

**REPORT ON THE ACTIVITIES  
OF THE UKNF AND THE KNF BOARD  
IN 2019**

Pursuant to Article 4(2) of the Act of 21 July 2006 on financial market supervision (Journal of Laws *[Dziennik Ustaw]* 2006, items 180, 284, 568 and 695), the Polish Financial Supervision Authority (PL: *Urząd Komisji Nadzoru Finansowego* – UKNF) must submit an annual report on its activities and on the activities of the Board of the Polish Financial Supervision Authority (PL: *Komisja Nadzoru Finansowego* – KNF Board) to the President of the Council of Ministers by 31 July of the following year. In order to comply with the above-mentioned statutory requirement, on 13 May 2020 the KNF Board accepted, within its remit, *Report on the activities of the Polish Financial Supervision Authority in 2019*. On 13 May 2020, the *Report on the activities of the Polish Financial Supervision Authority* was approved by the Chair of the KNF Board, who manages the activities of the UKNF.

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## LETTER FROM THE CHAIR OF THE KNF BOARD

The year 2019 was a time of many changes for the Polish Financial Supervision Authority and its Board. On 1 January 2019, the provisions of the *Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection* entered into force and, in consequence, the former KNF was abolished and the former KNF Office was closed down. At the same time the Act established the Polish Financial Supervision Authority (UKNF) as a state legal person responsible for providing support and assistance to the KNF Board and the Chair of the KNF Board. The KNF Board and the Chair of the KNF Board have become the bodies of the newly established Polish Financial Supervision Authority (UKNF). Despite the changes in the systemic solutions, no change has been made to the principles of supervision of the financial market. As under the law in effect before 1 January 2019, the KNF Board continues to exercise all powers relating to the supervision of the financial market and the transitional provisions have maintained in force all supervisory activities, administrative decisions, recommendations and guidelines issued by the KNF Board before 1 January 2019. Since 15 December 2018, following the entry into force of the Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection, the KNF Board has operated as an expanded team of twelve members. Another amendment to the Act on financial market supervision, which took place in October 2019, made it possible to extend the composition of the KNF Board to include a third Deputy Chair of the KNF Board. My intention was for this person to be responsible for the insurance market. The purpose of that amendment was to further focus our attention on the issues of this market and to consider them effectively in the work of the KNF Board and the UKNF. In December 2019, Ms Dagmara Wieczorek-Bartczak was appointed Deputy Chair of the KNF Board.

In 2019, the structure of the UKNF changes substantially. On 1 April 2019, new Statutes of the UKNF entered into force. The idea behind the creation of the new structure was a more efficient distribution of existing responsibilities as well as the efficient fulfilment of new tasks within the newly created organisational units. The new structure introduced a function of Director-General, who is responsible for ensuring the operation and continuity of the UKNF's activities as well as organising work, in particular by preparing the draft assumptions for the UKNF's financial plan and by supervising the implementation of that plan. New departments have been created: the Compliance Department and the Internal Audit Department. The key task of the former is to strengthen, develop and maintain the confidence in the UKNF by building the organisational culture based on the rule of law and compliance with internal rules and ethical principles. The Compliance Department performs its tasks by providing advice on the management of potential conflicts of interest among staff members, ensuring the right education and communication in the area of compliance, and tackling the risk of corruption. The tasks of that department also include the effective management of the risk of non-compliance of the UKNF's activities with the law, the standards for supervisory authorities and the internal rules, and the performance of the KNF Board's tasks arising from the Act on the prevention of money laundering and terrorist financing. The Internal Audit Department is tasked with internal control at the UKNF, in particular by reviewing the tasks falling within the remit of the organisational units under its control, the committees, councils and teams, according to the subject of the audit, and by reviewing the efficiency of the existing control mechanisms.

The UKNF's activities in the area of cybersecurity are also worthy of note. The newly established Cybersecurity Department in a less than a year has significantly strengthened and expanded its powers, both in the area of supervisory activities carried out towards professional market participants and in the area of low-level and technical powers and tasks carried out for the UKNF itself. Under the Act on the national cybersecurity system, the KNF Board became the Competent Authority for the banking sector and financial market infrastructure. As the first Competent Authority, we identified financial sector entities that are

'essential for the maintenance of critical societal and/or economic activities', defined in the Act as Operators of Essential Services. In our activities, we are not limited to a supervisory role but we are also involved in the activities of the entities within the national cybersecurity system in terms of exchanging good practices and experiences.

One of the goals that we set ourselves as part of the UKNF management is an open and substantive dialogue with the market. We want to be a market-oriented partner, focused on solving issues of common interest, which includes the development of the financial market. This is also the goal of the UKNF's HR policy. At the UKNF, we are team of people with market experience and supervisory competences as well as people who have had success in modernising public administration, in particular in the informatisation and optimisation of management processes.

Realising the importance of trust for the proper functioning of the financial market, as a supervisor, we strive to improve analytical and supervisory processes and to better coordinate the work of the various UKNF departments. In terms of modernisation and transformation of financial supervision, I believe that with the broad and ever-growing stream of data flowing to the UKNF as a result of numerous reporting requirements the traditional formula of supervisory activities may soon run out. Real-time analysis of those data, or in any case analysis in time that allows for an effective response, will require an increasing use of advanced data analysis tools. That is why the next stage of the work we have done over the last year involved the definition of our action plans in the field of technology through the announcement, in December, of the Digital Supervisory Agenda. We want the UKNF to be a modern supervisor that actively supports financial market participants and creates for them a favourable environment to implement safe financial innovations. For that reason, the Agenda comprises a series of measures oriented towards both the technological challenges facing supervised entities and the internal issues of the UKNF related to, for example, the ongoing radical transformation of IT functions at the UKNF.

In 2019, banking supervision involved intensive activities in the area of monitoring the economic and financial situation of commercial and cooperative banks as well as tasks related to analytical and day-to-day supervision, as required by appropriate legislation, in relation to the activities of credit unions, payment institutions, electronic money institutions, payment service offices, account information service providers, and mortgage intermediaries. In 2019, for the tenth time, the UKNF conducted stress tests for the banking sector. The purpose of the tests was to determine the potential impact of changes in the macroeconomic environment on the financial and capital situation of the Polish banking sector institutions and to assess the sector's resilience to shock. Commercial banks accounting for 86% of the sector's assets participated in the stress test exercise. The published results indicate high resistance of the banking sector to hypothetical market shocks as well as its good capitalisation. The UKNF also conducted the first edition of supervisory liquidity stress testing. The purpose of the liquidity stress testing was to analyse the sensitivity of banks' short-term liquidity position, to verify the banks' liquidity buffers, and to estimate possible shortages of liquid assets to the levels required under the LCR standard.

2019 also proved to be significant in terms of adapting the Polish financial market to the requirements of Regulation (EU) 2016/1011 on benchmarks (the European Benchmarks Regulation, EBR). The supervisory authority granted the first authorisation to operate as a benchmark administrator in relation to Warsaw Stock Exchange (WSE) Indices. At the same time, on the initiative of the UKNF, the most important national benchmark WIBOR was added to the European Commission's list of critical benchmarks. In 2020, efforts continue to adapt the process of determining WIBOR to the requirements of the EBR, which will require participation of the Poland's banking sector.

In 2019, the UKNF continued to engage significantly in the development of the concept and preparation of the assumptions, and then the document, of the Development Strategy for Capital Markets (Strategia Rozwoju Rynku Kapitałowego – SRRK). As part of its work on the

SRRK, the UKNF prepared a proposal for concrete solutions adopted in the Strategy and took part in the working and formal arrangements and meetings with representatives of the Ministry of Finance and capital market participants.

The UKNF was also involved in the process of making systemic amendments to the Act on public offering, working on the draft Act with the Ministry of Finance. That work followed the entry into force of a new EU prospectus regime in mid-2019. Due to the mismatch of the effective dates of the new rules, leading to parallel application of both directly applicable EU legislation and the still unamended national rules, the UKNF developed and published detailed explanations on issues related to rights and obligations, which in principle allowed for the smooth continuation of the activities of entities involved in public offerings.

In 2019, the most important issue for insurance supervision within the EU's regulatory work was the review of Solvency II regime in two areas that will in principle concern each national insurance/reinsurance undertaking, i.e. in the area of methodology (including parameters) of calculating the Solvency Capital Requirement (SCR) using the standard formula and in the area of supervision of insurance/reinsurance undertakings in groups. The work is continued in 2020.

In 2019, work began on the so-called product intervention measure to limit the possibility of marketing, distribution or sale of unit-linked life insurance characterised by features that are unacceptable from the point of view of the supervisor (such as opacity of the contract, the discrepancy between the profitability of the product for the client and the risk of loss and the quality of the underlying assets). The decision on the intervention measure is expected to be made by the end of 2020.

The year 2019 is also the period of implementation of the new model of supervision over insurance distribution, due to the entry into force, on 1 October 2018, of the Act of 15 December 2017 on insurance distribution. The model focuses on actions towards systemically important insurance distributors, i.e. having a significant share in the insurance sales market. In 2019, the supervisory authority commenced inspection activities in relation to insurance intermediaries with regard to compliance with the requirements related to offering insurance under the new Act on insurance distribution. In particular, the inspections will examine the performance of activities related to determining the customer's requirements and insurance needs based on the information obtained from the customer, as well as, for brokers, the mode and manner of providing advice on the recommendation of the most appropriate insurance contract.

Continuing more than 15 years of extensive commitment to supporting the emerging financial markets in Central and Eastern Europe, the UKNF was selected, for the fourth time, by the European Commission as the main contractor for a cross-cutting two-year EU twinning project, this time for the National Bank of Georgia. The UKNF, as an experienced supervisor recognised in the field of international assistance projects, supports the Georgian administration in the area of banking and payment services in order to adapt the Georgian legislation to the EU legislation and to implement financial supervision mechanisms in accordance with the best practices.

As the UKNF, we also see our role in educating market participants and promoting transparency of our activities and open communication with our stakeholders. In 2019, we published a series of educational materials on financial market phenomena, addressed to the general public. We obtain valuable information from the signals about irregularities in the operation of supervised entities, which we then use in our supervisory activities, e.g. on the basis of reports from non-professional market participants, we have identified the issue of growing public interest in investments in aparthotels and condo hotels, which became an impulse for a broad public information campaign on the risks associated

with investing in this type of project, launched jointly with the Office of Competition and Consumer Protection and the Ministry of Investment and Development.

Furthermore, in 2019, the KNF Board exercised for the first time the power to decide on a product intervention measure in the event of serious investor protection concerns being diagnosed, by banning the marketing, distribution or sale of binary options to retail customers and limiting such activities in respect of contracts for difference.

Those are the key events and strategies of the supervisory authority in 2019. Full details can be found in the *Report on the activities of the Polish Financial Supervision Authority in 2019*, that I invite you to read.



Jacek Jastrzębski  
Chair of the KNF Board



# 1. KNF BOARD

## LEGAL BASIS OF ACTIVITIES OF THE KNF BOARD

The Board of the Polish Financial Supervision Authority (hereinafter: 'KNF Board' or 'supervisor') operates under the *Act of 21 July 2006 on financial market supervision*<sup>1</sup>, hereinafter referred to as 'Act on financial market supervision'. Under the Act on financial market supervision, the KNF Board is competent for supervision of the financial market, which under the legal framework as at 31 December 2019 included: banking supervision, pension supervision, insurance supervision, capital market supervision, supervision of payment institutions, payment service offices, electronic money institutions, branches of foreign electronic money institutions, supervision of credit rating agencies, supplementary supervision of credit institutions, insurance undertakings, reinsurance undertakings and investment firms in a financial conglomerate, supervision of credit unions and the National Association of Credit Unions (PL: *Krajowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa*) as well as mortgage credit intermediaries and their agents, as well as supervision to the extent specified in *Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014* (OJ L 171 of 29 June 2016, p. 1 and OJ L 137 of 24 May 2017, p. 41) and supervision to the extent specified in *Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012* (OJ L 347 of 28 December 2017, p. 35).

The purpose of supervision of the financial market is to ensure its proper functioning, stability, security and transparency, confidence in the financial market, and to ensure that the interests of market participants are protected. Under the Act, that purpose is also to be achieved through reliable information concerning the functioning of the market, through the pursuit of objectives stated, in particular, in the Banking Law, the Act of 22 May 2003 on insurance and pension supervision, the Act of 15 April 2005 on supplementary supervision of credit institutions, insurance undertakings and investment firms being part of a financial conglomerate, the Act of 29 July 2005 on capital market supervision, the Act of 5 November 2009 on credit unions and the Act of 19 August 2011 on payment services.

The statutory tasks of the KNF Board, in addition to the supervision of the financial market, include in particular:

- undertaking measures to ensure the proper functioning of the financial market, to promote the development of the financial market and its competitiveness, and to support the development of innovativeness of the financial market,
- undertaking educational and information measures with regard to the functioning of the financial market, its risks and participants to safeguard the reasonable interests of financial market participants, in particular by publishing, free of charge – in the form and at the time determined by the KNF Board – warnings and statements in the public radio

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<sup>1</sup> On 15 February 2019, the consolidated text of the Act was announced (Journal of Laws, item 298), which included, *inter alia*, amendments that became effective on 1 January 2019, announced in the Journal of Laws 2018, items 2215 and 2243. The amendments to the consolidated text in 2019 were announced in the Journal of Laws, items 326, 730, 875, 1571 and 2217.

and television as defined in the Act of 29 December 1992 on broadcasting (Journal of Laws 2019, items 361, 643, 1495 and 1655),

- participating in the drawing up of draft legal acts pertaining to financial market supervision,
- creating opportunities for amicable and conciliatory dissolution of disputes between financial market participants, including in particular disputes arising from contractual relationships between KNF-supervised entities and the users of services provided by those entities.

Since 1 January 2019, the supervisor has been functioning in a new legal form. In 2018, the Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection (Journal of Laws, item 2243) was passed and, in consequence, the former KNF was abolished, and the former KNF Office was closed down. At the same time, as of 1 January 2019, the Act established the Polish Financial Supervision Authority (UKNF) as a state legal person responsible for providing support and assistance to the KNF Board and the Chair of the KNF Board. The KNF Board and the Chair of the KNF Board have become the bodies of the newly established Polish Financial Supervision Authority (UKNF).

Despite the changes in the systemic solutions, no change has been made to the principles of supervision of the financial market. As under the law in effect before 1 January 2019, the KNF Board continues to exercise all powers relating to the supervision of the financial market and the transitional provisions have maintained in force all supervisory activities, administrative decisions, recommendations and guidelines issued by the KNF Board before 1 January 2019.

## COMPOSITION OF THE KNF BOARD

The KNF Board is a collegial body. The KNF Board is composed of the Chair, Deputy Chairs, other members with a voting right, and members with an advisory vote. Under the law in effect as of 15 December 2018, between 1 January 2019 and 29 November 2019 the KNF Board had the following composition: Chair, two Deputy Chairs, and nine members.

The composition of the KNF Board, including in relation to the Chair and Deputies, was not changed following the establishment of the new KNF Board acting as a body of the Polish Financial Supervision Authority. On 30 November 2019, another amendment to the Act on financial market supervision came into force<sup>2</sup>, which extended the KNF Board's composition to include the third Deputy Chair.

Under the Act, the nine members of the KNF Board include:

- the minister competent for financial institutions or his/her representative,
- the minister competent for economy or his/her representative,
- the minister competent for social security or his/her representative,
- the President of the National Bank of Poland or Member of the Management Board of the National Bank of Poland delegated by the President,
- a representative of the President of the Republic of Poland,
- a representative of the President of the Council of Ministers,
- a representative of the Bank Guarantee Fund,
- a representative of the President of the Office of Competition and Consumer Protection(UOKiK),

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<sup>2</sup> The amendment made by the Act of 16 October 2019 amending the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies, and certain other laws (Journal of Laws, item 2217).

- a representative of the Minister – Member of the Council of Ministers/Special Services Coordinator or, if no such representative has been designated – a representative of the President of the Council of Ministers.

The representative of the Bank Guarantee Fund, the representative of the President of the Office of Competition and Consumer Protection and the representative of the Minister – Member of the Council of Ministers/Special Services Coordinator or, if no such representative has been designated – the representative of the President of the Council of Ministers are members of the KNF Board who participate in meetings only in the capacity of advisers.

In 2019, the composition of the KNF Board was as follows:

**Chair of the KNF Board**

Jacek Jastrzębski

**Deputy Chair of the KNF Board**

Marcin Pachucki – until 10 March 2019

Rafał Mikusiński – from 11 March 2019

**Deputy Chair of the KNF Board**

Andrzej Diakonow – until 30 January 2019

Małgorzata Iwanicz-Drozdowska – between 4 February 2019 and 6 December 2019

**Deputy Chair of the KNF Board**

Dagmara Wieczorek-Bartczak from 20 December 2019

**Members of the KNF Board:**

**Minister competent for financial institutions or his/her representative**

Marcin Obroniecki – representative of the minister competent for financial institutions – until 24 April 2019

Małgorzata Palczewska – representative of the minister competent for financial institutions – between 25 April 2019 and 1 August 2019

Marian Banaś – Minister of Finance – between 2 August 2019 and 30 August 2019

Mateusz Morawiecki – President of the Council of Ministers – between 30 August 2019 and 20 September 2019

Jerzy Kwieciński – Minister of Finance – between 20 September 2019 and 15 November 2019

Tadeusz Kościński – Minister of Finance – between 15 November 2019 and 3 December 2019

Krzysztof Budzich – representative of the minister competent for financial institutions – from 4 December 2019

**Representative of the minister competent for social security**

Jan Wojtyła

**President of the National Bank of Poland (NBP) or Member of the Management Board of the NBP delegated by the President**

Andrzej Kaźmierczak – Member of Management Board of the NBP

**Representative of the President of the Republic of Poland**

Cezary Kochalski – until 20 December 2019

**Representative of the minister competent for economy**

Mariusz Haładyj – until 5 February 2019

Jan Pawelec – from 20 February 2019

### **Representative of the President of the Council of Ministers**

Tadeusz Kościński – between 7 January 2019 and 20 November 2019

### **Members of the KNF Board acting in the capacity of advisers:**

#### **Representative of the Bank Guarantee Fund**

Zdzisław Sokal – until 8 April 2019

Mirosław Panek – from 8 April 2019

#### **Representative of the President of the Office of Competition and Consumer Protection**

Marek Niechciał<sup>3</sup>

#### **Representative of the Minister – Member of the Council of Ministers/Special Services Coordinator**

Maciej Wąsik

## **MEETINGS AND RESOLUTIONS OF THE KNF BOARD**

The KNF Board, within its remit, adopts resolutions, including the issuance of final and interim administrative decisions. The KNF Board adopts resolutions by a simple majority of votes, by open vote. Between 1 January and 29 November 2019, the KNF Board adopted resolutions in the presence of at least four members, including the Chair or a Deputy Chair of the KNF Board. Following the change in the number of persons sitting on the Board – the statutory introduction of the role of the third Deputy Chair – since 30 November 2019 the quorum has been at least five persons sitting on the Board, including the Chair and/or his Deputies.

In the case of an equal number of votes, the Chair of the KNF Board decides, and in the event of his absence, the vote of the Deputy Chair authorised to manage the activities of the KNF Board. Following the amendments made to the legislation in December 2018, the members of the KNF Board who represent: the Bank Guarantee Fund, the President of the UOKiK and the Minister – Member of the Council of Ministers/Special Services Coordinator, respectively, do not participate in the voting and they are not considered for the purpose of calculation of the quorum.

In 2019, 51 meetings of the KNF Board were held at which a total of 540 resolutions were adopted, of which 450 were final decisions and 1 was an interim decision.

**Table 1. Number of resolutions adopted by the KNF Board in the years 2016-2019**

Subject-matter of resolution	Number of adopted resolutions			
	2016	2017	2018	2019
Matters concerning the banking sector	95	102	116	150
Matters concerning the credit unions sector	93	47	24	15
Matters concerning the payment services sector	355	79	23	76
Matters concerning the insurance sector	57	58	57	52
Matters concerning the pension sector	47	47	27	24
Matters concerning the capital and commodity markets	212	284	237	201
Cross-sectoral matters and matters concerning internal organisation of the KNF Board's work	5	3	3	22

<sup>3</sup> The President of the Office of Competition and Consumer Protection directly exercised the right to attend the meetings of the KNF Board as a member with an advisory vote.

<b>Total</b>	<b>864</b>	<b>620</b>	<b>487</b>	<b>540</b>
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Source: UKNF's own study

Detailed information on the number of adopted resolutions by subject-matter of the case is provided in Table 1.1. in Annex 1.

#### INTERIM DECISIONS ISSUED BY THE CHAIR OF THE KNF BOARD

In 2019, the Chair of the KNF Board issued 117 interim decisions to institute *ex officio* proceedings or to extend the scope of proceedings under Article 13 of the Act of 29 July 2005 on capital market supervision (Journal of Laws 2019, item 1871, as amended, hereinafter: 'Act on capital market supervision').

#### ADMINISTRATIVE INTERIM AND FINAL DECISIONS ISSUED ON THE BASIS OF AN AUTHORISATION GRANTED BY THE KNF BOARD

According to Article 12(1) of the Act on financial market supervision, the KNF Board may authorise the Chair of the KNF Board, Deputy Chairs, and employees of the UKNF to act within the remit of the KNF Board, including to issue administrative interim and final decisions. The KNF Board granted such authorisation to both the Chair and his Deputies. Those are authorisation which, in accordance with Article 12(3) of the Act on financial market supervision, allow for further authorisations to be granted to other UKNF employees.

In 2019, 3 639 interim or final decisions were issued on the basis of an authorisation granted by the KNF Board.

**Table 2. Number of interim and final decisions issued in 2019 on the basis of an authorisation granted by the KNF Board and on the basis of an authorisation granted by the Chair of the KNF Board in the years 2016-2019**

Subject-matter of final and interim decisions	Number of final and interim decisions			
	2016	2017	2018	2019
Matters concerning the banking sector	2 380	1200	1106	1154
Matters concerning the credit unions sector	230	88	16	15
Matters concerning the payment services sector	110	291	69	45
Matters concerning the insurance sector	390	349	233	238
Matters concerning the pension sector	342	294	567	1310
Matters concerning the capital and commodity markets	894	825	751	721
Matters concerning mortgage credit intermediaries	-	49	273	125
Matters concerning consumer credit intermediaries	-	0	27	6
Matters concerning non-bank lending institutions	-	0	7	0
Matters concerning other areas	9	3	92	25
<b>Total</b>	<b>4 355</b>	<b>3 099</b>	<b>3 141</b>	<b>3 639</b>

Source: UKNF's own study

Detailed information on the number of final and interim decisions issued in 2019 on the basis of an authorisation granted by the KNF Board and on the basis of an authorisation granted by the Chair of the KNF Board by subject-matter of the case is given in Table 1.2. in Annex 1.

## OFFICIAL JOURNAL OF THE BOARD OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

Since of 1 January 2019, the entity issuing the Official Journal of the KNF Board has been the Chair of the KNF Board and the provisions governing the publication of the Official Journal of the KNF Board have been included in the Act of 20 July 2000 on the publication of normative acts and certain other legal acts (Journal of Laws 2019, item 1461). In accordance with Article 12(1a) of that Act, the following must be announced in the Official Journal of the KNF Board: resolutions and decisions of the KNF Board, public announcements, notices, communications and other acts and/or documents as well as registers (lists), if separate provisions of law so provide. Where separate provisions of law do not require publication of a resolution of the KNF Board in the Official Journal of the KNF Board, the KNF Board may decide to publish the resolution in the Official Journal of the KNF Board. The Chair of the KNF Board may also have the announcements, notices and/or communications published, provided that they are related to the tasks of the bodies of the UKNF.

In 2019, the KNF Board decided to publish in the Official Journal of the KNF Board: two resolutions on the 'Rules of Procedure of the Arbitration Court at the Polish Financial Supervision Authority', a resolution on the procedure of exercising supervision of banking activities, a resolution on the issue of Recommendation B on limiting the investment risk, and a resolution on the issue of Recommendation S on good practices in the management of credit exposures secured by mortgages. In cases provided for in the Act, administrative decisions of the KNF Board to apply financial sanctions against supervised entities are also published in the Official Journal of the KNF Board; in 2019 there were 9 such announcements, related mainly to financial penalties imposed on investment fund management companies. The Official Journal of the KNF Board also contains publications of communications from of the KNF Board and/or Chair of the KNF Board as well as communications from examination boards conducting professional examinations for securities brokers and investment advisers. Communications usually represents the majority of items of the Official Journal of the KNF Board, and that was also the case in 2019.

In 2019, a total of 45 items were published in the Official Journal of the KNF Board. The list of items of the Official Journal of the KNF Board published in 2019 is included in Annex 3.

## 2. FINANCIAL MARKET IN POLAND: OVERVIEW

According to preliminary estimates, Poland's GDP growth throughout 2019 amounted to 4.1% (compared to 5.1 % in 2018 and 4.8% in 2017). Thus, despite the slight weakening of the economic growth rate recorded in previous years, it was still high compared to other European countries, which indicates the resilience of the Polish economy to the global slowdown (in particular in the first half of the year). In 2019, similarly as in previous years, the main drivers of the national GDP growth were private consumption supported by the favourable labour market situation and increasing household incomes, as well as investments in tangible assets related to the implementation of infrastructure projects co-financed by EU funds. The payment of social benefits was also a factor in boosting consumer demand over 2019.

The domestic labour market continued its positive trend from 2013, with the officially recorded unemployment rate declining to 5.2% at the end of 2019 (from 5.8% at the end of 2018). Similarly, the seasonally-adjusted unemployment rate measured according to the BAEL method (Polish Labour Force Survey) fell from 3.7% at the end of 2018 to 2.9 % at the end of 2019. The decline in the recorded unemployment rate was less severe than in the previous years and was mainly related to supply constraints in the labour market

The average annual inflation measured by consumer price index (CPI) in 2019 was 2.3% compared to 1.6% in 2018. The increase in inflationary pressures over 2019 was influenced by both supply factors (an increase in food prices) and the base component, i.e. the rising

labour costs. The Monetary Policy Council (MPC) maintained in 2019 the NBP interest rates at the unchanged level of March 2015 (the reference rate of 1.5%). According to the MPC, such level of interest rates was conducive to maintaining the Polish economy on a sustainable growth path and allowed to maintain macroeconomic balance.

The cumulative balance of the current account from the previous twelve months amounted to PLN 25.4 billion in December 2019 (compared with PLN 21.7 billion in December 2018). Differences compared to the previous year were noticed mostly in the area of commodity trade, whose balance was higher by PLN 30.9 billion than in the same period of the previous year.

According to data for January and December 2019, the budget deficit was under-implemented (47.9% of the annual plan) and the deficit reached PLN 13.7 billion. The budget revenues were implemented in 103.3% and amounted to PLN 400.6 billion. The expenses were implemented in 99.5% and amounted to PLN 414.2 billion.

Compared with the previous year, no major changes in the value of the Polish Zloty against main currencies were seen in 2019. At the end of the year, the average PLN/EUR exchange rate was 4.26 compared to 4.3 at the beginning of the year, the average PLN/CHF exchange rate was 3.92 (compared to 3.82) and the average PLN/USD exchange rate was 3.8 (compared to 3.76). At the end of 2019, the interest rate on 10-year Treasury bonds amounted to 2.1% and was lower than the year before (2.81%).

The balance sheet total of the banking sector at the end of December 2019 amounted to PLN 2 000.5 billion and was higher than in the previous year by approx. 5.6% (PLN 1 893.7 billion). In the period concerned, banks generated a profit of PLN 14.6 billion, which was approx. 11.6% higher than in the previous year (PLN 13.1 billion).

At the end of the fourth quarter of 2019, the assets of credit unions amounted to over PLN 9.3 billion. According to the reporting data, in 2019 the credit unions sector recorded a net profit of PLN 42.2 million. As at the end of 2019, the amount of own funds of the unions (calculated in accordance with the Act on credit unions) was PLN 499.8 million. The data are preliminary as they have not been audited by a certified auditor, and they may change.

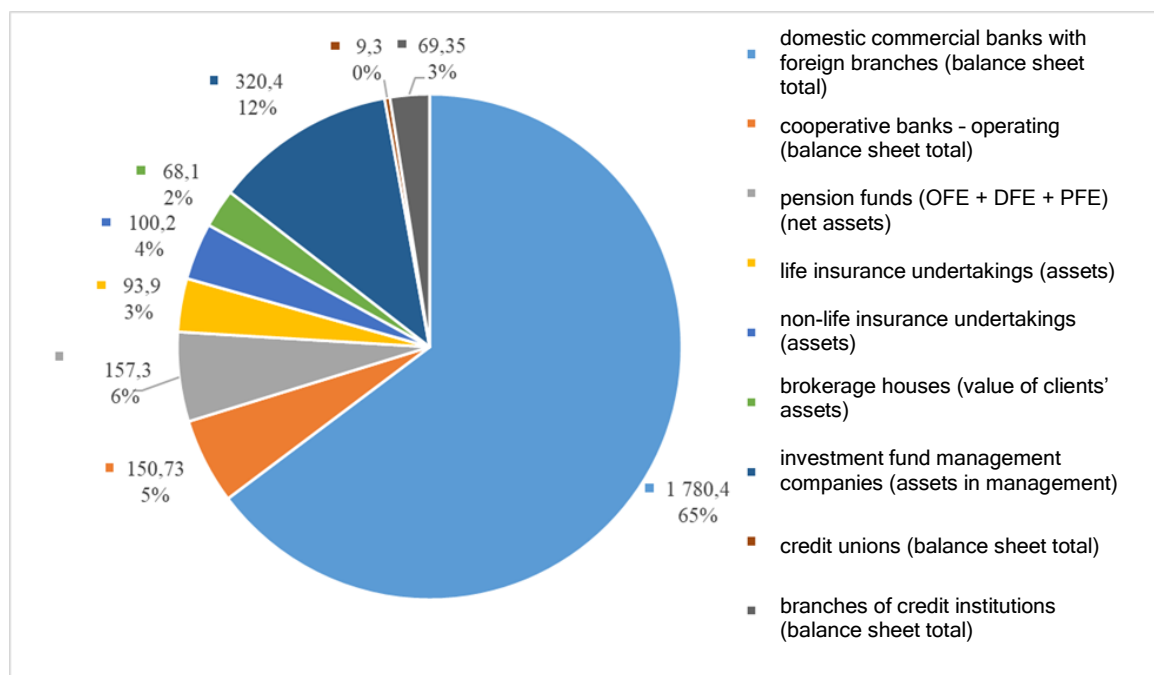
The balance sheet total of the insurance sector increased by 0.7% during the year and amounted to PLN 194 billion at the end of December 2019, of which PLN 93.9 billion was allocated to life insurance undertakings, and PLN 100.2 billion to non-life insurance undertakings – other personal insurance and property insurance. During the period concerned, insurers generated a profit of PLN 7.2 billion (of which PLN 2.6 billion was attributable to Section I, and PLN 4.6 billion to Section II), which was 8% higher than in the previous year.

The total net asset value of open pension funds (PL: otwarty fundusz emerytalny – OFE), voluntary pension funds (PL: dobrowolny fundusz emerytalny – DFE) and occupational pension funds (PL: pracowniczy fundusz emerytalny – PFE) as at 31 December 2019 amounted to PLN 157.3 billion and was 1.4% higher than at the end of the previous year (PLN 159.5 billion).

In 2019, the Warsaw Stock Exchange recorded minor changes in indices. During the year WIG gained 0.25% and WIG20 lost 5.56%. The value of trading in shares amounted to PLN 191 billion and was approx. 10% lower than in the previous year (PLN 212 billion). At the end of the year, the capitalisation of domestic companies amounted to PLN 550 billion (an approx. 10% decrease compared with the previous year), and of foreign companies to PLN 554 billion (compared with PLN 550 billion the year before). During the period concerned, 7 initial offerings and 22 delistings were recorded; in consequence, the number of listed companies did not increase during the year for the fourth consecutive year.

At the end of 2019, the value of assets managed by investment funds companies amounted to PLN 320 billion and was about 1.1% higher than at the end of the previous year (PLN 316.8 billion). The value of customer assets recorded on the accounts in brokerage houses as at the end of 2019 amounted to PLN 68 billion and was 14.2% lower than the year before (PLN 79.3 billion).

**Diagram 1. Asset structure of the Polish financial sector as at the end of 2019 (in PLN billion)\***



Source: UKNF's own study

\*The data for 2019 have not been audited.

**Table 3. The number of KNF-supervised entities as at 31 December 2019**

Type of entity	Number of entities
Commercial banks (including 1 state bank and 2 affiliating banks)	30
Cooperative banks	538
Representative offices of foreign banks and credit unions	8
Institutional Protection Systems (IPS)	2
Credit unions, National Association of Credit Unions	26
Electronic money institution	1
Payment institutions	38
Account information service providers	2
Small payment institutions	46
Payment service offices	1367
Mortgage credit intermediaries	795
Agents of mortgage credit intermediaries	6755
Brokerage houses	38
Banks providing investment services	9
Tied agents of investment firms	273
Custodian banks	12
Entities of the capital market infrastructure (GPW S.A. w Warszawie, KDPW S.A., KDPW_CCP, BondSpot S.A.)*	4
Issuers whose financial instruments are admitted to trading on a regulated market (including:	481, including:
– issuers of shares for which Poland is the home country	404
– issuers of bonds and covered bonds	32
– foreign issuers	45
Investment funds	813
Investment fund management companies	57
Managers of alternative investment companies/partnerships	156
Other entities operating investment funds or alternative investment funds, including entities entrusted with the performance of duties of an investment fund	308



management company or a manager of an alternative investment company/partnership as defined in the Act on investment funds and management of alternative investment funds (Act on investment funds)**	
Entities of the commodity market infrastructure (Towarowa Gielda Energii S.A., Izba Rozliczeniowa Gield Towarowych S.A.)	2
Commodity brokerage houses	1
Energy undertakings maintaining accounts or registers of exchange commodities	58
Open pension funds	10
General pension societies	10
Occupational pension funds	2
Occupational pension societies	2
Depositaries of pension funds	6
Transfer agents of pension funds	6
Voluntary pension funds	7
Target-date voluntary pension funds	24
Life insurance undertakings	26
Non-life insurance and reinsurance undertakings (personal and property insurance)	33
Insurance brokers	1415
Reinsurance brokers	53

Source: UKNF's own study

\*Entities listed in Article 5 of the Act on capital market supervision, namely: companies operating a regulated market, Krajowy Depozyt Papierów Wartościowych S.A., companies operating a clearing house, companies operating a settlement house, a company to which Krajowy Depozyt Papierów Wartościowych S.A. has delegated the performance of activities within the scope of tasks referred to in Article 48 (1) points 1-6 and/or Article 48(2) of the Act on trading in financial instruments, the Central Securities Depository as defined in Article 2(1) point 1 of Regulation 909/2014.

\*\*The number includes the number of distributors of units, transfer agents, fund depositaries, external valuers, entities authorised to manage securitised liabilities of a securitisation fund.

**Table 4. The number of entities which are not supervised by the KNF Board but have been entered in the relevant registers kept by the KNF Board as at 31 December 2019**

Type of entity	Status of the register
Insurance agents	31 293
Persons who perform agency activities	237 033
Consumer credit intermediaries	32 264
Non-bank lending institutions	499
Telecommunication business owners carrying the activities specified in Article 6 point 12 of the Act on payment services, to which Article 6d(12) of the Act on payment services applies.	7
Foreign investment firms without a branch	1 914

Source: UKNF's own study

**Table 5. The number of entities which notified operation as a branch in Poland as at 31 December 2019**

Type of entity	Number of entities
Credit institutions <sup>i</sup>	32
Payment institutions <sup>i</sup>	9
Electronic money institutions <sup>i</sup>	4
Insurance undertakings <sup>i i</sup>	29
Reinsurance undertakings <sup>i i</sup>	1
Investment firms <sup>i</sup>	18
Management companies <sup>i *</sup>	4

Source: UKNF's own study

<sup>i</sup> In principle, supervision of the branches is exercised by the home supervisory authority and, to a limited extent specified in sectoral laws, by the host supervisory authority.

<sup>i i</sup> Supervision of the branches of insurance and reinsurance undertakings established in a Member State other than the Republic of Poland is exercised by the home supervisory authority.

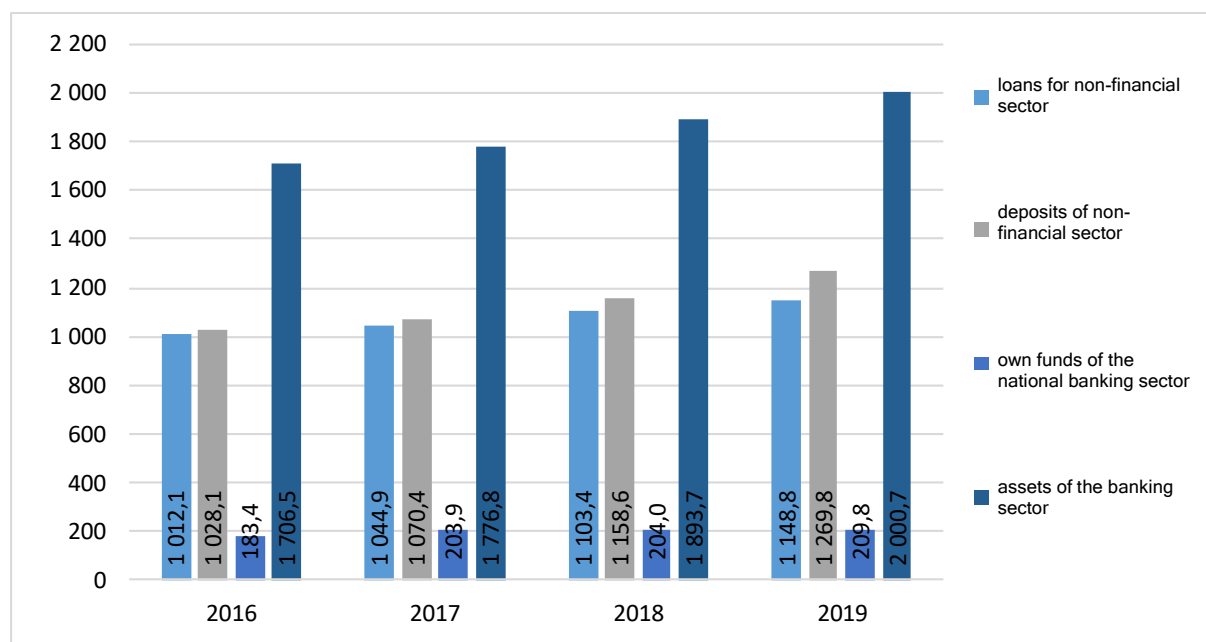
\* Entity authorised by a competent authority in a Member State to conduct activities relating to the management of funds operating in accordance with the Community law governing the rules of collective investment in securities.

## 2.1. BANKING SECTOR

At end of 2019, the KNF Board supervised 30 commercial banks (including 1 state bank and 2 affiliating banks), 2 institutional protection systems, 538 cooperative banks, and 32 branches of credit institutions.

In 2019, the KNF Board approved the merger processes for ten cooperative banks.

**Diagram 2. Basic data of the banking sector in Poland in the years 2016–2019 (in PLN billion)**



Source: UKNF's own study

The data for 2019 come from the monthly bank reporting for December 2019 and they have not been audited. Data for previous years may differ from data published in previous reports due to corrections made by the banks as well as the subsequent audit process.

The balance sheet total of the Polish banking sector at the end of December 2019 amounted to PLN 2 000.7 billion (an increase of 5.6% as compared with the end of December 2018). Domestic commercial banks (with foreign branches) account for 89.0% of the sector's assets, branches of credit institutions account for 3.5% and cooperative banks account for 7.5%.

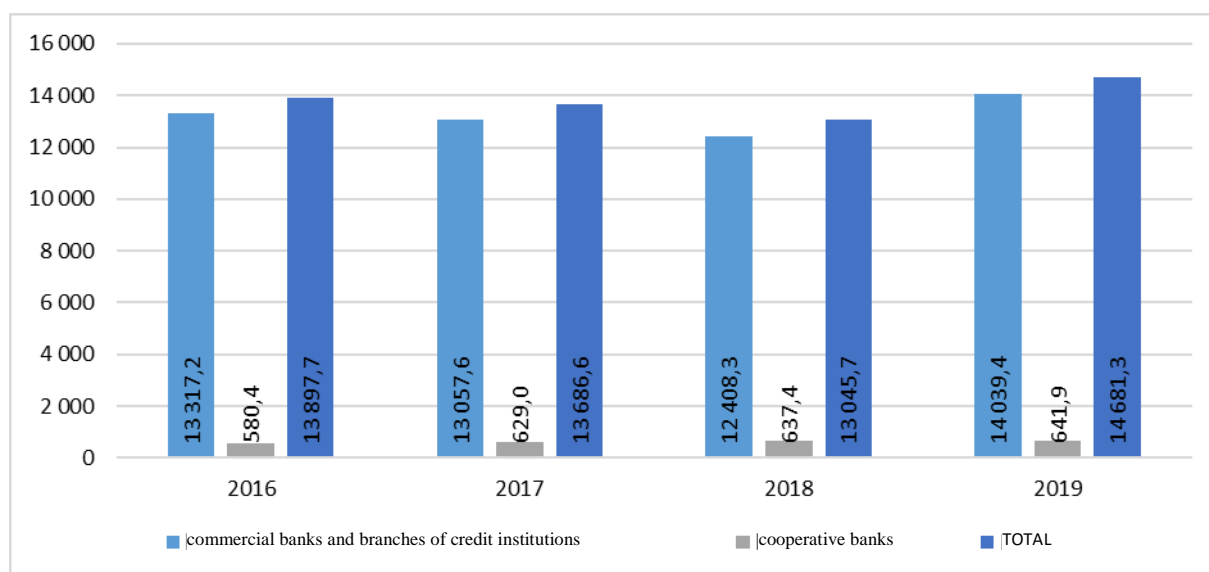
In the structure of assets, 67.0% (PLN 1 340.8 billion) were loans and other receivables, 17.1% (PLN 341.4 billion) were available-for-sale financial assets, 1.3% (PLN 26.2 billion) were held-for-trading financial assets and 5.8% (PLN 115.2 billion) were cash, cash at central banks and other demand deposits.

As for liabilities, deposits accounted for 74.4% of total liabilities (PLN 1 487.4 billion), and equity for 10.5% (PLN 209.8 billion). In 2019, gross receivables from the non-financial sector increased by 4.1%, reaching PLN 1 148.8 billion at the end of December.

An important component of the banking sector's assets is housing loans, including loans denominated in Swiss franc (CHF) or indexed to this currency. In 2019, for another year, there was a clear decrease in the volume of loans in CHF; their sum decreased from CHF 27.5 billion at the end of December 2018 to CHF 25.0 billion at the end of December 2019, i.e. a decrease of 8.9% and 33.2% over the next five years (from CHF 37.4 billion at the end of December 2014). At the same time, the quality of housing loans, including those

denominated in CHF, remains good: in 2019 it was at a level similar to 2018, and the share of non-performing loans in the portfolio of housing loans was the lowest of all loan portfolios.

**Diagram 3. Net financial result of the banking sector in the years 2016-2019 (in PLN million)**

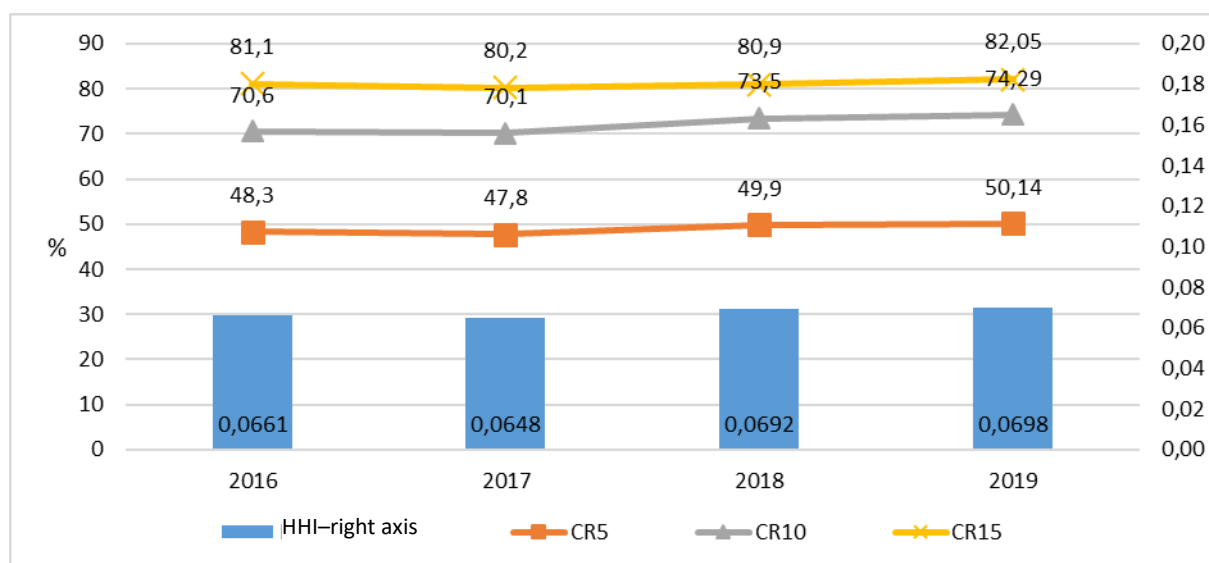


Source: UKNF's own study

The data for 2019 come from the monthly bank reporting for December 2019 and they have not been audited. The data for previous years may differ from the data published in previous reports due to corrections made by banks as well as the subsequent audit process.

The net financial result of the banking sector in 2019 amounted to PLN 14.7 billion and was 12.5% higher than in 2018. In 2019, 16 commercial banks and 8 branches of credit institutions paid a total of PLN 4.1 billion on account of the banking tax. It is PLN 0.43 billion (+11.8%) more than in 2018. The net interest income amounted to PLN 49.2 billion (+9.8% YOY), of which the interest income amounted to PLN 66.1 billion (+9.4% YOY), and interest expenses to PLN 16.9 billion (+8.0%). The commission income remained at PLN 13.3 billion (+8.3% YOY). Banks' operating expenses were 4.1% higher than in the previous year and amounted to PLN 34.8 billion, and impairment write-downs of financial assets decreased by 1.6% YOY to PLN 8.8 billion.

**Diagram 4. Concentration of assets in the years 2016-2019**



Source: UKNF's own study

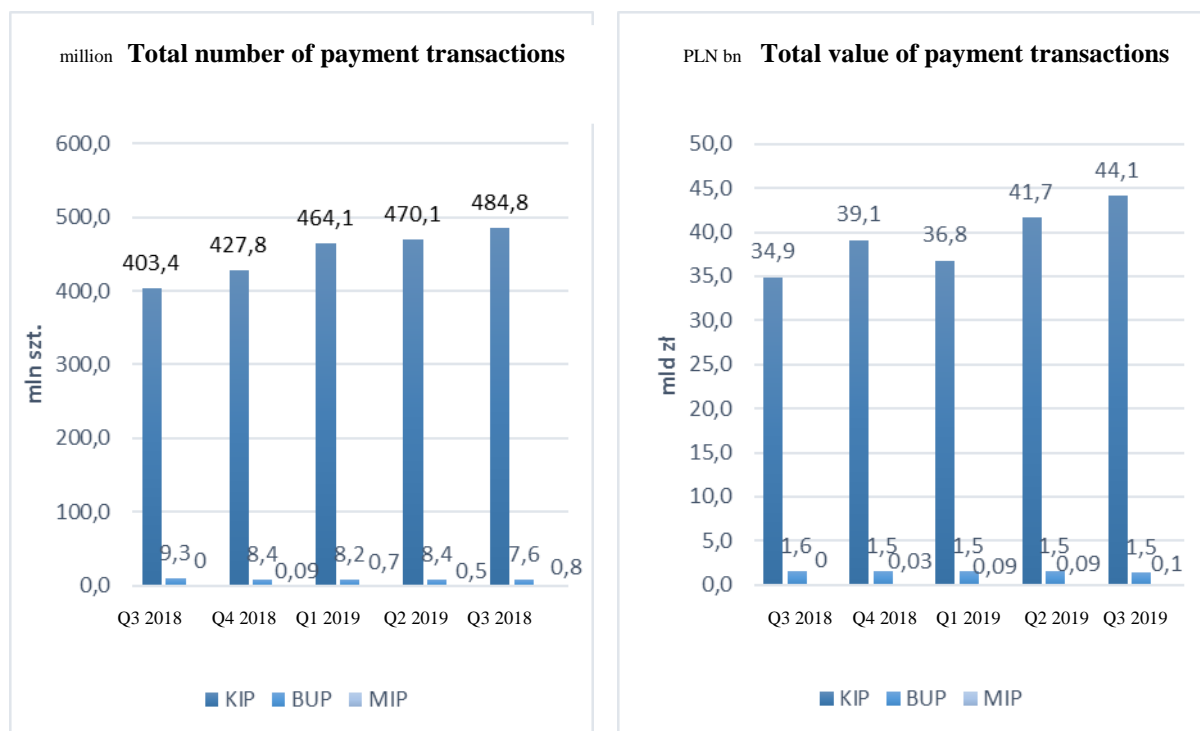
CR5, CR10, CR15 – indicators specifying shares of 5, 10 and 15 largest banks in total banking sector assets. HHI – the Herfindahl-Hirschman index (the sum of squares of banks' shares in the banking sector assets), being a measure of market concentration used to assess the level of competition in a given market. The indicator takes into account not only the number of entities but also their relative size. The HHI at the level of 0.0698 describes a competitive market.

The data for 2019 come from the monthly bank reporting for December 2019 and they have not been audited. The data for previous years may differ from the data published in previous reports due to corrections made by banks as well as the subsequent audit process.

## 2.2. SECTOR OF PAYMENT SERVICES

As at 31 December 2019, 38 domestic payment institutions and 1 electronic money institution held authorisations. As at 31 December 2019, 1 367 payment service offices were included in the Register of Payment Service Offices. As at 31 December 2019, 46 small payment institutions were included in the Register of Small Payment Institutions. 2 entities were entered in the register of account information service providers. Due to the conditions and deadlines set out in the provisions of the Act on payment services for the submission of reporting data by payment service providers, at the end of the period covered by this report, the KNF Board has at its disposal the reporting data of domestic payment institutions (PL: *krajowa instytucja płatnicza* – KIP), payment service offices (PL: *biuro usług płatniczych* – BUP) and small payment institutions (PL: *mała instytucja płatnicza* – MIP) for the period covering the 1st, the 2nd and the 3rd quarters of 2019. The KNF Board's data show that as new entities are obtaining authorisations to operate as domestic payment institutions, the disproportion between the total scale of activities of KIPs on one hand and BUPs and MIPs on the other, measured by the total number and total value of transactions made by those entities, is growing dynamically in subsequent quarters.

**Diagram 5. Comparison of the total number and value of payment transactions carried out by BUPs, MIPs and KIPs between the third quarter of 2018 and the third quarter of 2019**



Source: UKNF's own study

## 2.3. INSURANCE MARKET<sup>4</sup>

### INSURANCE MARKET ENTITIES

As at the end of 2019, 59 domestic insurance undertakings were authorised to conduct the business of insurance in Poland: 26 life insurance undertakings and 32<sup>5</sup> non-life insurance undertakings (other personal insurance and property insurance) and 1 reinsurance undertaking (PTR S.A.).

Among domestic insurance undertakings, 25<sup>6</sup> life insurance undertakings, 32 non-life insurance undertakings and 1 reinsurance undertaking carried out insurance activities.

### BALANCE SHEET OF INSURANCE UNDERTAKINGS

The value of assets of insurance undertakings in 2019 amounted to PLN 194.01 billion and increased as compared to the previous year by 0.73%, i.e. by PLN 1.42 billion.

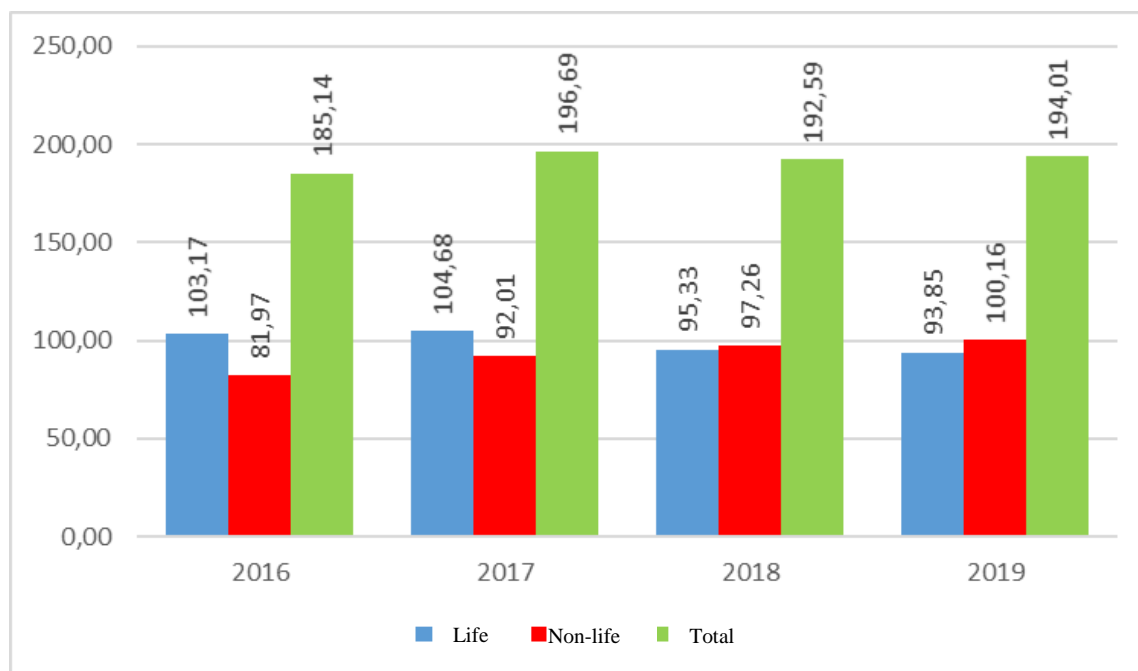
The assets of life insurance undertakings, equal to PLN 93.85 billion, decreased by 1.55% (i.e. by PLN 1.48 billion) in comparison with the previous period.

<sup>5</sup> In relation to TUW MEDICUM, by decision of the KNF Board of 23 December 2019, the authorisation to conduct the insurance business was withdrawn.

<sup>6</sup> On 31 October 2019, Generali Życie T.U. S.A. (the acquiring company) and WTUŻiR Concordia Capital S.A. (the company being acquired) merged through a transfer of all the assets of the company being acquired to the acquiring company. By decision of the KNF Board of 5 November 2019, POLSKI GAZ TUW na ŻYCIE was authorised to conduct the business of insurance but it did not start the business of insurance in 2019.

At non-life insurance undertakings, the value of assets amounted to PLN 100.16 billion, which represented an increase of 2.98%, i.e. PLN 2.90 billion, compared with the corresponding period of the previous year.

**Diagram 6. The balance sheet total in the years 2016-2019 (in PLN billion)**



Source: UKNF's own study

The data for 2019 come from the financial statements of insurance and reinsurance undertakings for the fourth quarter of 2019 and they should be treated as preliminary. The data for previous years may differ from the data published in previous reports due to corrections made by undertakings.

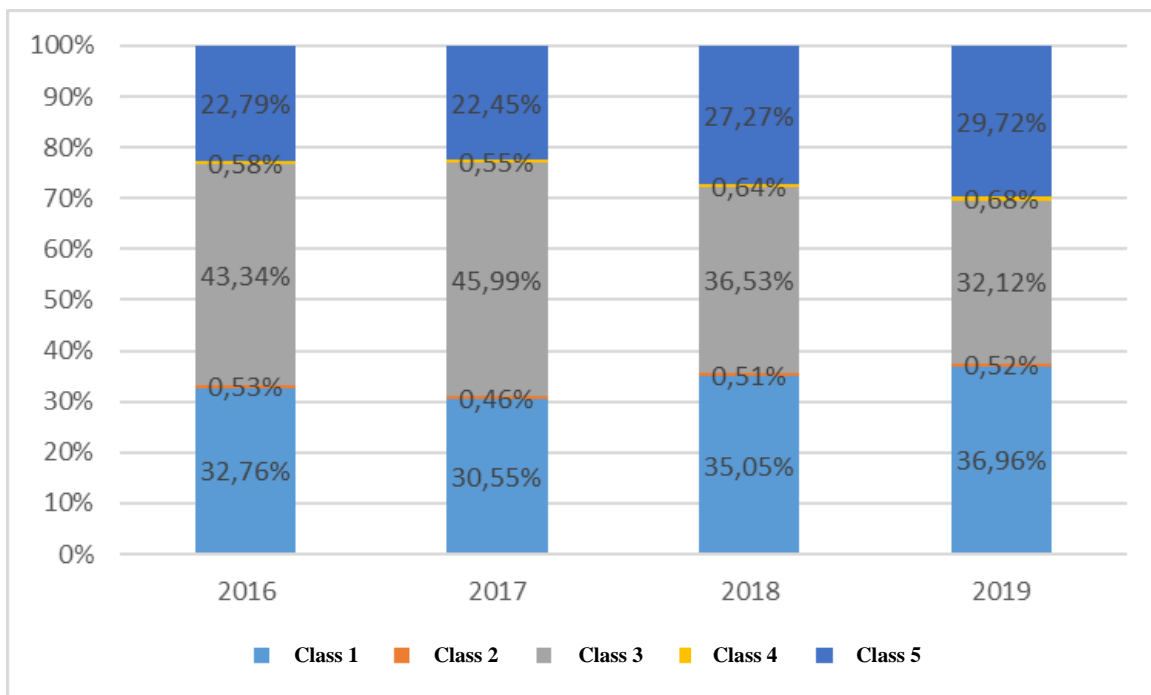
The main item of insurance undertakings is represented by deposits (investments), which represent 61.80% of the balance sheet total, and net assets of life insurance (where the investment risk is borne by the policyholder), whose share in the balance sheet total amounts to 25.28%. The structure of liabilities was dominated by gross technical provisions, which accounted for 76.90% of liabilities, and capital and reserves of 20.65%.

## REVENUE OF INSURANCE UNDERTAKINGS

In 2019, the gross written premium, being the main source of income of insurance undertakings, amounted to PLN 63.83 billion, which means that the insurance market recorded an increase of 2.69% as compared to 2018. The change was due to a decrease in the gross written premium for life insurance undertakings of PLN 0.44 billion, i.e. 2.01% (the premium reached PLN 21.27 billion) and an increase for non-life insurance undertakings of PLN 2.11 billion, i.e. 5.21% (the premium of PLN 42.56 billion).

The direct insurance portfolio of life sector was dominated by class 1 insurance products (life insurance products) with a premium of PLN 7.86 billion, which products accounted for 36.96% of the total gross written premium from life direct insurance undertakings. The class recorded an increase of gross written premium by PLN 0.25 billion. Class 3 insurance (unit-linked insurance and life insurance under which the performance of the insurance undertaking is determined on the basis of a specified indices or other base values) with a premium of PLN 6.83 billion (an annual decrease of PLN 1.10 billion) accounted for 32.12% of direct life insurance.

**Diagram 7. Structure of the life insurance portfolio in the years 2016-2019**



Source: UKNF's own study

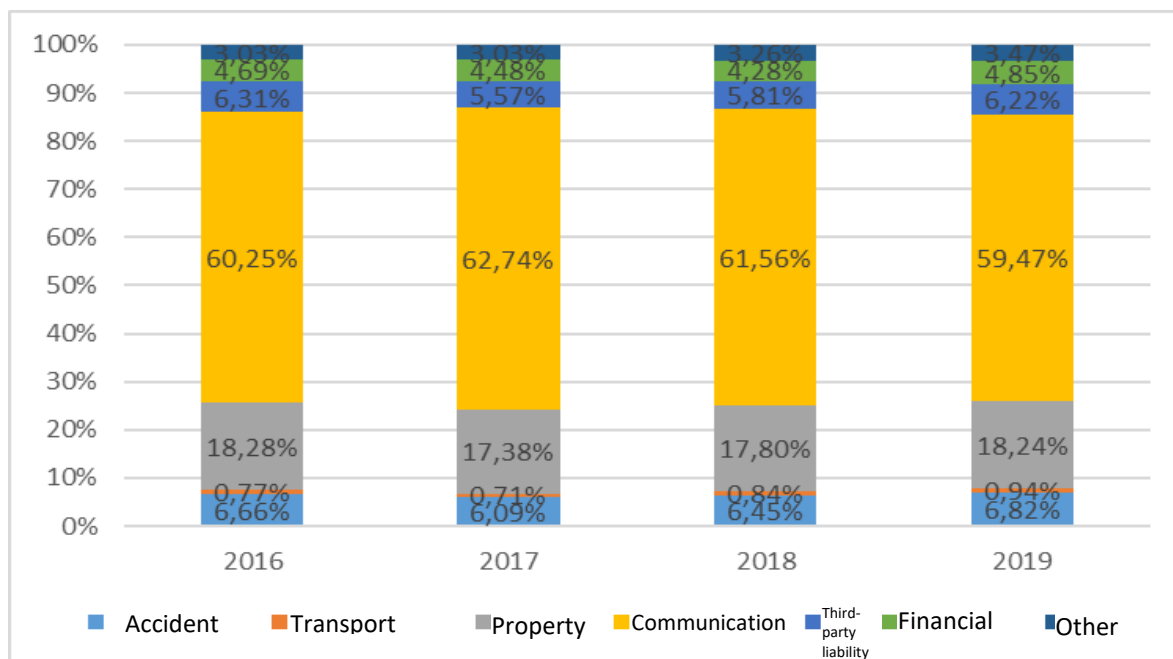
For non-life insurance undertakings, the largest increase in the gross written premium was reported in class 3 (accident and theft insurance), of PLN 0.37 billion to PLN 8.67 billion (4.41% YOY), and in class 8 (insurance against damage caused by natural forces, including damage to or loss of property not included in classes 3-7), of PLN 0.24 billion to PLN 3.55 billion (7.40% YOY).

There was also an increase in class 13 (general third party liability not included in classes 10-12), of PLN 0.21 billion to PLN 2.38 billion (9.62% YOY); in class 9 (insurance against other material damage, not included in classes 3-7, but caused by natural forces other than those in class 8), of PLN 0.20 billion to PLN 3.69 billion (5.80% YOY); in class 16 (insurance against various financial risks), of PLN 0.19 billion to PLN 0.94 billion (25.67% YOY); in class 18 (insurance concerning the provision of assistance for persons who faced difficulties while travelling or while away from their habitual residence), of PLN 0.15 billion to PLN 1.29 billion (12.97% YOY); and in class 1 (accident insurance, including accidents at work and occupational diseases), of PLN 0.15 billion to PLN 1.69 billion (9.45% YOY); 8 of the other 11 classes of non-life insurance also reported an increase in the premium (classes: 2, 5, 6, 7, 11, 12, 14, 15).

Among 18 classes of non-life insurance, a decrease in the premium occurred in three classes, and in that respect particular attention should be paid to motor insurance, i.e. class 10 (third party motor liability insurance – MTPL), which recorded a decrease of PLN 0.26 billion (i.e. of 1.69% YOY) to PLN 14.92 billion. A decrease was also recorded in classes 4 and 17 (a total decrease of PLN 0.02 billion).

The structure of non-life insurance is still dominated by motor vehicle insurance (MTPL, and accident and theft insurance), which accounts for 59.47% of the direct insurance portfolio.

**Diagram 8. Structure of the non-life insurance portfolio in the years 2016-2019**



Source: UKNF's own study

## RESULTS OF INSURANCE UNDERTAKINGS

Overall, the insurance market recorded a technical profit of PLN 6.18 billion (2.83% higher than in 2018) and a financial profit of PLN 7.22 billion (8.01% higher than in the previous year).

The life insurance sector generated a technical profit of PLN 3.25 billion (5.40% higher than in the corresponding period of the previous year) and a financial profit of PLN 2.58 billion (5.72% higher than in the corresponding period of the previous year). In terms of results of individual insurance classes, the improvement of the technical profit was due to the improvement of the technical result in class 1 (life insurance) – by PLN 0.14 billion (21.76%). Other personal and property insurance products (the non-life insurance sector) generated a technical profit of PLN 2.93 billion (0.13% higher than in the corresponding period of the previous year) and a net financial profit of PLN 4.64 billion (9.33% higher than in the corresponding period of the previous year). In terms of results in individual classes of insurance, the increase of the technical profit over the year was mainly due to the improvement of the result in class 10 (MTPL insurance) – the largest increase in non-life insurance of PLN 0.46 billion and in class 13 (third party liability insurance (general third party liability insurance) not included in groups 10-12) – an increase of PLN 0.10 billion compared with the previous year. For the other classes in which the technical profit was improved, for none of them the improvement exceeded PLN 0.04 billion. However, there was a significant deterioration of the technical result in class 3 (accident and theft insurance) by PLN 0.34 billion (a decrease of 42.34 % YOY) and in class 8 (insurance against damage caused by natural forces, including damage to or loss of property not included in classes 3-7) by PLN 0.23 billion (a decrease of 69.18 % YOY).

**Table 6. Basic figures characterising the activities of life insurance undertakings in the years 2016-2019 (financial data in PLN billion)**



Detailed list	2016	2017	2018	2019
<b>Selected balance sheet items</b>				
Deposits (item B)	40.84	40.67	39.77	40.36
Net assets of life insurance where the investment risk is borne by the policyholder	56.99	59.13	50.76	49.05
Equity capital	12.22	11.93	11.54	11.46
Gross technical provisions	87.36	88.84	80.63	78.95
Balance sheet total	103.17	104.68	95.33	93.85
<b>Selected items of profit and loss accounts</b>				
Gross written premiums	23.85	24.56	21.70	21.27
Gross claims incurred	18.43	20.44	21.50	18.33
Costs of insurance activities	5.42	5.34	5.10	5.07
Acquisition costs	3.93	3.87	3.59	3.45
Administrative costs	1.71	1.65	1.64	1.71
Technical result	2.94	3.04	3.08	3.25
Net profit (loss)	2.17	2.28	2.44	2.58

Source: UKNF's own study

**Table 7. Basic figures characterising the activities of non-life insurance undertakings in the years 2016-2019 (financial data in PLN billion)**

Detailed list	2016	2017	2018	2019
<b>Selected balance sheet items</b>				
Deposits (item B)	63.13	72.16	77.14	79.54
Equity capital	21.98	24.65	26.17	28.60
Gross technical provisions	55.29	60.91	65.99	70.24
Balance sheet total	81.97	92.01	97.26	100.16
<b>Selected items of profit and loss accounts</b>				
Gross written premiums	32.10	37.78	40.46	42.56
Gross claims incurred	15.41	17.81	19.50	20.40
Costs of insurance activities	7.95	8.39	9.17	9.98
Acquisition costs	7.11	7.94	8.99	9.69
Administrative costs	1.99	2.04	2.03	2.22
Technical result	0.37	2.07	2.93	2.93
Net profit (loss)	1.93	3.49	4.24	4.64

Source: UKNF's own study

## 2.4. SECTOR OF CREDIT UNIONS

At the end of 2019, the KNF Board supervised 25 credit unions and the National Association of Credit Unions. In 2019, the KNF Board approved the merger of three credit unions with other credit unions, and in the case of one credit union decided on its take-over by a domestic bank.

At the end of the fourth quarter of 2019, the assets of credit unions amounted to over PLN 9.34 billion. According to the reporting data, in 2019 the credit unions sector recorded a net profit of PLN 42.25 million. As at the end of 2019, the amount of own funds of credit unions (calculated in accordance with the Act on credit unions) was PLN 499.78 million. The data are preliminary as they have not been audited by a certified auditor, and they may change.

## 2.5. PENSION SECTOR

### OPEN PENSION FUNDS AND GENERAL PENSION SOCIETIES

As at the end of 2019, 10 open pension funds (OFEs) and the same number of general pension societies (PL:  *powszechne towarzystwo emerytalne – PTE*) managing them held authorisations to operate.

**Table 8. The net asset value of OFEs in the years 2016-2019 (as at 31 December)**

Open pension fund	Net assets (in PLN million)				Market share (in %)
	2016	2017	2018	2019	
Aegon OFE	6 312.0	15 479.4	13 620.0	13 391.0	8.6
Allianz Polska OFE	6 964.6	8 090.6	7 152.3	7 160.2	4.6
Aviva OFE Aviva Santander	33 682.2	39 468.9	34 493.3	33 803.3	21.8
AXA OFE	9 867.1	11 555.5	10 126.9	9 829.6	6.3
Generali OFE	7 483.0	8 803.8	7 825.8	7 679.6	5.0
MetLife OFE	12 326.6	14 256.7	12 391.7	12 064.3	7.8
Nationale-Nederlanden OFE	37 556.3	44 576.6	39 748.0	39 632.0	25.6
Nordea OFE	7 154.3	-	-	-	-
Pekao OFE	2 262.6	2 655.2	-	-	-
PKO BP Bankowy OFE	7 015.0	8 074.9	7 046.0	6 922.3	4.5
OFE Pocztylion	2 831.5	3 234.2	2 809.9	2 727.0	1.8
OFE PZU „Złota Jesień”	19 979.3	23 333.5	22 120.1	21 606.8	14.0
<b>Total:</b>	<b>153 434.5</b>	<b>179 529.30</b>	<b>157 334.9</b>	<b>154 816.1</b>	<b>100.0</b>

Source: KNF's own study based on daily reports of OFEs

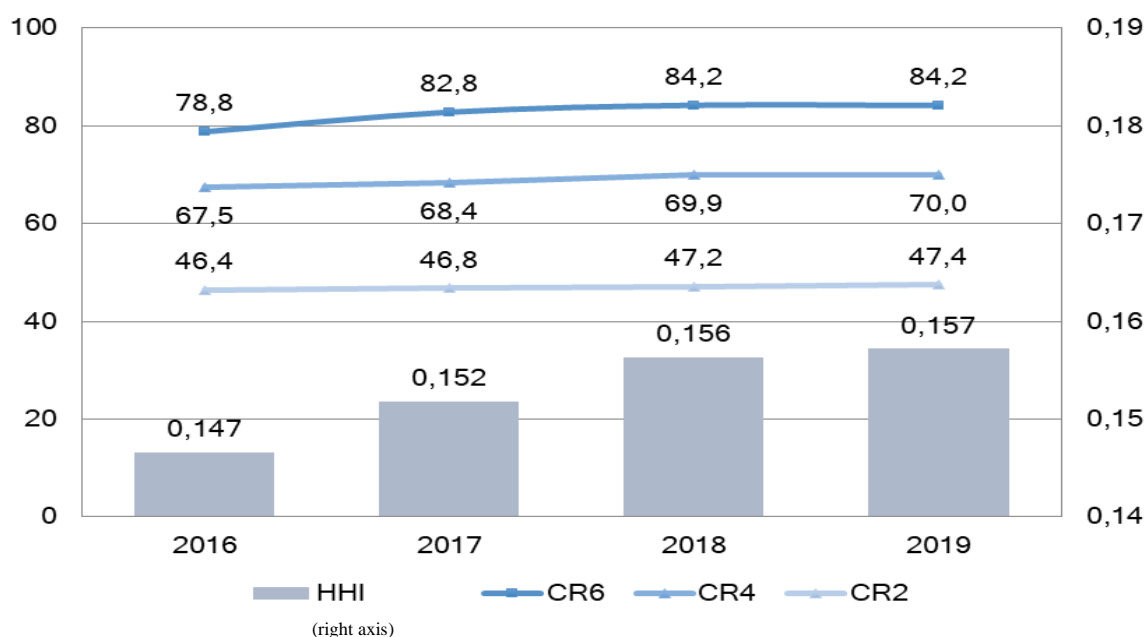
At the end of 2019, net assets of open pension funds reached PLN 154.8 billion and were PLN 2.5 billion (1.6%) lower than a year before.

The key driver of the decrease in the net asset value of OFEs in 2019 was the negative balance of settlements between OFEs and the Polish Social Insurance Institution (ZUS). In 2019, OFEs transferred PLN 6.9 billion to ZUS, i.e. PLN 1.1 billion less than in 2018 under the safety slider, that is a regime of ongoing transfer of funds from the account of members who would reach the pensionable age in less than 10 years. During the same period, ZUS transferred PLN 3.5 billion of premiums to OFEs, i.e. PLN 0.2 billion more than in the previous year.

In 2019, the market share of the four largest pension funds measured by the value of assets increased by 0.1 percentage point (to 70.0%). CR6 remained unchanged from 2018 and was 84.2%, while HHI reached 0.157.

Diagram 9 shows the concentration of net assets of OFEs in the years 2016-2019.

Diagram 9. Concentration of net assets of OFEs in the years 2016-2019 (as at 31 December)



Source: UKNF's own study

CR2, CR4, CR6 – indicators specifying shares of 2, 4 and 6 largest OFEs in total assets.

