



**Ministerstvo financí  
České republiky**

# **CONSULTATION PAPER ON THE PLANNED LEGISLATIVE MEASURES ARISING FROM THE NATIONAL STRATEGY FOR THE DEVELOPMENT OF THE CAPITAL MARKET IN THE CZECH REPUBLIC 2019 – 2023**

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## Abbreviations

<b>CR</b>	Czech Republic
<b>EBITDA</b>	Earnings before Interest, Taxes, Depreciation and Amortization
<b>ESMA</b>	European Securities and Markets Authority
<b>EU</b>	European Union
<b>EUR</b>	Euro
<b>GBP</b>	British Pound
<b>IRA</b>	Individual Retirement Account
<b>ISA</b>	Individual Savings Account
<b>CZK</b>	Czech Crown
<b>KSIL</b>	Limited Partnership with Investment Certificates
<b>pension fund</b>	Participation fund or transformed fund
<b>SICAV</b>	Joint Stock Company with Variable Capital (société d'investissement à capital variable)
<b>USD</b>	American Dollar
<b>XML</b>	eXtensible Markup Language

## Acts

<b>Bonds Act</b>	Act No. 190/2004 Coll., on Bonds, as amended
<b>Capital Market Business Act</b>	Act No. 256/2004 Coll., on Capital Market Business, as amended
<b>Civil Code</b>	Act No. 89/2012 Coll., Civil Code, as amended
<b>Corporations Act</b>	Act No. 90/2012 Coll., on Business Companies and Cooperatives, as amended
<b>Execution Order</b>	Act No. 120/2001 Coll., on Distrainers, as amended
<b>Income Taxes Act</b>	Act No. 586/1992 Coll., on Income Taxes, as amended
<b>Managment Companies and Investment Funds Act</b>	Act No. 240/2013 Coll., on Managment Companies and Investment Funds, as amended
<b>Supplementary Pension Savings Act</b>	Act No. 427/2011 Coll., on Supplementary Pension Savings, as amended

## Institutions concerned

<b>AKAT</b>	The Czech Capital Market Association
<b>APS ČR</b>	The Association of Pension Funds of the Czech Republic
<b>BCPP</b>	Prague Stock Exchange
<b>CDCP</b>	Central Securities Depository Prague
<b>CVCA</b>	Czech Private Equity and Venture Capital Association
<b>ČAP</b>	Czech Insurance Association
<b>ČASF</b>	Czech Association of Financial Intermediaries and Financial Advisers
<b>ČBA</b>	Czech Banking Association
<b>ČMKOS</b>	The Bohemian-Moravian Confederation of Trade Unions
<b>ČNB</b>	Czech National Bank
<b>Exekutorská komora</b>	Chamber of Distainers of the Czech Republic
<b>GFŘ</b>	General Financial Directory
<b>HK ČR</b>	Czech Chamber of Commerce
<b>MF</b>	Ministry of Finance of the Czech Republic
<b>MPO</b>	Ministry of Industry and Trade of the Czech Republic
<b>MPSV</b>	Ministry of Labour and Social Affairs of the Czech Republic
<b>MSp</b>	Ministry of Justice of the Czech Republic

**Notářská komora**

The Notarial Chamber of the Czech Republic

**VŠE**

University of Economics

**VŠFS**

University of Finance and Administration

## 1. Introduction

This consultation paper is a follow-up to the National Strategy for the Development of Capital Market in the Czech Republic 2019-2023, which was approved by the Government of the Czech Republic on its meeting on 4 March 2019 (resolution No. 156). In particular, it deals with measures for which regulatory adjustments may be expected (with the exception of a web signpost where legislation is not foreseen). In addition to the measures proposed in the Strategy, the question of trust funds as investment funds is also consulted, when this amendment proved necessary in the discussion of the latest amendment to the Capital Market Business Act.

It is anticipated that the obtained observations will be used mainly in evaluating the costs and benefits of the new legislation and in considering various options.

Please send your comments to ales.kralik (at) mfcrcz **by September 26, 2019**.

Here is an overview of the measures proposed in the Strategy (red exclamation mark **!** for measures that are processed in this consultation paper; red star **\*** for measures of a legislative nature not covered by this consultation paper; and red circle **●** for measures of a non-legislative nature):

PLAN	SUBJECTS CONCERNED	TERM
<b>!</b> Propose the introduction of a individual savings account and submit to the Government a draft amendment to the relevant laws (in particular the Income Tax Act and the Capital Market Business Act)	MF, MPSV AKAT, APS ČR, ČAP, ČBA, ČMKOS	Q4 2019
<b>!</b> Initiate discussions on how to reduce the cost of purchasing securities issued by investment funds on the investor's initiative and, if appropriate, propose appropriate regulatory changes to such sales without advice	MF	Q4 2019
<b>●</b> To take into account, as part of the revision of the National Strategy for Financial Education, the topic of capital markets and long-term investment for surplus households	MF	Q4 2019
<b>●</b> To actively engage in activities in relation to the exams for investment advisors so that the exams best fulfill their purpose, i.e. to be effective	MF, EFPA Czech Republic, VŠFS, AKAT, ČBA, ČASF, Masaryk university, Kahn school, accredited institutiond (ie. VECTOR Certifikace)	Q4 2019
<b>! ●</b> Create a web-based signpost for securities and issuers	MF	Q4 2020
<b>●</b> Identify and remove barriers to the availability of	MF	continuou

currency hedging for investors		sly
● Further to analyze whether the legislation effective from June 2019 requires issuers to send to the Central Depository all relevant information and whether this information is properly passed on to final investors and, if appropriate, to propose further measures	MF, MSp, CDCP	Q4 2021
● Analyze the possibilities of the most appropriate communication strategy towards SMEs and then implement the recommended measures	MF, European Commission (SRSP), MPO, MŽP, CzechInvest, HK ČR, BCPP, VŠE	Q4 2019
● Provide time data collection on business angels investment activities and update it annually (similar to existing venture capital market data)	MF, MPO	Q4 2019
● Carry out an analysis of taxpayers to quantify the number of individuals in the Czech Republic who have the potential to be a business angel and repeat this analysis annually	MF, MPO	Q4 2019
● Ensure an annual demand survey of mapping start-up founders and entrepreneurs from start-ups	MF, MPO	Q4 2019
● Create a Czech National Business Angels Association (and become a member of the European association Business Angels Europe)	MF, MPO	Q4 2020
! Introduce a system of self-certification for business angels in the Czech Republic	MF, MPO	Q4 2021
! Analyze the possibilities of development of investment crowdfunding in the Czech Republic and possibly propose further measures	MF, MPO, Fundlift, Czech fintech association	continuously
! Consider introducing a simpler form of joint stock company and possibly propose the necessary legislative changes	MF, MSp, MPO	Q4 2020
● Promote disclosure of documents in English by issuers of securities, in particular in relation to listed issuers	MF	continuously
* Revise Czech accounting regulations with respect to IFRS and evaluate the possibility of using IFRS also for tax purposes	MF	Q4 2021
* Encourage the creation and use of a company management scorecard	MF, MSp, BCPP	Q4 2020
* Analyze the possibilities of money market development in the Czech Republic and possibly propose further measures	MF, ČNB	Q4 2019
! Propose the introduction of a new participant fund with higher management fees, which will be able to	MF	Q4 2019

invest in alternative assets (e.g. private equity funds)		
! Revise the state subvention system in relation to pension funds so that participants are encouraged to increase their monthly deposits and to transfer savings from transformed funds to participant funds, while considering the limitation of state subvention provision by the age of the participant	MF	Q4 2019
! Allow the creation of sub-funds for legal forms other than the SICAV	MF	Q4 2019
! To allow the so-called time test to be maintained even for the transition between sub-funds of one SICAV	MF	Q4 2020
! Encourage the use of XML format when searching for financial assets	MF, MSp, GFŘ, Exekutorská komora, CDCP, Notářská komora	Q4 2019
* Consider adjusting the securities holding system, including multi-tiered evidence and the use of DLT technology to record securities, in discussion with stakeholders and propose further measures	MF, MSp, MPO	Q4 2020
! Consider ways to support trading with corporate bonds	MF, ČNB, CDCP, BCPP, AKAT, ČBA	Q4 2019
● Develop and publish guidelines on due diligence for foreign investment funds, such as the Vienna Stock Exchange	MF, BCPP	Q4 2020
● Analyze the influence of government bonds on the Czech capital market and the influence of the Czech capital market on government bonds	MF	continuously
● Strive for active cooperation with international organizations that can help develop the Czech capital market	MF, ČNB, MPO, Office of the Government, World Bank, IMF, EIB, EIF, EBRD, EFSI, IOSCO	continuously
● Encourage active participation in the negotiation of EU legislation	MF, ČNB	continuously
● Allowing traineeships for persons who prepare capital market regulation for capital market participants	MF, ČNB, AKAT, ČBA	continuously
● Follow the defined criteria in the Czech Republic with regard to possible future achievement of the “developed capital market” status according to the MSCI index	MF	continuously
● Educate state-controlled companies about the	MF, other concerned	continuously

possibilities of financing through the capital market	ministeries	sly
● Ensure the availability of up-to-date capital market legislation in English	MF, ČNB	continuously

Questions for consultation:

**1.1. Do you have any other ideas how to support the development of the capital market in the Czech Republic that are not included in this consultation paper or in the National Strategy for the Development of the Capital Market in the Czech Republic?**

**1.2. Please also indicate whether a change of regulation is necessary in this context, or whether it is a non-legislative measure and what the change should be.**

## **2. Establishment of the Long-Term Investment Account**

With regard to the demographic development in the Czech Republic, which increases the life expectancy of citizens but at the same time extends the length of life in the post-productive age, it is necessary to address the issue of additional financial security for the period during which a person will receive an old-age pension. Although there are many financial products on the financial market with a long investment horizon that are suitable for accumulating assets for old age, only some of these products are tax-supported by the state.

These are mainly pension funds (participation or transformed funds) and life insurance (with an investment component or capital life insurance), which is a combination of insurance and investment product. These products are also tax supported through employer contributions.

The state also grant advantage to the savings in pension funds in the form of a state contribution. The state also supports building savings account, which can theoretically also be used as a long-term savings product.

Citizens usually use these products up to the amount supported by the state in the form of a contribution or tax support, or to reach an employer support. According to the APS CR data, only 3.5% of pension fund participants make full use of the state contribution and tax relief and at the same time 6.4% of people do not even reach the state contribution (ie they pay less than CZK 300 per month as a participant's contribution).

Ingerence by the state and support for the accumulation of assets for old age is certainly desirable, but the question arises as to whether it would be desirable to provide similar support to other financial products that, for example, may offer a higher possible appreciation. Such higher appreciation can, of course, also be at the cost of a higher risk of depreciation of invested funds.

