of financial products with a long-term investment horizon, which are suitable for accumulating assets as a provision for old age, while only some products are tax-supported by the state. These are mainly pension funds (participatory or transformed funds) and life insurance (investment or capital), which is a combination of an insurance and investment product. These products are tax-supported and through employer contributions. Savings in pension funds are also favoured by the state in the form of a state subsidy. In the form of state support, the state also supports building savings, which can theoretically also be used as a long-term savings product.

According to § 15, paragraph 5 of the ZDP, it is possible to deduct from the tax base a contribution totalling no more than CZK 24,000 per year paid by the taxpayer for supplementary pension insurance with a state contribution (transformed funds), for supplementary pension savings (participating funds) and/or for pension insurance at a pension insurance institution according to § 6, paragraph 16 ZDP (employee pension insurance). In the case of pension funds, the amount that can be deducted is equal to the sum of the parts of the monthly contributions that in the individual calendar months of the tax period exceeded the amount from which the maximum state contribution is due.

According to § 15, paragraph 6 of the ZDP, it is also possible to deduct from the tax base of income tax a contribution totalling no more than CZK 24,000 per year paid by the taxpayer for premiums for private life insurance. This is a total amount, i.e. even if the person in question has several insurance contracts, a limit of CZK 24,000 applies.

The state motivates citizens to accumulate assets for old age not only through tax deductions directly for citizens, but also in the form of supporting their employer's contributions according to § 6 paragraph 9 letter p) VAT A tax deduction of up to CZK 50,000 per year (i.e. more than CZK 4,000 per month) is possible here. Not only income tax is paid from this money, but also social and health insurance, as this non-monetary income is exempt from personal income tax on the part of the employee.

Citizens usually use products up to the amount supported by the state in the form of a contribution or tax support, or to obtain support from the employer. According to the APS CR data, only 3.5% of pension fund participants fully use the state allowance and tax relief, while 6.4% of people do not even qualify for the state allowance (i.e. they pay less than CZK 300 per month as a participant's allowance).

<u>Initiatives to revise the existing legislation</u>

The existing regulation of products intended for the accumulation of assets for old age is being revised also in connection with the effort to develop the capital market in the Czech Republic. The World Bank's report on the capital market in the Czech Republic notes that one of the key steps to stimulate investor interest would be the adoption of some form of "individual savings account" (*Individual savings account,* ISA). An ISA-type product is widely used in developed financial markets and helps create greater investor interest in managing their retirement savings.

The interest pursued by the Ministry of Finance is primarily to ensure the effectiveness of this system so that investors have a sufficient choice of savings products for pensions, i.e. products are offered for conservative but also more income-oriented investors. Compared to the range of products that the capital market can offer investors and compared to foreign legislation, it seems that the offer intended for Czech investors is rather limited. Czech investors do not have access to more dynamically oriented products and the offer in the Czech Republic does not follow the trends of more developed markets.

Due to the aging of the population, the Ministry of Finance is looking into the question of whether it would not be desirable to provide the support currently provided to selected financial products to other financial products that can, for example, offer a higher potential appreciation, even at the cost of a higher risk of devaluation of invested funds.

Inspiration is offered by foreign legislation - a product of the type "personal savings account" - ISA, e.g. in Great Britain, [1]defined financial products intended for small investors to invest and accumulate assets can be designated as ISA. The basic types of ISAs that the state supports in the form of tax benefits (income from this property is not taxed) are:

- cash ISA (*Cash ISA*), usually includes term deposits,
- a stock ISA (*Stock and shares ISA*) enables investments in a defined range of instruments, such as shares, bonds, investment funds or money market instruments (the range of instruments is limited);
- *Innovative Finance* ISA enables investments through peer-to-peer (P2P) lending;
- *a Life-time* ISA allows people up to the age of 39 to save for old age or to buy their first property;
- ISA for young people (*Junior ISA*) is intended for persons under 18 years of age.

In 2017, around 33% of people in the UK owned an ISA product.

In the US, [2]they have an "individual retirement account" (*individual retirement account,* IRA), which is distinguished by whether it is a traditional (*Traditional IRA*) or a Roth (*Roth IRA*). An alternative to the IRA is the 401(k), which also distinguishes whether it is traditional or Roth – the name is derived from the relevant provision of the US tax law (*Internal Revenue Code*). In traditional schemes, the citizen deposits tax-free money and then withdraws from these schemes are taxed (untaxed returns), while in Roth schemes, he deposits taxed money and then neither returns nor withdrawals are taxed. A 401(k) scheme is usually set up by an employer, while an IRA is set up by the individual himself.

In 2018, approximately 34.5% of US households owned an IRA.

In Slovakia, a law was passed in 2015 that introduced the so-called " *long-term investment savings* ", and thus brought support for investing in securities (i.e. creating savings through capital market instruments). The Slovak state supports this type of investment by citizens by exempting income from the transfer of securities as part of long-term investment savings from tax, so this is similar to the so-called time test in the Czech Republic. The tax benefit does not apply to the initial investment, but only to income from the transfer of securities obtained during

[1] Around 22,000,000 people in the UK had an ISA account in 2016-2017. Around 8.5 million residents put savings into a Cash ISA during this period, 2.5 million residents into *a Stocks and shares ISA,* the remaining 11 million residents did not put any savings into this period but had an active ISA account with savings from previous years. *The Innovative ISA* was a new product this year, so only 5,000 residents put their savings into it, but an estimated 31,000 residents already put their savings into it the following year. *The Lifetime ISA* was created a year later, i.e. in the period 2017-2018, when, according to estimates, 166,000 residents put their savings into it. In addition, the so-called Junior ISA was used by an estimated 900,000 residents in 2017-2018. Source: *Individual Savings Account (ISA) Statistics.*

[2] More than a third of US households, or nearly 44 million, owned at least one type of IRA in mid-2017. A traditional IRA was owned by 35 million households, a Roth IRA by 25 million households, and nearly 8 million households owned an IRU subsidized at least in part by an employer. Source: *US Retirement and Education Savings.*

"long-term savings" (i.e. investing). A citizen can invest a maximum of € 3,000 (approx. CZK 75,000) per year in this way.

Proposal of solution variants

2 solutions are considered:

- option 0 – keep the status quo
- option 1 – to expand the range of products intended for saving for old age by a product of the "personal savings account" type – a long-term investment product
- option 2 – to expand the offer of products intended for saving for old age with a product that would bring tax benefits in the area of non-taxation of income

Variant 0 - maintaining the current state

The current state of the offer of financial products intended for old age covers only a limited number of financial products, is intended for more conservative investors and does not allow Czech citizens to take advantage of more capital market options. Experience also shows that in the long term, the capital market is usually able to evaluate invested funds more effectively than the currently offered state-supported products, even at the cost of a higher risk of losing the investment. The negative of this variant is a less risky and therefore less profitable way of capitalizing savings without the possibility for the investor to invest more actively and flexibly manage their investments, which also leads to lower responsibility for savings in the future.

Option 1 – to expand the offer of products intended for saving for old age by a personal savings account type product – a long-term investment product

This option would offer investors the opportunity to use other capital market products intended for long-term investments, which potentially allow obtaining a higher return, albeit at the cost of higher risk. When inspired by foreign legislation, the expansion of the offer would allow Czech investors to benefit from the experience of more advanced economies. In addition, the expansion of the offer of financial products could lead to a greater interest of investors in investments in the capital market and could favourably influence the development of the capital market in the Czech Republic. Investors are offered a new product, i.e. the possibility of greater diversification of their savings, which naturally leads to risk spreading and greater investor protection. A financial arbitrator would also be authorized to resolve any disputes out of court. This option requires a legislative solution. With regard to tax support, it is necessary to spend costs from public budgets. Negative impacts on the state budget can be generated in two ways, which correspond to the forms of tax relief:

<u>1. Payments by employers as income of the employee exempt from income tax</u>

In this case, the negative impact would only be generated due to the expansion of titles to which the employer can contribute, while it would be exempt income for the employee. Because the limit of 50,000 has already been agreed for existing titles. CZK is and the proposed adjustment does not change anything for them. The impact could therefore be generated in cases where the following applies at the same time: the employee will have established a long-term investment product and the employer will have the will to make new contributions, i.e. beyond the scope of existing exempt contributions (subject to legal conditions). The negative impact due to the expansion of titles that can be contributed to cannot be estimated due to the lack of data sources. In addition, other circumstances, such as the development of unemployment, wages or economic conditions or the recession of the Czech economy or real interest rates, may also have an influence on the level of impacts.

Given the current amount of employer contributions, the assumed parameters of the long-term investment product, which are similar to the existing supported products, we do not expect a massive increase in the interest of employers to contribute to this new product. Rather, we would expect a change in structure. Based on this assumption, the impact on public budgets in the amount of hundreds of millions of CZK per year can be considered.

In this case, the negative impact would already be felt during 2024, however, taking into account that the long-term investment product is currently a non-existent product, a possible year-round impact can only be expected in 2025.

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

The total maximum amount by which the tax base can be reduced is proposed to be 48,000. CZK, i.e. it corresponds to the sum of the existing limits. With regard to the proposed effectiveness of the law on January 1, 2024, it can be expected that any negative impact will manifest itself in 2025 at the earliest (taxpayers will apply the non-taxable part according to the new rules only as part of the tax return), however, taking into account that the long-term investment product is currently a non-existent product, a potential year-round impact can only be expected in 2025.

In the case of applied deductions from the tax base, a negative impact can be generated both by the unification of the limits for applying the deduction for existing products (taxpayers preferring one product for which they apply the maximum deduction today will now have the opportunity to apply a higher deduction), and by expanding the options for applying deductions to another product. Currently, the estimated amount of tax relief due to deductions from the tax base is CZK 2.6 billion. Considering the total amount of the estimated tax relief, we therefore estimate the negative impact of the unification of the limits for deduction at a maximum of lower hundreds of millions of CZK.

The negative impact due to the expansion of deduction options cannot be estimated due to the lack of data sources. In addition, other circumstances, such as the development of unemployment, wages or economic conditions or the recession of the Czech economy or real interest rates, may also have an influence on the level of impacts. For example, an attempt would be made for 100,000 taxpayers to apply a deduction from contributions paid in favour of a long-term investment product from the tax base of 10,000, which would have a negative effect on DPFO collection in the amount of 150 million CZK per year at the level of public budgets.

This variant also presents social impacts, primarily positive impacts on the savings of Czech households.

Option 2 – to expand the offer of products intended for saving for old age with a product that would bring tax benefits in the area of non-taxation of income

This option would offer investors the opportunity to save by not having to tax the income from the property included in this savings product, while, just like abroad, it would be investments in shares, deposits in a bank account, etc.

Proposal of the most suitable solution

As the most suitable solution, it is proposed to expand the conservative list of products designated as savings for old age by a product of the "personal savings account" type, which would be called a long-term investment product, so the most suitable solution is option 1. This product is associated with higher activity of its owner and the need to invest into investment instruments for the purpose of their higher appreciation. Investments are to be made in financial products – shares, bonds or funds, but the product is also to be used for depositing money in a bank account with the intention of separating the property in a special register and using capital market tools to multiply it if possible and use it in the post-productive age as pension enhancement.

Although this option has negative effects on the state budget, it has positive effects on the savings of Czech households. Other positive aspects that contributed to the decision for this legislative solution are the positive social impacts in relation to active and responsible investing and managing one's savings through this type of product, and last but not least, an increase in financial literacy is also a definite positive.

Summary of the impacts of the chosen variant 1

Benefits/Positives	Costs/negatives
+ savings of Czech households + capital market development + variability in the selection of retirement savings products + the possibility of directly and responsibly managing your investments + increasing financial literacy + possibility of alternative resolution of disputes through FA, relief to civil courts (decrease in their idea) from a possible dispute	- burden on public budgets - the need to adapt to the new legislation - the FA load, the higher the risk of the idea - administrative costs

2.2 Alternative Participating Fund

Current status and applicable legislation

The capital market in general in the long term (which is typical for investments in pension products) can offer investors relatively high appreciation. Participatory funds operate in the Czech Republic like ordinary investment funds and may not guarantee any appreciation. Usually, within the framework of other participating funds, they offer a so-called dynamic fund (usually investing in shares) and a so-called balanced fund. In the long term, dynamic mutual funds (see above) achieve appreciation in particular [3].

, do not invest in *private equity funds, as they are limited in their investments by the regulatory adjustment of fees and investing in private equity* funds is expensive in terms of fees.

The fee structure of pension funds is determined by law and an *all-in-one model was chosen* [4]. Fees consisting of two components – fees for management and evaluation. The legislator proceeded to regulate fees in an attempt to protect participants from excessively high fees in a situation where it is difficult to withdraw from pension funds without the participant suffering a loss.

Pension companies can charge a management fee of 1% of the managed assets and 15% of the achieved return in the case of participating funds other than mandatory conservative ones (i.e. with a dynamic strategy).

Proposal of solution variants

2 solutions are considered:

- option 0 – keep the status quo
- option 1 – expand the possibilities of pension companies to offer a new type of alternative participation fund, or to provide this type of fund with similar state support as transformed or participating funds

Variant 0 - maintaining the current state

The fee legislation of pension funds affects the assets in which pension companies can invest in such a way that they cannot invest in some financial products, as they would not financially cover such an investment. At the same time, however, the maximum amount of fees is determined by law, so the client is protected by law from excessively high fees. So the current offer is intended for conservative investors who prefer investment certainty. Variant 0 represents zero development of the capital market, as it does not allow for more dynamic and therefore more profitable investments.

Option 1 – to expand the offer by a new type of alternative participant fund, or to provide this type of fund with similar state support as for transformed or participating funds

The current selection of pension funds is significantly limited by the fee policy and does not allow investments in potentially very profitable assets, even at the cost of higher risk. The new type of participation fund would be an alternative to already existing dynamic funds, with the fact that the fee policy for this type of fund would be set more freely so that pension companies

[3] The average appreciation of dynamic participating funds was 7.18% in 2017, but - 8.25% in 2018.

[4] The standard in the field of collective investment and foreign defined contribution voluntary systems is that, in addition to the management fee, other costs such as transaction costs, securities management fees (custody fees), custodian fees, and audit are covered from the fund's *assets.* These additional costs depend on the type of securities and the investment strategy and are usually in the range of 0.1 - 0.5% in relation to the managed assets.

would be enabled to invest, for example, in assets of the type of "private equity funds", and *thus* offer possible higher appreciation for participants in the long-term perspective, even at the cost of higher risk of such an investment. The negative of variant 1 is the riskiness of the investment and the reduction of investor protection. The benefit is the possibility of a higher appreciation of the investment, the possibility of investing in other types of funds, and thus the development of the capital market.

Proposal of the most suitable solution

It seems the most appropriate to accept option 1, and therefore, with regard to the possibility of choice and voluntariness in relation to reduced protection, to make a legislative change and to regulate by law a new type of fund that would suit, above all, in the long-term investment horizon, dynamically oriented clients who are willing to take a higher risk in their investment and at the same time they are willing to pay higher amounts for fees in order to possibly achieve a higher appreciation of their investment.

It is proposed to introduce legislation for a new financial product intended for more dynamic investments in order to create savings for old age, while the amount of fees will also be limited by law in the case of this fund, and the law also determines the types of assets in which this fund is authorized to invest. In this respect, therefore, investor protection is maintained.

Summary of the impacts of the chosen option 1

Benefits/Positives	Costs/negatives
+ the possibility of investing in more variable types of funds + capital market development + more dynamic appreciation of investments in relation to savings for old age	- slightly reduced investor protection

2.3 Adjustments to the provision of state allowance in III. pension pillar

The assessment of the appropriateness of any adjustment to the current setting of the provision of state allowance in supplementary pension insurance (transformed funds) and supplementary pension savings (participating funds) is divided into the following three related partial adjustments:

1) the method of determining the amount of the state contribution in relation to the amount of the participant's contribution, which refers to the setting of the share of the state contribution to the participant's contribution in the interval bounded by the amounts of the participant contributions needed to obtain the minimum and maximum state support;
2) determination of the lower and upper limit of the participant's allowance for awarding the minimum and maximum amount of the state allowance; and
3) determination of a specific amount or other parameters of the share of the state contribution to the participant's contribution.

2.3.1 The method of determining the amount of the state contribution in relation to the amount of the participant's contribution

Current status and applicable legislation

In the Czech Republic, the system of direct state support of the funded pension system is based on the provision of a state contribution, the amount of which is determined depending on the amount of the participant's contribution. In order to receive the state allowance, it is necessary to contribute at least a certain minimum amount (at least CZK 300), and the amount of the state allowance is also capped at a certain amount of the participant's allowance (CZK 1,000).

The current amount of the monthly state allowance in III. pension pillar ranges from CZK 90 (with a monthly contribution of CZK 300) to CZK 230 (with a monthly contribution of CZK 1,000 or more). If the amount of the participant's monthly contribution is in the range of CZK 301 to 999, the amount of the monthly state contribution amounts to CZK 90 and 20% of the amount exceeding CZK 300. [5]This calculation of the amount of the state contribution has been used since 1/1/2013 and causes the percentage appreciation of the participation contribution to be the highest in the case of CZK 300 and gradually decreases as the amount of the participation contribution increases. This degressive nature of determining the amount of the state allowance depending on the amount of the participation allowance also included the method of determining the amount of the state allowance before 2013, and this, moreover, with a higher intensity using several bands for calculating the amount of the state allowance.[6]

Table 1: The monthly amount of the state allowance depending on the participant's monthly allowance and their ratio

Participant contribution (CZK/month)	100	200	300	400	500	600	700	800	900	1000 and above

[5] § 14 paragraph 2 of Act No. 427/2011 Coll., on supplementary pension savings, as amended

[6] § 29 paragraph 2 of Act No. 42/1994 Coll., on supplementary pension insurance with state contribution and on changes to certain laws related to its introduction, as amended

The amount of the participant's contribution in CZK	The amount of the state contribution in CZK
100 to 199	50 + 40% of the amount over 100 CZK
200 to 299	90 + 30% of the amount over 200 CZK
300 to 399	120 + 20% of the amount over CZK 300
400 to 499	140 + 10% of the amount over CZK 400
500 and above	150

State allowance until 31 December 2012	50	90	120	140	150	150	150	150	150	150
– in % of the participant's contribution	*50%*	*45%*	*40%*	*35%*	*30%*	*25%*	*21%*	*19%*	*17%*	*15%*
State allowance from 1 January 2013	0	0	90	110	130	150	170	190	210	230
– in % of the participant's contribution	*0%*	*0%*	*30%*	*28%*	*26%*	*25%*	*24%*	*24%*	*23%*	*23%*

Source: MoF

On the degressive element of the state support system in III. The OECD also draws attention to the pension pillar in its report on the assessment of the pension system of the Czech Republic, including III. pension pillar from December 2020 and recommends considering its readjustment. [7]In connection with the possible adjustment of the amount of participation contributions needed to obtain the minimum and maximum state support, which is dealt with below, it is therefore appropriate to first evaluate whether it is beneficial to maintain such a method of calculation when determining the amount of the state contribution, which achieves that the ratio of state and of the participation fee decreases as the participation fee increases.

Proposal of solution variants

3 solutions are considered:

- variant 0 – maintenance of the current state (decreasing share)
- option 1 – introduction of a progressive share
- option 2 – introduction of a constant share

Variant 0 – preservation of the current state (decreasing share)

As part of variant 0, the current situation would be maintained, where the share of the state contribution to the participation contribution decreases as the amount of the participation contribution increases, and participants with a lower contribution are relatively favoured. In the case of adjusting the amount of participant contributions required to obtain the minimum and maximum state support, the income would continue to be maximized by participants with a contribution at the level ensuring the receipt of the lowest possible amount of state contribution. The calculation of the state allowance would require a similar setting as it exists today, i.e. the amount of the monthly state allowance would represent the amount of the lowest possible state allowance and a certain percentage of the amount exceeding the amount of the allowance needed to obtain the minimum state support, or a setting in the form of several bands according to the amount of the participation contribution containing parameters for determining the amount of the state contribution, as was the case before 2013.

Option 1 – introduction of a progressive share

The calculation of the contribution in variant 1 would be set so that the share of the state contribution in the participation contribution increases with the increasing amount of the participation contribution. Participants with a higher contribution would be relatively favoured, up to the level of the contribution required to obtain the maximum state support. In the case of adjusting the amount of participant contributions required to obtain the minimum and maximum state support, the income would be maximized by participants with the contribution at the lowest possible level, ensuring the receipt of the highest possible amount of state support. In the current setup, such a participation contribution would amount to exactly CZK 1,000. The

[7] OECD. *Reviews of Pension Systems: Czech Republic.* OECD Reviews of Pension Systems, OECD Publishing, Paris 2020, p. 146. Available from: https://doi.org/10.1787/e6387738-en .

calculation of the state contribution could be based on the same principles as in the case of variant 0, but using a different value of the percentage share of the amount exceeding the amount of the contribution needed to obtain the minimum state support or other parameter values for determining the amount of the state contribution in the case of the band method.

Option 2 – introduction of a constant share

In variant 2, a constant share of the state contribution to the participation contribution would be introduced in the interval bounded by the amounts of participation contributions needed to obtain the minimum and maximum state support. There would be no advantage to any group of participants and the yield would be maximized by all participants with a contribution in an interval bounded by the amounts of participant contributions needed to obtain the minimum and maximum state support. The calculation of the state contribution would only require the determination of the relevant percentage.

Setting the amount of the state contribution in the form of a fixed percentage share would correspond to the structure of the state contribution for building savings, which amounts to 10% of the saved amount with an upper limit, but without setting a lower limit.

Comparison of the impacts of individual variants

One of the main objectives of the possible adjustment of the determination of the amount of the state contribution in relation to the amount of the participation contribution is to increase the motivation of the participants to increase their contributions. Compared to the current situation, i.e. the degressive share, it can be assumed that the introduction of both a constant and a progressive share would reduce the motivation for lower contributions compared to the current situation and increase the motivation for higher contributions, since in both cases the possibility of maximization is removed income at the level of the participant's contribution bringing the lowest possible state support, i.e. in the current system, the participant's contribution amounts to CZK 300. When comparing variants 1 and 2, it would be theoretically possible to expect a more significant reaction from participants in the event of the introduction of a progressive share, which would enable the maximization of the yield at the level of the contribution ensuring the receipt of the highest possible amount of state contribution.

Given that the adjustment concerns the interval between the amounts of participation contributions needed to obtain the minimum and maximum state support, it can be expected that the potential reaction would only concern participants with contributions in this interval. Regarding the intensity of such a reaction, the economic conditions of the participants must be taken into account, which is to some extent related to the age of the participants. Table 2 shows that as of September 30, 2022, among participants under the age of 17 who are saved by their parents, and among participants between the ages of 18 and 39, the most common monthly deposit was CZK 300 (approx. 51% of participants up to 17 years old and 35% of participants from 18 to 39 years old). For participants from 40 to 64 years of age, it was possible to observe a more even distribution within the mentioned categories according to the amount of the contribution, with contributions mostly exceeding CZK 399, while the category of participants with a contribution of CZK 1,000 slightly prevails. In the case of participants over the age of 65, the category of participants with a contribution of CZK 1,000 (approx. 57% of all participants over the age of 65) was already significantly predominant.

Table 2: Number of participants by age and contribution amount at the end of the 3rd quarter of 2022[8]

Contribution / Age	300–399 CZK		400–999 CZK		1,000–1,099 CZK		0 and more CZK
up to 17 years	56 168	*51.3%*	24,239	*22.1%*	17,665	*16.1%*	109,448
18-39 years old	325,419	*35.4%*	218,842	*23.8%*	151 131	*16.4%*	918,936
40-64 years old	439,798	*19.0%*	542,874	*23.5%*	625 342	*27.1%*	2,311,482
from 65 years	51,459	*6.4%*	138,992	*17.2%*	456,767	*56.6%*	807,650
In total	872,844	21.0%	924,947	22.3%	1,250,905	30.2%	4,147,516

Source: MoF

The structure of participants according to the amount of the contribution thus partially corresponds to the hypothesis of the life cycle within economic theories of the consumption function, according to which economic subjects plan their consumption and savings for a long period of time ahead (the whole life), while trying to maintain consumption that is approximately balanced over the course of life. Young people consume more than they earn, and loan repayments (typically mortgage loans) and other necessary expenses do not allow them to save higher amounts. Due to their increasing incomes, middle-aged people tend to save more, and in retirement they subsequently consume or further appreciate their savings.

In this respect, therefore, with a simple change in determining the amount of the state allowance in relation to the amount of the participant's allowance and maintaining the current lower and upper limits of the participant's allowance for awarding the minimum and maximum amount of the state allowance, participants between the ages of 18 and 39, who can have other necessary expenses, so participants over the age of 65. For participants with a contribution in the range of 400 to 999 CZK, their motivation for choosing such a contribution amount is not clear, which increases the unpredictability of any change in their behaviour. A potential reaction can be expected especially in approximately 440 thousand participants aged 40-64 who are currently maximizing the percentage return, and possibly a portion of participants in the same age group who will save a higher amount and be entitled to less than the maximum state contribution.

The method of determining the amount of the state contribution in relation to the amount of the participant's contribution can be further evaluated from the point of view of the fair distribution of state contributions between the participants depending on their contribution (distributive justice). Variants 0 and 1 always favour a certain group of participants, while variant 2 assigns to each participant the same share of the state contribution on their participation contribution within a predetermined range of contributions. Supplementary pension insurance or supplementary pension savings do not, by their very nature, participate in the redistributive function within the framework of budgetary policy, i.e. they do not distribute funds among citizens with the aim of alleviating inequalities in society arising as a result of the market, and their setting should thus rather be guided by the principle of equal treatment, which would correspond to the introduction of a constant share of the state contribution relative to the participant's contribution, i.e. a fixed percentage, which is only possible in option 2.