HHI (the Herfindahl-Hirschmann index) – a measure of market concentration that determines the estimated level of concentration in a given industry, calculated as the sum of the square of market shares of individual entities (e.g. the sum of squares of shares of individual OFEs in total assets of OFEs).

At the end of 2019, OFEs had 15.7 million members. Over the year as a whole, there was another fall in the number of members, by 0.2 million people. The total market share of the 3 largest funds did not change as compared to the previous year, reaching nearly a half of the entire market (49.9%).

Table 9. Number of members of OFEs in the years 2016-2019 (as at 31 December)

Open pension fund	Number of members (in thousand)				Market share (in %)
	2016	2017	2018	2019	
Aegon OFE	913.9	1 829.7	1 804.0	1 776.9	11.3
Allianz Polska OFE	1 072.2	1 059.6	1 050.7	1 032.0	6.6
Aviva OFE Aviva BZ WBK	2 631.0	2 577.2	2 539.4	2 496.1	15.9
AXA OFE	1 146.7	1 130.8	1 119.4	1 106.3	7.1
Generali OFE	995.0	980.4	970.4	959.6	6.1
MetLife OFE	1 581.4	1 554.2	1 536.2	1 516.8	9.7
Nationale-Nederlanden OFE	3 061.7	3 013.5	2 981.6	2 945.0	18.8
Nordea OFE	982.2	-	-	-	-
Pekao OFE	332.9	327.0	-	-	-
PKO BP Bankowy OFE	937.4	922.9	912.6	901.4	5.7
OFE Pocztylion	582.3	573.4	567.6	561.3	3.6
OFE PZU „Złota Jesień”	2 188.1	2 133.9	2 420.0	2 375.0	15.2
<b>Total</b>	<b>16 424.8</b>	<b>16 102.6</b>	<b>15 901.9</b>	<b>15 670.4</b>	<b>100.0</b>

Source: The Polish Social Insurance Institution (ZUS)

In 2019, the average rate of return generated by open pension funds was positive and reached 0.9%, unlike in 2018, when it was negative. Not all OFEs achieved a positive rate of return, and 2 of them closed the year with a negative rate of return. The other entities generated rates of return ranged from 1.9% to 0.5%. The volatility of investment performance results from a strong involvement of funds in domestic equity instruments, as a consequence of the significant dependence of performance on the situation in the stock market.

**Table 10. Rates of return of OFEs in the years 2016-2019 (in %)**

Open pension fund	2016	2017	2018	2019
Aegon OFE	10.0	16.4	-9.3	0.8
Allianz Polska OFE	9.9	17.8	-9.5	1.9
Aviva OFE Aviva BZ WBK	9.7	19.8	-9.4	1.2
AXA OFE	9.1	18.8	-9.9	-0.7
Generali OFE	8.4	19.4	-8.8	-0.1
MetLife OFE	11.5	19.4	-9.3	0.8
Nationale-Nederlanden OFE	8.9	19.6	-9.4	0.8
Nordea OFE	11.7	-	-	-
Pekao OFE	11.3	19.6	-	-
PKO BP Bankowy OFE	11.4	17.5	-10.0	0.8
OFE Pocztylion	10.7	17.8	-9.3	0.5
OFE PZU „Złota Jesień”	10.2	20.9	-10.7	1.6
<b>Average</b>	<b>10.2</b>	<b>18.8</b>	<b>-9.6</b>	<b>0.9</b>

Source: UKNF's own study based on daily reports of OFEs

In 2019, the dominant categories in the account of the general pension societies were revenues and expenses relating to the management of pension funds (OFE and DFE), including:

- revenue from management fee of OFE (74.2% of revenues),
- revenue from contributions to OFE (5.2% of revenues),
- revenue from the use of the reserve account – additional remuneration of PTE for good investment results (5.9% of revenues),

and expenses of:

- general management of PTE (38.4% of expenses),
- a transfer agent of OFE and DFE (22.2% of expenses),
- acquisition services for OFE and DFE (8.1% of expenses).

## OCCUPATIONAL PENSION FUNDS AND SOCIETIES

2019 saw a decrease in the number of occupational pension societies managing the occupational pension funds (PL: *pracowniczy fundusz emerytalny* – PFE) due to the liquidation of the PFE Unilever Polska. The process of liquidation involved the approval of the opening balance of the liquidation, the liquidation programme and the financial statements of the PFE Unilever Polska in liquidation, drawn up as at the completion date of liquidation, submitted by the occupational pension society Unilever Polska S.A. w likwidacji. As at 31 December 2019, 2 occupational pension societies managed 2 occupational pension funds with 32.2 thousand members, 1 thousand (3.1%) less than the previous year. In the reporting period, basic and additional contributions in the amount of PLN 107.9 million were transferred to the accounts of PFE members. The value of net assets accumulated in occupational pension funds amounted to PLN 1.9 billion at the end of 2019. Compared to 2018, the value of net assets of PFEs increased by PLN 78.2 million, i.e. by 4.3%.

**Table 11. Net assets of PFEs in the years 2016-2019 (as at 31 December)**

Occupational pension fund	Net assets (PLN million)				Market share (in %)
	2016	2017	2018	2019	
PFE Nestle Polska	0	-	-	-	-
PFE Nowy Świat	426.1	466.4	406.0	401.9	21.4
PFE Orange Polska	1 268.2	1 396.0	1 394.2	1 476.5	78.6
PFE Unilever Polska	77.2	0.6	0	-	-
<b>Total</b>	<b>1 771.5</b>	<b>1 863.0</b>	<b>1 800.2</b>	<b>1 878.4</b>	<b>100.0</b>

Source: occupational pension funds

Both occupational pension funds operating at the end of 2019 achieved positive rates of return during the reporting period.

**Table 12. Rates of return of PFEs in the years 2016-2019 (in %)**

Occupational pension fund	2016	2017	2018	2019
PFE Nestle Polska	-	-	-	-
PFE Nowy Świat	3.9	8.9	-2.7	1.6
PFE Orange Polska	3.2	8.2	-1.1	5.6
PFE Unilever Polska	4.9	-	-	-

Source: occupational pension funds

## VOLUNTARY PENSION FUNDS

As at 31 December 2019, 7 voluntary pension funds (PL: *dobrowolny fundusz emerytalny* – DFE), managed by general pension societies, were authorised to pursue business. All active DFEs collected payments from savers under individual retirement protection account (PL: *indywidualne konto zabezpieczenia emerytalnego* – IKZE) contracts, while 5 of them also operated individual pension accounts (PL: *indywidualne konto emerytalne* – IKE). As of 1 July 2019, general pension societies have also managed target-date voluntary pension funds (FZD).

At the end of 2019, DFEs had 66.9 thousand members (a decrease of 36.6% compared with the previous year), who accumulated savings in the form of IKE or IKZE. The value of the aggregate net assets accumulated in DFEs at the end of 2019 amounted to PLN 550.3 million, which represented an increase of 44.1% compared with the previous year (driven mainly by an inflow of contributions to DFEs in the amount of PLN 158 million).

**Table 13. Net assets of DFEs in the years 2016-2019 (as at 31 December)**

Voluntary pension fund	Net assets (in PLN million)				Market share (in %)
	2016	2017	2018	2019	
Allianz Polska DFE	8.0	11.7	13.5	16.7	3.0
Generali DFE	0.2	0.3	0.5	0.7	0.1
MetLife DFE	28.1	33.4	30.5	34.9	6.4
Nationale-Nederlanden DFE	33.6	69.5	98.7	152.6	27.7
DFE Pekao	51.2	82.0	-	-	-
PKO DFE	34.0	55.0	67.8	86.9	15.8
DFE Pocztylion Plus	1.1	1.4	2.4	4.0	0.7
DFE PZU	26.4	45.6	168.4	254.5	46.3
<b>Total</b>	<b>182.6</b>	<b>298.9</b>	<b>381.8</b>	<b>550.3</b>	<b>100</b>

Source: voluntary pension funds

In 2019, unlike in 2018, all DFEs achieved positive rates of return. Large diversification of investment results of DFEs was largely the consequence of different investment strategies used by managers. The funds varied both in terms of allocation of each asset class, the choice of individual financial instruments, and the pace of changes in the portfolio structure.

**Table 14. Rates of return of DFEs in the years 2016-2019 (in %)**

Voluntary pension fund	2016	2017	2018	2019
Allianz Polska DFE	* 7.8	* 11.5	* -6.6	* 5.4
Generali DFE	18.3	6.4	-10.4	16.5
MetLife DFE	3.8	6.6	-16.6	9.7

Nationale-Nederlanden DFE	* 13.3	* 9.0	* -8.6	* 8.9
DFE Pekao	4.9	6.8	-	-
PKO DFE	5.7	8.6	-6.7	0.1
DFE Pocztylion Plus	3.6	-1.0	-4.8	1.0
DFE PZU	16.2	14.7	-9.9	3.4

Source: Voluntary pension funds

\* The rate of return calculated on the basis of the type A unit of account.

## OCCUPATIONAL PENSION SCHEMES, INDIVIDUAL RETIREMENT ACCOUNTS AND INDIVIDUAL RETIREMENT PROTECTION ACCOUNTS

Occupational pension schemes (PPE), individual retirement accounts (IKE) and individual retirement protection accounts (IKZE), the participation in which is voluntary, are – unlike other forms of voluntary accumulation of savings for pension purposes – of an institutional nature, and funds are collected on them according to the rules laid down by law.

The development of that element of the pension system is strengthened by incentives in the form of tax exemptions and the possibility to benefit from a reduction on social security contributions.

The PPE market has existed since 1999. The development of the PPE market in the years 2016-2019 is presented in Table 15.

**Table 15. Development of occupational pension schemes (PPEs) in the years 2016-2019**

Detailed list	2016	2017	2018	2019
Number of PPEs	1036	1054	1230	1907
Number of participants (in thousand)	396	396	425	613
Value of accumulated assets (in PLN million)	11 394	12 643	12 735	14 545

Source: KNF's own study – institutions managing the funds of occupational pension schemes

1 907 occupational pension schemes were operating as at 31 December 2019, including:

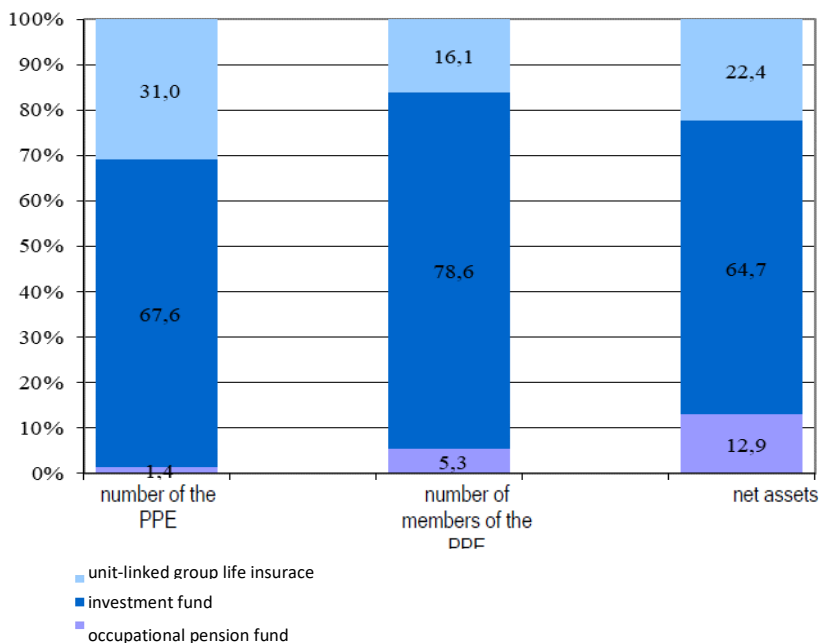
- 590 in the form of a unit-linked group life insurance contract,
- 1 290 in the form of an agreement on the payment by the employer of employees' contributions to the investment fund,
- 27 in the form of an occupational pension fund.

In 2019, 710 new occupational pension schemes were entered in the Register of Occupational Pension Schemes. Additionally, in the reporting period, 68 employers joined an inter-company scheme entered in the PPE register.

At the end of 2019, PPEs had nearly 613 thousand participants, and the value of collected assets amounted to PLN 14 545 million, which means that the value of assets collected on accounts of PPE participants increased by PLN 1810 million compared with 2018 (by more than 14%).

The share of individual forms in the PPE market is shown in Diagram 10.

### Diagram 10. Structure of the PPE market in 2019 (in %)

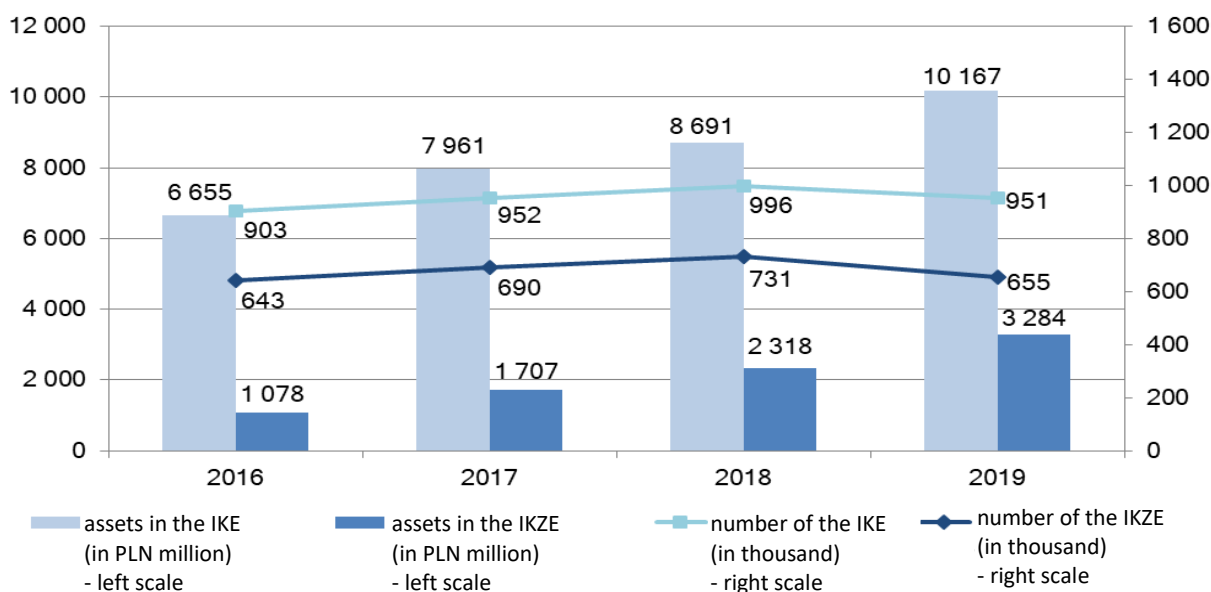


Source: UKNF's own study – institutions managing the funds of occupational pension schemes

Individual retirement accounts (IKE) and individual retirement protection accounts (IKZE) are voluntary individual forms of saving for pension purposes. The periods of their functioning vary: IKEs have operated since 2004 and IKZEs since 2012.

The report 'Occupational pension schemes in 2019' was presented at the KNF Board's meeting.

**Diagram 11. The value of assets and the number of IKE and IKZE accounts in the years 2016-2019 (as at 31 December)**



Source: UKNF's own study – institutions maintaining the IKE and/or IKZE accounts

As at the end of 2019, entities authorised to operate IKEs and/or IKZEs handled 950.8 thousand IKEs and 654.6 thousand IKZEs, which generated assets of PLN 10.2 billion and PLN 3.3 billion, respectively. In 2019, the savers contributed PLN 1.7 billion to IKE accounts and PLN 0.9 billion to IKZE accounts, a total of 21.5% more than the year before.

**Table 16. Number of accounts and assets of IKEs in the years 2016-2019 (as at 31 December)**

Entities maintaining IKE accounts	Number of accounts (in thousand)				Market share (in %)	Value of assets (in PLN million)				Market share (in %)
	2016	2017	2018	2019		2016	2017	2018	2019	
Insurance undertakings	571.1	568.5	562.5	462.2	48.6	2 283.0	2 591.9	2 582.7	2 738.9	26.9
Investment funds	236.3	275.8	317.1	355.0	37.3	1 995.2	2 447.0	2 725.0	3 266.4	32.1
Entities conducting brokerage activities	27.6	30.4	32.6	39.0	4.1	1 075.6	1 285.1	1 434.7	1 784.7	17.6
Banks	64.0	71.9	78.3	88.5	9.3	1 266.1	1 581.2	1 886.5	2 296.7	22.6
Voluntary pension funds	3.6	4.9	5.3	6.1	0.7	35.6	56.1	62.7	80.7	0.8
<b>Total</b>	<b>902.6</b>	<b>951.5</b>	<b>995.8</b>	<b>950.8</b>	<b>100.0</b>	<b>6 655.5</b>	<b>7 961.3</b>	<b>8 691.6</b>	<b>10 167.4</b>	<b>100.0</b>

Source: UKNF's own study – institutions maintaining the IKE accounts

**Table 17. Number of accounts and value of assets of IKZEs in the years 2016-2019 (as at 31 December)**

Entities maintaining IKZE accounts	Number of accounts (in thousand)				Market share (in %)	Value of assets (in PLN million)				Market share (in %)
	2016	2017	2018	2019		2016	2017	2018	2019	
Insurance undertakings	446.1	448.9	447.3	376.8	57.6	398.6	545.4	635.1	783.6	23.9
Investment funds	87.5	120.2	150.9	175.0	26.7	407.9	719.8	1 086.1	1 608.7	49.0
Entities conducting brokerage activities	6.2	8.5	11.2	16.8	2.6	57.0	94.3	119.4	197.2	6.0
Banks	15.6	18.1	20.3	24.4	3.7	66.6	106.7	156.2	224.3	6.8
Voluntary pension funds	87.8	94.3	101.4	61.4	9.4	148.0	240.7	320.8	470.0	14.3
<b>Total</b>	<b>643.2</b>	<b>690.0</b>	<b>731.1</b>	<b>654.4</b>	<b>100.0</b>	<b>1 078.1</b>	<b>1 706.9</b>	<b>2 317.6</b>	<b>3 283.8</b>	<b>100.0</b>

Source: UKNF's own study – institutions maintaining the IKZE accounts

## EMPLOYEE CAPITAL PLANS

Under the Act of 4 October 2018 on employee capital plans, employee capital plans (PL: *pracowniczy plan kapitałowy* – PPK) have been in operation since 1 July 2019. A participant of the PPK is a natural person who is over 18 years of age, for and on behalf of whom an employer has entered into an agreement to operate a PPK with a financial institution. 21 financial institutions entitled to operate PPKs were entered in the register of PPKs in 2019:

- 16 investment fund management companies,
- 3 general pension societies,
- 2 insurance undertakings (including 1 entity that did not commence the activities).

According to information received from institutions that operated PPK accounts at the end of 2019, assets amounting to PLN 83.1 million were collected on the PPK accounts.



## 2.6. CAPITAL AND COMMODITY MARKETS

The capital and commodity markets supervised by the KNF Board are formed by entities operating in the securities market and the market of other financial instruments, collective investment institutions, and entities operating in the commodity market.

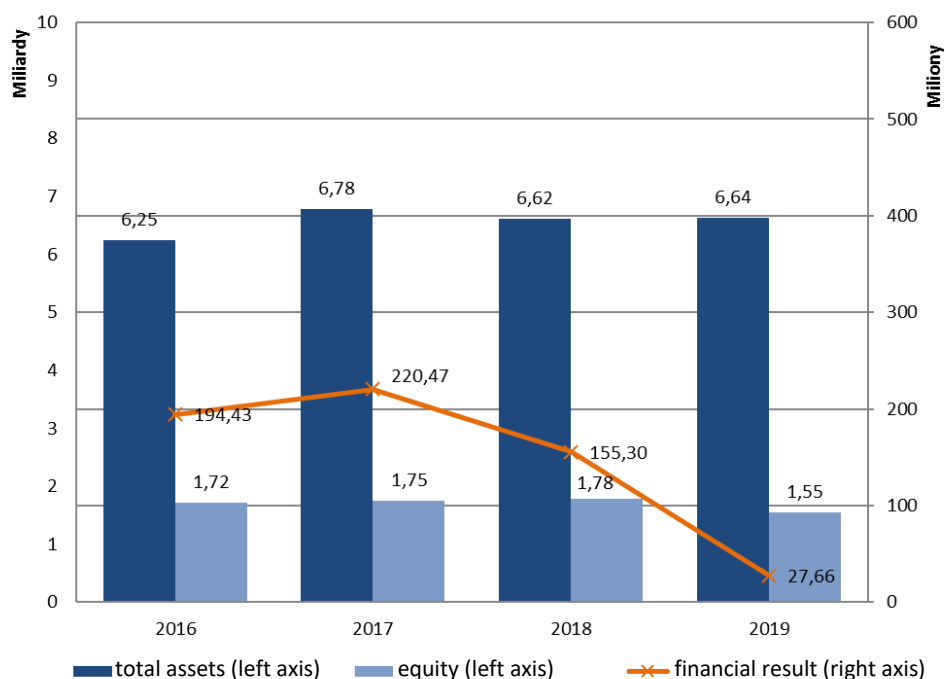
### ENTITIES PROVIDING INVESTMENT AND FIDUCIARY SERVICES

**Table 18. The number of entities providing investment and fiduciary services in the years 2016-2019**

Type of entity	2016	2017	2018	2019
Brokerage houses	46	44	40	38
Commodity brokerage houses	1	1	1	1
Banks providing investment services	11	11	9	9
Custodian banks	13	13	12	12
<b>Total</b>	<b>71</b>	<b>69</b>	<b>62</b>	<b>60</b>

Source: UKNF's own study

**Diagram 12. Basic data of the sector of brokerage houses in the years 2016-2019**



Source: UKNF's own study

Data for the years 2016-2018 come from the audited financial statements; data for 2019 are derived from monthly MRF reports as at 31/12/2019.

The data do not include data of one brokerage house whose financial year does not coincide with the calendar year. The data take into account the changing number of brokerage houses operating in the years 2016-2019.

**Table 19. Data on the number of client accounts of brokerage firms in the years 2016-2019**

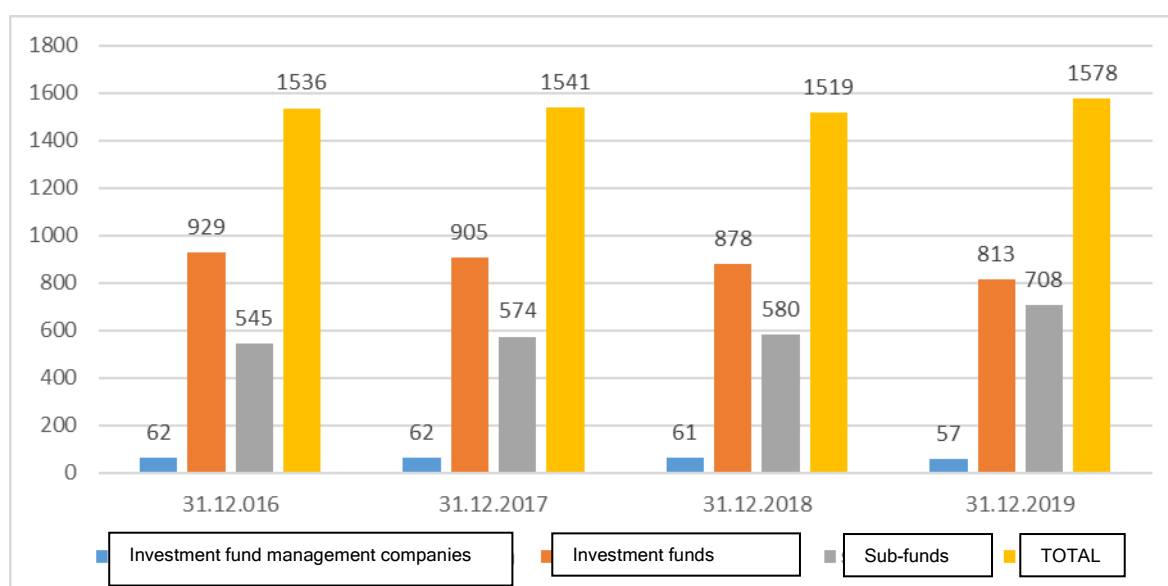
Detailed list	Number of client accounts				Share in total value
					(in %)
	2016	2017	2018	2019	2019
Brokerage houses	838 793	744 399	714 957	563 321	29.66%
Banks providing investment services	1 187 939	1 192 413	1 113 066	1 335 830	70.34%
<b>Total</b>	<b>2 026 732</b>	<b>1 936 812</b>	<b>1 828 023</b>	<b>1 899 151</b>	<b>100%</b>

Source: UKNF's own study

## INVESTMENT FUND MANAGEMENT COMPANIES AND INVESTMENT FUNDS

2019 saw a decrease in the number of investment fund management companies (PL: *towarzystwo funduszy inwestycyjnych* – TFI) and investment funds but also an increase in the number of sub-funds, so the total number of supervised entities increased, as shown in Diagram 13 (in cumulative terms).

**Diagram 13. Total number of supervised investment fund management companies, and investment funds and sub-funds at the end of the years 2016-2019 (cumulatively, by type)**

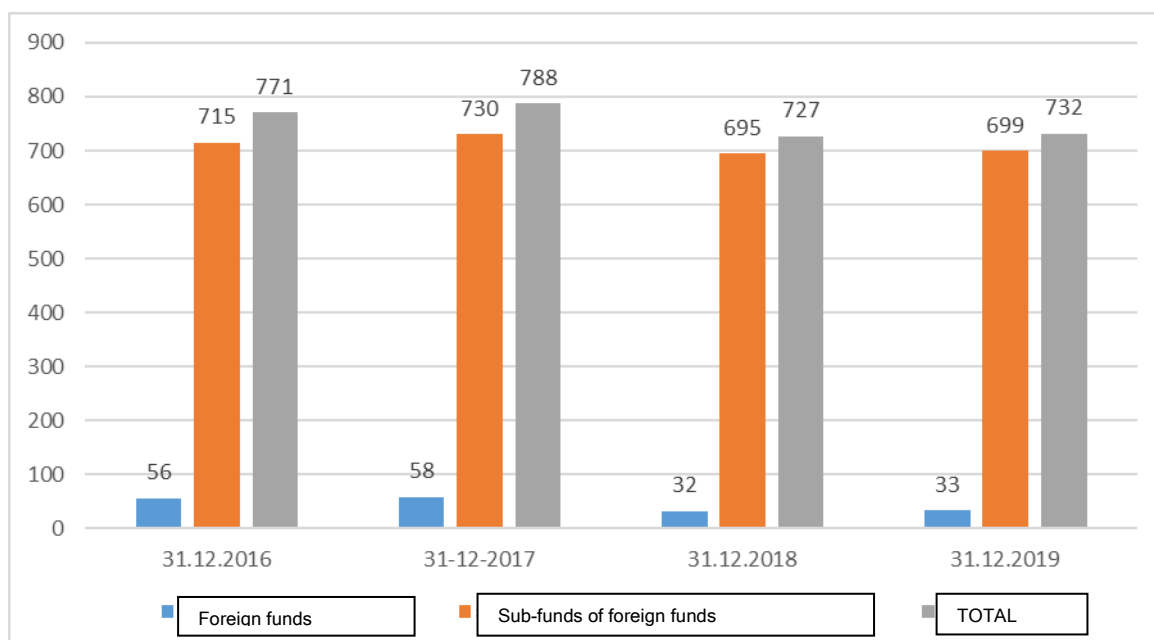


Source: UKNF's own study

As at 31 December 2019, 57 investment fund management companies, managing a total of 813 investment funds, held authorisations from the KNF Board, including: 48 open-end investment funds, 66 specialist open-end investment funds, and 699 closed-end investment funds.

The KNF Board supervises the sale in the territory of the Republic of Poland of participation units issued by foreign funds.

**Diagram 14. Total number of supervised foreign investment funds (UCITS type) and sub-funds included in foreign investment funds at the end of the years 2016-2019 (cumulatively, by type)**

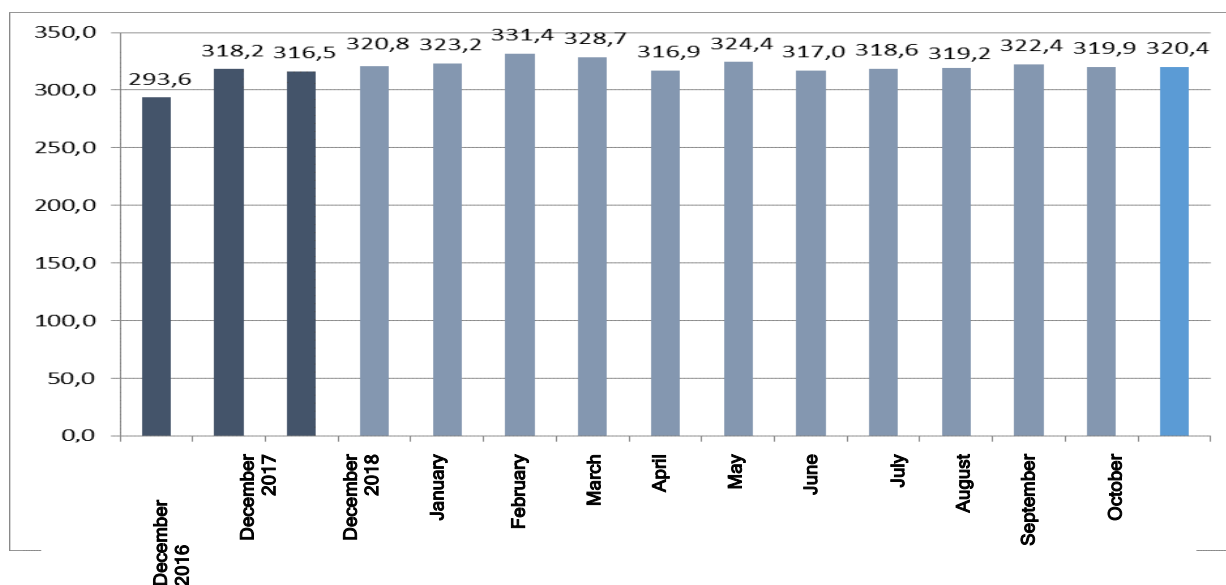


Source: UKNF's own study

After a decrease recorded at the end of 2018, in the first months of 2019 the value of the assets of investment funds managed by management companies increased to PLN 331.4 billion at the end of March 2019. In the following months, the total value of the funds' assets decreased to approx. PLN 317 billion and reached around PLN 320 billion by the end of 2019. As of 31 December 2019, the value of the funds' assets amounted to PLN 320.4 billion and was higher by PLN 3.9 billion compared to the level in December 2018.

Diagram 15 shows the value of assets of investment funds managed by TFIs at the end of the years 2016-2018 and in each month of 2019.

**Diagram 15. Assets of investment funds at the end of the years 2016-2018 and in 2019 (in PLN billion)<sup>7</sup>**



Source: UKNF's own study

As shown in Diagram 15, the value of assets of investment funds in the first quarter of 2019 continued to increase. Following the declines in April and May, the value of the funds' assets increased to PLN 324.4 billion at the end of the second quarter of 2019. At the beginning of the second half of 2019, the value of investment funds' assets went down again and remained at a similar level by the end of the year. The largest increases in the value of investment funds' assets were recorded in March and June, while their lowest point was noted in May and July.

Although the value of assets of investment funds increased at the end of 2019 compared to December 2018, the average level for each month of 2019 was lower than in the previous year, which reduced the total revenue generated by investment fund management companies. The total revenue in 2019 amounted to PLN 3 559 million, i.e. 9.7% less than in 2018. The total cost amounted to PLN 2 371 million, i.e. 15.1% less than in the previous year. As the costs were reduced to a greater extent than the revenues, the aggregate net financial result of TFIs for 2019 was 5.1% higher than in 2018 and amounted to PLN 957 million.<sup>8</sup>

**Table 20. Aggregate costs, revenues and net financial result of investment fund management companies in the years 2016-2019 (in PLN million)<sup>9</sup>**

Detailed list	2016	2017	2018	2019	
Total revenues	3 241	3 884	3 940	3 559	-
Total costs, including:	2 610	3 036	2 794	2 371	100.00%
- overhead costs	986	1 158	1 243	1 190	50.19%
- variable costs, including:	1 624	1 878	1 551	1 181	49.81%

<sup>7</sup> Based on monthly reports provided by investment fund management companies. Monthly reports are not audited or reviewed by a statutory auditor so information included therein may be subject to subsequent corrections.

<sup>8</sup> Based on monthly reports provided by investment fund management companies. Monthly reports are not audited or reviewed by a statutory auditor so information included therein may be subject to subsequent corrections.

<sup>9</sup> Based on monthly reports provided by investment fund management companies. Monthly reports are not audited or reviewed by a statutory auditor so information included therein may be subject to subsequent corrections.

- variable distribution costs*	1 213	1 398	936	521	21.97%
Net financial result	498	546	911	957	-

Source: UKNF's own study

\* Costs directly relating to the receipt and execution of orders of sale, repurchase or conversion of units, or the receipt of subscriptions for investment certificates and their allocation, as remuneration for distributors or incurred for the promotion or marketing of the fund.

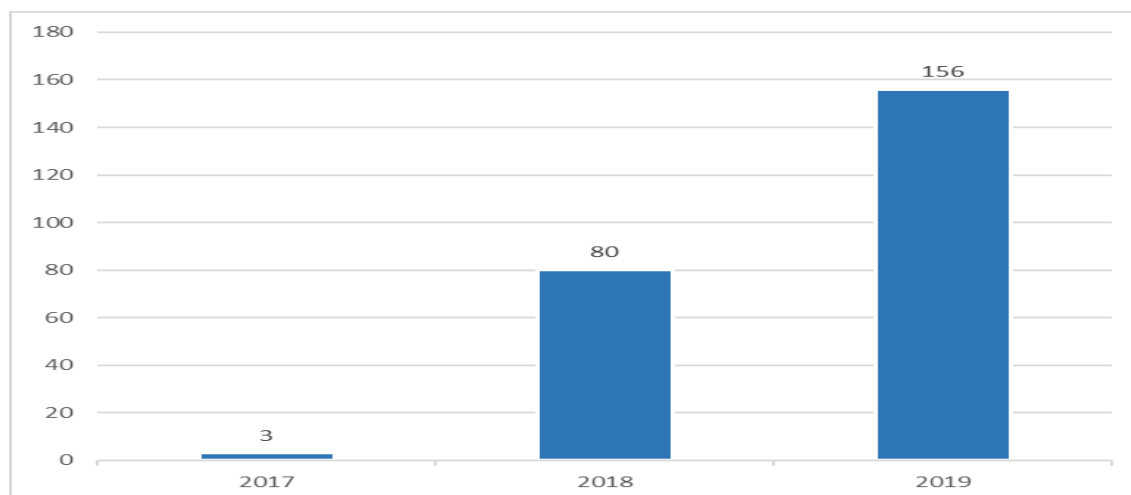
## ALTERNATIVE INVESTMENT COMPANIES/PARTNERSHIPS (AICS) AND ALTERNATIVE INVESTMENT COMPANY/PARTNERSHIP MANAGERS (AICMS)

2019 saw the continuation of tasks related to examining applications for entry in the Register of AICMs and for authorisation to operate as an AICM, submitted both under the transitional provisions of the amending Act<sup>10</sup>, as well as under the current provisions of the Act of investment funds. The AICM Team undertook intensive efforts to complete, in particular, proceedings initiated in previous years, including cases where entities did not cooperate with the UKNF in the course of the proceedings. In many such cases, the UKNF recommended the decision to deny the entry in the Register of AICMs.

At the same time, in 2019, special efforts were made to the ongoing analysis of the legal and factual aspects of the operation of AICs and AICMs, including in particular the problems reported by capital market participants.

In addition, as a consequence of the significant number of entries made in the Register of AICMs in 2018, intensive efforts were made for the first time in connection with the verification of the reporting obligations of AICMs for that particular year. The analysis of the submitted annual reports allowed to establish that the value of assets being managed at the end of 2018 amounted to PLN 160.1 million.

**Diagram 16. Number of KNF-supervised AICMs in the years 2017-2019 (cumulatively)**



Source: UKNF's own study

All KNF-supervised entities operating as AICMs were entered in the Register of AICMs in the years 2017-2019.

## ORGANISED SECURITIES MARKETS

### Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange)

<sup>10</sup> Act of 31 March 2016 amending the Act on investment funds and certain other laws (Journal of Laws 2016, item 615, hereinafter: 'the amending Act').

### Regulated market

The core activity of the Warsaw Stock Exchange is to operate the regulated market. The regulated market is a permanent multilateral trading system for financial instruments which provides investors with equal and universal access to market information, associating offers of acquisition and disposal of financial instruments, and uniform terms and conditions for the acquisition and disposal of such instruments. The regulated market operates according to the Warsaw Stock Exchange Rules, amendments to which are approved by the KNF Board, and the Detailed Exchange Trading Rules specifying the provisions of that document.

The main financial instruments traded on the Warsaw Stock Exchange are securities: shares, bonds, subscription rights, rights to shares, investment certificates, and derivatives: futures, options, index participation units.

**Table 21. Rates of returns on the WSE indices in the years 2016-2019 (in %)**

Detailed list	2016	2017	2018	2019
WIG	11.38	23.17	-9.50	0.25
WIG20	4.77	26.35	-7.50	-5.56
mWIG40	18.18	14.99	-19.35	-0.03
sWIG80	7.93	2.36	-27.57	13.94

Source: <https://www.gpw.pl/podstawowe-statystyki-gpw>

**Table 22. The number of instruments listed on the WSE in the years 2016-2019**

Detailed list	2016	2017	2018	2019
Companies	487	482	465	449
- including foreign	53	50	51	48
Number of new listings	19	15	7	7
Number of delistings	20	20	25	22
Bonds	153	178	195	231
- including foreign	4	4	6	8
Futures	166	174	178	183
Options	228	218	232	230

Source: <https://www.gpw.pl/podstawowe-statystyki-gpw>

**Table 23. Capitalisation of the WSE at the end of the years 2016-2019 (in PLN million)**

Detailed list	2016	2017	2018	2019
Domestic companies	557 124	710 336	615 517	550 234
Foreign companies	558 596	708 882	549 559	553 603
Polish bonds	617 985	652 524	687 223	713 366
Foreign bonds	3 122	8 207	15 010	21 107
<b>Total</b>	<b>1 736 827</b>	<b>2 079 949</b>	<b>1 869 327</b>	<b>1 838 310</b>

Source: <https://www.gpw.pl/podstawowe-statystyki-gpw>

**Table 24. Value of trading on the WSE in the years 2016-2019 (in PLN million)**

Detailed list	2016	2017	2018	2019
Shares	202 293	260 979	211 850	195 266
Bonds	1 426	1 447	1 331	1 589
Futures	188 439	230 203	223 168	191 808
Options	6 833	7 072	6 731	5 625

Source: <https://www.gpw.pl/podstawowe-statystyki-gpw>

#### *Alternative trading system of the Warsaw Stock Exchange (NewConnect)*

Apart from the regulated market, the Warsaw Stock Exchange also operates the organised market of financial instruments, according to the formula of the alternative trading system called NewConnect. As assumed by the organisers, the market is dedicated to young emerging companies with a relatively small capitalisation expected. In comparison to the regulated market, the formalities relating to admitting financial instruments to trading are simplified and the costs of entering the market are lower. The information requirements for issuers are less stringent.

In 2019, NewConnect<sup>11</sup> was granted the SME Growth Market status (SME MTF). The SME Growth Market status granted to an alternative trading system operated by the WSE in a given year relaxed certain obligations of issuers, mainly the obligations under MAR (requirements for maintaining records of access to inside information and for publication of inside information) as well as prospectus requirements.

**Table 25. Data on the NewConnect alternative trading system in the years 2016-2019**

Detailed list	2016	2017	2018	2019
Value of the NCIndex at the end of the year	306.50	278.22	198.72	237.06
Rate of return of the NCIndex in the current year (%)	10.11	-9.23	-28.57	19.29
Capitalisation of companies at the end of the year (PLN million)	9 799	9 408	7 386	9 705
Number of companies at the end of the year	414	401	381	375
Number of new listings	16	19	15	15
Number of sessions	251	250	247	248
Trading volume (in PLN million)	1 360	1 322	1 574	1 438
Number of transactions per session	3 417	3 401	3 058	3 296
Average trading value per session (PLN million)	5.41	5.28	6.37	5.80

Źródło: <https://newconnect.pl/statystyki-okresowe>

#### **BondSpot S.A.**

#### *Regulated market*

The regulated market in Poland is also operated by BondSpot S.A., a company supervised by the KNF Board. The main financial instruments traded on the market operated by BondSpot

<sup>11</sup> The SME Growth Market (SME MTF) status is granted to an alternative trading system operated by the WSE which consists of both the NewConnect stock market and the Catalyst debt market.

S.A. are treasury bonds, corporate bonds, cooperative bonds and other debt securities listed under the Catalyst system<sup>12</sup>.

*Alternative trading system of BondSpot S.A.*

In addition to the regulated market, BondSpot S.A. also organises trading in debt instruments under the alternative trading system (ATS). The market is also one of the segments of the Catalyst system. Similarly to the regulated market organised by BondSpot S.A., dematerialised bonds, mortgage bonds and other debt instruments incorporating property rights corresponding to the rights resulting from debt incurred may be quoted in the alternative trading system.

**Table 26. Data on the regulated market and the ATS in the years 2016-2019**

Detailed list	2016	2017	2018	2019
<b>Regulated OTC Market of BondSpot</b>				
Session trading volume (PLN million)	12.36	0.52	20.75	18.66
Number of session transactions	12	3	12	7
Number of instruments	130	144	149	172
<b>ATS BondSpot</b>				
Session trading volume (PLN million)	122.33	175.36	81.77	18.99
Number of session transactions	371	341	166	63
Number of instruments	214	237	209	186

Source: [https://gpwcatalyst.pl/pub/CATALYST/statystyki/statystyki\\_roczne/2019\\_CAT.pdf](https://gpwcatalyst.pl/pub/CATALYST/statystyki/statystyki_roczne/2019_CAT.pdf)

*Treasury BondSpot Poland*

Following the entry into force of the Act of 1 March 2018 amending the Act on trading in financial instruments and certain other laws (hereinafter: 'the amending Act'), BondSpot S.A. operates the second alternative trading system, i.e. Treasury BondSpot Poland (TBSP). Pursuant to Article 21(1) of the amending Act, the electronic market of treasury securities organised, on the entry into force of the amending Act, by a company operating a regulated market under an agreement with the ministry competent for the budget as part of the performance of tasks relating to the management of the debt of the State Treasury, was recognised, as of the date of entry into force of the amending Act, as an alternative trading system (subject to Paragraph 2 of that Article which stipulates that the company must adapt itself to the new legislation within 12 months, i.e. by 21 April 2019).

## CLEARING AND DEPOSIT SYSTEM

*KRAJOWY DEPOZYT PAPIERÓW WARTOŚCIOWYCH S.A.* (hereinafter: 'National Depository for Securities' or 'KDPW') is the central institution (the only institution in Poland) responsible for maintaining and supervising the deposit and settlement system for trading in financial instruments. The owners of KDPW are in equal parts the WSE, the State Treasury, and the National Bank of Poland. The basic tasks of the National Depository for Securities include registration and maintenance of a securities depository, settlement of transactions, supervision over the compliance of the issue volume with the number of securities traded,

<sup>12</sup> Catalyst is a functional combination of authorisation, approval and quotation of debt instruments in four debt markets (i.e. two regulated markets and two alternative trading systems). Out of four functionally connected markets, two are organised by the WSE and two by BondSpot S.A. (each company organises one regulated market and one alternative trading system). According to the division made by the companies, the markets organised by the WSE constitute the so-called retail segment of the Catalyst 'platform,' while wholesale trade is carried out in the markets organised by BondSpot S.A.



handling of corporate events, fulfilment of issuers' obligations, as well as operation of a mandatory compensation scheme.

The tasks of the National Depository also include running a numbering agency, responsible for assigning ISIN, FISN, CFI numbers to securities and LEI codes, which constitute a unique identifier for legal entities dealing with the trading in financial instruments. In addition, the National Depository operates a trading repository in accordance with EMIR. The National Depository also provides the Approved Reporting Mechanism (ARM) service, which consists in acting as an intermediary for the purpose of reporting to the supervisor details of transactions in financial instruments on behalf of the entities required to report such transactions under Article 26 of MiFIR (transaction reporting).

In 2019, the KNF Board approved amendments to the KDPW Rules in order to adapt the operating principles of the depository system to the amendments introduced by the Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection, which amendments entered into force on 1 July 2019. The Act introduced, among others, a requirement to register – in the securities depository – bonds, mortgage bonds or investment certificates.

In 2019, the KNF Board also approved amendments to the KDPW Rules concerning the implementation of a new service offered by KDPW to issuers, which enables voting using electronic means of

communication (e-voting) at a general meeting. The eVoting app is the first service launched by KDPW as part of the Blockchain Platform for the Capital Market.

Under Article 69(2) of *Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012* (OJ L 257 of 28 August 2014, p. 1; 'CSDR'), each CSD (central securities depository) was required to submit to its competent authority an application for authorisation necessary for the purposes of that Regulation by 30 September 2017. Therefore, the KNF Board received an application from KDPW S.A. for authorisation to operate as a central securities depository pursuant to Article 69(2) in conjunction with Article 16 of CSDR. In September 2019, the KNF Board concluded that the application of KDPW S.A. was complete. Under Article 17(8) of CSDR, within six months from the submission of a complete application, the KNF Board must inform the applicant in writing whether the authorisation of KDPW S.A. has been granted or refused.

*KDPW\_CCP SA* is a clearing house in which KDPW holds a 100% share in the initial capital. Since 8 April 2014, KDPW\_CCP S.A. has operated as a central counterparty (CCP) pursuant to Article 14 in conjunction with Article 17 of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (OJ L 201 of 2012, p. 1; 'EMIR'). KDPW\_CCP S.A. takes over the obligations of parties to the cleared transactions and becomes the buyer for each seller and the seller for each buyer while securing the cleared transactions with own assets.

KDPW\_CCP S.A. clears transactions entered into in organised trading, i.e. in the regulated spot and futures markets (GPW S.A. and BondSpot S.A.) and in the alternative trading systems (ATS GPW S.A. and ATS BondSpot S.A.), as well as settles derivative transactions entered into outside the organised trading and repos. KDPW\_CCP S.A. organises the system for securing liquidity of settlements accepted to clear transactions in accordance with EMIR. KDPW\_CCP S.A. clears transactions in PLN and EUR.

In 2019, the KNF Board approved the rules of KDPW\_CCP S.A. concerning a change of the methodology for calculating contributions to guarantee funds. Since the change was made,

the funds are updated by KDPW\_CCP S.A. once a day instead of once a month as it was before. The change is an important step towards greater security of transactions settled by KDPW\_CCP S.A.

In 2019, the KNF Board authorised KDPW\_CCP S.A. to extend the authorisation to provide clearing services as a CCP with regard to the clearing of general emission allowances (EUA) and aviation allowances (EUAA), in accordance with the Statutes and the *Rules of clearing and settlement of general emission allowance and aviation allowance sale transactions* for transactions entered into at auctions on an auction platform.

## PUBLIC OFFERING OF FINANCIAL INSTRUMENTS OTHER THAN INVESTMENT CERTIFICATES

Following the entry into force on 21 July 2019 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and repealing Directive 2003/71/EC, the definition of public offering of securities was extended to include cases where in which the public offering takes place. According to the new definition, a public offering is a communication to the public (i.e. to at least 2 persons), made in any form and by any means, providing sufficient information on the terms of the offering and the securities offered, to enable investors to take a decision to acquire or subscribe those securities.

In 2019, there was a decrease in the value of public offerings compared with the previous year. The total value of public offerings amounted to almost PLN 5.5 billion, which corresponds to a decrease of nearly 20% compared to the previous year.

The decrease in the value of offerings was evident in most segments of the market. In the most important segment of raising capital through public offering of shares (the so-called primary market), the number of subscriptions increased from 48 to 58 but their value fell by 34%.

Similarly as in 2018, the number of public offerings of shares was low but their value increased slightly, by more than 7% compared with 2018.

The number of initial public offerings of shares increased from 29 in 2018 to 38 in 2019 but their value fell by nearly 70% compared with the the previous year.

The largest segment of the public offering market in terms of value was the public bond offering market, which also recorded a decrease in value (of more than 18%).

In total, in 2019 issuers conducted 175 public offerings, the structure of which is presented in Table 27.

**Table 27. Characteristics of public offerings conducted in 2019**

175 public offerings, including:			
174 cash offerings			1 non-cash offering
77 public offerings of shares	56 public offerings of structured products	41 public offerings of bonds	
<i>including: 64 offerings conducted without the need to prepare and approve a prospectus</i>		<i>including: 24 offerings conducted without the need to prepare and approve a prospectus</i>	
<i>31 offerings conducted by foreign issuers</i>			
19 public offerings of shares	58 public subscriptions		

Source: UKNF's own study

The total value of public cash offerings in 2019 amounted to PLN 5 476.7 million, including the value of share subscriptions of PLN 697.7 million, the value of public offerings of shares of PLN 356 million, the value of offerings of bonds of PLN 3 580.3 million, and the value of offerings of structured products of PLN 842.8 million.

The data on the value and number of public cash offerings in the years 2016- 2019 are shown in Table 28.

**Table 28. The value and number of public cash offerings in the years 2016-2019**

Year	2016		2017		2018		2019	
	Number of offerings *	Value (in PLN million)	Number of offerings **	Value (in PLN million)	Number of offerings ***	Value (in PLN million)	Number of offerings ****	Value (in PLN million)
Public issue of shares	64	3 564.04	71	2 184.62	48	1 058.30	58	697.65
Public offerings of bonds	74	6 820.93	72	7 759.08	37	4 399.85	41	3 580.25
Public offerings of shares	38	579.80	51	7 047.82	20	331.27	19	356.01
Public offerings of structured products	0		43	490.07	60	1030.60	56	842.79

<b>Total public offerings</b>	<b>176</b>	<b>10 964.77</b>	<b>237</b>	<b>17 481.59</b>	<b>165</b>	<b>6 820.02</b>	<b>174</b>	<b>5 476.70</b>
Including:								
Initial public offerings	46	1 322.5	48	7 776.8	29	343.9	38	106.8

Source: UKNF's own study

\* in 2016, 1 non-cash public offering was also conducted

\*\* in 2017, 2 non-cash public offerings were conducted

\*\*\* in 2018, non-cash public offerings were also conducted

\*\*\*\* in 2019, 1 non-cash public offering was also conducted

## EXCHANGE COMMODITY MARKET

### Towarowa Gielda Energii S.A.

#### *Commodity exchange*

In Poland, apart from the existing capital market, there is also an exchange commodities market, which is operated by Towarowa Gielda Energii S.A [Polish Power Exchange] (hereinafter: 'TGE S.A.'). In 2019, TGE S.A. operated seven markets, whose subjects of trade could be electricity, property rights, natural gas, and the commodity forward electricity and natural gas market. Parties to transactions carried out on the exchange may only be entities which entered into a membership agreement with the Exchange and are authorised to operate on the exchange. TGE S.A. is part of the GPW S.A. Group.

78 companies operated as participants in the exchange commodity market as at the end of December 2019. As at 31 December 2019, 3 705 entities were included in the Register of Certificates of Origin, kept by TGE S.A. 619 entities were members of the Register of Certificates of Origin.

#### *Regulated market*

The regulated market is operated by Towarowa Gielda Energii S.A. under the name 'Financial Instruments Market.' Only financial instruments other than securities whose underlying instrument is an exchange commodity admitted to trading on the commodity exchange may be traded on this market. The regulated market operates in accordance with the Trading Regulations of the Financial Instruments Market of TGE S.A., amendments to which are approved by the KNF Board, and the Detailed Trading Rules of the Financial Instruments Market of TGE S.A. specifying the provisions of that document. The subjects of trading are EU Allowances (EUA). 8 companies operated as participants in the Financial Instruments Market as at the end of December 2019.

## Electricity

In 2019, the electricity trading volume on the Polish Power Exchange (TGE) amounted to 228 905 528 MWh, which corresponds to an increase of 1,3% in relation to 2018. It is also the best result in the history of trading on the Polish Power Exchange.

The volume on the spot market increased by 22.4%, to 33 915 069 MWh. The volume on the Day-Ahead Market amounted to 33 740 542 MWh (an increase of 22.1%) and on the Intraday Market to 174 527 MWh (an increase of 125.3%). On the Commodity Derivatives Market (RTT), the trading volume decreased by 1.7%, to 194 990 459 MWh.

In 2019, the weighted average price of the BASE contract on the Day-Ahead Market was PLN 229.62 /MWh, going up by PLN 4.91/MWh above the level in 2018. The respective price for December was PLN 184.80/MWh, which corresponds to a month-on-month decrease of PLN 33.10/MWh.

Whereas on the Commodity Derivatives Market, the weighted average price of the annual contract with base load delivery in 2019 (BASE\_Y-20) amounted in the whole 2019 to PLN 266.40/MWh, which corresponds to an increase of PLN 24.00/MWh in relation to the price from the quotations of the BASE\_Y-19 contract in 2018. In December, the respective price of the BASE\_Y-20 contract fell in relation to November by PLN 13.76/MWh, to the lowest 2019 value of PLN 242.14/MWh.

## Natural gas

The total trading volume on natural gas markets in 2019 amounted to 146 106 097 MWh, which corresponds to a YOY increase of 2.0% and represents the best result in the history of quotations on TGE. On the Day-Ahead and Intraday Markets for gas, the trading volume was 22 639 240 MWh (a decrease of 4.4% in relation to 2018). On the Day-Ahead Market for gas, the trading volume amounted to 16 949 762 MWh (a decrease of 3.7%) and on the Intraday Market for gas to 5 689 478 MWh (an decrease of 6.3%). The trading volume on the Commodity Derivatives Market amounted to 11 897 255 MWh and increased by 3.2% in relation to 2018.

In 2019, the weighted average price on the Day-Ahead and Intraday Markets for gas was PLN 72.72/MWh, i.e. PLN 33.30/MWh less than in 2018. The respective price in December fell month on month by PLN 5.10/MWh, down to PLN 70.16/MWh. Whereas on the Commodity Derivatives Market, the weighted average price of the contract with delivery in 2020 (GAS\_BASE\_Y-20) amounted in 2019 to PLN 89.91/MWh, i.e. PLN 16.37/MWh less in relation to the respective price from the quotations of the GAS\_BASE\_Y-19 contract in 2018.

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<sup>13</sup> At national level, the monitoring of the energy market is regulated in the Act of 10 April 1997 – the Energy Law, amended on 11 September 2015 due to the need to adapt national regulations to the requirements laid down in the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT). In consequence, the President of the Energy Regulatory Office (PL: *Urząd Regulacji Energetyki* – URE) is responsible for:

- a) monitoring the wholesale energy market,
- b) cooperation with the Agency for the Cooperation of Energy Regulators (ACER), regulators in EU Member States, UOKiK and the KNF Board, to the extent necessary for the performance of obligations under REMIT,
- c) reporting suspected market manipulation to ACER,
- d) keeping the register of wholesale energy market participants,
- e) conducting inspections and preliminary investigations in respect of market manipulation or attempted market manipulation and misuse of inside information in the energy market,
- f) imposing financial penalties, if necessary.

In view of the foregoing, the supervision of TGE S.A. with respect to the Intraday Market for electricity, Intraday Market for gas, the Day-Ahead Market for electricity, the Day-Ahead Market for gas, Commodity Derivatives Market for electricity and Commodity Derivatives Market for gas is the responsibility of the President of URE, and with respect to the Property Rights Market, the Emission Allowance Market and the Commodity Derivatives Market (for financial instruments) – the responsibility of the KNF Board.

In December 2019, the respective price of the GAS\_BASE\_Y-20 contract amounted to PLN 74.00/MWh, i.e. PLN 6.90/MWh less than in November 2019.

### Property rights

In 2019, the total volume of trading in property rights for electricity amounted to 43 896 220 MWh. In 2019, the volume of trading in green certificates (instruments PMOZE and PMOZE\_A on the Property Rights Market) amounted to 25 923 678 MWh, which is 15.8% less than in 2018.

The weighted average price during sessions on the Property Rights Market in 2019 for the PMOZE\_A instrument was PLN 132.19/MWh, that is PLN 28.37/MWh more compared with 2018. In December 2019, the price fell compared with November 2019 by PLN 1.46/MWh, to PLN 147.56/MWh.

The volume of trading in property rights for energy efficiency in 2019 amounted to 492 163 tonnes of oil equivalent (toe), which corresponds to a year-on-year increase of 49.1% and represents the highest value in the history of trading. In December 2019, the trading volume decreased year-on-year by 13.2%, to 26 493 toe. The volume of trading in the same PMEF instrument in December 2019 was 12 712 toe, with the weighted average session of PLN 1 701.48/toe (an increase of PLN 56.27/toe in relation to November 2019).

### Register of Certificates of Origin

Throughout 2019, transactions with a volume of 19 124 096 MWh were entered in the Register of Certificates of Origin, which corresponds to an increase of 13.5% YOY.

In December 2019, the trading volume amounted to 1 996 929 MWh, and the weighted average price to PLN 0.97/MWh.

### Izba Rozliczeniowa Giełd Towarowych S.A.

Izba Rozliczeniowa Giełd Towarowych S.A. The Commodity Clearing House (PL: Izba Rozliczeniowa Giełd Towarowych S.A. – IRGiT S.A.) is authorised to run the Settlement House and the Clearing House, which is one of the preconditions for clearing and settling of financial instruments in the regulated market. On 4 November 2015, IRGiT S.A. began to settle financial instruments in the above-mentioned area upon the commencement of quotation on the Financial Instruments Market of Towarowa Giełda Energii S.A. (TGE S.A.) According to Article 68a(14) of the Act on trading in financial instruments, the Clearing House and the Settlement House may act as the Exchange Clearing House as defined in the Act on commodity exchanges. Since June 2010, the Exchange Clearing House run by IRGiT S.A. has been settling transactions carried out on all markets of TGE S.A., including the gas market. The Exchange Clearing House is a partner of TGE S.A. in cross-border energy trading within a market coupling and *XBiD* project . In addition, IRGiT S.A. is an entity owned in 100% by TGE S.A. and forming part of the GPW S.A. Group.

## 3. BANKING SUPERVISION

### 3.1. BANKS AND CREDIT INSTITUTIONS

#### 3.1.1. LICENSING

##### ESTABLISHING A BANK AND COMMENCING OPERATIONS

In 2019, the KNF Board adopted a resolution on the authorisation to establish bridge institutions that are bank in the form of a joint-stock company. The institutions did not commence their activities in 2019.

A bridge institution is an entity established under the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring (Journal of Laws 2019, item 795, as amended), having the Bank Guarantee Fund as its sole shareholder or the parent undertaking, established to assign equity interest of an entity under restructuring, its business or property rights or liabilities of an entity under restructuring with a view to continuing, in full or in part, the business pursued by an entity under restructuring.

In 2019, the KNF Board adopted a resolution authorising the commencement of business of ING Bank Hipoteczny Spółka Akcyjna, a company established under authorisation from the KNF Board granted in 2018. The KNF Board also approved the rules for determining the mortgage lending value of real property and issued a decision on the appointment of a trustee and deputy trustee at that bank.

Following examination of the application for a review of the case, the KNF Board upheld its administrative decision of 2018 denying authorisation to commence the activity to Polski Bank Apeksowy Spółka Akcyjna.

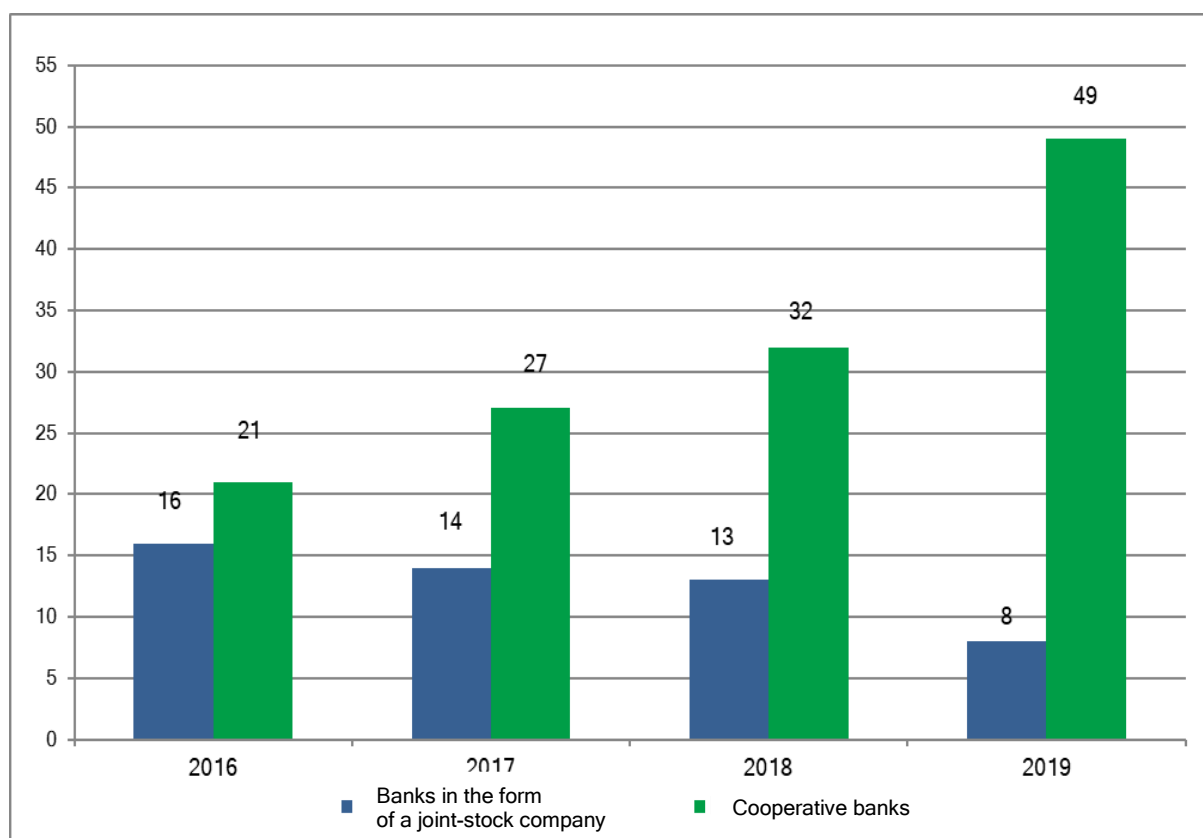
#### TASKS RELATING TO CHANGES IN THE GOVERNING BODIES OF BANKS

In 2019, the KNF Board adopted 59 final decisions in the form of resolutions on approval of the appointment or delegation of functions of members of management boards, including presidents, including:

- 4 decisions on approval of the appointment of presidents of management boards of banks operating as joint-stock companies,
- 42 decisions on approval of the appointment of presidents of management boards of cooperative banks,
- 4 decisions on approval of the appointment of or delegation of functions of members of management boards of supervising the management of risks relevant to the activities of bank operating as joint-stock companies,
- 4 decisions on approval of the appointment or delegation of functions of members of management boards supervising the management of risks relevant to the activities of cooperative banks,
- 3 decisions on refusal to approve the appointment of presidents of management boards of cooperative banks,
- 2 decisions on appointment of a president of the management board and a member of the management board of a cooperative protection scheme.

In the above-mentioned cases, 12 final decisions to discontinue proceedings were issued.

**Diagram 17. Number of decisions issued in the form of resolutions deciding on the merits of the case, on approval of the appointment or delegation of functions of members of management boards, including presidents, of commercial banks and cooperative banks in the years 2016-2019**



Source: UKNF's own study

#### TASKS RELATING TO CHANGES IN THE SHAREHOLDERS' STRUCTURE AND MERGER OF BANKS OPERATING AS JOINT-STOCK COMPANIES

In 2019, the KNF Board made 1 final decision in the form of a resolution declaring that there were no grounds for objecting to the planned acquisition of a bank's shares or becoming a parent undertaking of a domestic bank. The KNF Board discontinued 1 proceeding in that respect.

In 2019, the KNF Board made 3 decisions in the form of a resolution on the merger of banks, including 2 decisions on a cross-border merger. The KNF Board also issued 1 decision to refuse to approve a merger of domestic banks.

#### AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF BANKS

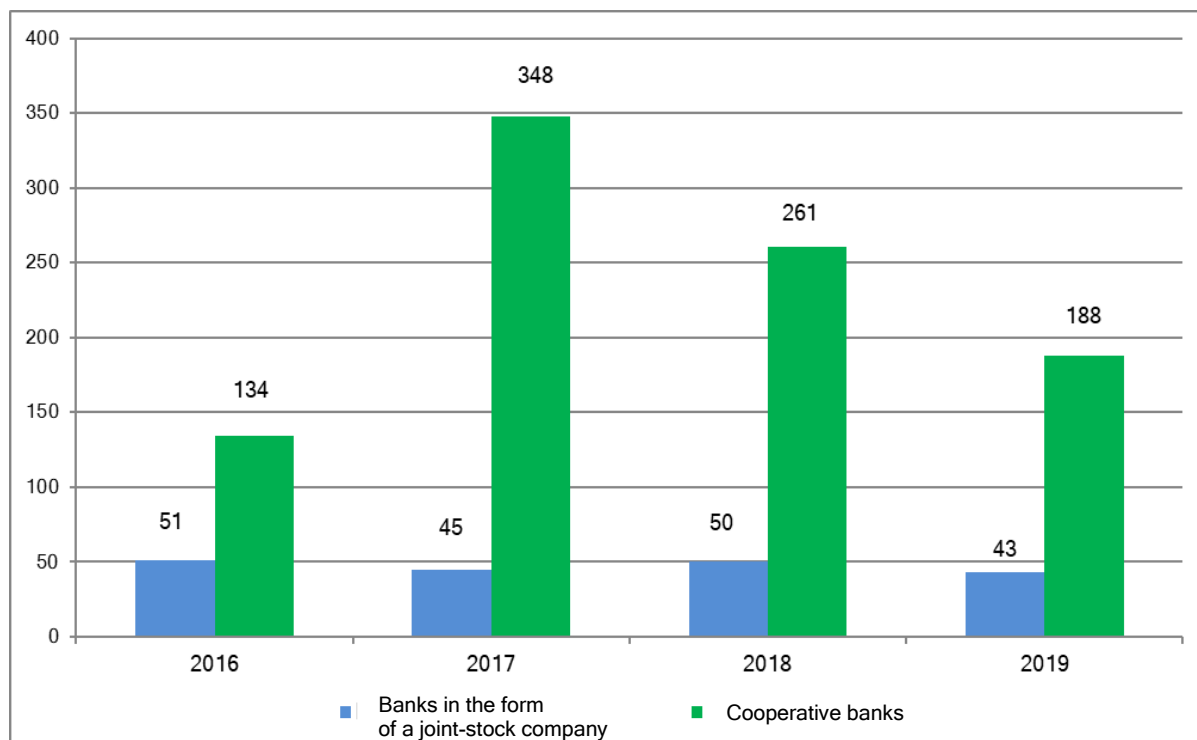
In 2019, following examination of applications for amendments to the articles of association of banks, the KNF Board issued 231 final decisions, including :

- 43 decisions on the authorisation to make amendments to the articles of association of banks operating as joint-stock companies,
- 188 decisions on the authorisation to make amendments to the articles of association of cooperative banks.

The KNF Board also discontinued 9 proceedings in respect of authorisation to make amendments to the articles of association of banks.



**Diagram 18. The number of final decisions on the merits of the case, to approve amendments to the articles of association of commercial banks and cooperative banks in the years 2016-2019**



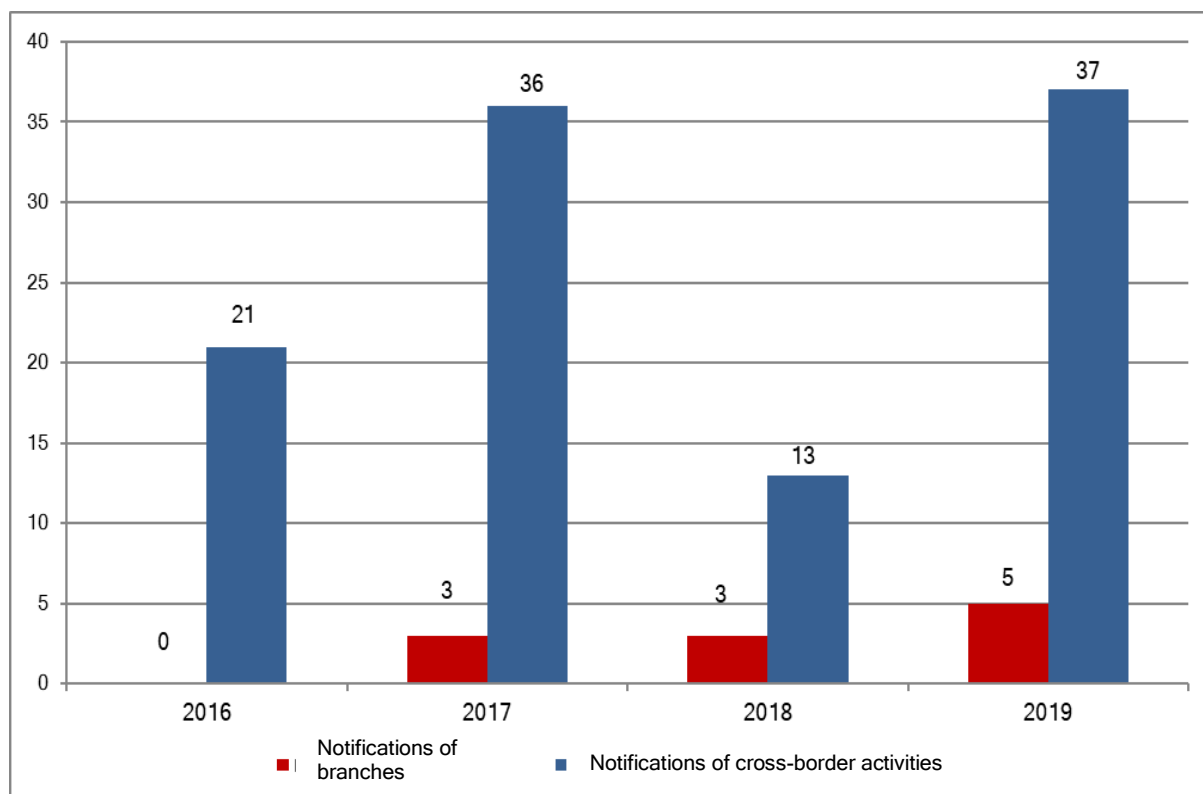
Source: UKNF's own study

## OPERATING AS PART OF CROSS-BORDER ACTIVITY

In 2019, the KNF Board received:

- 5 notifications from credit institutions on the taking-up of activity in the territory of the Republic of Poland through a branch,
- 1 notification of cessation of activities carried out by a credit institution through a branch,
- 37 notifications from credit institutions of an intention to pursue cross-border activity in the territory of the Republic of Poland,
- 12 notifications from credit institutions on cessation of cross-border activities in the territory of the Republic of Poland,
- 1 notification from a domestic bank of an intention to pursue business through a branch and cross-border business in the territory of a member state of the European Economic Area.

**Diagram 19. Number of new notifications from credit institutions and financial institutions operating in the territory of the Republic of Poland through a branch and as part of cross-border activities in the years 2016-2019**



Source: UKNF's own study

In 2019, in connection with notifications from credit institutions on their operations carried out in the territory of the Republic of Poland through a branch received in 2018 and 2019, the KNF Board issued 7 decisions on the indication of conditions which, in the interest of the general good, a branch of a credit institution must fulfil when conducting its activities in the territory of the Republic of Poland.

## REPRESENTATIVE OFFICES OF CREDIT INSTITUTIONS AND FOREIGN BANKS IN POLAND

In 2019, due to the notified termination of operations in the Republic of Poland, the KNF Board issued 3 decision stating expiry of the authorisation to open a representative office of credit institutions and foreign banks.

## OTHER DECISIONS IN THE LICENSING AREA OF THE BANKING SECTOR

In 2019, 18 other decisions were also issued in the form of resolutions of the KNF Board as well as final and interim decisions issued under the authority of the KNF Board.

### 3.1.2. SUPERVISORY ACTIVITIES

#### PRUDENTIAL SUPERVISION OF DOMESTIC BANKS

The supervisory activities undertaken by the KNF Board in 2019 consisted in day-to-day monitoring and quarterly review of the economic and financial standing of banks (assessment for the fourth quarter of 2018 and three quarters of 2019). On that basis, quarterly bank ratings were assigned in the KOBRA system. In 2019, all commercial banks were assessed. 194 quarterly analyses of commercial banks were drawn up. In 2019, the process of cyclical

review and supervisory assessment of cooperative and affiliating banks continued. 2 182 quarterly analyses of cooperative banks and 8 quarterly analyses of affiliating banks were drawn up.