The World Bank's Capital Market Assessment/ Market Development Options of the Czech Republic notes that one of the key steps to stimulate investor interest would be to adopt some form of 'individual savings account' (ISA). The ISA account is widely used in developed markets and helps generate greater investor interest in managing their retirement savings.

Therefore, the Ministry of Finance considers it appropriate to address the question of whether it would also be beneficial for Czech citizens if the state allowed them to create savings for old age also through other financial products than just through pension funds and life insurance (or building savings). This would also be in line with the government's policy statement ("We respect the principle of fiscal neutrality. We will review and consolidate tax exemptions and prevent the introduction of others, which will provide scope for a general reduction in the tax burden."). However, it should be noted that the timing of the possible implementation of this measure may be influenced by other priorities in the context of budgetary implications.

## Foreign inspiration

Abroad, the state support old-age savings i through more options, including usually also “individual savings account” in various forms. E.g. in the UK<sup>1</sup> the ISA can be defined as specified financial products intended for retail investors for investments and accumulation of assets. There are 4 basic types of ISAs that the state supports in the form of tax advantages (not taxing the proceeds of these assets), namely:

- Cash ISA, normally includes term deposits offered by banks, building societies and other similar entities;
- Stock and shares ISA allows investments in a specified range of instruments such as equities, bonds, investment funds or money market instruments (the range of instruments is limited);
- Innovative Finance ISA enables investment through peer-to-peer (P2P) loans;
- Life-time ISA allows people under the age of 39 to save for old age or to buy their first property;
- Junior ISA is intended for persons under 18 years of age.

In 2017, approximately 33% of people in the UK owned some of the ISA products.

In the USA<sup>2</sup> there is the individual retirement account, so-called IRA, which distinguishes whether it is Traditional IRA or Roth IRA. An alternative to the IRA is 401(k), which also distinguishes between Traditional and Roth - the name is derived from the relevant US tax law provisions (Internal Revenue Code). For traditional schemes, a citizen deposits untaxed money and then taxes withdraws from those schemes (non-tax revenues), while for Roth's schemes he deposits taxed money and then neither gives income nor withdraws. Scheme 401(k) is usually set up by the employer, while the IRA is set up by the citizen himself.

In 2018, approximately 34.5% of households in the USA owned IRA.

In Slovakia in 2015 there was adopted law, which introduced the so-called “long-term investment savings”, thus bringing support for investment in securities (ie creating savings through capital market instruments). The Slovak state supports this type of investment of citizens by exempting income from the transfer of securities in the framework of long-term investment savings, so it is similar to the so-called time test in

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<sup>1</sup> In 2016-2017, in the UK an ISA account had approximately 22,000,000 inhabitants. Approximately 8.5 million residents in this period invested in Cash ISA, 2.5 million residents in Stocks and Shares ISA, the remaining 11 million residents in this period deposited no savings, but had an active ISA account with savings from previous years. Innovative ISA was a new product this year, so only 5,000 residents invested in it, but it is estimated that 31,000 residents have already saved their savings next year. Lifetime ISA was established a year later, ie in the period 2017-2018, when it is estimated that 166 000 inhabitants invested in it. In addition, according to preliminary estimates, the so-called Junior ISA used 900,000 inhabitants in 2017-2018. Source: Individual Saving Account (ISA) Statistics.

<sup>2</sup> More than a third of US households, nearly 44 million, owned at least one type of IRA in mid-2017. The traditional IRA was owned by 35 million households, the Roth IRA was owned by 25 million households and nearly 8 million households owned an IRU subsidized at least in part by employers. Source: US Retirement and Education Savings.

the Czech Republic. The tax advantage does not relate to the initial investment, but only to the proceeds of the transfer of securities acquired during the 'long-term savings' (ie investing). A citizen can invest a maximum of EUR 3,000 (approx. CZK 75,000) annually in this way.

State	Name of product	Types (characteristics, investment instruments)	Taxation	Depositing money to your account	Provider	Account withdrawal and transfer
UK	Individual Savings Account	<ul style="list-style-type: none"> <li>• <b>Cash ISA</b> (similar to savings accounts, except that interest taxes are not paid; investments: bank savings, building savings, some National Savings and Investment Products)</li> <li>• <b>Stocks and shares ISA</b> (meaning is the exemption from income taxes on the following investments: shares, investment fund and trust funds, government and corporate bonds)</li> <li>• <b>Innovative finance ISA</b> (new from 2016, investments are so-called peer-to-peer loans, crowdfunding bonds)</li> <li>• <b>Lifetime ISA</b> (intended to buy the first house or to save for old age, it has many specifics; investments: cash, securities and shares)</li> </ul>	<p>Tax is not paid:</p> <p>Interest on funds in the account and income from capital investment in the account, even after withdrawing money from the account. This means that the input tax is paid, the income tax is not paid or output</p>	<p>Each tax period, a participant may deposit funds into one of each type of ISA. Each type of ISA can have several "sub-accounts". The tax period runs from April 6 to April 5. You can deposit up to GBP 20,000 (£ 4,000 for Lifetime ISA) in one account type or split the deposit between other account types.</p>	<p>Banks, building societies, credit unions, friendly societies, investment firms, p2p lenders, crowdfunding companies and other financial institutions</p>	<p>Account withdrawal at any time (Lifetime ISA restrictions - minimum age 60)</p> <p>It is possible at any time to transfer an account from one provider to another, to another or the same type of ISA. If you want to transfer the money you invested in ISA during the current year, you must transfer it all. In contrast, only part of the funds invested in previous years can be transferred.</p>
USA	Individual Retirement Account	<ul style="list-style-type: none"> <li>• <b>Roth IRA</b></li> <li>• <b>Traditional IRA</b></li> <li>• (the difference in taxation between them can be invested in equities, bonds, mutual funds, ETFs and many other investment instruments. For example, you cannot invest in collectibles and life insurance.</li> <li>• There are also the so-called Roth 401 (k) and Traditional 401 (k), which are hybrid models in which both employers and employees contribute.</li> </ul>	<ul style="list-style-type: none"> <li>• Roth IRA (input tax is payable, but not output or intermediate income)</li> <li>• Traditional IRA (no input tax is payable, and subject to certain conditions, the amount invested can be deducted from the tax base; the payout tax is not paid on interim profits on the account, but on the total amount of savings on the output.)</li> </ul>	<ul style="list-style-type: none"> <li>• If the participant is less than 50 years old, the annual contribution limit is \$ 6,000. From the age of 50, up to \$ 7,000 can be contributed annually</li> <li>• Possibility to contribute within one year limit to both Roth and Traditional IRA.</li> </ul>	<p>Banks, insurance companies, credit unions, investment companies, securities traders and other financial institutions</p>	<p>With Traditional and Roth IRA, withdrawals are subject to a special 10% tax before reaching the age of 59 and a half (with the exception of death, illness, etc.).</p> <p>For Roth IRA, the exemption of capital gains is subject to a ban on withdrawing funds from the account for the first five years. Otherwise, you can withdraw the deposit at any time without penalty. Traditional IRA can be converted to Roth. On the contrary, it cannot.</p>

Slovakia	dlhodobé investičné sporenie	<b>dlhodobé investičné sporenie</b> (only securities admitted to trading on a regulated market may be part of a portfolio)	Output income tax exemption: income from the transfer of securities, options and income from derivative transactions	€ 3,000 annual deposit limit	Only brokers	The first payout of investment profits may occur no earlier than 15 years after the start of the investment
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### Current situation in the area of tax support for old-age savings products

Pursuant to Section 15 (5) of the Income Taxes Act, it is possible to deduct from the income tax base a contribution totaling not more than CZK 24,000 per year paid by a taxpayer for pension insurance with state contribution (transformed funds), for supplementary pension savings (participant funds) and / or for pension insurance with a pension insurance institution pursuant to Section 6 (16) of the Income Taxes Act (occupational pension insurance). For pension funds, the amount that can be deducted is equal to the sum of the parts of the monthly contributions that exceeded the amount of the maximum state contribution in each calendar month of the tax period.

Pursuant to Section 15 (6) of the Income Taxes Act, it is also possible to deduct from the income tax base a contribution of a total of not more than CZK 24,000 paid annually by the taxpayer for private life insurance premiums. This is an aggregate amount, ie even if the person has concluded several insurance contracts, the limit of CZK 24,000 applies.

The state motivates citizens to accumulate property for the old-age not only through tax deductions directly for citizens, but also in the form of support of their employer's contributions under Section 6 (p) of the Income Taxes Act. Here, a tax deduction of up to CZK 50,000 per year (ie more than CZK 4,000 per month) is possible. Not only income tax, but also social and health insurance is not paid by this money, as this non-monetary income is exempt from the income tax on the part of the employee.

### Possible proposal for a new adjustment (long-term investment account)

In connection with the Strategy for Capital Market Development in the Czech Republic, the possibility of extending existing tax support to other products is now being considered. There is a possibility to combine the current limits so that the limit was one per person in the amount of 48 000 CZK. This is the sum of the current limits so that the current contracts are not directly affected by it if someone already draws the limit in full (ie invests CZK 3,000 a month in pension funds and CZK 2,000 in life insurance). At the same time, this limit could also be used for other financial products that comply with the existing 60 + 60 rule (they can not be terminated earlier than 60 months after being established and not earlier than at the age of 60 of the citizen). In order to ensure that the 60 + 60 rule is respected, these new financial products must be registered under one account, which we propose to be called the 'long-term investment account'.

This title can still be discussed, but negative comments have been made on the previously considered concepts of 'personal savings account', 'personal pension account' and 'personal investment account'. For example, the term 'personal long-

term investment account' may be considered. Today's tax deduction for employer's contribution could also be applied to the financial products included in this account.

An increase in the limit (more money to be tax deducted) for the employer's or citizen's contribution is not considered now, only the extension of the existing scheme to the 'long-term investment account' is considered.

A long-term investment account could be held for a citizen by a bank, an investment firm or an investment company. This account could record, for example, shares, bonds, shares in an investment fund or a foreign investment fund, bank accounts (receivables for disbursement of funds from an account in Czech or foreign currency) and hedging derivatives used to cover interest rate or currency risk.

The 60 + 60 rule would be maintained even if the assets in this account were "transformed", for example if shares were sold and bonds were bought for them, or the money raised would be deposited in a bank account. Similarly, it would be possible to change the portfolio of investment funds and eventually dispose of money obtained from repayment of bonds. Should the 60 + 60 rule be breached, the funds collected in this way would have to be taxed as income (funds were deposited to the long-term investment account as untaxed).