Removing the social element of the system would, however, in variants 1 and 2 mean readjusting the amount of state contributions, and in the case of ensuring a neutral impact of the change on the budget, it is not possible to introduce a constant or progressive share without decreasing the absolute amount of state contributions to the participants, who themselves now contribute rather less and their the economic situation may not allow them to react to the change,

[8] The data in the table are based on the number of contracts for which the average participant's contribution in the given amount was recorded in the given period. This is an average for 3 months, which may not correspond to contributions in individual months. The number of contracts does not include contracts that are still registered as unfinished, but no information about them has been received as part of requests for a state contribution.

i.e. adequately increase their monthly deposits. However, to this negative aspect of options 1 and 2, it should be added that during the previous adjustment of the provision of the state allowance effective from 2013, the absolute amount of the state allowance was also reduced for participants who saved less per month than was necessary to obtain the then maximum amount of the state allowance (i.e. for participants with contributions from 100 to 499 CZK).[9]

When setting up the provision of a state subsidy, it is also necessary to assess to what extent the chosen solution would be understandable for the participants and at the same time well communicated by the state to the public. In this regard, the introduction of variant 1 seems to be a more difficult step to explain, where instead of the existing disparity between the amount of the participant's contribution and the state contribution, which favours lower contributions, the opposite approach would be used, bringing benefits to participants with higher contributions. Variant 2, on the other hand, appears to be more comprehensible than the current setup, and its communication can be relatively easily based on emphasizing the desirability of levelling the conditions for the participants. The fact that in the case of another state-supported financial product, building savings, the amount of the state contribution is also determined in the form of a fixed percentage also contributes to greater clarity and easier communication.

Proposal of the most suitable solution

The current method of determining the amount of the state contribution depending on the amount of the participation contribution favours participants with lower contributions. At the same time, the system of supplementary pension insurance and supplementary savings does not fulfil a redistributive function within the budgetary policy, and its setting should therefore be guided by the principle of equal treatment. Variant 2, which introduces a constant share of the state contribution to the participant's contribution, may also partially motivate some participants to increase their contributions compared to the present, as it removes the current possibility of maximizing income at the lowest level of the contribution that establishes the right to receive state support. Although the progressive share considered in variant 1 would probably provide greater motivation in this regard, its possible benefit is reduced by the fact that the change in behaviour would probably concern a relatively limited number of participants in both variants. In addition, variant 2 appears to be a much more understandable solution for the participants, and its easier communication with the public can also be assumed.

a 2 – introduction of a constant share is considered a suitable way of determining the amount of the state contribution in relation to the amount of the participant's contribution.

Summary of the impacts of the chosen variant 2

Benefits/Positives	Costs/negatives
+ motivation of part of the participants to increase contributions + equal treatment + an easily communicated and comprehensible approach to determining the state contribution + compliance with the OECD	- reduction of the absolute amount of the contribution to participants with lower contributions who will not be able to react to the change

[9] Participants contributing between CZK 100 and 299 had their state contribution completely withdrawn, and in the case of participants contributing between CZK 300 and 499, the state contribution decreased by CZK 20 to 30, depending on the specific amount of their participation contribution.

recommendation on reducing the incentive for lower contributions	

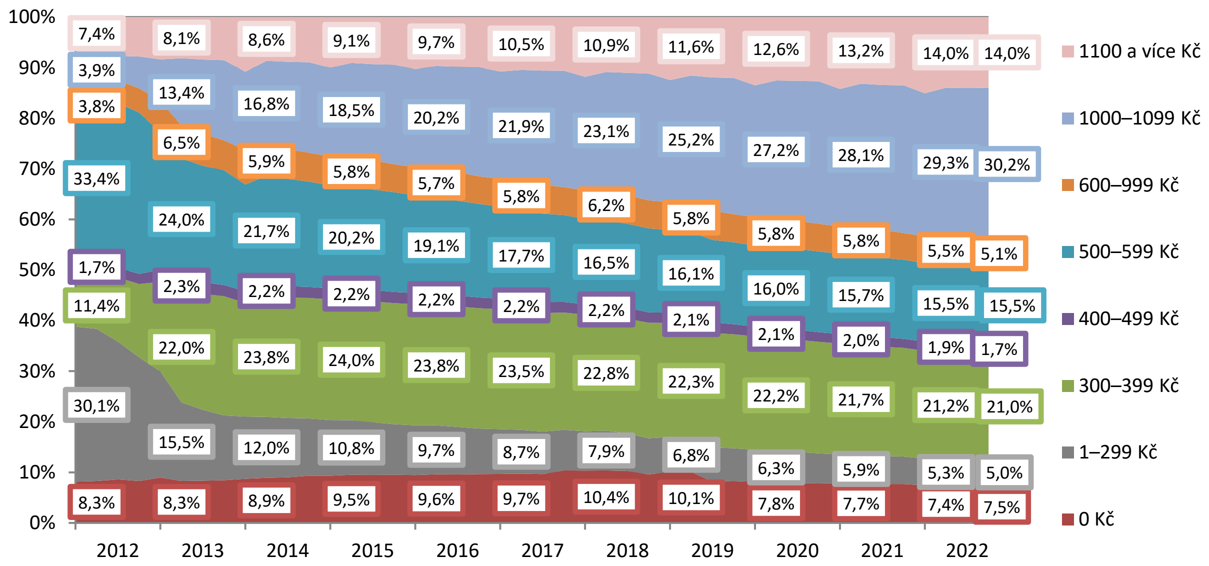
2.3.2 Determining the lower and upper limits of the participant's allowance for awarding the minimum and maximum amount of the state allowance

Current status and problem description

The last adjustment to the provision of the state allowance took place 10 years ago (as of 1 January 2013). To the changes made - an increase in the minimum amount of the participant's contribution to receive the state allowance, and an increase in the borderline amount of the participant's contribution, from which the maximum state allowance is provided - the participants responded as expected, i.e. by increasing their contributions, especially during 2013. Adaptation of behaviour of participants continued in subsequent years, but with decreasing intensity. The main effects of the changes have obviously already been exhausted, as currently the structure of participants according to the amount of the participant's contribution does not change significantly.

Minor changes in the structure can be attributed to the gradual termination of contracts in the supplementary pension insurance system (transformed funds), into which no new participants can enter since 2013. Older participants who did not have to react to the changes in the amount of the state contribution before the termination of their contract are replaced by new participants III. of the pension pillar, who save in the system of supplementary pension savings (participation funds) and, upon joining, are guided by the state allowance provision currently valid.

Graph 1: Development of the structure of participants according to the amount of the monthly contribution (values shown at the end of the 1st quarter of the given year and at the end of the 3rd quarter of 2022)



Source: MoF

Within the III. the pension pillar remains a group of participants who did not react to the last change in the provision of allowances and continue to contribute less than CZK 300 per month, i.e. without the right to a state allowance since 2013. It can be assumed that these are mainly participants who use III. a pension pillar for drawing employer contributions (which requires the employee himself to contribute, albeit in a low amount). In the same way, people with zero monthly contributions participate in the system (from 2013, approx. 7 to 10% of participants).

Since the last adjustment in 2013, the economic conditions of the participants themselves have changed noticeably, especially their incomes, when compared to 2013, the average gross monthly nominal wage at the end of 2021 has increased by 51%.

Table 3: Average gross monthly salary

Average gross monthly salary	2013	2014	2015	2016	2017	2018	2019	2020	2021
Nominal in CZK	25,035	25,768	26,591	27,764	29,638	32,051	34,578	36,176	37,903
– base index (2013 average=100)	*100.0*	*102.9*	*106.2*	*110.9*	*118.4*	*128.0*	*138.1*	*144.5*	*151.4*

Source: MoF

However, the increase in the average wage does not correspond to the increase in the amount of the participant's average contribution. In participating funds, the average participant contribution increased by 10.7% to CZK 829 between 2013 and 2021. In the case of transformed funds, a noticeably higher growth of 37.5% to CZK 781 was achieved, but the average contribution is still lower than in the case of participating funds.

Table 4: Average participant contribution in a given year

Average participant contribution in a given year (CZK/month)	2013	2014	2015	2016	2017	2018	2019	2020	2021
Transformed funds (pension supplementary insurance)	568	574	589	606	624	680	722	754	781
Participating funds (supplementary pension savings)	749	722	722	741	776	790	800	812	829

Source: MoF

Furthermore, the lower and upper limits of the participant's contribution, which determine the amount of the state contribution, do not correspond to the increase in the average wage. The current setting is therefore, compared to the situation at the beginning of 2013, less motivating for further growth of the monthly contributions of the participants themselves.

One of the reasons for the lower amount of the average participant contribution than would correspond to the improving economic conditions is the relatively high number of participants who regularly save a monthly amount of CZK 300 to 399. At the end of the 3rd quarter of 2022, the share of these participants in the total number of participants III. of the pension pillar was 21.0%, which represented the second largest category of participants, if we were to divide them according to the amount of their participation contribution into individual intervals of CZK 100. The largest group consisted of participants with a contribution of 1,000 to 1,099 CZK, or 30.2%. Among other things, these data confirm the high importance that the participants attach to the setting of threshold values for the amount of the participant's contribution for awarding the minimum and maximum amount of the state contribution, since the contribution of approximately 51% of the participants III. of the pension pillar moved precisely at the level of these threshold values.

Table 5: Distribution of the number of participants according to the amount of the monthly contribution at the end of the 3rd quarter of 2022

Category according to the amount of the contribution	Number of participants in thousand	Share of participants
0, - CZK	310	7.5%
1–299 CZK	209	5.0%
300–399 CZK	**873**	**21.0%**
400–499 CZK	71	1.7%
500–599 CZK	642	15.5%
600–999 CZK	212	5.1%
1,000–1,099 CZK	**1,251**	**30.2%**

1,100–1,499 CZK	56	1.4%
1,500–1,599 CZK	143	3.5%
more than 1,600 CZK	380	9.2%
In total	4 148	100.0%

Source: MoF

The low amount of the average participation contribution in III. pension pillar and its slow growth was considered by the Commission for Fair Pensions, which met from February 2019 to November 2020, as one of the shortcomings and manifestations of the inefficiency of the old-age savings system, and recommended in this regard to consider increasing the amount of participation contributions needed to obtain minimum and maximum state support given that state support is an essential criterion for the amount of regular contributions of participants. [10]A similar statement regarding the low amount of participant contributions and a recommendation to increase participant contributions can also be found in the OECD report on the assessment of the pension system of the Czech Republic.[11] A supporting factor for such a change is also the positive experience from the changes made in 2013, when a large part of the participants reacted to the new setting of the determination of state support by increasing their participation contribution.

All the above-mentioned aspects (the exhausted potential of the change from 2013, the improving economic conditions of the participants, the slow growth of the amount of the average contribution and the criticism from the Fair Pensions Commission) encourage consideration of the adjustment of the current system by determining the amount of the state contribution in the III. pension pillar.

On the basis of the positive experience with the reaction of the participants after the implementation of the change in the setting of the provision of the state allowance in 2013, variants of solutions for possible further adjustment are further proposed using similar principles already used in 2013, i.e. increasing the lower and upper limits of the participant's allowance for awarding the minimum and maximum amount state allowance. The proposed solution variants do not aim to conceptually change the system of providing the state allowance, e.g. by indexing the amount of state and participant allowances according to the growth of nominal wages or inflation. This automatic method of adjusting to wage or consumer price growth currently appears too complex and would require participants to change the amount of their contribution each year. It is considered a more acceptable solution to carry out an assessment of the economic conditions after a certain period of time after the last change in the provision of the state allowance and, on the basis of this, to decide whether it is appropriate to consider a further adjustment.

Proposal of solution variants

The aim of the adjustment is to motivate participants to increase their contributions, while a reaction is expected especially among participants with contributions of CZK 1,000 (they contribute just enough to receive the maximum state contribution) and possibly CZK 300 (they contribute the minimum necessary to receive a state contribution). Together, these two groups of participants account for approximately 51% of all participants. The motivation to increase the contribution lies in the case of illustrative variants:

[10] See materials and presentations for area III. pension pillar available on the website of the Commission for Fair Pensions - http://duchodovakomise.cz/podklady-a-prezentace/.

[11] OECD. *Reviews of Pension Systems: Czech Republic.* OECD Reviews of Pension Systems, OECD Publishing, Paris 2020, p. 146. Available from: https://doi.org/10.1787/e6387738-en .

1. in enabling participants with high contributions to reach a higher maximum state contribution with an adequate increase in their contribution.

In the case of one of the variants, as with the previous modification before 2013, the motivation is further:

2. in the complete removal of the state allowance from participants with low contributions.

3 solutions are considered:

- option 0 – conservation the current setting of the provision of state allowance
- option 1 – maintaining the current lower limit of the participant's contribution for awarding the minimum amount of state allowance and increasing the upper limit of the participant's allowance for awarding the maximum amount of state allowance to CZK 1,500
- option 2 – increasing the lower limit of the participant's contribution for awarding the minimum amount of state allowance to CZK 500 and the upper limit of the participant's contribution for awarding the maximum amount of state allowance to CZK 1,500

Variant 0 – preservation of the current setting of state allowance provision

As part of variant 0, it is assumed that the current lower limit of the participant's contribution for awarding the minimum amount of state contribution will be maintained at the level of CZK 300 and the current upper limit of the participant's contribution for awarding the maximum amount of state contribution will be kept at CZK 1,000. The possibility of deduction from the personal income tax base would continue to apply only to monthly deposits exceeding the amount of CZK 1,000.

Option 1 – maintaining the current lower limit of the participant's contribution for awarding the minimum amount of state allowance and increasing the upper limit of the participant's contribution for awarding the maximum amount of state allowance to CZK 1,500

Variant 1 envisages maintaining the current lower limit of the participant's allowance for awarding the minimum amount of state allowance at the level of CZK 300 due to the limitation of the effects of the adjustment of the provision of state allowance in III. pension pillar for participants with lower contributions. An increase in the upper limit of the participant's contribution for awarding the maximum amount of state contribution to CZK 1,500 is being considered, which corresponds to an increase of the current limit by CZK 500, as well as when the provision of state support was changed in 2013. The possibility of deduction from the personal income tax base would only apply for monthly contributions of the participant exceeding the amount of CZK 1,500.

Following on from the previous chapter, the amount of the state allowance would be determined using a fixed percentage of the amount of the participant's allowance in the range from CZK 300 to 1,500. The specific amount of the percentage suitable for this option would be determined in the case of choosing this option based on the quantification and comparison of the impact of this option on the budget with the impact of maintaining the current status quo. For the purpose of comparing the effects of the setting of the lower and upper limits of the participant's contribution for awarding the minimum and maximum amount of the state contribution, an illustrative share of 20% was used.

Variant 2 – increasing the lower limit of the participant's allowance for awarding the minimum amount of state allowance to CZK 500 and the upper limit of the participant's allowance for awarding the maximum amount of state allowance to CZK 1,500

In variant 2, there would be an increase in the lower and upper limits of the participation allowance establishing the right to receive the minimum and maximum amount of the state allowance. The increase in the upper limit corresponds to variant 1, and therefore, in terms of the absolute amount, it is identical to the change in the provision of state support made in 2013 (an increase of CZK 500). The possibility of deduction from the personal income tax base would only apply to the participant's monthly contributions exceeding the amount of CZK 1,500.

From the point of view of setting the lower limit of the participant's allowance for awarding the minimum state allowance in variant 2, the fact that since 2013 the minimum wage has increased by 104% to the current CZK 17,300 (from January 2023) and that from the development of the statistical distribution of gross monthly wages was taken into account of employee wages since 2013, it can be seen that wages in the lowest quantiles grew at the fastest rate (in the case of the 5th percentile by 74% by 2021). Also, the relative growth of median wages since 2013 was 2.3 percentage points higher in 2021 than in the case of the average wage. On the other hand, for participants with lower incomes, a higher share of the salary is made up of living expenses, which have also increased significantly recently. Therefore, an increase in the lower limit is considered only for the purposes of the predicted growth of the average wage, while the effectiveness of the new parametric adjustments is assumed from 1 January 2024, and the decisive parameter could therefore be the predicted growth of the average gross nominal wage in 2023 compared to 2013 (73%).

Table 6: Prediction of the average gross monthly salary

Average gross monthly salary	2018	2019	2020	2021	Prediction		
					2022	2023	2024
Nominal in CZK	32,051	34,578	36,176	37,903	40,298	43,322	45,834
– basic index (average 2013=100)	*128.0*	*138.1*	*144.5*	*151.4*	*161.0*	*173.0*	*183.1*

Source: MF - Macroeconomic prediction of the MF from January 2023

The increase of the current lower limit at the level of CZK 300 by 73% corresponds, after rounding, to the new lower limit of CZK 500. At the same time, this is an increase in the lower limit by the same absolute amount as in the case of the change in the provision of state support implemented in 2013 (an increase of CZK 200).

Following the previous chapter, the amount of the state allowance would be determined using a fixed percentage of the amount of the participant's allowance in the range from CZK 500 to 1,500. The specific amount of the percentage suitable for this option would be determined in the case of choosing this option based on the quantification and comparison of the impact of this option on the budget with the impact of maintaining the current status quo. For the purpose of comparing the effects of the individual variants of the setting of the lower and upper limits of the participant's contribution for awarding the minimum and maximum amount of the state contribution, an illustrative share of 20% was used.

Comparison of the impacts of individual variants

The advantage of variant 1 consists in at least partial retention of state contributions for participants with a monthly contribution in the range of CZK 300–499, if these participants do not increase their contributions. However, participants with lower contributions are thus sent a very weak impulse to change their behaviour and it can be assumed that the reaction to the change in the provision of state support will take place for these participants only in connection with the introduction of a constant share (see previous subsection 2.3.1) and will be less intense than in in the case of variant 2. In variant 2, on the other hand, participants with lower contributions are sent a strong impulse to change their behaviour, because in the interval of

300-499 CZK of the participant's monthly contribution, the state contribution is assumed to be completely withdrawn, if these participants do not increase their contributions.

Table 7: Comparison of absolute changes in the state contribution and direct and tax state support compared to the current situation in the variants of determining the lower and upper limits of the participant's contribution for awarding the minimum and maximum amount of the state contribution

Monthly allowance participant in CZK	Monthly state allowance in CZK and % of the participant's allowance										
	Current settings 300–1,000 CZK			Option 1 300–1,500 CZK (20%)				Option 2 500–1,500 CZK (20%)			
300	90	*30%*	90	60	*20%*	-30		0	*0%*	-90	
400	110	*28%*	110	80	*20%*	-30		0	*0%*	-110	
500	130	*26%*	130	100	*20%*	-30		100	*20%*	-30	
600	150	*25%*	150	120	*20%*	-30		120	*20%*	-30	
700	170	*24%*	170	140	*20%*	-30		140	*20%*	-30	
800	190	*24%*	190	160	*20%*	-30		160	*20%*	-30	
900	210	*23%*	210	180	*20%*	-30		180	*20%*	-30	
1000	230	*23%*	230	200	*20%*	-30		200	*20%*	-30	
1,100	230	*21%*	245	220	*20%*	-10	-25	220	*20%*	-10	-25
1,200	230	*19%*	260	240	*20%*	+10	-20	240	*20%*	+10	-20
1,300	230	*18%*	275	260	*20%*	+30	-15	260	*20%*	+30	-15
1,400	230	*16%*	290	280	*20%*	+50	-10	280	*20%*	+50	-10
1,500	230	*15%*	305	300	*20%*	+70	-5	300	*20%*	+70	-5
1,600	230	*14%*	320	300	*19%*	+70	-5	300	*19%*	+70	-5
1,700	230	*14%*	335	300	*18%*	+70	-5	300	*18%*	+70	-5
1,800	230	*13 %*	350	300	*17%*	+70	-5	300	*17%*	+70	-5
1,900	230	*12%*	365	300	*16%*	+70	-5	300	*16%*	+70	-5
2000	230	*12%*	380	300	*15%*	+70	-5	300	*15%*	+70	-5

Note: __in red__ the total amount of current state support (direct and tax) and __in blue__ the absolute change in the state contribution and __in orange__ the absolute change in state support (direct and tax) compared to the current state

The basic effects of the individual variants of setting up the provision of state allowance are their effect on the amount of the participant's average allowance and the budget expenditure associated with the payment of state allowances. The quantification of these impacts depends on the reaction of the participants to the changes made to the setting of the limits of the amount of the participation contribution for granting the right to the state contribution, which are assumed in the individual variants, as well as on the extent of this reaction manifested by an increase in the amount of deposits. However, the intensity of the participants' reaction cannot be reliably predicted, as it will depend on the economic situation of individual participants. For this reason, a sensitivity analysis with several selected response ranges is used when comparing the impacts on the amount of the average participant contribution and budget expenditure.

In variants 1 and 2, following the previous evaluation of the method of determining the amount of the state contribution in relation to the amount of the participant's contribution, a new calculation of the state contribution consisting in determining a constant share of the state contribution to the participant's contribution is considered. For the initial evaluation of the impacts, an illustrative constant share of 20% is also used, which is determined on the basis of the current calculation of the amount of the state contribution using the same percentage amount, but applied only to the part of the participant's contribution exceeding CZK 300 and for the subsequent additional addition of CZK 90.

A change in participants' behaviour in response to a change in the setting of the state allowance is expected especially for participants whose current amount of allowance is at the level of the lower or upper limit for granting state aid. This expectation is based on the evaluation of the last change in the state allowance effective from 2013, when there was a reduction in the number and representation of participants in the range of CZK 100-299 and, on the contrary, an increase in the share of participants in the range of CZK 300-399, which was probably a reflection of the increase in the threshold for awarding the state allowance contribution. Furthermore, the share of participants with a contribution of CZK 500–599, representing the original lowest amount with the highest possible state contribution, decreased, and the number and representation of participants with a contribution in the range of CZK 1,000–1,099, i.e. the new lowest possible amount entitling participants to receive the highest state contribution, increased state allowance. For other participants with a contribution outside the threshold values, their share in the total number of participants did not change significantly with the change in the contribution.

On the basis of experience with the previous change in the provision of state support from 2013, when from the 2nd quarter of 2012 (in which significant changes in the structure of participants according to the amount of the participant's contribution, which can be attributed to the reaction to the new setting of state support, have already begun to manifest themselves) to the 4th quarter 2015, approx. 70% of participants with a contribution of CZK 100 to 299 increased their contribution to CZK 300 (so as not to lose the existing state contribution) and approx. 47% of participants with a contribution of CZK 500 increased their contribution to CZK 1,000 (to continue to draw the maximum state contribution possible amount), and on the one hand, taking into account the expected gradual increase in the total number of participants, when it is possible to expect a more flexible response from new participants to the new setting of the provision of the state allowance, in the case of variant 2, a reaction of 50 to 75% of participants with a contribution of 300 up to 499 CZK and a response of 50 to 75% of participants with a contribution of 1,000 to 1,099 CZK. In the case of variant 1, the same reaction is estimated for participants at the level of 50 to 75% of their number, and for participants with a contribution of CZK 300 to 499, it is estimated that no more than 25 to 50% of them will increase their contribution to CZK 500 due to the introduction of a constant share of the state allowance on the participant's allowance and maintaining a similar absolute amount of the state allowance that was paid to them before the change in the provision of state support in III. pension pillar. In both variants, it is simultaneously considered that the participants using the tax relief will increase their contribution in order to maintain its current amount, and at the same time they will also be awarded the highest possible amount of state contribution, as is the case now. For the other categories of participants, according to the amount of their contribution, it is based on the extrapolation of the development to date.

The expected future development of the current state, i.e. variant 0, is taken as a basic scenario, and the change in the behaviour of participants in variants 1 and 2 in the above-mentioned intervals, including participants using the tax relief, is then always considered against the background of this basic scenario. Participant response in marginal intervals is expressed as the percentage of participants with a certain contribution who change their behaviour, i.e. increase their contribution so that they continue to receive the lowest or highest possible state contribution. In the sensitivity analysis, the amount of the participant's average contribution and the amount of expenses from the state budget are subsequently modelled depending on the reaction of the participants expressed using a percentage share. To simplify the prediction model, the percentage change in behaviour applies throughout 2024 and 2025, although in reality the response is likely to be more gradual, although its intensity will be strongest at the beginning of the effective period.

Impacts of the variants compared to the current state in 2024, assuming the change is implemented on 1/1/2024 and a reaction of 50 to 75% of participants with a contribution of CZK 1,000 to 1,099 in both variants, as well as a reaction of 25 to 50% of participants with a contribution of 300 to 499 CZK in the case of variant 1, or 50 to 75% of participants with a contribution of 300 to 499 CZK in the case of variant 2 is summarized in table 8.

Table 8: Impacts of variants compared to the current state in 2024

Impacts in 2024	Current settings 300–1,000 CZK	Option 1 300–1,500 CZK (20%)	Option 2 500–1,500 CZK (20%)
Budget expenditure (billion CZK)	7,8	8.1 – 8.5	7.9 – 8.4
Average contribution - participant funds (CZK)	890	1040-1099	1,051 – 1,110
Average contribution – transformed funds (CZK)	824	958-1004	969-1016

Given that the state contribution for a given quarter is always paid retroactively during the following quarter [12], the effects of the change will only be fully reflected in the total direct support paid in 2025. The state support paid in 2024 includes state contributions remitted for the 4th quarter. quarter 2023, in which the effectiveness of the current provision of state support is assumed.

Table 9: Impacts of variants compared to the current state in 2025

Impacts in 2025	Current settings 300–1,000 CZK	Option 1 300–1,500 CZK (20%)	Option 2 500–1,500 CZK (20%)
Budget expenditure (billion CZK)	8.0	8.4 – 8.9	8.1 – 8.8
Average contribution - participant funds (CZK)	908	1,060 – 1,119	1,071 – 1,130
Average contribution – transformed funds (CZK)	837	974 – 1021	985 – 1032

A comparison of the variants shows that variant 2 shows slightly lower budget expenditures compared to variant 1 and ensures, on average, a higher increase in the average contribution of the participant in transformed and participant funds. For a better comparison of the costs between the variants, it is possible to compare the effectiveness of the costs incurred in terms of the benefit obtained by them, which could be considered an absolute increase in the average contribution. In the case of a 50% response of participants with the amount of the participation fee in the intervals of CZK 300–499 and CZK 1,000–1,099, costs of CZK 8.4 billion would be spent in variant 1 in 2025, while in variant 2 costs of 8.1 CZK billion, for achieving the same increase in the monthly average contribution of the participant in both variants to CZK 985 in the case of participants in transformed funds and to CZK 1,071 in the case of participants in participating funds. From the point of view of cost effectiveness, option 2 is therefore more suitable. Higher costs in option 2 compared to the current situation can be reduced by reducing the amount of the fixed share of the state contribution to the participant's contribution, which was set at 20% only to illustrate the comparison of the impacts of options 1 and 2.