In addition to the quarterly assessment, banks are subject to a review as part of the SREP, i.e. the Supervisory Review and Evaluation Process. Detailed information on the SREP in the banking sector is provided in the section 'Supervisory Review and Evaluation Process (SREP)'.

The consolidated financial statements of banks, the economic and financial situation of holding companies and parent undertakings of banks were analysed as part of the consolidated supervision. As part of day-to-day analytical supervision, banks were selected for comprehensive and targeted inspections, and then the information was passed to the organisational units of the UKNF responsible for inspection activities. Data for bank inspections was prepared.

Comparative analyses of the classification of receivables from the same borrower by different banks as well as the presentation of the shareholding of some of the significant bank clients were carried out – in the event of discrepancies, suitable activities consisting in appropriate notices to the supervised entities were taken. The review also covered the geographic and industry-related structure of receivables of domestic banks and branches of credit unions.

Supervisory activities were carried out, among others, in the following areas:

- strengthening the capital base, including guidance for dividend pay-out,
- transformation processes,
- administrative proceedings, including applications to classify subordinated debt as funds, interim profits, establishment of compulsory administration,
- liquidity,
- verifying banks' resilience to possible negative changes in the macroeconomic environment (stress tests),
- rehabilitation plans (PL: *plan postępowania naprawczego* – PPN), including the assessment of the status of their implementation and/or completion,
- processes for the approval of recovery plans and their further monitoring,
- the assignment of SREP ratings,
- the implementation of recommendations issued as part of an inspection, the SREP assessment and any other recommendation following off-site supervision.

In 2019, the KNF Board familiarised itself with studies regarding the banking sector:

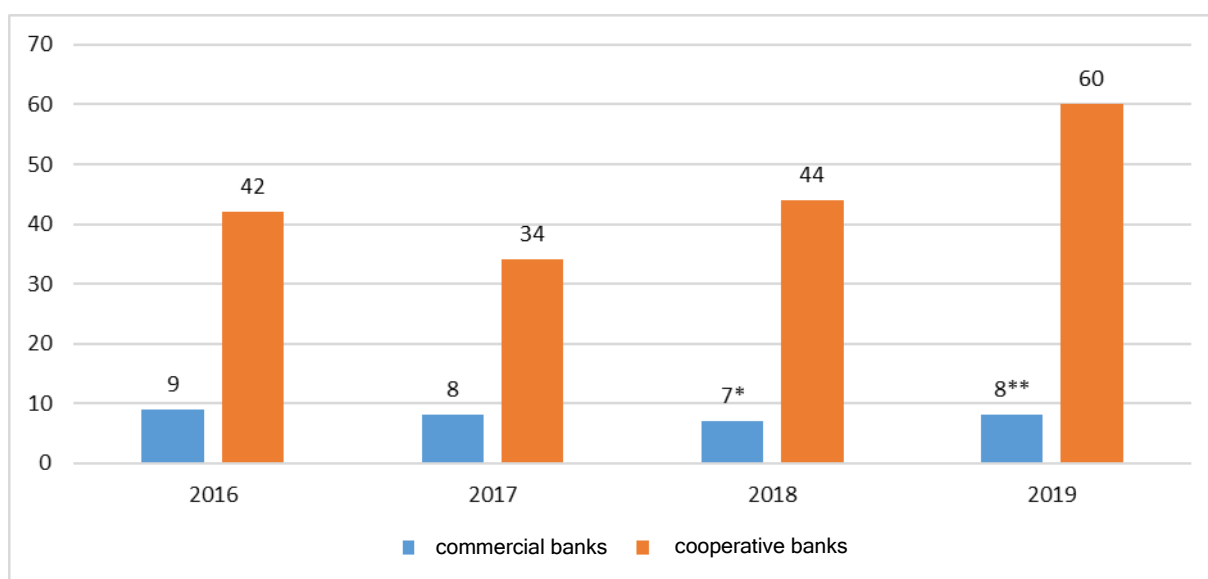
- Report on the standing of banks in 2018,
- Information on the standing of banks in the first quarter of 2019,
- Information on the standing of banks in the second quarter of 2019,
- Information on the standing of banks in the third quarter of 2019,
- Information on the standing of cooperative banks in the third quarter of 2018,
- Information on the standing of cooperative banks in 2018,
- Information on the standing of cooperative banks in the first quarter of 2019,
- Information on the standing of cooperative banks in the second half of 2019,
- Information on the standing of cooperative banks in the third quarter of 2019,
- SREP Report for cooperative and associating banks for 2018,
- Information of the distribution of profit generated by cooperative banks in 2018.

## SUPERVISION OF BANKS SUBJECT TO REHABILITATION PROCEEDINGS

In 2019, 6 commercial banks were subject to rehabilitation proceedings. At the end of 2018, 44 cooperative banks and 1 affiliating bank were subject to rehabilitation measures. Whereas at the end of 2019, rehabilitation measures were being applied to 60 cooperative banks and 2 affiliating banks.

The KNF Board examined two semi-annual reports on the standing of commercial banks subject to rehabilitation proceedings and two semi-annual reports on the standing of cooperative banks subject to rehabilitation proceedings.

**Diagram 20. Number of commercial and cooperative banks subject to rehabilitation proceedings in the years 2016-2019**

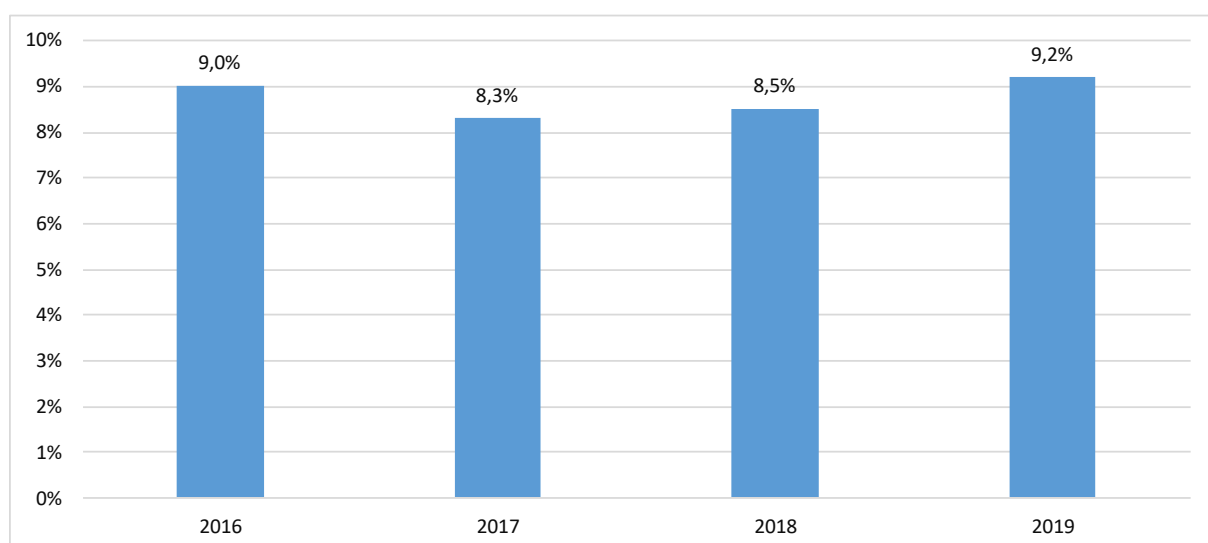


Source: UKNF's own study

\* including one affiliating bank

\*\* including two affiliating banks

**Diagram 21. Share of assets of commercial and cooperative banks subject to rehabilitation proceedings in the banking sector assets (in %) in the years 2016-2019**



Source: UKNF's own study

The share of assets of cooperative banks subject to a rehabilitation plan in the banking sector assets was 1.14% at the end of 2019.

## FINAL DECISIONS ON OWN FUNDS

Final decisions issued in 2019 in individual cases were related to:

- permission to classify the bank's cash gained from the issue of long-term bonds and subordinated loans as instruments in Tier II capital (19 final decisions),
- authorisation to include bank's profit for a given period as Tier 1 capital (30 final decisions),
- authorisation to classify the issued shares to the Tier I core capital (8 final decisions),
- authorisation of early redemption of subordinated bonds included in Tier 2 capital (1 final decision),
- authorisation of early return of the funds deriving from the subordinated loan included in the Tier 2 capital (3 final decisions),
- ordering a bank to maintain an additional own funds requirement in accordance with Article 138(1)(2a) (8 final decisions),
- permission to classify liabilities arising from the financial instruments issued by the bank as Tier I capital (113 final decisions),
- permission to reduce own funds (402 final decisions),
- permission to reduce own funds / prior consent (34 final decisions),
- declaration of expiry of a final decision on the recommendation to maintain own funds for covering additional capital requirement to safeguard against the risk resulting from mortgage-secured foreign currency credit facilities and loans for households (2 final decisions).

## FINAL DECISIONS CONCERNING MERGER

The KNF Board authorised the merger of:

- Bank Millennium (the acquiring bank) and Euro Bank (the bank being acquired),
- Bank Spółdzielczy w Starej Białej (the acquiring bank) and Bank Spółdzielczy w Żychlinie (the bank being acquired),
- Bank Spółdzielczy w Płońsku (the acquiring bank) and Bank Spółdzielczy w Załuskach (the bank being acquired),
- Bank Spółdzielczy w Końskowoli (the acquiring bank) and Nadwiślański Bank Spółdzielczy w Puławach (the bank being acquired),
- Krakowski Bank Spółdzielczy (the acquiring bank) and Bank Spółdzielczy w Siewierzu (the bank being acquired),
- Krakowski Bank Spółdzielczy (the acquiring bank) and Bank Spółdzielczy Bytom (the bank being acquired),
- Bank Spółdzielczy w Międzyrzeczu Podlaskim (the acquiring bank) and Bank Spółdzielczy w Konstanczynie (bank przejmowany),
- Gospodarczy Bank Spółdzielczy w Międzyrzeczu (the acquiring bank) and Bank Spółdzielczy w Santoku (bank przejmowany),
- Bank Spółdzielczy w Starogardzie Gdańskim (the acquiring bank) and Bank Spółdzielczy w Smętowie Granicznym (bank przejmowany),
- Bank Spółdzielczy w Brodnicy (the acquiring bank) and Bank Spółdzielczy w Ostrołęce (bank przejmowany),
- Bank Spółdzielczy w Starej Białej (the acquiring bank) and Sierpecki Bank Spółdzielczy (bank przejmowany).

## STRESS TESTS

In 2019, for the tenth time, the UKNF conducted stress tests for the banking sector. The purpose of the tests was to determine the potential impact of changes in the macroeconomic environment on the financial and capital situation of the Polish banking sector institutions and to assess the sector's resilience to shock. Commercial banks accounting for 86% of the sector's assets participated in the stress test exercise.

Having received the data, the UKNF conducted preliminary verification of the data. The verification covered internal consistency of forecasts and their compliance with the methodology, as well as the reality of extrapolated trends. Additionally, models developed at the KNF were used to verify bank forecasts. All doubts that arose during that process were systematically consulted with the banks. The published results indicate high resistance of the banking sector to hypothetical market shocks as well as its good capitalisation.

In 2019, the UKNF also conducted the first edition of supervisory liquidity stress testing. The purpose of the liquidity stress testing was to analyse the sensitivity of banks' short-term liquidity position, to verify the banks' liquidity buffers, and to estimate possible shortages of liquid assets to comply with the LCR standard.

## SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

In March 2019, the KNF informed banks about the publication of the amended Methodology of supervisory review and evaluation process of commercial, affiliating and cooperative banks (hereinafter: 'SREP methodology').

The amendments to the SREP Methodology introduced, into the supervisory review and evaluation process for banks, the provisions of national legislation related to MiFID II<sup>14</sup> applicable to banks as of 21 October 2018, introduced by in particular:

- Act of 1 March 2018 amending the Act on trading in financial instruments and certain other laws,
- Regulation of the Minister of Finance of 30 May 2018 on the procedure and conditions to be followed by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks,
- Regulation of the Minister of Finance of 8 June 2018 on detailed technical and organisational conditions for investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks.

Addressing the above-mentioned provisions in the framework of the supervisory review and evaluation process was aimed at increasing the control of the compliance by banks offering financial instruments with the rules governing the performance of activities such as e.g.: product governance, execution of customers' orders, the principles of recommending investments to customers, and the knowledge and experience of the customer service staff.

The changes introduced in the SREP Methodology in 2019 also included the implementation of requirements under other laws and good supervisory practices, including in particular the provisions on banks recognised as key service operators and banks operating as payment service providers, resulting from:

- Act of 10 May 2018 amending the Act on payment services and certain other laws, implementing the provisions of PSD2<sup>15</sup> into the national legal system,
- Act of 5 July 2018 on the national cybersecurity system.

Additionally, to increase the consistency of the supervisory review and evaluation process with European requirements, the 2019 SREP took into account the provisions of the amendment to the Guidelines on the SREP<sup>16</sup> drawn up by the European Banking Authority (hereinafter: 'EBA'), which lay down uniform rules of the supervisory review and evaluation

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<sup>14</sup> Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending 2002/92/EC and Directive 2011/61/EU, and related delegated and implementing regulations.

<sup>15</sup> Directive of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (Text with EEA relevance).

<sup>16</sup> Guidelines on the revised common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing, amending the guidelines EBA/GL/2014/13 of 19 December 2014 (EBA/GL/2018/03).

process in EU countries. The amendment to the Guidelines on the SREP effective as of 1 January 2019 became the basis for extending the SREP in relation to:

- supervisory assessment of the stress tests carried out by banks,
- planning and conducting, at the UKNF, supervisory stress tests and sensitivity tests.

In 2019, banks were also assessed for their status of preparation for the implementation of the Guidelines on IRRBB<sup>17</sup>, which transpose the changes in good practices in the management of interest rate risk in the banking book, introduced by the standard of the Basel Committee on Banking Supervision of April 2016.

The SREP conducted by the KNF takes into account, in a complementary and consistent manner, the findings from on-site analyses and on-site inspections carried out by the supervisory authority at banks.

In 2019, following the identification of irregularities in the agency activities related to the offering of capital market products, the Banking Supervision Division, as part of the new structures at the UKNF, extended its cooperation with the Capital Market Supervision Division, which was delegated to carry out on-site inspections at banks.

The intensity of the SREP at individual banks depends primarily on the overall SREP score assigned in the previous SREP cycle and the results of categorisation process. The SREP methodology involves periodic updates of the SREP score as part of quarterly off-site analyses, and a dialogue between the supervisory authority and banks. Similarly as in previous years, the SREP also took into account the results of *ad hoc* reviews conducted by the supervisory authority, e.g. in the form of surveys.

In 2019, commercial banks were given 27 final SREP ratings, while cooperative banks were given 538 final SREP ratings.

## RECOVERY PLANS

The main objective of a recovery plan is to introduce preventive measures to avoid the escalation of adverse events which might lead, in extreme cases, to bank failure or to the launch of forced resolution by the bank's body responsible for forced resolution, and to secure the continuity of business in areas deemed critical.

2019 was another year in which banks submitted to the KNF Board appropriate requests for approval of a recovery plan by means of a final decision. In most cases, the requests resulted from the obligation to update the recovery plans at least annually, referred to in Article 141m(4) of the Banking Law (request for approval of an updated recovery plan). 13 recovery plans were accepted in 2019 and 5 requests were still being reviewed at the end of 2019.

## MONITORING OF BANKS' COMPLIANCE WITH APPLICABLE REGULATIONS

The KNF carries out regular off-site monitoring of the financial situation of banks, including the liquidity and capital situation. In 2019, once again special emphasis was placed on maintaining good quality of equity and its appropriate level by banks. Equity ensures safety for a bank in the event of adverse external events which might arise, for example, in connection with a crisis in real terms or turbulence in international financial markets.

## DIVIDEND POLICY AND ADDITIONAL CAPITAL REQUIREMENT

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<sup>17</sup> Guidelines EBA/GL/2018/02 of 19 July 2018 on the management of interest rate risk arising from non-trading book activities.

In order to maintain capital adequacy at a level deemed safe, once again the supervisory authority issued recommendations for commercial banks concerning the payment of dividends. The direct objective of the dividend policy is to ensure stability of the banking sector by strengthening the capital base and to protect the users of financial services, including depositors. The result of the UKNF's current dividend policy is a stable and high total capital ratio of 19.10% in the sector at the end of 2019 (19.05% at the end of 2018).

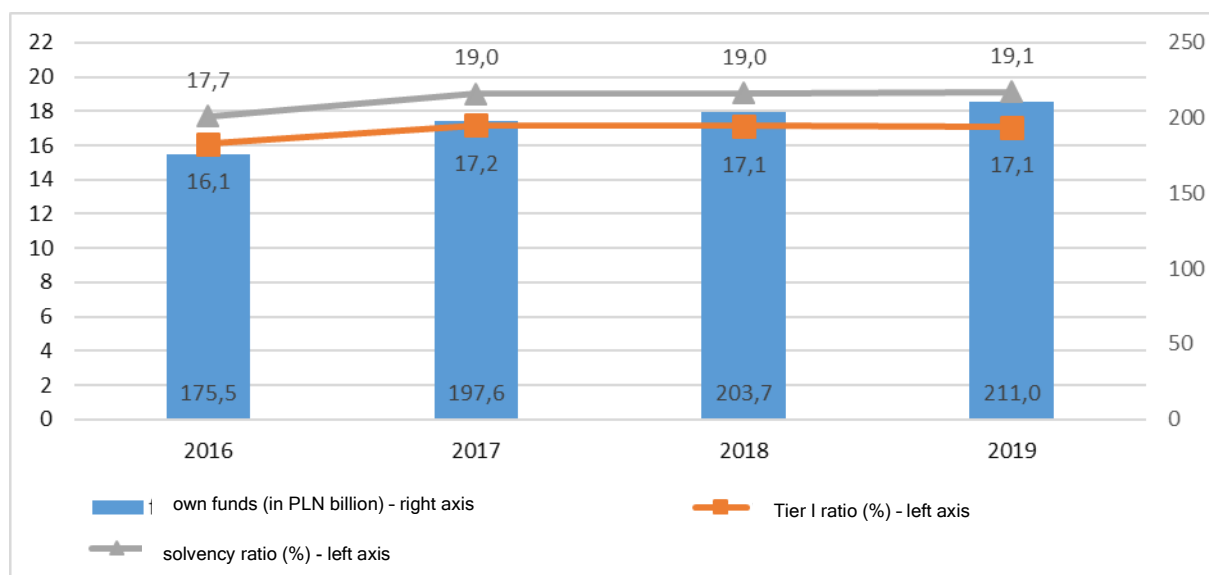
When formulating the dividend policy, the UKNF took into account the recommendations of the European Central Bank (ECB) on dividend distribution policies (already applied in previous years) and maintained the additional criteria for banks engaged in foreign-currency credit facilities. The amount of potential dividend depends on the bank's capital ratios, SREP score, level of leverage, size of its portfolio of housing currency loans and share in the portfolio of loans granted in 2007-2008. In addition, the possibility to pay out 100% of the profit was limited to institutions with a relatively low sensitivity of capital position to an unfavourable macroeconomic scenario.

In spite of a good current situation, it is recommended to maintain a strong capital base, and in the case of some banks its further strengthening due to the level of risk already accumulated in the balance sheets of banks and the uncertainty about the future development of the economic prosperity.

To that end, in 2019, the KNF Board issued recommendations setting additional capital requirements for 12 banks (on a solo or consolidated basis) resulting from the fact that they hold portfolios of mortgage-secured foreign currency loans of households in EUR and CHF. The additional capital requirement is calculated under Pillar II for loan portfolios with particularly high risk and provides individualised impact on banks with significant portfolios of foreign currency loans granted to unsecured borrowers, i.e. those who earn income in a currency other than the loan currency. As recommended in Resolution No 14/2017 of the Financial Stability Committee, in 2017, additional capital requirements under Pillar II were supplemented with requirements for operational risk, market risk and collective default risk in respect of risk factors relating to the foreign currency loan portfolio.



**Diagram 22. Own funds and capital adequacy of the domestic banking sector in the years 2016-2019**



Source: UKNF's own study

The data for 2019 come from the monthly bank reporting for December 2019 and they have not been audited. Data for previous years may differ from data published in previous reports due to corrections made by the banks as well as the subsequent audit process.

### IDENTIFICATION OF OTHER SYSTEMICALLY IMPORTANT INSTITUTIONS (O-SIIs)

Under the Act of 5 August 2015 on macro-prudential supervision,<sup>18</sup> the KNF Board is obliged to identify other systemically important institutions and to set appropriate capital buffers for them.

The identification of other systemically important institutions, made by the KNF Board for the first time in 2016, was based on the following criteria: the size of a given financial institution, its importance for the economy of the Republic of Poland and the European Union, the importance of its cross-border activity and the examination of interrelationship between a given institution or group and the financial system.

The said Act also requires the KNF Board to annually review the adequacy of the buffer rate of an O-SII. In 2019, under the said Act, the KNF Board reviewed the adequacy of the buffer rate of an O-SII. Following the review and taking into account the opinion of the Financial Stability Committee, by its final decisions of 14 October 2019 the KNF Board confirmed the identification of nine banks as O-SIIs and ceased to recognise two banks as O-SIIs. On that basis, the KNF Board also decided to set appropriate capital buffers.

### ASSESSMENT OF THE PORTFOLIO OF CONSUMER LOANS FOR HOUSEHOLDS AS AT THE END OF 2018 + MID-YEAR 2019

The UKNF has carried out an assessment of the portfolio of consumer loans and housing loans annually since 2008, and since 2019 mid-year surveys are also conducted in that respect.

The portfolios of banks under assessment at the end of 2018 (at the end of the first half of 2019<sup>19</sup>) included respectively 20.5 million (18.9 million) consumer loans with a total value of

<sup>18</sup> Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system (Journal of Laws 2015, item 1513, as amended).

<sup>19</sup> The mid-year survey on consumer loans in 2019 did not cover the credit portfolio of Euro Bank.

PLN 164.3 billion (PLN 164.4 billion) and an average value of PLN 8.0 thousand (PLN 8.7 thousand). In value terms, cash loans prevailed (63.8% of the total loan value at the end of 2018 and 71% at the end of the first half of 2019).

In 2018 and the first half of 2019, there was an increase in the demand and supply of consumer credits, resulting in record sales in value terms (PLN 87.2 billion and PLN 46.4 billion, respectively) and an increase in the average amount of credit (from PLN 9.2 thousand in 2018 to PLN 10 thousand in the first half of 2019).

With the increase in the amount of credit, a reduction in the quality of the loans was noted. The lowest quality was reported for loans above PLN 100 thousand (at the end of the 1st half of 2019, impaired loans accounted for 11.4% of the total number of such loans and 14.9% of their total value).

From 2012 onwards, there has been a dynamic increase in high-value consumer loans. At the end of 2018, the portfolios of banks participating in the survey included 1.0 million loans in the amount of over PLN 50 thousand (5.1% of the total number of loans), with a total value of PLN 73.3 billion (44.6% of the total value of the portfolio). At the end of the 1st half of 2019, the number of such loans was PLN 1.05 million (5.1% of the total number of loans), and their total value was PLN 73.9 billion (44.9% of the total value of the portfolio). In terms of duration of the lending period, the predominant loans are those granted for over 5 years, which accounted for 82% of the total value of loans granted above the amount of PLN 50 thousand at the end of 2018 (86% at the end of the 1st half of 2019). At this point it should be noted that a part of those loans are debt consolidation loans.

The share (by gross carrying amount) of loans with nominal value over PLN 50 thousand at the time of credit granting and the original repayment period over 5 years increased in the first half of 2019 to 38.5% from 36.7% in 2018.

#### ASSESSMENT OF THE PORTFOLIO OF HOUSING LOANS FOR HOUSEHOLDS AS AT THE END OF 2018 + MID-YEAR 2019

At the end of 2018, the portfolios of the banks under assessment included 2.2 million housing loans granted to households, with a total value of PLN 406.4 billion (compared to 2.2 million loans worth PLN 410.7 billion at the end of the first half of 2019<sup>20</sup>). Loans in PLN prevailed (75.5% of the total number of loans granted, and 70.1% of the total value of the credit portfolio at the end of 1st half of 2019). The number and value of foreign-currency loans decreases systematically: at the end of 2018 (at the end of the 1st half of 2019), banks held 555.9 thousand (540.1 thousand) foreign-currency loans with a total value of PLN 128.6 billion (PLN 122.7 billion), including 457.3 thousand (442.7 thousand) loans in CHF with a total value of PLN 104.8 billion (PLN 99.7 billion) in their portfolios.

For several years, the number and value of impaired loans and loans where the payment is more than 30 days late has remained relatively stable (at the end of the first half of 2019, there were 37.3 thousand non-performing loans with a total value of PLN 10.1 billion, which represented 1.69% of the total number of loans and 2.45% of their total value).

In 2019 there was an increase in lending (the value of originated loans in the first half of 2019 increased by 11.9% compared to the first half of 2018, with a decrease in the number of originated loans by 0.7%). The average value of a housing loan granted in the first half of 2019 was PLN 275 thousand, and was PLN 21 thousand higher than in 2018.

For loans granted in the first half of 2019, there was an increase in the loan-to-value (LTV) ratio as compared to loans granted in 2018. For 74% of loans granted in 2018, LTV at the starting point of credit did not exceed 80% and LTV for 26% of loans was between 80% and 90%. For loans granted in the first half of 2019, the share was 64% and 36%, respectively.

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<sup>20</sup> The mid-year survey on housing loans in 2019 did not cover the credit portfolio of Euro Bank.

### 3.1.3. INSPECTION ACTIVITIES

#### INSPECTIONS AT COMMERCIAL BANKS: GENERAL INFORMATION

Inspection activities at banks in 2019 were carried out on the basis of the provisions of law and the KNF prudential recommendations, taking into account the guidelines of the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS), based on uniform standards and examination procedures included in the Inspection Manual and detailed methodologies supplementing the Inspection Manual.

Inspection activities were carried out in the form of comprehensive and targeted inspections, preliminary investigations and validation proceedings.

**Table 29. Inspection activities carried out by the UKNF at commercial banks in 2019<sup>21</sup>**

Inspection activities	Number
Targeted inspections	17
Comprehensive inspections	3
Preliminary investigations	1

Source: UKNF's own study

#### COMPREHENSIVE AND TARGETED INSPECTIONS AT COMMERCIAL BANKS

In the case of comprehensive inspections, the inspection activities focused primarily on the inspection of banks' management of each risk, in particular credit, liquidity, market and operational risks, and on the assessment of capital adequacy and management of the bank, considering compliance with banking laws, the related supervisory standards, the articles of association, and compliance with the requirements set out in the authorisation to establish a bank.

Inspection activities carried out as part of comprehensive inspections and selected targeted inspections usually also covered thematic reviews, i.e. reviews targeted at examining the same set of issues, in particular at systemically important banks (so-called thematic inspections). The scope of thematic reviews included topics such as:

- measurement of assets according to IFRS 9<sup>22</sup>,
- internal control system, considering the new regulatory requirements and supervisory standards (in particular Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, remuneration policy and the detailed method for estimation of internal capital at banks (Journal of Laws 2017, item 637), and the KNF's Recommendation H on internal control system at banks).

The following areas/issues were covered by the remaining targeted inspections conducted at commercial banks:

- management of liquidity and funding risks,
- management of market risk and overall interest rate risk in the banking book,
- capital adequacy.

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<sup>21</sup> This table does not include validation proceedings (conducted at commercial banks) or inspections at representative offices of foreign banks.

<sup>22</sup> Commission Regulation (EU) 2016/2067 of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9.

Inspections of the correctness of calculating and transferring the required amount of the statutory reserve were carried out during 3 comprehensive inspections at commercial banks, for the purpose of cooperation between the UKNF and the NBP.

Tables 30-35 provide summary information on the material irregularities (concerning to varying degrees the entities under inspection) identified with respect to:

- the issues examined as part of thematic reviews,
- other material issues examined during targeted and comprehensive inspections.

**Table 30. Material irregularities identified during inspection activities at commercial banks in 2019 in the area of credit risk in relation to the measurement of assets according to IFRS 9**

<b>Credit risk in terms of measurement of assets according to IFRS 9</b>	
1.	<p>Irregularities concerning the estimation of expected credit loss, allowances and provisions:</p> <ul style="list-style-type: none"> <li>– improper modelling of credit risk parameters: <ul style="list-style-type: none"> <li>• failure to consider the ‘forward looking information’ factor,</li> <li>• EAD modelling - failure to consider, or improper consideration of, early repayment and extension of time limits for loan repayment,</li> <li>• incorrect assumptions for the determination of the default rate,</li> </ul> </li> <li>– incorrect method of setting the behavioural lifetime of exposures,</li> <li>– incorrect estimation of discounted cash flows: <ul style="list-style-type: none"> <li>• failure to apply at least two scenarios with a risk or likelihood of credit loss,</li> <li>• failure to consider information about forecasts of future economic conditions.</li> </ul> </li> </ul>
2.	<p>Irregularities related to the identification of impairment of financial assets:</p> <ul style="list-style-type: none"> <li>– inconsistency in the definition of default used for the purpose of risk management and to estimate expected credit losses,</li> <li>– objections to the classification criteria for Stage 3.</li> </ul>
3.	<p>Irregularities related to the identification of a significant increase in credit risk:</p> <ul style="list-style-type: none"> <li>– lack of or insufficient quantitative and qualitative criteria,</li> <li>– making the assessment of a significant increase in risk relative to a single exposure dependent on the quality of other financial instruments included in the homogeneous pool,</li> <li>– identification of exposures characterised by low credit risk on the basis of discretionary criteria.</li> </ul>
4.	<p>Failure to meet supervisory expectations for consumer credit, including credit cards, with interest rate calculation using the multiplier &gt; 1.</p>
5.	<p>Failure to recognise credit assets restructured for which a substantial modification took place as POCI assets.</p>
6.	<p>Objections to the rules of classification of financial instruments to the category of financial instruments characterised by low credit risk.</p>
7.	<p>Lack of assessment of a significant increase in credit risk as a consequence of improper classification of financial instruments to the category of financial instruments characterised by low credit risk.</p>

Source: UKNF's own study

**Table 31. Material irregularities identified during inspection activities at commercial banks in 2019 in the area of internal control system, considering the new regulatory requirements and supervisory standards (in particular Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, remuneration policy and the detailed method for estimation of internal capital at banks**

(Journal of Laws 2017, item 637), and the KNF Recommendation H on internal control system at banks)

The internal control system, considering the new regulatory requirements and supervisory standards	
1.	<p>Irregularities related to the internal control system (ICS), including:</p> <ul style="list-style-type: none"> <li>– failure by a supervisory board to assign annual ratings of the ICS, or assigning an ambiguous rating,</li> <li>– too vague criteria for the assessment of adequacy and effectiveness of the ICS,</li> <li>– too general rules of classification of irregularities identified as part of the ICS, in particular material and critical irregularities, which make it impossible to clearly identify the categories of irregularities,</li> <li>– unclear or incomplete criteria for separation of material processes, which allowed for a free choice and discretion in the approach, including a failure to consider quantitative factors,</li> <li>– ambiguous definition of categories of irregularities identified as part of the control function and by the internal audit unit.</li> </ul>
2.	<p>Irregularities in record-keeping relative to the control function, including control mechanisms and independent monitoring of their application, presented in the form of a matrix of control functions, including:</p> <ul style="list-style-type: none"> <li>– incomplete list of material processes and matrix of control functions,</li> <li>– failure to update the data in the matrix of control functions,</li> <li>– lack of, or inappropriate, rules for independent monitoring of control mechanisms, including: lack of reporting of the results of vertical testing,</li> <li>– too vague criteria for selection of control mechanisms.</li> </ul>
3.	<p>Irregularities in ensuring compliance as part of control functions and the compliance risk management process, including:</p> <ul style="list-style-type: none"> <li>– failure to ensure adequate staff resources in relation to the actual tasks of the compliance unit,</li> <li>– failure to ensure full independence of the compliance function, in particular the lack of direct subordination of the compliance function to the bank’s governor and the lack of participation by the head of the compliance unit or his/her alternate in certain meetings of the management board and/or the supervisory board,</li> <li>– failure to ensure full implementation of compliance testing plans for annual periods.</li> </ul>
4.	<p>Irregularities in the functioning of the internal audit unit, including:</p> <ul style="list-style-type: none"> <li>– failure to ensure full independence of the internal audit function,</li> <li>– poor quality and insufficient scope of internal audit,</li> <li>– failure to ensure full implementation of the audit plans in annual periods,</li> <li>– lack of, or inappropriate, rules of cooperation between the internal audit unit and respective units of the parent undertaking/subsidiaries,</li> <li>– incomplete audit charter.</li> </ul>

Source: UKNF’s own study

**Table 32. Material irregularities identified during inspection activities at commercial banks in 2019 in the area of management of liquidity and funding risks, in terms of risk measurement and limitation, stress tests and correct calculation of the liquidity coverage requirement (LCR)**

<b>Management of liquidity and funding risks</b>
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1.	<p>Irregularities related to the methods of measuring liquidity risk, including:</p> <ul style="list-style-type: none"> <li>– insufficient scope of the risk measurement methods adopted, including a failure to draw up cash flow projections for a medium and long term,</li> <li>– failure to update the documentation on the risk measurement methods,</li> <li>– insufficient frequency of an in-depth analysis of long-term liquidity,</li> <li>– reservations about how maturity dates are brought to real terms.</li> </ul>
2.	<p>Irregularities related to the system of internal limits, including:</p> <ul style="list-style-type: none"> <li>– insufficiently conservative level of the limits adopted,</li> <li>– no documented analysis underlying the limits,</li> <li>– insufficient range of limits,</li> <li>– failure to consider stress test results when reviewing and updating the levels of limits.</li> </ul>
3.	<p>Irregularities relating to stress testing, including:</p> <ul style="list-style-type: none"> <li>– assumption of insufficiently conservative assumptions for tests, which fail to ensure accurate risk estimation,</li> <li>– insufficient scope of test scenarios, including the lack of reverse testing, failure to recognise major operational and clearing disruptions affecting the functioning of payment and clearing systems, the lack of scenarios that would take into account severe short-term stress and less severe stress that persists over time,</li> <li>– failure to consider certain outflows in the tests, e.g. outflows on account of off-balance sheet commitments,</li> <li>– failure to use test results in liquidity risk management.</li> </ul>
4.	<p>Irregularities in the calculation of the LCR relating to non-compliance with the requirements of Regulation 2015/61<sup>23</sup>, consisting in:</p> <ul style="list-style-type: none"> <li>– disclosing liquid assets in a carrying amount, instead of market value,</li> <li>– recognising inflows from credit exposures without excluding past-due funds and exposures for which default can be expected within 30 calendar days,</li> <li>– improper definition of retail deposit, e.g. in terms of compliance with the requirements for a transaction account,</li> <li>– treating funds invested by financial entities as retail deposits,</li> <li>– failure to conduct, or errors in conducting, reviews of retail deposits in terms of identification of deposits with increased cash outflows,</li> <li>– unauthorised exclusion of term deposits from outflows,</li> <li>– improper identification of operational deposits, including failure to consider the serious legal or operational limitations for which withdrawal within 30 calendar days is improbable,</li> <li>– failure to estimate the values and rates of potential outflows on account of other products and services,</li> <li>– recognising liabilities on bonds with a weight for retail deposits, despite the lack of information on the holders of those bonds.</li> </ul>

Source: UKNF's own study

**Table 33. Material irregularities identified during inspection activities at commercial banks in 2019 in the area of management of market risk and overall interest rate risk in the banking book**

<sup>23</sup> Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to liquidity coverage requirement for Credit Institutions.

<b>Management of market risk and overall interest rate risk in the banking book</b>	
1.	<p>Irregularities in risk measurement, consisting in, for example:</p> <ul style="list-style-type: none"> <li>– failure to define, in internal regulations, measures used to measure risk, separately in the banking book and the trading book,</li> <li>– failure to measure currency risk on a consolidated basis,</li> <li>– failure to carry out analysis for behavioural treatment of current accounts and savings accounts in the reports on the interest rate risk in the banking book,</li> <li>– failure to consider stress test scenarios in the measurement of the interest rate risk in the banking book.</li> </ul>
2.	<p>Irregularities related to the system of internal limits, consisting in, for example:</p> <ul style="list-style-type: none"> <li>– failure to adapt the limits on interest rate risk and currency risk to the size and profile of risk,</li> <li>– accepting the possibility of temporary breaches of limits that were set at the level of risk appetite,</li> <li>– multiple breaches of limits, including measures of risk appetite and risk tolerance,</li> <li>– failure to take effective measures to eliminate breaches of limits,</li> <li>– failure to regularly review/update the limits based on documented analytical exercises,</li> <li>– determining or changing the level of limits without formal analysis justifying new levels of limits,</li> <li>– failure to consider the results of stress tests when setting and periodically reviewing the limits,</li> <li>– failure to regularly update internal limits for inter-bank counterparties.</li> </ul>
3.	<p>For stress tests (hereinafter: 'ST'), the irregularities concerned, among others, the following:</p> <ul style="list-style-type: none"> <li>– in relation to interest rate risk in the banking book: <ul style="list-style-type: none"> <li>• failure to conduct ST for the sensitivity of net interest income to a change in interest rates,</li> <li>• failure to conduct ST using an assumption of changes in the shape and shifts of the yield curve,</li> </ul> </li> <li>– failure to conduct ST for derivative instruments,</li> <li>– failure to consider the impact of ST on derivative transactions offered to non-bank clients on their total counterparty credit risk,</li> <li>– lack of analysis to justify the accepted movements in exchange rates in various ST scenarios,</li> <li>– failure to consider a open foreign exchange position scenario in the assumptions underlying the ST,</li> <li>– making too liberal assumptions for ST,</li> <li>– lack of, or ambiguous, provisions of internal regulations, including failure to define: <ul style="list-style-type: none"> <li>• the limits for the results of ST beyond which action would be taken to reduce the exposure to risk,</li> <li>• detailed rules for conducting reverse ST, which led to a failure to conduct such tests.</li> </ul> </li> </ul>
4.	<p>Irregularities in the process of concluding treasury transactions with clients consisting in, among other things:</p> <ul style="list-style-type: none"> <li>– the possibility of rolling over derivative transactions multiple times,</li> <li>– failure to provide clients with periodic information about the utilisation rate of the</li> </ul>

	<p>counterparty's credit limit,</p> <ul style="list-style-type: none"> <li>– failure to use the results of sensitivity analyses directly in the credit risk assessment for individual counterparties,</li> <li>– failure to periodically review the adequacy of customers' foreign currency derivative transactions in relation to the hedged item.</li> </ul>
5.	<p>Irregularities in the process of verifying marketability of transaction prices, consisting in, among other things:</p> <ul style="list-style-type: none"> <li>– failure to apply the process to certain types of trading and sales, or failure to determine acceptable deviations for certain types of transactions,</li> <li>– failure to verify the acceptable deviation of a transaction price in relation to the volatility in the market and the acceptable levels of deviations depending on the type of currency and the tenor,</li> <li>– the frequency of inspections in this area is too low,</li> <li>– failure to ensure independence of inspections in this area,</li> <li>– lack of, or ambiguous, internal regulations relating to the verification of marketability.</li> </ul>
6.	<p>Irregularities in the management information system, including:</p> <ul style="list-style-type: none"> <li>– insufficient range of the management information system, including failure to take into account: <ul style="list-style-type: none"> <li>• information on the results of stress dies (in the reports for the supervisory board),</li> <li>• information about the the process of assessing the marketability of transaction prices for transactions on the inter-bank market,</li> <li>• information on the risk arising from rolling transactions with the bank's customers,</li> <li>• lack of (at least annual) reporting to the supervisory board on customer's option risk in the banking book,</li> </ul> </li> <li>– insufficient frequency of the management information system (e.g. in relation to reporting the results of the transaction price assessment),</li> <li>– poor quality of management reports (including accounting errors and misinterpretations of reported data),</li> <li>– failure to prepare reports on the measurement of interest rate risk at subsidiaries, on a consolidated basis.</li> </ul>

Source: UKNF's own study

**Table 34. Material irregularities identified during inspection activities at commercial banks in 2019 in the area of capital adequacy relating to correct calculation of capital requirements and internal capital**

<b>Capital adequacy</b>	
1.	<p>Irregularities relating to incorrect segmentation of credit exposures and assignment of risk weights:</p> <ul style="list-style-type: none"> <li>– with regard to the classification of exposures secured with mortgages on real estate: <ul style="list-style-type: none"> <li>• accepting, as collateral for a exposure, immovable property which fails to meet the definition of residential immovable property,</li> <li>• unjustified recognition of an exposure as fully or completely secured on residential/commercial real property,</li> <li>• unjustified application of a preferential risk weight of 35% (instead of 100%) to exposures secured by mortgages on residential immovable property,</li> </ul> </li> <li>– attributing the risk weight of 50% (instead of 100%) to exposures to institutions,</li> </ul>



	<ul style="list-style-type: none"> <li>– attributing the risk weight of 0% (instead of 20%) to exposures to central governments and central banks which relate to funds in a currency on the account of the NBP,</li> <li>– attributing a wrong risk weight to exposures in default,</li> <li>– incorrect application of the category of exposures to self-government units and local authorities instead of the category of exposures to public sector entities.</li> </ul>
2.	<p>Attributing, to off-balance sheet obligations, in breach of Annex I of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (hereinafter: 'Regulation No 575/2013'), CCF of 0% instead of 20% or 50% (depending on the maturity), e.g.:</p> <ul style="list-style-type: none"> <li>– where internal regulations do not specify situations indicating a deterioration in the creditworthiness of the borrower,</li> <li>– where there is no clear specification for what products and under what contractual provisions CCF of 0% may be applied to off-balance sheet obligations.</li> </ul> <p>Attributing, to off-balance sheet obligations, CCF of 0% to off-balance sheet obligations of borrowers that have defaulted.</p>
3.	<p>Irregularities relating to the estimation of internal capital, including:</p> <ul style="list-style-type: none"> <li>– failure to document the process of internal capital estimation and capital management in terms of the assessment of risks treated as material risks, e.g. in relation to the risk of mortgage-secured foreign currency loans of households,</li> <li>– errors in the estimation of internal capital for certain risks, e.g. credit risk, concentration risk, market risk,</li> <li>– failure to define the bank's method of managing risks that have been considered to be immaterial,</li> <li>– irregularities relating to the annual review of internal capital estimation and capital management.</li> </ul>
4.	<p>Reservations concerning the contingency capital planning, including:</p> <ul style="list-style-type: none"> <li>– limited effectiveness of the contingency capital plan resulting from a lack of precise indication of limits whose exceedance will trigger the plan,</li> <li>– failure to consider, in the contingency capital plan, measures to be taken in the case of a reduction in the level of capital ratios and an increase in the level of internal capital,</li> <li>– the contingency capital plan does not specify the frequency of reporting the effects of contingency measures to the banks' management board and supervisory board.</li> </ul>

Source: UKNF's own study

**Table 35. Other material irregularities identified during inspection activities at commercial banks in 2019**

<b>Other material irregularities identified at commercial banks</b>	
1.	<p>With regard to credit risk management, the irregularities concerned e.g.:</p> <ul style="list-style-type: none"> <li>– too low level of liabilities arising from credit cards and revolving credit products,</li> <li>– lack of proper verification of the source and amount of income and assessment of income stability,</li> <li>– insufficient control mechanisms or insufficient independent monitoring of compliance with such mechanisms to avoid irregularities and infringements of legislation in the area of credit risk, including concentration risk,</li> <li>– failure to ensure an effective system for obtaining up-to-date financial data from debtors against whom the debt restructuring process is under way,</li> </ul>

	<ul style="list-style-type: none"> <li>– waiving the need to secure high-value cash and consolidation loans/credit,</li> <li>– ineffective process of updating real property insurance policies, including, <i>inter alia</i>, due to the lack of monitoring in that respect,</li> <li>– failure to apply the standards of KNF Recommendation C on concentration risk management in relation to stress tests with regard to concentration risk,</li> <li>– the considering, in the early warning system, of events indicating the existence of indications of impairment or default,</li> <li>– incomplete management information (e.g. due to the lack of account being taken of relevant information on financial instruments other than credit and credit risk generated by such instruments, lack of reporting on the scale and relevance of the deviations from credit policy).</li> </ul>
2.	<p>With regard to operational risk management, the irregularities concerned e.g.:</p> <ul style="list-style-type: none"> <li>– the catalogue of Key Risk Indicators (KRIs) being monitored (which was inadequate for the bank's risk profile),</li> <li>– failure to carry out analysis before introducing internal limits on operational risk and to periodically review the existing limits,</li> <li>– lack of complete, consistent and up-to-date internal regulations relating to the risk management process, including inconsistent provisions of internal procedures regarding the amount of operating loss to be reported and the setting of excessively long deadlines for the recording of operational events in the operational event database,</li> <li>– untimely recording of operational events,</li> <li>– failure to review and update the business continuity plan, including the absence of periodic tests to verify the effectiveness of the plans for critical business processes,</li> <li>– excessively long recovery period for a critical process related to reporting to the Bank Guarantee Fund,</li> <li>– failure to identify outsourcing agreements for criticality/materiality in terms of business continuity,</li> <li>– failure to define the rules for estimating provisions for liabilities related to the effects of the pending court proceedings in which the bank participates,</li> <li>– failure to specify, in internal regulations, the circumstances of a particularly complicated case, preventing the handling of the complaint within 30 days.</li> </ul>
3.	<p>With regard to bank management, the irregularities concerned e.g.:</p> <ul style="list-style-type: none"> <li>– the organisation and functioning of the bank's bodies and the bank's organisational structure, including: <ul style="list-style-type: none"> <li>• failure to ensure independence of Level 1 risk management system from Level 2 management,</li> <li>• failure to appoint the audit committee,</li> </ul> </li> <li>– application of corporate governance rules, including: <ul style="list-style-type: none"> <li>• the lack of a clear assessment, by the supervisory board, of the implementation and application by the bank of the <i>Principles of corporate governance for supervised institutions</i>,</li> <li>• failure to ensure anonymity and protection against repression for absolutely any person who reports an irregularity as part of the system of reporting violations of the law committed by employees,</li> </ul> </li> <li>– failure to analyse the conformity of a new product to the risk management strategy and the bank's strategy,</li> <li>– remuneration policy, in connection with events of introducing a value limit on the payment</li> </ul>

	<p>of a variable component of remuneration for employees who have a significant influence on the bank's risk profile,</p> <ul style="list-style-type: none"> <li>– various aspects of the fulfilment of obligations towards account holders and other authorised persons, related to failure to comply with the requirements under the Act of 29 August 1997 – the Banking Law (Journal of Laws 2019, item 2357, consolidated text, as amended), related to so-called 'dormant accounts' and timely receipt and response from/to the Central Information System.</li> </ul>
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Source: UKNF's own study

## SUPERVISORY VALIDATION OF INTERNAL APPROACHES TO CALCULATING CAPITAL REQUIREMENTS AND INTERNAL MODELS

The 2019 work – as part of the off-site analysis and/or in the course of inspection activities – in the area of validation proceedings in respect of internal approaches in relation to domestic banks focused on various aspects of the post-application phase, i.e. the one that involves activities undertaken after the bank has been authorised to use internal approach. With respect to the IRB approach<sup>24</sup>, the top priority of the activities carried out in cooperation with the European Central Bank (hereinafter: 'EBC') was the assessment of adjustment of domestic banks to the new requirements concerning the definition of default (that will become effective as of 2021), and with respect to the AMA approach<sup>25</sup> – the assessment of compliance of the banks' solutions with the new requirements concerning that approach (that became effective in July 2019)<sup>26</sup>. The validation proceedings also included – according to requests and information on domestic banks – an assessment of extensions and changes in the IRB and AMA approaches, as well as verification of the implementation of the conditions, guidelines, recommendations resulting from previous authorisations of competent supervisory authorities. A total of 13 validation proceedings with respect to internal approaches were conducted: in relation to 2 cases the KNF Board issued a decision, and in relation to 11 cases an opinion or position of the KNF Board was formulated.

As regards proceedings concerning internal models, the KNF issued 5 decisions on banks' applications for authorisation to use own OTC option pricing models for calculating delta equivalent.

## INSPECTIONS AT REPRESENTATIVE OFFICES OF FOREIGN BANKS

In 2019, 2 inspections were carried out in representative offices of foreign banks, during which compliance with the conditions laid down in the KNF authorisation to operate as a representative office in territory of the Republic of Poland. The findings of the inspections did not reveal any material irregularity. The operations of representative offices were carried out in accordance with the KNF authorisation.

## INSPECTIONS AT COOPERATIVE BANKS: GENERAL INFORMATION

In 2019, inspection activities at cooperative banks were carried out on the basis of the provisions of law and the KNF's prudential recommendations, taking into account the guidelines of the European Banking Authority (EBA) and the Basel Committee on Banking

<sup>24</sup> Internal Ratings Based Approach (credit risk) – 4 domestic banks.

<sup>25</sup> Advanced Measurement Approach (operational risk) – 3 domestic banks.

<sup>26</sup> Requirements following from Commission Delegated Regulation (EU) 2018/959 of 14 March 2018 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards of the specification of the assessment methodology under which competent authorities permit institutions to use Advanced Measurement Approaches for operational risk.

Supervision (BCBS), based on uniform standards and examination procedures included in the Inspection Manual and detailed methodologies supplementing the Manual.

Inspection activities were carried out in the form of comprehensive inspections, targeted inspections, and preliminary investigations.

**Table 36. Inspection activities carried out by the KNF at cooperative banks in 2019**

<b>Inspection activities</b>	<b>Number</b>
Comprehensive inspections at cooperative banks	2
Targeted inspections at cooperative banks	36
Investigations at cooperative banks	1

Source: UKNF's own study

In the case of inspection activities at cooperative banks, the main area of inspection was credit risk.

## TARGETED AND COMPREHENSIVE INSPECTIONS AT COOPERATIVE BANKS

**Table 37. Material irregularities identified during inspection activities at cooperative banks in the area of credit risk (examined during targeted and comprehensive inspections)**

Material irregularities identified during inspection activities at cooperative banks in the area of credit risk	
1.	<p>Irregularities in the assessment of client's creditworthiness, including:</p> <ul style="list-style-type: none"> <li>– cases of non-compliance with the Act of 29 August 1997 – the Banking Law (Journal of Laws 2019, item 2357, consolidated text, as amended; hereinafter: 'Banking Law') in terms of assessment of creditworthiness of borrower related to e.g. failure, at the time of granting a loan, to: <ul style="list-style-type: none"> <li>• verify the quantitative data submitted by clients,</li> <li>• verify the source of income and/or financial forecasts for the entire lending period,</li> <li>• obtain or assess the recovery plans, or failure to establish special security where the client was not creditworthy,</li> <li>• accept the minimum household maintenance costs at a level not lower than those published cyclically by the Institute of Labour and Social Studies (Instytut Pracy i Spraw Socjalnych),</li> <li>• take into account the household maintenance costs for micro-enterprises and individual farmers (or accepting such costs at a level that is too low),</li> </ul> </li> <li>– disregarding the impact of interest rate changes on creditworthiness (or taking it too low),</li> <li>– failure to carry out own assessment of creditworthiness (and to review and classify exposures) in the case of credit granted as part of banking syndicates,</li> <li>– cases of non-compliance with the Banking Law due to a bank's failure to assess the financial and economic standing of a client in the case of amendment to the contractual terms and time limits for the repayment of credit.</li> </ul>
2.	<p>Irregularities in the classification of credit exposures to risk categories leading to incorrect presentation of the credit portfolio, insufficient special-purpose provisions and write-downs, including:</p> <ul style="list-style-type: none"> <li>– failure to identify any significant deterioration of the financial and economic situation of a debtor,</li> <li>– failure to analyse each item of the balance sheet and profit and loss account and the related changes,</li> <li>– failure to recognise significant negative deviations in the performance from the related financial forecasts made in loan applications,</li> <li>– classification of exposures as 'watch-list' due to the borrower's economic and financial situation,</li> <li>– reclassification of exposures to a lower risk category despite the debtor's failure to regain creditworthiness, and failure to consider the criterion of at least 3-month timely loan servicing,</li> <li>– lack of automatic classification of liabilities according to the criterion of timely repayment of receivables,</li> <li>– failure to consider the criterion of timely repayment of receivables.</li> </ul>
3.	<p>Irregularities in the measurement of collateral, leading, in some cases, to insufficient special-purpose provisions and write-downs, i.e.:</p> <ul style="list-style-type: none"> <li>– reduction of the basis for calculation of special-purpose provisions and write-downs on the basis of outdated valuation reports for commercial real estate, or without considering</li> </ul>

	<p>previous encumbrances in the land and mortgage register,</p> <ul style="list-style-type: none"> <li>– disregarding legal, economic and factual constraints which may affect the actual ability of the bank to satisfy their claim with collateral,</li> <li>– no verification of credibility and accuracy of market assumptions and parameters at the stage of collateral acceptance or collateral monitoring,</li> <li>– failure to use a reliable inter-bank database on the real estate market,</li> <li>– lack, or low quality, of data in the internal database on real estate.</li> </ul>
4.	<p>Irregularities in the lending process, relating to exemptions applied for example:</p> <ul style="list-style-type: none"> <li>– in the process of granting credit: <ul style="list-style-type: none"> <li>• to persons/entities who/which are not creditworthy without any special security or without a plan to improve the economic and financial situation,</li> <li>• with respect to the score at BIK, which shows that the client is unreliable, or with respect to exceeding the acceptable arrears as per a BIK report,</li> <li>• the down payment was below the required level,</li> </ul> </li> <li>– with regard to security accepted, e.g. excessive level of LtV,</li> <li>– in the review and classification of credit exposures, that led to a situation where for some groups of credit exposures the bank did not conduct the review or conducted the review at a frequency other than the frequency prescribed in Regulation of the Minister of Finance of 16 December 2008 on the principles of creating provisions for risk related to banking activity,</li> <li>– the influence of derogations on the bank's level of credit risk and performance was not analysed or monitored,</li> <li>– lack of reporting (at management and supervisory board level) on the scope, scale and impact of the derogations applied.</li> </ul>
5.	<p>Irregularities due to a limited scope of internal regulations which might result in improper identification of credit risk, including:</p> <ul style="list-style-type: none"> <li>– lack of rules concerning acceptable quantitative measures considering the specific nature of business activities of borrowers,</li> <li>– failure to define the industries which, in the bank's view, require special attention,</li> <li>– failure to develop rules for debt restructuring, including classification and reclassification of forborne exposures,</li> <li>– lack of rules for application of deviations from lending procedures, including lack of a catalogue of acceptable deviations and limit on the total amount of credit facilities granted with such deviations.</li> </ul>
6.	<p>Other irregularities identified in the area of credit risk:</p> <ul style="list-style-type: none"> <li>– failure to identify, or incorrect identification of, groups of entities related by equity or internal organisation, including exceeding the limit laid down in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012,</li> <li>– failure to identify, or improper identification of, debt restructuring measures,</li> <li>– failure to adapt the system of internal limits to the bank's risk profile and scale of operations,</li> <li>– lack of independence in Level 1 and 2 credit risk management.</li> </ul>

**Table 38. Other material irregularities identified during inspections at cooperative banks**

1.	In terms of liquidity and funding risks, material irregularities were identified in relation to internal regulations (e.g. failure to verify and review the regulations), risk identification and
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	measurement (e.g. lack of analysis to justify the accepted levels of thresholds for categorisation as a large depositor), prudential limits (including setting limits without taking into account stress test results), and calculation of LCR (e.g. considering credit as inflows despite the possibility of prolongation of maturity, application of improper outflow rates to high interest rate deposits).
2.	In terms of market risk, material irregularities were found in relation to the identification and measurement of risks (e.g. lack of determination of interest rate risk appetite for the permissible impact of interest rate fluctuations on the economic value of the bank, incorrect recognition of certain positions in the category of positions sensitive to changes of interest rates, lack of analysis of the materiality of the customer's option risk), the system of limits (e.g. the lack of analyses underlying the determination of limits and reasons for increasing the use of limits, lack of obligation to report overruns to the supervisory board and to approve risk mitigation measures by the supervisory board where the limits overlapped with the risk appetite approved by the supervisory board), internal regulations (errors and inconsistent provisions of internal regulations) as well as the quality and scope of the internal control system.
3.	In relation to operational risk, the material irregularities concerned e.g. the process of collecting information on operating losses, the design and monitoring of KRIs, the self-assessment and stress testing for operational risk. Failures were also found in the business continuity management process, including failure to determine the sequence of resumption of critical business processes and periodic tests of a business continuity scenario envisaging the transfer of the operating activities to the bank's alternate headquarters. The findings indicated failure to define rules for assessing risks and estimating provisions for liabilities related to the effects of pending court proceedings in which the bank participated, and irregularities in the complaint handling process.
4.	As regards capital adequacy, material irregularities were found in the calculation of capital requirements for credit risk (application of incorrect segmentation and risk weights), internal capital (including incomplete review of internal capital estimation and capital management, lack of analysis of materiality of risks) and own funds (no reduction by the amount of participating interest in financial entities).
5.	As regards bank management, material irregularities concerned the organisation and functioning of the bank's bodies, remuneration policy, organisation of the risk management system and internal control system, reporting of fraudulent practices, and dormant accounts. In particular, the irregularities consisted in the banks' failure to consider certain requirements under Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and the detailed method for estimation of internal capital at banks (Journal of Laws 2017, item 637), the Banking Law, and the standards set out in KNF Recommendation H on internal control system at banks. A negative assessment was made due to, <i>inter alia</i> , a bank's failure to apply the principle of deferral, i.e. the payment of a minimum of 40% of variable components of remuneration after the assessment period for which the remuneration is due. Concerns were raised in connection with the supervision exercised by the supervisory board over the internal control system, including the supervisory board's failure to perform an annual assessment of adequacy and effectiveness of the internal control system. Other concerns included the process of managing dormant accounts in the light of the requirements under the Banking Law.

Source: UKNF's own study

## 3.2. CREDIT UNIONS (PL: SKOK)

### 3.2.1. LICENSING ACTIVITIES

#### APPROVAL OF AN AMENDMENT TO THE ARTICLES OF ASSOCIATION OF THE NATIONAL ASSOCIATION OF CREDIT UNIONS AND TO THE ARTICLES OF ASSOCIATION OF A CREDIT UNION

In 2019, the KNF Board issued one decision on the approval of articles of association of the National Association of Credit Unions, 9 decisions on the approval of articles of association of credit unions, and 2 decisions to discontinue administrative proceedings in respect of approval of the articles of association of credit unions.

### APPROVAL AND APPOINTMENT OF PRESIDENTS OF MANAGEMENT BOARDS OF CREDIT UNIONS

In 2019, the KNF Board issued:

- 2 final decisions to discontinue proceedings,
- 2 final decisions, following examination of a request for a review of a case, repealing final decisions to refuse to approve appointment of presidents of credit unions and to discontinue proceedings.

### INTERIM DECISIONS IN OTHER CASES

In 2019, the KNF Board issued:

- 1 interim decision on the resumption of stayed proceedings,
- 1 interim decision on the refusal to allow an entity to act as a party to administrative proceedings in respect of appointment of a commissioned regulator at a credit union.

## 3.2.2. SUPERVISORY ACTIVITIES

As at end of 2019, 14 unions were subject to rehabilitation proceedings. In 2019, the KNF Board decided on the take-over of a credit union by a domestic bank pursuant to the Act of 5 November 2009 on credit unions. Spółdzielcza Kasa Oszczędnościowo-Kredytowa „Jaworzno” was taken over by Alior Bank S.A.

In 2019, the KNF Board approved the merger, under the Act of 5 November 2009 on credit unions, of three credit unions: Spółdzielcza Kasa Oszczędnościowo-Kredytowa „Energia” and Spółdzielcza Kasa Oszczędnościowo-Kredytowa „Świętokrzyska”; Spółdzielcza Kasa Oszczędnościowo-Kredytowa im. Kwiatkowskiego and Spółdzielcza Kasa Oszczędnościowo-Kredytowa im. Królowej Jadwigi; and Spółdzielcza Kasa Oszczędnościowo-Kredytowa im. Kwiatkowskiego and Rzeszowska Spółdzielcza Kasa Oszczędnościowo-Kredytowa.

The KNF Board discontinued one administrative proceeding initiated *ex officio* pursuant to Article 73(1) of the Act on credit unions to clarify whether there is a threat that one of the credit unions might cease to pay its liabilities.

In 2019, the KNF Board took cognisance of four periodic reports on the standing of the credit unions sector: Information on the standing of credit unions in the third quarter of 2018, the fourth quarter of 2018, the first quarter of 2019, the second quarter of 2019. In 2019, the KNF Board also took cognisance of reports on the standing of the credit unions obliged to implement rehabilitation plans for 2018 and for the 1st half of 2019.

## 3.2.3. INSPECTION ACTIVITIES

In 2019, 4 inspections were conducted at credit unions (including 2 inspections with regard to asset quality assessment and credit risk management, and 2 inspections of the implementation of recommendations issued after previous inspections).

Following the inspections, reservations were expressed as to the quality of those entities' management activities, in particular due to irregularities in credit risk identification, measurement and control. Main reservations related to:

- measurement of credit and loan exposures leading to missing write-downs,



- measurement of shares,
- assessment of creditworthiness,
- concentration risk management,
- the restructuring process,
- collateralisation of credit exposures.

### 3.3. DOMESTIC PAYMENT INSTITUTIONS, DOMESTIC ELECTRONIC MONEY INSTITUTIONS, SMALL PAYMENT INSTITUTIONS, ACCOUNT INFORMATION SERVICE PROVIDERS, PAYMENT SERVICES OFFICES

#### 3.3.1. LICENSING ACTIVITIES

##### DOMESTIC PAYMENT INSTITUTIONS AND DOMESTIC ELECTRONIC MONEY INSTITUTIONS

As at 31 December 2019, 38 domestic payment institutions and 1 electronic money institution held authorisations.

In 2019, the KNF Board received 16 requests regarding domestic payment institutions, including 8 requests regarding a change of the previous authorisation. During that period, there were made 2 final decisions on authorisation to provide payment services as a domestic payment institution, 4 final decisions on amendment to such authorisation, and 1 final decision on authorisation of an electronic money institution. The KNF Board issued 1 final decision denying authorisation to provide payment services as a domestic payment institution; 1 proceeding on authorisation to provide payment services as a domestic payment institution was stayed, and 3 proceedings were discontinued. Following re-authorisation proceedings, the KNF Board issued 1 final decision on withdrawal of authorisation of a domestic payment institution.

In 2019, 7 notifications were made to other EU Member States in relation to activities of domestic payment institutions.

In 2019, 69 requests from domestic payment institutions for a change in the data entered in the register referred to in Article 4(3) of the Act on payment services were considered.

##### SMALL PAYMENT INSTITUTIONS AND ACCOUNT INFORMATION SERVICE PROVIDERS

As of 20 June 2018, payment services may also be provided by a small payment institution or account information service provider, following entry in the KNF register of payment services providers as referred to in Article 4(3) of the Act on payment services. The two forms of business are regulated businesses as defined in the Act of 6 March 2018—the Business Law, which means that they may be taken up following entry in the register on the basis of the application submitted together with a declaration on the fulfilment of requirements for such business laid down in the Act on payment services.

By 31 December 2019, the KNF Board received 56 applications for registration of a small payment institution; 44 entries were made and 2 small payment institutions were removed; 5 applications were disregarded and 5 applications were withdrawn. As at 31 December 2019, 46 small payment institutions were included in the Register of Payment Services.

By 31 December 2019, 5 applications for entry in the Register of Account Information Service Providers were received; by that date, 2 entries were made in the register and 1 application was disregarded.

## PAYMENT SERVICES OFFICES

In 2019, the KNF Board received 422 requests concerning payment services offices, of which 249 requests concerned entry in the register, and 172 concerned removal from the register; 1 request was withdrawn. As at 31 December 2019, 1 367 payment services offices have been entered in the Register of Payment Service Providers.

## NOTIFICATIONS UNDER ARTICLE 72A OF THE ACT OF 19 AUGUST 2011 ON PAYMENT SERVICES, CONCERNING AN INTENTION TO ACQUIRE QUALIFYING HOLDINGS AND/OR SHARES OF DOMESTIC PAYMENT INSTITUTIONS

In 2019, the KNF Board processed 9 notifications of intention to acquire or take up, directly or indirectly, shares of a domestic payment institution in a number sufficient to reach or exceed 20%, 30% or 50%, respectively, of the total number of votes in the decision-making body or a share in the share capital; no objection was raised in 6 cases, and initiation of proceedings was refused in 2 cases.

## NOTIFICATIONS CONCERNING EU PAYMENT INSTITUTIONS AND EU ELECTRONIC MONEY INSTITUTIONS

In 2019, the KNF Board received 140 notifications from competent supervisory authorities concerning the activities of EU payment institutions and 80 concerning the activities of EU electronic money institutions operating in Poland through a branch, through agents and on a cross-border basis.

### 3.3.2. SUPERVISORY ACTIVITIES

#### REQUIREMENT TO APPLY STRONG CUSTOMER AUTHENTICATION

Since 14 September 2019, it has been mandatory to apply Article 32i of the Act of 19 August 2011 on payment services and Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market (...) with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication (Regulation). Under Article 32i of the Act on payment services, payment service providers must use strong customer authentication (SCA) where a customer (payer):

- accesses its payment account online,
- initiates an electronic payment transaction,
- carries out any action through a remote channel which may imply a risk of payment fraud or other abuse.

In particular, strong customer authentication should be used where a customer logs on to online banking, to initiate payments using a payment card or any other payment instrument, and for online payments.

In view of the information on the European payment services market collected by EBA, which showed that the participants in that market were not sufficiently prepared for the implementation of the SCA rules for payments made through online channels, especially in the e-commerce area, considering the need to make the necessary changes required for full implementation of SCA solutions without causing disruptions in those markets, EBA issued, on 21 June 2019, an opinion on the application of strong customer authentication. In its opinion, EBA concluded that on an exceptional basis and in order to avoid unintended negative consequences for some payment service users after 14 September 2019,

supervisory authorities in Member States could provide limited additional time to allow migration of the current authentication approaches of payment service providers to the solutions that are fully compliant with the SCA requirements.

In its communication of 19 August 2019, the KNF Board considered the application of the solution proposed by EBA in relation to online payments based on payment cards and to contactless payments executed at payment terminals to be acceptable. This meant that no other supervisory measure relating to the failure to use strong customer authentication will be applied towards the payment service providers who notified the KNF Board, before 14 September 2019, of the need to apply the solution in question and then submit an appropriate realistic 'migration plan', as agreed with KNF Board, during the period of proper execution of the plan. At the same time even in that case, the risk associated with the failure to use, after 13 September 2019, strong customer authentication that is compliant with the Regulation, is fully borne by payment service providers, who are required to use it. In its opinion of 16 October 2019, EBA sets out the framework conditions, including the maximum time limit for the implementation of the SCA solutions within the 'migration plan', i.e. by 31 December 2020. In that respect, the UKNF obliged the payment service providers who reported, prior to 14 September 2019, the need to extend the time limit for implementation of fully compatible strong customer authentication to submit their 'migration plans.' As at 31 December 2019, the UKNF reviewed the submitted 'migration plans' and was monitoring the timeliness of their implementation.

## DAY-TO-DAY SUPERVISION

On 20 June 2018, following an amendment to the Act on payment services, new categories of entities were introduced: small payment institutions and account information service providers. Those entities, following entry in the KNF Register of Payment Service Providers, may provide payment services on the terms laid down in the Act.

The activities in the area of payment services carried out by domestic payment institutions (*krajowa instytucja płatnicza*, KIP), domestic electronic money institutions (*krajowa instytucja pieniądza elektronicznego*, KIPE), small payment institutions (*mała instytucja płatnicza*, MIP), payment services offices (*biuro usług płatniczych*, BUP) and account information service providers are supervised by the KNF Board to the extent and according to the principles laid down in the Act on payment services and the Act on financial market supervision. The primary objective of the supervision exercised by the KNF Board over the activities in the area of payment services and issuance of electronic money is to ensure that such activities are carried out in accordance with the applicable national and EU laws governing the functioning of the payment services market, and to protect the interests of electronic money users and holders.

As part of its supervision, the KNF Board withdrew 4 authorisations to provide payment services as a KIP and issued 9 bans on the conduct of activities as a BUP.

The analysis of the reporting data on the domestic market of payment services submitted to the KNF leads to the conclusion that this area is dominated by several well-established KIPs, which operate on a large scale. In the third quarter of 2019, domestic payment institutions providing only money transfer services (Group C) carried out 2.09% of all payment transactions (10.11 million transactions). The second group of entities (Group B), which, in addition to the money transfer service, also provide other payment services, including transfer orders and direct debits, carried out 0.02% (0.11 million transactions) in that period. The vast majority of payment transactions, i.e. 97.89% (474.54 million transactions), were carried out by Group A (KIPs which, in addition to providing payment services from the above-mentioned Group B, also act as clearing agents as approved by the President of the NBP, and enable the execution of payment transactions initiated by or through an acceptor, the payer's payment instrument, especially consisting in the service of authorisations, sending payment orders of the payer or the acceptor to the issuer of the payment card or to

payment systems, in order to provide the acceptor with the funds due (acquiring). The only electronic money institution operating in Poland declared that from the date of its authorisation by the KNF until the end of the third quarter of 2019 the institution did not commence the activity of issuance of electronic money.

**Table 39. Breakdown of own funds of domestic payment institutions (KIPs) (in PLN thousand)**

Item	Q3 2018 (PLN)	Q4 2018 (PLN)	Q1 2019 (PLN)	Q2 2019 (PLN)	Q3 2019 (PLN)
<b>Own funds, including:</b>	<b>640 489 276.00</b>	<b>620 004 889.00</b>	<b>789 883 236.70</b>	<b>760 461 848.00</b>	<b>803 996 072.00</b>
- initial capital	519 146 860.00	541 203 649.00	420 113 851.00	391 764 245.00	407 328 203.00
- revaluation capital	9 595 737.00	14 595 948.00	0.00	5 000 211.00	40 440.00
- retained earnings	17 188 387.00	21 170 382.00	12 622 167.00	6 823 254.00	13 510 644.00
- profit during approval and net profit of the current reporting period	67 887 703.00	37 496 463.02	17 923 531.00	4 203 574.00	7 396 417.00
- reserve capital *	-	-	185 585 946.70	190 460 913.00	214 505 322.00
- other reserve capitals*	-	-	162 193 565.00	162 209 651.00	161 215 046.00
<b>Deductions of own funds:</b>	<b>204 869 645.00</b>	<b>206 257 783.00</b>	<b>222 381 232.77</b>	<b>202 024 722.00</b>	<b>202 626 370.00</b>
- own shares held by a payment institution measured at the carrying amount including any impairment loss	21 270.00	21 412.00	21 418.00	21 173.00	0.00
- all liabilities resulting from the issue of preference shares	0.00	0.00	0.00	0.00	0.00
- intangible assets measured at the carrying amount	101 823 870.00	103 217 862.88	105 475 642.61	97 086 512.00	104 558 535.00
- loss from previous years	96 104 511.00	94 028 910.00	100 018 116.00	88 662 661.00	91 000 028.00
- loss during approval	0.00	0.00	5 874 638.53	1 053 132.00	0.00
- net loss of the current period	5 749 409.00	7 525 072.00	9 749 871.85	15 201 243.00	7 067 807.00
<b>Own funds (after deductions)</b>	<b>434 980 007.00</b>	<b>413 747 104.00</b>	<b>567 502 003.93</b>	<b>558 437 127.00</b>	<b>601 369 702.00</b>

Source: UKNF's own study

\*The lack of data in Q3 and Q4 of 2018 is due to the change in the reporting of the level of own funds of KIPS, effective since 2019. Prior to the change, those positions were recognised as part of initial capital.