As long-term investment account management is primarily linked to the individual asset management service, it is assumed that this account should be offered primarily by investment intermediaries (in addition to the persons who will be entitled to maintain the account). If it were considered that this account could also be offered by persons who are not subject to any requirement of professional examination in the financial market (besides investment services, it is consumer loans, insurance and pension funds), this would have to be addressed by a new legal adjustment. Indeed, it cannot be considered acceptable that a long-term product can be offered by persons without any requirement for their expertise. Therefore, it may be considered appropriate to use existing distribution networks with the necessary expertise.

Questions for consultation:

**2.1. Do you agree to join taxpayer limits and to extend their application to long-term investment account?**

**2.2. Do you agree to extend the application of tax depreciation in relation to employer's contributions to the account of long-term investments?**

**2.3. Do you agree to apply the 60 + 60 rule to the long-term investment account?**

**2.4. Do you consider it necessary to revise the 60 + 60 rule?**

**2.5. Do you agree with the name of this new product "long-term investment account"?**

**2.6. Do you agree to define the circle of persons who will be able to maintain a long-term investment account?**

**2.7. Do you agree with the definition of assets that can be registered in the long-term investment account?**

**2.8. Do you agree with the proposed treatment of asset income in the long-term investment account?**

**2.10. Do you agree with the proposed solution to the distribution of long-term investment account?**

**2.11. Do you consider that there are other issues that need to be addressed in relation to the long-term investment account? Ideally, in relation to these questions, also suggest your preferred solution.**

**2.12. Do you think that other possibilities should be considered in the future, how should the Czech Republic support saving citizens for old age? If so, state the main features and any foreign inspiration (taking into account the impact of the chosen solution on the state budget).**

### **3. Standardization of investment questionnaires**

The tool associated with the “know your customer” principle is the assessment of the compliance of the investment services provided with the personal characteristics of investors within the investment service provided. Such an instrument is the adequacy test and the suitability test, which is carried out before the contract is concluded in the case of financial advice or intermediation (acceptance and transmission of orders), although in this case only the adequacy test is carried out. The adequacy test is a test that assesses the customer's knowledge and experience of investment instruments. In the suitability test, the customer communicates the investment objectives, financial situation and knowledge.

The current form of investment questionnaires is not standardized. Standardization of these investment questionnaires in the case of consultancy, intermediation, but also in execution only regime (at the customer's decision) could contribute to simplification and more attractive distribution of investments. Questionnaire, resp. questionnaires could be useful also for pensions (long-term investment account in chapter above). Although questionnaires for individual investment services would exist separately, their standardization and uniformity across the market could streamline the assessment of clients and their investment objectives. Standardization should preferably be on a self-regulatory basis. However, the Ministry of Finance is ready to support this intention. A proposal of what the investment questionnaire might look like can be seen in Annex 1

#### Questions for consultation:

**3.1. How do you assess the practice of using investment questionnaires in the provision of investment services? Do you consider it useful to deal with the idea of their standardization? If so, in what way should such standardization take place?**

**3.2. Would you welcome the support of the Ministry of Finance in relation to the standardization of the investment questionnaire? What exactly should this support look like?**

## 4. Draft of the Web signpost

Considering the findings of the World Bank's Report on Capital Market in the Czech Republic, securities information in the Czech Republic is provided on a non-consolidated basis on the websites of various institutions (eg business register, various information servers, Central Securities Depository server, etc.), which may be confusing for investors. It would be advisable to create a web-based information center.

According to the National Strategy for the Development of Capital Market in the Czech Republic 2019 - 2023, this web guidepost should contain clear and trustworthy links to:

- (1) reports on current market prices of securities,
- (2) reports on the daily volume of securities transactions;
- (3) prospectuses relating to the public offer or other available securities description;
- (4) financial statements, annual reports and other information from securities issuers,
- (5) relevant legislation, including available translations into the language customary on the capital markets.

In addition, this web-based guidepost should primarily refer to compulsory disclosures concerning securities offered and traded in the Czech Republic. Finally, the web guidepost should refer in particular to the websites of public bodies and the regulated market operator and, where appropriate, other information or news websites providing the above information in the long term.

The following form of web signpost is proposed:

In English, the website will look like this:

"The Ministry of Finance of the Czech Republic publishes on its website in accordance with the relevant measure of the Government Resolution named the National Strategy for the Development of the Capital Market in the Czech Republic 2019-2023 a signpost on capital market's information:

### 1) Information on actual market prices of securities are provided by:

- Prague Stock Exchange ([here](#))
- RM-System ([here](#))
- Kurzy.cz ([here](#))
- Akcie.cz (in Czech only) ([here](#))
- Peníze.cz (in Czech only) ([here](#))
- Investiční web (in Czech only) ([here](#))

**2) Information on daily trading volumes of securities are provided by:**

- Kurzy.cz ([here](#))
- Prague Stock Exchange ([here](#))
- RM-System ([here](#))

**3) The prospectus relating to public offering and other available description of securities are provided by:**

- Czech National Bank ([here](#))
- Central Securities Depository ([here](#))

**4) Information on financial statements, annual reports and other information from issuers of securities are provided by:**

- Czech National Bank ([here](#))
- Czech Public Register ([here](#))

(in Czech only, after clicking on the link fill the name of the issuer or its identification number and press enter. Further, you should click on the title below “Sbírka listin”, where you will find all the available data)

**5) Relevant legislation, including available translations into English are provided by:**

- Ministry of Finance of the Czech Republic ([here](#)), translations into English are provided here ([here](#))
- Czech National Bank ([here](#)), (this link includes translations into English)”.

<https://www.pse.cz/en>; <https://www.rmsystem.cz/>; <https://eng.kurzy.cz/>;  
<https://www.akcie.cz/>; <https://www.penize.cz/investice>;  
<https://www.investicniweb.cz/trhy/>; <https://prague-stock.kurzy.cz/burza/obchodovani>;  
<https://www.pse.cz/en/market-data/statistics/trade-value/>;  
<https://www.rmsystem.cz/vysledky/objemy-obchodu>;  
[https://oam.cnb.cz/sipresextdad/SIPRESWEB.WEB\\_PROSPECTUS.START\\_INPUT\\_OAM?p\\_lang=en](https://oam.cnb.cz/sipresextdad/SIPRESWEB.WEB_PROSPECTUS.START_INPUT_OAM?p_lang=en); <https://www.cdcp.cz/index.php/en/general-public/free-online-services/list-of-issues>; <https://www.cnb.cz/en/supervision-financial-market/information-published-issuers/>; <https://or.justice.cz/ias/ui/rejstrik>;  
<https://www.mfcr.cz/cs/soukromy-sektor/kapitalovy-trh/pravni-ramce>;  
<https://www.mfcr.cz/en/themes/capital-market/capital-market-in-the-czech-republic>;  
[https://www.cnb.cz/en/supervision\\_financial\\_market/legislation/index.html](https://www.cnb.cz/en/supervision_financial_market/legislation/index.html)

Questions for consultation:

**4.1. Do you agree to modify the web signpost?**

**4.2. Do you think it would be useful to add new links or delete some links?**

**4.3. Do you have any other comments on the web signpost? If yes, please specify.**

## **5. Self-certification of investors (business angels)**

Business angels represent an important capital market financing option for start-ups, which often have financing problems and are not suitable for bank loans or small-scale investment funds due to their high risk profile. Business angels are usually former entrepreneurs themselves, providing start-up entrepreneurs with a consultation (smart money) in addition to finance, and they also benefit from their advice, observations, knowledge and contacts. This non-financial assistance is particularly important in the earliest stages of development, when management is incomplete and usually inexperienced.

The issue of business angels in the Czech Republic is dealt with by the World Bank ("WB") study "Stimulating Business Angels in the Czech Republic", which maps the local environment of business angels and formulates recommendations for its further development. From a regulatory perspective, WB considers it essential that current and future legislation should not constitute an obstacle to business angels' investment in start-up companies and, in cases, where such obstacles cannot be removed or their negative impact minimized, an exemption shall be granted to those business angels who meet certain minimum criteria. These individuals would then refer to themselves as certified business angels.

In particular, WB proposes so-called self-certification, ie accreditation of obtaining a certain status that would certify that this investor possesses a certain wealth and experience (see the table below) and is therefore considered as a kind of qualified investor whereas no authority decision would be required to obtain that designation. The status of certified business angel would entail exemption from any restrictions on the acceptance of investment offers and consequently self-certification would de facto waive the protection of a small investor. In this context, an analogy to the statement of risk acceptance under Section 272 (1) (i) of the Management Companies and Investment Funds Act and the potential extension of the application of this provision to business angels rises, whereby an investment of that amount would have to be made at least once, but not on a case-by-case basis.

A similar arrangement has been found in the United Kingdom since 2000 under the "Financial Services and Markets Act 2000" when, while proving certain conditions or declarations of compliance, a potential business angel gains the status of "high net worth individual" (signs a declaration of a minimum income/net assets) or 'knowledgeable investor/sophisticated investor' (signing a risk acceptance statement annually) and subsequently not being subject to any legal restrictions of a protective nature associated with the acceptance of investment offers.

In the United Kingdom, it is also stipulated that if an individual does not fall into the above categories (high net worth individual or sophisticated investor), the so-called restricted investor regime applies, which in practice means that an individual can invest up to 10% of its net worth (excluding your residence and assets and insurance / pension income).

There are 3 main categories of investors in the UK:

Restricted Investor	<p><u>- a person who has declared (certified) that:</u></p> <ul style="list-style-type: none"> <li>• has not invested more than 10% of its net worth in unlisted shares or unlisted bonds (net worth excluding the value of investor's residence or the funds received under the guarantee of that residence and insurance/pension income, etc.) in the last 12 months and</li> <li>• agrees that the investments covered by the promotion of investments may expose him to a significant risk of losing all or part of the invested funds.</li> </ul>
Certified Sophisticated investor	<p><u>- a person who has declared (certified) that:</u></p> <ul style="list-style-type: none"> <li>• Can receive promotional communications regarding non-mainstream pooled investment<sup>3</sup> from a person authorized by the Financial Conduct Authority and</li> <li>• agrees that the investments covered by the promotion of investments may expose him to a significant risk of losing all or part of the invested funds.</li> <li>• has been a member of business angels association for the past 6 months or has made at least two investments in an unlisted company or has worked or worked in the private equity industry or financial position in SMEs or has been or has been in the last two years Managing Director in a company with turnover of GBP 1 million.</li> </ul>
High Net Worth Individual	<p><u>- a person who has declared (certified) that:</u></p> <ul style="list-style-type: none"> <li>• earned GBP 100,000 or more in the past year (excluding retirement savings withdrawals), or</li> <li>• it had GBP 250,000 or more in assets last year (excluding "other income"); and</li> <li>• agrees that the investments covered by the</li> </ul>

<sup>3</sup> Non-mainstream pooled investment includes unregulated collective investment schemes, qualified investor funds, negotiable life insurance financial instruments, certain securities issued by a special purpose vehicle called SPV - Special Purpose Vehicle special purpose ") is simply a purpose-built company, which is mostly used for projects / activities that should be separated from the parent company, both financially and in terms of assets or assets. and legally) and rights or interest in the above financial instruments (used in securitization).

	promotion of investments may expose it to a significant risk of losing all or part of the invested funds.
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At the same time, the World Bank suggests that the definition of the term of business angel should be more or less indicative and that the status itself would depend mainly on the will of the potential investor whether he wants to be designated as a business angel. This recommendation is based on the premise that a business angel makes an investment of personal conviction and voluntarily and should therefore not be required to formally register with a government agency, as this could be dissuasive for him.