The main disadvantage of option 2 is the complete removal of the state allowance from participants with a contribution in the range of CZK 300-499, if these participants do not increase their contributions. At the end of the 3rd quarter of 2022, the amount of the contribution in this interval concerned 943,740 participants, who made up 22.8% of all participants of III. pension pillar, of which 872,844 participants saved a monthly contribution of CZK 300-399 and 70,896 participants a contribution of CZK 400-499. Compared to the reform of the private pension system from 2013, in which the lower limit of the participant's contribution for the award of the minimum amount of the state contribution was increased from CZK 100 to CZK 300, savings were made in the 2nd quarter of 2012 (from which changes in the structure of participants already began to be felt according to the amount of the participant's contribution, which can be attributed to the reaction to the new setting of state support) contribution in the amount of CZK 100-299 for a total of 1,179,196 participants, who made up 26.1% of all

[12] In § 18 of Act No. 427/2011 Coll. on supplementary pension savings, it is stipulated that the Ministry of Finance will transfer the state contribution for the calendar quarter to the account of the pension company by the end of the 2nd month immediately following the end of the quarter for which the pension company requests the provision of the state contribution.

participants III. pension pillar, of which 713,350 participants saved a monthly contribution of CZK 100-199 and 465,856 participants a contribution of CZK 200-299. In 2013, the change in the lower limit of the participant's allowance for awarding the minimum amount of state allowance resulted in a higher number of participants. According to the forecast, before the proposed new change in the conditions for determining the state allowance in the 4th quarter of 2023, it is estimated that the change in the lower limit of the allowance could have an impact on approximately 922,000 due to the expected continuing slightly decreasing share of these participants in the total number of participants. participants.

The increase in the lower limit of the participant's contribution for awarding the minimum amount of the state contribution in 2013 directly affected younger participants (18–39 years old) in the 1st quarter of 2013, whose contribution amount was more often among the lowest, however, even so, their reaction only to participants in the age 18- to 19-year-olds did not significantly lag behind the reaction seen in middle-aged participants (40-64 years old).

Table 10: Share of participants entitled to the minimum amount of state allowance in the respective age categories in the period before and after the reform of the provision of state allowance in 2013 and in the 3rd quarter of 2022

Age	Share of participants of a given age with a contribution of 300 to 499 CZK as of 9/30/2022	Share of participants of a given age with a contribution of 100 to 299 CZK as of 6/30/2012 (before reform)	Share of participants of a given age with a contribution of 100 to 299 CZK as of 31 March 2013 (after reform)	Percentage change in the share of participants of a given age with a contribution of 100 to 299 CZK as of 31 March 2013
0-4	52.3%	-	-	-
5–9	52.9%	-	-	-
10-14	53.0%	-	-	-
15–17	53.0%	-	-	-
18–19	51.8%	52.4%	36.8%	-29.7%
20–24	46.4%	54.5%	32.3%	-40.8%
25–29	40.8%	46.1%	25.8%	-44.1%
30–34	38.4%	41.1%	23.1%	-43.7%
35–39	33.7%	37.0%	20.1%	-45.7%
40–44	28.8%	32.2%	17.0%	-47.0%
45–49	25.0%	26.5%	14.0%	-47.2%
50–54	20.6%	18.9%	10.1%	-46.6%
55–59	15.6%	13.4%	7.0%	-47.5%
60–64	10.8%	11.4%	5.6%	-51.3%
65–69	7.4%	11.5%	4.8%	-58.0%
70–74	6.5%	12.2%	4.9%	-60.0%
75–79	7.0%	13.1%	5.6%	-57.4%
80–84	7.6%	13.4%	6.2%	-53.3%
85 and over	7.8%	13.7%	7.5%	-45.6%
In total	**22.8%**	**26.1%**	**14.6%**	**-44.1%**

Source: MoF

As part of the change in the provision of state allowance in III. pension pillar, which was implemented at the beginning of 2013, it was enough for a higher number of participants to increase their contribution by only CZK 100 in order to reach at least the new lowest amount of the state contribution, however, from the point of view of the share in the net average wage, the net average median wage or net minimum wage in 2012, this represented a similar intervention in the budgets of the participants as a possible increase of 200 CZK at the beginning of 2022. In addition, a further increase in the average wage can be assumed until 2023, which may further slightly reduce the potential impact on the budget of the participants (see prediction of average growth wages in table 6).

Table 11: Share of contribution increase on net average wage, net average median wage and net minimum wage in 2012 and 2021[13]

Increase amount contribution	2012			2021		
	Share of net average wages	Share of net average median wages	Share of the net minimum wage	Share of net average wages	Share of net average median wages	Share of the net minimum wage
100 CZK	0.5%	0.6%	1.4%	0.3%	0.4%	0.7%
200 CZK	1.0%	1.2%	2.8%	0.7%	0.8%	1.5%

A comparison with the change in 2013 could therefore indicate a better preparedness of the participants for a possible further similar change in the provision of the state allowance in III. pension pillar thanks to their better starting economic situation than it was in 2013.

Proposal of the most suitable solution

In particular, the shift in the upper limit of the participant's contribution entitled to maximum state support helps to achieve the goal of increasing the average participant contribution. However, the average contribution of the participant increases to a certain extent also the shift of the lower limit of the contribution of the participant with the right to minimum state support, because the mere reduction of the absolute amount of the state contribution for the participation contribution of CZK 300 does not seem to be a sufficiently effective motivational impulse and would probably lead to a lower extent of reaction. Variant 2, with an increase in the lower and upper limit of the participant's contribution for awarding the minimum and maximum amount of state aid, also appears to be more cost-effective compared to variant 1, in which only the upper limit of the participant's contribution for awarding the maximum amount of state aid is increased. The main disadvantage of option 2 is the complete withdrawal of the state allowance from participants with a contribution in the range of CZK 300-499, if these participants do not increase their contributions. However, this disadvantage could be reduced by the fact that, compared to 2013, when there was the last change in the provision of the state allowance in the III. pension pillar, to which the majority of participants responded successfully at the time, the withdrawal of the contribution would now affect fewer participants and, moreover, the necessary increase in the contribution should represent a less significant impact on their budget due to the previous significant increase in wages.

Variant 2 is considered to be a suitable way of determining the lower and upper limits of the participant's contribution for awarding the minimum and maximum amount of state aid - increasing the lower limit of the participant's contribution for awarding the minimum amount of state aid to CZK 500 and the upper limit of the participant's contribution for awarding the maximum amount of state aid to 1 500 CZK.

[13] Net minimum wage, net median and net average wage assuming the application of only the taxpayer discount without the use of other tax discounts or deductions from the tax base.

Summary of the impacts of the chosen variant 2

Benefits/Positives	Costs/negatives
+ participants with lower contributions are sent a strong impulse to change their behaviour + higher average contribution	- complete removal of the state allowance from participants with a contribution in the range of CZK 300-499, if these participants do not increase their contributions

2.3.3 Determination of the specific amount or other parameters of the share of the state contribution to the participant's contribution

Description of the problem

The fixed percentage share of the amount of the state contribution to the amount of the participant's contribution at the level of 20%, which was set for the variants analysed in the previous sub-chapter 2.3.2, was only illustrative and was not primarily set with the objective of a neutral impact of direct state support in III. pension pillar on the state budget compared to the continuation of the current setup. The impact on the budget can be regulated in the case of the selected option 2 mainly through a change in the percentage of state support (as a constant proportion to the participant's contribution), whereby a lower percentage represents a lower budget expenditure.

Proposal of solution variants

3 solutions are considered:

- option 0 – preservation of the current setting of state allowance provision
- option 1 – the share of the state contribution on the participant's contribution in the amount of 20%
- option 2 – the share of the state contribution to the participant's contribution in the amount of 19%
- option 3 – the share of the state contribution to the participant's contribution in the amount of 18%

Variant 0 – preservation of the current setting of state allowance provision

As part of variant 0, the current situation would be maintained, where the share of the state contribution to the participation contribution decreases as the amount of the participation contribution increases, and participants with a lower contribution are relatively favoured.

Option 1 – the share of the state contribution on the participant's contribution in the amount of 20%

The state contribution in variant 1 would correspond to 20% of the participant's contribution from the interval of CZK 500 to 1,500, while in the case of a participant's contribution higher than CZK 1,500, the state contribution would be provided in the amount of a maximum of CZK 300, i.e. CZK 70 higher than in the current setting. The lowest amount of the state contribution would be CZK 100 for a participant's contribution of CZK 500, and its absolute amount would thus exceed the current lowest amount of the state contribution by CZK 10.

Option 2 – the share of the state contribution to the participant's contribution in the amount of 19%

The state contribution in variant 2 would correspond to 19% of the participant's contribution from the range of CZK 500 to 1,500, while in the case of a participant's contribution higher than CZK 1,500, the state contribution would be provided in the amount of a maximum of CZK 285, i.e. CZK 55 higher than in the current setting. The lowest amount of the state contribution would be CZK 95 for a participant's contribution of CZK 500, and its absolute amount would thus exceed the current lowest amount of the state contribution by CZK 5.

Option 3 – the share of the state contribution on the participant's contribution in the amount of 18%

The state contribution in variant 3 would correspond to 18% of the participant's contribution from the interval of CZK 500 to 1,500, while in the case of a participant's contribution higher than CZK 1,500, the state contribution would be provided in the amount of a maximum of CZK 270, i.e. CZK 40 higher than in the current setting. The lowest amount of the state contribution would be CZK 90 for a participant's contribution of CZK 500, and its absolute amount would be the same as the current lowest amount of the state contribution.

In any other variants with a share of the state contribution in the participant's contribution lower than 18%, the minimum amount of the state contribution would already be reduced below the current level of CZK 90, which could be perceived by participants very negatively, and could thus reduce their motivation to increase contributions.

Table 12: Comparison of absolute changes in the state contribution and direct and tax state support compared to the current situation for the variants of determining the specific amount of the share of the state contribution in the participant's contribution

Monthly allowance participant in CZK	Monthly state allowance in CZK and % of the participant's allowance														
	Current settings 300–1,000 CZK			Option 1 500–1,500 CZK (20%)				Option 2 500–1,500 CZK (19%)				Option 3 500–1,500 CZK (18%)			
300	90	*30%*	90	0	*0%*	-90		0	*0%*	-90		0	*0%*	-90	
400	110	*28%*	110	0	*0%*	-110		0	*0%*	-110		0	*0%*	-110	
500	130	*26%*	130	100	*20%*	-30		95	*19%*	-35		90	*18%*	-40	
600	150	*25%*	150	120	*20%*	-30		114	*19%*	-36		108	*18%*	-42	
700	170	*24%*	170	140	*20%*	-30		133	*19%*	-37		126	*18%*	-44	
800	190	*24%*	190	160	*20%*	-30		152	*19%*	-38		144	*18%*	-46	
900	210	*23%*	210	180	*20%*	-30		171	*19%*	-39		162	*18%*	-48	
1000	230	*23%*	230	200	*20%*	-30		190	*19%*	-40		180	*18%*	-50	
1,100	230	*21%*	245	220	*20%*	-10	-25	209	*19%*	-21	-36	198	*18%*	-32	-47
1,200	230	*19%*	260	240	*20%*	+10	-20	228	*19%*	-2	-32	216	*18%*	-14	-44
1,300	230	*18%*	275	260	*20%*	+30	-15	247	*19%*	+17	-28	234	*18%*	+4	-41
1,400	230	*16%*	290	280	*20%*	+50	-10	266	*19%*	+36	-24	252	*18%*	+22	-38
1,500	230	*15%*	305	300	*20%*	+70	-5	285	*19%*	+55	-20	270	*18%*	+40	-35
1,600	230	*14%*	320	300	*19%*	+70	-5	285	*18%*	+55	-20	270	*17%*	+40	-35
1,700	230	*14%*	335	300	*18%*	+70	-5	285	*17%*	+55	-20	270	*16%*	+40	-35
1,800	230	*13 %*	350	300	*17%*	+70	-5	285	*16%*	+55	-20	270	*15%*	+40	-35
1,900	230	*12%*	365	300	*16%*	+70	-5	285	*15%*	+55	-20	270	*14%*	+40	-35
2000	230	*12%*	380	300	*15%*	+70	-5	285	*14%*	+55	-20	270	*14%*	+40	-35

Note: in red the total amount of current state support (direct and tax) and in blue the absolute change in the state contribution and in orange the absolute change in state support (direct and tax) compared to the current state

Comparison of the impacts of individual variants

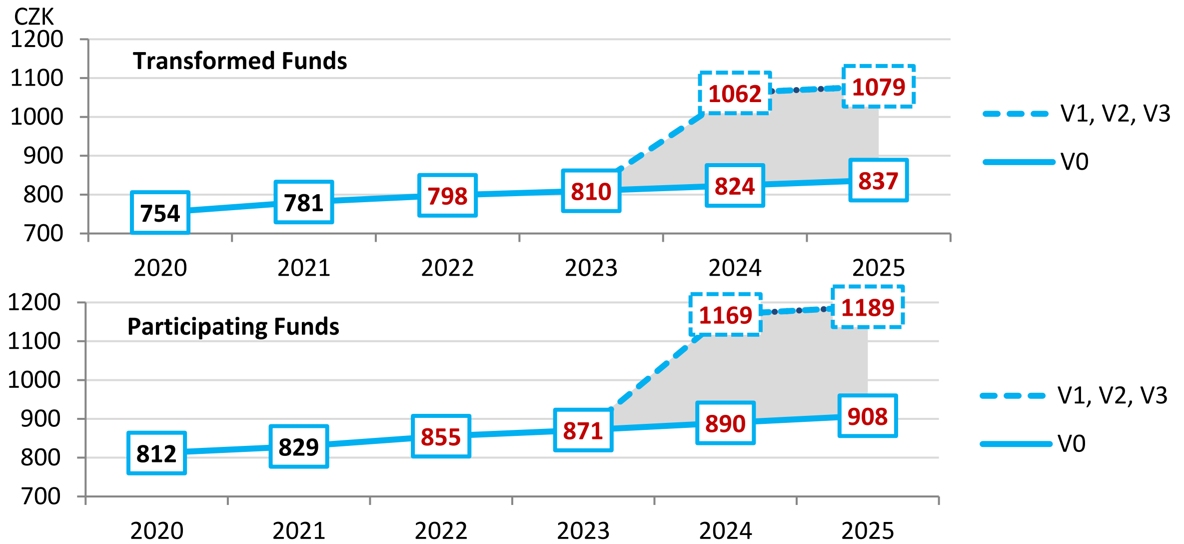
The basic effects of the individual variants of setting the specific amount of the share of the state contribution to the participant's contribution are their effect on the amount of the participant's average contribution, the savings of the participants and the budget expenditure associated with the payment of state contributions. When comparing the impacts of individual variants, the same sensitivity analysis is used as in the previous sub-chapter dealing with determining the lower and upper limits of the participant's contribution for awarding the minimum and maximum amount of the state contribution.

In the sensitivity analysis, the amount of the participant's average contribution and the amount of expenses from the state budget are modelled depending on the reaction of the participants expressed using a percentage share, specifically for values of 0%, 25%, 50%, 75% and 100%. The impacts are modelled only for the year 2025, which represents the first year in which the change in the setting of the state contribution will be fully reflected in the budgetary expenditure. The expected future development of the current state, i.e. variant 0, is taken as a basic scenario, and the change in the behaviour of the participants in variants 1 and 2 and 3 is then always considered against the background of this basic scenario. Participant response in marginal intervals is expressed as the percentage of participants with a certain contribution who change their behaviour, i.e. increase their contribution so that they continue to receive the lowest or highest possible state contribution.

In all variants, the absolute amount of the state contribution is reduced for some participants compared to the current state, if these participants do not increase their contributions, while in variant 1 this reduction is less significant than in variant 2 and variant 3, in which the largest reduction occurs. In variant 1, there would be a reduction in the absolute amount of the state allowance for participants with a contribution in the range of CZK 500 to 1,149, in variant 2 for participants with a contribution in the range of CZK 500 to 1,210, and in variant 3 in the case of participants with a contribution in the range of 500 to 1,277 CZK. In general, a higher state contribution could motivate participants more to increase their contributions. However, the differences in the absolute amounts of state contributions between the individual considered variants, which range at most at the level of CZK 30 (the difference between variants 1 and 3 in the case of the absolute amount of the state contribution when the participant's contribution is CZK 1,500) cannot be considered significant from the point of view of the intensity of the reaction, and therefore the range of response in all variants is considered to the same extent as in the case of variant 2 in the previous subsection, i.e. a response of 50 to 75% of participants with a contribution of CZK 300 to 499 and a reaction of 50 to 75% of participants with a contribution of 1 000 to 1,099 CZK.

Assuming the continuation of the current setting (variant 0), the average participant contribution for the year 2025 would amount to CZK 837 in transformed funds and CZK 908 in participant funds. In the event of a response from all affected participants, in 2025, in the case of all three considered variants, the average contribution in transformed funds would reach up to CZK 1,079 and in participant funds up to CZK 1,189.

Chart 2: Development and prediction of average participant contribution in CZK



However, reaching the upper limit of the amount of average contributions is rather a theoretical possibility, which is very unlikely. Within the expected reaction of participants (reaction of 50 to 75% of participants with a contribution of 300 to 499 CZK and reaction of 50 to 75% of participants with a contribution of 1,000 to 1,099 CZK) in all three variants, the average contribution would vary depending on the intensity of the reaction of participants in transformed funds in the range of CZK 985 to 1,032 and in participating funds in the range of CZK 1,071 to 1,130.

Table 13: Estimate of the amount of the participant's average contribution for the year 2025 in transformed (TF) and participant (ÚF, row with gray filling) funds in variants 1, 2 and 3

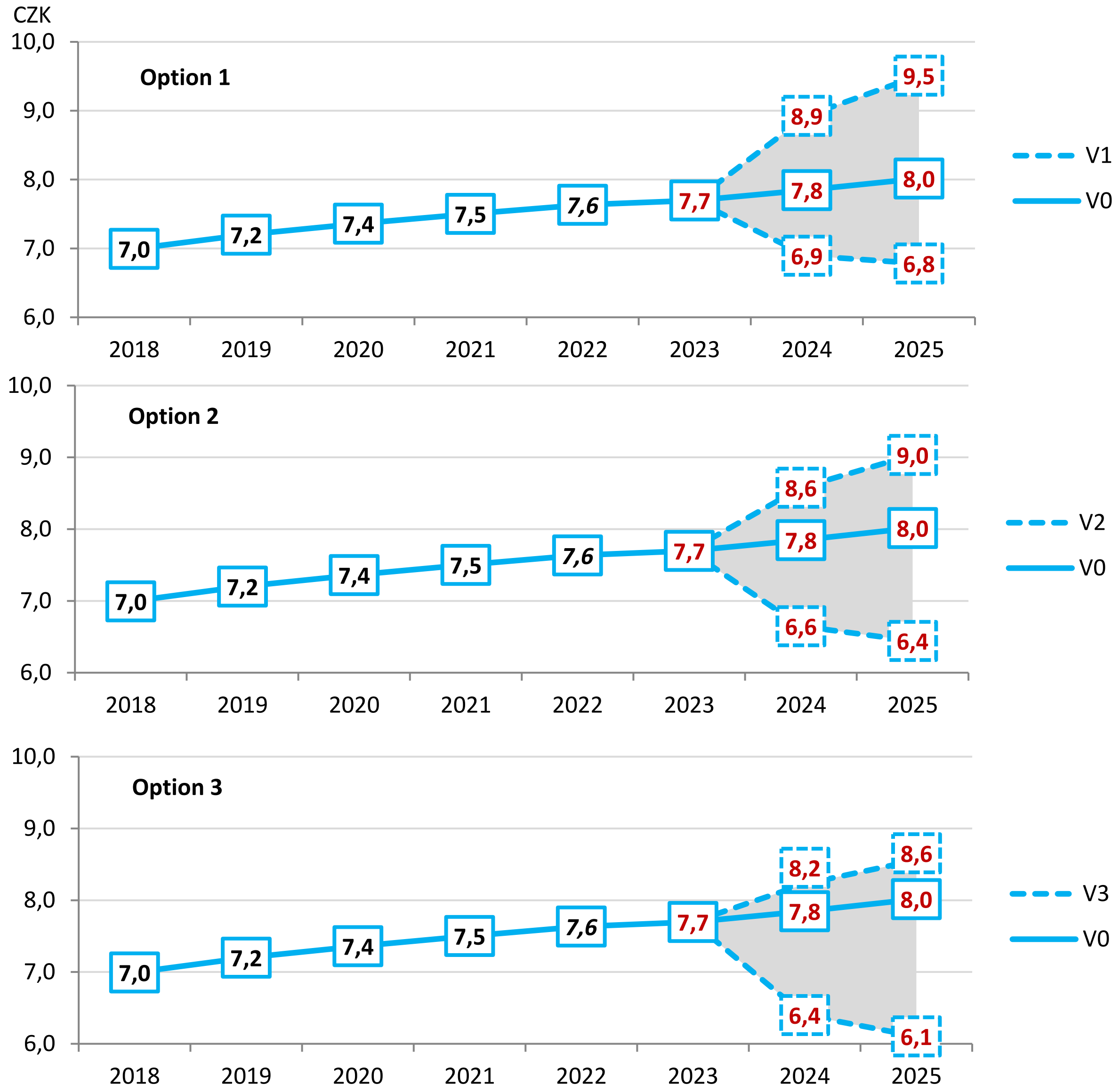
in CZK	Percentage of participants with a contribution of 300 to 499 CZK who change their behavior						
Percentage of participants with a contribution of 1,000 to 1,099 CZK who change their behavior			0%	25%	50%	75%	100%
	0%	TF	891[14]	902	913	924	935
		UF	953 [10]	963	974	985	996
	25%	TF	928	938	949	960	971
		UF	1001	1,012	1,022	1,033	1,044
	50%	TF	964	974	**985**	**996**	1 007
		UF	1,049	1,038	**1,071**	**1,082**	1,092
	75%	TF	1000	1,011	**1,021**	**1,032**	1,043
		UF	1,097	1 108	**1 119**	**1,130**	1 141
	100%	TF	1,036	1,047	1,057	1,068	1,079
		UF	1 145	1 156	1 167	1 178	1 189

An important factor for the final setting of the state allowance is the impact on the state budget due to the state allowances paid. The budgetary impact of the tax relief is not considered in this analysis, because due to the acceptance of the assumption that the participants who use the tax relief today will increase their contribution in order to maintain its current amount, and the lost revenues of the state budget will not change in this area.

Annual budget expenditure related to paid state contributions in III. of the pension pillar has been slightly increasing since 2016, and in the situation where the current setting continues (variant 0), the budget expenditure in 2025 could be around CZK 8.0 billion. Depending on the extent of the participants' response, an amount in the range of CZK 6.8 to 9.5 billion in variant 1, in the range of CZK 6.4 to 9.0 billion in variant 2, and in the variant 3 in the range of 6.1 to 8.6 billion CZK.

[14] The difference between the contributions in variant 0 and variants 1 and 2 in the case of a zero reaction of participants with a contribution in the intervals of CZK 300 to 499 and CZK 1,000 to 1,099 is caused by the assumption that participants using the tax relief will increase their contribution in variants 1 and 2 in order to maintain its current amount.

Graph 3: Development and prediction of budget expenditure on state contributions in CZK billion



However, reaching the upper limit of the above-mentioned intervals of the volume of direct state support is rather a theoretical possibility, which is very unlikely. If the share of participants with a contribution of CZK 300-499 and CZK 1,000-1,099, who change their behaviour as a result of the new setting of state subsidies, were between 50 and 75%, the amount of budget expenditure would range in variant 1 in the range 8.1 to 8.8 billion CZK.

Table 14: Estimated amount of budget expenditure for the year 2025 in option 1 (20%)

in CZK billion		Percentage of participants with a contribution of 300 to 499 CZK who change their behavior				
Percentage of participants with a contribution of 1,000 to 1,099 CZK who change their behavior		0%	25%	50%	75%	100%
	0%	6.8	7.1	7.3	7.6	7.9
	25%	7.2	7.5	7.7	8.0	8.3
	50%	7.6	7.9	8.1	8.4	8.7
	75%	8.0	8.3	8.6	8.8	9.1
	100%	8.4	8.7	9.0	9.2	9.5

Under variant 2, in the case of a response of 50 to 75% of participants with a contribution of CZK 300-499 and CZK 1,000-1,099, the budget expenditure would amount to CZK 7.7 to 8.4 billion.

Table 15: Estimated budget expenditure for 2025 in option 2 (19%)

in CZK billion		Percentage of participants with a contribution of 300 to 499 CZK who change their behavior				
Percentage of participants with a contribution of 1,000 to 1,099 CZK who change their behavior		0%	25%	50%	75%	100%
	0%	6.4	6,7	7.0	7.2	7.5
	25%	6.8	7.1	7.4	7.6	7.9
	50%	7.2	7.5	7.7	8.0	8.3
	75%	7.6	7.9	8.1	8.4	8.6
	100%	8.0	8.3	8.5	8.8	9.0

In variant 3, the reaction of 50 to 75% of participants with a contribution of CZK 300 to 499 and CZK 1,000 to 1,099 would lead to budgetary expenditure of CZK 7.3 to 7.9 billion, i.e. the estimated amount of budgetary expenditure would be in the whole of the expected response interval is always lower than the estimated expenditure while maintaining the current state of the state subsidy setting.