**Table 40. The number of transactions (in million) carried out by domestic payment institutions (KIP)**

KIP	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Group A	392.95	417.21	414.47	459.02	474.54
Group B	0.08	0.08	0.09	0.10	0.10
Group C	10.40	10.54	49.56	10.96	10.11
<b>Total</b>	<b>403.43</b>	<b>427.83</b>	<b>464.12</b>	<b>470.08</b>	<b>484.75</b>

Source: UKNF's own study

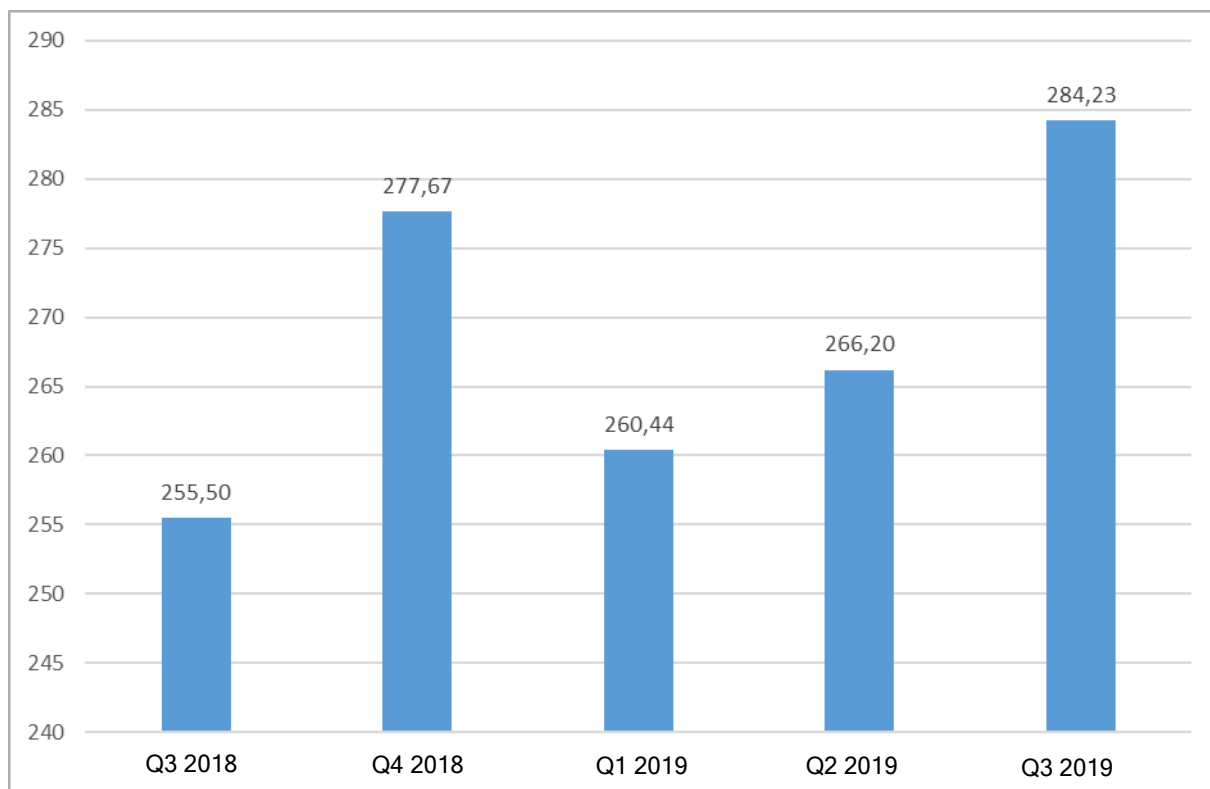
**Table 41. The value of transactions (in PLN million) carried out by domestic payment institutions**

KIP	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Group A	31 738.53	35 534.29	33 835.11	38 514.88	40 952.36
Group B	112.78	74.95	181.33	125.75	147.13
Group C	3 049.66	3 502.71	2 779.77	3 040.52	3 011.95

<b>Total</b>	<b>34 900.97</b>	<b>39 111.95</b>	<b>36 796.21</b>	<b>41 681.15</b>	<b>44 111.44</b>
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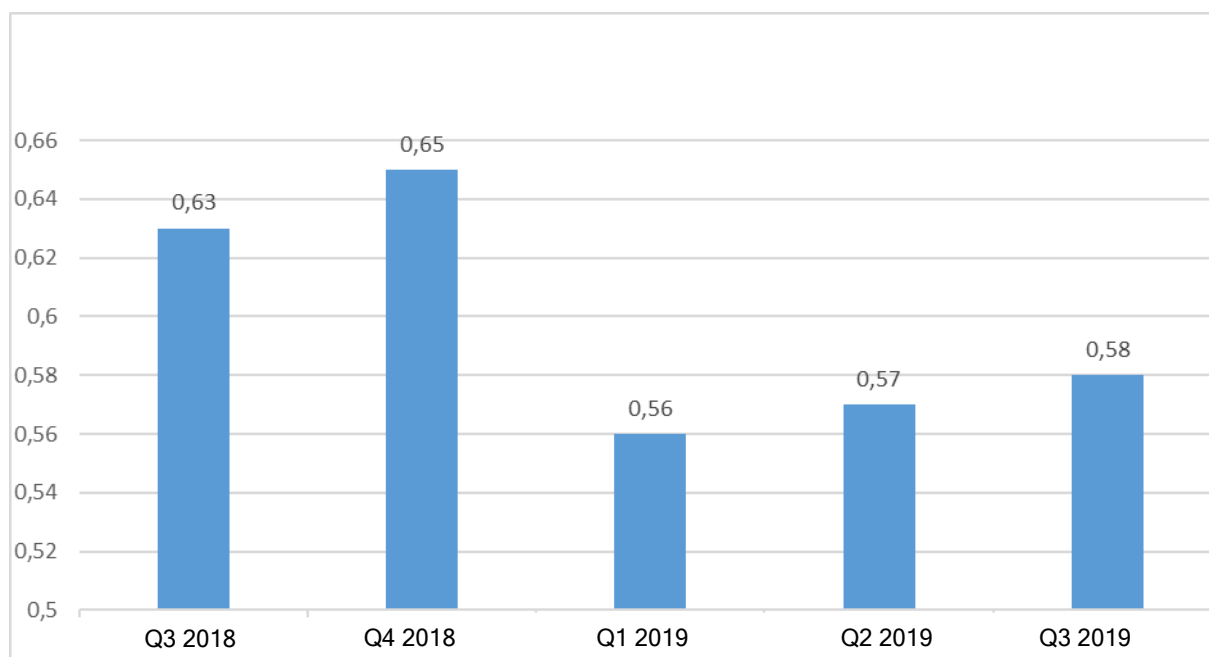
Source: UKNF's own study

**Diagram 23. The value of fees and commissions (in PLN million) collected by all domestic payment institutions between the third quarter of 2018 and the third quarter of 2019**



Source: UKNF's own study

**Diagram 24. Average amount of fees and commissions on transactions collected by KIPs (in PLN) between the third quarter of 2018 and the third quarter of 2019**



Source: UKNF's own study

The average value of fees and commissions on a single payment transaction at KIPs in the third quarter of 2019 was PLN 0.59 (PLN 0.57 in the second quarter of 2019, PLN 0.56 in the first quarter of 2019).

Under the Act on payment services, payment service offices are obliged to provide the KNF with quarterly and annual reporting information, including data on the number and value of money transfers made.

As at 31 December 2019, there were 1 367 BUPs registered (1 381 on average throughout 2019); according to their reports for Q1, Q2 and Q3 of 2019, the institutions executed a total of 24.2 million payment transactions (money remittances) worth PLN 4.5 billion. The average value of a single payment transaction at BUP was PLN 184.50. During the period under assessment, on average approx. 15.87% of BUPs failed to provide the legally required information on the numbers and values of the money remittances executed. On average, approx. 5.9% of BUPs failed to fulfil their obligation to submit to the KNF Board the documents to confirm the conclusion of an insurance contract, or a bank or insurance guarantee concerning their payment services.

Under the applicable legislation governing the functioning of the domestic market of payment services, the supervisory authority does not have the power to remove the BUPs that fail to comply with the above-mentioned reporting requirements from the register. The level of protection of the transactions carried out by payment service offices (the level of protection of funds) is determined based on the relation of value of collateral held by them (i.e. insurance contracts or guarantee agreements) to the average monthly value of money transfers made by those entities.

The KNF Board's supervisory activities in relation to payment service offices include the monitoring of timely submission of reporting information, monitoring of compliance with the obligation to protect the clients' funds, notifying the payment service offices of the obligation to limit the scale of operations or of the need to transform into the KIP, if the statutory limit of monthly turnover of EUR 500 thousand is exceeded.

At the end of the third quarter of 2019, there were 28 MIPs operating. According to the reports submitted, in the quarter under assessment they executed a total of 834.1 thousand payment transactions worth PLN 100.9 million. The KNF Board's supervisory activities in relation to small payment institutions (KIPs) include the monitoring of timely submission of reporting information, monitoring of compliance with the obligation to protect the clients' funds, notifying the MIP of the obligation to limit the scale of operations or of the need to transform into a KIP if the statutory limit of monthly turnover of EUR 1.5 million is exceeded.

The only domestic electronic money institution operating in Poland declared that from the date of its authorisation by the KNF until the end of the third quarter of 2019 the institution did not commence the operating activity of issuance of electronic money.

As part of its supervisory activities in relation to domestic payment institutions, the KNF carries out a substantive analysis of the applications for authorisation to operate as a domestic payment institution, and analyses financial results of the KIPs in the context of their compliance with financial plans presented at the stage of granting authorisations. In addition, in 2019, comprehensive inspections were carried out in four domestic payment institutions selected by the KNF to verify their financial security, consistency of data submitted in periodic reports with the reality, and the functioning of KIPs in accordance with the applicable regulations governing the functioning of the market of payment services at the national and EU levels.

The following reports on the payment services industry were presented at the KNF Board's meetings:

- Information on the standing of KIPs, MIPs and BUPs in the first quarter of 2019 as at 31 July 2019,
- Information on the standing of KIPs, MIPs and BUPs in the second quarter of 2019 as at 8 October 2019,
- Information on the standing of KIPs, MIPs and BUPs in the third quarter of 2019 as at 20 December 2019.

### 3.3.3. INSPECTIONS AT DOMESTIC PAYMENT INSTITUTIONS

In 2019, 5 inspections were conducted at domestic payment institutions concerning the quality of the management system of the domestic payment institution (including ICS) and the compliance of its activities with the Act of 19 August 2011 on payment services (Journal of Laws 2019, item 659, consolidated text, as amended).

Most irregularities identified during the inspection activities concerned:

- organisation and functioning of the ICS,
- operational risk management (including business continuity management),
- quality (reliability) and timeliness of reporting for KNF supervisory purposes,
- irregularities in complaint handling,
- failure to take account of certain indications of the *Principles of corporate governance for supervised institutions*.

## 3.4. MORTGAGE CREDIT INTERMEDIARIES AND THEIR AGENTS

According to the Act on mortgage credit and supervision of mortgage credit intermediaries and agents (Journal of Laws 2017, item 819, as amended; hereinafter: 'Act on mortgage credit'), mortgage credit intermediaries and their agents must be supervised by the KNF Board.

For credit mortgage intermediaries, the Act on mortgage credit provides for two registration procedures:

- authorisation (at the request of the entity), resulting in entering the mortgage credit intermediary in Section I of the Register of Credit Intermediaries,
- entering the mortgage credit intermediary in Section I of the Register of Credit Intermediaries at the request of the lender (bank) under Article 57 of the Act on mortgage credit (without authorisation).

Mortgage credit intermediaries are entered in Section I of the register of credit intermediaries under an appropriate RPH number.

In 2019, the KNF Board entered 156 credit intermediaries in Section I of the Register of Credit Intermediaries, of which:

- 22 mortgage credit intermediaries were entered on the basis of authorisation (22 final decisions on authorisation),
- 134 mortgage credit intermediaries were entered at the request of lenders (banks).

In 2019, the KNF Board removed 235 mortgage credit intermediaries from Section I of the Register of Credit Intermediaries, of which:

- 86 intermediaries were removed on the basis of the final decision to withdraw authorisation,
- 149 intermediaries were removed at the request from lenders for removal of intermediaries they had registered.

As at 31 December 2019, 795 mortgage credit intermediaries were included in the register.

In the course of other proceedings in respect of mortgage credit intermediaries, in 2019 the KNF Board issued: 14 final decisions on discontinuance of proceedings in respect of withdrawal of authorisation, 2 final decisions on discontinuance of proceedings in respect of authorisation, and 1 final decision refusing to authorise the business of mortgage brokerage.

In 2019, a separate register was created for passport notifications concerning the operation of mortgage credit intermediaries in the territory of the Republic of Poland that benefit from the freedom to provide services. 4 entities were entered in that register: 3 entities from France and 1 from Germany.

As regards an important formal requirement for authorisation to conduct the business of mortgage brokerage relating to the passing of the examination for mortgage credit intermediaries, referred to in Article 49(1) point 1(d) in conjunction with Article 53 of the Act on mortgage credit, the Examination Board for Mortgage Credit Intermediaries, referred to in Article 52 of the Act on mortgage credit, acted in 2019 in its full composition and conducted 5 exams (on 20 January, 17 February, 18 March, 27 May and 21 October), taken by 147 persons, of whom 87 passed the exam.

For mortgage credit intermediaries, the Act on mortgage credit provides for the entry of agents in Section I of the Register of Credit Intermediaries at the request of a mortgage credit intermediary. Agents of mortgage credit intermediaries are entered in Section I of the Register of Credit Intermediaries under an appropriate RHA number.

In 2019, the KNF Board:

- entered 2 024 agents in the register (each time at the request of a mortgage credit intermediary),
- removed 1 130 agents from the register (each time at the request of a mortgage credit intermediary).

As at 31 December 2019, 6 755 agents of mortgage credit intermediaries were included in the register.



### 3.5. KEEPING A REGISTER OF CONSUMER CREDIT INTERMEDIARIES

Section II of the Register of Credit Intermediaries applies to consumer credit intermediaries as defined in Article 5 point 3 of the Act on consumer credit (consolidated text in: Journal of Laws 2019, item 1083). The KNF Board does not supervise that category of intermediaries but it keeps a register of them. Consumer credit intermediaries are entered in Section II of the Register of Credit Intermediaries at their own request. Consumer credit intermediaries are entered in Section II of the Register of Credit Intermediaries under an appropriate RPK number.

In 2019, the KNF Board:

- entered 5 982 consumer credit intermediaries in the register,
- removed 57 consumer credit intermediaries from the register.

In the course of administrative proceedings in respect of consumer credit intermediaries, in 2019 the KNF Board issued:

- 5 final decisions to refuse to enter a credit intermediary in the Register of Credit Intermediaries,
- 1 final decision to discontinue proceedings in respect of denial of entry in the Register of Credit Intermediaries.

As at 31 December 2019, 32 264 consumer credit intermediaries were included in the register.

### 3.6. KEEPING A REGISTER OF NON-BANK LENDING INSTITUTIONS

Non-bank lending institutions, as defined in Article 5 point 2a of the Act on consumer credit, are not supervised by the KNF Board. The KNF Board keeps the Register of Non-Bank Lending Institutions referred to in Article 59ab of the Act on consumer credit. An entry in the Register of Non-Bank Lending Institutions is made at the request of such an institution. A non-bank lending institution is registered under an appropriate RIP number.

In 2019, the KNF Board:

- entered 66 non-bank lending institutions in the register,
- removed 12 non-bank lending institutions from the register.

As at 31 December 2019, 499 non-bank lending institutions were included in the register.

## 4. CAPITAL MARKET SUPERVISION

### 4.1. INVESTMENT FIRMS, CUSTODIAN BANKS, TIED AGENTS OF INVESTMENT FIRMS, SECURITIES BROKERS, INVESTMENT ADVISERS

#### INVESTMENT FIRMS AND CUSTODIAN BANKS

In 2019, the KNF Board issued 1 final decision on authorisation to conduct brokerage activities, 2 final decisions on the extension of the scope of brokerage activities, 1 final decision on the refusal to grant authorisation to conduct brokerage activities, 5 final decisions

on approval of the appointment of president of management board of a brokerage house, 6 final decisions on approval of the appointment of a member of management board of a brokerage house responsible for supervising the risk management system, and 1 final decision on agreement to the performance by a member of supervisory board of an additional function of member of supervisory board at another entity.

The KNF Board also issued 13 decisions on the discontinuance of proceedings: 1 final decision on the extension of the scope of authorisation to conduct brokerage activities, 1 final decision on partial withdrawal of authorisation to conduct brokerage activities, 9 final decisions on approval of the appointment of president of management board of a brokerage house or member of management board of a brokerage house responsible for supervising the risk management system, and 2 final decisions on agreement to the performance by a member of supervisory board of an additional function of member of supervisory board at another entity. The following were disregarded: 1 request for authorisation to conduct brokerage activities, 1 request for extension of the scope of brokerage activities, and 2 requests for approval of the appointment of president of management board of a brokerage house or member of management board of a brokerage house responsible for supervising the risk management system.

As at 31 December 2019, pending requests included 2 requests for authorisation to conduct brokerage activities, 8 requests for extension of the scope of brokerage activities, 1 request for partial withdrawal of authorisation to conduct brokerage activities, 7 requests for approval of the appointment of president of management board of a brokerage house or member of management board of a brokerage house responsible for supervising the risk management system.

In 2019, 4 notifications of the intention to acquire or take up shares in brokerage houses were considered. In 1 case, the KNF Board raised no objection and in 3 cases the proceedings were discontinued. As at 31 December 2019, 1 proceeding was pending in respect of notification of the intention to acquire or take up shares in a brokerage house.

## BROKERAGE ACTIVITIES

In 2019, following consolidation of brokerage activities 2 brokerage houses being part of a group of companies were taken over by a bank (as the parent undertaking in the group). In view of the foregoing, 2 final decisions were issued on an objection to a transfer of authorisations to conduct brokerage activities. Moreover, 1 final decision was issued in respect on withdrawal of authorisation to conduct brokerage activities, while imposing a penalty on one brokerage house.

Notwithstanding the above, 3 final decisions on the transfer of financial instruments and funds and documents relating to account keeping referred to in Article 69(4) point 1 of the Act on trading in financial instruments.

## NOTIFICATION OF INVESTMENT FIRMS

During the period covered by this report, the KNF Board received 159 notifications of the intention to conduct brokerage activities without a branch and 3 notifications of the intention to conduct brokerage activities through a branch in the Republic of Poland by foreign investment firms, as well as 519 notifications concerning a change of data covered by the original notification. None of foreign investment firms resigned from operating in the territory of the Republic of Poland in the form of a branch.

**Table 42. The number of notified foreign investment firms at the end of the years 2016-2019**

Type of entity	2016	2017	2018	2019
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Foreign investment firms without a branch	1919	1975	2 062	1914
Foreign investment firms – a branch	15	14	15	18
<b>Total</b>	<b>1934</b>	<b>1989</b>	<b>2 077</b>	<b>1932</b>

Source: UKNF's own study

During the period covered by this report, the KNF Board adopted 7 resolutions on the submission of information on the intention of a Polish investment firm to conduct brokerage activities without opening a branch in the territory of other Member States. One investment firm ceased its cross-border activities in the territory of two countries, and one firm – in the territory of one country.

As at 31 December 2019, the KNF Board did not conduct any proceedings in respect of notification of the intention of Polish investment firms to conduct brokerage activities in the territory of other Member States.

**Table 43. The number of Polish investment firms which notified their intention to conduct brokerage activities outside the territory of the Republic of Poland as at the end of the years 2016-2019**

Type of entity	2016	2017	2018	2019
Brokerage houses (number of branches)	2 (8)	2 (8)	2 (8)	2 (8)
Brokerage houses without a branch	12	11	12	11

Source: UKNF's own study

## DAY-TO-DAY SUPERVISION OF INVESTMENT FIRMS

The KNF Board supervises the activities of investment firms and the financial standing of brokerage houses by carrying out:

- the analysis of current reports and periodic reports of investment firms, including financial statements of brokerage houses, submitted in accordance with the national law,
- the analysis of current reports and periodic reports following from CRR<sup>27</sup> and Commission Implementing Regulation (EU) No 680/2014 issued on the basis thereof<sup>28</sup>,
- proceedings aimed at issuing decisions regarding the application of specific provisions of CRR by individual brokerage houses,
- proceedings aimed at issuing decisions on approval of recovery plans by selected brokerage houses.

The current and periodic reports are reviewed for content and timeliness of submission. If the received information raises any doubt, further correspondence is exchanged to obtain specification or additional explanations, and if any violation is identified, measures are taken to bring the supervised entities to compliance with legislation.

Moreover, pursuant to Article 110r of the Act of 29 July 2005 on trading in financial instruments (Journal of Laws 2018, item 2286, as amended), the supervisory review and

<sup>27</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit unions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176 of 27.6.2013, as amended).

<sup>28</sup> Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (OJ L 191 of 28.6.2014).

evaluation process is conducted in relation to the regulations, strategies, processes and mechanisms implemented by brokerage houses in the field of risk management, which also involves the consideration of results of the review of the current and periodic reports.

In 2019, the supervision over the activities of investment firms comprised an analysis of monthly reports and current reports of 40 brokerage houses and 7 banks providing investment services, as well as annual financial statements for 2018, semi-annual financial statements for the first half of 2019 and reports on capital adequacy of brokerage houses. In total the review covered about 5 thousand reports submitted through the Electronic Information Transfer System (ESPI). In 2019, the consolidated financial statements for 2018 and the reports on capital adequacy on a consolidated basis brokerage houses, submitted in accordance with the provisions in force, were also analysed. Out of 40 brokerage houses indicated above, 3 brokerage houses ceased brokerage in 2019.

Following the reviews, a number of supervisory activities were taken to clarify the concerns and to issue findings in the framework of the supervisory review and evaluation process, with the aim of improving the efficiency of the internal systems implemented by supervised entities and addressing the identified shortcomings. In cases where material infringements were identified, sanctioning measures were also adopted.

In 2019, 1 interim decision was made to initiate *ex officio* proceedings in connection with a breach of capital adequacy requirements by a brokerage house. Following an *ex officio* administrative procedure initiated in 2018, a decision was made to withdraw authorisation of and impose a penalty on a brokerage house, as the service of offering financial instruments had been provided in a way that violated the law.

As part of the supervision over the application, by brokerage houses, of the legislation on capital adequacy, 6 final decisions and 1 interim decision on refusal to initiate administrative proceedings were issued as a result of proceedings conducted at the request of brokerage houses. Updated recovery plans of 10 brokerage houses were approved.

As part of day-to-day supervision, the details of KNF-supervised entities presented on the KNF website were updated. Quarterly financial data and quarterly data on capital adequacy of brokerage houses were also published. The 'Report on the financial standing of brokerage houses in 2018' was presented at the KNF Board's meeting.

The review of financial reporting shows a deterioration of the situation of the sector in 2019, which was caused by, among other things, a significant decrease in total revenues from the activities. In 2019, as in previous years, the brokerage houses sector generated a loss of core activities, and mainly with the positive result of operations of financial instruments held for trading the whole sector closed the year with a positive result. Tables 44-46 show main information about the financial standing and capital adequacy of the sector.

**Table 44. Average value of own funds (in PLN million), total risk exposure amount (in PLN million) and total capital ratio of brokerage houses in the years 2016-2019**

Detailed list	2016	2017	2018	2019
Average level of own funds	31.24	34.83	39.30	38.85
Average total risk exposure amount	107.79	141.54	127.14	155.76
Total capital ratio	28.98%	24.61%	30.91%	24.94%

Source: UKNF's own study

The data come from quarterly COREP reports as of 31/12/2016, 31/12/2017, 31/12/2018 and 31/12/2019.

The data take into account the changing number of brokerage houses operating in the years 2016-2019.

**Table 45. Basic data from the balance sheets of brokerage houses (in PLN million) for the years 2016-2019**

<b>Balance sheet item</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
I. Cash and cash equivalents	3 957.23	4 391.39	4 437.24	4 205.79
II. Short-term receivables	1 550.30	1 608.56	1 425.81	1 746.83
III. Financial instruments held for trading	206.82	260.81	223.72	287.78
IV. Short term prepayments and accruals	16.92	14.77	14.86	15.78
V. Short-term loans	5.55	8.13	18.40	11.72
VI. Financial instruments held to maturity	88.87	93.21	100.55	26.03
VII. Financial instruments available for sale	244.35	225.91	230.37	183.25
VIII. Long-term receivables	5.08	6.58	9.04	9.45
IX. Long-term loans	5.84	8.09	8.77	16.12
X. Intangible assets	38.33	33.66	33.65	22.82
XI. Tangible fixed assets	69.40	67.00	62.21	65.29
XII. Long-term prepayments and accruals	60.87	58.05	52.53	44.47
XIII. Called-up share capital not paid	0.00	0.00	0.00	0.00
XIV. Own shares and stocks	0.23	2.35	1.20	1.19
<b>TOTAL ASSETS</b>	<b>6 249.79</b>	<b>6 778.51</b>	<b>6 618.35</b>	<b>6 636.52</b>
I. Short-term liabilities	4 390.64	4 884.31	4 717.30	4 983.78
II. Long-term liabilities	13.03	6.63	9.52	19.28
III. Accruals	51.11	57.49	43.39	28.07
IV. Provisions for liabilities	64.11	64.70	53.66	53.92
V. Subordinated debt	14.82	13.06	13.84	0.71
VI. Equity capital	1 716.08	1 752.32	1 780.64	1 550.76
<b>TOTAL LIABILITIES</b>	<b>6 249.79</b>	<b>6 778.51</b>	<b>6 618.35</b>	<b>6 636.52</b>

Source: UKNF's own study

Data for the years 2016-2018 come from the audited financial statements; data for 2019 are derived from monthly MRF reports as at 31/12/2019.

The data do not include data of one brokerage house whose financial year does not coincide with the calendar year.

The data take into account the changing number of brokerage houses operating in the years 2016-2019.

**Table 46. Basic data from the profit and loss account of brokerage houses (in PLN million) for the years 2016-2019**

Item of the profit and loss account	2016	2017	2018	2019
I. Income from core activities, including:	725.06	775.29	640.28	455.82
1. Income from investment services and activities	709.71	724.90	569.9	402.62
2. Income from other core activities	15.35	50.39	70.38	53.20
II. Costs of investment services and activities	889.17	889.10	857.36	720.82
III. Profit (loss) on core activities (I-II)	-164.11	-113.81	-217.08	-265.00
IV. Income from financial instruments held for trading	355.98	419.21	391.81	398.49
V. Costs of financial instruments held for trading	13.75	45.02	37.53	98.64
VI. Profit (loss) on operations of financial instruments held for trading (IV-V)	342.23	374.19	354.28	299.85
VII. Income from financial instruments held to maturity	2.17	1.90	2.06	0.47
VIII. Costs of financial instruments held to maturity	0.15	0.48	0.21	0.01
IX. Profit (loss) on operations of financial instruments held to maturity (VII-VIII)	2.02	1.42	1.85	0.46
X. Income from financial instruments available for sale	27.34	31.50	37.75	11.68
XI. Costs of financial instruments available for sale	1.92	13.19	8.46	22.06
XII. Profit (loss) on operations of financial instruments available for sale (X-XI)	25.42	18.31	29.29	-10.38
XIII. Other operating revenues	30.41	29.22	29.87	25.74
XIV. Other operating expenses	28.60	35.76	41.18	24.92
XV. Profit (loss) on operating activities (III+VI+IX+XII+XIII-XIV)	207.37	273.57	157.03	25.75
XVI. Financial revenues	52.81	48.13	55.3	41.91
XVII. Financial expenses	14.41	48.21	18.2	13.89
XVIII. Gross profit (loss) (XV+XVI-XVII)	245.77	273.49	194.13	53.77
XIX. Income tax	51.34	53.02	38.83	26.59
XX. Other statutory reductions in profit (increases in loss)	0.00	0.00	0	-0.48
XXI. Net profit (loss) (XVIII-XIX-XX)	194.43	220.47	155.3	27.66

Source: UKNF's own study

Data for the years 2016-2018 come from the audited financial statements; data for 2019 are derived from monthly MRF reports as at 31/12/2019.

The data do not include data of one brokerage house whose financial year does not coincide with the calendar year.

The data take into account the changing number of brokerage houses operating in the years 2016-2019.

## SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP) FOR BROKERAGE HOUSES

The SREP methodology for evaluating brokerage houses in 2019 was prepared. During the period covered by this report, supervisory ratings were assigned to brokerage houses. The evaluation covered 38 brokerage houses. For 11 entities, the evaluation was simplified and based solely on the analysis of information provided by brokerage houses in the fulfilment of information requirements resulting from legislation. For 20 entities, the evaluation was a standard one, based on the analysis of information provided in the process and the

conclusions from the review of the current and periodic reports submitted pursuant to legislation. For 6 entities, the evaluation was comprehensive. One of the elements of comprehensive evaluation, in addition to the analysis of information and reports, is a meeting with members of governing bodies of the brokerage house at the KNF headquarters. In 1 case, the supervisory rating was assigned under the procedure for updating the assessment. In 2019, ratings were granted for two cut-off dates, i.e. 31 December 2018 and 30 June 2019.

The Report on the Supervisory Review and Evaluation Process (SREP) for Brokerage Houses in 2018 was presented at the KNF Board's meeting.

#### TIED AGENTS OF INVESTMENT FIRMS

As of 31 December 2019, the Register of Tied Agents of Investment Firms contained 273 entities, including 47 legal persons and organisational units without legal personality and 226 natural persons.

In 2019, 15 natural persons and 14 legal persons and organisational units without legal personality were entered in the Register of Tied Agents of Investment Firms. Pursuant to Article 79(9) point 2 of the Act on trading in financial instruments, the KNF Board issued 41 final decisions on the removal from the Register of Tied Agents of Investment Firms. The KNF Board discontinued 10 proceedings in respect of entry in the Register of Tied Agents of Investment Firms.

As at 31 December 2019, pending requests included 6 requests for entry in the Register of Tied Agents of Investment Firms.

**Table 47. The state of the register of tied agents of investment firms at the end of the years 2016-2019**

Tied agents of investment firms	2016	2017	2018	2019
Natural persons	150	187	244	226
Legal persons and organisational units without legal personality:	29	36	41	47
<b>Total</b>	<b>179</b>	<b>223</b>	<b>285</b>	<b>273</b>

Source: UKNF's own study

#### SECURITIES BROKERS

As at 31 December 2019, the number of licensed securities brokers was 3 142. In 2019, 73 persons were entered on the list of securities brokers. In 2019, one securities broker was removed from the list at request.

**Table 48. The number of persons entered on the list of securities brokers in the years 2016-2019 and the total number of licensed securities brokers at the end of the years 2016-2019**

Detailed list	2016	2017	2018	2019
The number of persons entered on the list of securities broker in a given year	67	37	63	73
Total number of licensed securities brokers	2 974	3 008	3 070	3 142

Source: UKNF's own study

In 2019, two exams for securities brokers were held. 261 persons took the exams and 68 persons passed them. So far, 3 324 persons have passed the examination for securities brokers.

Moreover, in the period covered by this report, 1 supplementary exam for securities brokers was held. 7 persons took the exam and 4 persons passed it. So far, 105 persons have passed the supplementary exam for securities brokers. In 2019, one proficiency test for securities brokers was held. 3 persons took the proficiency test and 1 person passed it. So far, one person has passed the proficiency test.

## INVESTMENT ADVISERS

As at 31 December 2019, the number of licensed investment advisers was 752. 45 persons were added to the List of Investment Advisers in 2019.

**Table 49. The number of persons entered on the List of Investment Advisers in the years 2016-2019 and the total number of licensed investment advisers at the end of the years 2016-2019**

Detailed list	2016	2017	2018	2019
The number of persons entered on the List of Investment Advisers in a given year	33	87	51	45
Total number of licensed investment advisers	571	657	708	752

Source: UKNF's own study

In 2019, 6 partial exams of the examination for investment advisers took place. 28 persons passed the entire examination cycle. In addition, two aptitude tests were held. 13 persons passed the exams. Overall, 41 persons passed the exams for advisers and the aptitude tests.

## INSPECTIONS AT BROKERAGE HOUSES, TIED AGENTS OF INVESTMENT FIRMS, AND BANKS REFERRED TO IN ARTICLE 70(2) OF THE ACT ON TRADING IN FINANCIAL INSTRUMENTS.

In 2019, 3 inspections commenced in 2018 were completed and another 8 inspections were conducted. Three inspections (still ongoing on 31 December 2019) related mainly to the offering of investment certificates and corporate bonds, under a non-public procedure, by entities related to issuers through capital or organisation links.

This issue has been addressed for a few years now, as it is closely related to the activities of investment firms and entities that cooperate with them. In this respect, inspections were also conducted with regard to 2 brokerage houses, 1 brokerage office, and two banks referred to in Article 70(2) of the Act on trading in financial instruments. The other 3 inspections at investment firms concerned: the activities of a foreign branch, issues related to the supervision exercised by the brokerage house over staff (in connection with a suspicion of an offence) and the activities in the Forex market. The inspection also covered the performance of activities by a tied agent of an investment firm.

In addition to that, inspections usually focused on the following areas of activity:

- organisational structure and technical conditions of the business, including IT systems,
- the functioning of the internal control system, the system of supervision over compliance of the business with the law, and the internal audit system,
- supervision of an investment firm in terms of the tasks performed by its tied agent,
- performance of activities by a bank conducting brokerage activities at a separate organisational unit,
- performance of brokerage activities in connection with the provision of brokerage services,
- performance of the activities referred to in Article 70(2) of the Act on trading in financial instruments,
- rules of conduct in relations with a client.



The inspections covered, among other things, the implementation of new provisions implementing MiFID II, including in particular in areas such as: assessment of adequacy and appropriateness of brokerage services and financial instruments for customer, product governance, reception of monetary and non-monetary benefits, authorisation of employees, recording the communication with the customer in connection with the provision of brokerage services, the functioning of internal audit systems, provision of services of acceptance and transmission of orders, including to the issuer of financial instruments, for execution.

The inspection revealed breaches, by the entities under inspection, of:

- Act of 29 July 2005 on trading in financial instruments,
- Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (OJ L 2017.87.1),
- Regulation of the Minister of Finance of 30 May 2018 on the procedure and conditions to be followed by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks (Journal of Laws, item 1112),
- Regulation of the Minister of Finance of 29 April 2018 on detailed technical and organisational conditions for investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks (Journal of Laws, item 1111),
- internal regulations of investment firms, regulations for the provision of brokerage services and agreements concluded by investment firms with clients with respect to the provision of brokerage services.

**Table 50. Main irregularities identified during inspection activities in 2019 in the area of offering financial instruments**

<b>Offering financial instruments</b>	
1.	Failure to ensure real participation of a person holding the professional title of securities broker in the offering activities and in the supervision of such activities.
2.	Failure to include in the Rules for providing the service of offering financial instruments the scope and method of providing the service under a contract.
3.	Failure to consider the features and risks associated with a financial instrument when assessing the adequacy of the service of offering financial instruments.
4.	When offering financial instruments, an investment firm failed to comply with the provisions of the contract for offering financial instruments and with the terms of issue.
5.	The bank infringed the material scope of activities defined in Article 113(1) of the Act on trading in financial instruments, by carrying out activities reserved for an investment firm.
6.	Failure to disclose and prevent breaches of duties resulting from the provisions of law governing the conduct of brokerage activities to the extent related to the service of offering financial instruments.
7.	Failure to fulfil the obligation to entrust agency activities to entities entered in the Register of Tied Agents of Investment Firms.
8.	An investment firm failed to conduct brokerage activities in the area of offering financial instruments in a reliable and professional manner, in accordance with fair dealing rules.

Source: UKNF's own study

**Table 51. The most common irregularities identified during inspection activities in 2019 in the area of organisational structure, functioning and technical conditions for the operation of investment firms**

<b>Organisational structure, functioning and technical conditions for the operation of investment firms</b>
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1.	Failure to examine the systems used and the rules implemented with regard to their appropriateness and effectiveness in the correct performance by the bank of the obligations arising from the provisions of law, referred to in Article 70(2) of the Act on trading in financial instruments.
2.	Lack of organisational separation of the bank's brokerage activities from its other activities.
3.	Failure to implement and maintain an effective policy of recording telephone conversations with an actual or potential client, adapted to the size and organisational structure of the bank performing the activities referred to in Article 70(2) of the Act on trading in financial instruments.
4.	Failure to identify the risks of non-compliance with the provisions of law governing the performance by the bank of the activities referred to in Article 70(2) of the Act on trading in financial instruments, and the lack of an adequate strategy to detect such risks.
5.	Failure to regularly review (as part of the internal audit system) the internal control systems used for their appropriateness and effectiveness in the performance by the bank of the obligations arising from the provisions of law governing the activities under Article 70(2) of the Act on trading in financial instruments.
6.	The bank referred to in Article 70(2) of the Act on trading in financial instruments failed to establish and implement a policy on training and confirmation of knowledge and competence, and on the rules for selection of an external training provider.
7.	The bank referred to in Article 70(2) of the Act on trading in financial instruments failed to obtain from the employees designated to perform the activities referred to Article 82a(1) point 1 of the Act on trading in financial instruments the necessary document and information to determine the level of their knowledge and competence.
8.	The bank referred to in Article 70(2) of the Act on trading in financial instruments failed to take into account all the areas required under the legislation in the examination of the employees' knowledge.
9.	The bank referred to in Article 70(2) of the Act on trading in financial instruments failed to properly review the recruitment of individuals in terms of knowledge and competence in the area of the activities performed by the bank.
10.	Failure to carry out the activities of a tied agent of an investment firm in places indicated in the agency agreement or notified by the investment firm to the UKNF.
11.	<b>An investment firm and the bank referred to in Article 70(2) of the Act on trading in financial instruments failed to draw up and implement a procedure to specify the frequency of the review of financial instruments.</b>
12.	Failure to take sufficient actions to ensure compliance by the investment firm with the requirements under the laws governing the conduct of brokerage activities.
13.	Failure to take sufficient actions to address all the irregularities in the fulfilment by the investment firm of its obligations under Article 83b(2) of the Act on trading in financial instruments .
14.	Failure by an investment firm to supervise the timely reporting of personal transactions by the relevant persons.
15.	Failure by an investment firm to maintain an internal audit system related to the firm's activities to assess and evaluate the adequacy and effectiveness of its systems, review the existing internal rules and procedures for appropriateness and effectiveness in ensuring compliance with legal requirements.
16.	Failure to ensure protection against unauthorised access to the premises of the investment firm on which brokerage activities are conducted.
17.	Prohibited conduct, by employees and mandataries of an investment firm, of brokerage activities outside its registered office or branches.
18.	Failure by the investment firm to effectively supervise a tied agent, as the agent being a natural person was allowed to grant further powers of attorney (prohibited sub-agency).
19.	Failure by the investment firm to exercise supervision with regard to conflict of interest due to the employment of workers of a tied agent being a legal person at other employers or due to such workers running their own business.

20.	Failure to ensure the recording of all relevant information relating to the conversations of a tied agent in the direct presence of a customer.
21.	Failure to by the investment firm to properly supervise the activities of the investment firm's tied agent.
22.	The employees of the investment firm failed to familiarise themselves with the applicable internal regulations.
23.	IT systems and sub-systems were not protected against unauthorised access to the data being processed.
24.	Failure to carry out the tasks within the existing internal control system to prevent non-compliance with the investment firm's internal procedures.

Source: UKNF's own study

**Table 52. The most common irregularities identified during inspection activities in 2019 in the area of conduct of investment firms in relations with clients**

Conduct in relations with the client	
1.	Failure to provide complete information about customer's will and knowledge in customers' instructions.
2.	Failure to provide customer with information about the terms of contracts concluded as part of cross-selling.
3.	Failure by an investment firm to enter into a contract for the provision of services of acceptance and transmission of orders to acquire or dispose financial instruments with a retail client, in writing, otherwise being null and void.
4.	Failure to provide, to retail clients, brokerage services of acceptance and transmission of orders to acquire or dispose financial instruments on the basis of the rules for provision of such services.
5.	Failure to properly request information from a customer about their knowledge of the financial instruments to be the subject-matter of the activities carried out by the bank pursuant to Article 70(2) of the Act on trading in financial instruments.
6.	Failure by the bank referred to in Article 70(2) of the Act on trading in financial instruments to fulfil the obligation to allow the acquisition or take-up of financial instruments appropriate for the needs and characteristics of the client.
7.	Failure, by the employees of the bank referred to in Article 70(2) of the Act on trading in financial instruments, to draw up, or to avoid a selective approach to the filling in, official reports and/or memos on conversations held in the direct presence of the existing or potential customer, thus preventing the reconstruction of the course of the meeting.
8.	Failure provide to potential clients, prior to the conclusion of the contract for brokerage services, information on the measures undertaken by the investment firm to protect the assets (funds).
9.	The lack of a proper assessment of customer in terms of fulfilment of the criterion of knowledge when defining the target group, by taking into account the answers to questions that do not relate to the brokerage services being provided.
10.	No precise definition of concepts and terminology relating to the type of financial instruments used in defining target groups.
11.	Failure to assess the customer's experience in relation to the type of a financial instrument.
12.	Failure to present information in a manner that does not raise any doubt as to whether the customer has determined their tax duties related to the securities being issued.
13.	Failure to construct provisions of the brokerage service contract pertaining to the acceptance and transmission of orders for the acquisition or disposal of financial instruments so as to enable the customer to terminate the contract before the entry into force of a new version of the rules for providing the service.
14.	Failure to provide customers with adequate and appropriate information on the costs and fees related to the provision of brokerage services in the Table of fees and commissions in relation to investment certificates.
15.	Failure to provide the customer, before signing the contract for brokerage services on a

	durable medium, with information about the customer's right to apply for customer reclassification.
16.	Failure to provide the customers, prior to the conclusion of the contract for brokerage services, with information on the terms of the contract and on the brokerage service.
17.	Failure to provide the customer, prior to the conclusion of the contract for brokerage services, with information about the risk arising from the financial instruments being the subject-matter of the contract or with a description of the general nature of such services.
18.	Failure to submit to the customers a report on the acceptance and transmission of order, or submitting the report with a delay.
19.	Failure to submit to the customers a report on the acceptance and transmission of order containing all the legally required information, or submitting inaccurate information.

Source: UKNF's own study

**Table 53. The most common irregularities identified during inspection activities in 2019 in the area of provision of brokerage services by investment firms**

Provision of brokerage services	
1.	Failure to properly edit the Rules for providing brokerage services, by considering all requirements regarding the method and form of accepting and transmitting orders, as well as information on the method, procedure and time limit for confirming the acceptance of order.
2.	Failure to consider, in the Organisational Rules, the operations carried out by the bank pursuant to Article 70(2) of the Act on trading in financial instruments, in particular through inaccurate definition of tasks and responsibilities of organisational units in that respect and ambiguous assignment of responsibilities to those units.
3.	Failure to adopt procedures and measures to ensure that the members of governing bodies of the bank referred to in Article 70(2) of the Act on trading in financial instruments perform their activities at a level of independence that is appropriate for the size and activity of the bank.
4.	The failure to apply an adequacy test that would allow for sufficient determination whether the customer has the necessary experience and knowledge to be aware of the risks associated with the product being offered to the customer.
5.	Failure by an investment firm to apply its internal regulations with respect to the provision of brokerage services.
6.	Lack of proper development, implementation and application of procedures and measures to manage conflicts of interest which should be adequate to the type and scope of the brokerage activities.
7.	Failure to properly define all the circumstances which, in relation to each brokerage activity, cause or might cause a conflict of interest associated with a material risk of violation of the client's interests.
8.	Failure to take into account certain circumstances which constitute or may constitute a conflict of interest in relation to the brokerage business pursued, for the purpose of proper monitoring and supervision of the management of conflicts of interest at the investment firm.
9.	Failure to develop strategies and practices with respect to remuneration under appropriate internal procedures, to take into account the interests of all clients of the investment firm, trying to ensure professional treatment of clients and to prevent any violation of their interests in the firm's strategies regarding remuneration in the short, medium and/or long term.
10.	Non-compliance with the provisions on professional secrecy of the Act on trading in financial instruments due to the disclosure of a professional secret to an unauthorised person.
11.	An investment firm was managing a cash account in connection with the acceptance of cash from issuers to transfer the cash to bondholders under an agreement and regulations, despite not being authorised to do so.
12.	Failure to submit to the client, at least once a year, by means of a durable medium, information, data on the amount of assets (funds) as at the end of the period for which the notice is made.
13.	Failure to regularly update the register of conflicts of interest.
14.	Failure to comply with the procedures and measures adopted to manage conflicts of interest, through preferential treatment of one customer of the investment firm over another.

Source: UKNF's own study

Following inspections, post-inspection recommendations were issued for the inspected entities.

For some of supervised entities, as at 31 December 2019, further examination was under way in respect of initiation of administrative proceedings to impose a financial penalty due to identification of breaches of laws and/or notification of a suspected criminal offence.

## 4.2. PENSION SECTOR ENTITIES

### 4.2.1. LICENSING ACTIVITIES

#### PENSION FUNDS AND PENSION SOCIETIES

In the area of licensing functions, administrative proceedings were conducted in the pension market which resulted in 34 final administrative decisions. In addition, 5 interim decisions were issued in relation to pension market entities. The number and subject-matter of the final and interim decisions are presented in Table 1.1. in Annex 1.

#### [Withdrawal of authorisation to establish Pracownicze Towarzystwo Emerytalne Unilever Polska S.A. and liquidation of Pracowniczy Fundusz Emerytalny Unilever Polska](#)

On 26 February 2019, the KNF Board decided to withdraw authorisation to establish the occupational pension society Pracownicze Towarzystwo Emerytalne Unilever Polska S.A., with the effective date of the decision being 30 November 2019. In view of the foregoing, on 28 May 2019 a decision was made on the management of liquidation of the occupational pension fund Pracowniczy Fundusz Emerytalny Unilever Polska, setting the start date of liquidation to 30 June 2019 and the completion date to 30 September 2019.

As at 31 December 2019, the pension funds market comprised 10 open pension funds, 7 voluntary pension funds, and 24 target-date voluntary pension funds.

#### [OCCUPATIONAL PENSION SCHEMES \(PL: \*PRACOWNICZY PROGRAM EMERYTALNY – PPE\*\)](#)

##### [Entries in the register](#)

In the period covered by this report, the UKNF identified:

- an increase of more than 112.3% in the number of applications for registration of a scheme (620 in 2019 and 292 in the previous year),
- a decrease of nearly 11% in the number of applications for entry of changes to a scheme in the register (237 in 2019 and 266 in the previous year),
- a decrease of more than 16.6% in the number of applications for removal of a scheme from the register (30 in 2019 and 36 in the previous year),
- a decrease of nearly 49.2% in the number of notifications of changes in the details of an employer or manager (30 notifications in 2019 and 59 notifications the previous year).

In addition, in 2019, the KNF Board received 69 applications for inclusion of an employer in an inter-company scheme registered in the PPE register.

In 2019, the UKNF received much more applications concerning registration of occupational pension schemes than in previous years. That was linked to the implementation of obligatory employee capital plans, which in 2019 became a new element of the Polish pension system. Occupational pension schemes represent, on one hand, an alternative to employee capital plans as under the Act on employee capital plans any employer running an occupational pension scheme is exempted from the obligation to run an employee capital plan if the organisation's agreement under that scheme defines the basic contribution at a minimum of 3.5% of the member's remuneration. On the other hand, the Act on employee capital plans

does not prevent the employer from running both an occupational pension scheme and an employee capital plan at the same time.

The number and the subject-matter of PPE-related final decisions issued in 2019 on the basis of an authorisation granted by the KNF Board are presented in Table 1.2. in Annex 1

### Supervision over occupational pension schemes (PPEs)

An employer running a PPE is required to submit an annual report on the running of such a PPE in a given calendar year to the supervisory authority. Thus, the supervisory authority receives the relevant information on the functioning of individual PPEs, and – after aggregation of the reports – the data on the market, relevant developments and trends.

1 907 PPEs were in operation at the end of 2019, some of them being of an inter-company nature, with more than one employer involved, which means that 2 158 employers who were operating a PPE as at day of 31 December 2019 were required to submit the report for 2019. In 2019, the supervisory authority conducted 218 proceedings in relation to employers who failed to comply with the requirement to submit a report on their PPE for 2018 within the set time limit.

## 4.2.2. INSPECTION ACTIVITIES

### INSPECTIONS AT GENERAL PENSION SOCIETIES AND OPEN PENSION FUNDS

During the period covered by this report, 2 inspections were conducted at general pension societies and open pension funds managed by those societies.

**Table 54. Examples of irregularities identified during inspection activities at general pension societies in 2019 in the area of their management of open pension funds**

Verification of legality of the activities carried out by the general pension society	
1.	Breach of the Act of 28 August 1997 on the organisation and operation of pension funds (consolidated text: Journal of Laws 2018, items 1906, 2215, as amended) due to the lack of the full composition of the management board (three persons).
2.	Breach of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight (consolidated text: Journal of Laws 2019, item 1421, as amended) due to the lack of monitoring, by the Audit Committee, of the financial reporting process.
3.	Breach of the Act of 13 October 1998 on the social insurance system (consolidated text: Journal of Laws 2019, item 300, as amended) consisting in sending to the Social Insurance Institution (ZUS) information about a person on behalf of whom funds accumulated on an account at an open pension fund (OFE) were distributed due to death of a member of the fund, and about that person's share in those funds, 14 days after the distribution took place.
4.	Breach of the Act of 15 September 2000 - the Commercial Companies and Partnerships Code (consolidated text: Journal of Laws 2019, item 505, as amended) regarding the lack of signatures of all the persons attending a meeting of the society's supervisory board on the official reports on the meeting of the society's supervisory board.

Source: UKNF's own study

## 4.3. COMMODITY BROKERAGE HOUSES AND ENTITIES MAINTAINING ACCOUNTS OR REGISTERS OF EXCHANGE COMMODITIES

### 4.3.1. LICENSING ACTIVITIES

In 2019, 3 authorisations to keep accounts and registers of exchange commodities were granted to energy undertakings and 1 decision was issued in respect of an amendment to a decision to grant authorisation to keep accounts and registers of exchange commodities. 1 application for authorisation to keep accounts and registers of exchange commodities was disregarded.

As at 31 December 2019, pending applications included 1 application for authorisation to keep accounts and registers of exchange commodities, 1 application for amendment to a decision on granting authorisation to keep registers of exchange commodities, and 1 application for authorisation of a brokerage house to trade in exchange commodities. 58 energy undertakings held authorisation to keep accounts and/or register of exchange commodities, and 1 commodity brokerage house held authorisation to trade in exchange commodities.

## 4.4. ENTITIES IN THE MARKET OF INVESTMENT FUNDS AND ALTERNATIVE INVESTMENT COMPANIES

### 4.4.1. LICENSING ACTIVITIES

In 2019, the supervisory authority issued 243 decisions and orders relating to the entities of the investment fund market.

The number and subject-matter of the resolutions as well as final and interim decisions issued on the basis of authorisation granted by the KNF Board in 2019 are presented in Tables 1.1 and 1.2., respectively, in Annex 1.

In 2019, the Chair of the KNF Board issued 13 interim decisions to initiate *ex officio* proceedings or to extend the scope of proceedings under Article 13 of the Act of 29 July 2005 on capital market supervision (Journal of Laws 2019, item 1871, as amended, hereinafter: 'Act on capital market supervision').

As at 31 December 2019, 57 investment fund management companies, managing a total of 813 investment funds, held authorisations from the KNF Board, including: 48 open-end investment funds, 66 specialist open-end investment funds, and 699 closed-end investment funds.

**Table 55. Number of investment fund management companies and investment funds in the years 2016-2019**

Detailed list	2016	2017	2018	2019
Investment fund management companies	62	62	61	57
Investment funds	929	905	878	813

Source: UKNF's own study

In 2019, 3 authorisations to operate were withdrawn in relation to the following investment fund management companies:

- SATURN TFI S.A.,
- Lartiq TFI S.A. (formerly: Trigon TFI S.A.),
- GO TFI S.A.

In 2019, the KNF Board issued:

- 2 permissions to establish a specialised open-end investment fund,
- 4 authorisation to establish a public closed-end investment fund.

In 2019, 18 funds with separate sub-funds of so-called PPK funds began operating. Following their establishment and amendment to the funds' articles of association in respect of creation of new sub-funds, the number of sub-funds separated within that type of funds increased from 580 sub-funds in December 2018 to 708 sub-funds at the end of December 2019.

In 2019, 22 closed-end investment funds, whose investment certificates in accordance with the fund's articles of association will not be offered by public offering or admitted to trading on a regulated market or placed in the alternative trading system, were registered.

In 2019, the KNF Board issued 16 final decisions on the approval of prospectuses and annexes/supplements in the investment fund sector, including:

- 6 final decisions approving prospectuses of investment certificates issued by public closed-end investment funds,
- 10 final decisions approving annexes/supplements to prospectuses of investment certificates issued by public closed-end investment funds.

#### ACQUISITION OR TAKING UP OF SHARES AND/OR RIGHTS ATTACHED TO SHARES

In 2019, 3 notifications of the intention to acquire or take up shares of an investment fund management company were considered. In 2 cases, a decision was made not to object to the intention to acquire or take up shares of an investment fund management company and to set a date within which the acquisition or take-up may take place, and in 1 case a decision was made to discontinue proceedings as being unsubstantiated. As at 31 December 2019, 2 proceedings regarding notification of the intention to acquire or take up shares of a investment fund management company were still pending.

#### CROSS-BORDER ACTIVITY

In 2019, the KNF Board received, by e-mail, 11 complete notifications of the intention to dispose of participations of foreign UCITS funds in the territory of the Republic of Poland which pertained to 1 new foreign fund and 20 new sub-funds of foreign funds. For comparison, in 2018, 14 complete notifications concerning 3 new foreign funds and 60 sub-funds of foreign funds were received.

In 2019, the KNF Board received 10 notifications from management companies (entities managing UCITS funds) of their intention to operate in the territory of the Republic of Poland under the freedom to provide services (i.e. without establishing a branch). During that period, the KNF Board also received 3 notifications from a management company of its intention to operate in the territory of the Republic of Poland through a branch. For comparison, in 2018 the KNF Board received 4 notifications from management companies of their intention to operate in the territory of the Republic of Poland under the freedom to provide services and 1 notification from a management company intending to operate in the territory of the Republic of Poland through a branch.

As regards alternative investment funds (i.e. non-UCITS funds) with their registered office in an EU Member State other than the Republic of Poland, the KNF Board received, in 2019, 150 complete notifications of the intention to market in the territory of the Republic of Poland 152 alternative investment funds, 14 European venture capital funds (EuVECA), while there was no notification concerning European social entrepreneurship funds (EuSEF). For comparison, in 2018 the KNF Board received 104 complete notifications of the intention to market in the territory of the Republic of Poland 97 alternative investment funds, 24 European venture capital funds (EuVECA) and 1 European social entrepreneurship fund (EuSEF).



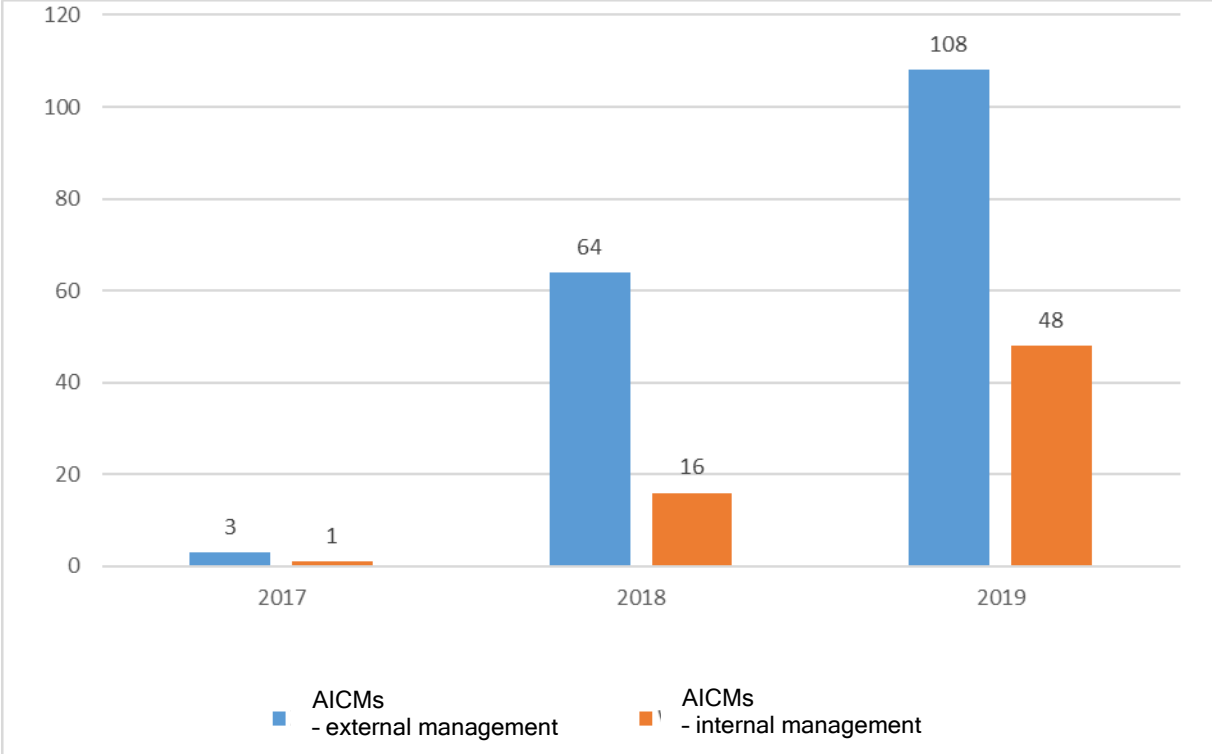
Moreover, in 2019, the KNF Board received notifications from 16 alternative investment fund managers based outside the Republic of Poland of their intention to operate in the territory of the Republic of Poland without a branch and 1 notification from an alternative investment fund manager based outside the Republic of Poland of its intention to operate in the territory of the Republic of Poland through a branch. For comparison, in 2018 the KNF Board received 10 notifications regarding the intention to operate without establishing a branch and 1 notification from an alternative investment fund manager with its registered office outside the territory of the Republic of Poland of its intention to operate in the territory of the Republic of Poland through a branch.

In 2019 the KNF Board received 1 notification from an investment fund management company intending to operate in territory of another EU Member State in the field of management of alternative investment funds established in the territory of that Member State. The KNF Board also received 2 notifications from investment fund management companies regarding the intention to market their funds outside the Republic of Poland. No such notification was received in 2018.

**ALTERNATIVE INVESTMENT COMPANIES/PARTNERSHIPS (AICs) AND ALTERNATIVE INVESTMENT COMPANY/PARTNERSHIP MANAGERS (AICMs)**

As at 31 December 2019, 156 AICMs were disclosed in the Register of AICMs, including 108 self-managed AICMs (involved in internal management) and 48 AICMs involved in external management. In 2019 the KNF Board entered 76 entities in the Register of AICMs, including 44 AICMs involved in external management and 32 AICMs involved in internal management.

**Diagram 25. Number of KNF-supervised AICMs in the years 2017-2019 (cumulatively)**



Source: UKNF's own study  
 \*Internal management (a self-managed AIC) refers to one entity which is both an AICM and AIC.

The AICMs operating on the basis of an entry in the Register of AICMs are obliged to submit annual reports on their investment activities separately for the AICM and for each of the alternative investment companies it manages.

Since those entities are required to submit periodic reports of AICMs annually, by 31 January of the year following the year for which the report is submitted, as at 31 December 2019 there were available the data concerning the value of assets managed by AICMs for 2018. In consequence, the data concerning the value of assets managed by AICMs for 2019 should be submitted by 31 January 2020.

Therefore, as of 31 December 2017, the value of assets managed by AICMs entered in the Register of AICMs was PLN 54.4 million (of which PLN 53.6 million managed by AICMs involved in internal management and PLN 0.8 million by AICMs involved in external management).

As at 31 December 2018, the value of assets managed by the AICMs entered in the Register of AICMs was PLN 160.1 million, including PLN 82.2 million of assets were managed by AICMs involved in internal management and PLN 77.9 million by AICMs involved in external management.

Whereas as at 31 December 2019, the value of assets managed by AICMs entered in the Register of AICMs as determined on the basis of correct reports of AICMs (74% of all AICMs obliged to send the reports for 2019) was PLN 786.24 million; PLN 357.72 million of assets were managed by AICMs involved in internal management and PLN 428.52 million by AICMs involved in external management.

**Table 56. Value of assets managed by AICMs**

<b>Value of assets managed by AICMs (in PLN million)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
AICMs involved in external management	0.81	77.94	428.52
AICMs involved in internal management	53.63	82.17	357.72
<b>Total</b>	<b>54.44</b>	<b>160.11</b>	<b>786.24</b>

Source: UKNF's own study

At the same time, as at 31 December 2019, since the UKNF commenced its supervision of AICMs it had received a total of 297 requests concerning those entities, including 288 requests for entry in the Register of AICMs, 1 request for authorisation to operate as an AICM, and 8 requests for a review of a case concluded with the KNF Board's final decision on the refusal to make an entry in the Register of AICMs.

**Table 57. Number of requests received by the KNF Board by 31 December 2019**

<b>Type of request</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2016-2019</b>
Requests for entry in the Register of AICMs	1	174	73	40	<b>288</b>
Applications for a review of a case	0	1	6	1	<b>8</b>
Applications for authorisation to operate as an AICM	0	1	0	0	<b>1</b>
<b>Total</b>	<b>1</b>	<b>176</b>	<b>79</b>	<b>41</b>	<b>297</b>

Source: UKNF's own study

In 2019 there was the first case of an *ex officio* removal of an AICM from the Register of AICMs pursuant to Article 70zf of the Act on funds. The proceedings in that case were initiated by an order to initiate proceedings for the removal from the Register of AICMs pursuant to Article 70zf(1) point 1 of the Act on funds and Article 61 §1 of the Administrative Procedure Code.

As regards the alternative investment companies market, in 2019 the KNF Board issued 49 final and interim decisions, including:

- 13 final decisions on the refusal to make an entry in the Register of AICMs,
- 1 final decision at second instance on upholding a final decision of the KNF Board on the refusal to make an entry in the Register of AICMs,
- 1 final decision at second instance on repealing a final decision of the KNF Board on the refusal to make an entry in the Register of AICMs and to discontinue proceedings in their entirety as being unsubstantiated,
- 24 final decisions to discontinue proceedings due to the party's submission of a request for discontinuance of proceedings,
- 1 final decisions on *ex officio* removal of an AICM from the Register of AICMs;
- 9 interim decisions, including:
  - 2 interim decisions on suspending proceedings at the request of a party pursuant to Article 98 § 1 of the Administrative Procedure Code,
  - 1 interim decision on suspending *ex officio* proceedings pursuant to Article 97 § 1 point 3 of the Administrative Procedure Code,
  - 5 interim decisions on the refusal to exempt employees pursuant to Article 24 § 3 and Article 123 §1 of the Administrative Procedure Code,
  - 1 interim decision on resumption of proceedings pursuant to Article 98 § 2 of the Administrative Procedure Code.

It should be noted that the entry in the Register of AICMs is a substantive and technical act, which does not require any binding administrative act (e.g. a final administrative decision).

Additionally, in 2019 as part of day-to-day work educational activities were continued in the field of information and reporting requirements for the AICMs entered in the Register of AICMs. Positions on the formal and practical aspects of compliance with the reporting requirements for the AICMs entered in the Register of AICMs were published on the KNF website.

#### INTERMEDIARIES IN THE DISPOSAL AND REPURCHASE OF PARTICIPATION UNITS AND/OR SHARES

Under Article 32(2) of the Act on investment funds and the management of alternative investment funds, units of investment funds or shares of foreign funds may be disposed of and repurchased through an entity having its registered office or place of residence in the territory of the Republic of Poland.

As of 31 December 2019, the list of distributors of participation units and/or shares authorised by the KNF Board included 79 entities. During the period covered by this report, the KNF Board issued 4 authorisations for mediation in the disposal and repurchase of participation units in investment funds and/or shares of foreign funds and 6 final decisions ascertaining the expiry of a final decision to grant authorisation to conduct the activities in question.

#### SUPERVISION OF COLLECTIVE INVESTMENT UNDERTAKINGS

The supervisory activities of the Polish Financial Supervision Authority towards investment fund management companies and investment funds – after such entities have obtained the necessary permission – include, among others: monitoring of the current situation of these entities by analysing current reports, current information and periodic reports.

Current reports and current information of investment funds are divided into two main groups:

- current reports and current information of open-end investment funds, specialised open-end investment funds and closed-end investment funds, submitted exclusively to the Polish Financial Supervision Authority,

- current reports of public closed-end investment funds submitted to the Polish Financial Supervision Authority and made available to the public.

In addition to the semi-annual and annual financial statements of investment funds, the following is also included in the group of periodic reports submitted obligatorily:

- quarterly reports of open-end investment funds, specialised open-end investment funds and closed-end investment funds, issuing non-public investment certificates, which are submitted only to the Polish Financial Supervision Authority,
- quarterly reports of public closed-end investment funds submitted to the Polish Financial Supervision Authority and made available to the public.

Periodic reports of investment fund management companies include:

- monthly reports,
- annual financial statements,
- annual reports on the functioning of internal control.

When carrying out supervisory activities with regard to investment fund management companies and investment funds, the Polish Financial Supervision Authority also regularly analyses information sent by depositaries of investment funds pursuant to Article 231 of the Act of 27 May 2004 on investment funds and the management of alternative investment funds.

**Table 58. Number of the reviewed current and periodic reports of investment funds and investment fund management companies and information from depositaries in the years 2016-2019**

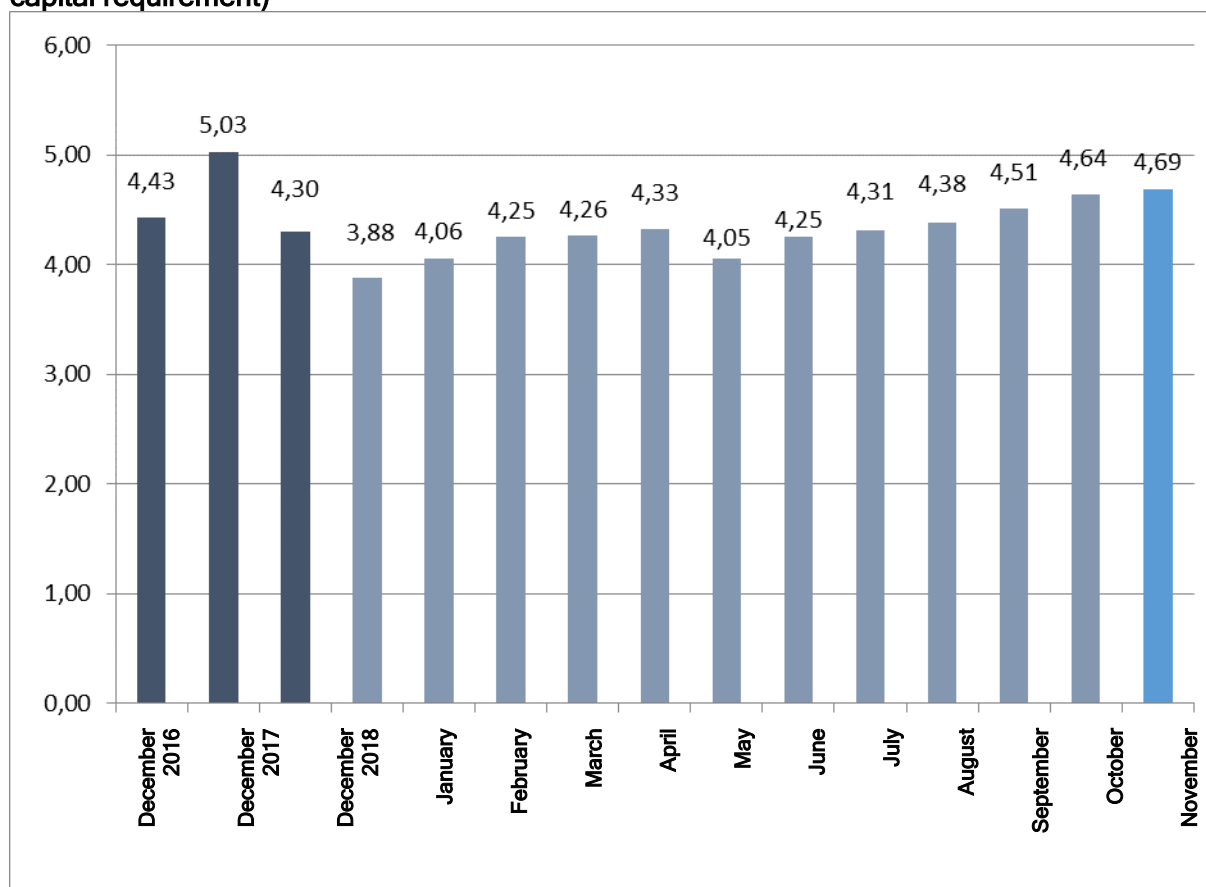
Type of report/information	2016	2017	2018	2019
Current and periodic reports of investment fund management companies	6 381	5 791	5 990	4 746
Current and periodic reports of investment funds	30 639	28 851	29 072	24 588
Information from depositaries	4 478	4 398	4 506	4 135
<b>Total</b>	<b>41 498</b>	<b>39 040</b>	<b>39 568</b>	<b>33 469</b>

Source: UKNF's own study

The review of current reports and information submitted by investment fund management companies, investment funds and depositaries resulted in the UKNF sending supervisory correspondence to supervised entities. Information on the situation of supervised entities was also the subject of correspondence between the UKNF organisational units, thus enabling appropriate action to be taken in accordance with the substantive remit of the departments.

As part of its supervision, the KNF Board also monitors compliance by investment fund management companies with capital requirements.

**Diagram 26. The average value of the capital requirement coverage ratio of investment fund management companies at the end of the years 2016-2018 and in 2019 (equity/minimum capital requirement)<sup>29</sup>**



Source: UKNF's own study

After the average value of the capital requirement coverage ratio for the investment fund management companies sector decreased to 3.88 in January 2019, it increased in subsequent months until June, when it fell to 4.05. The next months of 2019 saw a further increase of the ratio and at the end of December 2019 its average level for investment fund management companies was at 4.69. The decrease in the average value of the ratio in January 2019 resulted, among other things, from the increase in the requirement determined in accordance with Article 50(1) of the Act on investment funds on the basis of the costs of investment fund companies incurred in 2018. On the other hand, the decrease in the average value of the capital requirement coverage ratio in June 2019 was caused by dividend payments made by investment fund companies from the profits for 2018.

### Supervisory Review and Evaluation Process (SREP) for investment fund management companies (PL: TFI)

In 2019 work was ongoing on a change in the Methodology of supervisory review and evaluation process of investment fund management companies. For that reason the process of SREP evaluation was not completed in 2019. It is expected to be completed in early 2020.

The following reports on the activities of investment fund market entities were presented at the KNF Board's meetings:

<sup>29</sup> Based on monthly reports provided by investment fund management companies. Monthly reports are not audited or reviewed by a statutory auditor so information included therein may be subject to subsequent corrections.

- Information material on the disposal of participation units issued by foreign funds in the territory of the Republic of Poland between 1 January and 31 December 2018,
- Report on the financial standing of investment fund management companies in 2018,
- Report on the SREP for investment fund management companies in 2018,
- Information on the financial leverage applied by alternative investment fund managers in relation to the alternative investment funds being managed and on the impact of application of the leverage on the accumulation of systemic risk, the risk of disruptions in markets and/or threats to the economic development as at 31 December 2018,
- Information on the assumptions concerning the position of the supervisory authority on the dividend policy of investment fund management companies in 2020.

## INSPECTION OF THE INVESTMENT FUND MARKET ENTITIES

During the period covered by this report, 12 inspections were commenced or conducted, including 4 inspections at investment fund management companies and investment funds managed by them, 3 inspections at entities managing the securitised loans of securitisation funds, 3 inspections of a depositary, 1 inspection of a transfer agent, and 1 inspection at an entity entrusted by an investment fund management company to carry out activities related to the company's business.

**Table 59. Selected irregularities identified during inspection activities carried out at the depositaries for investment funds, in the area of performance of their duties in accordance with law or the contract for the performance of depositary functions in 2019.**

<b>Verification whether the obligations of a fund depositary are performed in compliance with law or the contract for the performance of depositary functions, in particular with the Act of 27 May 2004 on investment funds and management of alternative investment funds.</b>	
1.	Failure to properly verify the measurement of each component of the funds' investments and deposits by exercising due care arising from the professional nature of the business, and failure to act in accordance with the principles of fair trading.
2.	Failure to ensure that the net asset value and the net asset value per investment certificate are calculated in accordance with the law.
3.	Breach of the Act on funds to the extent that the depositary failed to verify the reports on valuation of companies' shares being components of the funds' investments and deposits.
4.	Failure by the depositary to properly and reliably perform its duties relating to exercising permanent control over the factual and legal acts performed by the fund.
5.	Failure to verify the compliance of the investment fund's activities with the legislation and with the articles of association.
6.	Failure to perform the obligations under agreements for the performance of the function of depositary.

Source: UKNF's own study

**Table 60. Selected irregularities identified during inspection activities in the entities managing securitised receivables of securitised funds in 2019.**

<b>Compliance of the business with agreements concluded with investment fund management companies and with the provisions of the procedure for managing securitised receivables.</b>	
1.	Performance of activities as manager of securitized receivables of investment funds in breach of certain provisions of the agreements on management of securitized receivables.
2.	Failure to conduct business of management of the funds' portfolios in a reliable and professional manner, using due care.
3.	Performance of duties under selected agreements for the management of securitised receivables in blatant contravention of legislation, and conducting business in violation of interests of the participants in the securitisation fund.
4.	Measuring receivables of selected packages at values other than a fair value.