As a result, business angels certification can help to remove any regulatory barriers to easy distribution of initial investment proposals or to limit the number of investors participating in each bid.

Furthermore, categorizing investors in a similar way to the UK system could help to protect investors and improve the financial literacy of the population, as investors would identify themselves more closely with their investor category and would have to make an appropriate statement in the case of riskier investments.

Questions for consultation:

**5.1. How do you view the World Bank's proposal for self-certification?**

**5.2. Should the (self) certification also apply to exceptions other than those mentioned above (ie protection related to the acceptance of investment offers)?**

**5.3. In your opinion, who should certify those interested in Business Angel status?**

**5.4. What do you think should be the key parameters that a business angel should meet, ie it is only a question of property or other parameters?**

**5.5. How much do you think the definition of a business angel and a qualified investor should blend in? Should the application of Section 272 (1) (h) or (i) of the Management Companies and Investment Funds Act extend similarly to business angels?**

**5.6. Shall the 10% restriction be imposed on less experienced investors, as it is in the UK?**

## **6. Regulation of crowdfunding platforms marketing bonds**

Crowdfunding is one of the currently highly discussed topics, both in terms of the introduction of legislation (see the EU draft of Regulation on European Crowdfunding Service Providers for Businesses as well as dedicated laws in some Member States, eg Finland, Austria, etc.) and its development, which is also discussed in the Strategy of capital market development.

For the capital market, relevance leans towards investment crowdfunding, the development of which is also discussed in the National Strategy for the Development of the Capital Market in the Czech Republic 2019 - 2023. However, it should be noted that the interpretation of investment crowdfunding has expanded since the adoption of the Strategy to include bond-offering platforms, taking into account the CNB' FAQ on offering bond issues through internet platforms.

The above CNB document distinguishes three types of bond platforms, and in the case of the first two types of bond platforms, according to the CNB' interpretation, the features of providing the main investment services are fulfilled, whether it is acceptance and transmission of orders, placement of investment instruments or investment advice.

The largest scope for reflection on potential introduction of legislation is provided by the so-called purely advertising platforms, where the platform also acts as a service provider (but not as an investment provider) and the issuer and investors are both customers (issuing bonds is not the issuer's business). As a result, the fact that the platform does not provide investment services means that it is not subject to CNB supervision and is not otherwise regulated (like the issuer) - as opposed to regulated platforms, which are obliged to fulfill e.g. obligations under MiFID II.

It is also worth noting the currently emerging European legislation in this area, namely the EU draft of Regulation on European Crowdfunding Service Providers for Businesses - however, this proposal currently covers only platforms providing core investment services, ie interpretation of the CNB and thus probably will not affect the above-mentioned advertising platforms.

In view of the fact that retail investors are not able to recognize whether a regulated entity (an investment firm) or a non-regulated entity (the above-mentioned advertising platform) offers bonds via the Internet, a greater protection for investors using the services of these advertising platforms shall be provided. Therefore, it is proposed that these advertising platforms explicitly state on their website that they are not subject to the supervision of the Czech National Bank, but within the scope of this declaratory obligation they will nevertheless be subject to supervision by the Czech National Bank. (similarly as under Section 596 of the Management Companies and Investment Funds Act) are they will also be included in the CNB's list.

Further steps leading to higher consumer protection should implicitly impact, among others, on advertising platforms from other proposed measures from the above-

mentioned National Strategy, namely the introduction of regulation of advertising for investment instruments.

Questions for consultation:

**6.1. Do you consider it a problem, in terms of consumer protection, that the advertising platforms are not supervised by the Czech National Bank?**

**6.2. Is regulation of advertisement an appropriate way to regulate these platforms, considering that these entities are not subject to regulation related to the provision of investment services?**

## **7. Draft of the new simplified joint-stock company**

The existing legislation of a joint stock company requires a registered capital of CZK 2,000,000 or EUR 80,000 (Section 246 (2) of the Corporations Act). This relatively high capital requirement is an obstacle, inter alia, to start-up innovative companies (startups) that want to start a joint-stock company and issue shares, but do not have CZK 2,000,000. Startup is a newly established company, often in the phase of creating a business plan or idea that is innovative. The aim of startup is to become a profitable and stable company in a short time. The creation of a limited liability company, which is the only alternative from a purely capital business corporation to a joint stock company, is not offered as a compromise solution for the establishment of a capital company that could publicly offer securities, since the law explicitly prohibits the public offering of for trading on a European regulated or other public market (Section 137 (4) of the Corporations Act). The prohibition of publicly offering ordinary share certificate is based on the concept of a limited liability company as a closed company, in which the right of shareholders to regulate the transfer of shares in the memorandum of association is respected. Equity certificates also do not fulfill the nature of shares which, under the conditions laid down in the statutes, allow for transferability without the need for appropriate entries in the commercial register. A limited liability company cannot also issue convertible bonds.

Given the expected lower market capitalization of start-ups, the ban on trading on a European regulated or other public market does not pose a problem, but the ban on public offering, which deprives startups of investment offers from investors, is problematic. A public offer pursuant to Section 34 (1) of the Capital Market Business Act is any communication to a wider range of persons containing information on the investment securities offered and the conditions for their acquisition that are sufficient to enable the investor to make a decision to buy or subscribe for such investment securities. They may be publicly offered from investment instruments, inter alia, shares or similar securities representing a share in a legal entity (Section 3 of the Capital Market Business Act). Pursuant to Section 34 (1) of the Capital Market Business Act, the public offering of trading on a regulated market is not to be regarded as a public offer, as stated above, but the Corporations Act also explicitly prohibits public offering. For this reason, only the joint-stock company of the capital companies, may use the public offer institute and not the limited liability company.

Because, as mentioned above for start-ups, the share capital of the joint-stock company is too high and the issuance of ordinary shares certificates within the limited-liability company does not allow their public offering, creating a simpler form of joint-stock company with a requirement for a low registered capital and a public offering of securities would not ban, would be an alternative.

Simplification of the joint-stock company is also evidenced in the legal theory of abandoning the principle of the so-called guarantee function of the registered capital, which was originally considered as an instrument for the protection of creditors. For this reason, the capital requirement s.r.o. (llc) from CZK 200,000 to CZK 1. In practice, it was common for a company to hold registered capital only when it was set up. The guarantee function of the registered capital has been, and continues to be,

questioned in the long term, as the concept of the registered capital is based solely on accounting concepts and the amount of assets differs significantly from the actual present value of the Company's assets.

In the case of a joint-stock company, the contributions of all founders constitute the registered capital, which is expressed in shares. The capital requirement of a joint stock company of CZK 2,000,000 respects the requirement of European law requiring a minimum capital of at least EUR 25,000 (Article 45 (1) of Directive 2017/1132 of the European Parliament and of the Council of 14 June 2017 on certain aspects of company law). Given the wording of that provision, the higher capital requirement is entirely at the discretion of the Member States. The Czech Republic has chosen a registered capital equivalent to EUR 80,000. However, a simpler joint stock company would be an alternative to a regular joint stock company, which would not be subject to European regulations and would therefore not have to meet the threshold of EUR 25,000, ie approximately CZK 625,000.

Foreign regulations have a simpler joint-stock company, eg in France, Germany, Slovakia or Poland.

Since 1994, France has been able to establish a so-called simplified share company (*société par action simplifiée* - SAS). It is not a public limited company but a special type of company that is similar to a public limited company. There is talk of a limited liability company, which, however, applies only in the alternative. For that reason, it is not subject to the relatively strict rules of EU law. A characteristic feature is the freedom of the founders to adjust the internal structure of society and their mutual relations.

Germany also adopted in 1994 a law on small joint stock companies and deregulation of stock law, which made the joint stock company a more attractive legal form for entrepreneurs with a narrow circle of partners or a single partner. The German legislation distinguishes between public limited companies with shares traded on a regulated market and those whose shares are not traded on a regulated market.

A simpler form of joint stock company has existed in Slovakia since 2017, it is a so-called simple stock company - j.a.s., which is a national legislation and is inspired by the French draft. According to the explanatory memorandum, this form was developed within the National Strategy for Support of Start-ups, which was approved in 2015 by the Government of the Slovak Republic. According to the Slovak National Strategy, a simple joint-stock company is a purely capital company. It is a new separate type of business corporation, which is not a sub-type of a joint-stock company, although the provisions of the right to share capital apply accordingly. A simple joint-stock company is private in nature, which means that shares cannot be publicly subscribed and cannot become publicly traded without being transformed into a common joint-stock company. The registered capital requirement is EUR 1, with a minimum nominal value of EUR 1 per share. Similarly, as in the case of ordinary joint-stock companies, the shareholders are not liable for liabilities. Shares may only be issued in book-entry form and may be issued only in registered form. Shareholder information is published on the Central Depository's website, which

maintains a register of shareholders for a simple company. These elements are an expression of the transparency of the shareholder structure. Another simplification is easier decision-making of shareholders who can take their decisions outside the general meeting, ie per rollam. The Company's bodies may be elected for an indefinite period of time, and the Supervisory Board is not established on a mandatory basis. The company can be dissolved for reasons stated in the Articles of Association or the founding legal act, the reasons for dissolution can be determined by the company itself without any restrictions.

Simplified joint-stock company (so-called Prosta Spółka Akcyjna) is also proposed by the Polish Ministry of Technology and Enterprise. The main advantages of the Polish regulation include, for example, fast electronic registration (within 24 hours), a minimum registered capital of PLN 1, more flexible organizational structure rules for the company or simplified liquidation rules.

In view of the above, it is therefore proposed to analyze the possibilities for creating a simpler form of joint stock company in the Czech Republic. The intention of the Ministry of Finance, in cooperation with the Ministry of Justice, is to propose the possibility of creating a simplified joint-stock company as an alternative to a conventional joint-stock company.