Table 16: Estimated budget expenditure for 2025 in option 3 (18%)

in CZK billion		Percentage of participants with a contribution of 300 to 499 CZK who change their behavior				
Percentage of participants with a contribution of 1,000 to 1,099 CZK who change their behavior		0%	25%	50%	75%	100%
	0%	6.1	6.4	6.6	6.8	7.1
	25%	6.5	6,7	7.0	7.2	7.5
	50%	6.8	7.1	7.3	7.6	7,8
	75%	7.2	7.5	7.7	7.9	8.2
	100%	7.6	7,8	8.1	8.3	8.6

A comparison of the options shows that option 3 has the lowest budget costs and could ensure the same increase in the average participant contribution in transformed and participating funds as options 1 and 2. From the point of view of cost effectiveness, option 3 therefore appears to be the most appropriate.

The determination of the new lower and upper limits of the participation allowance for awarding the state allowance is expected to bring an increase in the total amount saved, despite the reduction of the absolute amount of the state allowance determined on the basis of a constant proportion. In option 1, when increasing the allowance in order not to lose the right to receive the minimum amount of state allowance, the participant would save approx. 127,000 over 35 years compared to the current setting. CZK more, in the case of option 2, the savings would increase by approx. 124 thousand. CZK and in variant 3 there would be an increase in savings by approx. 121 thousand. CZK. On the contrary, if the participant did not increase the contribution, the amount saved would be reduced by approximately 54 thousand in all three variants. CZK.

Table 17: Amount saved[15]

Amount saved over 35 years in CZK	With the contribution of a participant entitled to the minimum amount of state contribution	At the lowest possible amount of the participant's contribution entitled to the maximum amount of the state contribution
Variant 0	236,419	745,683
Option 1 (20%)	363,760	1,091,279
Option 2 (19%)	360,733	1,082,198
Option 3 (18%)	357,705	1,073,116

The differences in the amount saved in variants 2 and 3 compared to variant 1 are not very significant. In the case of option 2, this difference would be 0.8% of the saved amount, in option 3 it would be 1.7% of the saved amount.

Proposal of the most suitable solution

Variant 3 shows a lower budget expenditure associated with the payment of state subsidies to participants in III. pension pillar, not only in comparison with other variants of adjusting the provision of the state allowance, but also in relation to the continuation of the current situation. At the same time, option 3 should bring the same increase in the average amount of the participants' contribution as the other considered change options. In variant 3, although the absolute amount of the state contribution to the highest number of participants will be reduced, if these participants do not increase their contributions, however, there is no significant reduction in the amount saved compared to the other change variants. According to the data for the 3rd quarter of 2022, the absolute amount of the state allowance would be reduced for 75% of the participants, however, the change in determining the state allowance in 2013 also meant a de facto reduction in the absolute amount of the state allowance for the majority of the participants at that time (approx. 73% of the participants as of the 2nd quarter 2012, in which significant changes in the structure of participants according to the amount of the participant's contribution, which can be attributed to the reaction to the then new setting of state support, have already begun to manifest themselves. Nevertheless, participants largely responded to this change by increasing their contributions. Variant 3 continues to ensure the minimum amount of the state allowance at the current level of CZK 90, and the adjustment of the provision of the state allowance in III. in this respect, the pension pillar should not be perceived completely negatively by the participants.

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[15] When calculating the amount saved, a constant monthly participation and state contribution and an average annual appreciation of 2% pa are assumed

Variant 3 – the share of the state subsidy on the participant's contribution in the amount of 18% is considered to be a suitable way of determining the specific amount or other parameters of the share of the state contribution to the participant's contribution.

Summary of the impacts of the chosen option 3

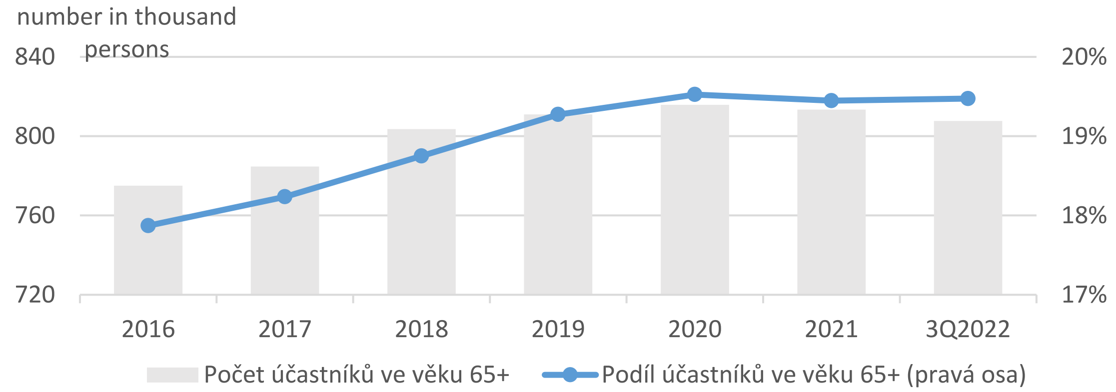
Benefits/Positives	Costs/negatives
+ higher average contribution + higher savings for participants + lower budget expenditure	- reduction of the absolute amount of the state contribution for existing participants with a contribution in the range of CZK 500 to 1,277, if these participants do not increase their contributions

2.3.4 Withdrawal of state allowance in III. pension pillar for participants of retirement age

Current status and problem description

As part of the provision of the state allowance in III. the pension pillar currently does not take into account the age of the participant. Therefore, a significant number of participants of retirement age also save in the supplementary pension insurance and supplementary pension savings systems. The number of participants aged 65 and over (65+) [16]with a recorded participant contribution, after growth in 2017 to 2020 and a decrease in 2021, slightly decreased in the 3rd quarter of 2022, to almost 808,000. persons, which represented 19.5% of all participants in III. pension pillar with registered contribution. Around 60% of these participants had saved for more than 60 months and could therefore end their contract at any time without losing their right to state allowance.

Chart 4: Number of participants aged 65+ with a registered contribution and their share in the total number of participants at the end of the relevant period



Source: MoF

[16] Given the data available to the Ministry of Finance regarding the age structure of participants in the III. pension pillar, the material works with the age limit of 65 years as an analogy of the retirement age at which the old-age pension is received. At the end of 2021, 97.6% of people aged 65 and over were receiving an old-age pension. In the case of persons aged 60 to 64, the proportion of old-age pensioners was 42.9%, while in the age category 65 to 69 this proportion already reached 95.4%.

Participants III. of the pension pillar at the age of 65+ are characterized by the fact that they save above-average monthly contributions. In the 3rd quarter of 2022, almost 71% of these participants saved a monthly amount equal to or greater than CZK 1,000.

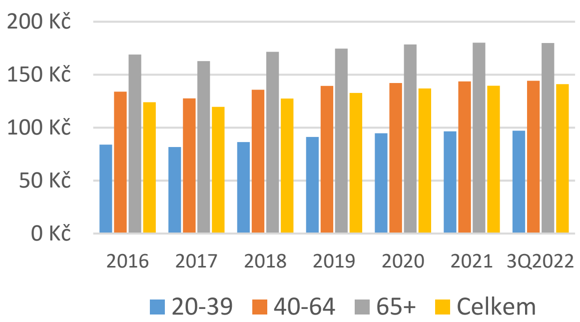
Table 18: Distribution of the number of participants aged 65+ according to the amount of the monthly contribution at the end of the 3rd quarter of 2022

Category according to the amount of the contribution	Number of participants aged 65+	Share of participants aged 65+	Share of all participants III. pension pillar
0, - CZK	38,683	4.8%	7.5%
1–299 CZK	8,637	1.1%	5.0%
300–399 CZK	51,459	6.4%	21.0%
400–499 CZK	5,676	0.7%	1.7%
500–599 CZK	102 207	12.7%	15.5%
600–999 CZK	31 109	3.9%	5.1%
1,000–1,099 CZK	456,767	**56.6%**	**30.2%**
1,100–1,499 CZK	6,909	0.9%	1.4%
1,500–1,599 CZK	34,063	4.2%	3.5%
more than 1,600 CZK	72 140	8.9%	9.2%
In total	807,650	100.0%	100.0%

Source: MoF

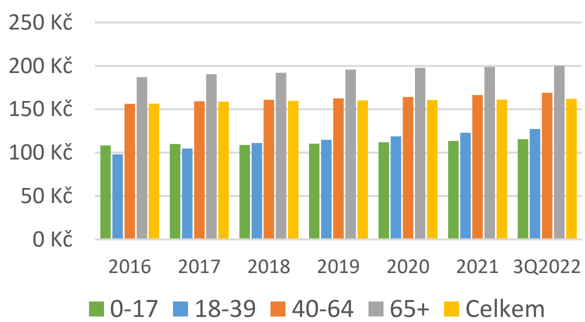
High participant contributions correspond to the average amount of the monthly state allowance paid to participants aged 65+, which in the years 2016 to 2021 considerably exceeded the average amount of the monthly state allowance for younger age categories of participants in the system of both supplementary pension insurance and supplementary pension savings. The average monthly state contribution of a participant aged 65+ in the 3rd quarter of 2022 was approx. 128% of the total average contribution (gradual decrease from approx. 136% in 2016) in the case of pension savings and almost 124% of the total average contribution (gradual increase from approx. 120% in 2016) as part of supplementary pension savings.

Chart 5: The average amount of the state allowance in the supplementary pension insurance system by age category



Source: MF

Graph: 6: The average amount of the state allowance in the supplementary pension system. savings according to age categories



Source: MF

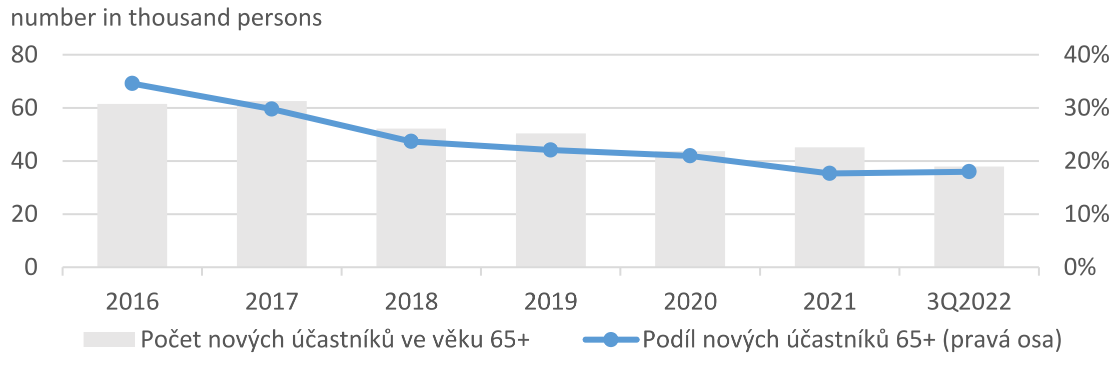
The supplementary pension savings system now allows participants to withdraw their accumulated savings after completing a contribution payment period of at least 5 years and at the same time reaching the age of 60. Therefore, participants over the age of 60 can, after withdrawing their so far saved funds within III. of the pension pillar to establish a new contract on supplementary pension savings and, given their age, to withdraw the newly saved funds including state contributions and interest already after 5 years, and thus use supplementary pension savings as an alternative to other medium-term investment products, which, however, do not have state support.

Such use of the supplementary pension system can be very attractive in terms of income. If a participant saves an amount of CZK 1,000 per month (approx. 57% of participants aged 65+ saved this amount at the end of the 3rd quarter of 2022), at the end of 5 years, their savings, including the monthly state allowance of CZK 230, will reach a total of 73,800 CZK in the event that there is no positive or negative appreciation of these funds in the course of saving. In order for this participant to achieve the same amount of savings in another savings or investment product when depositing the same monthly amount, such product would have to offer an interest rate of 9.6% pa (before tax), or achieve a rate of return of 8.2% pa in the case exemption from interest tax (e.g. when meeting the time test when investing in mutual funds). [17]Even in the current environment of high interest rates, none of the savings or term bank accounts offer such a high return (the highest interest rates are around 6% pa) and when investing in mutual funds, to achieve the same appreciation, one would have to take a much higher level of risk than necessary in case of investment in pension funds.

In the case of the proposed adjustment of the provision of the state allowance in III. the pension pillar in the previous subchapter 2.3.3, which consists in increasing the lower limit of the participant's contribution for awarding the minimum amount of state allowance to CZK 500 and the upper limit of the participant's contribution for awarding the maximum amount of state allowance to CZK 1,500 and introducing a constant share of the amount of the state allowance in relation to the participant's contribution of 18%, there would be a certain reduction in appreciation - with a monthly deposit of CZK 500 to 1,500, the alternative savings or investment product would have to offer an interest rate of 7.7% pa, or 6.5% p.a. - even so, this would still be a higher return than can currently be achieved by saving the same monthly amount in savings or term bank accounts.

The number of newly entrants aged 65+ to the supplementary pension savings system decreased between 2016 and 2020 and rose slightly to 45,000 in 2021. persons whose share in total new participants for 2021 was 17.7%.

Graph 7: Number of new participants aged 65+ and their share in the total number of new participants for the relevant period



Source: MoF

Based on the available data, it is not possible to accurately determine the number of new participants who use supplementary pension savings as a 5-year investment product with state support. However, the development of the number of participants aged 65+, who in the past already had within III. of the pension pillar concluded a contract, shows a significant increase in 2018, which could be related to the fact that participants who joined the supplementary

[17] In the case of a monthly deposit of CZK 300, an alternative savings or investment product would have to offer an interest rate of even 12.2% pa, or 10.4% pa, because due to the current degressive setting of determining the amount of the state allowance depending on the amount of the participation allowance, the comparative advantage of 5-year savings within the III. of the pension pillar, the decreasing amount of the participation contribution deepens.

pension savings system in the first year of its existence, i.e. in 2013, just after 5 years withdrew their funds and established a new supplementary pension savings contract. However, the number of these participants may also include other participants, for example those who have transferred their funds from supplementary pension insurance to supplementary pension savings. Such participants are likely to occur primarily in the group of participants aged 60 to 64, due to their transition to supplementary pension savings in order to draw a so-called pre-retirement, which is not possible in the older supplementary pension insurance system. The fact that new participants aged 60 to 64, who already had in the past within the framework of the III. of the pension pillar concluded a contract, do not necessarily use supplementary pension savings as a 5-year investment product with state support, it may also indicate that they are not nearly as numerous a group as participants aged 65 to 69, who represent the most numerous age category (5-year interval) among the new participants over 60 years old.

Table 19: Number of new participants by age in a given year, who in the past already had III. pension pillar concluded contract

Number of new subscribers	2016	2017	2018	2019	2020	2021	3Q2022
Aged 60+	808	1,419	10 148	20,738	23,420	26,599	21,721
Aged 65+	313	593	8,541	18,368	20,733	23,372	18,881
Aged 70+	144	245	4,930	10,451	12,322	14,200	11,625
Between the ages of 60 and 64	495	826	1,607	2,370	2,687	3,227	2,840
At the age of 65 to 69 years	169	348	3,611	7,917	8,411	9,172	7,256
At the age of 70 to 74 years	90	163	2,993	6,540	7,753	8,413	6,541

Source: MoF

Objective III. of the pension pillar is a long-term postponement of consumption for the future payment of funds during the retirement age as a supplement to the pension from the I. pension pillar, the amount of which may decrease in the future due to the aging of the population in relation to the income achieved in the period before receiving the old-age pension. An additional state-supported private pension system should not serve as a medium-term (5-year) savings or investment product with state support, and therefore a legal arrangement can be considered, on the basis of which participants of retirement age would lose their right to a state allowance in the event that they set up after selection of their previously saved funds into a new supplementary pension savings contract.

From the above information, it can be concluded that the majority of participants aged 65+ belong to the population with higher incomes or savings, who have no problem covering their needs from the state pension or additional savings and also save a certain amount every month in III. pension pillar. Considering the objective III. pension pillar, it is also possible to consider that the state support of the private pension system, which is now also directed to participants of retirement age, would be withdrawn from all participants of retirement age, and with this withdrawn amount, state support for other participants who are saving for old age could possibly be increased, or this amount would represent savings on the expenditure side of the state budget.

Proposal of solution variants

3 solutions are considered:

- option 0 – maintaining the current state
- option 1 – withdrawal of the state allowance for a new contract of a participant at retirement age
- option 2 – withdrawing the state allowance from all participants of retirement age

Option 0 – maintaining the current state

As part of variant 0, the current situation is maintained, which consists in paying the state pension to all participants who contribute a monthly amount above the established lower limit, regardless of the age of the participant.

Option 1 – withdrawal of the state allowance for a new contract of a participant at retirement age

In option 1, a participant at retirement age would lose the right to a state allowance if, after having already withdrawn their savings in III. pension pillar, established a new contract on supplementary pension savings.

Option 2 – withdrawing the state allowance from all participants of retirement age

Variant 2 represents a general loss of entitlement to state allowance for all participants III. pension pillar who have reached retirement age.

Comparison of the impacts of individual variants

Regarding the number of participants who could be affected by the withdrawal of the state allowance in variant 1, from 2018 to the 3rd quarter of 2022, a total of 89,895 participants aged 65+ who already had in the past within the III. pension pillar led contract. As mentioned above in the description of the current state, not all of these participants must automatically be those who use supplementary pension savings as a 5-year investment product with state support. However, if this were the case and these participants saved CZK 1,000 per month (i.e. the minimum deposit with the right to the maximum amount of state allowance), the total amount of allowances remitted to these participants per year would amount to approximately CZK 248 million. This amount can be considered as the upper limit of possible current savings of the state budget if these participants were deprived of the right to a state allowance. Due to the substantial uncertainty that not all of the above-mentioned participants are necessarily among those who use supplementary pension savings as a 5-year investment product with state support, and the impossibility of finding out what amount of state allowance is paid to these participants (average monthly state allowance of all participants at the age of 65 + years in supplementary pension savings is approximately CZK 200 - see Chart 6), the actual savings would very likely be lower than the mentioned upper limit.

Regarding the possible saving of state funds in variant 2, the total annual volume of direct state support transferred to all participants aged 65+ gradually increased to almost CZK 2 billion transferred for the year 2021. Share of direct state support transferred to participants aged 65+ in the total volume direct state support in III. pension pillar was around 25.5% between 2016 and 2021.

Table 20: Estimate of total state direct support paid to participants aged 65+ for the relevant period

	2016	2017	2018	2019	2020	2021	3Q2022
State contributions for participants 65+ (in billion CZK)	1,687	1,740	1,793	1,872	1,922	1,943	*1,451*

Total state contributions (in billion CZK)	6,829	6,901	7,035	7,254	7,390	7,550	*5.725*
Share of state subsidies for participants 65+ (in %)	*24.7*	*25.2*	*25.5*	*25.8*	*26.0*	*25.7*	*25.4*

Variant 2, which assumes the removal of the state allowance from all participants at retirement age, therefore brings a much higher saving of state funds spent on direct state support in III. pension pillar. The amount saved by choosing option 2 could be used in full or in part to increase the state support paid to participants who have not yet reached retirement age, thus motivating them to react more intensively to the change in the provision of state support in III. pension pillar. The savings in variant 1, due to its considerably lower amount, would probably not contribute fundamentally to a higher motivation of the participants to respond to the change in the provision of the state allowance, and due to the uncertainty of its final amount, it cannot be simply projected into a possible new budget-neutral setting of the parameters of the state allowance (the lower limit of the participant's allowance for awarding the minimum amount of the state allowance, the upper limit of the participant's allowance for awarding the maximum amount of the state allowance and a constant proportion of the amount of the state allowance in relation to the participant's allowance).

Withdrawal of the state allowance from all participants of retirement age in option 2 would affect a relatively large number of people (as of the 3rd quarter of 2022, almost 808,000 people, i.e. 19.5% of the total number) and if a significant part of these participants decided to withdraw entitlement to a state contribution to withdraw their saved funds in the form of a one-off settlement, this could place significant demands on the pension funds to secure the necessary liquidity in order to be able to pay out the participants' funds in due time (within 3 months from the delivery of the application or by the end of the calendar quarter following month for which the participant's last contribution was paid). Claims for securing liquidity would then be much higher in the supplementary pension insurance system, where as of 30/09/2022 88.6% of participants (approx. 417,000) aged 65+ were entitled to payment of their savings due to exceeding the savings period of 60 months. In the case of supplementary pension savings, there were 44.7% of such participants (almost 127 thousand).

However, both transformed funds and participating funds have enough liquid assets, which include deposits with credit institutions and Czech government bonds. As of September 30, 2022, in the case of transformed funds, rapidly liquid assets accounted for 89.7% of total assets, and in the case of participating funds, this share was 63.1%. If all participants aged 65+ decided to withdraw their funds by 30/09/2022, their amount, excluding contributions paid by the employer, the amount of the so-called subscription and the achieved appreciation, would reach 78.9 billion CZK [18]in transformed funds and 23.5 billion CZK CZK in participating funds. According to an expert estimate, the contributions paid by the employer and the income achieved during the entire savings period could increase the above-mentioned volumes of funds of participants aged 65+ by 30%, i.e. to CZK 102.5 billion in the case of transformed funds and CZK 30.5 billion in participating funds. The transformed funds would have to sell Czech government bonds in the amount of 24.7 to 48.3 billion CZK during the estimated interval of funds after exhausting the deposits with credit institutions for one-off settlement payments, which as of September 30, 2022 represented 6.7 to 13, 1% of their portfolio of Czech government bonds. In the case of participant funds, the sale of bonds in the amount of CZK 3.0 billion would be sufficient to cover payments to participants aged 65+, in terms of the upper limit of the estimated interval of their funds, after the deposits of these funds have been

[18] The Ministry of Finance does not have detailed information on the total volume of funds of participants by age, but only on the funds for which entitlement to a state allowance arises.

exhausted at credit institutions, which as of September 30, 2022 represented 6.9% of their portfolio of Czech government bonds.

In this context, there is a risk that pension funds, especially transformed funds, will be forced to sell the related volume of Czech government bonds within a short period. If the transformed funds were forced to sell off bonds at the accrued value, in which pension fund bonds held to maturity are valued according to the IFRS 9 accounting standard, due to the non-revaluation (non-decrease) of the value of these bonds, during the rise in interest rates in 2021 and 2022, they could their current sale to realize a loss. Transformed funds hold a relatively large number of bonds at an accrued value [19], and a possible loss could thus, due to the guarantee of so-called non-negative appreciation, lead to the need for a capital injection by pension companies, if the value of the assets of the transformed funds fell below the value of their liabilities. The forced sale of Czech government bonds itself could also temporarily reduce their price and thus increase their yield.

According to the CNB's statement, at the aggregate level of the sector, the eventual departure of all participants aged 65+ would be fully covered by the liquid assets of pension funds, however, the results are heterogeneous at the level of individual companies and in some of them liquidity reserves would essentially be completely depleted. At one pension company, there would also be a forced sale of the bond portfolio at the accrued value.

The risk of a forced sale of Czech government bonds and the associated risk of realizing losses, especially of transformed funds, and the associated risk of an increase in bond yields was thus evaluated as moderately probable, but with a low intensity of impact, while it depends in particular on the approaches applied by pension companies to the sale of the portfolio. In fact, it can be assumed that due to the effectiveness of withdrawing the state allowance from all participants of retirement age from 1 January 2024, pension funds will be able to prepare for a higher volume of payments at least partially in advance and adequately change the composition of the assets held. The need to sell government bonds can also be reduced by placing all expected liquidity inflows during the remaining part of 2023 (for transformed funds, this is mainly income from bank deposits, bond coupons and bond principals due) in quickly liquid assets. At the same time, 8 out of 10 pension companies, which manage 98.1% of all funds in transformed funds and 90.5% in participating funds, are part of banking or insurance groups and can therefore sell bonds to parent companies outside the market itself or resolve the replenishment of the necessary liquidity with intra-group borrowings. In addition, pension companies can also use the CNB's delivery repo operations, which can be secured by Czech government bonds, in order to obtain liquidity.

Due to the expected payment of the funds of participants aged 65+ due to the withdrawal of the state allowance from these participants, there will be a decrease in the volume of managed funds in the pension funds and thus a decrease in the absolute amount of remuneration for the management of the fund's assets, which the funds pay to the pension companies. The payment reduction would be noticeable in option 2, which concerns a significantly larger number of participants aged 65+ than option 1.

The payment for managing the assets of the transformed fund is expressed as a percentage (maximum 0.8%) of the average annual value of the balance amount in the transformed fund. In the case of replacing unavailable data on the value of assets of transformed funds related to participants 65+ with data on the volume of participants' funds (consisting of participant and state contributions with an estimated increase of 30% taking into account contributions paid by

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[19] According to the CNB's statement, bonds at accrued value make up approximately 64% of the total assets of the transformed funds, i.e. approximately 82% of the Czech government bonds held by them.

the employer and the achieved appreciation), in option 2 in 2021, payments for asset management of the transformed fund associated with participants aged 65+ approximately CZK 806 million, i.e. approx. 20% of the total asset management fees paid by the transformed funds to pension companies.

The amount of the fee for managing the assets of individual participating funds is stated as a percentage of the average annual value of the fund's equity in the participating fund. In the case of a mandatory conservative fund, it is a maximum of 0.4% of the average annual value of the fund's equity, for other types of funds, it is a maximum of 1.0% of the average value of the fund's capital. It can be assumed that participants aged 65+ have their savings deposited mainly in mandatory conservative funds, which in 2021 would result in an asset management fee of approximately CZK 110 million, i.e. approx. 16% of the total asset management fee, which the participating funds paid to the pension companies.

In 2021, the total amount of remuneration for the management of pension fund assets from the funds of participants aged 65+ amounted to approximately 916 million CZK. By the end of 2021, pension companies achieved operating revenues of CZK 5.5 billion, which would thus decrease by approximately 17% in the event of an outflow of all funds from participants aged 65+. Removing the state allowance from all participants aged 65+ could therefore reduce pension companies' revenues by roughly one-sixth, with a consequent impact on their profits. However, in the longer term, it can be expected that this decrease will be gradually compensated through an increase in the annual increments of managed funds as a result of an increase in mainly participant but also state contributions as a result of the proposed adjustment of the provision of the state contribution in the III. pension pillar.