5.	Undertaking – as part of the management of selected investment portfolios of investment funds – activities consisting in conclusion of contracts to generate artificial profit from the disposal of elements of deposits, in blatant contravention of the principles of fair trading.
6.	Failure to manage securitised receivables in accordance with the principles of fair dealing and in a manner that guarantees proper protection of the interests of securitisation fund participants.
7.	Failure to prevent conflicts of interest.

Source: UKNF's own study

In 2019, post-inspection recommendations were issued for 8 supervised entities. The implementation of post-inspection recommendations for the 12 supervised entities was verified.

## 4.5. APPROVAL OF PROSPECTUSES OF FINANCIAL INSTRUMENTS OTHER THAN INVESTMENT CERTIFICATES

In 2019, the KNF Board issued 71 final decisions on the approval of prospectuses, information memoranda and annexes/supplements updating their content, including:

- 18 final decisions approving prospectuses of securities other than investment certificates (drawn up in the form of a single document or three documents),
- 53 final decisions approving annexes/supplements to prospectuses of securities other than investment certificates.

The data on the number of approved prospectuses, annexes/supplements to prospectuses and information memoranda in the years 2016-2019 are shown in Table 61.

**Table 61. Number of approved prospectuses, information memoranda and annexes/supplements to prospectuses in the years 2016-2019**

Detailed list	2016	2017	2018	2019
The number of approved prospectuses	40	37	25	18
The number of approved information memoranda	3	3	2	0
The number of approved annexes/supplements	100	96	71	53

Source: UKNF's own study

In the period covered by this report, the KNF Board received 42 notifications of the approval of prospectus from supervisory authorities of other Member States.

In the course of 38 proceedings for the approval of prospectus in 2019, the KNF Board made more than 3 600 comments on the submitted documents. In addition, the KNF Board issued 9 interim decisions to suspend administrative proceedings in respect of approval of a prospectus, 2 interim decisions to resume suspended proceedings, and 9 final decisions to discontinue administrative proceedings in respect of approval of a prospectus (annex/supplement to a prospectus).

The list of issuers whose prospectuses were approved by the KNF Board in 2019 is presented in Table 2.1. in Annex 2, while the current list of prospectuses by the KNF Board is available on the KNF website.

In 2019, the KNF Board also received 72 notifications of the intention to carry out promotional activities relating to the public offering of securities.

## 4.6. GRANTING AUTHORISATION TO CONVERT SHARES INTO CERTIFIED FORM (REMATERIALISATION OF SHARES)

In 2019, the UKNF received, pursuant to Article 91(1) of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies ('Act on public offering'), 20 applications for authorisation to reverse dematerialisation of shares (authorisation of rematerialisation of shares). The KNF Board granted 16 authorisations to reverse dematerialisation of shares. 2 administrative proceedings in that respect were stayed (including one of 2018) and one proceedings was discontinued *ex officio*.

Between 30 November 2019, i.e. the date of amendment to the Act on public offering, and the end of 2019 the KNF Board received 3 requests, submitted pursuant to the amended Article 91(1) of the said Act, for withdrawal of shares from trading on a regulated market or in an alternative trading system.

The data on the number of final decisions to authorise rematerialisation of shares of a public company are shown in Table 62.

**Table 62. Number of final decisions to authorise rematerialisation of shares of a public company (Article 91(1) of the Act on public offering) in the years 2016-2019**

2016	2017	2018	2019
18	21	22	16

Source: UKNF's own study

## 4.7. SUPERVISION OF ISSUERS OF SECURITIES OTHER THAN INVESTMENT FUNDS

### ENFORCEMENT OF INFORMATION REQUIREMENTS

The responsibilities of the KNF Board also include supervision of compliance with information requirements specified in the Act on public offering, MAR, and the Act on trading in financial instruments by issuers whose securities are admitted to trading on a regulated market.

For issuers whose securities are introduced to an alternative trading system, the KNF Board enforces compliance with information requirements concerning submission of a list of shareholders holding at least 5% of the total number of votes at the general meeting. In accordance with the Act on public offering, the enforcement of inside information of those issuers is carried out by the trading system organiser. To that end, the KNF Board cooperates with the Warsaw Stock Exchange and intervenes when an alternative trading system organiser has difficulty in obtaining explanations from issuers.

In 2019, the KNF verified compliance of approx. 26 thousand current reports, periodic reports and confidential information submitted by public companies. Following a review, 441 measures were undertaken due to a suspicion of improper fulfilment of information requirements. The UKNF issued 202 recommendations for public companies to enforce compliance with information requirements. The recommendations concerned irregularities in: periodic reports (61 recommendations, including 8 recommendations on non-financial information); inside information (55 recommendations), submission to the KNF Board of a list of shareholders authorised to participate in a company's general meeting and/or a list of shareholders holding at least 5% of the total number of votes at the general meeting actually



held (48 recommendations); current reports (34 recommendations), other information published by companies (4 recommendations).

In 2019, as part of its supervision over the reporting of issuers of securities other than investment funds, the KNF Board carried out, among others, the following activities:

- 160 financial statements (including consolidated ones) of 96 issuers were reviewed for compliance with the applicable accounting standards, in particular IFRS, i.e. International Accounting Standards, International Financial Reporting Standards and related Interpretations published in the form of regulations of the European Commission, selected according to the selection methodologies referred to in ESMA Guidelines on enforcement of financial information (ESMA/2014/1293en, 28.10.2014). Based on the results of the analysis, a report is drawn up and published on the KNF website,
- 105 positions and opinions for external entities were formulated and published in relation to, among others: application of IFRS, issuers' compliance with disclosure requirements with respect to periodic reports, and requirements concerning statutory audits of financial statements of public-interest entities,
- 3 recommendations were issued to enforce compliance with information requirements in relation to financial statements,

and the following proceedings were conducted:

- 1 administrative proceeding concluded with a final decision, pursuant to Article 62(4) of the Act on public offering, in respect of consent to the submission of information required under the laws of the issuer's home State, instead of certain current and periodic information referred to in Article 56(1) of the Act on public offering,
- 3 proceedings concluded with a final decision to impose an administrative penalty referred to in Article 96(1) of the Act on public offering,
- 1 administrative proceedings in relation to a review of a case concluded with a final decision of the KNF Board, issued in the first instance, to impose, under Article 96 of the Act on public offering, an administrative financial penalty,
- 3 administrative proceedings conducted under Article 17(6) of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 26 June, in respect of authorisation to extend the maximum duration of the audit engagement. 1 proceeding was concluded with authorisation and 2 with a final decision to discontinue the proceedings,
- 6 administrative proceedings concluded with a final decision, conducted under Article 17(5) of Regulation (EU) No 596/2014 of the European Parliament and of the Council (MAR), authorising to delay the public disclosure of inside information.

## SUPERVISION OF AUDIT COMMITTEES

The supervision of audit committees of public-interest entities being issuers of securities admitted to trading on a regulated market in 2019 covered 429 entities. Due to concerns about the composition of audit committees, supervisory measures were adopted towards 80 issuers. Towards 4 issuers, supervisory measures were adopted in relation to the review of the operation of audit committees in terms of performance of tasks under the statutory law.

## ENFORCEMENT OF NON-FINANCIAL INFORMATION

The 2019 review of annual reports for 2018 has shown that 158 issuers whose securities are admitted to trading on regulated markets were subject to the requirement to disclose non-financial information, of which 63 entities made a statement on non-financial information pursuant to Article 49b(1) of the Accounting Act, 86 entities made separate reports on non-financial information pursuant to Article 49b(9) of the Act, and 9 entities benefited from the exemption under Article 49b(11) of the Act. In eight cases, the UKNF formulated

recommendations on publication of annual reports containing statements/reports on non-financial information as provided for in the legislation.

## SUPERVISION OVER PUBLIC OFFERINGS

The supervision over public offerings in 2019 involved review of 72 public offerings notified under Article 53(9c) of the Act on public offering, carried out without obligation to draw up a prospectus or information memorandum. The statistics on promotional activities for public offerings notified to the UKNF show that 57 public offerings concerned shares, and 15 public offerings concerned bonds. 39 such offerings were carried out through crowdfunding platforms. In one case, supervisory measures were adopted in relation to prohibition of continuation of a public offering and subscription of shares. The decision to apply such a measure was based on the suspicion that an issuer had infringed the legislation regarding the legal basis of the issue.

Following amendment to the Act on public offering and waiver of the obligation to notify a scheduled promotional action for a public offering, the UKNF carries out day-to-day monitoring of major crowdfunding platforms in order to conduct its supervisory activities.

In 2019, 1 administrative proceeding was conducted and concluded, pursuant to Article 16(1) points 2 and 3 of the Act on public offering, with a final decision to prohibit the continuation of the public offering.

## ENFORCEMENT OF COMPLIANCE WITH REQUIREMENTS CONCERNING ANNOUNCEMENT AND IMPLEMENTATION OF NOTIFICATIONS OF SALE OF OR CHANGE IN SHARES OF PUBLIC COMPANIES

The tasks of the KNF Board include supervision over formal and legal correctness of announcing and implementing notifications of sale of or change in shares of public companies, in connection with exceeding particular thresholds in the total number of votes by shareholders. If an announced notification does not meet statutory requirements, the KNF Board may demand the necessary changes or additions to the notification. The KNF Board may also make a request for explanations concerning the content of the notification.

In 2019, 31 notifications of sale of shares of public companies were announced and their formal and legal aspects were analysed; of which 7 notifications of share sale were announced due to exceeding the threshold of 33% of the total number of votes at public companies, and 23 notifications were announced for all other shares of the companies. In 2019, 1 notification was also announced in connection with the intention to withdraw from trading, on a regulated market operated in the territory of the Republic of Poland, in shares of a foreign public company.

In 2019, in the case of 1 notification, the KNF Board made a request, pursuant to Article 78(1) of the Act on public offering, for explanations as to the content of the notification.

The value of the shares mentioned in the notifications announced in 2019 amounted to nearly PLN 11.2 billion. For comparison, the respective value of notifications announced in 2018 amounted to almost PLN 4.5 billion, in 2017 it amounted to over PLN 11.7 billion, while in 2016 it amounted to over PLN 6.6 billion.

## ENFORCEMENT OF COMPLIANCE WITH NOTIFICATION REQUIREMENTS FOR SHAREHOLDERS OF PUBLIC COMPANIES IN CONNECTION WITH TRADING IN QUALIFYING SHAREHOLDINGS AND ENFORCEMENT OF COMPLIANCE WITH NOTIFICATION REQUIREMENTS FOR PERSONS DISCHARGING MANAGERIAL RESPONSIBILITIES WITHIN ISSUERS AND PERSONS CLOSELY ASSOCIATED WITH THEM

The KNF Board is responsible for supervising compliance with the notification requirements laid down in the Act on public offering with respect to trading in qualifying shareholdings of public companies (Article 69 *et seq.*) and the notification requirements under Article 19 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (OJ L 173 of 12 June 2014, p. 1, as amended, hereinafter: 'MAR') with respect to transaction carried out by persons discharging managerial responsibilities and persons closely associated with them. The KNF Board is also responsible for ensuring that persons discharging managerial responsibilities respect the prohibition of transactions during closed periods.

In 2019, the UKNF verified legal compliance of more than 1300 notifications made by persons acquiring or disposing of qualifying shareholdings in public companies pursuant to Article 69 of the Act on public offering, as well as about 3 100 notifications made by entities obliged under Article 19 of MAR, pertaining to transactions of persons discharging managerial responsibilities and persons closely associated with them. In 2019, about 170 supervisory measures were undertaken due to a suspicion of improper fulfilment of disclosure requirements for shareholders of public companies. This means that in most cases of notifications submitted by shareholders of public companies, there was no suspicion of improper fulfilment of disclosure requirements.

To facilitate the fulfilment of the obligations under Article 19(1) of MAR, at the end of 2019 an electronic form was made available on the KNF website to enable submission of notifications to the KNF Board by persons discharging managerial responsibilities and persons closely associated with them.

## OTHER SUPERVISION ACTIVITIES UNDERTAKEN TOWARDS ISSUERS OF SECURITIES OTHER THAN INVESTMENT FUNDS

During the period covered by this report, the KNF Board passed:

- a resolution on the public disclosure of the existence of circumstances indicating the manipulation referred to in Regulation 596/2014 in the trading of shares of FTI Profit S.A., and of information about the submission of a notification of suspected offence,
- a resolution on the publication disclosure of information about the submission of a notification of suspected offence in connection with the trading in shares of Ursus S.A. and about a freeze of a securities account and cash account.

In 2019, the KNF Board also issued:

- 16 final decisions on a request for suspension, by the Warsaw Stock Exchange under Article 20(2) of the Act of 29 July 2005 on trading in financial instruments, of trading in shares of a public company due to possible violation of the interests of investors, in particular due to failure to comply with disclosure requirements in a timely manner or due to failure to provide accurate information on the issuer's financial standing,
- 1 final decision on a request for suspension, by the Warsaw Stock Exchange under Article 78(3) in conjunction with Article 16(3) of the Act of 29 July 2005 on trading in financial instruments, of trading in bond issued by a public company, due to possible violation of the interests of investors through failure to provide accurate information on the issuer's financial standing,
- 6 final decisions on the examination of requests made by the Warsaw Stock Exchange and BondSpot S.A. for exemption from the requirements concerning transparency for trading systems provided for in Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.

## 4.8. PENSION INVESTMENT SUPERVISION

The main purpose of supervision over the statutory activities of the pension market entities is to protect the interests of members of pension funds. The analytical supervision covers the financial situation and the investment and operating activities of pension societies and funds (the so-called second and third pillar of the pension system, including voluntary pension funds under which individual retirement accounts (IKE) and individual retirement protection accounts (IKZE) are maintained). The supervisory authority also monitors compliance by those institutions with the laws and their articles of association and the fulfilment of disclosure requirements.

### MONITORING THE FINANCIAL SITUATION AND INVESTMENT AND OPERATING ACTIVITIES OF PENSION SOCIETIES AND PENSION FUNDS

The tasks of day-to-day supervision of financial and operating activities and investment policies of open, occupational and voluntary pension funds as well as the activities of general and occupational pension societies were performed through a systematic analysis of reporting data submitted by the supervised entities to the UKNF in electronic form:

- daily and quarterly financial statements of pension funds, including balance sheets of funds together with explanatory notes, lists of investment portfolios, profit and loss accounts along with explanatory notes, statement of completed transactions and important orders, and information on the value and number of units of account,
- monthly, semi-annual and annual asset structure of funds,
- operational reports of funds concerning the existing fund membership agreements, transferred premium, external and internal transfer payments, number of members and

number of accounts kept, events influencing the change in the amount of open pension funds' capitals,

- financial statements of pension societies, including balance sheets, profit and loss accounts, information on remuneration in the PTE, liabilities of the PTE and equity relations of pension societies.

The financial situation of pension societies and the investment policies of pension funds was monitored, among others, through:

- an analysis of transactions carried out on the capital market in terms of profitability and risk associated with the acquisition of a particular financial instrument and resulting from the construction of the instrument and from the financial situation of the issuer,
- the monitoring of investment activities of pension funds in terms of observance of the fundamental rule of profitability and security of deposits
- verification of valuations of financial instruments included in investment portfolios of pension funds,
- an analysis of the structure of investment portfolios of pension funds, its volatility over time and the assumed level of risk,
- assessment of the effectiveness of investment activities of pension funds against the background of the current situation in the capital market and the macroeconomic situation,
- an analysis of internal procedures and declarations of the principles of pursuing investment activity at the supervised entities,
- the monitoring of the activities of funds in the area of entrusting entities established outside the country with the management of assets, and issuing a final decision ordering the fund to amend or terminate the above-mentioned agreement,
- the monitoring of the process of gradual transfer of capital of open pension fund members who will reach the retirement age in less than 10 years (the so-called safety slider) to the Polish Social Insurance Institution (ZUS),
- the monitoring of conversion of funds and redemption of units of account which affect the amount of capitals of open pension funds,
- the monitoring of correctness of activities of the OFE and the PTE considering the provisions relating to the Guarantee Fund,
- the monitoring of the capital standing of pension societies, in particular compliance with the capital requirements arising from the provisions of law and from the recommendations of the supervisory authority,
- the monitoring of pension societies' investment activities for their compliance with the provisions of law and the risk resulting from the pension societies' investment activities,
- the monitoring of timeliness and accuracy of disclosure obligations relating to the publication of pension fund asset structures,
- assessment of the implementation by the supervised entities of the KNF guidelines concerning the dividend policy of pension societies.

Another key task of the supervisory authority is to review, on a case-by-case basis, the detailed methodology for the valuation of financial instruments for which no valuation market is established or for which no prudent market-based valuation is possible, as provided for by pension funds. During the period covered by this report, the supervisory authority assessed 411 valuations provided by open pension funds (OFE), occupational pension funds (PFE), voluntary pension funds (DFE) as part of individual retirement accounts (IKE) or individual retirement protection accounts (IKZE) and voluntary pension fund (DFE) as part of employee capital plans (PPK). For two methodologies of valuation of a financial instrument applied by a pension fund, the supervisor made a request for changes.

**Table 63. Valuation methodologies submitted by pension funds to the KNF Board for approval in the years 2016-2019**

Type of funds	The number of methodologies submitted			
	2016	2017	2018	2019
OFE	291	344	285	306
PFE	12	16	5	16
DFE and FZD*	44	54	50	89
<b>Total</b>	<b>347</b>	<b>414</b>	<b>340</b>	<b>411</b>

Source: UKNF's own study

\*in 2019, voluntary pension funds and target-date funds considered jointly.

A considerable part of the supervisory activities towards occupational pension societies – due to the large share of their current and successive funding by employers – is carried out under indirect supervision. This guarantees financial security and continuity of business of those entities. The specificity of occupational societies is that they use outsourcing more than the general pension societies and, in consequence, some supervisory activities cover entities other than pension societies.

In the period covered by this report, the KNF Board established and published the weighted average rate of return of all open pension funds two times, for periods between 31 March 2016 and 29 March 2019, and between 30 September 2016 and 30 September 2019. The mandatory minimum rate of return of the OFE and the possible deficit have not been determined since 2014.

**Table 64. Statutory rates of return of open pension funds (OFE) calculated and published by the KNF Board in 2019 (in %)**

Name of the open pension fund	Rate of return for the period	Name of the open pension fund	Rate of return for the period
	between 31 March 2016		between 30 September 2016
	and 29 March 2019		and 30 September 2019
MetLife OFE	22.284	OFE PZU "Złota Jesień"	17.326
OFE PZU "Złota Jesień"	22.058	Generali OFE	17.222
PKO BP Bankowy OFE	20.995	Aviva OFE Aviva Santander	16.900
Nationale-Nederlanden OFE	20.052	MetLife OFE	16.648
Generali OFE	19.808	Nationale-Nederlanden OFE	16.350
Aviva OFE Aviva Santander	19.381	Allianz Polska OFE	14.437
OFE Pocztylion	19.180	AXA OFE	13.739
Allianz Polska OFE	17.511	Aegon OFE	13.238
AXA OFE	16.740	OFE Pocztylion	13.152
Aegon OFE	16.411	PKO BP Bankowy OFE	12.928
<b>Weighted average rate of return</b>	<b>19.700</b>	<b>Weighted average rate of return</b>	<b>15.679</b>

Source: UKNF's own study

The following reports on the activities of pension market entities were presented at the meetings of the KNF Board:

- 'Financial situation of general pension societies in 2018,'
- 'Financial situation of general pension societies in the first half of 2019,'
- 'Information on investment activities of pension funds between 30 September 2015 and 28 September 2018,'

- ‘Information on investment activities of pension funds between 31 March 2016 and 29 March 2019,’
- ‘Information on investment activities of pension funds between 30 September 2016 and 30 September 2019,’
- ‘Market of open pension funds in the fourth quarter of 2018,’
- ‘Market of open pension funds in the first quarter of 2019,’
- ‘Market of open pension funds in the second quarter of 2019,’
- ‘Individual retirement accounts and individual retirement protection accounts in 2018,’
- ‘Occupational pension schemes in 2018.’

Based on all information sent to the KNF Board in 2019, monthly, quarterly and/or annual statistical and financial data on the OFE, PPE and IKE markets and information on transfers of the OFE members were prepared and published on a regular basis.

#### SUPERVISION OF LEGAL COMPLIANCE OF PENSION SOCIETIES AND FUNDS AND OTHER PENSION MARKET ENTITIES

The supervision exercised by the UKNF in the field of monitoring legal compliance of pension funds and pension societies covered, *inter alia*, the following activities:

- compliance with capital requirements for pension societies as provided for by the law,
- examination of compliance of allocating assets of pension funds in deposit categories specified by the law,
- monitoring the amount of costs covered from the assets of pension funds,
- fulfilment of the disclosure requirements by the supervised entities towards the supervisory authority.

**Table 65. Provisions of law on investment limits violated by pension funds in 2019**

Provision of law	Number of violations*
Article 141(1) of the Act on the organisation and operation of pension funds	360
Article 142(1) point 1 of the Act on the organisation and operation of pension funds	21
Article 142(1) point 4 of the Act on the organisation and operation of pension funds	470
§ 2(1) in conjunction with § 2(4) of Regulation of the Council of Ministers on additional restrictions on investment activities pursued by pension funds	570
Article 37(11) point 1 of the Act on employee capital plans	226
Article 37(11) point 2 of the Act on employee capital plans	436
Article 37(13) point 1 of the Act on employee capital plans	927
Article 37(13) point 2 of the Act on employee capital plans	510
Article 37(13) point 3 of the Act on employee capital plans	682
Article 37(13) point 4 of the Act on employee capital plans	925
Article 37(8) of the Act on employee capital plans	3
Article 40(1) point 3 of the Act on employee capital plans	115
Article 40(1) point 4 of the Act on employee capital plans	217
Article 40(1) point 5 of the Act on employee capital plans	561
Article 96(1) of the Act on investment funds and management of alternative investment funds	666
Article 96(2) of the Act on investment funds and management of alternative investment funds	120
Article 96(3) of the Act on investment funds and management of alternative	461

investment funds	
Article 96(5) of the Act on investment funds and management of alternative investment funds	120

Source: UKNF's own study

\* For reporting purposes, violations of the same provision by the same fund in respect of the same instrument or group of instruments occurring on successive valuation days are treated as further violations of the investment limit. The monitoring of infringements of laws has shown that the infringements resulted from changes in market prices being the basis of the valuation of assets and liabilities of funds, exchange rates or organisational or capital relations between entities whose financial instruments are the subject of a term deposit of the fund's assets, or from other circumstances which the fund had no direct influence on.

As part of the supervision over compliance with disclosure requirements, the UKNF verified the timeliness and correctness of daily and quarterly financial reports, operational reports of pension funds, financial statements of pension societies as well as monthly, semi-annual and annual asset composition published by the OFE. Submitted daily reports and other information were received and verified on a regular basis and, at the same time, any errors found in the transmitted data were clarified.

**Table 66. Electronic reports on the financial and operational activities, together with corrections, sent and verified as part of the disclosure requirements of pension funds and societies, received in 2019**

Type of reports submitted	Correct reports	Incorrect reports
Financial statements of the OFE	36 983	163
Operational reports of the OFE	5 353	86
Financial reports of the DFE* and FZD**	4 046	189
Operational reports of the DFE* and FZD**	70	0
Financial statements of the PFE	101	3
Operational reports of the PFE	22	0
Reports of the PTE	468	39
Reports of the PFE	12	0
<b>Total</b>	<b>47 055</b>	<b>480</b>

Source: UKNF's own study

\*Voluntary pension fund maintaining IKE and/or IKZE accounts

\*\*Target-date voluntary pension as part of PPK

The results of the review and analysis show that in general, pension societies complied with the disclosure requirements in a proper and timely manner. The monitoring of the financial and investment situation of pension societies and pension funds managed by them allowed for a conclusion that:

- the financial situation of pension societies was stable,
- pension funds correctly fulfilled their statutory obligations, for example they have the capacity for making timely payments to members and for making cyclical payments to the Social Insurance Institution.

The fulfilment by pension societies and pension funds of disclosure requirements, including reporting requirements, are subject to ongoing inspection, review and analysis. The results of the analysis, depending on their relevance and nature, form the basis for further individual supervisory decisions and they support the supervisory review process for general pension societies (PTEs).



The UKNF supervision also included examination of legal compliance of the activities of entities other than pension societies and pension funds such as:

- depository banks, in the performance of their duties with regard to the safekeeping of pension funds' assets and information obligations towards the supervisory authority,
- transfer agents in the performance of the tasks entrusted to them by the fund or pension society (in particular, keeping a register of members, keeping accounts and performing information duties with regard to the fund's members and the supervisory authority),
- entities entrusted by occupational pension funds with the task of asset management,
- the National Depository for Securities in terms of managing the Guarantee Fund.

## SUPERVISORY REVIEW PROCESS (SRP) FOR GENERAL PENSION SOCIETIES

The supervisory review process (SRP) is a comprehensive process which uses all available information obtained by the supervisory authority in the exercise of direct supervision as part of inspection activities carried out at the supervised entities and indirect supervision through licensing, analysis of reporting data and additional inquiries sent to the PTE in the form of supervisory calls or questionnaires. In 2019, the SRP of general pension societies (PTE) for 2018 was carried out. The supervisory evaluation was made in relation to 10 PTE and its results were reported on 21 October 2019 to the management boards of 10 entities operating as at the day on which the relevant notice was sent.

## 5. INSURANCE SUPERVISION

### 5.1. INSURANCE SECTOR ENTITIES

#### 5.1.1. LICENSING ACTIVITIES

##### AUTHORISATION TO CONDUCT THE BUSINESS OF INSURANCE AND REINSURANCE

In 2019, the KNF Board issued one decision on authorisation to conduct the business of insurance as a domestic insurance undertaking and two decisions on the extension of the material scope of insurance activity of a domestic insurance undertaking.

As regards regulation of insurance activity, the KNF Board in one case withdrew authorisation to conduct insurance activity as a domestic insurance undertaking.

2019 also saw a merger of two domestic insurance undertakings and approval of a resolution on the transformation of a mutual insurance society into a joint-stock company (demutualisation).

##### NOTIFICATION CONCERNING THE CONDUCT OF INSURANCE BUSINESS IN POLAND

By the end of 2019, the following entities had been notified for the purpose of conducting insurance business in Poland under the freedom to provide services: 716 insurance undertakings in EU Member States and other member states of the European Economic Area, 29 insurance undertakings operating through a branch, and 1 reinsurance undertaking. In 2019, the KNF Board received 44 notifications from foreign insurance undertakings of their intention to conduct cross-border business of insurance – under the freedom to provide services (including 1 notifications of the intention of a foreign insurance undertaking in an EU Member State to establish a branch in Poland under the freedom of establishment).

Moreover, 34 insurance undertakings in EU Member States notified their intention to change the scope of their insurance business conducted in the territory of the Republic of Poland

under the freedom to provide services and 27 insurance undertakings in EU Member States reported the cessation of their insurance business in the territory of the Republic of Poland. In 2019, the KNF Board received 19 notifications of the intention to transfer or take over an insurance portfolio in whole or in part, including:

- 11 notifications of a portfolio transfer between insurance undertakings all of which had been notified in Poland,
- 5 notifications of a portfolio transfer between the insurance undertakings at least one of which had been notified in Poland,
- 3 notifications of a portfolio transfer between insurance undertakings that had not been notified in Poland.

The KNF Board also received 2 notifications of merger of insurance undertakings involving a transfer of portfolio or a part thereof (both notifications concerned undertakings which had been notified in Poland).

#### CHANGES IN THE GOVERNING BODIES OF INSURANCE OR REINSURANCE UNDERTAKINGS

In 2019, the KNF Board issued 20 decisions on approval of the appointment of members of the management board of insurance and reinsurance undertakings (8 decisions on approval of the appointment of the president of the management board of an insurance undertaking, and 12 decisions on approval of the appointment of a member of the management board of an insurance undertaking responsible for risk management). In 1 case in respect of approval of appointment of a member of management board, the proceedings were discontinued.

#### AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF SUPERVISED ENTITIES

In 2019, the KNF Board issued 14 final decisions on approval of amendments to the articles of association of domestic insurance undertakings. In 4 cases in respect of approval of amendments to the articles of association of domestic insurance undertakings, the proceedings were discontinued.

#### ACQUISITION OR TAKING UP OF SHARES AND/OR RIGHTS ATTACHED TO SHARES

In 2019, the KNF Board issued 7 decisions on the proceedings in question. In four cases, no grounds were found for objecting to the direct or indirect acquisition or take-up of shares, and in one case - to the direct acquisition of shares. In 2 cases, the KNF Board discontinued the proceedings in respect of the intention to acquire shares in a domestic insurance undertaking.

#### ENTRY IN THE REGISTER OF ACTUARIES

During the period covered by this report, 9 final decisions on entry in the Register of Actuaries were issued.

As at 31 December 2019, 404 actuaries were included in the register.

#### THE NEW REGISTER OF INSURANCE INTERMEDIARIES

On 1 October 2018, the Act of 15 December 2017 on insurance distribution entered into force and implemented, in particular, the provisions of Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution. The Act on insurance distribution introduced a number of major changes regarding the Register of Insurance Intermediaries, e.g. the stipulation that the supervisory authority should keep the Register of Insurance Intermediaries in an online registration system (Article 52(3) of the Act) to replace the previous IT system. Detailed requirements were laid down in implementing

acts issued on the basis of the Act, in particular in Regulation of the Minister of Finance of 27 December 2018 on keeping the Register of Insurance Intermediaries and on making available information from that Register. To give the full background of the implementation of the new Register of Insurance Intermediaries, it should be mentioned that the Act on insurance distribution has extended both the material scope of the Register by introducing the type of agents offering supplementary insurance, and a catalogue of registration data, which also include the identity of shareholders holding at least 10 % of the share capital of the agent/broker and the amount of those shares and the identity of persons who have close links with the agent/broker.

The online form for submitting applications to the Register of Insurance Intermediaries was launched in accordance with the date indicated in the implementing acts to the Act, i.e. 15 January 2019. Before the form was launched, system users fed the database with details of persons authorised to submit the applications, in reply to the relevant communication from the UKNF. An application for entry/modification of entry is submitted after authentication of the authorised person through the trusted profile on the KNF website.

In 2019, regardless of the ongoing registration of applications, individual elements of the external online form and the internal register were systematically developed to achieve compliance of the solutions of the application programme with regulatory requirements.

At the same time, an important novelty in the Polish Act on insurance distribution is the transparency of the register kept by the supervisory authority, which required major IT work on the UKNF's part. Under Article 52(4) and (8) of the Act on insurance distribution, the register of agents and the register of brokers must be public. In accordance with Regulation of the Minister of Finance of 27 December 2018 on keeping the Register of Insurance Intermediaries and on making available information from that Register, such information is made available through the website of the supervisory authority, after the online form is filled in. Information is made available through a search engine available at <https://rpu.knf.gov.pl/>. Additionally, under Article 52(5) and (9) of the Act on insurance distribution, information from those Registers concerning historical data may be provided at the request of a natural or legal person to whom the information relates. Also in that case, one of the methods of submitting the application and obtaining own data is to use the online application programme.

## INSURANCE AGENTS

In 2019, a total of 118 955 applications were registered in the electronic Register of Insurance Agents, including 11 140 applications for entry, 98 022 applications for modification of data entered in the Register, and 9 793 applications for removal from the Register.

As at 31 December 2019, there were 31 293 insurance agents and 237 033 persons providing agency services were included in the Register.

**Table 67. Number of insurance agents registered in the years 2016-2019**

Detailed list		2016	2017	2018	2019
Agents	exclusive	5 696	6 172	7 575	7 352
	multiagents	3 916	2 968	3 172	3 788
	<b>Total</b>	<b>9 612</b>	<b>9 140</b>	<b>10 747</b>	<b>11 140</b>

Source: UKNF's own study

In 2019, there were entered in the Register of Insurance Agents: 14 entities performing agency activities through persons employed at banks and credit unions carrying out agency activities only in relation to insurance contracts or insurance guarantee agreements concluded by or through those entities (including 12 banks and 2 credit unions), and 23 agents offering supplementary insurance under Article 3(1) point 1 of the Act on insurance distribution.

In 2019, as part of their supervisory activities, authorised representatives of the UKNF participated as observers in 28 examinations for persons applying for a licence to provide agency services, in accordance with § 7 of Regulation of the Minister of Finance of 21 August 2018 (Journal of Laws item 1746) on the examination for persons applying for a licence to provide agency services, distribution activities of an insurance undertaking and distribution activities of a reinsurance undertaking, enacted to the Act on insurance distribution.

#### INSURANCE BROKERS AND REINSURANCE BROKERS

**Table 68. Register of brokers at the end of the years 2016-2019**

Brokers		2016	2017	2018	2019
Insurance	natural persons	842	869	878	893
	legal persons	481	505	516	522
	<b>Total</b>	<b>1 323</b>	<b>1 374</b>	<b>1 394</b>	<b>1 415</b>
Reinsurance	natural persons	10	12	14	13
	legal persons	32	37	40	40
	<b>Total</b>	<b>42</b>	<b>49</b>	<b>54</b>	<b>53</b>

Source: UKNF's own study

In 2019, 2 196 changes were made in the data entered in the Register of Insurance Brokers and Reinsurance Brokers. As at 31 December 2019, 1 468 insurance brokers (including 53 reinsurance brokers) were included in the Register.

In 2019, the KNF Board granted a total of 76 authorisations to conduct brokerage activities in the field of insurance and reinsurance, including 46 authorisations to natural persons (including 45 authorisations concerning insurance and 1 authorisation concerning reinsurance) and 30 authorisations to legal persons (including 28 authorisations concerning insurance and 2 authorisations concerning reinsurance).

During the period covered by this report, 41 proceedings were conducted in respect of withdrawal of authorisation to conduct brokerage activities in the field of insurance and reinsurance.

**Table 69. The number of authorisations to conduct brokerage activities in the field of insurance granted by the KNF Board in the years 2016-2019**

Detailed list	2016	2017	2018	2019
Natural persons	36	32	33	45
Legal persons	50	44	46	28
<b>Total (excluding reinsurance)</b>	<b>86</b>	<b>76</b>	<b>79</b>	<b>73</b>

Source: UKNF's own study

In the period covered by this report, 6 examinations were conducted by the Examination Board appointed by the Minister of Finance, including 3 exams for insurance brokers and 3 exams for reinsurance brokers. In total, 697 persons took the exam. 242 candidates were successful (including 21 candidates who took the exam for reinsurance brokers).

**Table 70. Statistics on candidates taking the examination for insurance brokers in the years 2016-2019**

Detailed list	2016	2017	2018	2019
All candidates taking the exam	402	388	479	674
Candidates who passed the brokerage exam	133	186	341	221

Source: UKNF's own study

**Table 71. Statistics on candidates taking the examination for reinsurance brokers in the years 2016-2019**

Detailed list	2016	2017	2018	2019
All candidates taking the exam	17	22	23	23
Candidates who passed the brokerage exam	13	18	23	21

Source: UKNF's own study

## NOTIFIED INSURANCE INTERMEDIARIES

In 2019, 429 insurance intermediaries intending to operate in the territory of the Republic of Poland, reported by the registration and/or supervisory authorities in the European Union Member States, were notified and 2391 notifications of the intermediaries were withdrawn.

### 5.1.2. SUPERVISORY ACTIVITIES

#### SUPERVISORY REVIEW PROCESS (SRP) FOR INSURANCE UNDERTAKINGS

In 2019, the ninth edition of the Supervisory Review Process (SRP) for insurance undertakings was carried out. The SRP scores for 2018 were assigned to 60 insurance/reinsurance undertakings, including 26 life and 34 non-life insurance undertakings. The SRP methodology is updated annually. The current amendments provide for a number of significant changes concerning both the substantive basis for awarding scores and the evaluation process itself and, therefore, the process of modifying the BION methodology has been spread over 2 years.

Compared with the previous methodology, the main changes in the methodology for 2018 include division of the final SRP score into components related to assessment of micro-prudential risk and assessment of risk to customer protection, which jointly form the final SRP score. The issues related to customer protection have been properly isolated from all the areas of evaluation, in particular from the area of management ('relations with customer'). In addition, operational risk has been transferred from the aggregated risk area to the micro-prudential risk management area, due to the high correlation between the issues assessed in both areas.

The new SRP methodology for 2018 introduced the division of undertakings into 4 categories, which define the systemic relevance of undertakings (potential impact of

bankruptcy of an undertaking on its policyholders, the insured or beneficiaries under insurance contracts, and on the market), and indicate the characteristics of the activities, the size of the risks insured and their importance for the Polish economy.

Two SRP review procedures were specified, i.e. the full SRP (analysis of ratios and an in-depth qualitative analysis) and the simplified SRP (analysis of ratios). The frequency of the full SRP review depends on the last risk assessment of the undertaking and on the class to which the undertaking was qualified, while the full SRP review for each undertaking should be carried out at least every 3 years.

The new approach to assessment presented in the SRP methodology for 2018 allows for greater flexibility and adaptation of assessments of indicators to the characteristics of an undertaking, e.g. by means of corrections made by the UKNF to the assessments and introduction of an individualised system of weights. In addition, automatic adjustments to indicators have been added to allow better mapping of the position of an undertaking in the assessment by, *inter alia*, taking into account the activities undertaken by the undertaking to mitigate the identified risk.

As a result of the SRP, insurance/reinsurance undertakings were assessed for risk and the assessment, together with the classification of the undertaking, determined whether the supervisory authority should adopt appropriate supervisory measures, including inspections, in accordance with the principle of proportionality.

The results of the Supervisory Review Process (SRP) for insurance/reinsurance undertakings were submitted at the meeting of the KNF Board held on 17 December 2019.

## STRESS TESTS IN THE INSURANCE SECTOR

On 14 January 2019, Section II insurance undertakings holding a significant portfolio of third party liability insurance products for motor vehicle holders were directed to participate in a survey on redress payments to the closest relatives and partners of an injured party who suffered severe and permanent health injury as a result of prohibited conduct. The purpose of the survey was to collect data necessary to prepare a stress testing methodology for insurance and reinsurance undertakings for 2018 which is appropriate for the specific nature of the domestic insurance market and to assess the effect of the Resolution of the Supreme Court of 27 March 2018 – which found that a court may grant compensation for harm to the closest relatives and partners of an injured party suffered severe and permanent health injury as a result of prohibited conduct – on the number and amount of that compensation payments.

According to the data provided by insurance undertakings to the supervisory authority, the undertakings established technical provisions for compensation payments immediately after the Supreme Court announced its resolution of 27 March 2018, so as to be prepared to bear its possible financial consequences; the undertakings did not pay claims for redress before the resolution was announced. After the announcement of the resolution and the related statement of reasons, compensation was only awarded in the case of a few percent of the examined requests (3.3% in the second quarter of 2018, 6.6% in the third quarter of 2018, and 9.1% in the fourth quarter of 2018).

The survey has shown that the effect of the Resolution of the Supreme Court of 27 March 2018 on the financial situation of insurance undertakings was not that strong as it was initially anticipated, that is before the publication on 13 June 2018 of the statement of reasons for the said Resolution of the Supreme Court narrowing the circle of persons that may receive additional benefits.

Due to the lack of clear progress in the negotiations between the United Kingdom and the European Union and the increasing likelihood of the so-called 'hard Brexit', on 18 January 2019 insurance undertakings were directed to carry out stress tests related to 'hard Brexit' in respect of reinsurance, as at 31 December 2018. The stress test results showed that 'hard Brexit' would have negative consequences for the insurance market due to, for example, how the EU laws on reinsurance are implemented into the Polish law. The inaccessibility of the

UK reinsurance market entails the risk of losing the possibility for domestic insurance undertakings to conclude reinsurance contracts for specialised insurance products such as insurance for mines and power plants. Due to the current situation and in response to the request from the Polish Chamber of Insurance (PIU) of 28 October 2019 to the Ministry of Finance on the possibility of cooperation between insurance and reinsurance undertakings established in the Republic of Poland with reinsurers from countries outside the European Economic Area whose solvency regime has not been deemed equivalent or provisionally equivalent to the Solvency II regime, on 3 December 2019 the Ministry of Finance replied to PIU that Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) allows that on the terms specified therein the possibility for domestic insurance undertakings and reinsurance undertakings to conclude reinsurance contracts and retrocession contracts with reinsurers that do have a head office in a country which has a solvency regime considered to be equivalent or provisionally equivalent to the Solvency II regime. The said Regulation applies directly and does not require implementation into national law. Therefore, domestic insurance and reinsurance undertakings, based on the provisions of the said Regulation, may also conclude reinsurance and retrocession contracts with reinsurance undertakings established in third countries.

In 2019, work continued on the use of stress testing in the supervision of insurance and reinsurance undertakings, in particular with regard to the assessment of resistance of the Polish insurance sector to extreme but still probable events, and to the improvement of management of risks at insurance and reinsurance undertakings.

The UKNF started its activities by reviewing, in the first quarter of 2019, the stress-testing methodology for the insurance sector. In relation to the previous year, changes were made in the stress testing methodology, considering the test results for the previous year, the conclusions from the Supervisory Review Process (SRP), the Own Risk and Solvency Assessment (ORSA) reports, the review of the standard formula and finance scheme as well as the European Commission's work on sustainable economic growth. Due to significant changes in the stress testing methodology as compared to the previous edition, insurance undertakings were asked to submit questions and comments regarding the methodology. The results of consultations on the stress testing methodology were discussed at a meeting with representatives of insurance undertakings on 3 June 2019. Ultimately, changes were made to the stress-test scenarios and the shocks for market risks were recalibrated. Some stress-test scenarios, as compared to the previous year, were removed: the man-made disaster risk calculated on the basis of the largest net exposure, the risk of a decline of the credit rating of the largest issuer/counterparty, the risk of 'hard Brexit.' A change was made in the stress test for the risk of reimbursement of fees collected in Sector I and the parameters for the reserve risk in Section II. New scenarios have been added: two prospective tests in Section II – for the scenario of concurrent realisation of catastrophe risk (flood) and liquidity risk, and a scenario for the risk of non-reinsurance, as well as a reverse stress test concerning the liquidity risk scenario in Section I.

On 6 June 2019, the revised stress testing methodology for insurance/reinsurance undertakings for 2018 was published on the KNF website. On 5 June 2019, insurance/reinsurance undertakings were requested to carry out stress tests as at 31 December 2018 by 5 July 2019.

The UKNF used the results of the stress tests to identify insurance undertakings with higher risks, i.e. those that did not pass stress tests and their explanations were not sufficient. In addition, the stress test results identified the insurance undertakings in which inspection should be carried out.

In addition, as part of the Solvency II Sub-Committee at PIU, in cooperation between representatives of the UKNF and representatives of the PIU, there was established a group of experts on the risk of flood and blackout, and a group of experts on expected profits from future premiums. As a result of the work of the above-mentioned expert groups, a method of determining expected profits from future premiums and assumptions for the blackout

scenario in Section II were developed. They have been included in the methodology for additional stress tests for those risks. The request to conduct the tests as at 30 September 2019 was sent to insurance undertakings by Letter of 13 December 2019 (by 7 February 2020).

## OUTWARD REINSURANCE OF INSURANCE UNDERTAKINGS

In 2019, the KNF drew up a report on outward reinsurance of domestic insurance undertakings, including reinsurance of catastrophic events. The report focuses on outward reinsurance since domestic insurance undertakings do not engage in inwards reinsurance to a significant extent. Outward reinsurance represents an important area of business for many insurance undertakings and the results of stress tests show that it is the main method of mitigating risk, especially catastrophe risk. The report is based on annual financial statements (for 2018) of insurance undertakings, the UKNF's survey on catastrophic events, and the list of reinsurers.

The results of the UKNF's survey on reinsurance have shown that life insurance undertakings use reinsurance to a very limited extent, which follows from the nature of their insurance business (e.g. a long term of contracts). In Section II, the level of reinsurance of the whole Section was approx. 17.2% but for some insurance undertakings it did not exceed 10%. For the last three years, following the entry into force in 2016 of the Solvency II regime, most life insurance undertakings have reported higher levels of reinsurance. However in 2018, there was a slight fall in the level of reinsurance (from 19.9% in 2016 to 17.2% in 2018). That may be a sign that the level of application of reinsurance to secure the insurance business of insurance undertakings has become stable and that appropriate level of solvency has been ensured.

The analysis of 34 questionnaires from Section II undertakings has shown that the gross value of damages resulting from catastrophic events in 2018 was PLN 530.8 million, of which 36.0% were damage caused by natural catastrophes. About 46% of gross damages from catastrophic events, i.e. PLN 243.2 million, were incurred by insurance undertakings, and 54%, i.e. PLN 287.6 million by reinsurers. In 2018, losses due to catastrophic events accounted for 2.4% of the gross amount of damages and benefits from direct insurance<sup>30</sup> in Section II insurance undertakings. The largest gross damages were incurred due to events involving fires. Those gross damages amounted to PLN 208.5 million (39.3% of all gross damages from catastrophic events occurred in 2018), of which PLN 45.4 million were incurred by insurance undertakings. It should be noted that catastrophic events included a very low number of events related to floods, droughts and spring frosts.

## CLAIM DEVELOPMENT TRIANGLES

On 2 April 2019, on the KNF website there were published claim development triangles, which present cumulative damage payments broken down by year of damage and year of compensation payment for each business line, and claim development factors (or transition rates) that present average relations between payments in adjacent years.

The analysis of claim development factors was carried out on the basis of Template S.19.01 of Commission Implementing Regulation (EU) 2015/2450 as at 31 December 2017 for business lines 1 to 12 (excluding proportional reinsurance)<sup>31</sup>.

The study used claim development triangles containing data on gross (non-cumulated) claims paid out. The default duration of the period covered by the claim development triangle was 15+1 years for all business lines. The triangles containing the best estimate for the provision for outstanding claims and for the provisions for Gross Reported but not Settled (RBNS) Claims have not been analysed. Insurance undertakings were required to submit

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<sup>30</sup> Gross claims incurred increased by the gross change in the provision for outstanding claims.

<sup>31</sup> Breakdown by business line according to Annex I to Commission Delegated Regulation (EU) 2015/35.



data based on the year of damage according to the requirement set by the national supervisory authority.

The claim development triangles and factors made available to the undertakings should be used by insurance undertakings for the purposes of comparison only.

## DAMAGE CAUSED BY NATURAL DISASTERS

Due to the strong rainfall and storms in southern Poland which took place between 21 and 25 May 2019, the supervisory authority monitored the quality of claim settlement by individual insurance undertakings operating in Classes 8 and 9 of Section II, by asking insurance undertakings to provide information on the actions taken and planned which should speed up the settlement of claims resulting from the above-mentioned weather events. The responses show, *inter alia*, that most insurance undertakings have taken actions aimed at speeding up claim settlement through:

- information activities for the injured parties (information on social media, text messages, Internet),
- reaching the injured parties actively,
- facilitating communication for the injured parties (e.g. facilitating the process of reporting a claim),
- increased availability of claim adjusters,
- advance payments,
- accelerated visual inspection,
- implementation of a fast track for payment of claims.

## THE 2020 REVIEW OF THE SOLVENCY II REGIME

The review of and amendment to the Solvency regime was one of the top-priority tasks of Insurance Supervision in the UKNF's plan of activities in 2019 to be continued in 2020. In 2019, the major issue for the insurance sector addressed in the EU-level work was the review of the methodology (including parameters) for calculating SCR using the standard formula and the exercise of supervision over undertakings operating within groups. In that respect, the UKNF was active in the forum of EIOPA's working groups and engaged in ongoing cooperation with domestic undertakings through the Polish Chamber of Insurance to enable as many undertakings as possible to voice their opinion on the adequacy of financial requirements of Solvency II and the operation of those rules in practice. The market identified the following most important problems: lack of a coherent methodology for calculating expected profits from future premiums (EPIFP), the need to simplify the calculation of the capital requirement for the risk of fire and to consider the effect of mitigation of the underwriting risk in the risk of default by counterparty. In the fourth quarter of 2019, domestic insurance undertakings participated in EIOPA's survey concerning, among other things, interest rate risk, catastrophe risk, technical provisions and solutions for long-term products with guarantees. Following the survey, the data that were used to assess the impact of the amendments to Solvency II proposed by EIOPA were sent to EIOPA. In 2020, the top priority for the UKNF will be to ensure that the changes to the Solvency II regime proposed by EIOPA will be appropriate for the specific nature of both the European and domestic insurance markets. The activities to be taken in 2020 will cover the areas that were not considered in the Solvency II regime before, e.g. risks that are difficult to measure or other risks not included in the capital requirement, such as climate risk and IT risk.

An important topic for insurance supervision in 2020 will also be sustainable finance. In 2019, the UKNF participated in the EIOPA's initiative to prepare documents concerning the inclusion of those topics in the Solvency II regime. EIOPA's Technical Advice to the

European Commission of April 2019<sup>32</sup> contains proposals of amendments to specific provisions of delegated acts to the Solvency II Directive and to the Insurance Distribution Directive, including in relation to the prudent person principle, the underwriting function, risk management, the assessment of overall solvency needs under ORSA. EIOPA's Opinion for the European Commission of September 2019<sup>33</sup> contains general postulated regarding valuation of assets and liabilities, technical provisions and capital requirements, including the need for insurance and reinsurance undertakings to consider the risks to environmentally sustainable development in ORSA and stress tests and/or scenario analyses. It is not recommended to change the standard formula for SCR but this topic will be addressed in further work, in which the UKNF has already been involved. The work will be intensified as Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (OJ L 317 of 9.12.2019, p. 1-16) entered into force on 29 December 2019.

## OWN RISK AND SOLVENCY ASSESSMENT (ORSA)

In 2019, the supervisory authority held individual meetings with selected insurance undertakings to discuss their ORSA reports, primarily in order to clarify and discuss the supervisory authority's objections concerning the received ORSA reports. During the meetings, the supervisory authority expressed and discussed with the insurance undertakings its comments regarding the reports and the possible changes to be made in the reports to better meet the supervisor's expectations.

The quality of ORSA Reports improves with each year, especially in terms of broader identification of risks, better selection of stress tests and scenarios, and involvement of management board of insurance undertakings in the ORSA process. In the reports, all insurance undertakings estimate that they will meet the regulatory capital requirements within the business planning horizon.

## THIRD PARTY LIABILITY INSURANCE OF MOTOR VEHICLE OWNERS

One of the most important areas of interest of the UKNF in 2019 was also the situation in the motor insurance market. The supervisory authority analysed, for example, the issues of redress payments and the planned actions in terms of price policy for third party liability insurance of motor vehicle owners. Based on the conclusions from the analysis, on 6 May 2019 the UKNF addressed to insurance undertakings operating in Classes 3 and 10 of Section II its position on the need to ensure continuity of operations for proper calculation of premiums in motor insurance. By its letter of 1 October 2019, the supervisory authority asked insurance undertakings to provide information on what measures had been taken, or when measures would be taken, in connection with the supervisory authority's position of 6 May 2019.

At the same time, to confirm the adequacy of the premium in third party liability insurance of motor vehicle owners, on 10 December 2019 a survey related to that issue was sent to the undertakings, covering the policy years 2016-2019.

## MONITORING FINANCIAL SITUATION OF INSURANCE/REINSURANCE UNDERTAKINGS

The main task in the area of analytical supervision is constant monitoring of the financial situation and the protection of market stability and, in case of a threat, taking appropriate supervisory activities. The primary objective of these activities is to ensure that

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<sup>32</sup> [https://www.eiopa.europa.eu/content/technical-advice-integration-sustainability-risks-and-factors-solvency-ii-and-insurance\\_en](https://www.eiopa.europa.eu/content/technical-advice-integration-sustainability-risks-and-factors-solvency-ii-and-insurance_en)

<sup>33</sup> [https://www.eiopa.europa.eu/content/opinion-sustainability-within-solvency-ii\\_en](https://www.eiopa.europa.eu/content/opinion-sustainability-within-solvency-ii_en)

insurance/reinsurance undertakings are capable of paying the benefits to policy holders, the insured persons, the beneficiaries or persons entitled under insurance contracts.

The assessment of the financial situation of insurance/reinsurance undertakings, in particular the assessment of their solvency, is carried out mainly on the basis of the quarterly and annual financial reports as well as quantitative data and information submitted by insurance/reinsurance undertakings.

Each of the additional financial and statistical reports submitted by insurance/reinsurance undertakings as well as the quantitative data and information are subject to a separate analysis, the results of which are published in the relevant reports that underpin further individual supervisory decisions.

The financial situation of insurance/reinsurance undertakings was also monitored on the basis of the requirement to submit data on certain items of the financial statements drawn up for accounting purposes (which the requirement was introduced in 2019) as well as other information provided by undertakings on an *ad hoc* basis at the specific request of the supervisory authority which is used to identify increased and high risks under the Early Warning System.

The analyses show that the financial situation of the majority of insurance undertakings in 2019, as in the previous years, was stable. Only in relation to one insurance undertaking, the supervisory authority decided to withdraw authorisation to conduct insurance business.

Among the activities carried out in 2019 to monitor risks in the operations of insurance/reinsurance undertakings, the following most important activities should be indicated:

- analysis of the compatibility of dividend payments planned and made in 2019 with the supervisory authority's position on the assumptions of the dividend policy of commercial banks, cooperative and affiliating banks, insurance and reinsurance undertakings, brokerage houses, investment fund management companies and general pension societies in 2019, and their impact on the performance of insurance/reinsurance undertakings, as well as the preparation of recommendations on the assumptions of the supervisory authority's position on the dividend policy of insurance/reinsurance undertakings in 2020,
- evaluation of the performance by insurance/reinsurance undertakings of their obligations under Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR). As a result of the actions taken by the supervisory authority, the insurance undertakings covered by the assessment in question undertook to take appropriate adjustment measures in 2019 to implement the relevant procedures, in particular those referred to in Article 11(1) and (3) of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR),
- the analysis of information provided by the Insurance Guarantee Fund (UFG) with respect to correctness and timeliness of fulfilment by insurance undertakings of the obligation to provide data to the Polish central database of the UFG Information Centre (in total 4 reports were analysed in that respect). According to the information provided by the UFG, in the case of 4 insurance undertakings the final rate regarding e.g. the timeliness, completeness and clarity of the submitted data on insurance contracts and claims but also the rate of incorrect (cancelled) records was at an unsatisfactory level. In relation to those 4 insurance undertakings, the supervisory authority undertook appropriate investigative measures, including those relating to the activities of undertakings aimed at improving the quality and timeliness of the data submitted. For most undertakings, the quality and timeliness of the submitted data were improved,
- analysis of solvency indicators based on 719 monthly reports submitted under the Early Warning System,

- analysis of the amount of own funds and solvency requirements based on data and information for supervisory purposes submitted on a quarterly basis (240 reports) and annual basis (60 reports),
- analysis of information submitted as part of additional daily, weekly and monthly reporting for selected insurance undertakings in relation to selected risks under Class 3 of Section I related to unit-linked funds (in total, 313 reports from insurance undertakings were analysed). The information in question was used in the ongoing supervision in relation to the insurance undertakings subject to the above-mentioned reporting system,
- analysis of information provided as part of additional reporting related to risks under Class 3 of Section I, i.e. unit-linked life insurance, reported monthly and quarterly (a total of 476 reports from insurance undertakings were analysed). That information was used to analyse distribution channels in terms of sales volume and correct conclusion of unit-linked insurance contracts (so-called ‘on-demand’ contracts and contracts concluded despite the refusal to complete surveys), as well as to develop assumptions of the so-called product intervention,
- analysis of information provided as part of additional monthly reporting on the financial situation of insurance undertakings and activities under Class 15, i.e. insurance guarantees (a total of 36 reports were analysed). The information in question was used in the ongoing supervision in relation to the insurance undertakings subject to the above-mentioned reporting system,
- analysis of information provided as part of additional monthly and *ad hoc* reporting (i.e. above the set limit) for intra-group transactions (a total of 58 reports in that respect were analysed). The information in question was used in the ongoing supervision in relation to the insurance undertakings subject to the above-mentioned reporting system,
- analysis of the existing market practices with regard to financial incentives and remuneration (so-called additional ‘kick-back’ benefits) between providers of asset management services and insurance undertakings (20 undertakings were analysed). The analysis of the submitted information revealed e.g. the risk of a potential conflict of interest due to the receipt of such additional benefits, as well as irregularities in the selection and monitoring of TFIs and funds. The conclusions from that analysis were taken into account in the SRP for individual insurance undertakings,
- analysis of activities of selected insurance undertakings in terms of investing the funds from premiums for unit-linked insurance products in investment certificates of closed-end funds (the analysis covered 5 undertakings). The results of the analyses have shown e.g. that most of the issues with liquidity of unit-linked funds identified by the supervisory authority were caused by the lack of, or insufficient, diversification of the assets of unit-linked products or assets of investment funds in which funds of unit-linked funds were invested, as well as by insufficient knowledge of insurance undertaking about the risks associated with a given portfolio of assets of unit-linked funds. The findings from the analysis were used by the supervisory authority to formulate the following position of the Polish Financial Supervision Authority concerning insurance under Class 3 of Section I,
- preparation of the position of the Polish Financial Supervision Authority concerning insurance under Class 3 of Section I of the Annex to the Act of 11 September 2015 on the business of insurance and reinsurance (Position of 17 July 2019). The position concerned areas related to the distribution of unit-linked life insurance products and life insurance in which the insurance undertaking’s benefit is determined on the basis of specific indices or other underlying values (hereinafter: ‘index-linked’ insurance), including: analysis of customers’ needs and investment activities, addressing, in particular, the issues of selection of assets and observing the prudent person principle,
- analysis of the measures adopted by insurance undertakings to adapt the activities to the Position of the Polish Financial Supervision Authority of 17 July 2019 on insurance under Class 3 of Section I. The analysis of information provided by insurance undertakings has shown that some insurance undertakings needed to take actions to review the existing internal regulations and adapt their operations to the above-mentioned position of the supervisory authority, including in particular to develop and update internal regulations

concerning investment processes. Moreover, the information provided by insurance undertakings was taken into account in the position on the application of Article 21 of the Act on the business of insurance and reinsurance, presented at the meeting with insurance undertakings in October 2019,

- meetings with auditors to discuss the financial and property-related situation of undertakings and the situation related to the solvency of certain insurance undertakings.

## SUPPLEMENTARY SUPERVISION OF REGULATED ENTITIES IN FINANCIAL CONGLOMERATES

According to Article 14 of the Act of 15 April 2005 on supplementary supervision of credit unions, insurance undertakings, reinsurance undertakings and investment firms included in a financial conglomerate, the KNF Board performs, at least once a calendar year, a review of the financial sector in order to identify groups meeting the relevant criteria for financial conglomerates.

A review of national capital groups conducted in 2019, covering the period between 01 January 2018 and 31 December 2018, showed that the PZU Group still meets the criteria identifying it as a financial conglomerate. At the same time, the KNF Board is the body competent to act as coordinator for the identified financial conglomerate. In the fulfilment of that role, the KNF Board issued in 2019 three administrative decisions regarding: the choice of the method for calculating capital adequacy of a conglomerate, the type of intra-group transactions executed by entities being part of a financial conglomerate that are subject to the reporting requirement, the threshold for recognising an intra-group transaction as a significant transaction, the types of risks that in case of significant concentration are subject to the reporting requirement, and the criteria for recognising significant concentration.

The UKNF also became involved in EU-level work carried out through a task force of the Joint Committee of European Supervisory Authorities that aims to standardise the reporting templates for calculation of capital adequacy, intra-group transactions, and concentration of risks. As a member of the task force of the Joint Committee, the UKNF reviewed the comments submitted by participants in public consultations (including by the PZU Group), after which templates and explanatory instructions were modified. The UKNF also prepared a significant part of the replies to entities' comments reported during public consultation.

## SUPERVISION OF INSURANCE UNDERTAKINGS FOR COMPLIANCE WITH THE DISCLOSURE AND REPORTING REQUIREMENTS AND THE LEGISLATION

Provisions of law governing the insurance business impose a number of disclosure requirements on insurance/reinsurance undertakings, towards both the supervisory authority and policy holders. The task of the supervisory authority in this regard is to verify both the publication of certain information and its content. Timely and complete fulfilment of disclosure requirements is one of the basic tasks of insurance/reinsurance undertakings and enables both the supervisory authority and the purchasers of insurance services to gain universal access to certain data relating to the operations of insurance/reinsurance undertakings.

Due to the fulfilment of the statutory disclosure requirements by the undertakings, in 2019 the analyses covered:

- financial statements, including 240 additional quarterly financial and statistical reports, 60 additional annual separate financial statements and 7 consolidated annual statements,
- quantitative reports, including 240 quarterly reports for supervisory purposes, 60 annual reports for supervisory purposes, and 1 group report,
- solvency and financial condition reports (in terms of compliance with the requirements laid down in the legislation and EIOPA guidelines on disclosures), including 60 separate reports and 1 group report,
- regular surveillance reporting (60 separate reports and 1 group report),
- information on intra-group transactions/risk concentration (17 reports),
- financial plans of insurance undertakings for 2019 (60 reports),

- information on changes of positions of key function holders (40 cases). That information was analysed; in several cases it was necessary to supplement some of the missing documents. Furthermore, in individual cases the UKNF has taken steps to clarify the absence of notification of a change, or to obtain more detailed explanations of the organisational arrangements adopted within the function or tasks performed by the person concerned,
- information on the implementation/change of outsourcing of functions within the management system and basic and/or important activities – in 189 cases. In some cases, additional explanations and documents were needed,
- information on a change of the person responsible for keeping the books of accounts – in 3 cases,
- information on the selection of entities auditing the financial statements of insurance undertakings for 2018,
- information on changes in premium tariffs of compulsory motor insurance (motor vehicle liability insurance) – in 141 cases,
- publication of annual reports of unit-linked funds as at 31 December 2018 on insurance undertakings' websites (20 insurance undertakings, 2 784 unit-linked funds) and semi-annual reports of unit-linked funds as at 30 June 2019 (20 insurance undertakings, 2 565 unit-linked funds) and as at 31 December 2018 (21 insurance undertakings, 2 797 unit-linked funds),
- information on individual retirement accounts (PL: IKE) and individual retirement protection accounts (PL: IKZE) as at 31 December 2018 (25 life insurance undertakings), and as at 30 June 2019 (25 life insurance undertakings),
- activities and organisation of compliance function with the rules: that measure involved a survey for selected insurance undertakings.

The results of the analyses show that insurance undertakings, except for occasional cases, fulfil the above-mentioned disclosure requirements in accordance with the applicable provisions of law.

In the course of ongoing supervision of the insurance business, compliance of the insurance undertakings' business with the provisions of law is also monitored through the assessment of how the recommendations are implemented. In 2019, the implementation of the supervisor's post-inspection recommendations (23 cases) was reviewed.

#### EXAMINATION OF REQUESTS SUBMITTED BY INSURANCE UNDERTAKINGS/REINSURANCE UNDERTAKINGS

In addition to the activities relating to the supervision of undertakings' operation, the KNF Board was also examining requests from supervised entities for granting specific rights and/or for approval of certain activities subject to financial supervision.

In 2019, the KNF considered the following requests from insurance undertakings on:

- a possible decision not to subject an entity to group supervision (pursuant to Article 374(5) point 2 of the Act on the business of insurance and reinsurance) – 1 proceeding concluded with a final decision,
- administrative proceedings under Article 403(8) of the Act on the business of insurance and reinsurance – 1 proceeding concluded with a final decision,
- proceedings in respect of authorisation to repay a subordinated loan – 1 proceeding concluded with a final decision,
- exemption of an intra-group transaction on derivatives from the obligation to exchange collateral, i.e. from the requirements referred to in Article 11(3) of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories) – 1 proceeding concluded with a final decision.

In 2019, at the request of insurance undertakings, 23 opinions on the financial situation of insurance undertakings were issued.

## SUPERVISION OVER INSURANCE DISTRIBUTION

The KNF Board is actively engaged in supervision over insurance distribution. The purposes of such supervision include in particular:

- assessment of the level of implementation and application of the requirements on insurance distribution by insurance distributors, both as part of ongoing ('off-site') analysis and inspection,
- assessment of the level of implementation and application of the requirements on insurance distribution in the bancassurance channel,
- effective follow-up supervision – adopting measures towards supervised entities in case of irregularities in the fulfilment of requirements on insurance distribution.

As part of the supervisory tasks in the area of insurance distribution, the UKNF sent in 2019 a survey on insurance distribution to selected insurance undertakings. The survey was used to obtain information necessary to:

- verify compliance with the requirements on insurance distribution, in particular those laid down in the legislation related to the entry into force in 2018 of a new regime in the area of insurance distribution,
- examine the model of cooperation between insurance undertakings and insurance intermediaries,
- carry out a systemic analysis of the commitment at the level of governing bodies of insurance undertakings and in the area of management system.

In 2019, the *Survey on insurance distribution* was addressed to selected insurance agents. The purpose of the survey was to examine the degree of implementation and application by insurance agents of the requirements and obligations for insurance distribution addressed to that category of insurance intermediaries. The powers of the KNF Board in respect of supervision of insurance agents were granted under the Act of 15 December 2017 on insurance distribution, which entered into force on 1 October 2018. The above-mentioned analytical work is planned to be completed in 2020. The findings based on that work will form the basis for planning further supervisory activities.

Following the introduction of the provisions of the Act on insurance distribution, the publication by the Financial Ombudsman in December 2016 of the *Report on Insurance of Electronic Equipment*, and the publication in January 2019 of the *Annex to the Financial Ombudsman's Report on Insurance of Electronic Equipment*, which identified problems related to the use, by insurers and commercial networks, of practices in the field of sale of insurance contracts, mainly in terms of sales methods, the UKNF analysed the area of distribution of such type of insurance. A survey on the application of the new regulations in relation to the offering of insurance of electronic equipment was sent to domestic and certain foreign insurance undertakings offering insurance specified in Class 9 of Section II of the Annex to the Act on the business of insurance and reinsurance. Based on its findings, the UKNF will undertake further supervisory activities in 2020, such as e.g.: verification of the method of implementation of the requirements on management and oversight of such insurance products, including their review, and the method of supervision over the fulfilment of disclosure by intermediaries of insurance undertakings offering such insurance.

The UKNF also reviewed the received reports concerning possible irregularities in the operation of insurance intermediaries with regard to the obligations provided for in the Act on insurance distribution. Such reports were reviewed and in appropriate cases the UKNF requested explanations or documents from supervised entities. In some cases, on the basis of a reports submitted to the UKNF and supplemented with other data, a decision was taken to include a given entity in the inspection plan, or to carry out an *ad hoc* inspection.

The UKNF also prepared the answers to the requests concerning the method of fulfilment of the requirements under the Act on insurance distribution, including to the questions regarding the method of fulfilment of the requirement on professional training of conducting agency

activities, persons conducting brokerage activities in the area of insurance, and persons conducting distribution activities of an insurance undertaking.

Based on the submitted requests, the UKNF prepared a position on the fulfilment of the obligation to improve professional skills referred to in Article 12(1) of the Act on insurance distribution. The position was submitted to insurance undertakings and to associations of insurance intermediaries.



## PRODUCT INTERVENTION

On 29 October 2019, the KNF Board adopted the assumptions for a product intervention measure to restrict the marketing, distribution and sale of unit-linked life insurance. With regard to unit-linked life insurance contracts, due to serious concerns about investor protection, the UKNF recommended that the product intervention measure should be to restrict the marketing, distribution or sale of unit-linked insurance contracts with the following characteristics:

- lack of real benefits for investors (policyholders, the insured and beneficiaries under insurance contracts) from the purchase of a unit-linked insurance product measured by rate of return;
- investment of funds from premiums in assets characterised by high risk, low liquidity and limited transferability;
- providing the investor with ambiguous and non-transparent information about the fees, including the rules concerning the amount and payment of fees.

The next steps in the process of issuing decisions on the intervention measure will be e.g. consultations with certain supervisory authorities in Member States, EIOPA and the insurance sector itself. The work schedule for product intervention adopted by the KNF Board is planning to issue a decision on that matter by the end of 2020.

## PRE-APPLICATION PROCESSES FOR INTERNAL MODELS

The Solvency II regime, in addition to setting the solvency capital requirement in a standard manner, gives insurance and reinsurance undertakings the opportunity to set it in a manner which is more appropriate for their risk profile and scale of operations. The set of tools, systems, and procedures to be used is called an internal model. The model should meet a number of strict requirements laid down in the Act of 11 September 2015 on the business of insurance and reinsurance (Journal of Laws 2019, item 381, as amended) and other provisions on the Solvency II regime, and its use for that purpose must be approved by the competent supervisory authorities. Verification and assessment of the solutions adopted in the model is a complex process, which requires highly specialised knowledge in many areas. The provisions of the Act on the business of insurance and reinsurance provide for a relatively short time limit (6 months) for the competent supervisory authority to make a decision on approval of the use of the internal model to set the solvency capital requirement where an insurance or reinsurance undertaking submits a relevant application to that supervisory authority. The pre-application process meets the above-mentioned challenges and is based on a voluntary cooperation between insurance undertakings and the supervisory authority in relation to the internal model before the application is submitted. Its purpose is better preparation of domestic insurance undertakings to submit an application for the use of the internal model to determine the solvency capital requirement. The activities conducted by the UKNF in 2019 represented a continuation of pre-application processes carried out in 2011 and consisted in maintaining working communication with undertakings, which translated into further actions aimed at eliminating errors in internal models and improving the models in terms of compliance with the provisions of Solvency II.

In 2019, the UKNF conducted pre-application processes for 7 domestic insurance undertakings (2 life insurance undertakings and 5 non-life insurance undertakings, which accounted for a total of 53.4% of the Polish insurance market – based on the amount of the gross written premium reported in the quarterly financial statements of insurance undertakings for the third quarter of 2019).

In 2019, the CEDUR project involved a meeting with domestic insurance and reinsurance undertakings with the main purpose to outline the UKNF's expectations as to the cooperation with insurance and reinsurance undertakings when applying for approval of internal models to set the SCR and in relation to the solutions used in the internal models

In 2019, the UKNF's activities for the assessment of internal models at the European level took the form of a pre-application process or a process of verification of continuous adequacy of the model. The representatives of the UKNF participated in international meetings and consultation, including with the representatives of one of the foreign supervisory authority as part of cooperation for the assessment of a request for a major change to a group internal model and in the activities of expert teams appointed by EIOPA. In addition, the UKNF staff participated in the preparation of opinions on EIOPA's proposal on the activities for convergence of supervisory practices with regard to internal models and were involved in the formulation of opinions for the meetings of the Board of Supervisors of EIOPA (BoS) on issues related to internal models.

Further work on the assessment of internal models (both at national and international levels) will continue in 2020.

## STUDIES ON THE INSURANCE MARKET SUBMITTED AT THE MEETINGS OF THE KNF BOARD

The following studies on the insurance market were submitted to the KNF Board's meetings:

- *Stress tests of insurance/reinsurance undertakings for the year 2018,*
- *The results of stress tests related to Brexit for the insurance sector,*
- *Reinsurance of domestic insurance undertakings and catastrophic events in 2018,*
- *Report on the condition of the insurance sector after the third quarter of 2018,*
- *Activity of foreign insurance undertakings in Poland and domestic insurance undertakings abroad in 2018,*
- *Report on the condition of the insurance sector after the fourth quarter of 2018,*
- *Financial plans of insurance/reinsurance undertakings for 2019,*
- *Report on the condition of the insurance sector after the first quarter of 2019,*
- *Report on the activities of the Insurance Guarantee Fund in 2018,*
- *Report on the condition of the insurance sector after the second quarter of 2019,*
- *Information on the assumptions concerning the position of the supervisory authority on the dividend policy of insurance/reinsurance undertakings in 2020,*
- *Results of the Supervisory Review Process (SRP) for insurance/reinsurance undertakings for 2018.*

### 5.1.3. INSPECTION ACTIVITIES

#### INSPECTION ACTIVITIES AT INSURANCE UNDERTAKINGS

In 2019, inspection activities were carried out at 23 insurance or reinsurance undertakings, including 14 inspections and 9 supervisory visits; at one entity both inspection and supervisory visit were carried out. In total, inspection activities were conducted at 11 life insurance undertakings (7 inspections and 4 supervisory visits) and 12 inspections at personal and property insurance and reinsurance undertakings (7 inspections and 5 supervisory visits).

All inspection activities were targeted and covered between one and two issues.

The inspection activities in 2019 were carried out in the following areas:

- assessment of risk to be covered (Article 21 of the Act on the business of insurance),
- claims settlement/payment of benefits,
- preparation of data and information for supervisory purposes,
- valuation of technical provisions for solvency purposes,
- fulfilment of requirements concerning the solvency capital requirement (SCR) with regard to certain modules of the standard formula,

- valuation of investments for solvency purposes,
- investment policy,
- implementation of the recommendations submitted to the insurance undertaking in previous years,
- compliance with the requirements concerning the functioning of the management system.

Due to the findings made in the course of the inspection activities towards insurance undertakings, 66 recommendations were issued to ensure compliance of the undertaking's activities with the law, statutes and/or scheme of operations; to prevent infringement of interests of policyholders, the insured and beneficiaries under insurance contracts, and to remedy the irregularities found in the supervision process.