Questions for consultation:

**7.1. Do you welcome the possibility of introducing a simpler form of joint stock company in the Czech Republic?**

**7.2. Do you consider the current registered capital of a joint-stock company to be the only restriction that prevents startups from establishing a joint-stock company?**

**7.3. What other instruments or measures can simplify a joint-stock company in order to create a simpler joint-stock company?**

**7.4. What is the optimum amount of registered capital for a simpler joint stock company?**

**7.5. How do you perceive the establishment of a simpler form of joint-stock company and, at the same time, the impossibility of public subscription of shares - as is the case in some foreign regulations?**

**7.6. Should a simpler form of joint-stock company be established in the form of a notarial deed?**

**7.7. How do you perceive the possibility of issuing only registered book shares and the obligation to register in the share register maintained by the Central Securities Depository?**

## **8. Barriers to money market development and securitization**

While trying to develop the capital market in the Czech Republic, it is also advisable to focus on the money market, which trades short-term debt instruments with maturities of up to one year. These money market instruments are e.g. treasury bills, certificates of deposit, term and savings accounts, bills of exchange, checks, high-creditworthy short-term bonds or receivables of single corporates. However, these money market instruments yield significantly lower returns compared to, for example, shares and, in many cases, they have high denominations, which considerably restrict the access of retail investors - these investors can easily access market instruments through money market funds. On the other hand, the money market is very important for companies to manage their liquidity and its development would help to make their liquidity management cheaper and more efficient.

In addition, internal analyses of the Ministry of Finance show that most companies in the Czech Republic are solving their liquidity problems through banking products, such as a bank overdraft. One of the tools that could be used in the money market is factoring. At the end of 2018, according to the Association of Factoring Companies, the volume of funds involved by the largest providers in factoring financing amounted to CZK 174.3 billion, of which only 2.2% was provided by non-banking entities. This relatively large amount can be operated by, for example, another money market instrument, which is Asset backed commercial papers (ABCP). This instrument is a short-term investment instrument with a maturity usually between 90 and 180 days. Banks or non-banking entities that have purchased receivables from companies can then sell them to investors in the form of commercial papers backed by these receivables. Commercial papers can also be secured, for example, by credit card or car loans.

Securitization and obstacles to its application on the Czech market remain a separate issue. Securitization dates back to the US in the 1970s, but it has only become a trend in the financial markets in recent years. In principle, it can be described as a conversion of receivables into securities, the sale of which the issuer (ie the lender in the original liability) obtains the necessary financial resources. To put it simply, someone, such as a bank, does not want to be exposed to the risk that the loans it has provided will not be repaid, thus creating securities that it will sell to investors. Investors then gradually earn returns from them as the loans are repaid. In practice, credit card, leasing and consumer credit receivables are most often securitized. In our environment it is possible to use, for example, the above-mentioned factoring. However, the unpopularity of some products (eg credit cards), the Czech Republic's failure to join the euro area and the related currency risk are the obstacles of frequent application of securitization in local conditions.

### Questions for consultation:

**7.1. What do you think are the biggest obstacles to the development of the money market in the Czech Republic?**

**7.2. What obstacles do securitization in the Czech Republic face?**

## 9. Introduction of an alternative participation fund

In advanced economies (especially in the US and Western Europe), it is common for pension funds to invest in so-called "private equity funds" to offer participants a high return on investment.

Private equity funds are funds investing in promising, but above all non-publicly traded companies, which will use the investment for their growth (achieved through restructuring, innovation, changes in corporate governance, etc.). Typically, the holding period of an investment is between 3 to 7 years, after which the funds withdraw from such an investment. Private equity investors prefer a majority stake in companies in order to have decision-making power at all major events and eliminate any risks associated with leaving the company. This form of investment thus fulfills the role of supporting the domestic economy together with the possibility of interesting appreciation. Recently, we can see a trend of worldwide growth in private equity and family office investments. They even begin to withdraw companies from public regulated exchanges, in the Czech Republic this trend is significant<sup>4</sup>.

Private equity funds offer the potential for high appreciation, but it is a fee-expensive investment. The management fee for private equity funds is approximately 2% on average and the performance fee is 20%.<sup>5 6</sup>

In general, the capital market in the long run (which is typical of investment in pension products) can offer investors relatively high returns. In the Czech Republic, participant funds function as ordinary investment funds and do not have to guarantee any appreciation. They usually offer a so-called dynamic fund (usually investing in shares) and the so-called balanced fund within other participating funds. In the long term, the value is achieved mainly by dynamic participation funds (see above)<sup>7</sup>.

Participating pension funds with a dynamic strategy, however, do not invest in private equity funds because they are limited in investment by regulatory fees and investment in private equity funds is demanding in terms of fees.

The fee structure of pension funds is determined by law and an all-in-one model was chosen<sup>8</sup>. Fees consisting of two components - management fees and performance

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<sup>4</sup> See, for example, the withdrawal of a shares issued by Fortuna last year on the Prague Stock Exchange, and recurrent speculation about a withdrawal of a shares issued by O2.

<sup>5</sup> Source: Private Equity Management Fees Regulation; Fondy private equity (2018).

<sup>6</sup> It should be noted that these are very indicative values and charges may be lower or higher, and entry and exit charges that differ from the size of the investment or the duration of the investment are also common. Model example: We will pay 3% of the invested amount for the fund „ X “ if we withdraw from the fund within 3 years of our entry. If we exit 3 years after the investment, we would not pay any exit fee.

<sup>7</sup> The average appreciation of dynamic participation funds in 2017 was 7.18%, but in 2018 - 8.25%.

<sup>8</sup> The standard in the area of collective investment and foreign defined contribution voluntary systems is that in addition to the management fee, the fund pays other costs such as transaction costs, securities management fees (custody fees), depository fees, audit. These additional costs depend on

fee. The legislator proceeded to regulate fees in an effort to protect participants from too high fees in a situation where it is difficult to withdraw from pension funds without suffering a loss.

Pension companies may charge a management fee of 1% of the assets under management and a performance fee of 15% of their return (performance) for the participation funds other than mandatory conservative (ie with a dynamic strategy).

The Ministry submits for consultation a proposal to create a new type of alternative participation fund, respectively to provide similar type of state support to transformed or participating funds to such type of fund. From the participant's point of view, this would be an alternative to existing dynamic funds, with this type of fund being fees set more freely to allow pension companies to invest in, for example, private equity funds and to offer participants a higher return in the long term, albeit at a higher risk of such an investment.

Questions for consultation:

**9.1. Do you consider the proposal that the state support of a new alternative (more dynamic) type of participation fund as a suitable solution?**

**9.2. How much would you recommend by law to adjust the fees of the new alternative fund?**

**9.3. Do you think that the public will be interested in the alternative fund?**

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the type of securities and investment strategy and are usually in the range of 0.1 - 0.5% in relation to the assets under management.

## **10. Revision of state support of pension funds**

The state also supports saving for old age in the form of a state contribution, ie the amount that the state contributes to individual pension fund's participants. The amount of the state contribution depends on the amount deposited by the participant (ie the amount of the participant's duly paid contribution) and is now set between 90 and 230 CZK. Thus, participants depositing between CZK 300 and 1,000 in the pension fund are financially remunerated, it is possible to invest an amount of more than CZK 1,000 in the pension fund, but the state contribution is limited to CZK 230.

The participant is now motivated for deposits above CZK 1,000 mainly by the possibility of tax deduction. The participant may deduct premiums for supplementary pension savings from the tax base in the amount exceeding CZK 1,000 per month, up to a maximum of CZK 24,000. The optimum amount of the participant's contribution for obtaining a tax credit is now CZK 3,000 / month.

For 2019, the state budget of the Czech Republic assumes the costs of pension insurance and supplementary pension savings of CZK 7.3 billion and for 2020 of CZK 7.4 billion.

Since it is desirable for citizens to deposit higher amounts of money for old age than at present (average monthly deposit is now CZK 700), it is advisable to consider motivating participants to higher invested amounts eg by introducing a higher state contribution for deposits over CZK 1,000.

Proposal No. 1: Given that the state contribution is currently also provided for contracts for which the participant already receives a retirement pension (and should therefore be located not in the accumulation phase of the investment but in its payout phase), the Ministry's proposal is to terminate the state contribution in the event of a participant receiving an old-age pension. This might not apply to working pensioners participating in pension insurance.

Proposal No. 2: The considered option is also a new state contribution for the participant's deposit in the range of CZK 1,000 to 2,999 in the amount of CZK 230 and 15% of the amount exceeding CZK 1,000. And for deposits over CZK 3,000, the state contribution would be CZK 530 and the existing tax relief could be applied. In this case, it would be possible to deduct invested amounts from CZK 3,000 to CZK 5,000 from the tax base (or, in the case of a combination of limits according to Chapter 2 to CZK 7,000, unless another product is used, ie life insurance or long-term investment account).

### Questions for consultation:

**10.1. How would you recommend to motivate citizens to save more in old age?**

**10.2. Do you agree with the above suggestions?**

## **11. Introduction of sub-funds for a joint-stock company and a limited partnership with investment certificate.**

The sub-fund is part of a fund whose investment strategy may differ from the fund. Thanks to the sub-funds it is possible to have different portfolios for different investment projects, while the individual sub-funds are separated from each other by property and accounting. The Sub-Funds are managed independently in accordance with their own investment strategy. However, under the current legislation, sub-funds may only be set up in the case of a fund in the form of a joint-stock company with variable capital (SICAV), which is a special legal form intended for investment funds. There seems to be no reason for the Sub-Funds to be created only by the SICAV. It is common in foreign law that other entities may create sub-funds.

It would be appropriate to allow investment funds other than joint stock companies with variable registered capital to be subdivided into sub-funds, since such a subdivision creates variability in investment strategies and thus greater risk diversification for investors who could change the investment strategy by changing the sub-fund within a single fund overhead costs, without charging the full amount of the entry and exit fees. Another advantage of the possibility of sub-fund's division of funds into one sub-fund is that the bankruptcy will not affect other sub-funds or the fund itself. In this context, it is necessary to consult whether other legal forms or types of funds could benefit from the sub-funds, whether on the part of investors or fund managers, thus contributing to the liberalization of the investment business and investment funds, which should also impacts on increasing the attractiveness of investment in the Czech Republic.

The aim of this consultation is to discuss the possibility of a limited partnership for investment certificates (KSIL) as a qualified investor fund to create sub-funds. A limited partnership for investment certificates is a special type of limited partnership that is specifically applied for collective investment. The KSIL can only act as a qualified investor fund, and it is also forbidden for the investment certificate to be traded on a regulated or public market, as uncontrolled trading could take place and limited partners could acquire non-eligible shares. However, investment certificates are otherwise freely transferable. The shares of limited partners in KSIL are embodied in investment certificates that KSIL would issue separately for each sub-fund. The decision to create sub-funds would, as in the case of the SICAV, result from the Statute. The investment assets would be segregated into individual sub-funds from the fund's non-investment assets, etc.