In the past, due to the nature of the supplementary pension insurance product (guarantee of the so-called non-negative appreciation), capital injections were provided by pension companies to the transformed funds (due to the lower value of the assets than the liabilities of these funds), while in some cases there was even a forced replenishment of capital into the pension companies themselves. In this regard, the reduction in the number of participants in the transformed funds could be perceived neutrally or even positively by the pension companies themselves, as it reduces the potential future necessary amount of capital injection provided to the transformed funds in the event a fall in the value of their assets below the value of their liabilities.

For variant 1, no data are available on the amount of funds of participants who have already withdrawn their saved funds in III. pension pillar and subsequently established a new contract on supplementary pension savings. However, the eventual departure of these participants from III. of the pension pillar due to the withdrawal of the state contribution would only affect the remuneration for managing the assets of participating funds and, given the lower number of these participants and their shorter average savings period, would probably not have a significant impact on the amount of income of pension companies.

Proposal of the most suitable solution

Withdrawal of the state allowance from all participants of retirement age in variant 2 represents, compared to variant 1, a significant saving of state budget expenses associated with a possible higher additional support for the motivation of those participants who have not yet reached retirement age to increase their contributions, than would be provided by a budget-neutral regulation of the provision of state allowance in III. pension pillar while maintaining the right to a state allowance for all age categories of participants. Due to its considerably lower amount, the savings in option 1 would not fundamentally contribute to a higher motivation of the participants to respond to the change in the provision of the state allowance, and due to the inconclusiveness of the available data, it cannot be simply projected into a possible new setting of the parameters of the state allowance, assuming that the impact on the budget remains neutral.

Variant 2 ensures compliance with objective III to a greater extent. of the pension pillar consisting in long-term saving of funds as a supplement to the old-age pension, when persons of retirement age should rather draw the saved funds from the pension insurance or supplementary savings system than use it for further savings. The Office of the National Budget Council also does not consider it appropriate to pay the state allowance to participants at retirement age, which in its expert material considers this fact to be one of the problematic points that illustrates the dysfunctionality of the Czech pension insurance system.[20]

Given that the removal of the state allowance from all participants of retirement age would affect approximately 808 thousand. of participants with a saved amount exceeding CZK 100 billion, their eventual mass withdrawal from the III. of the pension pillar could increase demands for securing the necessary liquidity of pension funds, which could be forced to sell off their assets, especially in the form of Czech government bonds. The price of government bonds could therefore temporarily fall in the event of pressure to sell them, which would increase bond yields and the associated interest expenses for servicing the Czech state debt. However, the risk of a decline in the price of Czech government bonds was assessed as moderate, as pension funds will be able to prepare for a higher volume of payments at least partially in advance and may request liquidity support from their parent institutions, which are mostly large banks or insurance companies operating on the Czech market. or use CNB delivery repo operations. The payment of the funds of participants at retirement age will also affect the future income of pension companies due to the lower amount of remuneration for the management of pension fund assets, however, in the longer term, this decrease in remuneration will be gradually compensated through higher annual increases in the volume of managed participant and state contributions as a result of the proposed adjustment of the provision of the state contribution in III. pension pillar.

As part of the consideration of withdrawing the state allowance in III. pension pillar for participants of retirement age, option 2 – withdrawal of the state allowance from all participants of retirement age is considered the most suitable solution.

Summary of the impacts of the chosen variant 2

Benefits/Positives	Costs/negatives
+ savings in state budget expenses associated with possible additional support for the motivation of participants to increase their contributions + compliance with objective III. pension pillar consisting of long-term savings as a supplement to the old-age pension	- withdrawal of state allowance from all participants of retirement age - low risk of a temporary drop in the price of Czech government bonds - temporary reduction in income of pension companies

[20] Office of the National Budget Council. *Fees of Czech pension companies in relation to their investment strategy.* ÚNRR, Prague January 2023, p. 6. Available from: https://www.rozpoctovarada.cz/publikace/poplatky-ceskych-penzijnich-spolenosti-ve-vztahu-k-jejich-investicni-strategii/ .

2.3.5 The possibility of subsequent adjustment of the provision of the state allowance in III. pension pillar in case of withdrawal of the state allowance from all participants of retirement age

In sub-chapters 2.3.2 and 2.3.3, it is proposed to adjust the provision of the state allowance in III. pension pillar, which consists of:

1. increasing the lower limit of the participant's monthly contribution for awarding the minimum amount of state allowance from CZK 300 to CZK 500 and the upper limit of the participant's monthly allowance for awarding the maximum amount of state allowance from CZK 1,000 to CZK 1,500; and
2. the introduction of a constant share of the amount of the state contribution in relation to the participant's contribution, namely 18%.

The aim of adjusting the provision of state allowance in III. the pension pillar is to motivate participants to increase their contributions, while the given amount of the constant share of the state contribution to the participant's contribution was set with the aim of ensuring a neutral impact of the new setting on the state budget compared to the continuation of the current situation.

If the state allowance is withdrawn from all participants of retirement age, there will be savings on the expenditure side of the state budget in the amount of the withdrawn allowances, or this step opens up the possibility of providing other participants with higher support than is proposed in subsections 2.3.2 and 2.3.3 through either an increase the proposed share of the state contribution to the participant's contribution above 18%, or an increase in the proposed upper limit of the participant's contribution for awarding the maximum amount of the state contribution above CZK 1,500, or a possible increase in both of these parameters, up to an amount that ensures the budgetary neutrality of the change made compared to the situation resulting from the current setting of the state allowance.

Proposal of solution variants

4 solution variants are considered:

- option 1 – the solution chosen in subsections 2.3.2 and 2.3.3 (increasing the lower limit of the participant's contribution for awarding the minimum amount of state allowance to CZK 500 and the upper limit of the participant's contribution for awarding the maximum amount of state allowance to CZK 1,500 and the share of the state allowance in the allowance participant in the amount of 18%)
- option 2 – increasing the share of the state contribution to the participant's contribution above 18%
- option 3 – increasing the upper limit of the participant's allowance for awarding the maximum amount of state allowance above CZK 1,500
- option 4 – a combination of increasing the share of the state subsidy on the participant's contribution and the upper limit of the participant's contribution for awarding the maximum amount of the state subsidy

Variant 0 – preservation of the current setting of state allowance provision

Due to its rejection in subsections 2.3.2 and 2.3.3, option 0 within this subsection does not represent a real alternative to the other proposed options. It only serves as a basis against which the impacts of other solution variants on the state budget are assessed, in order to ensure the possible budgetary neutrality of the proposed solutions.

In variant 0, the current lower limit of the participant's contribution for awarding the minimum amount of state allowance is maintained at the level of CZK 300, and the current upper limit of the participant's allowance for awarding the maximum amount of state allowance is kept at CZK 1,000. At the same time, the current method of determining the allowance is maintained, where the share of the state allowance in the participation allowance decreases from 30% to 23% as the amount of the participation allowance increases, thereby relatively favouring participants with a lower allowance. In variant 0, all participants, including those of retirement age, are entitled to a state allowance.

Variant 1 – the solution chosen in subsections 2.3.2 and 2.3.3

Variant 1 consists in maintaining the provision of the state allowance in III. the pension pillar proposed in subsections 2.3.2 and 2.3.3 even after the withdrawal of the state allowance from all participants of retirement age, even though the withdrawal of the state allowance from all participants of retirement age was not taken into account when setting the parameters of the state allowance. The lower limit of the participant's monthly allowance for granting the minimum amount of state allowance would therefore be increased from CZK 300 to CZK 500, the upper limit of the participant's monthly allowance for awarding the maximum amount of state allowance would increase from CZK 1,000 to CZK 1,500 and the amount of the state allowance would be 18% of the participant's contribution, while the maximum monthly state contribution would be CZK 270.

Option 2 – increasing the share of the state contribution to the participant's contribution above 18%

In variant 2, there would be an increase in the share of the state contribution to the participant's contribution above 18%, at most to a level ensuring a neutral impact on the budget when taking into account the withdrawal of the state contribution from all participants of retirement age.

Option 3 – increasing the upper limit of the participant's allowance for awarding the maximum amount of state allowance above CZK 1,500

In option 3, the upper limit of the participant's monthly contribution for awarding the maximum amount of state contribution would be increased from CZK 1,500 to a level lower or equal to such an upper limit, which ensures a neutral impact on the budget when taking into account the withdrawal of the state contribution from all participants of retirement age.

Variant 4 – a combination of increasing the share of the state subsidy on the participant's contribution and the upper limit of the participant's contribution for awarding the maximum amount of the state subsidy

Option 4 is a combination of options 2 and 3, which would increase both the share of the state allowance in the participant's allowance above 18% and the upper limit of the participant's monthly allowance for awarding the maximum amount of the state allowance above CZK 1,500. An increase in both parameters would again have to ensure a neutral impact on the state budget compared to option 0 (i.e. continuation of the current situation), and in this regard, a lower possible increase in the share of the state contribution to the participant's contribution than in option 2 can be assumed, as well as a lower possible increase in the upper limit of the participant's allowance for awarding the maximum amount of state allowance than in the case of variant 3.

Comparison of the impacts of individual variants

Given the expected reaction of participants to the adjustment of the provision of the state allowance (reaction of 50 to 75% of participants with contributions of CZK 300 to 499 and CZK 1,000), it would be possible to increase the proposed percentage rate of the state allowance from 18% to 23-24% in variant 2 (variants 2a and 2b), thereby increasing participants' motivation to increase their deposits.

Table 21: Budgetary impacts of option 2 with the expected response of participants

Budgetary expenditure in the given year (billion CZK)	Variant 0 (CZK 300–1,000)	Option 2a (CZK 500–1,500; 23%)	Option 2b (CZK 500–1,500; 24%)
2024	7,8	7.1 – 7.5	7.3 – 7.8
2025	8.0	7.1 – 7.7	7.4 – 8.1

Table 22: Comparison of absolute changes in state contribution and direct and tax support of option 2

Monthly allowance participant in CZK 0	Monthly state allowance in CZK and % of the participant's allowance														
	Variant 0 (CZK 300–1,000)			Option 1 (CZK 500–1,500; 18%)				Option 2a (CZK 500–1,500; 23%)				Option 2b (CZK 500–1,500; 24%)			
300	90	*30%*	90	0	*0%*	-90		0	*0%*	-90		0	*0%*	-90	
400	110	*28%*	110	0	*0%*	-110		0	*0%*	-110		0	*0%*	-110	
500	130	*26%*	130	90	*18%*	-40		115	*23%*	-15		120	*24%*	-10	
600	150	*25%*	150	108	*18%*	-42		138	*23%*	-12		144	*24%*	-6	
700	170	*24%*	170	126	*18%*	-44		161	*23%*	-9		168	*24%*	-2	
800	190	*24%*	190	144	*18%*	-46		184	*23%*	-6		192	*24%*	+2	
900	210	*23%*	210	162	*18%*	-48		207	*23%*	-3		216	*24%*	+6	
1000	230	*23%*	230	180	*18%*	-50		230	*23%*	0		240	*24%*	+10	
1,100	230	*21%*	245	198	*18%*	-32	-47	253	*23%*	+23	+8	264	*24%*	+34	+19
1,200	230	*19%*	260	216	*18%*	-14	-44	276	*23%*	+46	+16	288	*24%*	+58	+28
1,300	230	*18%*	275	234	*18%*	+4	-41	299	*23%*	+69	+24	312	*24%*	+82	+37
1,400	230	*16%*	290	252	*18%*	+22	-38	322	*23%*	+92	+32	336	*24%*	+106	+46
1,500	230	*15%*	305	270	*18%*	+40	-35	345	*23%*	+115	+40	360	*24%*	+130	+55
1,600	230	*14%*	320	270	*17%*	+40	-35	345	*22%*	+115	+40	360	*23%*	+130	+55
1,700	230	*14%*	335	270	*16%*	+40	-35	345	*20%*	+115	+40	360	*21%*	+130	+55
1,800	230	*13 %*	350	270	*15%*	+40	-35	345	*19%*	+115	+40	360	*20%*	+130	+55
1,900	230	*12%*	365	270	*14%*	+40	-35	345	*18%*	+115	+40	360	*19%*	+130	+55
2000	230	*12%*	380	270	*14%*	+40	-35	345	*17%*	+115	+40	360	*18%*	+130	+55

*Note: **in red** the total amount of current state support (direct and tax) and **in blue** the absolute change in the state contribution and **in orange** the absolute change in state support (direct and tax) compared to the current state*

In the case of setting a lower state contribution rate than the above-mentioned 23 or 24%, there would then be a more significant reduction in budget expenditure related to direct state support in III. pension pillar (variants 2c and 2d).

Table 23: Budget expenditure and savings for the state budget of variant 1 and variant 2 at different settings of the state contribution rate with the expected reaction of the participants

Budgetary expenditure in the given year (billion CZK)	Variant 0 (CZK 300–1,000)	Option 1 (CZK 500–1,500; 18%)	Variant 2c (CZK 500–1,500; 20%)	Variant 2d (CZK 500–1,500; 22%)
2024	7,8	6.0 - 6.3 *(savings 1.5 – 1.8)*	6.4 – 6.8 *(saving 1.0 - 1.4)*	6.9 – 7.3 *(saving 0.5 - 0.9)*
2025	8.0	5.6 – 6.0 *(saving 2.0 - 2.4)*	6.2 – 6.7 *(savings 1.3 – 1.8)*	6.8 – 7.4 *(savings 0.6 – 1.2)*

With the expected reaction of the participants to the adjustment of the provision of the state allowance (reaction of 50 to 75% of the participants with contributions of CZK 300 to 499 and CZK 1,000), it would be possible to increase the upper limit of the participant's contribution in order to award the maximum amount of the state allowance to over CZK 2,000 in option 3, because a possible increase of this upper limit to CZK 2,000 would represent a budgetary cost of CZK 6.7 to 7.3 billion in 2024 and CZK 6.7 to 7.4 billion in 2025, i.e. less than in the case of maintaining of the current setting, i.e. variant 0 (CZK 7.8 or 8.0 billion, respectively).

However, the increase of the upper limit above CZK 2,000 no longer seems to be proportional to the expected increase in the average wage compared to 2013 (by 73% in 2023), when the state allowance was last adjusted in III. pension pillar. Therefore, in the case of the intention to achieve a neutral impact of the new setting of the provision of the state allowance, it is more appropriate to consider a combination of increasing both the proposed share of the state allowance on the participant's allowance and the proposed upper limit of the participant's allowance for awarding the maximum amount of the state allowance. Variant 3 with a state subsidy rate of 18% with an upper limit of the participant's contribution for awarding the maximum amount of state subsidy at the level of CZK 2,000 could, however, be considered a cost-saving option, in which budget expenditure related to direct state support is reduced in 2025 in III. pension pillar by approximately CZK 0.6 to 1.3 billion.

A possible combination of the proposed increase in the share of the state contribution to the participant's contribution and the proposed upper limit of the participant's contribution to grant the maximum amount of the state contribution under variant 4 is demonstrated below on the variant with a 20% rate of the state contribution, while the neutral impact on the budget would, given the expected reaction of the participants to the adjustment the provision of a state allowance (response of 50 to 75% of participants with contributions of CZK 300 to 499 and CZK 1,000) ensured an increase of the upper limit to CZK 1,900 (variant 4a).

Table 24: Budgetary impacts of variant 4 when setting the upper limit of the participant's contribution for awarding the maximum amount of the state contribution to CZK 1,900 and CZK 2,000 and the rate of the state contribution to 20% with the expected reaction of the participants

Budgetary expenditure in the given year (billion CZK)	Variant 0 (CZK 300–1,000)	Option 4a (CZK 500–1,900; 20%)	Variant 4b (CZK 500-2,000; 20%)
2024	7,8	7.1 – 7.7	7.3 – 7.9
2025	8.0	7.1 – 7.9	7.4 – 8.2

Table 25: Comparison of absolute changes in the state allowance and direct and tax support of option 4 when setting the upper limit of the participant's allowance for awarding the maximum amount of the allowance to CZK 1,900 and CZK 2,000 and the rate of the allowance to 20%

Monthly allowance participant in CZK	Monthly state allowance in CZK and % of the participant's allowance														
	Variant 0 (CZK 300–1,000)			Option 1 (CZK 500–1,500; 18%)				Option 4a (CZK 500–1,900; 20%)				Variant 4b (CZK 500-2,000; 20%)			
300	**90**	*30%*	**90**	**0**	*0%*	**-90**		**0**	*0%*	**-90**		**0**	*0%*	**-90**	
400	**110**	*28%*	**110**	**0**	*0%*	**-110**		**0**	*0%*	**-110**		**0**	*0%*	**-110**	
500	**130**	*26%*	**130**	**90**	*18%*	**-40**		**100**	*20%*	**-30**		**100**	*20%*	**-30**	
600	**150**	*25%*	**150**	**108**	*18%*	**-42**		**120**	*20%*	**-30**		**120**	*20%*	**-30**	
700	**170**	*24%*	**170**	**126**	*18%*	**-44**		**140**	*20%*	**-30**		**140**	*20%*	**-30**	
800	**190**	*24%*	**190**	**144**	*18%*	**-46**		**160**	*20%*	**-30**		**160**	*20%*	**-30**	
900	**210**	*23%*	**210**	**162**	*18%*	**-48**		**180**	*20%*	**-30**		**180**	*20%*	**-30**	
1000	**230**	*23%*	**230**	**180**	*18%*	**-50**		**200**	*20%*	**-30**		**200**	*20%*	**-30**	
1,100	**230**	*21%*	**245**	**198**	*18%*	**-32**	**-47**	**220**	*20%*	**-10**	**-25**	**220**	*20%*	**-10**	**-25**
1,200	**230**	*19%*	**260**	**216**	*18%*	**-14**	**-44**	**240**	*20%*	**+10**	**-20**	**240**	*20%*	**+10**	**-20**
1,300	**230**	*18%*	**275**	**234**	*18%*	**+4**	**-41**	**260**	*20%*	**+30**	**-15**	**260**	*20%*	**+30**	**-15**
1,400	**230**	*16%*	**290**	**252**	*18%*	**+22**	**-38**	**280**	*20%*	**+50**	**-10**	**280**	*20%*	**+50**	**-10**
1,500	**230**	*15%*	**305**	**270**	*18%*	**+40**	**-35**	**300**	*20%*	**+70**	**-5**	**300**	*20%*	**+70**	**-5**
1,600	**230**	*14%*	**320**	**270**	*17%*	**+40**	**-35**	**320**	*20%*	**+90**	**0**	**320**	*20%*	**+90**	**0**
1,700	**230**	*14%*	**335**	**270**	*16%*	**+40**	**-35**	**340**	*20%*	**+110**	**+5**	**340**	*20%*	**+110**	**+5**
1,800	**230**	*13 %*	**350**	**270**	*15%*	**+40**	**-35**	**360**	*20%*	**+130**	**+10**	**360**	*20%*	**+130**	**+10**
1,900	**230**	*12%*	**365**	**270**	*14%*	**+40**	**-35**	**380**	*20%*	**+150**	**+15**	**380**	*20%*	**+150**	**+15**
2000	**230**	*12%*	**380**	**270**	*14%*	**+40**	**-35**	**380**	*19%*	**+150**	**+15**	**400**	*20%*	**+170**	**+20**

*Note: **in red** the total amount of current state support (direct and tax) and **in blue** the absolute change in the state contribution and **in orange** the absolute change in state support (direct and tax) compared to the current state*

In addition to the rate of 20% and the upper limit of CZK 1,900, other possible combinations of the percentage rate of the state allowance and the upper limit, which represent a neutral impact of this adjustment on the budget in the case of the assumed reaction of the participants to the adjustment of the provision of the state allowance, are:

- a rate of 22% and an upper limit of 1,600 or 1,700 CZK;
- a rate of 21% and an upper limit of CZK 1,800; and
- a rate of 19% and an upper limit of CZK 2,000.

If the upper limit were lower with the same above-mentioned percentage rate of the state contribution in variant 4, or, on the contrary, if the percentage rate of the state contribution was lower with the same above-mentioned upper limit, there would be a reduction in the budget expenditure related to direct state support in III. pension pillar.

When increasing the lower limit of the participant's contribution for awarding the minimum amount of the state contribution from CZK 300 to CZK 500 proposed in subsections 2.3.2 and 2.3.3, the predicted growth of the average wage in 2023 compared to 2013 in the amount of 73% is considered as a decisive parameter for the rate of increase this lower limit. The increase in the upper limit of the participant's allowance for granting the maximum amount of the state allowance corresponds to an increase of the current limit by CZK 500, just as with the change in the provision of state support in 2013. A higher increase in the upper limit in the case of keeping state allowances for participants of retirement age would, due to the necessary reduction of the constant percentage rate state contribution below 18% in order to ensure a neutral impact of the new setting on the state budget, could already have a disproportionate impact on participants with lower contributions, as the reaction of participants with a contribution of CZK 300 (the existing lower limit) consisting in increasing the contribution to CZK 500 (the proposed lower limit) would not ensure them the same absolute amount of allowance as they currently receive (CZK 90).

However, removing the state allowance from all participants of retirement age allows, from the point of view of a neutral budget impact, an increase in the upper limit of the participant's allowance for awarding the maximum amount of the state allowance, without having to have an adverse effect on participants with lower allowances. As in the case of the lower limit of the participant's contribution for awarding the minimum amount of the state contribution, however, it might not be appropriate to set the upper limit higher than the predicted growth of the average wage, also considering that the distribution of the gross monthly wages of employees since 2013 shows that what the higher the wage, the slower it grew. Wages in the highest quantiles increased the least compared to 2013 (by 51% in the case of the 95th percentile in 2021, compared to 74% in the case of the 5th percentile). Increasing the upper limit to more than CZK 1,700 would therefore no longer necessarily bring a higher additional incentive for participants to increase their contributions in terms of their income growth on average.

Regarding the setting of the percentage rate of the state contribution, an additional incentive for participants with contributions whose current amount is below the newly proposed lower limit of CZK 500 to increase their contributions could be an increase in the absolute amount of the state contribution, which they would have reached after the reaction. At the same time, however, the percentage rate of the state contribution should not be increased so much that it does not reduce the incentive to increase contributions for participants with higher contributions. From this point of view, 22% appears to be the maximum suitable rate, which ensures an increase in the absolute amount of the state allowance at the level of the lower limit for participants with the current allowance of CZK 300, or its retention for participants with the current allowance of CZK 400, as in the case of the adjustment of the provision of the effective state allowance since 2013. At the same time, the 22% rate slightly reduces the absolute amount of the state contribution to participants with the current contribution of CZK 1,000, thus motivating them to react by increasing the contribution if they do not want to accept such a reduction.

Table 26: Monthly amount of the state allowance depending on the participant's monthly allowance in the range of CZK 100 to 1,000

Participant contribution (CZK/month)	100	200	300	400	500	600	700	800	900	1000
State allowance until 31 December 2012	50	90	120	140	150	150	150	150	150	150
– in % of the participant's contribution	*50%*	*45%*	*40%*	*35%*	*30%*	*25%*	*21%*	*19%*	*17%*	*15%*
State allowance from 1 January 2013	0	0	90	110	130	150	170	190	210	230
– in % of the participant's contribution	*0%*	*0%*	*30%*	*28%*	*26%*	*25%*	*24%*	*24%*	*23%*	*23%*
State allowance from 1/1/2024 (18%)	0	0	0	0	90	108	126	144	162	180
State contribution from 1/1/2024 (20%)	0	0	0	0	100	120	140	160	180	200
State contribution from 1/1/2024 (22%)	0	0	0	0	110	132	154	176	198	220

From the point of view of the growth of the average salary and the motivation of the participants, the most appropriate setting of the upper limit of the participant's allowance for awarding the maximum amount of the state allowance in the range of 1,500 to 1,700 CZK and the setting of the rate of the state allowance in the range of 20 to 22% seems to be the most appropriate. In this respect, the following methods of setting variant 2 and variant 4 are compared as suitable solutions:

- Option 2c – 20% rate, lower limit: CZK 500, upper limit: CZK 1,500;
- Option 2d – rate 22%, lower limit: CZK 500, upper limit: CZK 1,500;
- Option 4c – 20% rate, lower limit: CZK 500, upper limit: CZK 1,700; and
- Option 4d – rate 22%, lower limit: CZK 500, upper limit: CZK 1,700.

Table 27: Comparison of absolute changes in the state allowance and direct and tax support of variants 2 and 4 at different settings of the state allowance rate and the upper limit of the participant's allowance for awarding the maximum amount of the state allowance

Monthly allowance participant in CZK	Monthly state allowance in CZK and % of the participant's allowance														
	Variant 0 300–1,000 CZK			Option 1 500–1,500 CZK 18%				Variant 2c (4c) 500–1,500 (1,700) CZK 20%				Variant 2d (4d) 500–1,500 (1,700) CZK 22%			
300	90	*30%*	90	0	*0%*		-90	0	*0%*		-90	0	*0%*		-90
400	110	*28%*	110	0	*0%*		-110	0	*0%*		-110	0	*0%*		-110
500	130	*26%*	130	90	*18%*		-40	100	*20%*		-30	110	*22%*		-20
600	150	*25%*	150	108	*18%*		-42	120	*20%*		-30	132	*22%*		-18
700	170	*24%*	170	126	*18%*		-44	140	*20%*		-30	154	*22%*		-16
800	190	*24%*	190	144	*18%*		-46	160	*20%*		-30	176	*22%*		-14
900	210	*23%*	210	162	*18%*		-48	180	*20%*		-30	198	*22%*		-12
1000	230	*23%*	230	180	*18%*		-50	200	*20%*		-30	220	*22%*		-10
1,100	230	*21%*	245	198	*18%*	-32	-47	220	*20%*	-10	-25	242	*22%*	+12	-3
1,200	230	*19%*	260	216	*18%*	-14	-44	240	*20%*	+10	-20	264	*22%*	+34	+4
1,300	230	*18%*	275	234	*18%*	+4	-41	260	*20%*	+30	-15	286	*22%*	+56	+11
1,400	230	*16%*	290	252	*18%*	+22	-38	280	*20%*	+50	-10	308	*22%*	+78	+18
1,500	230	*15%*	305	270	*18%*	+40	-35	300	*20%*	+70	-5	330	*22%*	+100	+25
1,600	230	*14%*	320	270	*17%*	+40	-35	300 (320)	*19%* *(20%)*	+70 (+90)	-5 (0)	330 (352)	*21%* *(22%)*	+100 (+122)	+25 (+32)
1,700	230	*14%*	335	270	*16%*	+40	-35	300 (340)	*18%* *(20%)*	+70 (+110)	-5 (+5)	330 (374)	*19%* *(22%)*	+100 (+144)	+25 (+39)
1,800	230	*13 %*	350	270	*15%*	+40	-35	300 (340)	*17%* *(19%)*	+70 (+110)	-5 (+5)	330 (374)	*18%* *(21%)*	+100 (+144)	+25 (+39)
1,900	230	*12%*	365	270	*14%*	+40	-35	300 (340)	*16%* *(18%)*	+70 (+110)	-5 (+5)	330 (374)	*17%* *(20%)*	+100 (+144)	+25 (+39)
2000	230	*12%*	380	270	*14%*	+40	-35	300 (340)	*15%* *(17%)*	+70 (+110)	-5 (+5)	330 (374)	*17%* *(19%)*	+100 (+144)	+25 (+39)

Note: in red the total amount of current state support (direct and tax) and in blue the absolute change in the state contribution and in orange the absolute change in state support (direct and tax) compared to the current state

Variant 4d, consisting in increasing the upper limit to CZK 1,700 and setting the current rate of state allowance at 22%, would be budget-neutral compared to the current situation. Other possible suitable variants, i.e. variants 2c, 2d and 4c, would, depending on the reaction of the participants, bring direct state support in III. pension pillar, the corresponding savings for the state budget.