**Table 72. The most common irregularities found during inspection activities at insurance and reinsurance undertakings in 2019**

1.	Improper performance of acts in the claim settlement process (payment/refusal to make payment of compensation with a delay, breach of information obligations, in particular: failure to inform the policyholders about actual reasons supporting the refusal to pay compensation, failure to provide information about a possible date of taking a final position on the claims of the aggrieved party).
2.	Irregularities consisting in failure to provide the insured with information and documents in the course of the claim settlement procedure.
3.	Infringement of the interests of beneficiaries under insurance contracts through failure to inform the beneficiary about the reasons of why their claims cannot be satisfied and the compensation cannot be paid within the required time limit.
4.	Infringement of the interests of beneficiaries under insurance contracts through failure to inform the aggrieved party, immediately after a claim was notified, about the rules for recognising the cost of renting a replacement vehicle with regard to the option of renting a replacement vehicle of a generally similar class and for the period of repair or for the period of purchase of another vehicle, according to the prices applicable on a given local market.
5.	Irregularities consisting in presenting offers of insurance that are inappropriate for policyholders' needs due to including, in the list of insurance capital funds offered as part of an insurance contract, funds with a risk profile consistent with the level of risk specified in the surveys on the customers' needs and capacities.
6.	Irregularities consisting in the presentation of offers of insurance that are inappropriate for the policyholders' needs in terms of the period of fund investment.
7.	Irregularities consisting in failure to provide the policyholder/insured a statement of reasons behind an offer, or recommended insurance, including in particular identification of needs and explanation of how the presented offer of insurance or insurance cover under the insurance contract meet whose needs.
9.	Irregularities consisting in the application of incorrect or unsupported assumptions in the valuation of technical provisions for solvency purposes.
10.	Irregularities consisting in incorrect definition of parameters used in the valuation of technical provisions for solvency purposes.
11.	Irregularities related to the application of incorrect assumptions when setting the solvency capital requirement.
12.	Errors in the implementation of calculation formulas for the valuation of technical provisions for solvency purposes and to determine the solvency capital requirement.
13.	Lack of measurement of assets and liabilities at fair value, and other irregularities related to the measurement of assets and liabilities at fair value.
14.	Irregularities relating to the documentation describing the method of valuation of assets and liabilities for solvency purposes as regards the description used to determine the value of methods.
15.	Lack of effective management of assets and liabilities and investing financial resources in assets the risk of which the insurance undertaking could not properly determine, measure or manage.

Source: UKNF's own study

## INSPECTION ACTIVITIES AT ENTITIES CONDUCTING BROKERAGE ACTIVITIES

In 2019, inspection activities were carried out at 16 insurance brokers. All inspection activities were comprehensive and covered the broker's activities in terms of compliance with the law.

**Table 73. The most common irregularities identified in the activities of insurance brokers during inspections in 2019**

1.	Failure to provide advice to customers with a recommendation on the best contract, or recommending a contract without any fair analysis of insurance products available on the market and without explaining the reasons supporting the recommendation.
2.	Providing advice to customers with a recommendation on the best offer otherwise than in writing.
3.	Failure to provide customers with documents containing information on the product before the conclusion of the insurance contract.
4.	Failure to make changes in the Register of Intermediaries in relation to details of natural persons performing brokerage activities, immediately but not later than 7 days from the occurrence of such changes.
5.	Conducting brokerage activities in the area insurance, including activities consisting in providing assistance in cases for compensation or performance, through persons who were not entered in the Register of Brokers.
6.	Failure to provide customer, at the time of the first act, information about the entry number in the Register of Brokers, the address of the website on which the Register is available, how to check the entry in that Register, about the remuneration received in connection with the proposed conclusion of an insurance contract, about the option for filing a complaint and alternative dispute resolution, or providing such information otherwise than in paper form.
7.	Member of the management board of the broker held shares in the company of an insurance agent.
8.	Failure to submit to the supervisory authority a document confirming the conclusion of a broker's compulsory third party liability insurance contract.
9.	Failure to submit to the supervisory authority a report on brokerage activities, or submission of a report that contained inaccurate information.

Source: UKNF's own study

Due to the post-inspection findings, 7 recommendations were issued for brokers to adapt their brokerage activities to the application legislation.

## 6. STRATEGY AND INTERNATIONAL COOPERATION

### 6.1. INTERNATIONAL COOPERATION

Involvement of the UKNF in international fora is an essential element in the process of building a stable regulatory environment for financial market participants in Poland. Cooperation with financial supervision authorities of other countries in bilateral and multilateral forms, including colleges of supervisors, serves the implementation of the KNF's supervisory objectives.

A particularly important field of international activity is the European System of Financial Supervision, which results from the fact that the key legal acts (e.g. CRD IV<sup>34</sup>, Solvency II<sup>35</sup>

<sup>34</sup> Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

<sup>35</sup> Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance.

MiFID II<sup>36</sup>, CRR<sup>37</sup> and MiFIR<sup>38</sup>, and Regulation of PRIIPs<sup>39</sup>) setting the framework for the functioning of financial institutions are adopted in the EU forum.

The UKNF's international activities also take the form of deepening cooperation within Central and Eastern Europe, whose supervisors, due to the characteristics of emerging markets, often identify convergent interests and therefore present similar positions.

The UKNF cooperates on an ongoing basis with central authorities (Ministry of Finance, Ministry of Foreign Affairs, Ministry of Development) and European financial supervisory authorities in the context of international events which may affect the stability of the Polish financial market. Throughout 2019, both within the European Supervisory Authorities and at national level, cooperation was continued in connection with the planned withdrawal of the United Kingdom from the European Union (Brexit) and the resulting consequences for the Polish and EU financial markets. That cooperation resulted in, *inter alia*, the Act of 15 March 2019 on the conduct of business rules for certain financial market entities following the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union without the agreement referred to in Article 50(2) of the Treaty of European Union, which Act provided for temporary solutions to be applied in case of the no-deal Brexit scenario.

The UKNF also cooperated with the Ministry of Finance in the field of work on the amendments to Directive 2009/103/EC of the European Parliament and of the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability. Through cooperation with the Ministry of Finance, the UKNF also participated in the work on regulatory packages concerning: sustainable finance (e.g. the already accepted Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector) and facilitating the uptake and pursuit of cross-border activities of undertakings for collective investment (Regulation (EU) 2019/1156 of the European Parliament and of the Council of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014, and Directive (EU) 2019/1160 of the European Parliament and of the Council of 20 June 2019 amending Directives 2009/65/EC and 2011/61/EU with regard to cross-border distribution of collective investment undertakings).

## COOPERATION WITH SUPERVISORY AUTHORITIES FROM OTHER COUNTRIES

### Colleges of supervisors and resolution colleges

The basic level of cooperation between the KNF and supervisory authorities from other countries are colleges of supervisors. In 2019, employees of the UKNF participated in 68 meetings (including teleconferences) of 42 colleges of supervisors.

Since November 2014, the European Central Bank (ECB) has been directly supervising the largest banks in the euro area. As in previous years, in 2019 the UKNF representatives participated in 26 meetings of 11 supervisory colleges organised by the ECB for international

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<sup>36</sup> Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

<sup>37</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

<sup>38</sup> Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.

<sup>39</sup> Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail investment and insurance-based products (PRIIPs).

banking groups whose subsidiaries are present in the Polish market. The Colleges are to coordinate supervisory activities with regard to banking groups, including preparation for possible anti-crisis measures. Arrangements for joint risk assessment and decision process and the use of advanced methods for calculating capital requirements were made in the framework of the meetings of supervisors. Draft decisions regarding the assessment of recovery plans prepared by parent entities in the group were also discussed and agreed on. Moreover, there has also been an intensive exchange of information on the developed supervisory practices, tools and methodologies with a view to harmonising supervisory approaches.

According to the Bank Recovery and Resolution Directive (BRRD)<sup>40</sup> and the provisions implementing it, the KNF Board is a member (without voting rights) of resolution colleges established for banking groups whose subsidiaries operate in the Polish market. 2019 was another year of operation of the above-mentioned colleges, whose primary task is to develop the principles of cooperation between the authorities of resolution and supervisory authorities in a crisis. Representatives of the KNF Board took part in 11 meetings of 10 colleges together with the representatives of the Bank Guarantee Fund, the National Bank of Poland and the Ministry of Finance, participating in discussions on resolution plans prepared by the competent authorities for resolution.

During the period covered by this report, representatives of the UKNF were members of 19 colleges for insurance supervision and participated in 29 meetings of those colleges, including 13 teleconferences. The purpose of cooperation in colleges is to exchange information and experiences between supervisory authorities responsible for supervision of insurance undertakings from international insurance groups, including to assess the financial situation and risks identified at the level of groups and individual insurance undertakings, as well as supervisory actions taken and planned, including supervisory inspections. At the European level, the UKNF representatives are also involved in the pre-application processes and the processes of verifying continuing suitability of internal models of foreign insurance groups.

The KNF Board also performed tasks related to its role of a group supervisor for the PZU Group. The KNF Board, as the supervisor of the group, coordinated, on a continuous basis, the cooperation with the members of the PZU Group College. The KNF also prepared and monitored the implementation of the College's work plan. Between 11 and 12 December 2019, an annual meeting of the College of Supervisors of the PZU Group was organised. Similarly as during the review in 2018, the KNF Board accepted information that the PZU Group continued to meet the criteria that allowed it to be recognised as a financial conglomerate and that the Group was still to be subject to supplementary supervision, and took actions as part of such supervision, e.g. held consultations with members of the PZU Group College on the decisions to implement supervisory tools with regard to that conglomerate.

In 2019, representatives of the KNF Board participated in the work of colleges for the EURIBOR (*Euro Interbank Offer Rate*) and EONIA (*Euro Overnight Index Average*) benchmarks. The total number of meetings (including teleconferences) was 3. The KNF Board is also a member of the College for LIBOR (*London Interbank Offer Rate*). The main purpose of those colleges is to exchange supervisory information between competent authorities and to coordinate their activities and measures aiming at harmonisation of the supervisory practices in regard to benchmarks.

## Bilateral cooperation

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<sup>40</sup> Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms.

The KNF maintains continues relations with other supervisory authorities. Bilateral relations include the exchange of supervisory information, opinions and experiences, and occur primarily at the working level.

Bilateral cooperation is facilitated by the memoranda of cooperation and exchange of information that the KNF signed with 62 foreign supervisory authorities (beside multilateral agreements within ESMA, IOSCO, and IAIS). In the current reporting period, a cooperation agreement was signed with Astana Financial Services Authority (AFSA) – the financial supervisory authority in the Republic of Kazakhstan, competent for the Astana International Financial Centre (AIFC). In 2019, the Multilateral Agreement on the practical modalities for exchange of information between the European Central Bank (ECB) and all competent authorities (CAs) responsible for supervision of credit and financial institutions was signed. The signatory of the agreement on the Polish side is the General Inspector of Financial Information, and the KNF Board informed the EBA secretariat of the possibility of signing the agreement upon implementation of the 5th AML Directive into the Polish law.

## PARTICIPATION IN THE EUROPEAN SYSTEM OF FINANCIAL SUPERVISION

Under the EU legislation, the KNF is a member of the European System of Financial Supervision. The system is formed – in addition to the supervisory authorities from all EU Member States and the European Systemic Risk Board (ESRB) – by three institutions corresponding to individual market sectors, i.e.: the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Securities and Markets Authority (ESMA), and their Joint Committee. EBA, EIOPA and ESMA develop draft technical standards and guidelines complementary to EU legislation, and facilitate the supervision of cross-border financial groups.

In that context, one of the key topics in 2019 was the reform of European Supervisory Authorities, including, for example, extension of their competences in various areas. The Romanian and Finnish Presidencies have undertaken intense measures to agree upon the final compromise package of appropriate regulations. The KNF Board participated in the entire process of negotiations on the package, including in the preparation of the final compromise version through submission of positions used by representatives of the Ministry of Finance directly participating in the negotiations. The package of reforms regarding European Supervisory Authorities was adopted on 18 December 2019 (the provisions entered into force on 1 January 2020).

Discussions continued on the impact of the withdrawal of the United Kingdom from the European Union and on how to prepare the supervisory authorities in EU27 Member States for related challenges, with a particular focus on the assessment of methods of harmonisation of the supervisory practice in relation to UK entities. In the regulation of the supervisory process, the KNF Board joined agreements with financial supervisory authorities in the United Kingdom whose content has been elaborated in the forum of individual European Supervisory Authorities (the formula of a multilateral agreement was used in the case of EIOPA and ESMA, and a multilateral agreement was used in the case of EBA). The purpose of those new agreements is to regulate the supervisory cooperation between the EU and the UKF and to continue such cooperation without any disruptions.

In recent years, the European Supervisory Authorities, with the support from national supervisors, developed the topic of supervisory convergence, that is the consistency between supervisory practices in EU Member States. Considering the regulatory environment of the financial market in the European Union, the activities of EBA, ESMA and EIOPA are aimed at eliminating regulatory arbitrage, which consists in a different interpretation and enforcement

of law by national supervisors. The purpose of supervisory convergence is therefore to identify and disseminate good practices as a model of conduct for national supervisory authorities. As a result of the revision of the Regulations on ESAs, changes were made and the process of management of the area of deepening supervisory convergence was taken over directly by ESAs. Until 31 December 2019, the position of Chair of EIOPA's Review Panel responsible for supervisory convergence was held by Mr Damian Jaworski, Director of the International Cooperation Department at the UKNF.

By actively participating in in the forum of EBA, EIOPA, ESMA and the ESRB, the KNF Board representatives are striving for these institutions to become a useful complement to national authorities, coordinating supervisory cooperation from the perspective of the EU single market, at the same time bearing in mind that individual European countries are highly diverse.

### European Banking Authority (EBA)

The European Banking Authority (EBA) carries out a wide range of tasks, primarily for the banking sector, but also for payment institutions and electronic money institutions. Employees of the UKNF took part in the activities of 50 committees, teams and working groups of EBA, dealing with issues such as: assessment of risks and threats in the EU banking sector, assessment of the quality of models of banking operations, cross-border activities of electronic money institutions and payment institutions, register of credit unions, client protection, anti-money laundering, liquidity monitoring, capital requirements, audit, reporting and practices in the area of supervisory evaluation, as well as in the field of crisis management.

In 2019, a number of documents were prepared: recommendations, regulatory technical standards and EBA guidelines on topics such as internal governance, remuneration, outsourcing, management of non-performing and forborne exposures, estimation of Loss Given Default (LGD) appropriate for the economic downturn, as well as on the equivalence of confidentiality rules. In addition, regulatory technical standards were formulated as part of the Fundamental Review of the Trading Book and as part of the Standardised Approach for Measuring Counterparty Credit Risk; the relevant delegations were included in CRR II.

In May 2019, a report on the CRM framework was finalised to provide quantitative information on the ongoing use of the CRM framework by EU institutions and recommendations aimed at addressing the identified problematic regulatory issues. In 2019, EBA undertook a series of actions related to the implementation of the 'EBA Roadmap on FinTech' plan to promote the best supervisory practices in the assessment and monitoring of threats to cybersecurity arising from the use of FinTech. Another important issue was the identification and assessment of risks of money laundering and terrorist financing when using FinTech solutions. The approach of each supervisory authority to those issues was reviewed, which resulted in the preparation of the *EBA report on competent authorities' approaches to the anti-money laundering and countering the financing of terrorism supervision of banks.* Based on the activities undertaken by the European Commission for the financing of sustainable growth, on 6 December 2019 EBA published the document: *EBA action plan on sustainable finance*, which sets out the priorities and directions for action aimed at including environmental, social and management criteria in, *inter alia*, the supervisory legal framework.

### European Insurance and Occupational Pensions Authority (EIOPA)

The tasks focused on the promotion of a common supervisory culture, implementation of the package of legislative changes concerning EIOPA (as part of the review of European Supervisory Authorities), the work on the legislative changes as part of the 2020 Review of the Solvency II Directive, and the issues related to the consequences of the withdrawal of the United Kingdom from the European Union. An important element of the supervisory cooperation with EIOPA is the work of platforms of cooperation formed in case of identified



problems related to the conduct of cross-border activities by insurance undertakings under the freedom to provide services.

The UKNF representatives participated in the activities of EIOPA's Board of Supervisors and in more than

40 committees, teams and working groups dealing with issues such as insurance policy, financial stability, capital requirements, internal models, technical provisions, own risk and solvency assessment,

risk management system, structured bankruptcy, insurance mediation, consumer protection, financial innovation, pension funds, a Europe-wide product for individual pension provision, sustainable finance in the insurance sector, excessive short-term pressure as well as EIOPA's strategy on the market of insurance against risks associated with cybersecurity. In the field of ensuring stability of the financial sector and its participants, UKNF representatives took part in the work on the methodology of the European stress tests for the insurance sector and on the report and recommendations regarding those tests. UKNF representatives continued their efforts to create a legal framework for European principles of rehabilitation, restructuring and resolution of insurance undertakings. A lot of effort was also made to create new chapters of the Supervisory Handbook and to change the organisation of the peer review processes. In the context of Level 1 acts, the UKNF representatives were actively involved in the revision of the Solvency II Directive and Commission Delegated Regulation on key information documents for packaged retail and insurance-based investment products (Regulation on PRIIPs). In addition, the UKNF representatives participated in the work aimed at strengthening supervisory capacity in the field of voluntary forms of pension protection (occupational pension schemes), as regards the application of Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs).

## European Securities and Markets Authority (ESMA)

The UKNF representatives participated in the activities of the ESMA Board of Supervisors, ten standing committees and several working groups and task forces.

The work involved preparation of draft technical standards, guidelines, consultation papers as well as Q&As concerning MiFID II and MiFIR, MAR, EMIR, UCITS, AIFMD, CSDR, BMR, SSR, SFTR, the Prospectus Regulation, Regulation on securitisation and Regulation on credit rating agencies (CRAs). A series of ESMA opinions on individual limits on positions established by each national supervisory authority in relation to commodity derivatives were approved and published under the MiFID II/MiFIR rules. The UKNF representatives participated in the revision of the Market Abuse Regulation (MAR) and in the preparation of reports at the request of the European Commission in relation to the preparation for the revision of MiFID II/MiFIR. ESMA's report on the use of alternative performance measurements and a report on stress simulation for investment funds relevant to liquidity have been prepared and published. The ESEF reporting manual and Q&As on ESEF have been published. Discussions were held on the implementation of changes resulting from EMIR 2.2 and the reform of European Supervisory Authorities.

ESMA issued further decisions on the renewal of the product intervention measures pursuant to Article 40 of MiFIR (ESMA's first decisions on the prohibition in the case of binary options and restriction in the case of contracts for differences (CFDs) on the marketing, distribution or sale to retail clients became effective on 2 July 2018 and 1 August 2018, respectively). After the temporary measures adopted by ESMA expired (on 1 and 31 July 2019, respectively), EU supervisory authorities, after consulting ESMA, introduced national intervention measures pursuant to Article 42 of MiFIR.

## European Systemic Risk Board (ESRB)

In 2019, the representatives of the KNF Board participated in the meetings of the General Board (the most important decision-making body), the Advisory Technical Committee (ATC) and selected working groups of the ESRB. Those bodies conducted analyses and discussions on key threats to the stability of the financial system in the European Union, among others, provided support to European Supervisory Authorities by developing an adverse scenario for stress tests of selected financial market entities.

The ESRB carried out measures aimed at reducing risks in the housing market, which resulted in, *inter alia*, issuance in September 2019 of: (i) recommendations addressed to six EU countries (BE, DK, FI, LU, NL, SE), concerning medium-term risks in the housing market and (ii) related warnings regarding five EEA countries (CZ, DE, FR, ISL, NOR).

In September 2019, the ESRB issued Recommendation (published in the Official Journal of the European Union in December 2019) on exchange and collection of information for macroprudential purposes on branches of credit institutions having their head office in another Member State or in a third country. The Recommendation establishes a framework under which competent authorities will exchange information on branches of credit institutions, on the basis of voluntary Memoranda of Understanding.

Other important activities of the ESRB include regular publication of the report on the application of macro-prudential instruments in EU countries (*A Review of Macroprudential Policy in the EU in 2018*) - the document was published in April 2019. Also in 2019 there was published a report analysing the pro-cyclicality and macroeconomic application of margins and margin reduction rates (*Mitigating procyclicality of margins and haircuts in derivatives markets and securities financing transactions*).

## INVOLVEMENT IN REGULATORY PROCESSES IN THE EUROPEAN UNION

The key regulatory topic in 2019 involving UKNF experts was the work on legislative changes as part of revision of the Solvency II Directive in 2020 and the development of a uniform approach in that respect by EU supervisory authorities, whose fundamental message was the assumption that the initiative in question was not a revolution but evolution. The public consultations on the review of the Solvency II Directive concluded in mid-December 2019.

In 2019 work was continued on the so-called 'banking package', which represented proposals of new amendments to basic banking regulations (the final text of the CRD V/CRR II package was published in the Official Journal of the European Union on 7 June 2019). The Commission's proposals, according to its declaration, are aimed at eliminating the weaknesses identified in the current prudential framework, allowing further progress in the implementation of the banking union project. In practice, the most recent amendments are related to a wide range of areas, focusing on the introduction of the principle of proportionality, requirements for sustainable finance, new rules on counterparty credit risk, a change of requirements on market risk, further development of the EU economy by increasing access to credit for small and medium-sized enterprises and to finance infrastructure projects. The package of reforms concerning banking regulations also includes elements supporting the environmental, social and governance (ESG) criteria. With regard to the changes in the BRRD, the most important one was the introduction of the Total Loss-Absorbing Capacity (TLAC) requirement for banks considered to be Global Systemically Important Institutions (G-SIIs). The changes will also cover eligibility criteria for certain instruments and items within MREL (Minimum Requirement for Own Funds and Eligible Liabilities). Provisions of law will also be introduced to protect retail investors from conversion of bank debt instruments purchased by them into capital (to absorb losses).

In response to the continued process of withdrawal of the United Kingdom from the European Union, a proposal was made to amend Regulation (EU) No 648/2012 of European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR); the amendment has been effective since 1 January 2020. Representatives of the UKNF also participated in EU regulatory processes, directly or through the Ministry of Finance. The KNF Board was striving for the new provisions to be most beneficial from the point of view of stability of the sector and safety of participants in the financial market in Poland. First of all, one should mention the involvement of the UKNF representatives in the work on the text of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (OJ L No 317 of 2019, pp. 1-16), the regulatory technical standards being the implementing acts of that Regulation (as at 30 December 2019, work in that respect was still ongoing), amendments to Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L of 2016, item 171, p. 1), and draft Regulation establishing a framework to facilitate sustainable development (so-called taxonomy), for which work was not yet completed on 31 December 2019.

## COOPERATION WITH INTERNATIONAL ORGANISATIONS

### International Association of Insurance Supervisors (IAIS)

In 2019, representatives of the UKNF were involved in the work of the Policy Development Committee, and the Implementation and Assessment Committee. Continued efforts were also made as part of involvement in the work on Common Framework for supervision of cross-border insurance groups, work on an Insurance Capital Standard (ICS) and the principles of supervision of Global Systematically Important Insurers (G-SIIs). Representatives of the UKNF were also involved in the work to identify the needs of

supervisory authorities representing emerging markets, as well as the development of documents supporting the proper implementation of the standards adopted by the Association.

### International Organisation of Securities Commissions (IOSCO)

In 2019, representatives of the UKNF took part in the work of 12 permanent committees and working groups of IOSCO.

As part of participation in the work of permanent committees and working groups, employees of the UKNF

engaged in activities and mandates related to a series of guidelines, e.g. on: regulation and supervision of commodity derivatives markets, oil price reporting agencies, outsourcing, the use of artificial intelligence or machine learning technologies, and conflicts of interest in obtaining finance through the issuance of debt instruments. The active participation of representatives of the UKNF in the above-mentioned work contributed to the development of the content of documents establishing international standards in line with the principles in force in the EU.

Taking into account the principle of rotation in the process of organising the meetings of IOSCO committees and working groups, and in order to allow the promotion of Poland and the Polish financial market, a permanent IOSCO Committee 1 on Issuer Accounting, Audit and Disclosure was held in Warsaw on 27-30 May 2019 to exchange experiences regarding the preparation and quality of information provided to investors by issuers whose securities are listed on regulated markets, to the extent related to accounting (including IAS/IFRS) as well as disclosures and services provided by auditors.

Furthermore, on 19 December 2019, the UKNF became a signatory to an administrative arrangement that met the criteria under Article 46 of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation, GDPR). The administrative arrangement for the transfer of personal data between the European Securities and Markets Authority (ESMA) and the national securities and markets regulators in the European Economic Area (EEA), on one hand, and the securities and markets regulators in third countries, on the other hand, determines the degree of data security and individualised supervisory mechanisms enabling the continuous exchange of personal data for supervisory and control purposes to and from the EEA where certain third countries are not covered by a decision of the European Commission on the adequate level of data protection.

### Cooperation within other international organisations

In 2019, the UKNF was involved in the activities of the Organisation for Economic Cooperation and Development (OECD) by participating in work of the Financial Markets Committee, the Corporate Governance Committee, the Insurance and Pensions Committee, the Working Group on Private Pensions, and the Expert Group on Finance and Digitalisation.

In 2019, representatives of the UKNF took part in the work of the International Organisation of Pension Supervisors (IOPS). As part of the IOPS Technical Committee, the involvement included work on the review of the commitment of pension funds in infrastructure investments, the development of a set of good practices in the design, presentation and supervision of future pensions projections, the analysis of methods of valuation of assets and liabilities applied in various countries, the calculation of pension liabilities, and the assumed actuarial assumptions adopted in terms of mortality rates, etc. as part of defined benefit plans.

In 2019, representatives of the PFSA took part in public consultation of the Basel Committee on Banking Supervision and participated in several of its working groups. A representative of the KNF Board continued to participate in meetings of the so-called Regional Consultative Group of the Financial Stability Board (FSB) for Europe, where some of the issues raised by the Committee were discussed. Since 2006, the KNF Board has been managing the Secretariat of the BSCEE Group – organisation associating banking supervisors from 24 Central and Eastern European countries, cooperating with the Basel Committee.

The International Monetary Fund (IMF) and the World Bank send expert missions to Poland regularly (missions under Article IV of the IMF's Articles of Agreement). Such meetings were also organised at the UKNF in 2019. That was when the Financial Sector Assessment Program (FSAP), run by the IMF and the World Bank, was completed. The FSAP review, conducted in Poland since the end of 2017, required very significant resources from the UKNF. Its measurable outcome is the elaboration, by the IMF and World Bank, of a series of reports on regulatory and supervisory issues and the situation in financial markets in Poland. The publication of selected reports summarising the FSAP mission took place in 2019.

In 2019, the KNF Board was involved in activities of the Legal Entity Identifier Regulatory Oversight Committee (LEI ROC), which oversees the global system identifying trading partners in financial markets.

## ASSISTANCE AND EDUCATIONAL PROJECTS

### Technical assistance under TAIEX

At the request of the Directorate-General for Neighbourhood and Enlargement Negotiations of the European Commission and the supervisory authorities of the countries covered by the Technical Assistance and Information Exchange instrument (TAIEX), experts of the UKNF actively participated in training and advisory missions for Ukraine, North Macedonia, Belarus, Azerbaijan, and the society of the so-called Turkish Republic of Northern Cyprus. The UKNF staff were also involved in providing *ad hoc* expert support under EU Twinning Projects implemented by, respectively, the National Bank of Poland for the National Bank of the Republic of Belarus, and by the Ministry of Finance for the National Bank of Moldova.

### Twinning Project for the National Bank of Georgia

By decision of the Delegation of the European Union to Georgia, the UKNF was selected as the contractor in the Twinning Project for the National Bank of Georgia (NBG) within the European Neighbourhood Instrument (ENI). The relevant Twinning Agreement was concluded between the Delegation of the European Union and the UKNF in 2019. The project, with a budget of EUR 1.75 million, is planned to be implemented during the period between March 2019 and February 2021 as part of two components covering joint activities of the Polish and Georgian supervisory authorities, focused on the adaptation of the Georgian laws to EU legislation pertaining to the banking sector in accordance with the CRD IV/CRR package, and with regard to payment services in accordance with the requirements under the relevant directives and regulations, including assistance in their implementation. The project activities are aimed at gradually adapting the regulatory, supervisory and sanction-related rules to EU legislation, strengthening the NBG's supervisory functions and capacities in terms of regulation of the banking and payment services market in line with the EU *acquis* and best practices, and providing training to the NBG staff and preparing them to apply the new rules and regulations.

In 2019, the UKNF experts in cooperation – in the case of activities falling under the respective remit – with experts from the National Bank of Poland, Bank of Lithuania and Bank

Guarantee Fund, successfully completed 21 specialist expert missions in Tbilisi. The scope of project activities included: review of regulations, analytical work, training workshops, expert consultations, preparation of reports with recommendations on proposals of legal amendments, guidelines, workshop materials and a handbook to be used for the purpose of supervisory activities of the NBG.

In addition to the above-mentioned project activities, a conference promoting the project was held in Tbilisi on 30 July 2019, attended by the Chair of the KNF Board, the Governor and Deputy Governors of the NBG, and representatives of the EU Delegation to Georgia, public administration of Poland and Georgia, key experts involved in the project on behalf of the NBG, UKNF and NBP, as well as representatives of Georgian commercial banks, payment institutions and media.

### Assistance initiatives to support the capacities and competence of Poland's financial supervisor

With the support obtained by the UKNF from the funds of the EU Structural Reform Support Programme to boost the institutional and administrative potential of the UKNF to face the new supervisory tasks resulting from the implementation of EU law (in line with the decision of the European Commission as part of the first round of the application selection procedure), three training blocks for the UKNF staff were carried out in regard to new EU regulations (in the area of consumer protection, financial reporting and recovery procedures towards banks). The said specialist training activities have been carried out by contract experts the EC services and aimed to facilitate the exchange of best experiences, know-how and supervisory practices to raise the professional skills of the employees of the Polish supervisory authority. Moreover, during the third round of the application procedure under the Structural Reform Support Programme, the Polish Financial Supervision Authority and the Ministry of Finance received support from the European Commission for the further development of FinTech in Poland. The purpose of the project *Feasibility study on innovative technological solutions in the Polish financial market and identification of any legal, regulatory and supervisory impediments to its use, especially regarding DLT and RegTech (#FinTech) & sandbox* is to establish legal and technological framework for the development of the FinTech sector in Poland by introducing appropriate regulatory and supervisory changes. The project is implemented by the European Bank for Reconstruction and Development (EBRD) and carried out by advisers of a consortium of private firms.

## 6.2. REGULATORY AND SUPERVISORY ACTIVITIES

### PRODUCT INTERVENTION MEASURES IMPLEMENTED BY THE KNF BOARD

In 2019, pursuant to Article 42 of MiFIR, due to serious concerns regarding the protection of retail investors, the KNF Board adopted indefinite product intervention measures on the capital market in relation to binary options and contracts for differences. The scope of KNF intervention measures refers to temporary intervention measures adopted by ESMA in 2018 pursuant to Article 40 of MiFIR, which were in force for the period of 12 months preceding the KNF measures.

In relation to binary options, by its decision of 25 June 2019, the KNF Board prohibited the marketing, distribution and sale of those financial instruments to retail clients. Binary options are to be understood as any cash-settled derivative for which payment of a specific sum of money depends on whether one or more specific events in relation to the price, level or value of the underlying instrument occurred at or before the derivative expired. The supervisory measure concerned was based on the analyses which showed that retail clients suffered significant losses in investing in such financial instruments, and that such investments and their effects have an effect and an impact similar to gambling. The prohibition introduced by the KNF Board did not cover binary options for which the period from the date of issue until the maturity date was at least 90 calendar days, for which a prospectus was prepared and which were fully secured by the provider or another entity from the provider's group.

In relation to contracts for differences, by its decision of 1 August 2019, the KNF Board prohibited the marketing, distribution and sale of those financial instruments to retail clients, except for a case where all of the following conditions were met by the provider of such a financial instrument:

- a) the CFD provider would require the retail client to provide appropriate initial margin,
- b) the CFD provider would provide the retail client with automatic margin close-out,
- c) the CFD provider would provide the retail customer with a negative balance protection,
- d) the CFD provider would not provide the retail client with any payment, monetary benefit or any other excluded non-monetary benefit in relation to the marketing, distribution or sale of CFDs other than the profits made on the relevant CFDs,
- e) the advertising and/or promotional information disseminated or addressed to existing or potential retail clients by the CFD provider in relation to the marketing, distribution or sale of CFDs would contain an appropriate risk warning.

Contracts for difference should be understood as a form of financial derivatives trading where the cash settlement depends on fluctuations in the price, level and/or value of the underlying instrument chosen (e.g. currency, shares, index) during the contract term. CFDs essentially use leverage, which allows investors to earn substantial profits but also carries a risk of very large losses that may considerably exceed the amount initially invested.

Based on the results of the analyses on investors investing in CFDs carried out before the KNF Board announced the prohibition, the KNF Board introduced a new category of client in the group of retail clients, i.e. experienced client, who were authorised to invest in CFDs using the lowest level of the initial margin. The criterion for establishing that new group of clients was the necessary knowledge and experience related to investments in CFDs that such clients must prove in order to invest in such financial instruments.

## BENCHMARKS

The year 2019 was of particular importance in the area of preparation of the Polish financial market for the implementation of the requirements of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (OJ L 171/1 of 29 June 2016) ('BMR'). That was due to the fact that on 1 January 2020 the most important transition periods under the BMR were due to expire. The key challenges for the market and the supervisory authority was to ensure continuous application of the WIBOR and WIBID benchmarks, the family of WIG benchmarks and other indices developed by the Warsaw Stock Exchange Group.

On 27 November 2019, the KNF Board issued an administrative decision authorising GPW Benchmark S.A. to operate as an administrator of certain benchmarks. The decision of the KNF Board was mainly related to the intention of GPW Benchmark S.A. to develop benchmarks that were so far developed by the Warsaw Stock Exchange, and the TBSP.Index benchmark.

Regardless of that process, in 2019 intense work was ongoing in the Polish financial market to adapt the WIBOR and WIBID interest rate benchmarks to the requirements under the BMR. The strategic nature of that work was reflected by the engagement of the Financial Stability Committee in the whole process; in January 2019, the Committee identified the process of adaptation of domestic interest rate benchmarks as a potential source of systemic risk. In addition to the engagement of the Committee, important supervisory measures were also adopted directly by the KNF Board. On the initiative of the KNF Board, on 26 March 2019 WIBOR was added to the European Commission's list of critical benchmarks. That fact, by virtue of the provisions of the BMR, gave the supervisory authority additional supervisory instruments in the form of possibility to ensure mandatory administration of the process of determining WIBOR, and to impose an obligation to submit input data for the development of WIBOR by banks. In practice, the above BMR requirements allow the supervisory authority to

maintain the stability of the WIBOR panel in a situation where its representative coverage would be jeopardised.

The first stage of work to adapt WIBOR and WIBID to the requirements under the BMR was concluded in December 2019, when the KNF Board received an application from GPW Benchmark S.A. for authorisation to operate as an administrator of interest rate benchmarks, including the key interest rate benchmark. The submission of the application before the end of 2019 means that, according to the currently applicable provisions of the BMR, the transition period during which supervised entities may still use the WIBOR and WIBID benchmarks was extended. Now that period runs from the date of conclusion of administrative proceedings in respect of authorisation in question. It should be stressed that the submission of the application by GPW Benchmark S.A. does not terminate the process of adaptation of the domestic financial market to the requirements under the BMR. The supervisory authority expects that further intensive work will be continued in 2020. One of the key challenges will be the adaptation of the WIBOR panel banks to the full implementation of the adapted method of submitting input data. Furthermore, the KNF Board is also planning to closely monitor the implementation, by all supervised entities in the Polish market, of so-called emergency clauses required under the BMR in the event of a significant change or discontinuance of publication of a given benchmark.

### 6.3. SUPERVISION OF COMPANIES OPERATING REGULATED MARKET, THE EXCHANGE COMMODITIES MARKET AND THE SECURITIES DEPOSITORY

As part of the supervision of companies operating a regulated market, the exchange commodities market and the securities depository, the KNF Board makes decisions on the provision of services and approves or grants consent, in particular to:

- making changes to the regulations at: Giełda Papierów Wartościowych w Warszawie S.A., Towarowa Giełda Energii S.A., BondSpot S.A. and Krajowy Depozyt Papierów Wartościowych S.A., and approves:
- amendments to the articles of association of Giełda Papierów Wartościowych w Warszawie S.A., Towarowa Giełda Energii S.A. and BondSpot S.A.,
- amendments to the articles of association of Giełda Papierów Wartościowych w Warszawie S.A., Towarowa Giełda Energii S.A., and BondSpot S.A.,
- acquisition of shares in a company operating the stock exchange and a company operating the OTC market by legal persons other than those specified in the Polish and foreign law,
- admission of non-securitised financial instruments to trading on a regulated market.

**Table 74. Number of decisions issued in that respect in the years 2016-2019**

Entity being a party to the final decision	2016	2017	2018	2019
Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange)	5	6	5	8
BondSpot S.A.	2	2	4	1
KDPW S.A.	3	4	2	6
KDPW CCP S.A.	5	4	3	5
Towarowa Giełda Energii S.A.	6	2	5	7
Izba Rozliczeniowa Giełd Towarowych S.A.	-	-	1	1



<b>Total</b>	21	18	20	28
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Source: UKNF's own study

The number and the subject-matter of final decisions included in Table 74 are presented in Table 1.2. of Annex 1.

Representatives of the KNF Board attended 43 meetings of supervisory boards and 8 general meetings of shareholders:

- 7 meetings of the Supervisory Board of GPW w Warszawie S.A.,
- 2 General Meetings of GPW w Warszawie S.A.
- 6 meetings of the Supervisory Board of KDPW S.A.,
- 4 meetings of the General Meeting of KDPW S.A.,
- 7 meetings of the Supervisory Board of KDPW\_CCP S.A.,
- 11 meetings of the Supervisory Board of BondSpot S.A.,
- 7 meetings of the Supervisory Board of TGE S.A.,
- 1 General Meeting of TGE S.A.,
- 5 meetings of the Supervisory Board of IRGiT S.A.,
- 1 General Meeting of IRGiT S.A.

Other tasks of the KNF Board in the area of supervision of companies operating a regulated market, supervision of the exchange commodities market and the depository for securities, under the Act on capital market supervision, also include inspection activities, such as:

- inspection activities at head offices of supervised institutions, such as Giełda Papierów Wartościowych w Warszawie S.A., BondSpot S.A., Krajowy Depozyt Papierów Wartościowych S.A., Towarowa Giełda Energii S.A.,
- drawing up official inspection reports.

## 7. INNOVATION AND TECHNOLOGY

### 7.1. DEVELOPMENT OF INFORMATION TECHNOLOGIES

In 2019, as part of the development of information technologies, the following activities (divided by area) were carried out.

In the area of insurance supervision:

- as part of the Register of Insurance Intermediaries (N-RPU) project, the N-RPU system was implemented in accordance with the Act of 15 December 2017 on insurance distribution (Journal of Laws 2018, item 2210, as amended), implementing Directive 2016/97 of the European Parliament and of the Council of 20 January 2016 on the distribution of insurance, Regulation of the Minister of Finance of 27 December 2018 on the keeping of the register of insurance intermediaries and the making available of information from this register (Journal of Laws 2018, item 2467), Regulation of the Minister of Finance of 12 December 2018 on requests for an entry in the Register of Insurance Agents and Ancillary Insurance Agents (Journal of Laws, item 2417), Regulation of the Minister of Finance of 10 December 2018 on requests for a change in an entry in the Register of Brokers (Journal of Laws, item 2371);
- the SNU system was adapted to the management of statements compliant with EIOPA's Solvency II Directive, including management of new Solvency II reporting packages 2.3.0. (quarterly data and information for supervisory purposes - insurance and reinsurance undertakings; quarterly data and information for supervisory purposes concerning SCR - insurance undertakings; quarterly data for financial stability purposes submitted by groups; annual data for financial stability purposes submitted by groups; quarterly data and information for supervisory purposes - groups; annual data and information for supervisory purposes - insurance and reinsurance undertakings; annual data and

information for supervisory purposes - groups) and 2.4.0. (quarterly data and information for supervisory purposes - insurance and reinsurance undertakings), the SAP BO reporting was adapted accordingly.

In the area of capital supervision:

- a system was designed and implemented to manage the transaction alerts referred to in Article 19(1) of MAR submitted to the UKNF;
- pursuant to Regulation of the Minister of Finance of 22 February 2019 on the scope, procedure, form and time limits for submission of information by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks, the 'Sales Report in the form of management information' was developed on the SAP BO platform, to aggregate the reported data. Based on the analysis of data from Capital Market Supervision and Banking Supervision, an analytical solution was created based on the data from the whole market;
- the ESPI, ESNaR and ATD systems have been adapted to perform the tasks under the Act on employee capital plans;
- as part of the FIRDS/TREM project:
  - a routing module was launched at the Warsaw Stock Exchange for reporting transactions in foreign instruments to foreign supervisory authorities,
  - a module was launched to submit historical data on transactions for 2018 to foreign supervisory authorities,
  - a mechanism was developed to validate data on transactions obtained by the UKNF as part of the TREM module, used to improve the quality of data,
  - the systems were adapted to the new file structures;
- a databased with information made available by Krajowy Depozyt Papierów Wartościowych S.A. (KDPW) in the communication 'Report on registered debts and the fulfilment of obligations; data from KDPW' was created;
- the CSDR9 system was implemented to handle the obligations under Article 9(1) of Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012;
- the SEA system was prepared to keep records of shares, in accordance with the requirements laid down in Regulation of the Minister of Finance of 24 December 2019 on the manner of keeping the Register of Insurance Intermediaries by the Polish Financial Supervision Authority and on keeping records of shares, published on 31 December 2019.

In the area of banking supervision:

- the BIONB information system supporting the process of audit and supervisory assessment was adapted to the current methodology, which enabled the assessment to be carried out in 2019;
- a system was implemented to compare the fees collected by payment service providers maintaining payment accounts,
- the next stage of the PSD2 project was completed, consisting in the cyclical export of data to EBA;
- the next stage of the EUCLID project was completed, consisting in the export of data to EBA;
- the ESPI/ESNaR systems have been adapted to submit reports under Regulation of the Minister of Finance on the scope, procedure, form and time limits for submission of information by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks.

In the legal/regulatory area:

- a system to manage the Arbitration Court at the KNF Board was designed and implemented.

In the area of infrastructure modernisation:

- as part of the expansion of the IT infrastructure and improvement of its security, the Data Leak Prevention (DLP) system was implemented; with the newly implemented system, another higher level of security of data processed in the IT infrastructure has been achieved, which protects against intentional or unintended attempts to extract sensitive data in IT systems outside the UKNF;
- a new disk environment was launched to ensure the Disaster Recovery mechanisms between data processing centres in the UKNF; the environment replaced the existing hardware that has become technologically obsolete;
- the infrastructure of the server environment was upgraded; all servers of the virtualisation environment were replaced, so the UKNF gained a modern infrastructure, providing high processing capacity for systems supervising the financial market in Poland;
- work has started to upgrade the database environment in the UKNF by launching servers for the new infrastructure and procedures were launched to start data migration to a new environment, so the UKNF will gain more computing power for the processing of data collected from the financial market.

## 7.2. CYBERSECURITY RISK SUPERVISION IN THE FINANCIAL MARKET AND AT THE UKNF

By Order of the Chair of the KNF Board of 29 March 2019, on 1 April 2019 the Cybersecurity Department was established within the UKNF's organisational structure, responsible for:

- supervision of financial market entities in the area of ICT risk and cybersecurity in terms of financial market supervision,
- performance of tasks under the Act of 5 July 2018 on the national cybersecurity system (Journal of Laws, item 1560), hereinafter: 'Act on the national cybersecurity system' (*under the Act on the national cybersecurity system, the KNF Board is a body competent for cybersecurity in the banking sector and for the financial market infrastructure*),
- undertaking measures to ensure high level of cybersecurity at the UKNF.

### 7.2.1. INSPECTION ACTIVITIES

#### INSPECTIONS AT SUPERVISED ENTITIES

In 2019, inspection activities at supervised entities were carried out on the basis of the provisions of law and the KNF prudential recommendations, taking into account, *inter alia*, the guidelines of the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS), based on uniform standards and examination procedures included in the Inspection Manual.

**Table 75. Inspection activities carried out at supervised entities in 2019 in the area of ICT risk**

Sector	Inspection activities	Number
Banking: commercial banks	Comprehensive inspection	2
	Targeted inspection	2
Banking: cooperative banks	Targeted inspection	2
Insurance	Supervisory visit	4
Domestic payment institutions, payment services offices and domestic electronic money institutions	Targeted inspection	1
Companies operating the regulated market, the exchange commodity market and the securities depository	Targeted inspection	1
<b>Total</b>		<b>12</b>

Source: UKNF's own study

**Table 76. Material irregularities identified during inspection activities at supervised entities in 2019 in relation to ICT risk**

ICT risk	
1.	Low efficiency of the process of managing the vulnerabilities of the ICT environment associated with, among other things, the level of open critical vulnerabilities for which the time of implementation of recommendations exceeded 50 days from their identification.
2.	A weakness of the authentication process in the mobile application, namely the lack of additional PIN validation to change the authentication method to the biometric one.
3.	A weakness of the life cycle management process of ICT components, which did not effectively lead to the exchange of obsolete or unsupported technologies and had a negative impact on the vulnerability management process.
4.	Failure to enforce from an online banking provider of contractual obligations under the contract, i.e. submission of monthly reports describing possible problems or vulnerabilities on the provider's part that could affect the quality or security of the services.
5.	Failure to conduct penetration tests of the key elements of the ICT infrastructure.
6.	A weakness of the update management process by due to failure to implement systemic solutions that would allow for centralised management of patches.
7.	Using components of the ICT environment that were not supported by the manufacturer.
8.	Failure to ensure an effective risk management system in the area of ICT security.
9.	The lack of an appropriate risk map with an assessment of risk levels, or a list/matrix of functions/control mechanisms of the ICT environment or the current register of information resources, infrastructure and their configuration.
10.	Lack of business continuity plans adapted to the risk profile of the ICT environment.
11.	Failure to run an appropriate programme of testing and evaluation of technological security measures of the ICT environment.
12.	Failure to ensure continuity of access to online banking in the backup facility in case of unavailability of the primary location.
13.	Failure to perform risk assessment in terms of security of online payments and related services.
14.	Lack of review of the rights granted to the systems used in electronic access channels, covering the compliance of rights actually granted in IT systems with, inter alia, the substantive scope of responsibilities and powers of individual users.
15.	Failure to keep a register of ICT security incidents.

Source: UKNF's own study

In 2019, post-inspection recommendations were issued for 6 supervised entities.

### 7.2.2. PERFORMANCE OF OBLIGATIONS UNDER THE ACT ON THE NATIONAL CYBERSECURITY SYSTEM

The KNF Board, as an authority competent for cybersecurity for the banking sector and the financial market infrastructure, pursuant to Articles 42 and 53-54 of the Act on the national cybersecurity system, completed the following activities.

In 2019, the KNF Board recognised 2 entities as key service operators, and in relation to one entity ascertained the expiry of the decision to recognise it as a key service operator. As at 31 December 2019, there were 20 entities recognised by the KNF Board as key service operators.

**Table 77. Number of key service operators in the banking, credit unions and financial market infrastructure sectors in 2018-2019**

Type of entity	2018	2019
Entities in the banking and credit unions sectors	15	16
Financial market infrastructure entities	4	4
<b>Total</b>	<b>19</b>	<b>20</b>

Source: UKNF's own study

The KNF Board, as an authority competent for cybersecurity for the banking sector and the financial market infrastructure, prepared and submitted to key service operators the surveys on their performance of the obligations under the Act on the national cybersecurity system. In accordance with Article 16 of the Act on the national cybersecurity system, some obligations of key service operators should be performed within 6 months from the date of delivery of the decision on the recognition as key service operator, and the obligation under Article 15 of the Act on the national cybersecurity system, i.e. the obligation of the key service operator to ensure that a security audit is performed with regard to the information system used to provide the key service, should be performed within one year from the date of delivery of the decision on the recognition as key service operator. The analysis of information as declared by the key service operators in the surveys indicates that the obligations imposed on them have been performed but full verification will only be possible during an on-site inspection conducted by authorised employees of the UKNF.

At the same time, in 2019, the KNF Board started and maintained a wide-ranging cooperation with, among others, the Ministry of Digital Affairs and CSIRT NASK. The result of that cooperation was a meeting with representatives of the European Commission assessing the state of implementation of the Network and Information Systems (NIS) Directive in the Polish legislation, definition of the principles of communication between the UKNF and CSIRT NASK concerning cooperation under the Act on the national cybersecurity system, the assumptions of which constitute a properly adapted and reliable channel of communication to support the implementation of specific tasks under the Act on the national cybersecurity system, and cooperation with NASK on the development of a handbook for key service operators and competent authorities, enabling proper execution of tasks under the Act on the national cybersecurity system.

The KNF Board also cooperated with the Ministry of Digital Affairs by actively participating in the consultations on Regulation of the Minister of Digital Affairs of 4 December 2019 on the organisational and technical conditions for entities providing cybersecurity services and internal organisational structures of key service providers responsible for cybersecurity (Journal of Laws, item 2479).

### 7.3. ACTIONS SUPPORTING THE DEVELOPMENT OF FINANCIAL INNOVATION (FINTECH)

In 2019, in the performance of the tasks of the KNF Board under Article 4(1) point 3a of the Act of 21 July 2006 on financial market supervision, the UKNF launched and continued a series of initiatives to support the development of innovation in the Polish financial sector.

The initiatives started in previous years were continued through the renewal of cooperation within the Special Task Force for Financial Innovation (FinTech). At the meeting on 10 December 2019, a list of barriers in the FinTech sector with information on progress in removing them was presented. One of the identified barriers was the establishment of new channels of communication with the UKNF. The publication of positions relating to certain barriers, the removal of which remained within the scope of competence of the UKNF, also allowed the achievement of objectives set out in the 'Report on the activities of the KNF and the KNF Board in 2018' by addressing regulatory uncertainty and ambiguity of the application of regulations with regard to innovative solutions.

The FinTech Steering Committee coordinated by the UKNF and composed of representatives of public administration, including: the Office for Competition and Consumer Protection, National Bank of Poland, Ministry of Finance, Ministry of Development Funds and Regional Policy and the Polish Financial Supervision Authority, continued to fulfil the objectives set at the time of appointment. During the meetings held on 10 January 2019, 15 February 2019, 18

April 2019 and 7 November 2019, representatives of public institutions discussed the key events in the FinTech sector and the challenges faced by administration authorities in connection with the development of a friendly infrastructure. The organisation of a number of meetings allowed to develop effective channels of communication between individual public administration units to further develop the FinTech ecosystem in Poland.

On 1 March 2019, the UKNF together the Ministry of Finance received confirmation of the support for the project 'Feasibility study on innovative technological solutions the Polish financial market and identification of any legal, regulatory and supervisory impediments to its use, especially regarding DLT and RegTech (#FinTech) & sandbox.' In July 2019, the EBRD, as the institution using the funds of the EC under the SRSP, completed the selection of offers from consortia for the implementation of the Regulatory Sandbox project under the SRSP. The project was launched in the fourth quarter of 2019. Work on the regulatory sandbox was suspended until the completion of the PWRS project and the submission of recommendations. At the end of 2019, the UKNF took actions aimed at addressing the needs of FinTech businesses, especially start-ups, in regard to technical testing of their solutions, using selected technologies in the test environment in the UKNF's infrastructure, in the form of a virtual sandbox.

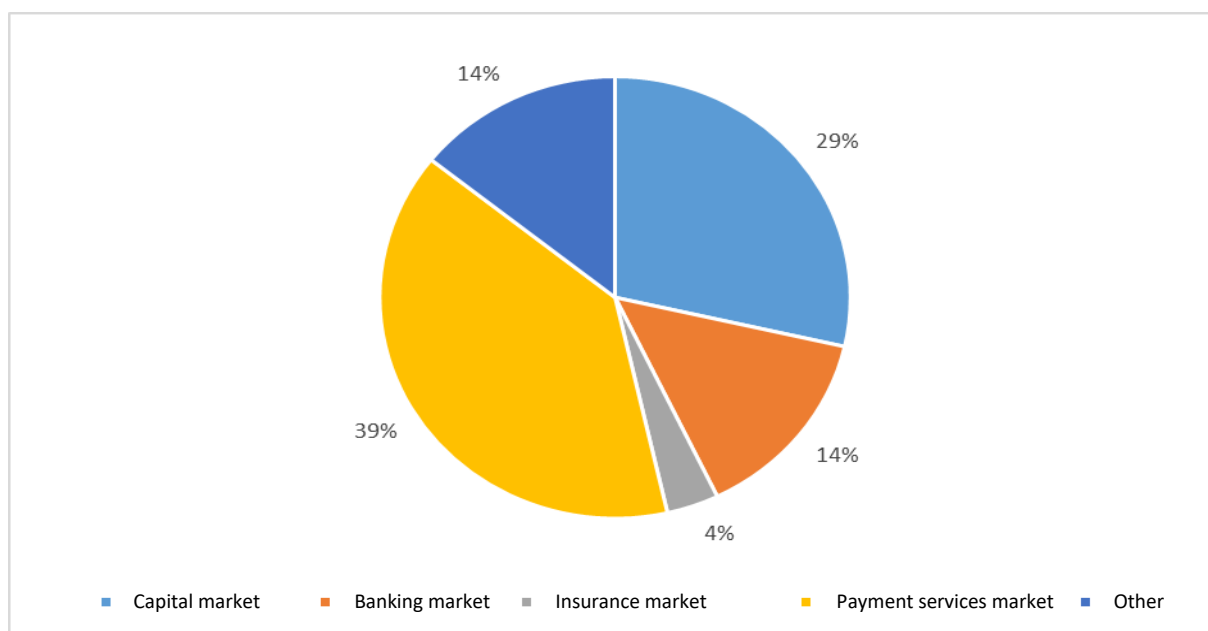
The UKNF was also engaged in the development of the blockchain technology and network in Poland, which resulted in representatives of the UKNF signing a series of agreements to promote blockchain. On 3 June 2019, the *Cooperation Agreement* with the Research Centre on the Legal Aspects of Blockchain Technology at the University of Warsaw was signed, and on 29 August 2019, the *Agreement between KIR and the UKNF on strategic cooperation in supporting innovation and the use of distributed ledger technology* was concluded with the National Clearing House. Continuing its efforts to promote blockchain in Poland, the UKNF concluded on 12 August 2019 a cooperation agreement on supporting the development of financial innovation. Both the KDPW representatives and the Chair of the KNF Board pointed to the importance of blockchain technology as a technology allowing for full implementation of regulatory compliance processes.

Following the activities launched in 2018, also in 2019 the UKNF actively participated in events to promote the topic of FinTech in Poland and abroad. Representatives of the UKNF took part in, among other things: Impact'19 (3-4 Jun 2019), Impact FinTech'19 (27-28 October 2019) in Katowice, Singapore FinTech Festival 2018 (11-13 November 2019), and FinTech Taipei (7-8 December 2019). Representatives of the UKNF also took part in the activities of many working groups for the development of FinTech operating at authorities such as ESMA, EBA and EIOPA.

One of the key areas of the UKNF's activities related to FinTech in 2019 was the activity for the continuation of the Innovation Hub programme. In the second year of the Programme's activity, the UKNF received 55 applications, of which 31 concerned the banking sector and 17 – the capital sector. The applications related to topics such as the use of artificial intelligence in finance or algorithmic trading. The main topics discussed by Programme participants included open banking, i.e. Polish API (17 applications) and crowdfunding (9 applications).

On 6 November 2019, considering the needs in terms of communication of changes in the Programme, a meeting with market participants was organised at the UKNF headquarters. To ensure ongoing exchange of information about the Programme status, the Innovation Hub closing meetings are planned to be held cyclically in 2020, at 6 months' intervals.

**Diagram 27. Share of markets being the subject-matter of a request for interpretation under Article 11b of the Act on financial market supervision**



Source: UKNF's own study

An important aspect of the functioning of the UKNF is the handling of requests for interpretation under Article 11b of the Act on financial market supervision. In 2019, the UKNF received 20 requests, which resulted in the issuance of 9 interpretations.

On 19 December 2019, the Digital Supervisory Agenda was publicly announced. The Digital Supervisory Agenda document represents a plan of specific short and medium-term activities and initiatives of the UKNF. They need to be launched in the face of challenges posed by new technological and business developments in the financial markets and for the purpose of digital transformation.

The activities planned as part of the Agenda were grouped into four thematic blocks: As regards activities to support the development of financial innovation, two segments are particularly significant: 'Supporting FinTech' and 'New developments in the financial market.' The 'Supporting FinTech' area will consist in intensified implementation of multidimensional projects, such as the above-mentioned Innovation Hub programme, and virtual sandbox. Importantly, the UKNF's activities will be properly profiled, depending on whether they relate to supervised entities or those not subject to the KNF supervision. An important element of this segment is also to prepare legal solutions to regulate the functioning of the regulatory sandbox. The regulatory sandbox is to naturally supplement the programme for supporting non-supervised entities in the implementation of innovative technological ideas in the field of financial services.

As part of 'New developments in the financial market', the supervisory authority identified new phenomena in the Polish financial market, including those using innovative technologies which require the support from a supervisor or regulator, e.g. through the engagement in legislative changes or formulation of appropriate positions and/or communications. Such phenomena include digital assets, crowdfunding, robo-advisors, or the functioning of supervised entities on social media. The supervisory authority believes that each of the above-mentioned areas of the market needs to be specifically addressed to strengthen the stability of the Polish financial market, protect non-professional financial market participants and ensure a transparent legal situation of entities providing services in that market.

Regardless of strictly dedicated activities supporting the development of FinTech, it is also worth mentioning the remaining segments of the Agenda that will broadly pursue this objective. For example, as part of the pillar called 'Cybersecurity', uniform requirements were defined in relation to cloud-based information processing, which is becoming more and more popular among supervised entities. In line with that trend, the UKNF is planning to issue 'Communication from the UKNF on information processing by supervised entities using public or hybrid cloud computing services.' The use of that relatively new technological solution by financial market entities is to take place in a consistent manner, in accordance with appropriate requirements on security and protection of information protected by law. Once published, the Communication should significantly raise the level of general technological security in the Polish financial sector. The UKNF's innovative approach to market consultations carried out in the framework of the work on the Communication also needs to be emphasised, as it has allowed for the development of solutions that meet both supervisory expectations, e.g.: in terms of information security, as well as solutions that are least burdensome to implement for supervised entities.

The last pillar, referred to as 'E-Supervisor', includes plans to increase the scale of digitisation of correspondence in mutual information exchange, the introduction of new forms of communication and interactivity with the UKNF, as well as the expansion of automation of processes carried out at the UKNF. That will represent the use of FinTech solutions, both to create simplifications for supervised entities and in terms of the functioning of the supervisory authority itself.

## 8. LAW AND REGULATION

### 8.1. PARTICIPATION IN LEGISLATIVE WORK

The KNF Board's statutory tasks include participation in the preparation of draft legal acts in the field of financial market supervision. The task is performed mostly through cooperation with the minister competent for financial institutions as part of the government's legislative process and also often at stages preceding the formal commencement of the governmental legislative process. In 2019, other ministers were also engaged in such cooperation: in particular the Minister of Investment and Development, who was the requesting body for the draft Act amending certain laws in relation to the transfer of funds from open pension funds to individual retirement accounts.

In 2019, as in previous years, the UKNF representatives also took part in legislative work at the further stages of the government's legislative process, participating in consensus conferences and the work of legal committees, and in the case of legislative proposals also at the parliamentary stage, in particular through participation in the parliamentary Committee on Public Finance and the Permanent Subcommittee on Financial Institutions and the Senate Committee on Budget and Public Finance.

As regards the most important legislative projects in which the UKNF participated in 2019 and which resulted in the adoption of the Act of 2019, the following legal acts should be mentioned:

- **Act of 17 January 2019 amending the Act on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring and certain other laws** (Journal of Laws, item 326); The act is aimed at improving the solutions relating to the functioning of provisions on compulsory restructuring and the deposit guarantee scheme contained in the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring (Journal of Laws, item 1937, as amended), which introduced a number of changes concerning the systemic exclusion of mortgage banks from certain



regulations of the Act, the streamlining of the restructuring of the bank in the form of a bridging institution, the functioning of the deposit guarantee scheme, the extension of BFG's financial management options, the possibility of cross-use of bank guarantee funds by banks and cash registers, the correction of the rules on bank restructuring, the extension of the scope of the information taken over about the entity being taken over, the regulation of issues related to contractual clauses, distribution of charges as part of state aid and disposal of a bank's claim in accordance with the bank secrecy rules;

- **Act of 15 March 2019 amending the Act on financial market supervision and certain other laws** (Journal of Laws, item 875). The purpose of the Act is to ensure effective implementation of Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisations, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (OJ L 347 of 28 December 2017, p. 35), hereinafter referred to as 'Regulation.' The Regulation entered into force on 17 January 2018 and its provisions should apply from 1 January 2019. The Regulation establishes a general legal framework for all types of securitisation, including the definition of securitisation as a transaction or programme as a result of which the credit risk associated with the exposure or pool of exposures is broken down by tranche. The Regulation lays down, in particular, requirements for entities involved in securitisation processes, including due diligence, risk retention and transparency, or acceptable limits on investment in securitisation positions for retail clients;
- **Act of 15 March 2019 regulating certain matters in connection with the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community under the agreement referred to in Article 50(2) of the Treaty on European Union** (Journal of Laws, item 1516). On 29 March 2017, the United Kingdom of Great Britain and Northern Ireland notified the European Council of its intention to leave the European, and thus officially initiated the procedure specified in Article 50 of the Treaty on European Union. The Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (hereinafter: 'Withdrawal Agreement') provides, in Article 126, for a transition period running from that date until 31 December 2020, during which the United Kingdom, in accordance with EU legislation and the national provisions implementing the Union law, is in principle still treated as a Member State. The purpose of the Act is to confirm that effect during the transition period to remove any doubt in that regard. Therefore, the provisions of the Act only refer to the transition period referred to in Article 126 of the Withdrawal Agreement, that is the period which starts on the date of withdrawal of the United Kingdom of Great Britain and Northern Ireland and ends on 31 December 2020 (see Articles 1 and 4 of the Act). The Act did not enter into force due to the withdrawal of the United Kingdom of Great Britain and Northern from the European Union upon the conclusion of the agreement referred to in the second sentence of Article 50(2) of the Treaty on European Union;
- **Act of 15 March 2019 on the conduct of business rules for certain financial market entities following the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union without the agreement referred to in Article 50(2) of the Treaty of European Union** (Journal of Laws, item 620). In the case of withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union without the agreement referred to in the second sentence of Article 50(2) of the Treaty on European Union (Journal of Laws 2004, item 864) and the lack of other methods of regulating the relationships with respect to the conduct of business by financial institutions based in Great Britain and Northern Ireland or Gibraltar and pursuing business in the territory of the Republic of Poland, it was necessary to introduce national mechanisms to protect the clients of such institutions. In case of 'hard Brexit' those institutions could no longer be able to pursue business in the territory of the Republic of Poland on the basis of the European single passport. The Act was to cover the activities of certain financial institutions in the United Kingdom of Great Britain and Northern Ireland, and Gibraltar,

thus ensuring the necessary protection of the interests of the Polish clients who had entered into contracts with those institutions. The Act did not enter into force due to the withdrawal of the United Kingdom of Great Britain and Northern from the European Union upon the conclusion of the agreement referred to in the second sentence of Article 50(2) of the Treaty on European Union;

- **Act of 4 July 2019 amending the Act on support for borrowers in financial difficulties who have taken out a housing loan and the act on corporate income tax, presented by the President of the Republic of Poland** (Journal of Laws, item 1358). The purpose of the Act is to amend the mechanism for providing financial support to any person who, as a result of objective circumstances, finds themselves in financial difficulties and is, at the same time, obliged to repay instalments on their mortgage, which are a heavy burden on their household budgets, and to introduce a new facility to support the voluntary restructuring of loans denominated or indexed to currencies other than those in which borrowers earn income;
- **Act of 4 July 2019 amending the Act on competition and consumer protection and certain other laws** (Journal of Laws, item 1667). The Act aims to:
  - adapt the national law to the provisions of Regulation (EU) 2018/302 of the European Parliament and of the Council of 28 February 2018 on addressing unjustified geo-blocking and other forms of discrimination based on customers' nationality, place of residence or place of establishment within the internal market and amending Regulations (EC) No 2006/2004 and (EU) 2017/2394 and Directive 2009/22/EC (OJ 60 I of 2 March 2018, p. 1 and OJ L 66 of 8 March 2018, p. 1),
  - enable the President of the Office of Competition and Consumer Protection (hereinafter: 'UOKiK') to adopt a more flexible approach in shaping the internal structure of the UOKiK, in particular in relation to Branch Offices of the UOKiK;
  - increase the efficiency of detection of breaches of the Act of 16 February 2007 on competition and consumer protection (Journal of Laws 2019, item 369) through access to information protected by law such as information subject to tax and banking secrecy;
- **Act of 19 July 2019 on the special rights of aggrieved parties in the event of exhaustion of the guarantee amount determined on the basis of rules applicable before 1 January 2006** (Journal of Laws, item 1631). The purpose of the amendment is to impose on the Insurance Guarantee Fund the obligation to satisfy the claims for damages for personal injury under compulsory third party motor insurance caused by motor vehicles in motion and third-party liability of farmers for possession of a farm, in the case of exhaustion of the guarantee amount determined in the contract, specified on the basis of the rules applicable before the effective date of the Act on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurer' Bureau, up to the guarantee amount specified in that Act;
- **Act of 19 July 2019 amending the Commercial Companies and Partnerships Code and certain other laws** (Journal of Laws, item 1655). The purpose of the Act is to introduce the basis for the mandatory dematerialisation of shares of joint-stock companies and limited joint-stock partnerships outside the scope regulated in Article 5(1) of the Act on trading in financial instruments. The proposed solutions provide for, in particular:
  - introduction of mandatory dematerialisation (change of the form of shares from securities to an entry in the ICT system) of shares of joint-stock companies and limited joint-stock partnerships that which are not subject to mandatory dematerialisation within the meaning of the Act of 29 July 2005 on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies (Journal of Laws 2018, items 512 and 685) and the Act on trading in financial instruments,
  - introduction of the requirement to register dematerialised shares in the Register of Shareholders to be kept by eligible entities, i.e. entities authorised to keep securities accounts in accordance with the Act of 29 July 2005 on trading in financial instruments,

- introduction, in the Commercial Companies and Partnerships Code, of the term 'registration certificate' and - by adding a new Paragraph 5 in Article 5 of the Commercial Companies and Partnerships Code - extension of the catalogue of means of communication of a non-public company with its shareholders due to the introduction of the requirement to maintain a website, including for non-public joint-stock companies,
  - introduction of appropriate amendments, including terminological amendments (a change of the definition of public company) to, for example, the Act on public offering and the Act on trading in financial instruments;  
The Act is entering into force on 1 January 2021, except for certain provisions, which came into force on 1 January 2020;
- **Act of 11 September 2019 amending the Act on enforcement proceedings in administration and certain other laws** (Journal of Laws, item 2070). The main purpose of the legislative work on the amendments to the Act of 17 June 1966 on enforcement proceedings in administration was to simplify administrative procedures applicable in administrative enforcement that are beneficial not only to creditors and enforcement bodies but also for the obliged persons. When determining the scope of the proposed amendments, the main emphasis was placed on facilitating the acts performed during enforcement proceedings by the obliged person. The Act covers mainly amendments to the provisions governing methods of appeal, execution from common property of spouses, execution from tangible property of the debtor, overlap of enforcement proceedings, execution from money, execution from movable property, execution from bank accounts and execution by the heads of tax authorities of interim decisions on financial security issued by a prosecutor or court in criminal or criminal fiscal proceedings. In the course of legislative work, proposals were made to create electronic procedures for the execution from the rights attached to financial instruments in securities accounts or other accounts, including accounts of investment firms, as defined in Article 3 point 33 of the Act of 29 July 2005 on trading in financial instruments (Journal of Laws 2018, items 2286, as amended), as well as custodian banks (Article 3 point 36 of the Act on trading in financial instruments) and banks conducting the business referred to in Article 70(2) of the Act on trading in financial instruments (which maintain such accounts); that proposal was not taken into account by the author of the draft act;
- **Act of 16 October 2019 amending the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies, and certain other laws** (Journal of Laws, item 2217). The purpose of the Act is to make the necessary changes in the national legal order following the entry into force of EU regulations concerning the rules for publication of prospectuses in connection with the issue of securities and encouragement of long-term engagement of shareholders of public companies, i.e.:
- to ensure the application of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and repealing Directive 2003/71/EC (OJ L 168 of 30 June 2017, p. 12),
  - to implement Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement (OJ L 132 of 20 May 2017, p. 1).
- The Act also amended provisions of the Act on financial market supervision by extending the composition of the KNF Board to include a third Deputy Chair of the KNF Board.

As regards the legislative projects in which the UKNF participated in 2019 and for which the legislative process did not end in 2019 or did not come to fruition due to the end of the eighth term of office of the Sejm, the following should be mentioned:

- **the government's draft Act amending certain laws in connection with the transfer of funds from open pension to individual pension accounts** (Sejm paper No 114, the 9th term of office). The draft Act involves a change in the Polish pension system, in which the second

(funded) pillar will be based on, *inter alia*, individual instruments such as universal individual pension accounts available to everyone and financed from funds currently remaining at open pension funds (OFE). The draft Act provides for the transformation of open pension funds in specialist open-end investment funds with separate sub-funds. The current members of open pension funds, depending on when they reach the pensionable age referred to in Article 24 of the Act of 17 December 1998 on pensions and annuities from the Social Insurance Fund, will become – as of the date of transformation of open pension funds in a specialist open-end investment fund – unit-holders of a retirement sub-fund or a pre-retirement sub-fund of that investment fund. The assets and liabilities of the open pension fund (OFE) will become the assets and liabilities of the retirement sub-fund or the pre-retirement sub-fund, respectively. Each member of the open pension fund will have the right to switch to Pillar I or to transfer the funds from the open pension fund (OFE) to an individual retirement account (IKE), with the option to continue the funding under a contract on additional payments onto the IKE account (the default option provided for in the draft Act is to transfer the funds from OFE to IKE). At the same time, in the case of persons who decide to move to Pillar I, the funds collected in the open pension fund will be credited to an individual account maintained at the Polish Social Insurance Institution (ZUS) and the corresponding OFE assets will be transferred to the Demographic Reserve Fund. The draft Act also provides for the transformation of voluntary pension funds (DFE) into specialist open-end investment funds (SFIO). As of the date of transformation of a DFE into an SFIO, the current members of a DFE will become unit-holders of that DFE fund. The core activities of general pension societies (PTE) will also change. On the date of the transformation of OFEs and DFEs into SFIOs, the current PTEs will become investment fund management companies. The basis for the functioning of the former OFEs, DFEs and PTEs will be the amended Act on individual retirement accounts, and the draft Act provides for changes in tens of statutory laws directly related to the functioning of OFEs, investment funds and the social security system. The draft Act provides for the entry into force of the Act on 1 June 2020, except for provisions which will enter into force on another date. In particular, the provisions on the transformation of OFE and DFE into specialist investment funds and the transformation of PTE into TFI will enter into force on 27 November 2020. As at 31 December 2019, the first reading of the draft Act had taken place in the Sejm and the draft Act had been addressed to the Public Finance Committee and the Family and Social Policy Committee (Paper No 114);

- **Draft Act on the Pension Information Centre.** The draft Act lays down rules for the creation and operation of a new IT system which would serve to collect and share pension information (known as Pension Information Centre (CIE)). It is proposed to entrust the development and operation of the Centre to Polski Fundusz Rozwoju S.A. The CIE would ensure the provision of illustrative information about the status of retirement accounts and the amount of future benefits, the changing the basic personal data in one location, as well as the possibility of receiving information about the status of accounts in electronic form. As at 31 December 2019, the draft Act had been released for public consultation;
- **draft Act on electronic delivery.** The draft Act aims to define the rules for the use of the registered electronic delivery service and the hybrid postal service, and to regulate such services in the legislation so that they may be used in the communication between parties as a legally effective method treated similarly as a traditional registered letter with confirmation of receipt or personal delivery. As at 31 December 2019, the draft Act had been accepted by the Council of Ministers and referred to the Sejm;
- **draft Act amending the Act on tax on civil-law transactions (UD565).** The proposed amendment to the Act on tax on civil-law transactions aims to introduce tax exemption for contracts on the sales and conversion of virtual currencies as defined in Article 2(2) point 26 of the Act of 1 March 2018 on prevention of money laundering and terrorist financing (Journal of Laws 2019, item 115). In the course of legislative work, a reservation was made that the proposed exemption might contribute to increased interest in

cryptocurrencies, which, from a prudential perspective, generate certain risks. As at 31 December 2019, the proposal was being drafted by the government;

- **draft Act amending certain laws to prevent usury** (Sejm paper No 3600/8th term of office) - the proposal was discontinued due to the expiry of the eighth term of the Sejm. The purpose of the draft Act was to take comprehensive and coordinated actions, both in the area of criminal law and through interference with civil-law relations with the aim of eliminating the malpractice of granting loans that constitute usury. The normative act which was to introduce the changes to reduce usury practices of non-bank lending institutions is the Act of 12 May 2011 on consumer credit (Article 7 of the proposal). With respect to the said Act, the proposal provides for, first of all, the reduction of the upper limit of non-interest costs of consumer credit and the introduction of supervision over non-bank lending institutions to be exercised by the KNF Board (Article 7 point 7 of the proposal).