It is also desirable to consult on whether a closed-end investment fund of a public limited company could also create sub-funds. The administrator of a closed-end investment fund issues securities that are not associated with the right of redemption by their issuer and are closed upon the acquisition of capital from investors. The purpose is also to enable ordinary joint-stock companies with normal fixed capital to enable the creation of sub-funds. The Fund's decision to create sub-funds would also follow from the fund rules.

Questions for consultation:

**11.1. Do you welcome legislation that would allow legal forms other than the SICAV to form sub-funds?**

**11.2. In your opinion, what legal forms other than the SICAV may or should be authorized to create sub-funds?**

**11.3. How do you assess the potential legislation that would make it possible to create sub-funds of a qualified investor fund which is a limited partnership for investment certificates?**

**11.4. How do you assess the potential legislation that would make it possible to create sub-funds for an investment fund which is a normal fixed-capital joint-stock company?**

## **12. Maintaining a time test when switching between sub-funds of SICAV**

As mentioned in the previous chapter, the sub-fund is part of a fund whose investment strategy may differ from the fund. The sub-funds allow different portfolios for different investment projects. The individual sub-funds are separated from each other in terms of property and accounting and are managed independently in accordance with their own investment strategy.

In order to increase the attractiveness of the sub-funds and to increase the attractiveness of investment in the Czech Republic and its international competitiveness, it is also desirable to consult some tax aspects, which is primarily to maintain the so-called time test also for switching between sub-funds within one fund. The time test refers to the necessary period of time for holding securities, which is necessary to exempt the payment of personal income tax. Revenues from the transfer of securities are exempt from tax if the period between the acquisition and transfer of these securities exceeds 3 years [Section 4 (x) of the Corporations Act].

The structure of the sub-funds establishes the variability of investment strategies as well as greater risk diversification by allowing a combination of investments in different sub-funds of a single investment fund. An investor may change the exposure distribution requirements over time and may also wish to switch between sub-funds of a single fund as a result of changes in its investment preferences. However, these changes result in taxation. However, the investor does not realize a return through the transfer between the various sub-funds, but in fact there is an exchange of securities within the fund and therefore the question is whether taxation is appropriate. In this regard, it seems desirable to consult with regard to the retention of the time test. It can be argued that, since the sub-funds are segregated in terms of assets and accounting, the fund is not a mere exchange of securities. However, the counter-argument may be that the time test privilege would only fall on the funds and sub-funds of the same manager, ie the 'transfer' of the security would take place within a single umbrella entity.

If the transfer of securities occurs earlier than 3 years, the time test of holding the security shall be interrupted and no exemption shall be granted. It would therefore be advisable to consult on the possibility that the time test by exchanging securities in the sub-funds of a single fund should not be interrupted, so that the exemption is maintained. The transfer of the investor between the various sub-funds would not de jure transfer the security and therefore the duration of the time test from the time of holding the original security within the original sub-fund would be maintained. The holding period required to fulfill the condition for exemption would thus be extended. Similarly, the exemption time test shall not be interrupted when a share is exchanged by the issuer for another share of the total nominal value.

Questions for consultation:

**12.1. Do you consider the transfer of an investor between the various sub-funds within a single fund as a mere exchange of securities, even though the sub-funds are segregated in terms of assets and accounting?**

**12.2. Do you consider that income tax on the sale of a security should be taxed in the event of an investor transfer between sub-funds within a single fund (the same manager)?**

**12.3. In this regard, do you consider the use of a time test institute to be appropriate, which would stipulate that the time test is not interrupted by the exchange of securities between the various sub-funds within the SICAV (one manager)?**

**12.4. Do you think that this legislative solution has any difficulties?**

### **13. Support of the use XML format by executors (distrainers)**

In the course of the executory proceedings, or at the moment when the court issues a ruling on the enforcement order, the executor (distrainer) begins to look for the debtor's assets that can be prosecuted. For this purpose, it look for the assets of the debtor (in insurance company, investment company, investment fund, central depository and other persons authorized to keep records of investment instruments, banks, etc.) and then decides how to execute the enforcement (execution). The institutions concerned are obliged to disclose to the executor at his written request data on the debtor's assets that are known to them from their official and similar activities (see Section 33 et seq. of the Execution order).

In practice, the provision of co-operation by financial market entities with the executor entails unnecessary costs. For example, some executors send inquiries about a single debtor to all financial institutions on the market without any prior pre-selection, for example, in accordance with Section 33d of the execution order. Financial institutions also claim that they have to deal with over one million requests for synergies per year, resulting in millions of costs.

An appropriate solution to minimize costs appears to be the mandatory use of XML, which allows machine processing. This solution to the transition to XML is a clear trend in the financial sector, given the reporting format required by the European Supervisory Authorities. Moreover, it is already mandatory for the banking sector (compare Annex No. 1 to Decree No. 418/2001 Coll., which, pursuant to Section 34 (3) of the Execution order, regulates the format and structure of a data file containing a request for cooperation and response to a request for cooperation format).

The so-called eXtensible Markup Language (XML) is a general markup language that allows you to easily create applications for different purposes and different types of data. It is used for data serialization. XML processing is supported by a variety of tools and programming languages.

Most companies distinguish queries by delivery method, format of data transmitted, and the extent of data requested. Accordingly, there is a distinction between the costs of handling a single query. The number of queries processed per day can vary considerably. Some companies can handle an average of 5 queries a day, while others can handle more than 1,000 queries a day. It takes a few minutes to complete a single query (or tens of minutes). Whether the query processing system is automated or manual query processing plays a significant role. It can be assumed that if the communication was through an XML file and was automated, the cost per query would be significantly reduced and query execution would be greatly accelerated. In December 2016, the Czech Capital Market Association stated that the overhead costs for executing a single executor's request sent via XML format in a fully automated mode could be approximately CZK 23 (CZK 13 for the executor and CZK 10 for the financial institution concerned) compared to approximately CZK 410 (CZK 160 for the executor for manual processing of a written request and CZK 250 for the financial institution in question for manual processing of a written response,

this is the employee's labor costs) in the case of a non-automated, manual query handling system.

The banking sector (a financial institution under the terminology of the Execution order) has its special regulation in Section 34 (3) of the Execution order, which is further specified in Annex 1 to Decree No. 418/2001 Coll. This amendment stipulates that cooperation must be compulsorily requested and consequently the cooperation must be provided by an electronic data file in XML format with specific parameters contained in the Decree. According to this Decree, the automation of cooperation takes place through the exchange of structured data files in XML format delivered via the Data Mailbox Information System (ISDS), or in some other way based on an agreement between the executor and the bank. A data message requesting assistance from a bailiff has a specific subject ("XMLEXE SOUC") by which it can be recognized. Sender can only be executor with their special type of data box. The basic identifier of the liable entity is ID individual or legal person. Each data request for a cooperation can contain multiple individual queries to liable entities.

The processing of requests for cooperation by the bank itself can be automated, semi-automated or manual. Processing requests for cooperation in an automated or semi-automated system consists mainly of downloading all data messages from the data box, recognizing data messages with requests for cooperation and filtering them, processing an XML data file, creating a preview of the data file in a graphical form that is finding answers to queries, preparing a response, sending a response with a data message to the sender's data box.

If non-banking financial market entities were to introduce an automated system for processing requests for cooperation similar to the automated system at banks, then the costs would be around one million CZK and if the entity already owns an automated system for the cooperation of banks, it will purchase an expansion module worth hundreds of thousands of CZK. According to Aura Ltd., which operates the Executor Information System, which uses more than half of all executors, the cost of extending the automated system for banks' cooperation would be minimal, probably even zero.

Because of the relatively low costs and proven functionality, this solution seems to us appropriate and we propose to apply the regulation in Section 34 (3) of the Execution order to other financial market entities for which the Execution order uses the (legal) abbreviation of financial institution (insurance companies, investment companies and investment funds, securities traders, pension companies, pension funds under special legislation, Financial Market Guarantee System). At the same time, we propose to supplement such an amendment so that the relevant ministry sets out a machine-readable format by a decree. The machine-readable format provisions seek to address the situation so that it is not possible to not require a machine-readable format in the decree.

An alternative solution could be an amendment to Section 34 (2) of the Execution order, which would stipulate the duty of an executor to request cooperation only in electronic form. However, this variant seems half-hearted to us because it is half way between the current state and the state according to the first variant.

Another possible solution proposed by the Czech Banking Association in the framework of comments in preparation of the Strategy of Capital Market Development in the Czech Republic 2019-2023 would be the obligatory use of the existing ISB system provided by the Central Securities Depository, which is used in relation to and in subsequent records. However, this system, using the XML format, does not cover securities in separate registers of securities and would therefore have to be modified and extended for the purposes of judicial execution. At the same time, the mandatory use of one information system would probably be contrary to the protection of competition.

We believe that this situation needs to be addressed through discussions with the Ministry of Justice, individual financial institutions, the General Financial Directorate and the Chamber of Executors of the Czech Republic.

Questions for consultation:

**13.1. Please describe how big the problem is for you regarding requests for cooperation in a execution proceedings?**

**13.2. Do you consider it appropriate to extend the existing cooperation through XML formats for the banking sector to other financial market entities? Or do you prefer a variant that would make the executor's duty to request cooperation only in electronic form? Or what other solution would you prefer?**

**13.3. Is the regulation of XML formats that applies to financial institutions (banks) appropriate for other financial market entities? If so, what data should the XML format contain for other financial market players?**

**13.4. Should the new regulation apply only to entities for which the Execution order uses the legal abbreviation of a financial institution? (insurance companies, investment companies, investment funds, investment firms, pension companies, pension funds under special legislation, Financial Market Guarantee System).**

**13.5. Is it compulsory to use the existing ISB system provided by the Central Securities Depository (CSD) as a suitable solution for judicial enforcement?**

**13.6. In your opinion, are there problems with requests for cooperation even in cases that do not concern judicial execution (eg cooperation in judicial proceedings)?**

**13.7. Are there any related problems?**

## **14. Support of the trading with corporate bonds**

Corporate bonds constitute an important element of the capital market in many countries. On the one hand, they provide a suitable alternative to loan financing (both being debt financing, but in some situations bond financing may be more advantageous, especially given that the principal by the bonds is not being repayed periodically, repayment of principal may be refinanced by a new bond issue, and the content of the issuing conditions is primarily set by the issuer, including any covenants). On the other hand, corporate bonds represent an interesting investment opportunity, which yields higher returns than government bonds (or bank deposits) and at the same time they are fixed income instruments that do not show as much volatility as shares and they are not too dependent on the success of their issuer because they have a higher seniority than shares or subordinated debt. At the same time, if they are covered by some assets (such as real estate), they can represent a relatively safe asset and, given the already traditional institute of a security agent in the Czech Republic, this is not a problem even in terms of possible claiming satisfaction from collateral.