Table 28: Budget expenditure and savings for the state budget of variants 2 and 4 at different settings of the rate of the state allowance and the upper limit of the participant's allowance for awarding the maximum amount of the allowance

Budgetary expenditure in the given year (billion CZK)	Variant 0 300–1,000 CZK	Variant 2c 500–1,500 CZK 20%	Variant 4c 500–1,700 CZK 20%	Variant 2d 500–1,500 CZK 22%	Variant 4d 500–1,700 CZK 22%
2024	7,8	6.4 – 6.8 *(saving 1.0 - 1.4)*	6.8 – 7.2 *(saving 0.6 - 1.0)*	6.9 – 7.3 *(saving 0.5 - 0.9)*	7.2 – 7.8 *(saving 0 - 0.6)*
2025	8.0	6.2 – 6.7 *(savings 1.3 – 1.8)*	6.7 – 7.3 *(saving 0.7 - 1.3)*	6.8 – 7.4 *(savings 0.6 – 1.2)*	7.3 – 8.0 *(savings 0 - 0.7)*

Proposal of the most suitable solution

From the comparison of the effects of the individual variants, taking into account the growth of the average wage, the effective motivation of the participants and budget neutrality, the most suitable variant emerges as the upper limit of the participant's contribution for awarding the maximum amount of the state contribution is in the range of 1,500 to 1,700 CZK and the constant rate of the state contribution to the amount of the participant's contribution is set in the range of 20 to 22%. The possible combinations of settings for the provision of state allowance respecting these mentioned intervals then differ in particular in the amount of saving of state budget expenses it brings and the degree of motivation of participants to increase their contributions related to the amount of state allowance provided. Based on these two criteria, Table 29 sets out the order of these suitable variants together with variant 1 (maintaining the parametric setting proposed in sub-chapters 2.3.2 and 2.3.3 while withdrawing the state allowance from all participants of retirement age) with the fact that higher expenditure savings of the state budget is always achieved at a certain loss of any additional degree of motivation for participants to increase their contributions, and conversely, the determination of a higher state contribution motivating a possible more intense reaction of participants is always associated with a lower achieved saving of state budget expenditures.

Table 29: Order of variants according to decision criteria

Order of variants	Decision criteria	
	Greater savings in state budget expenditures	Higher state contribution and motivation of participants
1.	Option 1 (500–1,500 CZK; 18%)	Variant 4d (500–1,700 CZK; 22%)
2.	Variant 2c (500–1,500 CZK; 20%)	Variant 2d (500–1,500 CZK; 22%)
3.	Variant 4c (500–1,700 CZK; 20%)	Variant 4c (500–1,700 CZK; 20%)
4.	Variant 2d (500–1,500 CZK; 22%)	Variant 2c (500–1,500 CZK; 20%)
5.	Variant 4d (500–1,700 CZK; 22%)	Option 1 (500–1,500 CZK; 18%)

Which criterion should prevail when determining the appropriate variant is a matter of political decision. Based on a political decision, both criteria were found to be equivalent and option 4c was chosen as the appropriate solution.

As part of the consideration of a possible follow-up adjustment of the provision of the state allowance in III. pension pillar due to the removal of the state allowance from all participants of retirement age, based on a political decision it was chosen to implement option 4c - a combination of increasing the share of the state allowance in the participant's allowance to 20% and increasing the upper limit of the participant's allowance for awarding the maximum amount of the state allowance to CZK 1,700.

Summary of the impacts of the chosen variant 4c

Benefits/Positives	Costs/negatives
+ medium savings of the state budget + moderate motivation of participants to increase their contributions	- reduction of the absolute amount of the state contribution in the case of participants with a contribution in the range of CZK 500 to 1,149, if these participants do not increase their contributions

The overall proposal for the most suitable solution for the adjustment of the provision of the state allowance in III. pension pillar

For an appropriate method of adjusting the provision of the state allowance in III. a pension pillar is considered the granting of a state allowance to participants who have not reached retirement age and contribute at least CZK 500 per month, provided that if the amount of the participant's monthly allowance is:

a) 500 to 1699 CZK, the amount of the monthly state allowance is 20% of the amount of the participant's monthly allowance,

b) 1,700 CZK and more, the monthly state allowance amounts to 340 CZK.

The possibility of deduction from the personal income tax base applies only to the participant's monthly contributions exceeding the amount of CZK 1,700.

Summary of the impacts of the chosen variant

Benefits/Positives	Costs/negatives
+ participants are sent a strong impulse to change their behaviour with a moderate motivation to increase their contributions + higher average contribution + higher savings for participants + medium savings of the state budget + equal treatment + an easily communicated and comprehensible approach to determining the state contribution + compliance with objective III. pension pillar consisting of long-term savings as a supplement to the old-age pension + compliance with the OECD recommendation on reducing the incentive for lower contributions	- withdrawal of state allowance from all participants of retirement age - complete removal of the state allowance from participants with a contribution in the range of CZK 300-499, if these participants do not increase their contributions - reduction of the absolute amount of the state contribution in the case of participants with a contribution in the range of CZK 500 to 1,149, if these participants do not increase their contributions - low risk of a temporary drop in the price of Czech government bonds - temporary reduction in income of pension companies

2.4 Introduction of mandatory XML format for other financial market entities

Current status and applicable legislation

During the enforcement proceedings, or at the moment when the court issues a resolution on the enforcement order, the court bailiff starts looking for the debtor's property that can be affected. For this purpose, it ascertains the debtor's assets (e.g. with an insurance company, investment company, investment fund, central depository and other persons authorized to keep records of investment instruments, with banks, etc.) and subsequently decides in which ways the execution will be carried out. The concerned institutions are obliged to communicate to the executor, upon his written request, information about the property of the obligee that is known to them from their official and similar activities (see § 33 et seq. of the EŘ).

When financial market entities provide cooperation to bailiffs, excess costs are incurred in practice. The banking sector (financial institution according to the EŘ) has its own special regulation in § 34 paragraph 3 of the EŘ, which is further specified in Annex No. 1 of Decree No. 418/2001 Coll. This regulation stipulates that co-operation must be requested compulsorily and subsequently co-operation must be compulsorily provided in an electronic data file in XML format with specific parameters contained in the decree. According to this decree, the automation of cooperation takes place by means of the exchange of structured data files in XML format delivered through the Information System of Data Boxes (ISDS), or in another way based on the agreement of the bailiff with the bank. A data message requesting cooperation from a bailiff has a specific subject ("XMLEXE SOUC") by which it can be recognized. Senders can only be executors with their special databox type. The basic identifier of the liable person is the RČ or IČO. Each data message with a request for cooperation can contain several individual inquiries about obliged persons.

Proposal of solution variants

4 solution variants are considered:

- option 0 – keep the status quo
- option 1 – apply the regulation in § 34 paragraph 3 of the EŘ also to other financial market entities for which the EŘ uses the abbreviation financial institution (insurance companies, investment companies and investment funds, securities dealers, pension companies, pension funds according to a special legal regulation, Financial market guarantee system). At the same time, supplement such regulation so that the relevant ministry establishes a machine-readable format by decree.
- option 2 – a new amendment to § 34 paragraph 2 of the EŘ, which would enshrine the obligation of the bailiff to request cooperation only in electronic form.
- option 3 – mandatory use of the existing ISB system provided by the Central Securities Depository, which is used in relation to the securities kept in the records of the Central Depository and in subsequent records.

Variant 0 - maintaining the current state

When financial market entities provide cooperation to bailiffs, excess costs are incurred in practice. For example, some bailiffs send inquiries about a single debtor to all financial institutions on the market without any prior pre-selection, e.g. in accordance with § 33d EŘ. Claims by financial institutions have also been recorded [21]that they have to process over one

[21] Finding of the Constitutional Court, no. II. ÚS 543/11.

million requests for cooperation per year, resulting in costs in the millions. Furthermore, based on the public consultation, this option appears to be the worst possible option.

Variant 1 – apply the regulation in § 34, paragraph 3 of the EŘ also to other financial market entities, for which the enforcement order uses the abbreviation financial institution (insurance companies, investment companies and investment funds, securities dealers, pension companies, pension funds according to a special legal regulation, Financial Market Guarantee System). At the same time, supplement such regulation so that the relevant ministry establishes a machine-readable format by decree.

The banking sector (financial institution according to the EŘ) has its own special regulation in § 34 paragraph 3 of the EŘ, which is further specified in Annex No. 1 of Decree No. 418/2001 Coll. This regulation stipulates that co-operation must be requested compulsorily and subsequently co-operation must be compulsorily provided in an electronic data file in XML format with specific parameters contained in the decree. According to this decree, the automation of cooperation takes place by means of the exchange of structured data sets in XML format delivered through the Information System of Data Boxes (ISDS), or in another way based on the agreement of the bailiff with the bank. A data message requesting cooperation from a bailiff has a specific subject ("XMLEXE SOUC") by which it can be recognized. Senders can only be executors with their special databox type. The basic identifier of the liable person is the RČ or IČO. Each data message with a request for cooperation can contain several individual inquiries about obliged persons.

The processing of cooperation requests by the bank itself can be automated, semi-automated or manual. The processing of requests for cooperation in an automated or semi-automated system consists in particular of downloading all data messages from the data box, recognizing data messages with a request for cooperation and filtering them, processing the XML data file, creating a preview of the data file in a graphic form that is comprehensible for user, finding answers to questions, preparing the answer, sending the answer by data message to the data mailbox of the sender.

Therefore, if non-bank entities of the financial market were to implement an automated system for processing requests for cooperation similar to the automated system at banks, then the costs would be around one million crowns, and if the entity in question already owns an automated system for bank cooperation, it will purchase an expansion module worth hundreds of thousands of crowns. According to the company Aura s.r.o., which operates the "Bailiff Information System", which is used by more than half of all bailiffs, the costs of expanding the automated system for bank cooperation would be minimal, probably even zero.

The need to explicitly specify a machine-readable format turned out to be redundant given that the XML format is itself machine-readable.

This possibility will also contribute to the protection of small investors, because the handling of their personal data will be made more precise and some methods of handling that have been possible until now will be excluded.

Option 2 – a new amendment to Section 34, paragraph 2 of the EŘ, which would enshrine the obligation of the bailiff to request cooperation only in electronic form.

This variant appears to be a compromise between variant number 0 and variant number 1. Therefore, the XML format will not be specified exclusively. This possibility will also contribute to the protection of small investors, because the handling of their personal data will be made more precise and some methods of handling that have been possible until now will be excluded. At the same time, there is a high probability that there will still be chaos due to the possibility of sending information through multiple formats. Compared to option number 1, there will be more ways of handling personal data. In any case, even within this variant, the costs of capital market entities will be saved.

Option 3 – mandatory use of the existing ISB system provided by the Central Securities Depository, which is used in relation to the securities kept in the records of the Central Depository and in subsequent records.

Another possible solution proposed by the Czech Banking Association as part of the comments made during the preparation of the Capital Market Development Concept in the Czech Republic 2019–2023 would be the mandatory use of the existing ISB system provided by the Central Depository of Securities, which is used in relation to securities kept in the records of the Central Depository and in subsequent records. However, this system using XML format does not cover securities in separate securities registers, and therefore would have to be modified and expanded for the purposes of judicial enforcement. At the same time, the mandatory use of one information system would probably be in conflict with the protection of economic competition. Which the owner of the system, the Central Securities Depository, did not dispute.

This possibility will also contribute to the protection of small investors, because the handling of their personal data will be made more precise and some methods of handling that have been possible until now will be excluded.

This option saves the costs that are associated with option 0.

Proposal of the most suitable solution

Based on the consultation, the Ministry of Finance considers it most appropriate to adopt a legislative change and amend option number 1 by law, which seems to be the most appropriate solution in terms of cost and functionality of this system within banking. This solution fulfils measures of the capital market development concept in the Czech Republic 2019–2023 No. 17 – Support for the use of the XML format when requesting information from financial institutions as part of executions. This option will result in a change to both the EŘ and the subsequent decrees. However, these changes in legal regulations should not be significant. Option number 0 would incur a large amount of costs, option number 2 would not specify a specific format, and therefore various electronic formats would be uneconomically sent. Variant number 3 would probably be in conflict with economic competition, and only one entity, a computer system provider, spoke in favor of it in the public consultation, which did not disprove doubts about economic competition.

Summary of the impacts of the chosen variant 1

Benefits/Positives	Costs/negatives
+ fulfilment of measures and Concept plan (Supporting the use of the XML format when requesting information from financial institutions as part of executions) + capital market development – electronicisation + cost savings to financial institutions + protection of investors' personal data + cost savings to executors	- the need to change legislation - discontinuity of legislation - initial costs on the part of non-banking financial institutions for electronicisation - optional, they can fill the XML manually

2.5 Promotion of trading in corporate bonds and increased protection of bond investors

Current status and applicable legislation

The development of the corporate bond market started in August 2012 due to the ZDl amendment, when the CNB's approval of issue conditions was cancelled, which made issues cheaper and made them more accessible to issuers. The search for alternative ways to appreciate money over time, not too much interest on deposits, the above-mentioned facts and other factors have recently brought corporate bonds to the forefront of interest both on the part of investors and issuers. However, this also brings with it the risk of default in the event of economic shocks or a greater incidence of issuers who do not plan to repay the bonds from the start. Small investors, who do not have much experience with similar investments, are not able to evaluate such risks and, in the pursuit of a better return on investment, may make the wrong decision and lose their money.

At the same time, however, it is necessary to mention that from January 2018, investment intermediaries cannot offer bonds without a prospectus approved by the CNB. In addition, the topic of bonds without a prospectus (issues up to 25 million CZK) was part of the public consultation of the Ministry of Finance in the same month. Following this, a draft law was prepared, which passed the third reading in the Chamber of Deputies on November 27, 2019 and is now heading to the Senate (chamber press 398). The subject of the proposal is the obligation to have an ISIN assigned to debenture bonds as well (for easier traceability of issues) and the issue conditions must contain a warning that even the approval of the prospectus by the CNB is not a guarantee of low risk, as the CNB does not assess the ability of the issuer to repay the bonds or the veracity of the information stated in the prospectus.

It is also necessary to take into account Supervisory *Benchmark* No. 2/2019, which the CNB published on March 14, 2019 on its website. However, it basically prohibits the offering of corporate bonds that are not accepted for trading on the regulated market to small, inexperienced investors.

However, we still see room for optimizing the state of the market, where more information would be provided to retail investors and thus their protection would be extended.

Proposal of solution variants

3 solutions are considered:

- variant 0 – preservation of the current state
- variant 1 – expansion of the requirements of the emission conditions
- option 2 – embedding the so-called mini prospectus

Option 0 – maintaining the current state

Currently, the requirements for emission conditions are defined in § 9 ZDl. The current legal status is limited to the particulars that the issue conditions must contain, without the existing legislation being detailed in the sense that it would also stipulate that those particulars that would be instructive for investors with regard to the appropriate choice of investment should be included in the issue conditions. This option represents *the status quo* in terms of costs. Retaining this variant with regard to benefits represents a reduction, as the current situation on the bond market represents insufficient investor protection.

Variant 1 – expansion of the requirements of the emission conditions

In variant 1, it is proposed, in the event that a prospectus is not drawn up and published, to expand the issue conditions with information that can help the investor to better assess the issue and the issuer. Such information is, for example, a description of the purpose of the issue, the planned ratio of external sources to equity capital, the issuer's annual reports and financial statements for the last two accounting periods, information on how the repayment of the owed amount is secured, or information that the repayment of the owed amount is not secured in any way etc. This variant represents an increase in costs for issuers and, at the same time, an increase in benefits in relation to the protection of small investors and thus in relation to the development of the capital market, which can also be developed with regard to improving the reputation of the sub-limit bond market (i.e. bond issues up to €1 million). This option also represents, on the other hand, a reduction in administration in relation to the elimination of duplicates in the issue terms and prospectus.

Option 2 – anchoring the so-called mini prospectus

The introduction of the so-called mini-prospectus would represent an addition to the issue conditions within the documentation that the issuer is obliged to prepare and provide to investors when issuing bonds. The mini-prospectus should allow investors to easily compare issues based on a comparison of key indicators. The mini-prospectus should contain a set of essential information in a clear form on two sheets in A4 format. The model of the mini-prospectus would be set by the government by regulation. This option would be associated with an increase in costs, which would be related to the necessity of issuing a by-law. It would also mean some increase in costs for issuers, but at the cost of increased protection for bond investors.

Proposal of the most suitable solution

The most suitable solution appears to be the extension of the requirements of the emission conditions, i.e. the choice of option 1. Compared to option 2, this option is more economical and less administratively demanding, because it does not represent the introduction of a new institute and the need to issue an implementing regulation, but only the expansion of the existing institute of emission conditions in the existing ZDl, while the content will also contain essential information about the issuer and the issue, which will be part of the issue conditions. Investor protection will be increased thanks to the expansion of the data necessary for an objective assessment of the issue. This variant also represents an increase in the transparency of the issuer's activities and intentions.

Summary of the impacts of the chosen variant 1

Benefits/Positives	Costs/negatives
+ protection of bond investors + transparency of the issue and the issuer + elimination of duplicates between the prospectus and issue conditions and, in that connection, reduction of the administrative burden + improving the reputation of the sub-limit bond market (or the state) thanks to regulation	- administrative costs associated with the need to adapt to the new arrangement - robustness of emission conditions

3. CHOOSING THE BEST SOLUTION

Below is a summary of all the solutions that the Ministry of Finance proposes to implement in the submitted bill.

Description of the issue	Selected variant
Long-term investment product	Option 1 – to expand the offer of products intended for saving for old age by a product of the type "personal savings account" – a long-term investment product
Alternative Participating Fund	Option 1 – to expand the offer by a new type of alternative participant fund, or to provide this type of fund with similar state support as transformed or participating funds
Adjustments to the provision of state allowance in III. pension pillar	a) Option 2 – introduction of a constant share of the amount of the state contribution in relation to the participant's contribution b) Variant 2 – increasing the lower limit of the participant's allowance for awarding the minimum amount of state allowance to CZK 500 and the upper limit of the participant's allowance for awarding the maximum amount of state allowance to CZK 1,500 c) Option 3 – the share of the state contribution on the participant's contribution in the amount of 18% d) Option 2 – withdrawing the state allowance from all participants of retirement age e) Option 4c – a combination of increasing the share of the state allowance in the participant's allowance to 20% and increasing the upper limit of the participant's allowance for awarding the maximum amount of the state allowance to CZK 1,700
Mandatory XML format for other financial market entities	Variant 1 – application of Section 34, paragraph 3 of the EŘ also to other financial market entities, for which the enforcement order uses the abbreviation financial institution
Support for corporate bond trading	Variant 1 – expansion of the requirements of the emission conditions

4. IMPLEMENTATION OF THE RECOMMENDED OPTION AND ENFORCEMENT

Incorporation of the recommended variants into the Czech legal system will be carried out by changing the relevant provisions of the relevant laws. Supervision of the fulfilment of obligations in the area of the financial market is carried out by the CNB, which can punish offenses as misdemeanours and take corrective measures or other measures. If a crime is committed (such as fraud or embezzlement), law enforcement agencies will step in.

5. REVIEW OF THE EFFECTIVENESS OF REGULATION

The Ministry of Finance will review the effectiveness of the newly introduced regulation after 3 years from the date of entry into force of the draft law. The Ministry of Finance will continue regular consultation with market participants and the supervisory authority (ČNB), possibly also with other interested parties from the professional public (eg representatives of the academic sphere). These consultations will also include an analysis of the impacts of the new regulation and a discussion on its possible calibration with another amendment.

The vision of the concept of the development of the capital market in the Czech Republic is to reach the European Union average for the following indicators:

- Increase in the market capitalization of the Prague Stock Exchange (with regard to new listings and delisting of securities from trading)
- Increase in trading volume on the Prague Stock Exchange
- Change in the financing of Czech companies in favour of non-bank financing (in particular, an increase in the volume of corporate bond issues)
- Changing the composition of household savings from saving in bank accounts in favour of the capital market

6. CONSULTATION AND DATA SOURCES

The Ministry of Finance published a public consultation on the draft Capital Market Development Concept in the Czech Republic 2019–2023 on 7 December 2018, with a deadline for comments until 9 January 2019. In this context, it invited capital market participants and the professional public to send any specific proposals, including justification of the proposed change, which could be taken into account when preparing the amendment. After incorporating the received comments and finalizing the text, the Ministry of Finance presented the concept to the Government of the Czech Republic, which approved this document on 03/04/2019 (Resolution No. 156).

Subsequently, on August 8, 2019, a document entitled Planned legislative measures arising from the Capital Market Development Concept in the Czech Republic 2019–2023 was published for public consultation [22]. In this context, the Ministry of Finance also invited participants in the capital market and the professional public to send any specific proposals, including the justification of the proposed change, which could be taken into account when preparing the amendment. The following responded to the call: one supervisory authority, one ministry, 6 market associations, one international market association, one trade union representative, one educational institution, 5 market entities and 5 private individuals.

When analysing individual problems, all available data sources were examined, especially data available via the Internet, such as lists kept by the CNB, foreign legal regulations, professional literature, including foreign and other data provided by participants in discussions and consultations.

For the sake of transparency, the submitter has published the results of these consultations for some individual variants on which he received feedback. The submitter also received many comments verbally, which arose from numerous meetings. The submitter is aware of the need for legal regulations to respond to the needs of practical functioning and changes that are happening on the capital market. When choosing the most suitable solution, the submitter respected the private law areas of law related to capital market issues, which should be regulated as freely as possible, but also did not forget the need to protect retail investors in particular and was also inspired by the legal regulation of foreign countries of Western Europe.

[22] https://www.mfcr.cz/cs/soukromy-sektor/kapitalovy-trh/podnikani-na-kapitalovem-trhu/2019/verejna-konzultace-planovana-legislativn-35843

ANNEX: Results of the public consultation

Consultation:

Question	1) Do you agree with combining the limits on the taxpayer and extending their application to the account of long-term investments? 2) Do you agree with the extension of the application of the tax write-off in relation to the employer's contributions also to the account of long-term investments? 3) Do you agree with the application of the 60+60 rule also to the long-term investment account? 4) Do you consider it necessary to revise the 60+60 rule? 5) Do you agree with the name of this new umbrella product "long-term investment account"? 6) Do you agree with the definition of the circle of persons who will be able to keep a long-term investment account? 7) Do you agree with the definition of assets that can be registered in the long-term investment account? 8) Do you agree with the proposed treatment of property income in the long-term investment account? 10) Do you agree with the proposed solution to the issue of distribution of the long-term investment account? 11) Do you think there are any other issues that need to be addressed in relation to the long-term investment account? Ideally, in relation to these questions, suggest your preferred solution. 12) Do you think that other options should be considered in the future, with which the Czech Republic should support citizens' savings for old age? If so, state the main features and possible foreign inspiration (while also taking into account the impact the chosen solution would have on the state budget).

Results of the consultation

<u>In general:</u>

Supervisory authority

The decision on the introduction of this new product and its possible tax support is a political question that belongs to the MoF and the government of the Czech Republic, and therefore we take a neutral position on the possible creation of the "Long-term investment account" regime. However, we draw your attention to facts that should be taken into account before making this decision.
If we summarize the current approach, there is a four-level tax support for pension products in the Czech Republic:
1st level - state contributions to pension products:

- *in 2018, the Ministry of Finance allocated state contributions to supplementary pension insurance (transformed funds) and supplementary pension savings (participating funds) in the amount of CZK 7.035 billion. It is not known that such contributions exist in any country (with the exception of the Czech Republic).*

2nd level - tax relief for the participant:

- *exemption from personal income tax of certain payments from pension funds, private life insurance and pension insurance,*
- *deduction from the personal income tax base in the case of contributions to pension funds and pension insurance, up to CZK 24,000 per year,*
- *deduction from the personal income tax base in the case of a private life insurance contribution, up to CZK 24,000 per year,*
- *the employer's contribution to pension funds, private life insurance and pension insurance up to the amount of CZK 50,000 per year is exempt from personal income tax and is not subject to employee contributions to the employee's social security or health insurance.*

3rd level - tax credits for employers:

- *the employer's contribution to pension funds, to private life insurance and to pension insurance up to the amount of CZK 50,000 per year per employee is not subject to social or health insurance at the employer.*

4th level - reduced tax rate on income of pension funds

- *the pension fund income tax rate is 0% instead of 19%.*

Regarding the proposal to apply tax benefits also to the newly introduced "long-term investment account", we state the following:

The "60+60" rule is relevant only for the purpose of deduction from the tax base of the individual income tax payer, not for the termination of the product (current pension products include the possibility of withdrawal). If the participant used a tax deduction and subsequently terminates the contract with the payment of the selling price, he must, due to the "60+60" rule, supply funds by which he reduced the tax base in previous years.