The normative area addressed by the proposed amendments aimed at reducing practices that meet the conditions of exploitation is also the Act of 29 August 1997 – the Banking Law (Article 4 of the proposal) and the Act of 5 November 2009 on credit unions (Journal of Laws 2018, item 2386, as amended, Article 6 of the proposal). Article 78b (Article 4 point 2 of the proposal) is added in the first Act, which provision – similarly as the above-mentioned new provision of Article 7202 § 1 of the Civil Code – represents: - definition of the maximum acceptable limit of non-interest costs, with the difference that due to the nature of loans and credit granted under the Banking Law, the author of the proposal does not restrict the time limit for charging those costs. At the same time it should be noted that according to the proposed provisions (Article 4(2) of the proposal, the added Article 78c), the provisions of Article 7203 § 3 of the Civil Code do not apply to the credit or cash loan agreement granted by a bank. The proposal provides for appropriate application of the new provisions added in the Banking Law in Articles 78b and 78c to the loan or credit agreements concluded by credit unions (Article 6 of the proposal). The draft Act envisages that where the recommendations of the KNF Board concern the granting of consumer credit, the KNF Board must review the recommendations at least once a year, including in particular as regards the provisions relating to recommendations for bank decisions to engage in retail credit exposures on account of consumer credit. The KNF Board must submit the results of the review to the Financial Stability Committee. The proposal also stipulates that in the case of an amendment to the KNF recommendations on granting consumer credit, the KNF Board must take into account the results of the review, considering both the availability of consumer credit and the need to ensure prudent and stable management and security of banks' customers;

- **draft Act amending the Act on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurer' Bureau and the Act on the business of insurance and reinsurance** (UC154). The amendments aim to provide the KNF Board, as the Polish supervisory authority, with fast and effective mechanisms of supervision of foreign insurance undertakings and foreign reinsurance undertakings from an EU Member State other than the Republic of Poland that conduct activities in territory of the Republic of Poland through a branch or otherwise, under the freedom to provide services. The draft Act also includes proposals to modify the tasks and functions of the Insurance Guarantee Fund in relation to provision of repayable financial support from the Fund, and proposals for changes in linking participation in an IT database kept by the Insurance Guarantee Fund with membership of the Fund. As at 31 December 2019, the proposal had been accepted by the European Union Affairs Committee;
- **draft Act amending the Act on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurer' Bureau** (UD569). The amendment aims to introduce a separate, comprehensive regulation concerning the aid fund, which will be managed by the Insurance Guarantee Fund. The regulations will ultimately affect the protection of persons entering into insurance contract in case of a threat to the undertaking's solvency, in particular where an insurance undertaking cannot pay out the compensation or benefits due. The proposed regulations include proposals to modify the tasks and functions of the

Insurance Guarantee Fund in relation to provision of repayable financial support from the Fund, and proposals for changes in linking participation in an IT database kept by the Insurance Guarantee Fund with membership of the Fund. As at 31 December 2019, the proposal had been referred to the Legal Committee;

The UKNF was also involved in the legislative work on the acts of EU legislation:

- Proposal for a Regulation of the European Parliament and of the Council on the law applicable to the third-party effects of assignments of claims (as at 31 December 2019, the proposal was being drafted at the Council of the European Union),
- Proposal for a Regulation (UE) of the European Parliament and of the Council amending Directive 2014/65/EU and Regulations (EU) No 596/2014 and (EU) 2017/1129 as regards the promotion of the use of SME growth markets.

In 2019, the UKNF also took part in legislative work on several dozen implementing acts. The review of regulations issued in 2019 the proposals for which were processed in 2019, and proposals processed in 2019 but not issued before the end of 2019 is presented in Annex No 4.

It should also be noted that the UKNF prepared material for the draft Communication from the Council of Ministers to the Sejm of the Republic of Poland of 30 October 2019 on the implications of the Act of 25 March 2011 amending certain acts in connection with the functioning of the social security system (Journal of Laws, item 398, as amended) and the Act of 6 December 2013 amending certain acts in relation to the definition of rules for the payment of pensions from funds accumulated in open pension funds (Journal of Laws, item 1717).

## 8.2. PREVENTION OF FINANCIAL MARKET ABUSE

### PRELIMINARY INVESTIGATIONS AND ADMINISTRATIVE PROCEEDINGS<sup>41</sup>

In 2019, the KNF Board conducted 26 preliminary investigations to determine whether there were grounds to file a notification of suspected criminal offence, specified in the laws governing the functioning of the financial market in Poland, and 3 preliminary investigations to determine whether there were grounds to initiate administrative proceedings with regard to violation of the legislation to the extent subject to the KNF supervision.

In 2019, the KNF Board conducted 200 administrative proceedings (of the 1st instance) in relation to the following legal acts:

- Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation): 9;
- Act on trading in financial instruments: 11;
- Act on public offering: 35;
- Act on investment funds and management of alternative investment funds: 14;
- Act on the business of insurance and reinsurance: 1;
- Act on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurer's Bureau: 11,
- the Act on payment services: 109;
- Act on statutory auditors, audit firms and public supervision: 2;
- the Administrative Procedure Code: 1,
- other acts: 7.

The administrative proceedings were related to:

- non-performance or improper performance of obligations relating to immediate publication of inside information (Article 17(1) of MAR): 3;
- manipulation of a financial instrument (Article 39 of the Act on trading in financial instruments): 1;
- non-performance or improper performance of disclosure obligations by the issuer (Article 56 of the Act on public offering): 11;
- breach of law in connection with a public offering (Article 16 of the Act on public offering): 1,
- imposing penalties on members of the issuer's management board due to gross violation of Article 56 of the Act on public offering by the issuer (Article 96(6) of the Act on public offering): 5,
- non-performance or improper performance of obligations relating to qualifying holdings (Article 69 of the Act on public offering): 6;
- non-performance or improper performance of obligations relating to qualifying holdings (Article 69 in conjunction with Article 87 of the Act on public offering): 9;
- non-performance or improper performance of obligations relating to qualifying holdings (Articles 69 and 74 of the Act on public offering): 1;
- non-performance of the obligation to announce a tender offer to subscribe for sales or exchange of issuer's shares in a number ensuring 66% of the total number of votes (Articles 73 and 88a of the Act on public offering): 2;
- failure to comply with the obligation to notify a transaction conducted by a person discharging managerial responsibilities or a person closely associated with them (Article 19(1) and (8) of MAR): 3;

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<sup>41</sup> This chapter covers preliminary investigations and administrative proceedings conducted also by organisational units of the UKNF that are not part of the UKNF's Regulatory and Legal Division.

- failure to comply with the prohibition on conducting transactions by persons discharging managerial responsibilities within an issuer during a closed period (Article 19(11) of MAR): 3;
- compliance with the provisions concerning the appointment, composition and operation of the audit committee at public-interest entities: 2;
- granting a fine reduction (arrangement of payment in instalments – Article 189k of the Administrative Procedure Code): 4,
- violation of laws or regulations and other internal rules in connection with practising the profession of an investment adviser and a securities broker: 1;
- irregularities relating to performance of brokerage activities by investment firms, constituting a violation of the law, rules of fair trading, interests of the client (Article 167 of the Act on trading in financial instruments, provisions of implementing regulations to the Act on trading in financial instruments): 5;
- imposition of a fine and withdrawal of authorisation to conduct brokerage activities due to the provision of the service of offering financial instruments in a way that violates the law: 1;
- failure to notify the KNF Board of the intention to become a parent undertaking of a brokerage house (Article 106(1) of the Act on trading in financial instruments): 2;
- failure to notify the KNF Board of the intention to acquire or take up shares of a brokerage house (Article 106(1) of the Act on trading in financial instruments): 1;
- irregularities related to the conduct of activities by investment fund management companies and investment funds (managing investment funds by a company in an unfair or unprofessional manner that failed to ensure due diligence or to consider the best interests of the funds and unit-holders, improper ongoing supervision of an entity entrusted by the company with the management of a portfolio of investment funds, exceeding investment limits, incorrect valuation of assets, irregularities related to the function of the liquidator of investment funds, participation of investment funds in general meetings of issuers): 11;
- remaining the sole participant of investment funds for a period exceeding 6 months and a absence to undertake activities in the area of liquidation of investment funds (Article 65(3a), Article 246(1) point 7 of the Act on investment funds and Act on investment funds and management of alternative investment funds): 1;
- irregularities in the performance of obligations under the agreement for management of assets of an investment fund: 1;
- irregularities in the prevention of conflicts of interest and investment of assets of a fund in securities of an investment fund management company acting as a body of that fund despite the occurrence of a conflict of interest; investing more than 20% of the value of assets of a fund in securities issued by one entity: 1;
- failure to meet deadlines for the settlement of claims (Article 14 of the Act on compulsory insurance): 11;
- failure of payment services offices to provide timely information on the total value and number of executed payment transactions and failure to provide or conclude an insurance contract, a bank guarantee contract or an insurance guarantee contract: 108;
- violation of the statutes of an issuer or provisions of a statutory law, and creating a threat to persons involved in trading in financial instruments: 1,
- presenting to policyholders a proposal for insurance which is not appropriate to their needs: 1,
- violation of other statutory laws: 4.

In 2019, the KNF Board conducted 64 administrative proceedings, following the submission of an application for review of a case, in relation to the following acts and regulations:

- Act on public offering: 24;
- Act on trading in financial instruments, and the implementing Regulation thereto: 10,
- Act on the business of insurance and reinsurance: 4;



- Act on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurer' Bureau: 8;
- Act on investment funds and management of alternative investment funds: 7;
- Regulation on specific accounting principles of investment funds: 1;
- the Administrative Procedure Code: 1;
- Act on payment services: 4;
- Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (MAR): 5.

The administrative proceedings were related to:

- non-performance or improper performance of disclosure obligations by the issuer (Article 56 of the Act on public offering): 6;
- non-performance or improper performance of obligations relating to qualifying holdings (Article 69 of the Act on public offering, Article 69 in conjunction with Article 87 of the Act on public offering, Article 73 of the Act on public offering): 13;
- imposing penalties on members of the issuer's management board due to gross violation, by the issuer, of obligations specified in the Act on public offering (Article 96(6) of the Act on public offering): 5;
- imposition of a fine and withdrawal of authorisation to conduct brokerage activities due to the provision of the service of offering financial instruments in a way that violates the law: 1;
- violation of laws, rules and regulations by a broker (Article 130 of the Act on trading in financial instruments): 1;
- violation of laws related to the distribution of investment certificates of investment funds (Articles 73, 74b, 76 and 83a of the Act on trading in financial instruments): 1;
- failure to comply with the prohibition of manipulation of financial instruments (Article 39(1) in conjunction with Article 39(2) point 4(b) of the Act on trading in financial instruments): 3;
- entrusting a foreign entity with the operations of transmission of customers' orders for the purpose of their execution without an appropriate contract and collecting a cash benefit (a rebate) in a manner contrary to the provisions of law (Article 81a(1) of the Act on trading in financial instruments, and § 8(2) of the Regulation on the procedure and conditions to be followed by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks): 1;
- determining a premium in an amount that failed to ensure at least the fulfilment of all obligations under insurance contracts and the payment of the costs of the insurance activity of an insurance undertaking (Article 18(2) of the Act on the business of insurance and reinsurance): 4;
- failure to meet deadlines for the settlement of claims (Article 14 of the Act on compulsory insurance): 8;
- failure by funds to comply with the limits on investment (Article 95(1) of the Act on investment funds and management of alternative investment funds): 1;
- investing the assets of a fund despite a conflict of interest, and failure to comply with limits on investment (Article 107(2) point 1 in conjunction with Article 145(9) and (3) of the Act on investment funds and management of alternative investment funds): 1;
- failure to ensure that the disposal of units of investment funds takes place in accordance with the law and failure to ensure that the net asset value and the value of a unit of investment funds are calculated in accordance with the law (Article 72(1) points 2 and 4 in conjunction with Article 72(4) of the Act on investment funds and management of alternative investment funds): 1;
- remaining, unlawfully, the sole unit-holder of closed-end investment funds of non-public assets for a period exceeding 6 months, or failure to liquidate closed-end investment funds of non-public assets due the expiry of the 6 months' period (Article 65(3a) and Article 246(1) of the Act on investment funds and management of alternative investment funds): 1;

- breach of investment limits, placement of assets in a public company without a fair analysis of its situation, failure to prepare financial statements at the date of opening the liquidation of investment funds, failure to announce half-yearly information on the liquidation of the investment fund, and maintaining liquid assets of the investment fund at the date of valuation below the required threshold (Articles 145, 196 and 10 of the Act on investment funds and management of alternative investment funds): 1;
- carrying out the liquidation of an investment fund in a manner contrary to the law, and introduction into the statutes of an investment fund of a provision that is incompatible with the law (Article 249 of the Act on investment funds and management of alternative investment funds): 2;
- incorrect valuation of shares of public company (§ 23 and § 24 of the Regulation on specific accounting principles of investment funds): 1;
- granting a fine reduction (Article 189k of the Administrative Procedure Code): – 1;
- failure by payment services offices to provide or conclude in a timely manner an insurance contract, bank guarantee contract or insurance guarantee (Article 125(6) of the Act on payment services): 2;
- failure by payment services offices to provide timely information on the total value and number of executed payment transactions (Article 128(1) of the Act on payment services): 2;
- conducting transactions during a closed period (Article 19(11) of MAR): 2;
- failure to report transactions conducted during a closed period by a person discharging managerial responsibilities within an issuer or persons closely associated with them (Article 19(1) and (8) of MAR): 3;
- refusing to grant KNF authorisation to conduct brokerage activities due to the entity's failure to comply with the statutory requirements for such authorisation: 1;
- violation of provisions concerning the offering of financial instruments (Article 72 of the Act on trading in financial instruments in conjunction with § 8(1) of Regulation of the Minister of Finance of 24 September 2012 on the procedure and conditions to be followed by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks, and the principles of fair trading: 1;
- removal of a person from the Register of Tied Agents of Investment Funds due to the violation of the Act on trading in financial instruments: 1.

**Table 78. The number of preliminary investigations and administrative proceedings initiated and concluded (1st instance) in the years 2016-2019**

Detailed list	2016		2017		2018		2019	
	The number of initiated proceedings	The number of concluded proceedings	The number of initiated proceedings	The number of concluded proceedings	The number of initiated proceedings	The number of concluded proceedings	The number of initiated proceedings	The number of concluded proceedings
Preliminary investigation	10	18	10	10	5	1	13	13
Administrative	379	527	385	205	56	68	45	112
<b>Total</b>	<b>389</b>	<b>545</b>	<b>395</b>	<b>215</b>	<b>61</b>	<b>69</b>	<b>58</b>	<b>125</b>

Source: UKNF's own study

In 2019, 112 final administrative decisions (1st instance) were issued, including:

- 45 final decisions to impose a fine,
- 1 final decision to withdraw authorisation to conduct business as an investment fund management company and to impose fines,
- 2 final decisions to withdraw authorisation to conduct business as an investment fund management company, to impose fines and to discontinue part of administrative proceedings,
- 2 final decisions to impose a fine and to exclude an issuer from trading on the regulated market,
- 1 final decision to impose a fine and to withdraw authorisation to conduct brokerage activities,
- 7 final decisions on the imposition of a fine and partial discontinuance of administrative proceedings,
- 1 final decision to impose a fine and to waive part of a fine,
- 1 final decision prohibiting continuation of a public offering,
- 1 final decision to waive a fine and to discontinue part of administrative proceedings,
- 33 final decisions to discontinue administrative proceedings,
- 17 final decisions to waive a fine pursuant to Article 189f of the Code of Administrative Procedure,
- 1 final decision on refusal to grant a fine reduction.

In 2019, 36 final administrative decisions were issued following the examination of requests for review of a case, including:

- 22 final decisions upholding a final decision appealed against,
- 1 final decision to reverse a final decision appealed against and to impose a smaller fine,
- 8 final decisions to reverse a final decision appealed against and to impose a smaller fine,
- 1 final decision to reverse a final decision appealed against, to discontinue part of proceedings in the first instance, and to impose a fine in the same amount,
- 2 final decisions to reverse a final decision appealed against, to discontinue part of proceedings in the first instance and to impose a smaller fine,
- 1 final decision to reverse a final decision appealed against and to discontinue proceedings in the first instance,
- 1 final decision to reverse a final decision appealed against and to issue a final decision upholding the refusal to grant authorisation.

The total amount of fines imposed in 2019 was PLN 85 618 800 (1st instance), including fines imposed on:

- issuers: PLN 3 700 000,
- shareholders and other natural persons: PLN 34 080 000,
- members of management boards of public companies: PLN 90 000,
- investment firms: PLN 17 800 000,
- investment fund management companies: PLN 28 050 000,
- insurance undertakings: PLN 1 708 000,
- payment services offices: PLN 20 800,
- other entities: PLN 170 000.

## NOTIFICATION OF A SUSPECTED CRIMINAL OFFENCE

In 2019, the UKNF submitted 71 notifications of reasonable suspicion of a criminal offence to the Regional Prosecutor's Office in Warsaw and to District Prosecutor's Offices, with regard to, among others, the following legal acts:

- Act on trading in financial instruments: 38;
- Act on public offering: 3;
- Banking Law: 3,
- Penal Code: 11,
- Accounting Act: 10,
- Act on payment services: 12;
- Act on investment funds and management of alternative investment funds: 2;
- Act on consumer credit: 1.

In some cases, the notifications concerned several norms, hence, the sum of the violated legal norms is greater than the total number of notifications sent in 2019.

**Table 79. Notifications drawn up in the years 2016-2019 by type of the violated provision of law**

Type of violated provision of law	Number of notification of suspected criminal offence			
	2016	2017	2018	2019
Article 183 of the Act on trading in financial instruments (manipulation of a financial instrument)	9	14	5	15
Articles 180 and 181 of the Act on trading in financial instruments (unlawful disclosure of inside information and insider trading)	9	9	7	11
Article 100 of the Act on public offering (providing false data or holding back true data in the prospectus and reports)	0	2	5	3
Article 178 of the Act on trading in financial instruments (pursuing activities in the area of trading in financial instruments without permission)	6	12	10	9
Article 171(4) of the Banking Law (giving false data or holding back real data)	3	9	7	6
Other*	27	27	19	19
<b>Total:</b>	<b>54</b>	<b>73</b>	<b>60</b>	<b>63</b>

Source: UKNF's own study

\* Violated legal norms:

- Article 171(2) of the Banking Law (unauthorised use of terms indicating the performance of banking activities under a name, advertisement or to designate one's own business activity),
- Article 171(4) of the Banking Law (pursuing activities without authorisation),
- Article 150(1) of the Act on payment services (operating without authorisation in the area of provision of payment services),
- Article 289(1) of the Act on investment funds (disclosure or misuse of information protected by professional secrecy),
- Article 77 of the Accounting Act (bookkeeping contrary to the principles set out in in the Act),
- Article 59h of the Act on consumer credit (pursuing business without the required entry in the register of non-bank lending institutions),
- Article 296 § 1a of the Penal Code (acting to the detriment of an organisational unit).

\*\*Number of notifications made to the Prosecutor's Office in 2019 was 71; they included 63 breaches of specific statutory laws. The number of notifications does not include supplementary notifications.

Out of the notifications submitted to the Prosecutor's Offices in 2019, 63 preparatory proceedings were initiated (3 of them were subsequently discontinued, a complaint was

lodged in 1 case; as at 31 December 2019, the complaint was still pending at the court); initiation of investigation was refused in 2 cases (in 1 case a complaint was lodged by the UKNF, the complaint was considered by the court). As at 31 December 2019, the remaining notifications awaited the prosecutor's final decision as to further course of the proceedings.

## BILLS OF INDICTMENT

In 2019, the UKNF received information that Prosecutor's Offices sent 17 bills of indictment to common courts following notifications of reasonable suspicion of criminal offence from the UKNF.

**Table 80. Bills of indictments sent by the Prosecutor's Offices to courts in 2019 by type of violated legal norm**

Type of violated provision of law	Bills of indictment
Article 178 of the Act on trading in financial instruments (conducting brokerage activity without authorisation)	6
Article 183 of the Act on trading in financial instruments (manipulation of a financial instrument)	3
Article 171(1) and (3) of the Banking Law (conducting banking activity without authorisation)	1
Article 100 of the Act on public offering (violation of the terms and conditions of the public offering of securities)	2
Other*	5
<b>Total</b>	<b>17</b>

Source: UKNF's own study

\* Violated legal norms:

- Article 296 of the Penal Code (abuse of powers or failure to fulfil obligations),
- Article 77 of the Accounting Act (infringement of obligations in the field of bookkeeping and preparation of financial statements),
- Article 46(1) of the Act on capital market supervision (impediment to the smooth progress of proceedings),
- Article 284 of the Penal Code (misappropriation).

## JUDGMENTS OF CONVICTION AND CONDITIONAL DISCONTINUANCE

In 2019, common courts issued 25 judgments of conviction and conditional discontinuance of criminal proceedings following notification of justified suspicion of a criminal offence submitted by the UKNF and following the activities undertaken *ex officio* by the prosecutor's office in respect of the following statutory laws:

- Act on trading in financial instruments: 17 judgments;
- Banking Law: 3 judgments,
- on bonds: 1 judgment,
- on payment services: 1 judgment,
- Account Act: 1 judgment,
- Penal Code: 2 judgments.

Judgments issued in 2019:

- Judgment of the District Court (*sąd rejonowy*) in Chelm of 4 January 2019 in a case under Article 183(1) of the Act on trading in financial instruments. The court conditionally discontinued proceedings against two defendants for a probationary period of 2 years and ordered a monetary performance in the amount of PLN 5 000 and PLN 3 000, and ordered ten defendants to pay fines ranging from PLN 8 000 to PLN 20 000 (final judgment). The notification was submitted on 30 December 2008;
- Judgment of the District Court in Dzierżoniów of 31 January 2019 in a case under Article 183(1) of the Act on trading in financial instruments. The court imposed on the defendant

- a fine of PLN 28 000 (non-final judgement). The notification was submitted on 5 April 2017;
- Judgment of the Regional Court (*sąd okręgowy*) in Wrocław of 28 February 2019 in a case under Article 171(1) and (3) of the Banking Act and Article 286 of the Penal Code. The court imposed on the defendant a penalty of imprisonment for 10 years and the obligation to compensate for the damage caused (non-final judgement). The notification was submitted on 6 October 2009;
  - Judgment of the Regional Court in Warsaw of 15 March 2019 in a case under Article 183(1) of the Act on trading in financial instruments. In relation to two defendants, the court upheld the judgment of conviction of 6 July 2018 and imposed the obligation to compensate for the damage caused in the amount of PLN 3 829 390 (final judgement). The notification was submitted on 5 February 2004;
  - Judgment of the Regional Court in Świdnica of 23 April 2019 in a case under Article 183(1) of the Act on trading in financial instruments. The court reversed the judgment of conviction of 31 January 2019 and ordered the defendant to pay a fine of PLN 12 000 (final judgment). The notification was submitted on 5 April 2017;
  - Judgment of the District Court for Warszawa-Śródmieście of 7 May 2019 in a case under Article 183(1) of the Act on trading in financial instruments. The court sentenced the defendant to a fine of PLN 10 000 (non-final judgment). The notification was submitted on 25 August 2015;
  - Judgment of the Court of Appeal in Gdańsk of 21 May 2019 in a case under Article 171(1) and (3) of the Banking Act. The court upheld the judgment of 7 August 2017 sentencing the defendant to imprisonment for a term of 1 year and to a fine of PLN 10 000 (final judgement). The notification was submitted on 15 January 2013;
  - Judgment of the District Court for Warszawa-Śródmieście of 28 May 2019 in a case under Article 181(1) of the Act on trading in financial instruments. The court imposed a fine of PLN 40 000 on the defendant (final judgement). The notification was submitted on 3 April 2017;
  - Judgment of the District Court for Warszawa-Wola of 8 June 2019 in a case under Article 184(2) of the Act on trading in financial instruments. The court sentenced two defendants to a fine of PLN 10 000 each (non-final judgment). The notification was submitted on 16 January 2019.
  - Judgment of the Court of Appeal in Warsaw of 12 June 2019 in a case under Article 171(1) of the Banking Act. The court reversed the judgement of conviction of 10 May 2018 and sentenced two defendants to: imprisonment for a term of 6 years and 6 months and imprisonment for a term of 5 years and 6 months, and imposed the obligation to compensate for the damage caused (final judgement). The notification was submitted on 15 February 2012;
  - Judgment of the Regional Court in Częstochowa of 26 June 2019 in a case under Article 38(1) and (2) of the Act on bonds. The court sentenced the defendant to imprisonment for a term of 2 years, conditionally suspended the enforcement of the sentence for a period of 4 years and imposed a fine of 100 daily rates of PLN 20 each (non-final judgment). The notification was submitted on 1 February 2013;
  - Judgment of the District Court in Częstochowa of 19 July 2019 in a case under Article 178 of the Act on trading in financial instruments. The court imposed a fine of PLN 6 000 on the defendant (non-final judgement). The notification was submitted on 13 September 2013;
  - Judgment of the District Court for Wrocław-Śródmieście of 10 September 2019 in a case under Article 181(1) of the Act on trading in financial instruments. The court sentenced the defendant to a fine of PLN 50 000 (non-final judgment). The notification was submitted on 15 December 2014;
  - Judgment of the District Court for Warszawa-Wola of 17 September 2019 in a case under Article 178 of the Act on trading in financial instruments. The court sentenced the defendant to a fine of PLN 100 000 (non-final judgment). The notification was submitted on 31 January 2017;

- Judgment of the District Court for Warszawa-Wola of 23 September 2019 in a case under Article 178 of the Act on trading in financial instruments. The court conditionally discontinued the criminal proceedings against the defendant, setting a probationary period of 3 years and ordered a monetary performance in the amount of PLN 10 000 (final judgment). The notification was submitted on 16 June 2015.
- Judgment of the District Court for Warszawa-Mokotów in Warsaw of 4 October 2019 in a case under Article 183(1) of the Act on trading in financial instruments. The court conditionally discontinued the criminal proceedings against the defendant, setting a probationary period of 1 year and ordered a monetary performance in the amount of PLN 5 000 (non-final judgment). The notification was submitted on 5 April 2017;
- Judgment of the Regional Court in Warsaw of 8 October 2019 in a case under Article 181(1) of the Act on trading in financial instruments. The court upheld the judgment of 28 May 2019 sentencing the defendant to a fine of PLN 40 000 (final judgement). The notification was submitted on 3 April 2017;
- Judgment of the Regional Court in Lublin of 7 November 2019 in a case under Article 183(1) of the Act on trading in financial instruments. The court upheld the judgment of 4 January 2019 conditionally discontinuing proceedings against two defendants for a probationary period of 2 years and a monetary performance in the amount of PLN 5 000 and PLN 3 000, and ordered ten defendants to pay fines ranging from PLN 8 000 to PLN 20 000 (final judgment). The notification was submitted on 30 December 2008;
- Judgment of the District Court for Wrocław-Krzyków of 29 November 2019 in a case under Article 77 point 1 of the Accounting Act. The court conditionally discontinued the criminal proceedings against two defendants, setting a probationary period of 1 year (non-final judgment). The notification was submitted on 26 November 2015;
- Judgment of the District Court for Warszawa-Śródmieście of 6 December 2019 in a case under Article 183(1) of the Act on trading in financial instruments. The court conditionally discontinued the criminal proceedings against the defendant, setting a probationary period of 2 years and ordered a monetary performance in the amount of PLN 5 000 (non-final judgment). The notification was submitted on 20 January 2015;
- Judgment of the Regional Court in Warsaw of 9 December 2019 in a case under Article 296 § 1 of the Penal Code. The court sentenced five defendants to: imprisonment for a term of 10 years, imprisonment for a term of 7 years, imprisonment for a term of 4 years, imprisonment for a term of 1 year and 6 months, and imprisonment for a term of 2 years, suspending the enforcement of the last sentence for a period of 5 years (non-final judgment). The notification was submitted on 4 February 2016;
- Judgment of the Regional Court in Cracow of 12 December 2019 in a case under Art. 286 § 1 and Article 270 § 1 of the Penal Code, and Article 150 of the Act on payment services. The court sentenced one defendant to imprisonment for a term of 2 years and 6 months and ordered the defendant to compensate for the damage caused, and the other defendant to imprisonment for a term of 10 months, suspending the enforcement of that sentence for a probationary period of 2 years (non-final judgment). The notification was submitted on 27 February 2017;
- Judgment of the District Court for Warszawa-Mokotów of 17 December 2019 in a case under Article 183(1) of the Act on trading in financial instruments. The court sentenced the defendant to a fine of 150 daily rates of PLN 20 each (non-final judgment). The notification was submitted on 6 April 2017;
- Judgment of the District Court for Poznań-Stare Miasto in Poznań of 20 December 2019 in a case under Article 284 § 2 of the Penal Code. The court sentenced the defendant to imprisonment for a term of 1 year and 6 months, suspending the enforcement of the sentence for a probationary period of 2 years, a fine of 100 daily rates of PLN 50 each and imposed an obligation to compensate for the damage caused (non-final judgment). The notification was submitted on 30 January 2013;
- Judgment of the District Court for Warszawa-Śródmieście of 23 December 2019 in a case under Article 181(1) and Article 183(1) of the Act on trading in financial instruments. The

court sentenced the defendant to a fine of PLN 50 000 (non-final judgment). The notification was submitted on 8 July 2014.

Information about the final and binding nature of judgements or the lack thereof is given as at 31 December 2018.

**Table 81. Judgments of conviction and conditional discontinuance in 2019 by type of violated provision of law**

The basis for conviction	Number of judgments
Article 183 of the Act on trading in financial instruments (manipulation of financial instrument)	9
Article 178 of the Act on trading in financial instruments (pursuing activities in the area of trading in financial instruments without authorisation)	4
Article 178 of the Act on trading in financial instruments (pursuing activities in the area of trading in financial instruments without authorisation)	3
Article 171(1) and (3) of the Banking Act (conducting banking activity without authorisation)	3
Other*	6
<b>Total</b>	<b>25</b>

Source: UKNF's own study

\* Grounds for conviction:

- Article 184 of the Act on trading in financial instruments (obstruction of inspection activities),
- Article 150 of the Act on payment services (illegal pursuit of activities),
- Article 77 point 1 of the Accounting Act (infringement of obligations in the field of bookkeeping),
- Article 38(1) and (2) of the Act on bonds (issuing bonds contrary to the Act),
- Article 296 § 1 of the Penal Code (damage to trade),
- Article 284 § 2 of the Penal Code (misappropriation).

## POWERS EXERCISED IN CRIMINAL PROCEEDINGS

As part of the powers exercised in criminal proceedings, the legal counsel authorised by the Chair of the KNF Board act as agents of victims and agents of the subsidiary prosecutors.

**Table 82. Number of cases in the years 2017-2019 in which legal counsel were authorised by the Chair of the KNF Board in criminal proceedings**

Type of appearance	Number of cases		
	2017	2018	2019
Appearances as agents of the victim	150	218	241
Appearances as agents of the subsidiary prosecutor	36	60	60
<b>Total</b>	<b>186</b>	<b>278</b>	<b>301</b>

Source: UKNF's own study

In addition, legal counsel filed 19 complaints against the interim decisions of the Prosecutor's Office refusing to initiate or discontinue pre-trial proceedings.

## POWERS EXERCISED IN CIVIL PROCEEDINGS

In civil cases arising from relations due to participation in trading on the financial market or concerning entities operating in that market, the Chair of the KNF Board has the powers of a public prosecutor under, among others, Article 60 of Civil Procedure Code.

As regards the banking market, in 2019 the Chair of the KNF Board exercised his rights of a public prosecutor in civil proceedings in respect of:

- annulment or revocation of a resolution of the general meeting of a supervised entity; as at 31 December 2019, the appeal proceedings were pending;



- revocation of a resolution of the meeting of representatives of members of a supervised entity; the proceedings were discontinued on 14 May 2019.

As regards the capital market, in 2019 the Chair of the KNF Board exercised his rights of a public prosecutor in civil proceedings in respect of:

- annulment or revocation of a resolution of the general meeting of a public company; as at 31 December 2019, the proceedings were pending before the court of first instance;
- infringement of corporate rights of a minority shareholder: 2 cases (as at 31 December 2019, both proceedings were pending before the court of first instance);
- payment of the fee for a transfer of funds referred to in Article 79(2) of the Act on investment funds and management of alternative investment funds; on 26 February 2019 the proceedings were concluded by dismissing the claim (according to the position of the Chair of the KNF Board expressed in the course of the proceedings); as at 31 December 2019 the appeal proceedings were still pending.

### 8.3. PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING (AML/CFT ACTIVITIES)

In 2019, inspections were conducted in relation to the prevention of money laundering and terrorist financing (hereinafter: ‘AML/CFT’) under the Act of 1 March 2018 on the prevention of money laundering and terrorist financing (Journal of Laws 2019, item 1115, as amended, hereinafter: ‘AML/CFT Act’) at obliged institutions supervised by the KNF Board. The inspections of compliance with the AML/CFT Act were conducted in the form of comprehensive exercises (covering all provisions of the AML/CFT Act), thematic exercises (examination of certain topics at the entities selected for inspection) and targeted exercises (covering e.g. the implementation of recommendations based on previous inspections). Since the AML/CFT Act imposed on obliged institutions new and more stringent requirements, the inspection activities were carried out in relation to the entities which were most exposed to the risk of their business being used for money laundering and terrorist financing. The AML/CFT inspections were conducted with reference to the *Report from the Commission to the European Parliament and the Council on the assessment of the risks of money laundering and terrorist financing affecting the internal market and relating to cross-border activities* (COM(2017) 340 final), published on 26 June 2017, and its recommendations concerning adoption of appropriate measures to mitigate any identified risk.

The Report, in relation to inspection activities of supervisory authorities, recommends that financial supervisors should carry out thematic inspections within 2 years from the date of publication of the Report regarding, *inter alia*:

- the private banking segment,
- the activities of payment institutions.

Also, given the areas of risk identified during the analytical activities, the inspections covered the relationships between payment institutions and the banking sector entities on one hand and the entities whose activities are related to the trade in virtual currencies on the other hand.

Following the introduction of a new statutory requirement concerning the identification and assessment of risk of money laundering and terrorist financing in relation to the activities of obliged institutions (hereinafter: risk assessment of an obliged institution), the UKNF verified, during the inspections, the methodology used to perform and document the risk assessment. In justified cases, the risk assessment was also verified as part of the ‘off-site’ analytical process.

#### **Table 83. Number of inspections conducted by the KNF at supervised entities in 2019 in the area prevention of money laundering and terrorist financing**

Inspection activities at entities	Number
Commercial banks	9
Cooperative banks	7
Branches of credit institutions	4
Brokerage houses	1
Investment fund management companies	1
Domestic payment institutions	6
Small payment institutions	2
Credit unions	3
Life insurance undertakings	2
Electronic money institution	1
<b>Total</b>	<b>36</b>

Source: UKNF's own study

In the course of 36 AML/CFT inspections, 322 irregularities were identified and grouped in 13 categories of breaches corresponding to the areas inspected, as shown in Table 84.

**Table 84. Irregularities identified in 2019 at obliged institutions by type of breach**

Item	Areas of failures	Number	Share (%)
1.	Risk assessment and application of financial security measures	75	23.29%
2.	Analysis of transactions	49	15.22%
3.	Internal procedures	44	13.66%
4.	Submission of information to the General Inspector of Financial Information	39	12.12%
5.	Organisation of the AML/CFT process	36	11.18%
6.	Assessment of institution's risk	32	9.94%
7.	Internal control system	24	7.45%
8.	Training for employees	6	1.86%
9.	Stopping transactions, blocking accounts and freezing assets	6	1.86%
10.	Information accompanying money transfers	5	1.55%
11.	Other	3	0.93%
12.	Implementation of KNF Recommendations	2	0.62%
13.	Storage and archiving of documents	1	0.31%
<b>Total</b>		<b>322</b>	<b>100%</b>

Source: UKNF's own study

The analysis of irregularities by sector structure has shown that most breaches were identified in the payment institutions sector. Most irregularities were found in relation to risk assessment and application of financial security measures towards a customer, the analysis of transactions, and internal procedures.

The errors identified during the 2019 inspection activities in all financial market sectors under assessment are as follows:

- failure to assess the risks of money laundering and terrorist financing and failure to apply financial security measures towards customers,
- failure to update the data on customers and their beneficial owners which might affect their previous risk assessment,
- incorrect identification of the beneficial owner,
- lack of documentation concerning the status of Politically Exposed Person,

- failure to update the customer’s risk assessment within the set time limits,
- failure to verify the sources of assets, especially in relation to the customers of the private banking segment,
- inappropriate parameters of the matrix of the customer’s risk assessment in the IT system,
- inadequate quality of analysis of transactions and scope of documentation on the results,
- the analytical process failed to identify transactions that might be related to money laundering despite the occurrence of such operations,
- failure to comply with the requirements for the day-to-day analysis of transactions and the requirements related to the analysis of transactions carried out as day-to-day monitoring of the customer’s business relationships and to the documentation on the results of the analysis of transactions,
- too remote time limits for the completion of the analysis of transactions and for closing the alerts,
- incompatibility of internal regulations with applicable laws,
- failure to consider, in internal regulations, all the matters required under the AML/CFT Act,
- failure to include, in internal procedures, provisions relating directly to the actual or potential breaches in the area of AML/CFT reported by employees,
- delays in the adaptation of internal regulations to the provisions of the AML/CFT Act,
- insufficient scope, quality and/or frequency of management information,
- no formal assignment of tasks and responsibilities of persons responsible for the fulfilment of requirements under the AML/CFT Act,
- breach of the principle of separation of the operational and supervisory functions in the area of AML/CFT.
- failure to perform the risk assessment of an obliged institution with the set time limit,
- determining the obliged institution’s risk related to money laundering and terrorist financing at a level that is too low in relation to the specific nature of the entity and to the post-inspection findings,
- failure to consider, in the assessment of the level of the obliged institution’s risk, material factors related to the entity’s activities,
- failure to determine the level of inherent, the effective mitigants or residual risk in the risk assessment of an obliged institution,
- inappropriate methodology of assessment of the risk of money laundering and terrorist financing in relation to the activities of an obliged institution,
- failure to notify the GIFI of transactions potentially related to money laundering,
- errors in completing the ‘transaction title’ field in the notice submitted to the GIFI,
- delays in the submission of information on transactions to the GIFI,
- inadequate quality of AML/CFT inspections due to irregularities found by the UKNF,
- the internal control system did not cover the key elements of the AML/CFT process,
- although irregularities were identified in the internal control system, the related corrective measures were not effective enough,
- failure to comply, or delays in complying, with the requirement to provide the persons responsible for the AML/CFT tasks with training programmes regarding such tasks,
- failure to verify the customer database immediately after an update of sanction lists,
- failure to post details of the actual payer and the actual payee where a payment transaction is carried out,
- failure to implement, or partial implementation of, KNF recommendations,
- disclosure to unauthorised persons of the fact that the GIFI has been notified of a suspicion that a customer might have carried out transactions potentially related to money laundering,
- disclosing to unauthorised persons information about the ongoing analysis related to money laundering.

The process of removing the irregularities identified during the UKNF inspections was monitored on the basis of periodic reports submitted by the entities under inspection in which the entities provided a detailed description of corrective measures taken by them to eliminate the irregularities.

Following the identification of breaches of the AML/CFT Act during inspections:

- the KNF Board issued a warning to the Presidents of Management Boards of 3 commercial banks as persons responsible for implementing the requirements laid down in the AML/CFT Act, and to a cooperative bank and a branch of a credit institution due to the conduct of business in breach of the AML/CFT rules,
- the UKNF initiated administrative proceedings in respect of imposition of administrative penalties on obliged institutions,
- in relation to 2 entities from the payment services sector, the UKNF took measures to withdraw their authorisation to conduct business.

In 2019, the UKNF continued its cooperation with the General Inspector of Financial Information (GIFI), in particular in the area of:

- notification of transactions the circumstances of which that the transaction is related to money laundering or terrorist financing,
- reporting irregularities identified at obliged institutions in the course of ongoing analysis,
- exchange of information on the plans and results of inspections at obliged institutions,
- active participation in the activities of the Financial Security Committee attached to the GIFI,
- participation in working meetings, training sessions and workshops,
- participation in activities aimed at developing the national risk assessment of money laundering and terrorist financing, including providing a substantive contribution to the GIFI,
- preparation, as appropriate, of the list of information on technical compliance of the Polish AML/CFT system with the recommendations of the Financial Action Task Force (FATF) and demonstration of the effectiveness of the system in connection with the planned evaluation of the Polish AML/CFT system as part of the 5th round of evaluation of Poland run by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) at the Council of Europe.

In 2019, the following documents were published:

- *UKNF Statement on customer identification and customer identity verification at banks and branches of credit institutions through video ID verification*, due to business relationships and/or transactions being entered into to offer new products and services and due to products or services being offered through new distribution channels,
- *UKNF Communication on the publication of the National Risk Assessment of Money Laundering and Terrorist Financing*, which recommends that obliged institutions should analyse their own risk assessments and update them according to the current national risk assessment.

A letter was also addressed to cooperative banks concerning a high risk associated with establishing relations with entities whose activities are related with the trade in and management of virtual currencies, and the need to mitigate such risk.

Since the European Commission pointed to the significant risk associated with the payment services sector, measures were taken to obtain information from representatives of the banking sector about their relations with payment institutions. The received responses were used to prepare a draft questionnaire on the financial security measures applied by the banking sector and on the risk assessment in relation to payment institutions.

The KNF Board also carried out the following AML/CFT activities:

- off-site inspections preceded by in-depth analysis, in particular in relation to entities generating high risk of money laundering and terrorist financing,
- issuing opinions on draft internal AML/CFT regulations submitted to the UKNF by supervised entities,
- quarterly analysis of statistical reports concerning, *inter alia*, submission of information on the implementation of the AML/CFT Act to the GIFl; the purpose of that analytical work is to indicate comparisons, relations and trends that occur at supervised entities and to identify issues that require in-depth verification as part of the exchange of correspondence with the entity and/or the conduct of inspection activities,
- assessment of the financial security measures adopted by supervised entities and declared at the request of the KNF Board,
- cooperation with the National Association of Credit Unions with regard to measures aimed at developing systemic solutions on the classification to an appropriate group of risks of ML/TF of inactive members of the credit unions sector.

In addition, following the amendment to the existing legislation, the KNF Board established cooperation with the National Clearing House (KIR) on the use of KIR resources.

## 8.4. PROTECTION OF INTERESTS OF NON-PROFESSIONAL FINANCIAL MARKET PARTICIPANTS

### BASIC AREAS OF ACTIVITY

One of the statutory objectives of financial market supervision is to ensure protection of interests of participants in this market. The supervisory activities of the KNF Board in this respect consist in constant monitoring of market practices as well as in interventions, especially in the areas of activity of the supervised entities where violations of the law or interests of non-professional financial market participants may occur.

The KNF Board monitors market practices by exercising its supervisory powers allowing it to request information and clarifications directly from KNF-supervised entities, and to collect data on its own. Supervisory activities are undertaken in response to problems currently occurring in the market, identified on the basis of, *inter alia*, information from non-professional financial market participants.

Such reports are a very valuable source of information on the functioning of the financial market. The reports are used to examine and assess the operation of supervised entities. However, it should be stressed that the tasks of the KNF Board do not include reviewing the reported defences or taking a position on individual matters presented in the correspondence addressed to the supervisory authority.

If the irregularities found in the activities of a supervised entity are confirmed, the collected information provide the grounds for adopting appropriate systemic supervisory measures to eliminate such practices and to properly shape the market in the future. The following supervisory activities are conducted to the extent of the powers conferred on the KNF Board according to the applicable legislation.

The scope of tasks carried out by the supervisory authority in the area of protection of non-professional financial market participants includes in particular:

- analytical and explanatory work on signals received, in particular, from the recipients of financial services and government authorities or civil society organisations acting for the protection of financial market participants, regarding the activities of KNF-supervised entities, with regard to violations of law or legally protected interests of the recipients of

financial services and threats to transparency and confidence in the financial market associated with it,

- undertaking supervisory measures with respect to market practices of financial market entities on the basis of signals received,
- carrying out analytical activities related to standard contracts and product design, on the basis of signals received.

## TOTAL REPORTS FROM THE MARKET

In 2019, the UKNF received a total of 4 812 signals from non-professional financial market participants regarding irregularities related to the activities of KNF-supervised entities in the insurance, capital, banking, pension, payment services and credit unions sectors. Those reports were related to activities subject to the KNF supervision or supervision by a supervisory authority of an EEA Member State which authorised the entity (granted a licence) to carry out the activity taken up by that entity in the territory of the Republic of Poland under the Community freedom of establishment using the principle of the EU single passport.

Compared to 2018 (which saw 5 709 notifications of irregularities), during the period covered by this report the number of notifications decreased by 15.6%.

In 2019, the UKNF also reported the receipt of 1084 other messages regarding the activities of KNF-supervised entities or the functioning of financial markets.

### Information concerning banking sector entities

During the period covered by this report, the UKNF received 2 281 signals concerning improper functioning of banking sector entities. Compared to 2018, the number of reports regarding the banking sector fell by 22%.

The main issues were related to:

- maintaining bank accounts (including management of an account, irregularities related to account blocking due to bailiff execution, the amount of the fees and commissions collected),
- servicing loans and credits (the signals concerned mostly irregularities resulting from the management of agreements, the amount of fees and commissions collected by banks, and issues related to bank's debt recovery activities),
- other activities conducted by banks (including bonds offered by banks, distribution of funds, and offering of insurance/investment products),
- quality of service (problems related mainly to improper or incompetent service provided by bank employees were signalled),
- servicing mortgage loans (the reports concerned mostly irregularities in the performance of a contract),
- the handling of payment instruments (including irregularities regarding the method and/or date of settlement of transactions made with cards as well as the amount of fees and commissions collected by banks).

**Table 85. Reports received by the UKNF and relating to the activities of banking sector entities in the years 2018-2019**

Type of entity	2018	%	2019	%
Commercial banks	2 699	92.46%	2078	91.10%
Cooperative banks	120	4.11%	119	5.22%
Branches of EU credit institutions	84	2.88%	76	3.33%
EU cross-border credit institutions	15	0.51%	6	0.26%
Foreign branches of financial institutions	1	0.03%	0	0.00%
Mortgage credit intermediaries and agents	0	0.00%	2	0.09%
<b>Total</b>	<b>2 919</b>	<b>100.00%</b>	<b>2281</b>	<b>100.00%</b>

Source: UKNF's own study

The breakdown of reports received by the UKNF in the years 2018-2019 and relating to the activities of commercial and cooperative banks (by subject-matter) is presented in Tables 6.1. and 6.2. in Annex 6.

#### Information concerning payment service providers other than banking sector entities and credit unions

In 2019, the UKNF received 83 reports on irregularities in the activities of payment service providers other than banking sector entities and credit unions. The issues raised in those reports were related primarily to non-execution or late execution of transactions, and subsequently improper or incompetent client service. Compared to 2018, the number of reports concerning payment services provided by entities other than banking sector entities and credit unions increased by 33.9%.

#### Information concerning credit unions sector entities

During the period covered by this report, 50 reports related to credit unions were received. Compared to 2018, the number of reports fell by nearly 12.3%.

The issues raised in the reports concerned, among others:

- servicing of credits and loans (including in particular problems with contract management, the amount of fees and commissions collected, and debt collection),
- maintaining accounts (including issues such as management of the account, and the amount of fees and commissions collected).

The breakdown of reports received by the UKNF in the years 2018-2019 and relating to the activities of credit unions (by subject-matter) is presented in Table 6.3. in Annex 6.

#### Information concerning insurance sector entities

During the period covered by this report, the UKNF received a total of 1848 reports concerning activities of insurance sector entities, including 158 reports concerning insurance undertakings established in Poland and offering life insurance (which accounted for 8.57% of all signals reported in the sector), 1498 reports concerning insurance undertakings offering non-life insurance (which accounted for 81.08% of all signals reported in the sector), 31 reports concerning the activities of insurance intermediaries (7 reports concerning the activities of a broker and 24 reports concerning the activities of insurance agents), 22 reports concerning the activities of branches of insurance undertakings in EU Member States (all the reports concerned non-life insurance), and 139 reports concerning the activities of notified insurance undertakings in EU Member States (concerning non-life insurance). The number of reports concerning the activities of insurance sector entities decreased by 10.2% compared to 2018.

**Table 86. Reports received by the UKNF and relating to the activities of insurance sector entities in the years 2018-2019**

Type of entity	Division	2018	%	2019	%
Insurance undertakings in Poland	I	209	10.12%	158	8.55 %
Insurance undertakings in Poland	II	1604	77.68%	1498	81.06 %
Branches of insurance undertakings of EU Member States	I	4	0.19%	4	0.22 %
Branches of insurance undertakings of EU Member States	II	18	0.87%	18	0.97%
Notified insurance undertakings of EU Member States	I	2	0.10%	0	0.00 %
Notified insurance undertakings of EU Member States	II	198	9.59%	139	7.52 %

Insurance agents	-	29	1.40%	24	1.30 %
Insurance brokers	-	1	0.05%	7	0.38 %
<b>Total</b>	-	<b>2065</b>	<b>100.00%</b>	<b>1848</b>	<b>100.00%</b>

Source: UKNF's own study

In the area of life insurance, the most frequent problems reported by customers included issues related to the refusal to pay out benefits and, to a lesser extent, issues related to the performance of a contract by an insurance undertaking, as well as issues related to dilatory claims handling practices. In the event of refusal to pay out the benefit, the manner in which the insurer justified its refusal to accept liability was contested.

In the area of non-life insurance, the most frequently reported problems were related to:

- irregularities in the provision of damage files by the insurance undertaking,
- irregularities in the claims handling process,
- lengthy procedures for the settlement of claims, mainly of motor insurance, primarily of the MTPL insurance,
- the amount of compensation paid,
- refusal to pay compensation.

The breakdown of reports received by the UKNF in the years 2018-2019 concerning life insurance undertakings in Poland (by subject-matter) is presented in Table 6.4. in Annex 6, whereas the breakdown of reports concerning non-life insurance undertakings – in Table 6.5. in Annex 6.6.

Moreover, Tables 6.6. and 6.7. in Annex 6 show the breakdown of reports concerning the activities of insurance undertakings in EU Member States (by subject-matter) received by the UKNF during the period covered by this report.

#### Information concerning pension sector entities

In 2019, the UKNF received 12 reports concerning improper functioning of pension sector entities. 10 reports concerned the activities of open pension funds (OFEs) and 2 reports concerned a general pension society. Compared to 2018, the number of reports concerning the activities of pension sector entities fell by 28%, while in relation to the functioning of open pension funds the number of reports did not change.

Information concerning the activities of OFEs received by the UKNF in 2019 related mainly to problems in obtaining payment of funds from an account of deceased members of the OFE encountered by authorised persons.

The breakdown of information in this respect (by subject-matter) is presented in Table 6.8 in Annex 6.

#### Information concerning capital market entities

During the period covered by this report, the UKNF received 538 reports concerning the functioning of capital market entities. Compared to 2018, the number of reports in that sector fell by 8.9%.

In the case of public companies, the most frequently reported issues related to possible manipulations on the rate of financial instruments, and to a lesser extent to issues related to companies' compliance with corporate rights of shareholders.

With regard to investment fund management companies, most objections concerned the management of the fund and the date of implementation of recommendations.



Comments were made with regard to the activities of investment firms, including foreign investment firms, and focused mainly on the quality of the services provided.

There were also signals showing reservations about the way of carrying out debt collection by the entities managing securitised liabilities of a securitisation fund.

**Table 87. Reports received by the UKNF and relating to activities of capital market entities in the years 2018-2019 (by subject-matter)**

Type of entity	2018	%	2019	%
Public companies and other capital market participants	286	48.31%	206	38.29%
Investment fund management companies	123	20.78%	141	26.21%
Investment firms	80	13.51%	82	15.24%
Foreign investment firms	21	3.55%	9	1.67%
Managers of securitisation fund assets	80	13.51%	98	18.22%
Companies operating the exchange/the exchange market	2	0.34%	2	0.37%
Distributors of participation units in investment funds or participation units in foreign funds	1	0.17%	0	0.00%
<b>Total</b>	<b>593</b>	<b>100.00%</b>	<b>538</b>	<b>100.00%</b>

Source: UKNF's own study

The reports received by the UKNF in the years 2018-2019 and relating to the activities of capital market entities (by subject and market segment) are presented in Tables: 6.9., 6.10., 6.11., and 6.12., respectively, in Annex 6.

#### INVESTIGATIONS FOLLOWING THE RECEIPT OF INFORMATION FROM NON-PROFESSIONAL FINANCIAL MARKET PARTICIPANTS, ANALYTICAL WORK AND INTERVENTIONS

The reports concerning the activities of KNF-supervised entities submitted to the UKNF by non-professional financial market participants represent an important source of information on the emerging phenomena in the practices of financial institutions. The subject-matter of the analysis of information included in such reports is, in particular, an assessment of actions taken by KNF-supervised entities in the context of compliance of such actions with provisions of law. The findings made on the basis of analytical and explanatory activities carried out with regard to KNF-supervised entities may serve as a basis for supervisory measures to eliminate market practices raising concern.

For details see the list of explanatory activities in Annex 5. The next part of the Report presents a summary of the most important reviews carried out in 2019.

**Review of practices of selected banks with respect to their engagement in the apart-hotels and condo hotels segment** The review was carried out on a sample of 13 banks based on the signals received at the turn of 2018 and 2019 and relating to the engagement of banks in the promotion and mediation in the sale of real property. The purpose of the study was to clarify whether banks or entities associated with them were/are involved in any form of real estate disposal or advisory services. Most banks answered in the negative. However, several banks disclosed agreements for the submission of databases of customers interested in real estate offers, concluded with entities related to them through capital. The results of the review became the basis for addressing to the presidents of management boards of capital market entities and banks the UKNF's position on the involvement of KNF-supervised entities in a

broadly understood real property market and the UKNF's communication on that matter issued on 26 September 2019.

**Review relating to the opening of bank accounts using identity documents (ID card, passport) with an emphasis on Polish citizens living abroad: selected issues** The review was initiated in 2018. By its letter of 27 March 2019, the UKNF forwarded to banks the results of the review together with the position that if a consumer using a Polish passport document, a Polish residence card, a foreign passport document issued by an EU Member State has the right to set up a basic payment account, then such documents should also be accepted by entities in the process of opening other payment accounts, insofar as they are sufficient to identify the customer and verify his/her identity under Polish law. The UKNF pointed out that it expected payment service providers to assess the practices used to identify customers and to verify their identity when opening payment accounts, including basic payment accounts, and to adopt measures to eliminate any irregularity.

**Review of practices of selected banks with respect to the disposal of property on the basis of an instruction concerning the deposit in the event of death of the account holder** The review was carried out in 2018 and it represents a cyclical supervisory activity of the UKNF. Following the identification of an inconsistent practice of executing instructions concerning the deposit in the event of death where a holder of an individual bank account (the legator) was married and had spousal joint ownership of property, on 4 March 2019 the UKNF addressed a relevant position to all obliged entities. In the current legal situation, there is no legal basis to accept that a bank is obliged to examine the existing property regime between spouses for the purpose of executing the instruction concerning the deposit in the event of death at the time of its acceptance, or to make the amount of payment conditional upon the existence of a certain property regime between the spouses at the time of death of the legator. Any other practice applied by banks in that respect violates the provisions of Articles 56 and 56a of the Banking Law, leading to failure to execute the instruction concerning the deposit in the event of death of the account holder.

**Review of compliance by banks and credit unions with the requirements under the Act on 'dormant accounts'** The review was carried out in 2018 and it represents a cyclical supervisory activity of the UKNF. Following the identification of different approaches adopted by entities to handle requests received through the Central Information System, a letter was sent to all obliged entities on 4 March 2019 to remind them of the new requirements. Attention was drawn to the need to ensure the proper functioning of the Central Information System, for example to develop control mechanisms by recording quantitative statistics, considering whether a response was given or not.

**Review of compliance with the requirements under the Act on 'dormant accounts' for obliged entities: review of information submitted as part of ongoing supervision** The review was carried out in connection with the obligations imposed on the KNF Board and specified in Article 133(1) point 8 and Article 138(1) point 10 of the Act of 29 August 1997 – the Banking Law, and analogous solutions adopted in Article 67 point 8 and Article 71(1) point 6 of the Act of 5 November 2009 on credit unions. The study was addressed to 21 commercial banks, 544 cooperative banks and 26 credit unions to explain the discrepancies in the data submitted by entities in handling the requests received through the Central Information System, and the issues in accessing the Register of Personal Identification Numbers (PESEL). The entities were granted access to the data obtained from KIR S.A. to compare the information they had, which ultimately resulted in the performance of checks at all entities surveyed. As a result, some entities introduced corrective procedures or modified or implemented internal processes to govern the handling of queries from the Central Information System.

It was established that the structure of the service to verify death in the Register of PESEL Numbers using remote transmission devices does not allow the entities to receive information about the date of death of the account holder. Entities may encounter difficulties in obtaining the date of death of the account holder, which directly translates into issues related to failure to fulfil, or delays in fulfilling, the obligations arising from Articles 59a and 59b of the Banking Law and the respective provisions of the Act on credit unions. Considering the results of the review, additional activities are planned in this regard.

**Review of practices of selected banks with respect to minimising credit fraud through participation in the ‘Credit Freeze System’ [„System Zastrzeżenie kredytowe”] of BIK S.A.** The review was carried out following the receipt of signals on credit/loan swindled from banks based on illegal possession of personal data of their customers, and in response to the information published on the website of BIK S.A. (an institution established under Article 105(4) of the Act of 29 August 1997 – the Banking Law) about ‘the plan to gradually supplement the System with information about new participants’; the UKNF asked 13 banks to provide information about their participation in the ‘Credit Freeze System’ of BIK S.A. The review has shown that only 2 banks were participating in the ‘Credit Freeze System’ as at 31 December 2019 (among 16 financial institutions participating in the System). The banks surveyed make the decision to join the ‘Credit Freeze System’ of BIK S.A. dependent on, *inter alia*, the general participation of banks (and other financial institutions) in the System. In view of the findings, the UKNF is planning to adopt measures it deems possible, in order ensure universal, generally available and free protection for bank customers against potential credit fraud.

**Review of the status of fulfilment of the obligation of banks and other payment service providers to inform their customers about the planned changes connected with the requirement to apply strong customer authentication (SCA)** Pursuant to Article 22 of the Act of 10 May 2018 amending the Act on payment services and certain other laws, on 14 September 2019 an obligation was imposed on payment service providers to comply with the requirements referred to in Article 32i of the Act of 19 August 2011 on payment services, and the requirements of Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication. All the payment service providers surveyed that were required to apply strong customer authentication confirmed that they had informed their customers about the planned changes due to the introduction of that requirement.

**Review of practices of selected entities with respect to time limits for submission of the decision on granting mortgage credit** The review was carried out following the imposition on lenders of the obligation to submit the decision on granting mortgage credit on the twenty-first day from the receipt of the application (Article 14(2) of the Act of 23 March 2017 on mortgage credit and supervision of mortgage credit intermediaries and agents) and after the UKNF received the first signals indicating that banks were applying improper practices in the performance of that obligation. The review covered the period from 2017 to 2019 and applied to 12 banks. Each of the banks surveyed reported cases of delay in the performance of the obligation to issue the decision on granting credit on the twenty-first day from the date of receipt of the credit application. Nearly all the banks surveyed explained that a large part of delays was beyond their control and resulted from the quality of credit documents submitted by the customer, including the discrepancy between the information declared and the information verified against the other credit documents, or from the quality of the documents issued by the employer or developer. That fact requires submission of further explanations or documents by the customer. The period of time during which banks await the additional documents or explanations from the customer does not suspend the statutory time limit for issuing the decision on granting credit. Banks take the view that it is more advantageous for the customers to allow the customers to submit additional documents or explanations, rather than to inform them about the refusal to grant credit for fear of failure to comply with the statutory time limit. All banks have indicated that they are making efforts to minimise delays in the issuing of credit decisions on their part: internal procedures have been modified to clarify the formal requirements on the quality of credit documentation submitted to obtain the decision, measures have been put in place to improve the work of individuals involved in the process, as well as appropriate IT solutions and control mechanisms.

**Review of practices of selected banks with respect to applying for an order for payment based on a banking ledger excerpt after 20 July 2013.** After receiving an alert concerning a banks’ practice of applying for an order for payment based on a banking ledger excerpt pursuant to Article 485 § 3 of the Act of 17 November 1964 – the Civil Procedure Code, i.e. pursuing financial claims of those entities after 20 July 2013 (after the entry into force of

amendments introduced in Article 1 of the Act of 19 April 2013 amending the Banking Law and the Act on investment funds, by adding Article 95(1a) of the Banking Law reading as follows: 'The legal force of official documents referred to in Paragraph 1 does not apply to the documents mentioned in that provision in civil proceedings,' and continuing that practice after the publication of the Judgment of the Court of Justice of the European Union of 13 September 2019 (Case No C-632/171) and Order of the Court of 28 November 2018 (Case No C-632/172), the UKNF asked 12 banks and one branch of a credit institution to provide information on the pursuit by those entities of financial claims under the order for payment procedure. However, under Article 1 point 176(c) in conjunction with Article 17 of the Act of 4 July 2019 amending the Civil Procedure Code and certain other laws, as of 7 November 2019 Article 485 § 3 of the Civil Procedure Code with the following wording was repealed: 'A court may issue an order for payment if a bank pursues a claim based on a banking ledger excerpt signed by persons authorised to make statements on the bank's property rights and obligations and bearing the bank's seal, and on a proof of service of a written order for payment on the debtor.' The review has shown that by 7 November 2019 banks were using the option of an order for payment issued by a court under Article 485 § 3 of the Civil Procedure Code. The assessment of the practice in question was the subject of consultations of the UKNF, the Office of Competition and Consumer Protection, the Financial Ombudsman's Bureau, and the Ministry of Justice.

**Review of practices of selected banks with respect to the payment of claims from bank accounts.** Based on a signal indicating the practice of blocking, in the case of payment of claims from a bank account, all funds in the customer's bank account above the amount specified by the enforcement authority, the UKNF reviewed that issue on a sample of 16 banks. The review identified cases of banks restricting the possibility of payments of an amount not covered by the seizure only to an instruction made at branches of the bank (block on the card and online banking). The review also revealed problems of banks with clear identification of inflows exempted from execution, especially due to inconsistency of transfer descriptions used by the bodies transferring the payments, and due to the failure by the Ministry of Family, Employment and Social Policy to update the list of Municipal Social Welfare Centres from which part of the payments are made. In view of the above findings, they will be forwarded to the Ministry of Family, Employment and Social Policy with a request for any necessary work to introduce guidelines for units that transfer the benefits exempted from enforcement.

**Review of compliance by selected banks with the requirements under Article 15a(1)-(6) of the Act on payment services, in relation to compliant handling.** The UKNF asked 16 banks to provide information about the fulfilment of new requirements resulting from the amended Act on payment services. All the banks under assessment reported that they had a procedure in place to deal handle complaints from users and indicated the names of the documents in which the relevant process had been formalised. The banks also indicated a body responsible for coordinating the handling of users' complaints and for the quality and timeliness of the response to the user. The vast majority of the banks responded to users' complaints over the statutory deadlines. The banks indicated the reason for the breach of the statutory deadlines and reported on the measures taken to reduce the risk of delays in the response. In view of its findings, the UKNF will carry out supervisory activities in respect of the fulfilment by all the entities surveyed of the obligations arising from Article 15a(2) and (3) of the Act on payment services.

**Review of practices of selected banks in regard ensuring access to accounts for successor managers.** The UKNF addressed a request to a group of banks in order to establish the actual practice of complying with the requirements under Article 59c of the Banking Law. It has been established that most of the banks surveyed provide the successor manager with full access to the account of the deceased business owner in all available service channels on the same terms as for the deceased business owner. One of the banks does not release payment instruments to the successor manager but provides access to the account and executes orders in its outlets.

**Review on the adaptation of selected commercial banks to Article 70a of the Banking Law.** Pursuant to Article 70a of the Banking Law, customers of banks and other institutions

authorised under statutory law to grant credit that apply for credit have acquired the right to demand written explanations concerning the assessment of the applicant's creditworthiness performed by the bank. The UKNF asked 15 commercial banks to provide information about the implementation of the statutory requirements. The review has shown that in general the banks complied with the requirements laid down in Article 70a of the Banking Law. The review has also revealed some problematic areas that will require further assessment.

**Review of the banks' practice of making copies of customers' identity documents.** On the basis of the signals received by the UKNF concerning customers' doubts about the banks' practice of making copies of customers' identity documents, the banks concerned were requested to provide explanations. The banks explained that they were making copies of the documents due to the lack of a copy of the customer's valid document in the bank's system. In each case, the decision on whether a copy of the identity document is necessary is the responsibility of the obliged institution. In the cases under assessment, the legal basis for making a copy of the document was the Act on the prevention of money laundering and terrorist financing.

**Review of the practice of a bank with respect to the implementation of a new business strategy.** Due to the decision of a bank concerning the phasing out of services in the retail segment, the UKNF analysed the rules for implementation of changes and the issue of effectively informing customers about the planned changes to minimise the negative effects for the entity's customers. After the process was deactivated, the bank submitted to the UKNF the relevant summary report.

**Assessment of cases where proxies had no access to accounts at a bank.** The UKNF received a message from a proxy of an account holder concerning lack of access to the account and the inability to manage the funds in the account. As a result of the adopted supervisory measures, the bank reported that the issue had occurred for 1528 customers. The irregularity in question was related to the preparatory work for data migration between banks in connection with merger. After the direct cause of the error was identified, the bank implemented appropriate corrective measures. The bank also reported that since then it has no longer recorded signals regarding lack of access to accounts.

**Review of a bank's practice of concluding contracts through a courier.** Following an appropriate signal, an irregularity was identified that consisted in failure by a group of couriers to properly identify the persons who had declared their intention to enter into a contract with a bank, which ultimately resulted in the submission of false data to the bank. After discovering the gap in that process, the bank introduced the rule of checking the data in the Register of ID Cards before creating a customer's file and concluding a contract. By the end of 2019, the UKNF's review of the process of entering into contracts through a courier at other banks was not completed.

**Review of the practice of a bank with respect to inheritance by a foreigner.** As a result of incorrect assessment of documents confirming the rights in succession, the bank did not provide information to the heir, who came to Poland for that purpose. After re-examining the case, the bank concluded that the documents originally submitted to the bank's branch were complete and sufficient to finalise the case. Due to the fact that inheritance of property rights by foreigners may be a complex issue, the bank introduced a process of handling such cases in a specially designed entity at the level of the bank's head office.

**Review of the practice of a non-supervised entity that informed potential users of financial services on its website about the positive result of verification of its business by the KNF Board.** Following the assessment of the regulatory and market environment of entities offering, among other things, investments based on the real property market, the UKNF noted a practice of a non-supervised entity that consisted in the entity presenting on its website information suggesting that its business had been verified by the KNF Board. In order to protect the financial interests of potential users of financial services offered by that entity and for the sake of the reputation and image of the KNF Board, the UKNF took actions that led to the removal of the information in question.

**Review of the practice of offering financial instruments managed by an investment fund management company through a bank that was not authorised, during the period of offering the instruments, to conduct the activities referred to in Article 69(2) points 5 and 6 of the Act**

**of 29 July 2005 on trading in financial instruments.** The review was performed in connection with the signals suggesting a possible practice of offering/sale by a bank that was not authorised to carry out the investment advisory activities or to offer financial instruments. The review confirmed the irregularities mentioned in the reports. From the bank's explanations it follows that the employees of the bank – through their distribution network, based on their customer database and the information on the funds available in the customer's accounts – presented to potential investors (selected customers) a proposal to acquire financial instruments, i.e. the terms of investment providing a sufficient basis for the customer to take an investment decision, and thus mediated the disposal of the instruments. During the period in question, the bank was not authorised to conduct the activities referred to in Article 69(2) points 5 and 6 of the Act on trading in financial instruments. The information obtained by the UKNF provided the basis for supplementing the notification by the KNF Board of a suspected offence punishable under Article 178 in conjunction with Article 69(2) points 5 and 6 of the Act on trading in financial instruments, committed by representatives of the bank concerned.

**Review of the practice of bank employees of offering financial instruments not included in the bank's offer.** The review was performed in connection with the signals suggesting a possible practice of offering/sale by a bank that was not authorised to carry out the investment advisory activities or to offer financial instruments. The bank confirmed that it did not have the financial instruments referred to in the report submitted to the UKNF in its offer nor set its employees sales targets in terms of offering and selling such financial instruments. The acts performed by the bank employees at the place of employment during the hours of performance of work for the bank constituted a violation of the non-competition agreement through the performance of activities related to financial services for the benefit of other entities offering financial instruments, thus misleading the bank's customers as to the identity of the offering entity. The bank reported that it had made a notification of suspected criminal offence potentially committed by the former employees of the bank as indicated in the notification, punishable under Article 286 § 1 and Article 270 § 1 of the Act of 6 June 1997 – the Penal Code.

**Review of banks' failure to include reverse mortgage credit in their offer.** The UKNF sent a survey to 9 commercial banks in connection with the reported failure by those banks to include the credit defined in the Act of 23 October 2014 on reverse mortgage credit in their offer. The material obtained by the UKNF confirmed that none of the banks surveyed had the product concerned in their offer. The banks reported that one of the main reasons for the absence of reverse mortgage lending was the reputational and image risk associated with the possible negative social perception of this type of lending activity directed by the banks (seen as public trust institutions) to a specific group of customers (elderly people). In the banks' view, apart from examining the actual demand of customers for this type of product (which the banks believe to be negligible), the possible introduction of reverse mortgage loans should be preceded by a wide-ranging information campaign ('product deception'). As indicated, the activities carried out by the banks only could be seen by customers as actions dictated primarily by the criterion of profit. The UKNF forwarded the results of the review to the Ministry of Finance and declared its will to cooperate to develop any possible solution in that respect.

**Review of the regulatory environment and threats associated with the service of annuity for a flat, offered in its current form in the financial market.** In the course of the UKNF's review of issues related to potential irregularities and the possibility for implementing systemic changes in areas that are relevant to the economic security system of the Polish state, including those related to the service of annuity for a flat, recognising the risks associated with the functioning of such service in its current form in the market and regulatory environment, and in view of the present and future personal and financial interests of the users of the service, the UKNF asked the Ministry of Justice, the Ministry of Entrepreneurship and Technology, and the Ministry of Family, Employment and Social Policy to intensify the activities as part of the relevant 2019-2022 review within the 'Social Policy for Older People 2030. Safety. Participation. Solidarity.', adopted by the Council of Ministers on 26 October 2018, to put forward specific recommendations and legislative solutions.

**Review of the practice of a bank with respect to concluding bank accounts agreements through intermediaries.** The UKNF received two reports stating that a bank was opening bank accounts through intermediaries, in the name of the persons making the complaint but without them being aware of that. The review of the reports has shown that the irregularities concerned five intermediaries through which a total of 66 bank accounts contracts were concluded and then 31 credit agreements were concluded through those accounts. As part of the cyclical monitoring and prevention of fraud in sales processes, the bank took a business decision to withdraw the possibility of setting up accounts in the intermediary channel as being too risky, and notified the law enforcement authorities.