Although 'buy and hold' (or 'hold-to-maturity') bonds are a common investment strategy for investing in bonds, a functioning secondary market helps pricing bonds properly and allowing them to be invested as liquid assets, further expanding the range of investors and the amount of funds invested. In Poland, for example, the bond market (Catalyst) operates relatively well in addition to the more well-known NewConnect stock exchange.

Finding ways for a functioning secondary market, educating CFOs and others about capital market financing options, finding alternative ways of valorizing money at times of low interest rates on deposits, and other factors have recently taken corporate bonds to the forefront of interest of both investors and issuers. However, this also entails a risk of default in the event of economic shock or a higher incidence of issuers who do not plan to repay bonds from the outset. Small investors who do not have much experience or experience with similar investments are unable to assess such risks and may make a bad choice and lose their money in order to get better return on the investment. And precisely for this purpose, the Corporate Bond Scorecard, which was published on the Ministry of Finance's website in April 2019, is intended to provide investors with a quick and simple tool for initial issuer assessment.

The aforementioned Scorecard and subsequent consultations also give rise to the consideration of introducing mandatory reporting of information that could newly be included in the issuance conditions pursuant to Para 9 of Bonds Act. Specifically, this should include information on whether the issuer's financial statements are uploaded in the business, or whether they are audited and related information. Furthermore, there should be, for example, information about the structure of the consolidation group, information about the purpose of the issue, EBITDA, EBITDA margin, interest coverage ratio, etc. The above information should also be summarized in a clear form into the key information document such as in the format of the so-called MiniProspectus, which would be prepared by the issuer of the bonds. A proposal for

a possible MiniProspect form is contained in Annex 2. The above MiniProspect summary should not impose a high regulatory burden on the issuer. Inspiration can also be found in the proposals for implementing regulations on the EU Prospectus Regulation, both in the prospectus summary and in the EU Growth Prospectus for SMEs with emissions of less than EUR 20 million value.

It is also necessary to take into account Supervision Benchmark No. 2/2019, published by the CNB on 14 March 2019 on its website. In principle, it prohibits offering corporate bonds that are not admitted to trading on a regulated market to small inexperienced investors. Even in the inspiration for investor's self-certification described in Chapter 5 (taking into account the proposal for an EU crowdfunding regulation), such a ban seems too stringent, and it is considered whether, for example, to allow retail investors to invest at least 10% of their financial assets in unlisted corporate bonds. Compliance with this limitation would either be confirmed by the investor following a self-certification modeled after the UK's model, or the key information document could contain a standardized warning to the same effect following the model of the EU crowdfunding regulation (see Article 16: should not invest more than 10% of your net worth in crowdfunding projects.").

Questions for consultation:

**14.1. Do you agree with the proposal to extend the requirements of issuance conditions?**

**14.2. Would you agree with the introduction of a key information document (in the form of a MiniProspectus or similar document) for all issues offered?**

**14.3. What parameters do you think the key information document should include? For example, it is advisable to be inspired by Scorecard Corporate Bonds<sup>9</sup>?**

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<sup>9</sup> Scorecard of Corporate Bonds is available at the following link: <https://www.mfcr.cz/cs/soukromy-sektor/kapitalovy-trh/podnikani-na-kapitalovem-trhu/2019/verejna-konzultace--scorecard-korporatni-34916>

## 15. Trust funds as investment funds

The trust fund under the legislation in the Management Companies and Investment Funds Act is based on the principle of mutual investment of funds and participation in the development of the value of the trust fund for the purpose of investment evaluation. The trust fund provided for in the Civil Code differs from the trust fund regulated by the Management Companies and Investment Funds Act in that it is an investment fund supervised by the Czech National Bank. The Investment Trust Fund is a qualified investor fund (Section 101 of the Management Companies and Investment Funds Act), must not serve as a means of investment offered to the public and cannot be created by the exclusion of assets from a collective investment fund (Section 148 (1) of the Management Companies and Investment Funds Act).

According to the current wording in the Management Companies and Investment Funds Act, the legal regulation of trust funds as investment funds is conceived in such a way that the beneficiary is at the same time pursuant to Section 95 (1) (c) of the Management Companies and Investment Funds Act by an investor (qualified investor). Given the nature of the investment fund, the law is based on the logic that the investor and the person to be fulfilled must represent the same entity. In the case of a trust fund which is an investment fund, only the founder of the fund or one who has contractually increased its assets, the so-called contributor, can be considered. Investors of the Qualified Investor Trust Fund therefore invest resources for their own benefit. The question is, however, whether it is reasonable to require that the beneficiary must always be an investor and whether the investor could not invest in the benefit of a non-investor who is not exposed to investment risk and is only deliberate (parent for his / her child, etc.). It therefore seems appropriate to consult the possibility of investing in favor of third parties.

Pursuant to the legal regulation of trust funds in the Civil Code, the founder of the fund may also be beneficiary (Section 1454 Civil Code), but this is only an option, not an obligation as in the case of modification of the investment trust fund in the Management Companies and Investment Funds Act. Pursuant to the provisions of Section 1457 of the Civil Code, the founder of the fund has the right to appoint the beneficiary and determine the performance of the trust fund, to grant him the right to legal fruits, benefits, property or share in the assets of the trust fund. The question is why to prevent similar arrangements being applied to the investment trust fund. An investor could designate a beneficiary of its investments, and that beneficiary would not become an investor, but would only have the right to benefit from a trust fund. The investor would only be the founder of the fund or its contributor and not the person in whose favor it is invested. Only the investor would bear the investment risk. This solution better corresponds to the nature of the trust fund, which consists in the fact that the founder allocates his assets for some purpose, most often for the benefit of a third party. Under the general regulation in the Civil Code, the fund manager manages the entrusted funds for the benefit of the founder or any other third party. However, the Management Companies and Investment Funds Act prohibits third party investment through an investment trust fund. The potential regulation of an investment trust fund would not have the purpose of investing resources solely for the

benefit of investors. Also, the founders or contributors could and should not be fooled.

Under the current legal regulation, there may be logical changes in the beneficiaries of legal succession (whether by transfer or by conveyancing). By legal succession, newcomers become investors and thus enter into the position of founders or contributors. In the event of a transfer, as a result of the investor's death, the participation in the Qualified Investor's Fund shall pass to the heir, who is not the person who invested. According to the current legislation, it must be inferred that the succeeding heir who has not invested becomes a universal succession investor. Experience shows that, although under current legislation, it is not permitted to invest for the benefit of third parties, in the event of an investor's death, his participation in the fund is transferred to his heirs, a person who has not invested funds and is not de facto an investor. In the case of inheritance, therefore, investment in favor of third parties takes place in fact and the question remains what prevents the investment in favor of third parties even de jure.

Should the investor be legally allowed to be a different person from the beneficiary, it is also necessary to consider, in the event of the investor's death, the possible legal consequences of transferring the estate to eligible heirs, whether by will or succession, and their other legal relations with the beneficiary.

Questions for consultation:

**15.1. Do you welcome the idea of legislation that would allow an investor of an investment trust fund not to be automatically a beneficiary, but to be able to arbitrarily designate a person other than himself as a beneficiary(ies) ?**

**15.2. Do you think that this legislative solution has some pitfalls?**

**15.3. In your view, is there any obstacle to EU investment law for the benefit of third parties?**

**15.4. Should the law automatically determine in the event of the investor's death that the beneficiary becomes an investor, or should the legal situation be governed by the testator?**

## Literature

<b>National Strategy for the Development of the Capital Market in the Czech Republic 2019 – 2023</b>	National Strategy for the Development of the Capital Market in the Czech Republic 2019 – 2023, approved by the Government of the Czech Republic on 4 March 2019 (Resolution No. 156) and published on the website of the Ministry of Finance of the Czech Republic on 14 March 2019 <sup>10</sup>
<b>Report of the World Bank on Capital Market Development Options in the Czech Republic</b>	Report of the World Bank “Capital Market Assessment / Market Development Options Czech Republic”, published on the website of the Ministry of Finance of the Czech Republic on 2 October 2017 <sup>11</sup>
<b>Report of the World Bank on Stimulating Business Angels in the Czech Republic</b>	Report of the World Bank „Stimulating Business Angels in the Czech Republic“, published on the website of the Czech Ministry of Finance on 31 October 2018 <sup>12</sup>
<b>Scorecard of corporate bonds</b>	Scorecard of corporate bonds (proposal for public consultation), published on the website of the Ministry of Finance of the Czech Republic on 15 April 2019 <sup>13</sup>
<b>Supervisory benchmark No. 2/2019</b>	Supervisory benchmark No. 2/2019 “On the Acquisition of Debt Investment Instruments in Ownership of Customers or Investment Funds”, published on the website of the Czech National Bank on 14 March 2019 <sup>14</sup>

<sup>10</sup> <https://www.mfcr.cz/assets/en/media/20181207-National-Strategy-CZ-Capital-Market.pdf>

<sup>11</sup> <https://www.mfcr.cz/cs/soukromy-sektor/kapitalovy-trh/podnikani-na-kapitalovem-trhu/2017/zprava-svetove-banky-o-kapitalovem-trhu-29766>

<sup>12</sup> <https://www.mfcr.cz/cs/soukromy-sektor/kapitalovy-trh/podnikani-na-kapitalovem-trhu/2018/ministerstvo-financi-zverejnuje-zpravu-s-33352>

<sup>13</sup> <https://www.mfcr.cz/en/themes/capital-market/capital-market-in-the-czech-republic/public-consultation--corporate-bond-scor-34918>

<sup>14</sup> <https://www.cnb.cz/cs/dohled-financni-trh/vykon-dohledu/dohledova-uredni-sdeleni-a-benchmarky/>

**Draft of Implementing Regulations for the EU Prospectus Regulation**

Draft of Implementing Regulations for the EU Prospectus Regulation, published on the European Commission website on 14 March 2019<sup>15</sup>

**Proposal for an EU Crowdfunding Regulation**

Proposal for an EU Crowdfunding Regulation, published on the European Commission website on 8 March 2018<sup>16</sup>

**Individual Saving Account (ISA) Statistics**

Regular annual report on the Individual Savings Account in the UK, published on the UK Government website on 30 April 2019<sup>17</sup>

**US Retirement and Education Savings**

US Savings Statistics, published on the website of the Investment Company Institute in 2019<sup>18</sup>

**Private Equity Management Fees Regulation**

Study on Private Equity Fund Fees, published on Investopedia website on October 14, 2018<sup>19</sup>

**Fondy private equity (2018)**

Article on private equity funds, published on Conseq's website on June 29, 2018<sup>20</sup>