The existence of a European variant of the "long-term investment account" which is the "Pan-European Personal Pension Product" (PEPP) under Regulation (EU) 2019/1238 can be taken into account. The regulatory framework for PEPP sets, among other things, requirements for distribution and information obligations and enables the range of existing pension products to be significantly expanded.

Neither the British "individual savings account" (ISA) nor the Slovak "long-term investment savings" are pension products. Citizens deposit already taxed money into their accounts, i.e. there is no above-mentioned 1st, 2nd, or 3rd level of tax support applied in the Czech Republic. Of course, the above-mentioned points do not prevent the long-term investment account from being subject to tax support in the Czech Republic. As this is a political issue, the CNB takes a neutral position.

Market entity No. 1

In the opinion of our institutions, the only way to increase the interest of investors in the capital market is financial incentives, money, in the form of tax incentives or reliefs, this is the most effective way to ensure greater involvement of investors.

The development and good functioning of the capital market is essential for the efficient functioning of the economy. There are many studies available to MF on this that support these conclusions. The development of the Czech capital market will not happen thanks to the technical dexterity of the legislators or the high expertise of the specialists preparing the Development Concept. Nothing new and ingenious can be invented. The development of the Czech capital market will not happen even thanks to new technologies. Existing technologies

are sufficiently effective and safe and cheap. The development of the capital market will be supported only in the case of POLITICAL agreement of the political representatives of the state (government and parliament), the output of which will be an environment motivating investors to invest in capital market instruments for the long term and, on the other hand, the interest of issuers to use the capital market for their own financing.
Of the presented areas, it seems the most fortunate to use the possibilities of points 2) and 10). ISA and the expansion of support for pension funds, BUT ONLY THOSE that have a majority of capital market instruments in their portfolio. Such conditions should be adjusted for each natural person, where his growing portfolio would be registered in a virtual individual savings (and special pension) account. Investing through such an account would be assessed to the total annual amount as uniform and would be somehow financially/tax/monetarily motivated, e.g. extended tax time test, increased state contribution in its pension part, tax write-offs in case of losses, etc. there are many variants and the greater the reliefs or contributions or the wider the tax time test, the greater the motivation for investors to invest. E.g. in England, the annual investment limit for an ISA investment account is approximately £20,000, all profits from these investments are not subject to any additional tax. It is necessary that the total annual amount is not unnecessarily small and that this product is interesting and fulfils a role even for higher income groups, e.g. when saving/investing the amount of 50 thousand. monthly, 600 thousand per annum as in England. Compare retail investment incentives in France, Sweden and other EU countries. An ISA investment account should not have the same 60/60 product parameters as a pension account, but should be different (time limit, tax-wise, investment amount) so that it is a supplement to pension savings (e.g. 0/0 + annual limit) and investors could create a suitable long-term flexible investment portfolio - thus they will be more motivated to use all kinds of investment/savings instruments.

Market Association No. 1

At the outset, we would like to state that we consider the introduction of the long-term investment account as an absolute priority, including the time frame, to be completely correct. It is absolutely necessary that a proposal for an amendment to the relevant laws be submitted to the Government of the Czech Republic by the end of 2019 so that this proposal can be implemented as soon as possible. This is a question that has been the subject of much discussion for several years and therefore deserves to be accepted as soon as possible."

Ministry No. 1

The Ministry of the Interior welcomes and supports the development of activities and programs that will increase the motivation of citizens to create additional financial security during their economically active life for the post-productive period, when they will receive the state old-age pension according to Pillar I, so that for these citizens, if possible, there was no significant reduction in living standards due to insufficient financial security in old age. In accordance with the conclusions of the Commission for Fair Pensions, we would like to point out that it is also very important for the Ministry of Internal Affairs and Communications to deal with the efficiency of the system and the improvement of the payment phase, i.e. ensuring that the funds paid out are not drawn almost exclusively on a one-time basis and are used precisely for the purpose, to for which they were created, i.e. security of regular income in old age, and enabled security during all or a large part of post-productive life.
From the point of view of the Ministry of Internal Affairs and Communications, the proposal of a similar instrument does not seem suitable for the Czech Republic, at least from the point of view of the development phase of old-age insurance systems. The Ministry of Internal Affairs and Communications believes that before discussing the possible expansion of financial institutions managing supported forms of savings, it is first necessary to resolve the effectiveness of the current 3rd pillar from the point of view of insufficient revenues and cost

regulation, which particularly concerns transformed funds, in which approx. 75% of people saving for pension with pension companies. Due to the large number of citizens involved, we cannot expect an increase in the number of people who start saving for their old age, rather we can expect a transfer of existing clients when more favourable conditions are created for new institutions.
From the point of view of the Ministry of Internal Affairs and Communications, the introduction of additional state-supported long-term investment accounts for old-age savings could lead to fragmentation of the old-age savings system and further weakening of the already low efficiency. The Ministry of Internal Affairs and Communications therefore prefers the consolidation of the system as the closest priority, for example by establishing a state pension fund, by transferring clients from existing pension funds to the state pension fund and to more suitable profiles of participating funds. These are topics that, among other things, are the subject of discussions by the Fair Pensions Commission.
For these and other reasons, the Ministry of Internal Affairs and Communications does not support the proposal to introduce a long-term investment account. At the same time, we consider this intention of the Ministry of Finance to be such a fundamental intervention in the pension system of the Czech Republic that agreement between the Ministry of Labour and Social Affairs and the Ministry of Finance is highly desirable. In the same way, we consider it appropriate, if both ministries agree, to discuss this plan within the Commission for Fair Pensions, which, according to the government's program statement, must also focus on forms of individual old-age insurance.

Market Association No. 3

From our point of view, not all essential aspects of such a proposal are addressed in the Consultation Material.

Market Association No. 5

We support the introduction of a long-term investment account and, in our opinion, it is also in the interests of clients. This will equalize support/advantages for all substitute products (investments, pension savings, investment life insurance). The name of the account itself should reflect not only the long-term, but also the meaning of saving funds for "retirement".

Ad 1:

Union representative

Yes, but only if the total limit is simultaneously increased, e.g. to 60,000. CZK per year.

Market Association No. 1

In our opinion, it would make more sense to increase the existing limits per taxpayer in order to increase the motivation to continue saving for old age. This would also give more incentive to people who are already using existing retirement savings products to start using long-term investment accounts as well. However, we prefer to keep a separate limit for pension funds, and then a separate limit for IŽP and the long-term investment account.

Market entity No. 1

In principle, we agree with the intention to establish one investment account and one pension savings account, through which the individual investor would have the opportunity to invest in many other instruments/funds. As mentioned above under point 1), it is possible to imagine many variants of motivation. It is not advisable to combine pension savings and investment accounts into one product.

Above all, it is advisable to distinguish between an individual investment account and an individual pension account. Both have a different mode and usually serve a different purpose. Note however, it is quite common in the UK for savings in a personal investment account ISA to also serve as part of investors' income in their retirement age. It is common practice for withdrawals (whether one-off or regular) from an ISA account to supplement pension income. The reason is usually a combination of different tax structures, generational planning, investment strategy, etc. However, ISAs provide investors with great flexibility by withdrawing from the account at any time.

With an investment account, one-time deposits and large withdrawals must also be taken into account even before reaching retirement age (e.g. I will sell a property and buy a new one in 5 years, in the meantime I want to invest in different e.g. 5 funds through ISA). This simple investment account should be a supplement to a retirement account. It should offer other tax advantages so that investors are offered more flexibility and have an incentive to use both a pension and an investment account. The 60/60 rule would be unfortunate for both types of accounts, as many residents are already concerned about not having access to their pension accounts until their 60th birthday, and that it may cost them to nationalize their private pension at any time. As already mentioned, an alternative to a pension account could be a personal investment account, which, for example, would not offer tax support for the initial investment, but would allow withdrawal without any tax and time burden, however, an annual deposit limit would be determined for each investment account holder. This is how the British Personal Investment Account ISA works and is very popular in the UK. This account can only be set up by institutions that obtain permission from the tax authority and their duty is to monitor the set limits for investors. ISA does not impose an administrative burden on either the investor or the tax office, as profits/withdrawals do not have to be entered in the annual tax return.

The pension account should primarily be intended for long-term savings, up to the chosen retirement age (in the UK, private pension savings have a retirement age 10 years lower than the state one, i.e. now the state pension age is 65 and the private pension age is 55) and smaller ones, but but with regular instalments and its gradual withdrawal, not one-off, after the end of the working part of life. However, the pension part should also be set for higher income groups.

Supervisory authority

State support III. pillars incl. potential changes are currently being discussed on the Fair Pensions Commission platform. The CNB takes a neutral position on the possible extension of tax reliefs to citizens' contributions to the "long-term investment account" and related changes in legislation. However, we would like to point out that it would be appropriate - regardless of whether the expansion takes place or not - to have a thorough discussion about the effectiveness of III. pillars in connection with its tax support.

As already mentioned above, the existence of a pan-European personal pension product (PEPP) must also be taken into account, which allows for a significant expansion of the range of existing pension products and at the same time sets, among other things, requirements for distribution and information obligations towards participants, although this product does not in any way prevent legislative enshrinement and tax support for a long-term investment account as another type of pension product.

Market Association No. 2

No, because for people who are already using old age savings products, this change does not represent any incentive to continue saving for old age (even for people who do not use existing old age savings products, the said change does not represent any new incentive). Instead, we propose that the limit per taxpayer be increased in connection with the introduction of long-term investment accounts. This would incentivize people who are already using existing retirement savings products to start using long-term investment accounts as well.

Market Association No. 4

"The introduction of another product with state support, in addition to the same purpose as the one already supported, does not make much sense from a motivational point of view and will only increase the lack of transparency of the market and the unpredictability of the state's approach to voluntary retirement savings for citizens. We have been criticizing the plan for a long time, especially because we do not perceive public demand. In order to be effective, pension savings should, according to our experience, be concentrated in a simple, understandable and safe product to enable the calculation of the pension, not diluted piecemeal between various, difficult to compare products, especially if they are to be provided with the same state support (tax benefits) or similar conditions (e.g. employer contributions). The so-called pension savings for which state support is provided should logically be registered with one administrator. We do not consider the requirement for the 60+60 rule to be sufficient, as existing pension products and their providers are significantly regulated in other areas as well (e.g. investment, fee and commission limits). The possible extension of the possibility of drawing state support to other financial products should ensure comparable conditions in the area of regulation of such products and thus competitiveness on the market. It should be preceded by an analysis of the impact on the pension system, whether broad state support for savings in bank accounts or in mutual funds will really contribute to an increase in the volume of savings specifically intended for old-age security, will lead to the payment of such saved funds in the form of pensions, and the actual impact, which will such expansion of state support means for the state budget.

Market Association No. 3

It is possible to agree with the combination of limits, but we propose to increase these limits and further propose to enable contributions to the account even above the set limits.

Ad 2:

Supervisory authority

The extension of the application of existing tax reliefs for employees in relation to employer contributions to pension products as well as to employer contributions to the "long-term investment account" is the responsibility of the Ministry of Finance and the CNB takes a neutral position on it. In this context, we only point out that for this purpose the "individual savings account" (individual savings account) in Great Britain, the "individual retirement account" (individual retirement account) in the USA, and the "long-term investment savings" in Slovakia cannot be considered as inspirational models. where the above type of support does not exist. The question of employee tax credits relating to employer contributions to a "long-term investment account" should also be discussed in general in connection with the III effectiveness assessment. pillars.

Private Person #1

It's not entirely clear from the description how this is supposed to work. If it was about canceling the tax deduction for the employer and replacing it with an increase in the limit for the taxpayer, then I disagree. The employer should continue to be motivated to contribute to the savings of his employees.

Educational institution

Yes. We support the introduction of a long-term investment account as a form of old-age insurance quite common in developed countries in Western Europe.

Market Association No. 4

Employer contributions should not be channelled into multiple products with the same purpose, especially if other financial products are not treated from the point of view of the possibility of influencing the employee when the employer chooses the providing company, in the same way that supplementary pension savings are treated.

Market Association No. 3

However, the question is whether it would not be more appropriate to focus only on the exemption of income on the given account, i.e. to enable the appreciation of saved funds without taxation, and on the contrary to allow an increase in the limit.

<u>Ad 3:</u>

Market entity No. 1

No, see above. An investment account should not have a time limit.

Private Person #2

In relation to the possibility of expanding assets (shares, bonds, etc.), a revision of the 60+60 rule would be appropriate, at least in relation to this "other" asset - e.g. in the form of creating another rule applicable to this type of asset, e.g. in the form of long-term investment as used by Slovakia.

Market Association No. 4

We consider this single rule to be insufficient. Furthermore, in our opinion, it would be at least necessary for the long-term investment account to allow not only a one-time withdrawal, but also a regular payment in the form of a fixed-term pension or lifetime annuities, otherwise it will not fulfil the full-fledged role of insurance for old age. One of the possible forms of payment should be the transfer of funds from such an account to supplementary pension savings, e.g. due to pre-retirement payment.

<u>Ad 4:</u>

Market entity No. 1

Doesn't seem necessary for a retirement account. It is unsuitable for an investment account.

Union representative

Considering the pension purpose, it would be necessary to extend the investment phase to, for example, at least 120 months and to consider an age shift to 65 years in accordance with the statutory retirement age in the Czech Republic.

<u>Ad 5:</u>

Market entity No. 1

It would be more appropriate to establish two new accounts - a personal investment account (let's call it ISA) and a personal pension account (let's call it SIPP), so that it is clear what falls and does not fall under the pension legislation.

Union representative

NO, we suggest the name "retirement investment account".

Private Person #3

No. I believe the name should reflect the fact that the account is used to provide for retirement. I also find the abbreviation "ÚDI" somewhat unfortunate. I would suggest, for example, a pension account for long-term investments.

Market Association No. 1

Due to the application of the 60+60 rule, we consider it more appropriate to use the name personal pension account.

Private Person #4

Rather "personal long-term investment account" or "personal savings account".

Act 6:

Union representative

YES, it is not allowed to offer and manage the account by persons without requirements for their expertise.

Market Association No. 1

Yes. Here we consider it essential that these are exclusively licensed, regulated and supervised entities.

Market Association No. 6

We propose to expand the range of persons to include credit unions.

Market Association No. 3

It is not clear to us what services the account manager will provide. If it were only about administrative management of the account, we see no reason why the circle of people should be limited. If investment services such as portfolio management will also be provided, the restriction is in place.

Act 7:

Market Association No. 1

We assume that the definition of property will be the subject of a specific proposal, but we expect that it will only be about instruments that are regulated.

Private Person #2

It would be appropriate to consider restrictions on publicly traded assets (stocks, bonds, etc.). Otherwise, there could be purchases of shares in "dubious" companies (eg empty SPVs).

Market Association No. 3

Assets that can be placed in a long-term investment account are very vaguely defined in the Consulting Material. However, we would recommend minimizing the restrictions as much as possible. We see no reason to limit the investment instruments on the account other than as part of the provided investment service.

Act 8:

Union representative

The material does not contain any, only foreign patterns.

Private Person #3

The article does not specify the treatment of proceeds. Question 2.9. is deleted, did you accidentally delete the wrong question? In general, I would support that income from ÚDI funds (dividends, interest) could be reinvested and withdrawn (without penalty) on an ongoing basis. A situation where the client would have the opportunity to regularly "reach" for income already during the savings phase would act as a motivation for further savings.

Private Person #2

Yes, income from the sale of assets from this account, the funds of which would subsequently be used for reinvestment meeting the account criteria, should not be subject to taxation. If bank deposits (current accounts) were excluded from the appropriate assets of the accounts, it would be appropriate to define the length of the period when the given funds must be converted again from "cash" into proper assets in the form of shares, bonds, etc.

Market Association No. 3

We agree with these points, but taking into account the comment on point 2.3.

Furthermore, it should be possible to transform property, which is currently already subject to the 60 + 60 regime, into property in a long-term investment account without taxation.

Ad 10:

Union representative

YES, it is not allowed to offer and manage the account by persons without requirements for their expertise.

Market Association No. 1

Yes. We consider it essential that only regulated entities can offer this account.

Any product should be distributed only by persons authorized to manage it, only investment intermediaries.

Private Person #1

Any product should be distributed only by persons authorized to manage it, only investment intermediaries.

Private Person #2

Yes, I understand that the purchase of the investment would be made from untaxed income and any withdrawal of funds from the account before the conditions (60+60 or e.g. long-term investment) would be subject to taxation. In this context, it is necessary to define:

- in what regime would taxation be carried out upon exit - taxation like other income according to § 10 seems appropriate

- further consider the possibility of maximum taxation of contributions made in the past - e.g. 10 years, as is the case in the case of violations of the terms of life and pension insurance at present.

- consider the tax treatment of funds that will be invested in addition - i.e. beyond the exempted legal limits, i.e. they will be invested already taxed) - the tax treatment of such income at the exit should then capture only realized profit. However, if there is already an exemption option in the Income Tax Act (e.g. holding securities after a certain period (3 years) or exemption from trading income up to 100,000), then this exemption option should also be applied to withdrawing funds from the account.

- similarly, if other benefits accrue from shares or bank deposits on this account in the form of e.g. dividends or interest, it will be appropriate to treat the tax treatment of these benefits. By default, these incomes are subject to a 15% withholding tax when paid to individuals. It would be appropriate to consider introducing the option of not taxing such income if it flows into the account.

- in the event of breach of conditions and early withdrawal (sale of assets), it would be advisable to set the tax regime so that only the realized withdrawal of funds is taxed - e.g. deposited untaxed funds of 100 and due to the loss of value of the shares realized income of only 80 and

not additional taxation of 100. Furthermore it would be appropriate to be able to apply the current exemptions from taxation in the form of a time test or the amount of income (see above) in the event of a breach of the conditions.

Market Association No. 4

The distribution of a long-term investment account, which is supposed to fulfil the role of a pension product, should be subject to similar regulation as is the case with supplementary pension savings.

Ad 11:

Market entity No. 1

Do not mix investment account and pension account into one product. See above.

Private Person #3

Yes: - In particular, dividends from shares held at ÚDI, as well as interest from bonds, should be exempt from tax (in case of compliance with 60+60).

- Direct active management of assets in ÚDI by its owner should also be enabled (similar to Self Managed Superannuation Funds in Australia)

Private Person #1

Think through cross-border aspects, i.e. whether or not branches of foreign banks or OCPs or even foreign banks and OCPs could maintain the account cross-border without a branch.

Market Association No. 4

The aforementioned need to unify the conditions of regulation.

Market entity No. 3

In the questions for the consultation, the first thing I miss is the question of whether it even makes sense to create another product with state support - the so-called "long-term investment account". Already in the introduction, it is written that even existing products, where the state supports them in the form of a contribution or tax support, citizens do not even fully use these products. E.g. low monthly contributions to pension funds. So the question is whether the introduction of another similar product is a solution that will really increase citizens' interest in long-term savings/investment across the board? Which of the citizens will really orient themselves in the flood of different "state-supported" products and make the right choice in the end? What will be the costs to the state budget, not only due to state support/tax relief, but also the control of these contributions, etc.?

Market Association No. 3

The proposal appears to be that the long-term investment account would be an individually managed account, but at the same time it should be an account available to the general public. This concept goes against current practice, where savings are linked to a specific product: pension savings, investment life insurance, building savings, investment funds. Therefore, we can expect a lot of resistance from the institutions that currently manage these products. We also see the fee structure as a big problem, as managing such an account will certainly be quite demanding and will require additional fees.

Market Association No. 5

In the material, it is proposed that the 60 + 60 rule be maintained when transforming assets in the long-term investment account, and it is therefore not necessary to supply previously applied *tax deductions. We would like to make sure that, in the same way, the transformation of investments will not result in income taxation if the previous investment instruments were not held for at least 3 years (tax test).*

We consider it appropriate to unify taxation at the output, when, for example, the employer's contribution has a different regime for investment life insurance, for supplementary pension savings paid once and for supplementary pension savings paid regularly.

As part of the maximum approximation of the terms of the product included in the long-term investment account, it would be appropriate to consider the possibility of designating a designated person who would receive the performance regardless of the outcome of the inheritance proceedings.

Ad 12:

Market entity No. 1

A combination of different investment accounts that offer different features, so that investors have more options to invest and withdraw (in the UK, for example, there are also life assurance bonds that offer a withdrawal of 5% pa from the invested capital with deferred tax liability).

Tax benefits for more risky investments = SMEs (e.g. shares on the START market or start-up companies directly). The parameters should be precisely defined. For example, in the UK there is 30% tax relief from the initial investment in Enterprise Investment Schemes (EISs) and Venture Capital Trusts (VCTs). Shares on the AIM market (similar to the START market in the Czech Republic) can be part of the EIS.

Market Association No. 1

See answer to question 2.1. - In our opinion, it would make more sense to increase the existing limits per taxpayer in order to increase the motivation to continue saving for old age. This would also give more incentive to people who are already using existing retirement savings products to start using long-term investment accounts as well. However, we prefer to keep a separate limit for pension funds, and then a separate limit for IŽP and the long-term investment account.

Private Person #1

Increase the income of current pension funds (see below).

Private Person #4

I don't see the possibilities-advantages in case of setting up an account for minors, but also for parents (grandmother, grandfather) - tax advantages for parents in DP until the time when the child starts work (age 26). And also the possibility to send money to the parents' account, which will increase their pension and at the same time again the possibility to apply the payer's tax deduction as for minors, maybe then increase the 48,000 to maybe 60,000!? And above all, to maintain the possibility of withdrawing money at any time - even with some financial loss, but this possibility must be preserved due to the long-term commitment of funds. But there should be no shortage of early withdrawal due to death or disability.

Market Association No. 4

The main changes in individual pension savings could be a mandatory contribution from employers and automatic entry into the system for young people with the option of exit (see e.g. OECD recommendations, reform proposal in Poland, etc.).

Market entity No. 3

No. I believe the state budget will have other concerns/priorities. Moreover, is it even a question whether to financially support citizens' savings for old age? Isn't increasing financial literacy a more appropriate way? Isn't this unhappy state, among other things, also a consequence of resigning from the compulsory matriculation exam in mathematics.

Consultation:

Question	1) Do you consider the proposal for the state to support a new alternative (more dynamic) type of participation fund to be a suitable solution? 2) At what amount would you recommend that the fees of the new alternative fund be regulated by law? 3) Do you think there will be public interest in the alternative fund?

Results of the consultation

In general:

Supervisory authority

Investments in alternative assets such as private equity funds or long-term infrastructure projects and companies (railways, highways, power plants, waterworks, etc.) can, from our point of view, be an interesting alternative for fund participants who are looking for a higher percentage appreciation of their invested funds and are willing to take a higher risk compared to the current offer of investment strategies of participating funds.

At the same time, however, we see an increased risk in the purchase of riskier titles for the fund's portfolio, which the pension company would not normally hold in its portfolio due to its stricter criteria, e.g. for liquidity. Pension companies should respond to such a situation by improving their risk management system, given that they now invest mainly in government bonds.

In this context, however, we draw your attention to the current provision of § 114, paragraph 1 of the Act on Supplementary Pension Savings, on the basis of which the pension company is obliged to transfer the participant's funds to a mandatory conservative fund, no later than 5 years before the participant reaches the age required for entitlement to arise for old-age pension. After this transfer, participant contributions, employer contributions and state contributions are placed only in the mandatory conservative fund.

Ad 1:

Supervisory authority

In principle, we are not against the creation of a new type of alternative participant fund, if the investment in this fund will be based on the informed choice of the participant.

A new alternative type of mutual fund may be a suitable solution for a certain segment of clients who are not satisfied with the income-risk profile of the current offer of mutual funds. State support for this type of fund makes sense from the point of view of stimulating the volume of funds used for pension savings. We can expect not only the transfer of funds from existing participating funds, but also the arrival of new clients who have so far preferred other financial products when saving.

Private Person #1

Yes, this type of mutual fund should exist.

Market entity No. 1

In principle, we agree that ordinary investment funds or pension funds intended for collective investment may invest a very small part of their portfolio in private equity funds. This very small *portion of roughly 1 percent should be explored in other countries and capped at some common average in developed markets.*

In the UK, there is a self-invested personal pension (SIPP), which enables alternative investments and the purchase of commercial real estate. However, in the course of a short time, enormous practical problems began to appear, when it was not possible to sell a PE investment or commercial real estate at the moment when it was necessary (e.g. reaching retirement age and transferring to annuities, or paying tax free cash or when dividing a pension in case of divorce or death). The problem was liquidity and the inability to monetize these investments, and this was critical when this type of investment represented a large part of the retirement account. At the moment, there are very few SIPP providers in the UK that allow this type of investment, and if they do, the investor has to sign various declarations and must definitely fall into the self-cert category. SI and HNW. This fact, however, will not help in the event of death, as the person who inherits the SIPP can find himself in a very complicated situation and a situation may arise where he will not have access to the 'money' and may even pay fines, as he will not be able to comply with the pension legislation. At present the situation is simpler in the UK, but it is important to remember that their pension legislation has recently been relaxed and SIPPs can be passed down indefinitely from generation to generation. There is no obligation to buy an annuity.

The alternative fund itself is not very suitable, however, it would be advisable to examine and evaluate the overall structure of SIPPs, as this type of pension account is missing in the Czech Republic. It is an open structure where the investor can choose for himself which funds/stocks/bonds he wants to invest in (it doesn't have to be only PE funds) and thus set his own investment profile/risk (with or without an advisor). A SIPP can have the same portfolio of investments as an ISA.

It would be more appropriate to use the term retirement account rather than pension fund.