**EY Family Office Guide**

Study on family office, published on Ernst & Young's website<sup>21</sup>

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<http://ec.europa.eu/transparency/regdoc/index.cfm?fuseaction=list&n=10&adv=0&cotelid=&year=&number=&dateFrom=&dateTo=&serviceId=&documentType=&title=2017%2F1129&titleLanguage=CS&titleSearch=EXACT&sortBy=NUMBER&sortOrder=DESC>

<sup>16</sup> [https://ec.europa.eu/info/publications/180308-proposal-crowdfunding\\_en](https://ec.europa.eu/info/publications/180308-proposal-crowdfunding_en)

<sup>17</sup> <https://www.gov.uk/government/statistics/individual-savings-account-statistics>

<sup>18</sup> [https://www.icifactbook.org/ch8/18\\_fb\\_ch8](https://www.icifactbook.org/ch8/18_fb_ch8)

<sup>19</sup> <https://www.investopedia.com/articles/investing/072115/private-equity-management-fees-regulation.asp>

<sup>20</sup> [https://www.conseq.cz/news\\_detail.asp?page=188&news=1613](https://www.conseq.cz/news_detail.asp?page=188&news=1613)

<sup>21</sup> [https://www.ey.com/Publication/vwLUAssets/ey-family-office-guide/\\$FILE/1006031-family-office-guide-hr.pdf](https://www.ey.com/Publication/vwLUAssets/ey-family-office-guide/$FILE/1006031-family-office-guide-hr.pdf)

# Attachement 1 – Investment questionnaire proposal

## Basic information

Name	<input type="text"/>	What is the current inflation (%)	<input type="text"/>
Country	<input type="text"/>	What is an actual CPI (%)	<input type="text"/>
Currency	<input type="text"/>	Average inflation rate (%) (A)	<input type="text"/>

If you are planning a new investment, reinvesting existing funds (or cash), please specify the amount involved



Regular repayments	<input type="text"/>
One-time payment	<input type="text"/>

Please provide values for the below

Pension portfolio	<input type="text"/>
Investment portfolio	<input type="text"/>
Total assets	<input type="text"/>
Residential property	<input type="text"/>

## Required service

Choose	Period to retire		Period of invest
<input type="checkbox"/> Pension analysis	<input type="checkbox"/> < 6 years	↔ Choice between retirement time and investment time	<input type="checkbox"/> < 6 years
<input type="checkbox"/> Investment analysis	<input type="checkbox"/> 6 – 15 years		<input type="checkbox"/> 5 – 10 years
<input type="checkbox"/> Overall analysis	<input type="checkbox"/> > 15 years		<input type="checkbox"/> > 10 years

Please answer the question regarding your income

What is your requested annual share of the income from any investment and pension insurance currently being considered over the next 5 years? (B)

Please answer the question regarding your income

What is the requested annual increase in this income if it differs from current inflation? (May also be 0) (in%) (C)

Your required appreciation is:

**0,00%** A + B + C

Your risk level is listed below



Do you have a financial reserve of 3 monthly expenses?

YES       NO      If NOT, please provide the value of these expenses (3 months)

### QUESTION 1

I must be sure that I will achieve my goal, even if that means increase in invested resources. This allows me to save more and at the same time with lower risk. That means to accept a potentially lower return on investment.

- Agree    Rather agree    Don't know    Rather don't agree    Don't agree

### QUESTION 2

Achieving a high expected return on long-term investment is important to me and it does not matter if my investment declines temporarily.

- Agree    Rather Agree    Don't know    Rather don't agree    Don't agree

### QUESTION 3

Although we know that most people do not want to lose money, it is true that short-term, sometimes monthly fluctuations can occur in the case of long-term investments. What is the maximum drop in portfolio value that you would tolerate before you feel uncomfortable?

- 5 %    20 – 29 %    30 – 39 %    40 – 49 %    > 50 %

### QUESTION 4

You invest CZK 100,000 in a portfolio that will fall by 10% the following day. What would be your next steps?

- I invest another 100 000 CZK    Wait for the value to rise and sell the share  
 None because I checked everything    You're worried, but you don't take any action  
 You sell the share and return to your bank account

### QUESTION 5

You can choose between a secure job with a lower wage or an insecure job with a much larger wage. Which job would you choose?

- Certainly the secure job    Rather the job with higher wages     
 Rather the secure job    Certainly the job with higher wages

### QUESTION 6

How do you think your spouse or best friend would describe you in relation to risk?

- Adventurous    Willing to take risks after examining the situation  
 Unwilling to take risk    You are also afraid of your own shadow

### QUESTION 7

I usually feel confident after I made a financial decision that I didn't expect I had to make.

- Agree    Rather agree    Don't know    Rather don't agree    Don't agree

### QUESTION 8

Which of the following statements best describes you when making larger investment decisions?

- At first, I will consider the potential losses, even if it does not mean profit    I consider a possible losses in the context of not wanting to risk too much equity    I will focus only on long-term profits and I am willing to take appropriate risks  
 The aim is to balance the risks taken against the expected reward    At first, I will consider the potential profits and am willing to take a higher risk with a higher expected return

**QUESTION 9**

I would like to play an important and active role in managing my investments.

- Agree    Rather agree    Don't know    Rather don't agree    Don't agree

**QUESTION 10**

I often think about my financial decisions that I made in the past before I will make more.

- Agree    Rather agree    Don't know    Rather don't agree    Don't agree

**QUESTION 11**

Do you believe in diversifying risk by investing in different asset classes?

- YES    NO

Please sort the following asset types according to your priority from 1 to 7 (1 - highest priority)

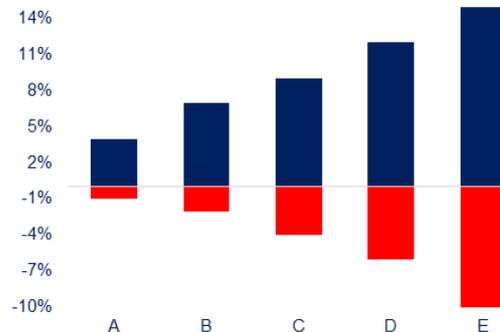
<input type="text"/>	Cash	<input type="text"/>	Real estate	<input type="text"/>	Secured funds	<input type="text"/>	Shares
<input type="text"/>	Bonds	<input type="text"/>	Commodities	<input type="text"/>	Guaranteed revenues		

**QUESTION 12**

If your investment horizon should be 15 years (regardless of the period you are requesting now), which portfolio option would you choose from the below?

- Portfolio A:** provides a stable return and has an average annual yield of between -1 and 4%
- Portfolio B:** has a negative return once every 8 years and average annual return from -2 to 7%
- Portfolio C:** has a negative return once every 5 years and average annual return from -4% to 9%
- Portfolio D:** has a negative return once every 3 years and average annual yield from -6 to 12%
- Portfolio E:** has a often negative return and an average annual return between -10 and 15%

The best and worst possible portfolio scenario



**QUESTION 13**

If all or part of your investment fell by more than 20%, as in 2008, how would you react? (Select one box per column)

	All	Only a part
Sale of remaining investments	<input type="checkbox"/>	<input type="checkbox"/>
Sale of part of remaining investment	<input type="checkbox"/>	<input type="checkbox"/>
Retention of investments	<input type="checkbox"/>	<input type="checkbox"/>
Purchase more of the same investments for available cash	<input type="checkbox"/>	<input type="checkbox"/>

Thank you for completing the questionnaire. The information will be kept confidential. Do you agree to use the results of this questionnaire as a basis for financial advice?

Name of the client   Day   Month   Year   Client's signature

**Attachment 2 – Proposal of the Miniprospect**

## MINIPROSPEKT (strana 1/2)

### Základní informace

<b>Issuer:</b> ABC s.r.o.	<b>Yield:</b> 6 % p. a.
<b>ID:</b> 123 45 678	<b>Maturity of principal:</b> 1. 1. 2023
<b>Date of est. and registration:</b> 1. 1. 1993	<b>ISIN:</b> CZ1234567890
<b>Residence:</b> Praha 4–Nusle, Husinecká 37, 14000	<b>Date of issuance:</b> 1. 1. 1993
<b>Mark:</b> B 1234 Městský soud v Praze	<b>Minimal amount of investment:</b> 20 000 CZK
<b>Subject of business:</b> Manufacture of radiators	<b>Expected volume of issue:</b> 15 000 000 CZK

### Purpose of issue

**The number of characters without spaces must be 40-250:**

The purpose of this issue is to raise funds for the purchase of a new automated production line, which will reduce production costs and thus ensure greater competitiveness in the end markets.

### Availability of additional documents

- Prospectus approved by the Czech National Bank or notified Prospectus
- Financial Statements - Available in the Commercial Register \*
- Cash Flow Statements - Available in the Commercial Register \*
- Annual reports - available in the Commercial Register

\* These documents must be published in the Commercial Register for the last 3 accounting periods

### Distribution of bonds

**Listing of all entities and methods through which the issue has been and is distributed 1)**

- |   |    |
|---|----|
| 1) Advertising website Easybusiness, s.r.o. | 4) |
| 2) KLM, s.r.o.                              | 5) |
| 3) XYZ Bank, a.s.                           | 6) |

### Securing

**Information if and how the issue is secured.**

The emission is secured by three production machines LX 2000. Year of manufacture 2010.

### Management of the company

**An introduction of all members of the management, including their experience and years in the field of business of the company**

Name	Position	Previous work experience	Years in field
Ing. Jan Novák	Owner, general director	ABC holding, a. s.	15
Mgr. Josef Vomáčka	Financial director	Kovoplech, a. s.	3
Oldřich Mráz	Business director	HeatIT s. r. o., BFM, a.s.	6

## MINIPROSPEKT (page 2/2)

### Financial analysis

Financial indicators shown in the table below (with the exception of the debt-to-equity ratio) should be provided for at least the last 3 years (if the company has existed for 3 years).

Indicator	2016	2017	2018
Revenue (in mil. CZK)	236	268	301
EBITDA (in mil. CZK)	13,8	15,8	20,0
EBITDA margin (%)	5,85	5,91	6,55
Debt to EBITDA	2,11	1,77	2,09
Interest coverage ratio	11,03	8,07	9,66
Debt to equity ratio (planned)		1,15	

Revenue= Sum of revenues from sales of goods and sales of own products and services

EBITDA = EBT + interest expenses + depreciation and amortization

EBITDA margin= EBITDA / Revenues

Debt to EBITDA = Debt / EBITDA

Interest coverage ratio = EBIT / Interest expenses

EBIT = EBT + Interest expenses

EBT = Earnings before tax

### Ownership structure of the company

Introduction of the key ownership structure of the company up to the level of the final beneficiary (following the example below)