Private Person #5

Yes, but it must not be at the expense of the participants. I consider the possibility of a one-time change of fees by the fund, as happened de facto when fees were increased from 0.8% to 1%, to be inadmissible. Users of participating funds were charged a fee by the state and subsequently by the funds, without having a real possibility to continue under the original closed conditions or to terminate prematurely under the original conditions (without loss of state contributions, tax deductions). It reduces credibility and the willingness to enter the 3rd pillar, when the state and funds together change the rules of the game without the usual option, i.e. to terminate the product. I do not consider the option to end the product without state subsidies and tax deductions to be an option.

Union representative

YES, but only if an "all-in-one" model is chosen for the fees at the same level as for the transformed funds. When it comes to pension savings instruments in general, in the opinion of ČMKOS, the principle of certainty should be clearly preferred over the risk that supposedly brings high appreciation. Once again, the experience of the financial crisis showed that it was the clients of these various "high-yield" pension funds" who lost their pensions.

Ad 2:

Supervisory authority

Taking into account the fact that it is supposed to be a fund with a state contribution, we believe that the amount of the fee should be regulated (similarly to existing participation funds). The amount of the fee should be limited to the usual value so that its creation makes economic sense *for the pension company as well. It is therefore possible to agree, for example, to the management fee for private equity funds in the usual amount, as stated in the consultation material.*

Private Person #1

There should be a preference for fees from appreciation over fees from the volume of investments, so there would be the motivation of the fund manager for the highest possible return.

Market entity No. 1

A price limit could be set for the admin. fee for the SIPP provider, but there should not be a limit set for the individual funds/investments that will be selected within the account.

Private Person #3

It does not make sense for me to state specific values, however, in the case of equity funds, pension funds should be motivated primarily according to performance, i.e. a stricter limit for volume fees and a looser limit for performance fees. However, in general, the legally required fees cannot be too low, considering that the fund will only be interested among dynamic investors, of which there are not many. For financial institutions, a too "laced" product would be unprofitable for a few clients.

Private Person #5

a) Do not modify or restrict in any way. Let them have the opportunity to choose arbitrarily large fees depending on the cost of the assets in which they will invest. At the same time, let them have the option to lock the investment (impossibility to withdraw) or at least set an arbitrary system of entry and, above all, exit fees. These are not just private equity investments, but other investments. For now, I lack, for example, a real estate fund as a participating fund.

b) Do not modify in any way, leave alone. There will be better and freer options under ISA.

Ad 3:

Supervisory authority

Public demand for investing in a new alternative fund cannot be estimated based on available data. However, if it is possible to judge the interest in the new alternative fund by the current interest in investing in dynamic funds, it is beyond doubt from the available sources that participants now prefer a more conservative way of investing (the balance sheet amount of dynamic funds is 18% of the total balance sheet amount of all participant funds).

Private Person #1

Yes, there could be interest in such a fund.

Market entity No. 1

If an open structure is offered, as it is in the UK with SIPPs, then we think so. The fee structure can be more or less managed by the pension account owner himself.

Private Person #3

No, interest will be low, citizens in the Czech Republic are very conservative in relation to investments. Still, supporting a more aggressive type of fund makes sense to me - even a conservative investor will be more willing to invest in, for example, a balanced fund instead of a pure bond one if they see that there are a few more "risky" options. In general, it would therefore have a positive side effect even in the case of lower interest in the fund itself.

Private Person #5

I am not sure. More informed investors and usually wealthier investors are not interested in the DPS product as such for other reasons (primarily the risk of changes in conditions by the state without the possibility of terminating the product early while maintaining the benefits granted so far, the risk of nationalization) and prefer to invest abroad. To less informed investors, I explain the basics of investing, the long-term horizon, and they leave these "details" to the administrator.

Consultation:

Question	1) Please describe how big a problem you have regarding requests for cooperation in the context of judicial enforcement? 2) Do you consider it a suitable solution to extend the existing adjustment of cooperation through XML formats for the banking sector to other entities of the financial market? Or do you prefer a variant that would enshrine the obligation of the bailiff to request cooperation only in electronic form? If so, what other solution would be more appropriate in your opinion? 3) Is the legal regulation of XML formats, which applies to financial institutions (banks), also a suitable regulation for other entities of the financial market? If so, what data should the XML format contain for other financial market entities? 4) Should the new regulation only affect entities for which the enforcement order uses the abbreviation financial institution? (insurance companies, investment companies and investment funds, securities traders, pension companies, pension funds according to a special legal regulation, the Financial Market Guarantee System). 5) Is the mandatory use of the existing ISB system provided by the Central Securities Depository an appropriate solution for cooperation in judicial enforcement? 6) Do you think there are problems with requests for cooperation even in cases that do not relate to judicial enforcement (e.g. cooperation in court proceedings)? 7) Do you think there are related problems?

Results of the consultation

<u>In general:</u>

Supervisory authority

The Czech National Bank supports standardization, which will lead to more efficient processes when processing requests for cooperation from state authorities. However, as the MoF states in its consultation material, consultation with the relevant state authorities is necessary. From the perspective of the supervision of financial market entities, we have no comments on the proposal.

<u>Ad 1:</u>

Market Association No. 4

The aforementioned requests significantly increase the administrative agenda of pension companies and burden their costs. Annually in the sector, we process approx. 230,000 calls, usually manually in 4 steps: sorting, registering, processing the background and sending the answer.

Market Association No. 6

Larger credit unions already use communication in.xml format. However, our smaller members do not have the.xml format implemented to date (one of our members is currently working on a full implementation, another is currently considering it).

Market Association No. 2

If the executor uses the XML format in accordance with the Act, the banks have no problems. Unfortunately, despite the existence of legislation, some executors still use a mere scan of a written document (PDF format), and this brings increased work in banks. It also follows from the discussions within the working structures of the CBA that in the case of multiple simultaneous foreclosures, the payment of the subsistence minimum causes complex situations in the banks. In view of the Supreme Court's statement, the bank must enable payment at the client's request through all the channels offered by the bank. Individual banks deal with these situations differently depending on the technical possibilities.

Supervisory authority

From the point of view of the activities of the CNB as a "monetary institution" and a financial institution (operator of the SKD central depository), requests for cooperation in the framework of judicial execution do not represent a fundamental problem. The CNB handles approximately 100 to 150 XML requests for cooperation per day. The internal information system ensures automated processing both in relation to cash accounts and accounts within the SKD.

Market entity No. 1

CDCP has a sophisticated system of providing information for public authorities (OVM), including executors. Requests are processed through the ISB system. All OVMs that have signed an agreement with CDCP on the use of this system have access to this system. On January 25, 2012, a meeting was held with representatives of the Executor's Chamber (EC) about the possibility of using ISB by executors, where, among other things, another procedure was discussed, namely to determine the possibility of connecting ISB with the database of the register of ordered executions to verify the legitimacy of the executor's access to the CDCP database with by the fact that the activity comes from the EC IT staff. Despite this agreement, there was no further activity on the part of the EC. Executors therefore use written form, or electronic filling of forms for individual requests. This method is not user-friendly for any of the participants, as it wastes the time of both the executor's office workers and the OMV information department.

<u>Ad 2:</u>

Market Association No. 1

Even the electronic form is not completely free of costs for entities providing cooperation, on the contrary, the costs of developing and updating SW are considerable. We therefore propose the following modification of § 34, paragraph 1 of the enforcement order as follows (change highlighted):

"(1) For the purposes of enforcement proceedings, the executor may request the cooperation of a third party pursuant to Section 33, and they are obliged to provide it free of charge. The persons listed in § 33 paragraphs 4 to 9 and commodity exchanges, the organizer of the regulated market, the central depository and other persons authorized to keep records of investment instruments have the right to reimbursement of purposefully spent out-of-pocket expenses when providing data, unless a special legal regulation 33) provides [for] their the right to reimbursement of expenses incurred.

[33)] § 115 paragraph 5 of Act No. 256/2004 Coll., on business on the capital market, as amended."

Market Association No. 4

We definitely support the solution through the XML format, as well as the extension of the existing legislation concerning monetary institutions to other financial institutions as well.

Market Association No. 6

We believe that the use of XML formats also within credit unions is appropriate. However, with its mandatory implementation, relatively high costs for its implementation could currently arise on the part of small DZs. However, it can be expected that it will be implemented in the future. Now, therefore, a variant of the mandatory electronic form of communication is possible.

Market Association No. 2

Banks clearly prefer the executor's obligation to request cooperation only in electronic form. The proposal concerns other financial institutions different from banks in the sense that the already mandatory automated system for bank cooperation could be extended to other financial institutions as well. CBA understands this effort, supports it, but at the same time appeals to ensure that the existing interface is not changed in any way in this context and that additional costs are not incurred on the part of the banks. The material mentions the calculation of the costs for processing the answers, in addition, the law talks about the reimbursement of directly incurred costs, however, the real fact is that banks answer a massive number of questions completely free of charge (there is perhaps the only institution that manages to collect fees and that is the CDCP).

Supervisory authority

We prefer the extension of the existing regulation of cooperation through XML formats for the banking sector to other entities of the financial market. We believe that standardization in this direction is a trend that also takes place, for example, in financial and other reporting, especially according to European regulations.

Market entity No. 1

Requests from executors for data from the CDCP records are currently minimal compared to other applicants from the ranks of OVM, approximately up to two hundred inquiries per year. Despite this fact, CDCP would prefer in their case to join the ISB system, which would bring an economic advantage for CDCP as well.

Ad 3:

Market Association No. 4

Yes, it is a suitable adjustment. Within the sector of pension companies, there has been a proposal for a detailed description of electronic communication since 2016, which describes the proposal to extend the documents sent to pension companies by executors by a descriptive XML file, which was developed together with the external project support unit of the Chamber of Executors. However, it still lacks a final statement from the Executor's Chamber, nor has it yet been successfully put into practice.

Market Association No. 6

We believe that the use of XML formats also within credit unions is appropriate. However, with its mandatory implementation, relatively high costs for its implementation could currently arise on the part of small DZs. However, it can be expected that it will be implemented in the future. Now, therefore, a variant of the mandatory electronic form of communication is possible.

Market Association No. 2

When paper (PDF format) and electronic (XML format) versions of the relevant documents (call for cooperation, execution order, etc.) exist at the same time, the responsibility of the *person issuing the document must be legally enshrined that the content of both types of documents for one case is completely identical (in practice, there have been cases where the version in PDF format contained different data than the version in XML format). CBA has issued a standard for its members, which contains some other information in addition to the existing decree of the Ministry of Justice. The latest modifications also concern the possibility of expanding data exchange in the existing XML format with other authorities (exhibitors).*

Supervisory authority

We consider the legal regulation of XML formats, which concerns financial institutions, to be a suitable regulation for other entities of the financial market as well. The specific format should be discussed especially with the affected entities.

Market entity No. 1

The activity of financial market entities is diverse and broad. For this reason, we believe that several different input sentences in XML format would have to be created, according to the specifics and content of the work of these subjects. Considering the specifics of CDCP's activity, the ISB system is fully sufficient in the area of central records and subsequent records of book-entry securities. In the event that it was decided to create a uniform XML format, then this would have to contain all the data that is currently contained in the input sentence for entering requests for data from the register of book-entry securities through the ISB.

Ad 4:

Market Association No. 4

It would be expedient to extend such an arrangement to other entities such as, for example, tax authorities, CSSA, municipal authorities, customs authorities, which also send out a large number of calls for cooperation.

Market Association No. 6

If editing is mandatory, then apparently with this definition of subjects (ie including DZ).

Market Association No. 2

We remind you that, in addition to executors, there are currently many other issuers of calls for cooperation - public administration bodies (for example, social security administration, health insurance companies, police, courts) that communicate with banks very intensively, but are not yet able to use XML query structures. It was therefore logical to think about a more complex automated system for processing calls for cooperation and proceed with its modification and expansion with the aim of desirable cost reduction and increased efficiency on both sides.

Supervisory authority

Yes, we believe that the new regulation should apply precisely to financial institutions in the sense of the enforcement order. We believe that, in terms of the number of requests, this is a typical range of subjects where standardization makes sense.

Market entity No. 1

According to Section 33, Paragraph 4 of the Enforcement Code, the CDCP does not belong to the so-called monetary institutions or financial institutions, however, it believes that a system should be created that will allow filing and processing of applications not only by executors, but also by other OVMs electronically. The CDCP has its own ISB system, which is fully functional and able to cover all requirements for finding data from the CDCP records. A certain drawback of the ISB system, which can be removed, however, is that this system currently does *not allow batch processing of requests, which would be desirable in the case of a large volume of requested subjects. It is not excluded that some other entities that would be affected by this legal regulation use their own systems for handling OVM requests. If a decision was made about a uniform XML format, then it is a realistic assumption that interfaces could be created that would enable connection to ISB and other individually used systems.*

Ad 5:

Market Association No. 4

We do not use the ISB system in administrative proceedings.

Market Association No. 6

No.

Supervisory authority

We do not consider the use of the existing ISB system provided by the Central Securities Depository to be a suitable solution. The legislation should establish a technologically neutral solution and standardize only the formats or methods of sending, not specify a specific entity through which the legal obligation would be ensured.

Market entity No. 1

The ISB system, as used by the CDCP, is prepared for the needs of keeping records of book-entry securities. However, it is a flexible platform that can be modified for other entities as well, depending on the type of their activity, and we are not opposed to this discussion.

Act 6:

Market Association No. 4

Yes, mostly within the framework of court proceedings, the court requires wider information compared to judicial executions and to a large extent it is required to send copies of documents to the client's relevant contract.

Market Association No. 6

Yes. The problem exists with the tax authorities, which do not always use the possibility of obtaining information from the CEU. Another problematic subject is the Czech Social Security Administration, which does not use the XML format.

Market entity No. 1

When providing OVM data, the CDCP encounters problems of an administrative nature only, when, for example, the form is filled in incorrectly by the applicant (typos, etc.). So these are not problems of a systemic nature.

Act 7:

Market Association No. 4

Related implementation into internal information systems.

Market Association No. 6

See previous answer.

Supervisory authority

We are not aware of any related issues.

Market entity No. 1

As the biggest problem, in CDCP's opinion, it is necessary to solve the method of verifying the validity of the query by executors, for example by verifying the request of a specific executor against the register of ordered executions. It is also necessary to solve subsequent problems, for example, how to proceed in cases where the requesting entity sends an incorrectly processed input sentence, for example in batch mode, whether the entire batch or only a specific incorrect input sentence is not processed, how to proceed in cases where the verification of the authorization of the requester for data does not prove his authorization to obtain data on a specific subject and a number of other practical questions. Another problem is that some requesting entities do not have a realistic idea of the amount of costs associated with providing information electronically. Their view of out-of-pocket expenses or material expenses comes from the past, when only postage, travel expenses, etc. were recognized as such. However, in the age of IT technologies, this opinion cannot be identified. The creation of suitable SW, its development with changing legislation, system maintenance, and the purchase of HW equipment bring significant costs for the user, and therefore the costs for service providers in the amount of CZK 10 stated in this material are completely unrealistic.

Consultation:

Question	1) Do you agree with the proposal to expand the requirements of emission conditions? 2) Would you agree to the introduction of the communication of key information (in the form of a so-called MiniProspect or similar document) for all offered issues? 3) In your opinion, what parameters should the communication of key information contain? For example, is it appropriate to take inspiration from the Corporate Bond Scorecard?

Results of the consultation

<u>In general:</u>

Supervisory authority

We agree with the expansion of the emission conditions as proposed by the Ministry of Finance. We consider some of the indicators given as an example for supplementing the emission conditions to be a suitable supplementary guide for the investor's decision-making. However, we have doubts about the need to introduce a document described as a mini prospectus. On the one hand, we do not see the added value in the creation of another document during the issuance of bonds, on the other hand, we fear confusion with the actual prospectus approved by the Czech National Bank in accordance with the EU prospectus regulation. However, we do not agree with the statement of the Ministry of Finance regarding supervisory benchmark No. 2/2019, which the Czech National Bank published on March 14, 2019. According to the current findings of the CNB supervision, there are retail customers who, in the case of corporate bonds, do not pass the adequacy test, i.e. do not prove that they have sufficient knowledge and experience to understand the risks associated with investing in illiquid corporate bonds while being either outside the target market or even within the negative target market. We therefore do not share the view that retail investors should be allowed to invest 10% of their financial assets in high-risk investment instruments whose risks they do not understand.

Market entity No. 5

One can only agree with the description of the significance of corporate bonds within the framework of a standard market economy. One of the important aspects of this entire issue is missing in the background material – insufficient liquidity on the corporate bond market and thus very limited pricing information. The scorecard is certainly a suitable tool for the initial analysis of the issuer, however, the lack of comparison with the market limits the informativeness of such a tool. We would also like to propose a small addition to the MiniProspect. For MiniProspects, for example, we would recommend: Supplementing the MinoProspect with an overview of the covenants from the full prospectus, Regularly updated statements of the issuer's statutory bodies on the fulfilment of the covenants. Proposed procedure: It is only possible to motivate bond traders to be more active to a very limited extent. Nevertheless, it is possible to use the web signpost platform as well as the presentation of all available information from individual market participants. Individual banks issue reports on activity on the bond market, and although this is often only a partial part (issues carried out only by a given banking group), it is possible to compile a more comprehensive picture of conditions on the bond market.

Private Person #4

Unnecessary.

Ad 1:

Supervisory authority

We agree with the proposal to expand the issue conditions regulated in Section 9 of the Act on Bonds by some of the indicators proposed in the consultation material. Specifically, it should be information about the purpose of the issue, the financial statements of the issuer and their verification by the auditor, including the presentation of selected economic indicators (e.g. EBITDA) and the structure of the consolidated entity to which the issuer belongs. In this context, we also draw attention to ESMA's General Guidelines on alternative performance indicators (ESMA/2015/1415cs). The stated purpose of the general guidelines for the publication of prospectuses and so-called regulated information is to ensure that the information presented is understandable and allows for easy analysis. Alternative performance indicators should therefore be defined, meaningfully labelled and agreed with the financial statements, and their meaning and reliability should be explained. Although the effectiveness of the general guidelines is limited to prospectuses and so-called regulated information according to the EU Transparency Directive, the stated purpose certainly applies to issues outside the prospectus regime (perhaps even more so, given the assumed retail nature and lower expertise of investors in small bond issues). On the contrary, we consider the requirement to provide indicators for three accounting periods to be too extensive, even in the case of a standard bond prospectus, it is sufficient to provide data for two accounting periods. Furthermore, the question is whether, for the protection of retail investors, it would not be more beneficial to expand the content of the issue conditions to include the issuer's financial statements for the last two accounting periods, either by mentioning them directly in the issue conditions or by way of a link (similarly to the documents included by reference in the prospectus). Mere information on whether the financial statements are stored in the Collection of Documents, as stated in the MoF proposal, seems to us to be insufficient.

Market Association No. 1

Without an answer. Yes.

Market entity No. 1

Above all, it is necessary to raise public awareness of the fact that unlisted bonds are not intended for individual retail investors. Just as the state does not regulate the provision of money lending between companies and citizens, it should not regulate the purchase of unlisted bonds, which is nothing more than securitized money lending. Sham regulation will only add legitimacy and confusion to retail investors. We fundamentally support the listing of corporate bonds. It will benefit all portfolio managers, not only in the fund business. The state should support not only state or semi-state companies in their demand for capital in the form of a public offer of corporate bonds.

Market Association No. 5

We see no reason for this step, because for most retail issues, the relevant information is available from the prospectus, which is to be published during their public offer or their listing on a regulated market. In addition, the prospectus is approved by the CNB, which certifies that the information contained therein is sufficient for the investor to make an informed decision. In addition, taking into account the fact that in Czech conditions the prospectus is usually drawn up in the form of a single document, i.e. the issue conditions and other information published in accordance with the prospectus regulation are contained in a single document, the measure *under consideration could result in establishing a duplicate obligation to publish the relevant information. This fact could then be in direct conflict with the prospectus regulation.*

Market Association No. 2

Yes.

Market entity No. 2

Yes. As we already wrote in the previous comment, we have no problem with such a procedure. On the contrary, we welcome him. The emission conditions of issuers who are allowed to advertise their emissions on our portal are becoming more comprehensive thanks to our requirements. However, issuers do not always want to disclose all important information. If there is a standard that every issuer will have to comply with, then our work on cultivating the market will be significantly easier.

Market entity No. 3

No.

Private Person #1

No, above this information should be provided in the document below.

Private Person #3

Yes.

<u>Ad 2:</u>

Supervisory authority

In general, the introduction of the aforementioned obligation could become a suitable tool to discourage those issuers who did not even consider paying for the issue in the future. However, we have reservations against the concept of the so-called mini prospectus. On the one hand, we do not see the added value of creating another document in addition to the emission conditions (we would prefer their expansion), and on the other hand, we do not agree with its designation. "Mini-prospectus", which the investor can confuse with a standardized prospectus according to the EU regulation on prospectuses (it may give the impression that it has been approved by the CNB). The CNB does not seek to supervise "sub-limit" bonds according to the EU regulation on the prospectus, it is not important for it from the point of view of financial stability, protection of investors as a whole or development of the capital market.

Market Association No. 1

Yes, but the proposal presented in Appendix No. 2 still seems somewhat incomprehensible to the average consumer.

Market Association No. 5

No. We perceive a mini prospectus or a similar document as an unnecessary administrative burden. For most retail issues, according to the prospectus regulation, there is an obligation to draw up a summary, which from the perspective of investors fulfils (or should fulfil) a similar function as the measure under consideration. We therefore also see no reason to prepare a mini-prospectus (or similar document), which in turn would only represent a duplication (in relation to the summary) if not even a tripling (in relation to the summary in connection with the information provided in the prospectus also outside the summary) of the mandatory published information.

Market Association No. 2

Yes, but the proposal presented in Appendix No. 2 still seems somewhat incomprehensible to the average consumer.

Market entity No. 2

Is another document needed? Is it not enough to expand the content of the information in the Issue Conditions or the Prospectus? It is possible to set certain information to always appear, for example, on pages 3 to 8 of the document, but we would not add another document. It will only add to the administration for the issuers. We have experience from the insurance and banking sectors, where this is done on the basis of European requirements and standards. However, clients are not interested in this in practice. They will receive 3 documents in which the exact same thing is (only in a different content in each one). They read one and ignore the others. Which would be risky with bonds. Here, on the contrary, we need investors to learn to thoroughly read the documents presented.

International Market Association

There is an ongoing concern that the EU's PRIIPs KID regime has significantly reduced the availability of bonds to retail investors in the EEA (most recently resulting in an exchange of letters between the ESAs and the European Commission on the product scope of the PRIIPs regime). 3. This has been partly put down to specific content requirements for the PRIIPs KID. 4. However, the articulation of the PRIIPs KID concept itself has been a significant challenge: a clear purpose for short-form disclosure should be as a quick first point of information and not as the basis for an informed investment decision. However, the vague position under the PRIIPs regime has raised civil liability risk to the point of undermining a borrower's certainty of funding (ie confidence that the borrowed amount can be used for the whole bond term) – certainly for investment grade benchmark-funding borrowers in the international markets (which consequently prefer to avoid retail investors unless they are clearly outside the product scope of PRIIPs). See more detailed reasoning set out in paragraphs 13-15 of ICMA's 28 September 2018 response to the UK FCA's Call for Input: PRIIPs Regulation – initial experiences with the new requirements. 5. If the proposed Czech KID is anything like the current PRIIPs KID, notably in terms of any possibility of its purpose being to inform the investment decision (which the "MiniProspectus" title seems to suggest), then it seems likely to replicate the reduced EEA availability at the Czech national level – but for all bonds (not just packaged) and to all Czech-based investors (institutional as well as retail). 6. The introduction of the proposed Czech KID therefore seems likely to be severely detrimental to the existing debt capital markets in the Czech Republic, let alone their future development. 7. It is also unclear what additional investor protection benefit would arise from such introduction, which however seems to diverge from the stated key aims of the EU Capital Markets Union initiative by imposing a regulatory burden over and above the current regulatory framework. 8. As a relatively minor technical point, it seems PRIIPs made available to retail investors in the Czech Republic would need to duplicatively produce both a PRIIPs KID as well as the proposed Czech KID.

Market entity No. 3

No.

Private Person #1

Yes, such a step could make the market clearer for investors.

Private Person #3

Yes.

Ad 3:

Supervisory authority

See the answer to the previous question.

Market Association No. 1

Without an answer.

Market Association No. 5

However, we generally perceive the Ministry of Finance's efforts to mitigate the unprecedented and disproportionately strict conclusions of the CNB supervisory benchmark No. 2/2019 positively. On the one hand, we understand (and agree with) the ideological intention to solve today's (not ideal) situation on the primary bond market (issuer vs. client), and we would welcome some form of regulation of the rules for their placement. However, the relevant rules should not go beyond the imperative of proportionality. If the inclusion of certain "warnings" or "warning" for investors, such a procedure can be identified.

Market Association No. 2

Without an answer.

Market entity No. 2

We are supplementing the submitted proposal from the attachment: Purpose of the issue - we would not limit it to such a few characters. It is necessary for the purpose to be specified as much as possible and for investors to know where their finances are going. Only in this way is it possible to monitor the issue in progress and evaluate whether the issuer fulfils the conditions of the issue by its actions. Alternatively, it must be referred to an article where the investor learns this (then, for example, it can be followed up on repayment in case of breach, etc. See investor protection, e.g. by means of a Collateral Agent or a Common Representative). Document Availability - We are still struggling with publishing documents. Given how this is being abused in the Czech Republic for competitive purposes, the question is whether to push issuers to do so. It is important that these documents are available to the investor who is deciding on the investment, without a doubt - not a competitor or a journalist... We would supplement the Business plan, Insurance - it must be relevant. It is not only about property, but also about the method of collateral - e.g. Collateral Agent. Ownership structure – it should concern the Issuer and all its shareholders, or key persons. To make it clear how and where they do business and what results they have. We would add - Covenants, Specific overview of indebtedness (what obligations the issuer already has - ideally with the possibility of checking the credit history).

Market entity No. 3

No.

Private Person #1

Yes, it is possible to be inspired by this design.

Private Person #3

Yes.

Private Person #4

A scorecard would be interesting.