**Formulation of recommendations for a foreign insurance undertaking from an EU Member State other than the Republic of Poland pursuing business in the territory of the Republic of Poland otherwise than through a branch, under the freedom to provide services, requiring that undertaking to remedy the irregularities consisting in non-compliance with Article 14(1), (2) and (3) of the Act of 22 May 2003 on compulsory insurance, Insurance Guarantee Fund and the Polish Motor Insurer' Bureau.** Due to reports received from non-professional financial market participants, a review was carried out to examine how a foreign insurance undertaking was handling claims under contracts of third party liability insurance of motor vehicle owners, including the performance by a business owner based in the territory of the Republic of Poland RP of activities related to claim settlement for a foreign insurance undertaking. In view of the foregoing, 2 cases of breach of the following statutory obligations of a foreign insurance undertaking were identified: (1) to pay compensation within 30 days from the date of submission, by the injured party or beneficiary, of the notification of claim; (2) in the cases where the explanation, within the time limit referred to in Article 14(1) of the said Act, of the circumstances necessary to determine the insurance undertaking's liability or the amount of compensation is not possible – to pay compensation within 14 days from the date on which the explanation of such circumstances was possible using due care, but not later than within 90 days from the date of submission of the notification of claim, unless the determination of the insurance undertaking's liability or the amount of compensation depends on the pending criminal or civil proceedings; (3) to inform – in writing, within the time limit referred to in Article 14(1) or (2) of the said Act – the person making the claim, if compensation is not due or is due in an amount other than the amount specified in the notification of claim, about the circumstances and the legal basis supporting the complete or partial refusal to pay the compensation, and about the reasons why the undertaking refused credibility of the evidentiary circumstances raised by the person making the claim. In response to the recommendations, the foreign insurance undertaking presented the changes made to the claim settlement procedure and reported on the introduction of internal control. The implementation of the recommendations is monitored by the UKNF.

**Formulation of recommendations for an insurance undertaking requiring the undertaking to adapt the insurance business to the provision of Article 29(6) of the Act of 11 September 2015 on the business of insurance and reinsurance, and to prevent the violation of interest of policyholders, the insured and beneficiaries under insurance contracts, understood as the right to immediately receive information and documents collected to determine the insurance undertaking's liability, the amount of compensation or the value of performance.** Following the reports received by the UKNF from non-professional financial market participants, a number of cases have been identified in which an insurance undertaking showed slowness in the performance of its obligation, specified under Article 29(6) of the Act on the business of insurance and reinsurance, to provide the policyholder, the insured, the person making the claim or the beneficiary under the insurance contract with information and documents collected to determine the insurance undertaking's liability, the amount of compensation or the value of performance, as well as one case in which that obligation was not fulfilled at all. The insurance undertaking confirmed the facts established by the supervisory authority without stating the reasons of the situation and without indicating any circumstances which could justify the omissions in question. In view of the foregoing, the supervisory authority identified a practice of an insurance undertaking which consisted in unreasonable delay in making the claim file available, which was unjustified not only from a legal or factual perspective but also had a negative impact on the interests of the insured and beneficiaries

under insurance contracts. The delayed access to the documentation materially infringes the rights of the beneficiaries to access the claim file, since, without such documentation, the pursuit by the beneficiaries of their claims against insurance undertakings may prove unduly difficult or even impossible. The insurance undertaking pointed out that in order to implement the recommendations it took steps to seal the process, including to eliminate the conduct related to late processing of requests of injured parties/beneficiaries for access to the documentation collected in the claim file, and modified the procedures by verifying both the list of obligations and procedures of claims adjusters in the event of receipt of a request for access to the material collected in the claim file, as well as control mechanisms aimed at monitoring the processing of the requests from the injured parties/beneficiaries. The changes apply to e.g. reorganisation of the work of claims adjusters responsible for substantive aspects of the claim settlement process; with the reorganisation, the issue of late release of the file has been removed. Changes to existing procedures were introduced both at the control level (for verification of compliance with the obligation as required) and management (e.g. managers responsible for subordinate teams were obliged to intensify supervision of the process of transferring the claim files in accordance with the applicable deadlines prescribed in the procedures).

**Formulation of recommendations for an insurance undertaking requiring the undertaking to adapt the insurance business to the provision of Article 15(3) of the Act of 11 September 2015 on the business of insurance and reinsurance, in connection with the formulation by the insurance undertaking of the general terms and conditions of insurance in the wording that is to enable the undertaking to unilaterally decide on the application of a given system for the valuation of the vehicle repair costs, and the rules for making deductions of costs of spare parts and thus determining the amount of compensation in an arbitrary manner, not justified by the provisions of the autocasco insurance contract concluded on the basis of the general terms and conditions of insurance.** Following a report from a non-professional financial market participant, a review was carried out in relation to an insurance undertaking in terms of the method used by the insurance undertaking to determine the amount of compensation for damage to a vehicle under an autocasco insurance contract for motor vehicles. In view of the above, it was found that the insurance undertaking had formulated the general terms and conditions of insurance in such a way that they did not expressly lay down rules on the application of systems for the valuation of vehicle repair costs and the rules for deducting the costs of spare parts, resulting in the possibility of arbitrary determination by the insurance undertaking of the cost of repair of the vehicle and, consequently, the amount of compensation. That situation was in breach of Article 15(3) of the Act of 11 September 2015 on the business of insurance and reinsurance, under which the general terms of insurance must be formulated in an ambiguous manner. In response to the recommendations, the undertaking reported that in order to comply with the recommendations: (1) it stopped applying the percentage deduction of the value of spare parts in the amount dependent on the lifetime of the vehicle by removing certain provisions in the general terms and conditions of insurance and by introducing a new wording of the specific provision of the general terms and conditions of insurance; (2) it was drawing up the calculation of the vehicle repair costs according to the temporary standards and spare parts under the AUDATEX system, and changed certain provisions of the general terms and conditions of insurance resulting in the cessation of application of the EUROTAX system in that respect.

**Formulation of recommendations for an insurance undertaking requiring it to abandon a practice violating the interests of the insured which consisted in failure by the undertaking to properly respond to the situation where an insurance intermediary cooperating with the undertaking formulated and addressed to the policyholder an offer for group insurance covering insurance options under which policyholders make the insurance cover provided by the insurance undertaking to natural persons subject to the consent of those natural persons to finance the premium, a specific part of which is not used to finance the insurance cover but to ensure that the policyholder or a third party designated by the policyholder receives a benefit from the preventive fund established under Article 278(1) of the Act of 11 September 2015 on the business of insurance and reinsurance.** The UKNF received a report from a non-professional financial market participant, accompanied by an offer for group insurance



addressed to educational institutions, prepared in cooperation with an insurance intermediary. Following the review, the conduct of the insurance undertaking was considered as an infringement of the interests of the insured, as due to the passive attitude of the insurance undertaking the insured were exposed to damage to property as they were bearing a higher costs of insurance cover under the option providing from a benefit for the insured from the preventive fund as compared to the costs borne with the same scope of insurance cover under the option providing for the benefit for the insured from the preventive fund. Having information on how the insurance is sold – in particular information about the offering to the policyholder of the possibility to increase the premium rate in order for the policyholder to receive the benefit from the preventive fund – the insurance undertaking should be aware that in such circumstances the policyholder will be encouraged to take action contrary to the interests of the insured. In connection with the recommendation issued by the supervisory authority, the insurance undertaking reported that in order to comply with the recommendation, it had modified the contract procedure resulting in the elimination of the possibility of financing from the insurance undertaking's preventive fund (established under Article 278(1) of the Act on the business of insurance and reinsurance) in relation to group insurance contracts, including for school insurance. Additionally, the insurance undertaking introduced the requirement that all the offers addressed to intermediaries must contain information that the offer does not include the possibility for the insurance undertaking to grant benefits from the preventive funds to policyholders (or third parties designated by policyholders) in connection with the conclusion of group insurance contracts by the insurance undertaking.

**Formulation of recommendations for an insurance undertaking requiring it to adapt certain provisions of general terms and conditions of group accident insurance to Article 15 of the Act of 11 September 2015 on the business of insurance and reinsurance, and the Act of 23 April 1964 – the Civil Code.** The UKNF reviewed certain terms and conditions of insurance used to prepare an offer of insurance addressed to children and youth attending educational institutions. The review has revealed: terminological inconsistency of the general terms and conditions of insurance, unclear wording of a number of provisions, and inconsistency of certain general terms and conditions of insurance with provisions of law. In the opinion of the supervisory authority, some provisions of the general terms and conditions of insurance did not comply with the requirements of Article 15(3) of the Act on the business of insurance and reinsurance, or were contrary to the mandatory provisions of the Civil Code governing the content of an insurance contract. The insurance undertaking reported that in order to comply with the recommendations, it ceased offering and concluding insurance contracts as part of the school offer whose integral part was formed by the general terms and conditions of insurance. The insurance undertaking also made changes in the said general terms and conditions of insurance by removing or modifying certain provisions.

**Review of the insurance undertakings' policies to be followed in the case of acquisition of ownership of a vehicle by a person that concluded a contract of compulsory third party motor insurance before the person became the owner of the vehicle.** The UKNF received reports from non-professional financial market participants claiming that insurance undertakings – in the case of acquisition of ownership of a vehicle by a person that concluded a contract of third party liability insurance of motor vehicle holders before becoming the owner of the vehicle – consider that Article 31(1) of the Act of 22 May 2003 on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurer' Bureau does not apply to such a situation. In consequence, the undertakings conclude that after the expiry of the period of insurance the contract of third party liability insurance of motor vehicle holders will be concluded for another 12 months. On the other hand, the non-professional financial market participants claimed that in their situation, since the transfer of ownership of the vehicle took place, Article 31(1) of the said Act should apply. In the opinion of the non-professional financial market participants, no automatic conclusion of the contract of third party liability insurance of motor vehicle holders for another term of insurance should be pursued. Having analysed the legislation, the UKNF took the position that Article 31(1) of the said Act applied also to the cases where the transfer of ownership of the vehicle is not accompanied by the transfer of rights of the policyholder under the contract of third party liability insurance of

motor vehicle holders. Consequently, whenever there is a transfer of ownership, an insurance undertaking should consider that Article 31 of the Act on compulsory insurance does apply. Therefore, a contract of third party liability insurance of motor vehicle holders under which the vehicle was insured at the time of transfer of ownership will expire, at the latest, upon the expiry of the term for which the contract was concluded, and it will not be renewed for another 12 months. Then the practice adopted in such cases by domestic insurance undertakings offering third party liability insurance of motor vehicle holders was established. The information gathered showed a lack of a uniform practice in that respect. Some insurance undertakings acted in accordance with the interpretation of Article 31(1) of the Act on compulsory insurance as adopted by the UKNF, but some other undertakings were following different rules of conduct. In view of the foregoing, supervisory activities are planned in that regard for 2020.

**Review of provisions of templates of contract of unit-linked life insurance, posted on the website of an insurance undertaking, to the extent of provisions defining the right of the insurance undertaking to increase its fees.** The UKNF reviewed the provisions defining the right of the insurance undertaking to increase its fees, contained in the contract templates posted on the website of an insurance undertaking in the form of general terms and conditions of unit-linked life insurance, the rules for investing the funds of insurance capital funds, and the lists of fees. The results of the review have shown that it would be appropriate for the President of the Office of Competition and Consumer Protection to consider certain provisions defining the right of the insurance undertaking to increase the fees collected by the undertaking in connection with the performance of the insurance contract to be unacceptable. In the UKNF's opinion, the disputed provisions allow the insurance undertaking to make a unilateral and arbitrary decision to increase the fees, without allowing the policyholder or the insured to terminate or withdraw from the contract. The findings and the relevant supporting documents were forwarded to the President of the Office of Competition and Consumer Protection, with a suggestion that it was appropriate to consider the provisions of the contract templates in question to be unacceptable.

**Review of an insurance undertaking's practice of concluding, in 2018, contracts of insurance of agricultural crops and then verifying such crops in terms of compliance with the requirements for obtaining insurance for such crops.** In connection with the verification of the condition of the insured agricultural crops using the remote detection method, the insurance undertaking would reduce the sums insured in cases where the results of the assessment of crops showed non-fulfilment of certain conditions enabling the crops concerned to be covered by insurance, laid down in the general terms and conditions of insurance. The insurance undertaking relied on Article 824 § 2 of the Act of 23 April 1964 – the Civil Code, which entitled the insurer to unilaterally reduce the sum insured (notifying the policyholder) if after the conclusion of the contract the value of the property insured decreased. The review identified cases where insurance was granted for cultivation surface that did not meet the requirement of minimum plant density, which according to the general terms and conditions of insurance allowed such crops to be covered by insurance, and cases of failure to document the condition of the insured oilseed rape crops at the time of conclusion of the contract of insurance, in accordance with the internal regulations of the insurance undertaking. There were also identified cases of reduction of the sum insured in the case of insurance contracts concluded only after the date of verification of the condition of crops, but the complaints from policyholders and the responses from the insurance undertaking indicated that the undertaking accepted the complaints concerning such cases and did not ultimately and ultimately did not reduce the sums insured. There were also identified 225 responses of an insurance undertaking to complaints, which responses did not meet the requirements set out in the Act of 5 August 2015 on complaint handling by financial market entities and on Financial Ombudsman – so the responses to the complaints, together with the list of related irregularities, were submitted to the Financial Ombudsman, considering the power of the Financial Ombudsman specified in Article 32 of the said Act. The insurance undertaking indicated that on the basis of the verification/checks carried out it was implementing corrective measures in respect of insurance contracts which did not comply with the requirement for their acceptance for the purpose of insurance, or which contained

errors.

In the case of contracts containing errors, the insurance undertaking took action against insurance agents, such as a disciplinary conversation, retraining on procedures for contract conclusion, and indicated the possibility of applying sanctions resulting from the existing agency agreements against insurance agents in critical situations. The insurance undertaking also modified the method and rules for using remote detection to assess the condition of crops in 2019. The insurance undertaking also presented the measures it would take before the commencement of sales activities in 2019 to reduce the risk of irregularities in concluding contracts.

**Review of the issue of an ICO by a company due to the infringement of applicable laws.** The UKNF obtained information according to which the activity of a company went beyond the scope regulated under applicable laws (the issue of cryptocurrencies). The review covered an issue of an ICO due to the infringement of the applicable laws, including the Act on trading in financial instruments and the Act on payment services. The target group and the nature of the offer were identified, including the risks created for an inexperienced investor that would decide to use the product in question.

**Review of the practice of a brokerage house with respect to misrepresentation of transaction data (incorrect quotations for financial instruments).** Following the receipt of a signal, the practice of providing transaction data for equity contracts to investors was reviewed. The review has revealed that the data presented in the trading system in regard to closing prices of equity contracts were incorrect. The data contained two decimal places instead of four, which affected the settlement of profits/losses on the positions of equity contracts closed on customers' accounts during the session.

**Review of the activity of an investment firm mediating the placement of a private issue of bonds in relation to the infringement of the principle of acting in the best interest of the customer.** A review was carried out in relation to a proposal for purchase of bonds under the private offer procedure addressed to customers of an investment firm, in terms of the principle of acting in the best interest of the customer. The review covered the materials of the offer prepared by an investment firm at the request of the issuer, and the contract between the investment firm and the issuer. The actual role of the investment firm in the process of offering private financial instruments was determined.

## 8.5. ARBITRATION COURT AT THE POLISH FINANCIAL SUPERVISION AUTHORITY

### THE COURT'S ACTIVITIES

The KNF Board provides financial market participants with the possibility of out-of-court settlement of disputes in the Arbitration Court at the Polish Financial Supervision Authority. The jurisdiction of the Arbitration Court at the Polish Financial Supervision Authority covers the handling of disputes between financial market participants, in particular the disputes arising from contractual relationships between KNF-supervised entities and the users of their services. It is not a court for consumer disputes only, although it is one of the institutions in the Alternative Dispute Resolution (ADR) system for mediation and simplified arbitration proceedings.

Proceedings before the Arbitration Court at the Polish Financial Supervision Authority are voluntary. This means that the condition for initiating the proceedings is that both parties agree to an amicable settlement of the dispute within the framework of the Arbitration Court at the Polish Financial Supervision Authority. The Court of Arbitration at the Polish Financial Supervision Authority offers two fundamentally different ways of proceeding: mediation and arbitration. Within the framework of arbitration, it is possible to conduct proceedings in electronic form (simplified arbitration).

Financial market participants are particularly interested in mediation proceedings.

In 2019, the Arbitration Court at the Polish Financial Supervision Authority received 2 724 applications for mediation, submitted by both financial institutions and their clients. In 1569 cases, both parties to the dispute expressed their willingness to attempt to resolve the dispute by mediation proceedings, which means that mediation proceedings are conducted for 57% of applications. This shows the ever-increasing popularity of this amicable form of dispute resolution among both consumers and financial institutions. The reasons why mediation has become more popular include very high effectiveness of mediation conducted before the Arbitration Court at the Polish Financial Supervision Authority. In more than 80% of cases, the mediation resulted in a settlement agreement. There is a growing number of financial institutions which offer their clients mediation before the Arbitration Court at the Polish Financial Supervision Authority as a tool of dispute resolution.

The largest number of applications submitted to the Arbitration Court at the Polish Financial Supervision Authority according to the subject of the dispute concerned:

- refusal or partial refusal to pay compensation or benefit: 2226 applications,
- performance of the insurance contract: 210 applications.

In January and March 2019, the KNF Board adopted resolutions on the Rules of Procedure of the Arbitration Court at the Polish Financial Supervision Authority. The first resolution resulted from the new legal situation that arose as of 1 January 2019, and the newly established Rules of Procedure of the Arbitration Court at the Polish Financial Supervision Authority repeated the provisions of the previous resolution. In March 2019, the KNF Board established for the Arbitration Court at the Polish Financial Supervision Authority the new Rules of Procedure, stipulating, among other things, that a case is examined by one mediator, it is possible to use electronic means as auxiliary means in proceedings, the Court provides assistance to consumers in obtaining the documents specified in the Rules of Procedure.

Both changes allowed to maintain the continuity of proceedings, the continuity of the term of office of arbitrators and mediators, and the continuity of the function of President of the Arbitration Court and Registrar of the Arbitration Court.

## PROMOTIONAL ACTIVITIES FOR AMICABLE DISPUTE RESOLUTION IN THE FINANCIAL MARKET

In June 2019, the new edition of ‘Mediator-friendly Financial Institution’ awards took place, which aims to promote the amicable settlement of disputes between financial institutions and the recipients of their services, and to appreciate financial institutions which base their contacts with their clients on openness, dialogue and striving for agreement. Seven financial institutions received the awards: PZU S.A., STU ERGO Hestia S.A., Generali TU S.A., TUIR Warta S.A., Ubezpieczeniowy Fundusz Gwarancyjny, Inter RiskTU S.A., and TUZ TUW.

It was also the second time the ‘Ambassador of Mediation in the Financial Market’ distinction was awarded. The purpose of the distinction is to promote amicable dispute resolution in the financial market by awarding distinctions to natural persons, legal entities and other entities which undertake actions of outstanding importance or effectiveness to promote the idea of amicable dispute resolution in the financial market. The distinction may also be awarded to the parties’ representatives in mediation proceedings conducted at the Mediation Centre of the Arbitration Court at the Polish Financial Supervision Authority who through their conduct and involvement significantly contribute to the amicable settlement of disputes. In 2019, the distinction was awarded to three persons representing institutions pursuing claims, for their activities undertaken to promote the idea of amicable resolution of disputes in the financial market: Ms Adriana Olszowy, Mr Albert Demidowski, and Mr Lucjan Chreściak.

**Table 88. Requests submitted to the Arbitration Court at the Polish Financial Supervision Authority in 2019 compared to 2018 and 2017**

Detailed list	Total			Arbitration			Mediation		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
<b>Requests</b>	2 964	2 361	2 748	23	47	24	2 941	2 314	2 724
<b>Permissions</b>	1020	1044	1571	4	4	2	1016	1040	1569
<b>Cases settled in favour of the applicant prior to the commencement of the arbitration proceeding (a settlement was reached or a settlement proposal was made)</b>	43	28	43	0	0	1	43	28	42
<b>Refusals</b>	1349	1170	1005	12	34	19	1337	1136	986
<b>Other (e.g. the withdrawal of, or failure to complete, an application by the applicant, no contact with a party)</b>	13	32	38	1	5	1	12	27	37
<b>Pending cases (no response from the other party regarding permission to mediation/arbitration)</b>	539	87	91	6	4	1	533	83	90

Source: own study by the Arbitration Court at the Polish Financial Supervision Authority

**Table 89. Requests submitted to the Arbitration Court at the Polish Financial Supervision Authority in 2019 compared to 2018 and 2017 by financial market sector**

Financial market sectors	2017	2018	2019
Insurance sector	2 458	2 103	2 528
Banking sector	497	249	152
Capital market	3	3	58
Credit unions	2	1	2
Other	4	5	8
<b>Total</b>	<b>2964</b>	<b>2 361</b>	<b>2 748</b>

Source: own study by the Arbitration Court at the Polish Financial Supervision Authority

## 8.6. REGULATORY AND PRUDENTIAL ACTIVITIES

### 8.6.1. RECOMMENDATIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

#### RECOMMENDATION A (ASSUMPTIONS FOR THE AMENDMENT)

On 5 March 2019, the KNF Board adopted draft assumptions for the amendment to *Recommendation A on the management of risk associated with bank transactions in the derivatives market*, the previous version of which was issued in 2010. Since then, changes have taken place in the international market due to the introduction of new regulations in the

area covered by the Recommendation. The purpose of the amendments to Recommendation A is to indicate good practices in the management of risk associated with bank transactions in the derivatives market, and to define the rules to be followed in relations with customer that are entering or have entered such transactions.

The proposed revised Recommendation A is to contain provisions relating to transactions in derivatives carried out by bank's treasury departments with other inter-bank market entities and non-bank customers. The revised Recommendation will complement the regulations concerning the conclusion of transactions in derivatives in the Polish market, in addition to the previously issued *KNF Guidelines for providing brokerage services on the OTC derivative market*, addressed mainly to brokerage firms, EMIR and MiFID II and related technical standards and guidelines of the European Securities and Markets Authority (ESMA) and the European Banking Authority (EBA).

#### RECOMMENDATION B (AMENDMENT)

At its meeting on 26 March 2019, the KNF Board unanimously adopted a resolution on the issuance of *Recommendation B on limiting the risk of banks' capital investments*. The purpose of the amended Recommendation B was to indicate good practices relating to certain aspects of investment risk management at banks, adapted to the supervisory expectations and the applicable regulatory solutions.

The amendment to Recommendation B concerns mainly the specification of the scope of its application, including its application not to financial investments but also to other categories of investment, a narrowed scope of application of Recommendation B by removing the provisions concerning derivatives that are included in Recommendation A, and by removing the provisions on outsourcing, which is regulated in the Banking Law. The amendments to Recommendation B covered proper organisation of terminology and relations between concepts, including the concepts of investment strategy and investment policy, and adaptation of the structure of Recommendation B to the current principles applied in relation to Recommendations adopted by the KNF Board.

It should be emphasised that Recommendation B explicitly applies the principle of proportionality, addressing certain provisions only to relevant banks.

The KNF Board expected that the updated Recommendation B would be implemented by banks by 31 December 2019.

#### RECOMMENDATION G (ASSUMPTIONS FOR AMENDMENT)

At its meeting on 5 February 2019, the KNF Board unanimously accepted draft assumptions for the amendment to *Recommendation G on the management of interest rate risk*.

Draft Recommendation G was to be submitted for public consultation in 2019. In 2019, meetings were held with the AML Committee of the Polish Bank Association (PL: Związek Banków Polskich, ZBP).

The proposed amendment to Recommendation G is to adapt its requirements to the changing regulations on market risk and interest rate risk applicable in other countries, in particular to EBA guidelines.

Following the entry into force of the new EBA guidelines and the revision of the CRD IV/CRR package, the regulatory environment was defined in the area of interest rate risk, which includes primarily CRR and related technical standards, EBA guidelines, and *Regulation of Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, remuneration policy and the detailed method for estimation of internal capital at banks*.

The updated Recommendation G is not only intended to complement the existing regulations, but also includes recommendations which are not included in the above-mentioned regulations, in particular those concerning the specific features of the Polish financial market

and banking sector, as well as recommendations which highlight and elaborate on the provisions of the above-mentioned regulations.

Draft Recommendation G will be submitted to the KNF Board for approval at its meeting in June 2020.

#### RECOMMENDATION S (AMENDMENT)

On 3 December 2019, the KNF Board adopted the amended *Recommendation S on good practices in the management of credit exposures secured by mortgages*, addressed to banks.

The most important new solutions introduced in the amended Recommendation S include rules concerning the management of credit exposures secured by mortgages, bearing a fixed interest rate or periodically a fixed interest rate. Banks should also have, in their offer of loans backed by a mortgage on residential property for retail customers, mortgage-backed loans with fixed interest rates or periodically fixed interest rates, as defined in the Recommendation. They should also allow customers to change the formula of the interest rate under the existing mortgage-backed loan from a variable interest rate to a fixed interest rate or a periodically fixed interest rate.

The provisions of the Recommendation relating to loans with the option of an exemption from the liability to the bank for the mortgage-backed credit exposure on residential property, where the borrower transfers ownership of the property concerned to the bank (loans with the 'key for debt' option), lay down specific rules for the assessment of creditworthiness and collateral. Recommendation S does not require banks to offer loans with the 'key for debt' option. The purpose of the relevant provisions of the Recommendation is to establish special prudential requirements for offering such products, if any.

Recommendation S considers the principle of proportionality in relation to cooperative banks. Affiliating banks should enable affiliated cooperative banks to offer, for and on behalf of the affiliating bank, loans secured by mortgage at a fixed interest rate or periodically fixed interest rate to their customers.

The time limit for cooperative banks to comply with Recommendation S was set to 31 December 2022, and for other banks and branches of credit institutions – to 31 December 2020.

#### DRAFT RECOMMENDATION Z

In 2019, work was carried out to develop *Recommendation Z on internal governance rules in banks*.

Following the entry into force in May 2019 of the Act of 21 February 2019 amending certain laws to ensure the application of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of individuals with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC, a further version of the draft was drawn up, taking into account the review of the above-mentioned statutory amendments, the changes based on the comments made during the recent consultations with the banking sector, as well as conclusions from new supervisory experiences.

In view of the foregoing, a review was performed with regard to the previous draft of the Recommendation, which considered the possibilities resulting from the solutions provided for in the Act, in relation to the assessment of propriety of candidates for key functions at a bank. The draft Recommendation Z was also discussed during external consultations (with ZBP, KZBS, BFG, NBP and Ministry of Finance).

Draft Recommendation Z complements, clarifies and expands on the issues of internal governance at banks, which have already been regulated in the above-mentioned regulations and documents of the KNF.

The draft text also includes conclusions based on the observations and experiences gained through supervisory activities, including the findings of inspections conducted at banks, and other supervisory experiences and activities.

As at 31 December 2019, the UKNF worked on the final version of the draft.

## 8.6.2. SELECTED POSITIONS OF THE KNF BOARD AND THE UKNF, AND STATEMENTS IN THE FORM OF UKNF COMMUNICATIONS

### UKNF POSITION OF 19 APRIL 2019 ADDRESSED TO PRESIDENTS OF MANAGEMENT BOARDS OF MORTGAGE BANKS ON THE CALCULATION OF CAPITAL REQUIREMENTS WHEN TRANSFERRING A PORTFOLIO OF LOANS SECURED BY MORTGAGE ON RESIDENTIAL PROPERTY

The position refers to the opinion of the Sołtysiński Kawecki & Szlęzak Law Firm concerning the possibility for the bank to treat purchased mortgage loans as exposures fully and completely secured by mortgage on residential property, also during the period between the conclusion of the contract and the entry in the land and mortgage register. The opinion was based on the assumptions adopted and described therein. The first group of assumptions is related to a debt assignment agreement between the assignor and assignee, including: the exclusion of possibility to assign debt without mortgages that secure it, precise indication of the date on which the benefits and risks associated with the debts being assigned pass on the bank, the assumption that upon the transfer of the benefits and risks the bank will become entitled to receive the funds paid by the debtor. The other group of assumptions is related to proceedings before a Land and Mortgage Register Court.

In the UKNF's assessment, to consider an exposure to be fully and completely secured by mortgage on residential property (that is to recognise security on residential property as effectively established, for the purposes of determining the credit risk weight of the exposures secured on residential property), also during the period between the conclusion of the contract and the entry in the land and mortgage register, it is necessary to determine, also during that period, the fulfilment of the requirements laid down in Article 125 and by reference in Article 208 of CRR, including the requirements on legal certainty as described in Article 208(2). At the time of submission of the application for entry of the mortgage on behalf of the bank acquiring a debt secured by mortgage, there is no fulfilment of all the legal requirements for the establishment of security in question and therefore the requirement laid down in Article 208(2)(b) of CRR is not fulfilled.

### UKNF POSITION OF 16 SEPTEMBER 2019 ON CERTAIN ISSUES RELATED TO THE ENTRY INTO FORCE OF EBA GUIDELINES ON OUTSOURCING, AND THEIR OBSERVANCE IN BANKS' ACTIVITIES

The position was expressed in connection with reports from the banking sector regarding concerns about the application of EBA Guidelines on outsourcing, effective as of 30 September 2019 (hereinafter: 'EBA Guidelines'), in the context of acceptable scope of entrusting the performance of a banking operation as defined in the Act of 29 August 1997 – the Banking Law.

The position aimed to present an approach that should be adopted by banks in relation to outsourcing as defined in EBA Guidelines in the context of interactions with national laws. The issues were addressed at various levels of detail, according to the experiences gained



through supervisory practice. The position is based on the previous supervisory experience and activities undertaken by the supervisory authority.

The position indicates that the supervisory authority expects banks to comply with EBA Guidelines by 30 June 2020. This deadline has been set taking into account the need for banks to adapt to the numerous requirements of EBA Guidelines.

#### [POSITION OF 3 JUNE 2019 ON THE PROCEDURE FOR SUBMITTING QUARTERLY ASSESSMENT OF THE LEVEL OF RISK TO COOPERATIVE BANKS AND AFFILIATING BANKS](#)

The UKNF provided information about a change in the procedures for submitting quarterly assessment of the level of risk to cooperative banks and affiliating banks.

#### [POSITION OF 14 JUNE 2019 ON IRREGULARITIES IN THE MANAGEMENT OF CREDIT RISK](#)

After the UKNF identified irregularities at banks in respect of the management of credit risk, including irregularities resulting from the existing policy of creating special-purpose provisions and revaluation write-offs for receivables related to credit exposures, and the rules for reducing them by the value of collateral accepted, the KNF Board pointed to issues that required a revision of the related practice, a review of the existing rules, as well as the method of monitoring the processes related to the use of collateral, and most of all their fair valuation and inclusion in the account of special-purpose provisions.

#### [UKNF POSITION OF 5 JUNE 2019 ON CUSTOMER IDENTIFICATION AND CUSTOMER IDENTITY VERIFICATION AT BANKS AND BRANCHES OF CREDIT INSTITUTIONS THROUGH VIDEO ID VERIFICATION, DUE TO BUSINESS RELATIONSHIPS AND/OR TRANSACTIONS BEING ENTERED INTO TO OFFER NEW PRODUCTS AND SERVICES AND DUE TO PRODUCTS OR SERVICES BEING OFFERED THROUGH NEW DISTRIBUTION CHANNELS](#)

The position sets out good practices in ensuring compliance with the requirements under the Act of 1 March 2018 on the prevention of money laundering and terrorist financing, concerning identification and verification where the customer is not physically present. Given the importance of the issue, the UKNF points to the need to apply the recommended practice at other supervised entities.

#### [UKNF COMMUNICATION OF 24 JULY 2019 ON THE PUBLICATION OF THE NATIONAL RISK ASSESSMENT OF MONEY LAUNDERING AND TERRORIST FINANCING, WHICH RECOMMENDS THAT OBLIGED INSTITUTIONS SHOULD ANALYSE THEIR OWN RISK ASSESSMENTS AND UPDATE THEM ACCORDING TO THE CURRENT NATIONAL RISK ASSESSMENT](#)

The above-mentioned document pointed out that, taking into account the provisions of the National Risk Assessment of Money Laundering and Terrorist Financing, obliged institutions should carry out an analysis of their own risk assessments referred to in Article 27(1) of the Act on the prevention of money laundering and terrorist financing.

#### [LETTER OF 12 NOVEMBER 2019 TO COOPERATIVE BANKS AND AFFILIATING BANKS CONCERNING A HIGH RISK ASSOCIATED WITH ESTABLISHING RELATIONS WITH ENTITIES WHOSE ACTIVITIES ARE RELATED WITH THE TRADE IN AND MANAGEMENT OF VIRTUAL CURRENCIES](#)

In view of the obligations set out in the Act on the prevention of money laundering and terrorist financing, the UKNF in its letter pointed to the freedom to shape customer relations in that respect. However, the UKNF has stressed that where it is not possible to mitigate the risk of money laundering or terrorist financing, no cooperation may be established with the customer or the existing business relationships must be terminated.

## POSITION OF 26 JULY 2019 ON INDICES USED AS BENCHMARKS IN FINANCIAL INSTRUMENTS AND FINANCIAL CONTRACTS

In its statement, the KNF Board addressed the issue of compliance with the requirements laid down in Article 28(2) of BMR. According to those requirements, supervised entities that apply a benchmark are required to draw up sound plans which must specify the actions to be taken in the event of material changes in, or discontinuance of, the process of setting a given benchmark.

## POSITION OF 4 SEPTEMBER 2019 ON THE PROCEDURE, FORM AND TIME LIMITS FOR SUBMISSION TO THE KNF BOARD OF INFORMATION BY INVESTMENT FIRMS AND BANKS REFERRED TO IN ARTICLE 70(2) OF THE ACT ON TRADING IN FINANCIAL INSTRUMENTS

*Regulation of the Minister of Finance of 22 February 2019 on the scope, procedure, form and time limits for submission of information by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks* introduced, as of 4 April 2019, the obligation to submit quarterly sales reports to the KNF Board by the banks referred to in Article 70(2) of the Act on trading in financial instruments. Starting with the data/information for the first quarter of 2019, banks under Article 70(2) of the Act on trading in financial instruments are required to submit statements by the 15th day of the month following the quarter covered by the statement.

## POSITION OF 11 SEPTEMBER 2019 ON BANKS OPERATING AS SETTLEMENT INTERNALISERS

On 17 September 2014, there entered into force Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (hereinafter: 'Regulation (EU) No 909/2014'). Under 9(1) of Regulation (EU) No 909/2014, settlement internalisers must report to the competent authorities of their place of establishment on a quarterly basis the aggregated volume and value of all securities transactions that they settle outside securities settlement systems.

## UKNF POSITION OF 11 JULY 2019 IN RELATION TO THE RISK OF FAILURE TO ADAPT THE POLISH LEGAL SYSTEM, BY 21 JULY 2019, TO THE PROVISIONS OF REGULATION (EU) 2017/1129 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 14 JUNE 2017 (FOLLOWING THE POSITION, AN UPDATED POSITION ON THE SAME SUBJECT WAS ANNOUNCED ON 2 AUGUST 2019)

On 21 July 2019, there entered into force Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (hereinafter: 'Regulation (EU) 2017/1129'). The UKNF presented its position on the application of the provisions of Regulation (EU) 2017/1129 and the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies (Journal of Laws 2019, item 623) in the event of failure to adapt the Polish legal system, by 21 July 2019, to the provisions of the said Regulation (the transition period).

## UKNF POSITION ON THE RULES OF FULFILMENT, BY PERSONS DISCHARGING MANAGERIAL RESPONSIBILITIES AND PERSONS CLOSELY ASSOCIATED WITH THEM, OF THE NOTIFICATION OBLIGATIONS UNDER ARTICLE 19 OF MAR IN CONNECTION WITH PLEDGING OF SHARES OF AN ISSUER

On 25 July 2019, the UKNF published its position explaining that the notification obligation of persons discharging managerial responsibilities within an issuer and persons closely associated with them, pursuant to Article 19(1) in conjunction with Article 19(7)(a) of MAR, should apply to types of pledge (including ordinary pledge, registered pledge, financial pledge).

#### [UKNF POSITION OF 17 DECEMBER 2019 ON THE REGULATORY TECHNICAL STANDARDS FOR ESEF REPORTING](#)

In its Communication of 17 December 2019 on regulatory technical standards on the specification of a single electronic reporting format (ESEF), the UKNF has stated that issuers whose securities are admitted to trading on a regulated market in the European Union will be required to prepare their financial reports in a European single reporting format (ESEF) for financial years beginning on or after 1 January 2020. The UKNF also reported that work has been started to adapt the existing ESPI system to ESEF reporting, and that the launch of the option for submitting annual reports in the ESEF format will be preceded by the tests run in cooperation with entities that are required to submit such reports. The adaptation to the requirements on the ESEF reporting marks the beginning of a new reporting platform for the exchange of information, to be implemented in the second half of 2022.

#### [COMMUNICATION FROM THE UKNF OF 6 MAY 2019 ON PUBLIC OFFERINGS OF SECURITIES CONDUCTED WITHOUT THE OBLIGATION TO DRAW UP A PROSPECTUS, ADDRESSED TO RETAIL INVESTORS](#)

On 6 May 2019, the UKNF published a communication which pointed to the public offerings of securities that do not require a prospectus. The UKNF pointed out that such public offerings are conducted more and more frequently by companies shortly after their registration in the National Court Register, companies at an early stage of development, or companies whose financial situation is difficult. The UKNF drew the attention of potential investors to the fact that the securities of such companies carry an above-average investment risk. The UKNF also reminded that such offerings are usually addressed to retail investors.

#### [SUPPLEMENT TO THE 'UKNF POSITION ON ACCEPTING AND GIVING 'INCENTIVES' IN CONNECTION WITH THE PROVISION OF SERVICES OF ACCEPTANCE AND TRANSMISSION OF ORDERS' OF 21 DECEMBER 2018 WITH REGARD TO THE REQUIREMENTS TO DOCUMENT THE INCENTIVES](#)

On 17 September 2019, a supplement to the 'UKNF Position on accepting and giving 'incentives' in connection with the provision of services of acceptance and transmission of orders' of 21 December 2018 was published, laying down the rules for documenting incentives.

The document underlines the importance of the contract as a basic form of agreement between the TFI and the distributor, and points out that its provisions must specify: (i) the services (including their characteristics/description) that improve the quality of services provided to customers by the distributor, (ii) the method of determining the amount of remuneration, separately in relation to each service, (iii) the documents confirming the performance of the service by the distributor, and the modes and time limits for their submission to the TFI. It was also pointed out that the contract should clearly indicate the economic value of the service so that, on the basis of its valuation principles, both the distributor can justify the amount of their remuneration and the TFI can verify that amount. In addition, it was noted that the rules on the payment of incentives did not apply where the payment of remuneration to those entities for the provision of brokering services for the disposal of investment certificates was based on an agreement for offering investment certificates.

#### [SUPPLEMENT TO THE 'UKNF STATEMENT ON ACCEPTING AND GIVING 'INCENTIVES' IN CONNECTION WITH THE PROVISION OF SERVICES OF ACCEPTANCE AND TRANSMISSION OF ORDERS PERTAINING](#)

## TO PARTICIPATION UNITS IN INVESTMENT FUNDS,' OF 21 DECEMBER 2018 AS REGARDS THE DETERMINATION OF REMUNERATION ON ACCOUNT OF INCENTIVES

On 20 December 2019, there was published a supplement to the UKNF Statement on accepting and giving 'incentives' in connection with the provision of services of acceptance and transmission of orders (...) of 21 December 2018, which sets out the principles of remuneration on account of incentives and clarifies: (i) the possibility of collecting margin as part of incentives, (ii) the types of costs to be taken into account for the purpose of calculating incentives, (iii) the possibility of determining incentives in percentage terms on the value of the fund's assets, and (iv) the term 'wide range of financial instruments.'

In particular, it was stressed that the amount of the incentives could be indicated as a certain percentage, provided that it is also closely linked to the service valuation method and that the value of the incentives thus established is not higher than the value of the services.

It was also pointed out that the distributor may use market prices for services or other objective criteria agreed between the distributor and the TFI in the contract as a basis for the payment of incentives.

It was important for market participants that the distributor was allowed to benefit from the incentives provided that the service confers a measurable advantage to the customer or potential customer. At the same time, it was noted that the collection of incentives, including the calculated 'margin', must be proportionate to the benefit that the service brings to the customer/potential customer.

## UKNF POSITION ON THE DEFINITION OF SERVICE OF OFFERING FINANCIAL INSTRUMENTS IN ARTICLE 72 OF THE ACT OF 29 JULY 2005 ON TRADING IN FINANCIAL INSTRUMENTS

On 29 March 2019, there was published a position presenting comprehensive explanations on the new definition of offering. The position points to both the key elements of the definition and the facts illustrating practical issues related to its application in practice.

The new definition of offering has extended and clarified the catalogue of activities that may fulfil the conditions of offering, which is important since the service of offering requirements KNF authorisation. The aim of that regulation was, in particular, to eliminate negative phenomena in the trading in financial instruments consisting in encouraging potential investors to acquire financial instruments, in particular through the use of individual communication channels which hinder the detection of infringements.

The position also discusses the relation between the new definition of activities to other brokerage services, as well as issues related to the practical application of the new legal instruments introduced by MiFID II (e.g. product governance) in the context of offering financial instruments.

The position was addressed to investment firms providing the service of offering financial instruments but also to crowdfunding platforms to clarify the doubts concerning the limits of activities which may be conducted without authorisation to offer financial instruments.

## COMMUNICATION FROM THE UKNF ON ENTITIES OFFERING THE SERVICE OF PROPERTY MANAGEMENT

On 8 January 2019, there was published a communication on entities offering the service of property management which pointed to the risk that the entities providing such service conduct brokerage activities that may only be conducted after obtaining appropriate authorisation from the KNF Board.

It was emphasised that Polish law and EU regulations impose on supervised entities providing brokerage services certain legal obligations, for example with regard to: (i) adaptation of the investment solutions to the knowledge, experience and financial standing of the investor; (ii) the form and scope of information on a given service/investment provided to investors; (iii) management of conflicts of interest; (iv) the current and future knowledge, skills and experience of persons engaged in the provision of services to an investor, or (v) participation in the investor compensation scheme.

It was also noted that the legal requirements and KNF supervision of brokerage entities serve to safeguard investors' interests and reduce the risk of losses.

## COMMUNICATION FROM THE UKNF ON THE OBLIGATIONS OF DEPOSITARIES OF INVESTMENT FUNDS

On 19 July 2019, the Communication from the UKNF on the obligations of depositaries of investment funds was published on the KNF website. Considering the noted irregularities in the operation of entities providing depositary services to investment funds and the doubts as to interpretation of the obligations of depositaries, the supervisory authority presented its opinion on that matter. The position of the UKNF relates to certain aspects of performance of obligations of depositaries of investment funds. The position in question addressing the doubts as to interpretation and presenting the expectations of the supervisor as regards certain standards of operation of depositaries should contribute, on the depositaries' side, to the minimisation of risk of non-compliance with applicable legislation and standards expected by the supervisor.

## COMMUNICATION FROM THE UKNF ON THE FULFILMENT OF DISCLOSURE AND REPORTING REQUIREMENTS BY AIC MANAGERS ENTERED IN THE REGISTER OF AICMS

On 29 January 2019, the UKNF published on its website a Communication on the fulfilment of disclosure and reporting obligations by AICMs entered in the Register of AICMs. The position focused on the distinction between disclosure obligations and reporting obligations of AICMs. The position explained the procedure for communicating changes in the data disclosed in the Register of AICMs and the formal procedure for submitting annual reports in the reporting form set out in Annex IV to Regulation 231/2013.

## COMMUNICATION FROM THE UKNF ON THE PRACTICAL ASPECTS OF FULFILMENT OF REPORTING OBLIGATIONS OF AIC MANAGERS ENTERED IN THE REGISTER OF AICMS

On 30 December 2019, the UKNF published on its website a Communication on the practical aspects of fulfilment of reporting obligations by AICMs entered in the Register of AICMs. The communication was addressed to the managers that are bound by the obligation to send reporting files for 2019. The information provided in the communication and the enclosed files were to organise and facilitate the fulfilment of the reporting obligation for 2019.

## POSITION OF THE KNF BOARD ON THE DIVIDEND POLICY OF GENERAL PENSION SOCIETIES IN 2020

On 17 December 2019, the KNF Board adopted a position on the recommendation on dividend payments in 2020. The KNF Board concluded that a PTE which decides to pay dividends in 2020 should also comply with the required levels of capital ratios and the SREP review, as set out in the position of the KNF Board on the dividend policy in the medium term (adopted by the KNF Board on 22 May 2018).

The KNF Board recommended that the amount of the dividend paid in 2020 should not exceed 100% of the profit generated in 2019, with the PTE maintaining the value of equity and liquid assets increased by the value of the funds of the Guarantee Fund assigned to the PTE at a level not lower than 1.25% of the net assets of an OFE. When making the decision to pay the dividend, PTEs should also consider the additional capital needs in the term of 12 months from the approval of the financial statements for 2019. The decision to pay the dividend should also consider the additional capital needs related to the management of target-date funds in accordance with the Act on employee capital plans, and the capital needs related to the implementation of the solutions resulting from the draft Act amending certain laws in connection with the transfer of funds from open pension funds to individual retirement accounts, the provisions of which are to enter into force in 2020, in connection with the transformation of a general pension society into an investment fund management company, resulting from the Act on investment funds and management of alternative investment funds.

## POSITION OF THE KNF BOARD ON THE DIVIDEND POLICY OF INVESTMENT FUND MANAGEMENT COMPANIES IN 2020

On 17 December 2019, the KNF Board adopted a position on the recommendation on the payment of dividend in 2020 for investment fund management companies. The main assumptions concerning the criteria for the payment of dividend have not changes and remain consistent with the previous criteria presented in the position of the KNF Board on the dividend policy in the medium term. The position also considers the criterion relative to the requirements on liquid assets which result from the Act on employee capital plans. When making the decision on profit allocation, the investment fund management company should consider the following matters: additional capital needs in the term of twelve months from the approval of the financial statements for 2019 so that the profit allocation does not affect the ability to meet capital requirements in subsequent months; the amount of financial results in the current year; the claims of unit-holders brought against the company during the period from the date of adoption of the last resolution on profit allocation, due to improper management of investment funds.

#### COMMUNICATION FROM THE KNF BOARD ON THE RULES FOR CHANGING THE METHOD OF HANDLING REPORTS ON IRREGULARITIES IN THE OPERATION OF SUPERVISED ENTITIES RECEIVED FROM NON-PROFESSIONAL FINANCIAL MARKET PARTICIPANTS

By its letter of 12 July 2019, the KNF Board issued a communication on how to handle reports from non-professional financial market participants on irregularities in the functioning of the supervised entities.

The purpose of the communication was to highlight that, with greater emphasis on analysing the information received and taking supervisory action, the UKNF will not exchange correspondence with persons transmitting information on irregularities in the functioning of supervised entities unless additional information or documents are required in the course of the supervisory activities. It was also stressed that each time the supervisory authority analyses and verifies information on the functioning of the financial market provided by non-professional financial market participants. If the irregularities found in the activities of a supervised entity are confirmed, the collected information provide the grounds for adopting appropriate systemic supervisory measures to eliminate such practices and to properly shape the market in the future. However, information on the activities undertaken by the KNF Board cannot be communicated to the reporting persons due to the obligation of professional secrecy laid down in Article 16 of the Act on financial market supervision (Journal of Laws 2019, item 298, as amended).

POSITION ON THE DISPOSAL OF PROPERTY BY BANKS ON THE BASIS OF AN INSTRUCTION CONCERNING THE DEPOSIT IN THE EVENT OF DEATH OF THE ACCOUNT HOLDER AS REFERRED TO IN ARTICLE 56 OF THE ACT OF 29 AUGUST 1997 – THE BANKING LAW.

Since the UKNF identified an inconsistent practice in the area of execution of an instruction concerning the deposit in the event of death of the account holder, referred to in Article 56 of the Banking Law, where the holder of an individual bank account (the legator) was married and had spousal joint ownership of property, on 4 March 2019 the UKNF addressed a relevant position to all obliged entities.

The UKNF has pointed out that there is no legal basis for concluding that an obliged entity (commercial banks, cooperative banks, credit unions, branches of credit institutions) is required to examine the existing property regime between spouses for the purpose of executing the instruction concerning the deposit in the event of death at the time of its acceptance, or to make the amount of payment conditional upon the existence of a certain property regime between the spouses at the time of death of the legator. The UKNF has communicated that any other practice applied in that respect violates the provisions of Articles 56 and 56a of the Banking Law, leading to failure to execute the instruction concerning the deposit in the event of death of the account holder.

The UKNF asked the obliged entities to review their practices related to the instruction concerning the deposit in the event of death of the account holder, and to adopt the necessary measures to eliminate any potential irregularities.

POSITION ON COMPLIANCE BY BANKS AND CREDIT UNIONS WITH THE REQUIREMENTS UNDER ARTICLES 56A, 59A(6) AND (7), 59B AND 111C OF THE BANKING LAW AND ARTICLES 13A(6) AND (7), 13B, 13C AND 14(2A) OF THE ACT ON CREDIT UNIONS, AND COMPLIANCE WITH REQUIREMENTS FOR BANKS AND CREDIT UNIONS UNDER ARTICLES 92BA-92BD OF THE BANKING LAW AND ARTICLES 13D-13F OF THE ACT ON CREDIT UNIONS (CENTRAL INFORMATION SYSTEM)

With reference to the letter of 16 November 2016, in which the KNF Board communicated the introduction of new disclosure obligations for banks and credit unions, including obligations related to the provision of information within the Central Information System (Articles 92ba-92bd of the Act of 29 August 1997 – the Banking Law and Articles 13d-13f of the Act on credit unions), and on the basis of the comparative analysis of the data obtained directly from banks, credit unions and branches of credit institutions concerning the performance of such obligations and the data received from KIR S.A., the supervisor found that supervised entities were using different practices in handling requests received within the Centre of Information on Accounts, including with regard to recording the requests from entities through the Ognivo system.

In view of the need to ensure the proper functioning of entities in the performance of the above-mentioned obligations, the purpose of which is to provide to eligible applicants, in the aggregate information, a complete and reliable statement of information, the supervisory authority has recognised the need to harmonise the practice of entities in the field of handling requests from the Central Information System and to take action to keep records of requests and answers to those requests within the Central Information System.

The KNF Board reiterated that it was necessary for banks and credit unions to apply due care in the fulfilment of the obligations arising from the above-mentioned Acts: the Banking Law and the Act on credit unions.



## POSITION ON THE INCONSISTENT PRACTICES OF BANKS WITH RESPECT TO OPENING ACCOUNTS FOR CONSUMERS USING IDENTITY DOCUMENTS OTHER THAN AN ID CARD

Following its review, the UKNF found that some entities prevented the opening of a bank account, including a basic payment account, for a consumer that used only: a Polish passport document, Polish residence card, foreign passport document.

The UKNF ordered supervised entities to review their practices related to the identification of clients and verification of their identity, and to adopt the necessary measures to eliminate any potential irregularities in that respect.

## POSITION OF THE UKNF ON THE TECHNICAL RATES USED TO CALCULATE THE BALANCE-SHEET TECHNICAL PROVISIONS FOR ACCOUNTING PURPOSES

The position of the UKNF concerns the interpretation of the provisions of Regulation of the Minister of Finance of 12 April 2016 on specific accounting principles of insurance and reinsurance undertakings, in relation to technical rates used to calculate the balance-sheet technical provisions for accounting purposes, as referred to in § 46(1) of that Regulation.

## POSITION OF THE UKNF ON THE ADEQUACY OF PREMIUM IN MOTOR INSURANCE

In view of the need to ensure that insurance undertakings conduct the insurance business in accordance with the provisions of law, the supervisory authority again drew attention to the adequacy of the insurance premium referred to in Classes 3 and 10 of Section II of the Annex to the Act of 11 September 2015 on the business of insurance and reinsurance. In its position, the supervisory authority pointed to the need for insurance undertakings to carefully analyse the process of calculating rates and to review the claim settlement process and relationships with insurance intermediaries and with customers, as a determining element for a reliable estimation of the future level of loss rate and operating costs and, consequently, the required level of premiums. The supervisor also pointed to the need to consider the results of the reviews in practice, e.g. when determining the rates of premiums.

## POSITION OF THE UKNF ON INSURANCE UNDER CLASS 3 OF SECTION I OF THE ANNEX TO THE ACT OF 11 SEPTEMBER 2015 ON THE BUSINESS OF INSURANCE AND REINSURANCE

The insurance referred to in Class 3 of Section I of the Annex to the Act of 11 September 2015 on the business of insurance and reinsurance is characterised by high complexity and related difficulty for policyholders or the insured in understanding the structure of such insurance, mainly the related risks. The common feature of such insurance products is their investment nature and the transfer of investment risk to the client. It is therefore particularly important that the insurance referred to above should be tailored to the needs and capabilities of the policyholder or the insured and that the assets derived from insurance premiums should be invested in accordance with the prudent person principle.

The position aims at highlighting important issues in the area of distribution of investment insurance and investment activities, in particular in relation to:

- the analysis of customers' needs and offering products that are appropriate for the customer's needs,
- the choice of assets and observance of the prudent person principle.

## COMMUNICATION FROM THE KNF BOARD ON THE SUPERVISOR'S POSITION ON THE OBJECTIVES OF THE DIVIDEND POLICY OF COMMERCIAL BANKS, COOPERATIVE BANKS AND INSURANCE/REINSURANCE UNDERTAKINGS IN 2020

It is recommended that the dividend should only be paid by the insurance/reinsurance undertakings that meet all the following criteria: they were awarded, as part of the SRP for 2018, a good or satisfactory risk assessment rating; in no quarter of 2019 they reported

insufficient own funds for covering the capital requirement, defined as the maximum of the minimum capital requirement (MCR) and the solvency capital requirement (SCR); in 2019, they were not covered by the short-term financial scheme or recovery plan referred to in Articles 312 and 313 of the Act of 11 September 2015 on the business of insurance and reinsurance, and as at 31 December 2019 the amount of own funds without deducting the expected dividends was at a level of at least 175% of the amount of capital requirements for insurance/reinsurance undertakings operating under Section I and at least 150% of the amount of capital requirements for insurance/reinsurance undertakings operating under Section II. The insurance/reinsurance undertakings which meet the above-mentioned criteria should limit the payment of the dividend to 75% of the amount of the profit for 2019, and the coverage of capital requirements for the quarter in which the dividend was paid out should be at least 110%.

At the same, a dividend may be paid in the amount corresponding to the entire profit for 2019 (which means that no dividend may be paid from the other components of equity), provided that the coverage of capital requirements (after deduction of expected dividends from own funds) as at 31 December 2019 and for the quarter in which the dividend was paid own will be at least 175% for insurance/reinsurance undertakings operating under Section I and at least 150% for insurance/reinsurance undertakings operating under Section II.

#### POSITION OF THE UKNF ON THE FULFILMENT OF THE OBLIGATION TO IMPROVE PROFESSIONAL SKILLS REFERRED TO IN ARTICLE 12(1) OF THE ACT ON INSURANCE DISTRIBUTION

Article 12(1) of the Act of 15 December 2017 on insurance distribution requires persons performing agency activities, persons performing brokerage activities in the field of insurance, persons carrying out brokerage activities in the field of reinsurance, persons performing distribution activities of an insurance undertaking and persons carrying out distribution activities of a reinsurance undertaking to improve their professional skills by, *inter alia*, completing at least 15 hours per year of vocational training on selected subjects. The position aims to highlight important issues in the fulfilment of the obligation under that Article in relation to:

- I. the annual volume and thematic scope of vocational training,
- II. the document to certify completing of vocational training,
- III. the method of verification of compliance with the requirement to complete vocational training,
- IV. sanctions for failure to comply, in whole or in part, with the obligation to improve professional skills through vocational training.

A detailed list of positions of the KNF Board and the UKNF as well as communications from the UKNF is presented in Table 8.2 in Annex 8.

## 9. OTHER ACTIVITIES

### 9.1. EDUCATION AND INFORMATION ACTIVITIES

Since 2009, in the performance of its statutory tasks in the area of dissemination of knowledge on the functioning of the financial market, the UKNF has been carrying out the project called the Education Centre for Market Participants (CEDUR), as part of which mainly training and publishing activities were carried out in the period covered by this report.

In 2019, the Polish supervisor organised 80 training seminars conducted by the UKNF staff, addressed mostly to KNF-supervised entities from all sectors of the financial market, representatives of the judiciary and law enforcement agencies, consumer protection institutions and the school environment. More than 6.3 thousand participants took part in the seminars.

A list of the events organised under the CEDUR project in 2019 is presented in Annex 7.

In addition, representatives of the UKNF participated as speakers in nearly 150 external events, i.e. panels, congresses and conferences.

During the period covered by this report, the UKNF published the following educational brochures: *Open banking in the light of the requirements of PSD2: challenges and opportunities for development for the Polish FinTech sector*, *Alternative investment companies as a new type of investment vehicles in Poland*, *Obligations of banks towards customers under the Act on trading in financial instruments*, *First steps in the financial market - lesson scenarios*, *scenarios of lessons on the risk associated with investments in capital and futures markets*, and the item entitled *Implications of the Fractal Market Hypothesis for the assessment of risk in financial investment* (a monograph being a summary version of the PhD dissertation entitled *Implications of the Fractal Market Hypothesis for the assessment of risk in financial investment*, for which the author was awarded a prize in the 6th Competition for the Award of the Chair of the KNF Board for the best PhD dissertation).

As part of the activities addressed to the school environment, the UKNF coordinated the international Global Money Week (GMW) – ‘World Money Week’ for the fifth time. The 8th edition of GMW was held on 25-31 March 2019, under the slogan ‘*Learn. Save. Earn.*’ The campaign involved nearly 13 thousand children and youth from all over Poland, pupils and students at all stages of education, as well as children under the care of special school and education centres. The KNF ran the campaign in cooperation with the Ministry of Finance. The initiator and coordinator of GMW on a global scale was Child & Youth Finance International (CYFI), a non-profit organisation cooperating with the OECD.

The UKNF was also involved in the third edition of World Investor Week (WIW) – *World Investor Week* through the organisation of a training seminar entitled ‘Cybersecurity from the perspective of financial service users’, addressed to methodology advisors, teachers of economics and vocational training courses, and other teachers interested in finance, e.g. school coordinators of the GMW campaign. The seminar was organised in cooperation with the GPW Foundation, the Office of the Financial Ombudsman and Centre for the Development of Education. The World Investor Week is a global initiative in financial education launched by the International Organisation of Securities Commissions (IOSCO) in order to raise public awareness of the role of financial education and to protect investors in the financial market.

In cooperation with the academic community, the UKNF organised two research conferences in Warsaw with the participation of world-renowned authorities in the field of economics and law. On 30 October 2019, a research conference was organised jointly by the UKNF Office and the Faculty of Law and Administration of the University of Warsaw, entitled *Corporate governance and securities regulations*. The conference included a lecture delivered by Professor Steven Davidoff Solomon of Berkeley School of Law, University of California, an outstanding authority in the field of corporate law, capital market, and mergers and acquisitions. During the conference, the Chair of the KNF Board presented the prize of PLN 15 000 in the 8th *Competition for the Award of the Chair of the KNF Board for the best PhD dissertation in the field of financial markets*. The competition aims to inspire the development of the financial market and its innovativeness by increasing the interest of the academic community in the topics related to the organisation, functioning and supervision of the financial market. On 14 November 2019, an international conference *AT1 and RT1 Contingent Convertibles: experiences at international level and the Polish perspective* was organised jointly by the UKNF and Warsaw School of Economics, dedicated to instruments included in the category of AT1 capital, called contingent convertibles (CoCos). A special guests was Professor Wim Schoutens of University of Leuven, Belgium, a famous authority in the field of n the field of pricing and risk modelling for CoCos. The conference was also attended by representatives of banks/issuers having experience in structuring and arranging the issue of CoCos.

The UKNF continued to participate in the activities of the Working Group for Educational Activities in the area of Financial Market attached to the Financial Market Development Council, coordinated by the Ministry of Finance.

## WEBSITE

The main tool the UKNF uses to conduct information activities is the website, which recorded nearly 5.8 million page views in 2019. Information presented on the website of the KNF Board as the financial market supervisor includes tasks and composition of the KNF Board, communications from the meetings, organisational structure of the UKNF, tasks of departments, public procurement, job advertisements and public warnings of the Polish Financial Supervision Authority. Moreover, the website contains extensive information on the supervised markets: up-to-date lists of entities operating in each market, financial data and statistics, publications (reports, including thematic reports), legal acts, including instruments of Community law, information on activity in the EU institutions, etc.

In 2019, 94 803 pieces of media material included references to the Polish Financial Supervision Authority, of which: 88 303 on the Internet, 4 049 in the press, and 2 451 on the radio and television.

When cooperating with the media, the UKNF is pursuing an open communication policy. Tasks in this area include, among other:

- public presentation of positions and results of activities of the KNF Board and the UKNF,
- providing information on actions, initiatives and programmes taken by the KNF Board and UKNF,
- commenting on events in the financial market,
- answering questions of media representatives.

## PROCESSING REQUESTS FOR ACCESS TO PUBLIC INFORMATION

On 1 January 2019, pursuant to Article 25(1) of the Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection (Journal of Laws 2018, item 2243), the Polish Financial Supervision Authority was established (UKNF) as a state legal person. That has resulted in a change in the status of the UKNF under the Act on access to public information. According to Article 4(1) point 4 of the Act on access to public information, entities obliged to make available public information include entities representing state legal persons. Such status, according to Article 3(4) point 2 of the Act on financial market supervision, is granted to the Chair of the Board of the Polish Financial Supervision Authority and it is him who should be recognised in the current legal order as obliged entity under the Act on access to public information. The Chair of the KNF Board is obliged to provide public information both on request and without request, thus also on the websites of the Public Information Bulletin (BIP). The BIP website is also a website of the same legal person, i.e. the website of the BIP of the UKNF. On the BIP website of the UKNF, information is also published about the KNF Board as a body of the UKNF competent for supervision over the financial market.

In 2019, the UKNF received 229 requests for access to public information.

## SOCIAL CAMPAIGN 'OCZAROWANI' ['ENCHANTED']

Between November and December 2019, the UKNF ran a nation-wide social campaign 'Enchanted.' Partners of the campaign included the Office of Competition and Consumer Protection and the Ministry of Investment and Development.

The purpose of the information campaign was to draw attention to the risks associated with investing in the purchase of condo hotels/aparthotels. The name of the campaign ('Enchanted') defines a wide range of non-professional investors and consumers looking for attractive investment opportunities, while lacking the necessary knowledge or experience to properly assess the available offers. Lack of awareness of many risks makes such people easily 'enchanted' with the ability to make quick and high profits.

The campaign was accompanied by television and radio news spots, presented on the Polish Television, Polsat TV, Polish Radio, RMF and Radio Zet. The campaign was also covered on social media and profiles of entities involved in the project.

The social information campaign is supported by the [oczarowani.pl](http://oczarowani.pl) website that contains the list of the most essential guidelines that will help non-professional participants gain more knowledge about factors that should be taken when planning an investment. The [oczarowani.pl](http://oczarowani.pl) website contains a set of tips and questions to be answered before the finalisation of purchase in the area of condo hotels/aparthotels. A relevant summary is also available in the form of a single file that may be useful during a conversation with the person offering such investment.

## INFORMATION CAMPAIGN ON CROWDFUNDING

In 2019, the UKNF launched an information campaign on crowdfunding in Poland. Given the pace at which the crowdfunding market in Poland is developing and the number of related risks, in December 2019 the UKNF prepared educational material for retail (non-professional) investors investing in companies that offer their shares through crowdfunding platforms.

More materials will be published in 2020 and they will concern the position of the UKNF on the legal status of crowdfunding platforms and the acceptable marketing activities of issuers.

## 9.2. COOPERATION WITH STATE BODIES AND EXTERNAL ENTITIES

### COOPERATION WITHIN THE FINANCIAL STABILITY COMMITTEE (FSC)

The Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system has provided the Financial Stability Committee with powers in relation to macro-prudential supervision and crisis management. Four most important institutions included in the financial security network in Poland are represented in the Financial Stability Committee, i.e. the National Bank of Poland, the Polish Financial Supervision Authority, the Ministry of Finance, and the Bank Guarantee Fund. As regards macro-prudential supervision, the meetings of the Committee are chaired by the President of the NBP, and in the area of crisis management the Minister of Finance.

The purpose of the meeting on 25 January 2019 was to discuss the progress of work on adapting WIBOR reference rates to the requirements of BMR, and the barriers to the development of the mortgage bonds market.

At the meeting of 29 March 2019, the Committee, in the performance of statutory obligations, adopted a resolution on the recommendation addressed to the Minister of Finance concerning the maintenance of the rate of the counter-cyclical buffer at 0%. It was also found that the main source of risk remains the uncertainty about the portfolio of foreign currency housing loans. Although there has been a systematic decrease in the volume of housing loans in foreign currencies, such liabilities still represent an important source of risk to the financial system in Poland due to uncertainty about possible regulatory solutions.

At the meeting of 7 June 2019, members of the Committee discussed the conclusions from the reviews on high-value consumer loans. Today, high-value long-term consumer loans represent a small share in the entire credit portfolio of the non-financial sector. However, their rapid growth has been reported in the flow of new lending, which could imply higher risks in the banking sector in the future. The Committee has concluded that banks should carefully assess the risks associated with such loans and verify the purposes for which such loans are granted.

At the request of the KNF Board, on 23 September 2019 the Committee unanimously adopted opinions on the repealing of a final decision on the identification of two entities as other systemically important institutions (O-SIIs), on the setting of an O-SII buffer of 0.75% for two entities, and on the setting of an O-SII buffer of 0.1 for two other entities<sup>42</sup>. A total of 6 opinions were drawn up to serve as a basis for KNF decisions. A decision was also made to review the current methodology for identification of O-SIIs and to modify it, if necessary, to better reflect the specificities of the Polish banking sector.

At the meeting on 13 December 2019, following the review, the Committee recommended to the Minister of Finance that the systemic risk buffer should be kept at the current level of 3%, on the currently applicable terms.

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<sup>42</sup> See Chapter 3.1.2 of the Report, in the part: 'Identification of other systemically important institutions (O-SIIs).'

## COOPERATION WITH THE SUPERVISING AUDIT COMMITTEE (SAC), THE MINISTRY OF FINANCE (MF), AND THE COMMUNITY OF STATUTORY AUDITORS

On 7 February 2019, by its Order No 26/2019, the Chair of the KNF Board abolished the Committee for Relations with Statutory Auditors, and by its Order No 30/2019 of 15 March 2019 the Chair of the KNF Board appointed the Coordinator for cooperation with the Audit Oversight Commission. The main task of the Coordinator for cooperation with the Audit Oversight Commission was to prepare, in cooperation with the relevant UKNF departments, an agreement on cooperation and exchange of information between the KNF Board and the Audit Oversight Commission. The agreement was concluded on 29 November 2019.

In 2019, representatives of the UKNF participated in the legislative process concerning the amendments to the Act on statutory auditors, audit firms and public supervision, and assessed proposals for Regulations of the Minister of Finance implementing the amendments to the said Act.

## COOPERATION WITH THE NATIONAL BANK OF POLAND

The KNF engages in bilateral cooperation for the exchange of information necessary to perform statutory tasks of the central bank and the financial market supervisory authority. The terms of cooperation are laid down in bilateral memoranda of cooperation and exchange of information between the KNF and the National Bank of Poland (PL: *Narodowy Bank Polski*–NBP).

Under the agreement, the KNF Board submitted a series of data to the NBP in 2019 in the area of:

- the banking sector, on: stress tests, financial plans, obtaining extra-reporting data on consumer and housing loans, loans for commercial real property and communication of SREP ratings, as well as information on the results of inspections with supervisory recommendations addressed to systemically important banks and on the results of control activities conducted with respect to the correctness of calculation and disbursement of the required amount of the minimum reserve;
- the payment service sector: cooperation includes the allocation of sort codes to payment accounts, the exchange of data on transactions performed by the acquirers and the issuers of payment instruments, and in the area of electronic money – exchange of data on payment schemes. The NBP also reports data on frauds committed using payment instruments.

On the other hand, the NBP sent the KNF a number of analytical materials regarding issues covered by the KNF's activities. At the same time, both institutions worked together at the operational level (with respect to information exchange, job postings, and IT issues), also with regard to individual supervised entities. In addition, similarly to previous years, at the time of preparation of the annual 'Report on the standing of banks,' the Chair of the KNF Board met with members of the Monetary Policy Council to discuss the most important developments in the banking sector and the credit unions sector, as well as the main challenges and potential sources of risks faced by both sectors;

- the insurance sector: information based both on additional financial statements and statistical reports of insurance and reinsurance undertakings (statutory), and on reports consistent with Solvency II. The above-mentioned data of insurance and reinsurance undertakings and actions undertaken as part of cooperation were carried out to perform the tasks of the NBP and the tasks following from the participation of the NBP in the European System of Central Banks;
- the pension sector: data on pension funds and pension societies, occupational pension schemes, individual pension accounts and individual pension savings accounts. The data are submitted and/or made available by the KNF to the NBP at monthly, quarterly and annual intervals. In 2019, 72 monthly data sets, 56 quarterly data sets and 12 annual data sets were made available to the NBP;

- the investment fund market sector, in particular data on: shareholders of investment fund management companies, selected financial data of investment fund management companies, entities operating investment funds (depositories and entities maintaining registers of fund participants), selected financial data of investment funds and sub-funds, and data identifying investment fund management companies, investment funds and sub-funds;
- the alternative investment companies sector, in particular reporting data concerning AIC managers and AICs as at 31/12/2017 and 31/12/2018;
- the sector of brokerage houses: statistics on entities conducting brokerage and custodian banks. Information on the number of brokerage houses, banks providing investment services, and organisational units of banks, as well as information on public and private issues, and securities traded on the regulated market is provided annually. Information on securities accounts and cash accounts kept by entities conducting brokerage and by custodian banks, as well as aggregated data on balance sheet and profit and loss account of brokerage houses is provided on a semi-annual basis;
- data on primary and secondary public and non-public offerings of shares made through investment firms.

Pursuant to the Act on trading in financial instruments, the regulations of the National Depository for Securities and the regulations of KDPW\_CCP S.A., and amendments thereto to the extent indicated in the said Act are approved by the UKNF following consultation with the President of the NBP. Therefore, the UKNF sends to the President of the NBP decisions on the request for an opinion on the requests of the KDPW and the KDPW\_CCP for approval of amendments to the Rules for the National Depository for Securities, Rules for settling transactions (organised trading), Rules for settling transactions (non-organised trading), and Rules of a compensation fund. Moreover, the NBP is a member of the supervisory college for KDPW\_CCP S.A. appointed by the KNF Board in 2013 to exercise ongoing supervision of KDPW\_CCP S.A. in connection with the requirements of EMIR. In addition, pursuant to Article 12 of CSDR, the NBP acts as an authority competent for the supervision of KDPW S.A. as a central securities depository, and is therefore the body with which the KNF Board is obliged to consult on, *inter alia*, the characteristics of the securities settlement system operated by KDPW S.A., in accordance with Article 17(4) of CSDR.

In 2019, the President of the NBP issued 1 opinion concerning the request for authorisation to provide payment services as a domestic payment institution, as the request pertained to the payment service referred to in Article 3(1) point 5 of the Act on payment services (acquiring). Such opinion is required in the course of the licensing procedure but it is not binding on the KNF Board.

Depending on the specific nature of each case, cooperation between the NBP and the KNF Office is based on both periodic (annual, quarterly, monthly) exchange of information and *ad hoc* contacts. In particularly important issues, such cooperation is continuous.

## COOPERATION WITH INSTITUTIONS PROTECTING CLIENTS' RIGHTS

When implementing the provisions of the cooperation agreement concluded between the Polish Financial Supervision Authority and the President of the Office for Competition and Consumer Protection (UOKiK), the UKNF undertook activities aimed at ensuring protection of the interests of financial market participants and preventing and counteracting the occurrence of financial practices that infringe the collective interests of consumers. Information was exchanged on an ongoing basis with the UOKiK with regard to irregularities in the operation of financial market entities, as well as information relevant for proceedings conducted by the President of the UOKiK. As part of the meetings of working groups, risks for



the customers in the broadly understood market of condo hotels and aparthotels were analysed, which resulted in, among others, a joint educational and information campaign<sup>43</sup>.

The UKNF also cooperated with the Financial Ombudsman, providing it with information which might have indicated irregularities in the operations of financial market entities in relation to failure to comply with the Act of 5 August 2015 on handling complaints by financial market entities and on the Financial Ombudsman (Journal of Laws 2018, item 2038, as amended), and shared information on signals regarding, for example, the activities of KNF-supervised entities. The UKNF cooperated with the Office of the Financial Ombudsman as part of activities to promote financial education by organising an educational seminar for teachers entitled 'Cybersecurity from the perspective of financial service user', which was held at the headquarters of the Warsaw Stock Exchange on 4 October 2019 during the World Investor Week.

## COOPERATION WITH OTHER INSTITUTIONS

Within the period covered by this report, the KNF cooperated in particular with:

- the Bank Guarantee Fund (BGF, Fund) pursuant to the Banking Act and the Act on the Bank Guarantee Fund, the Deposit Guarantee Scheme and forced restructuring, as well as on the basis of the Agreement for Cooperation and Exchange of Information between the Polish Financial Supervision Authority and the BGF of 27 December 2016. Under the agreement, the KNF Board and the BGF provided each other with information necessary for the performance of their statutory tasks. With regard to banks, the KNF provided the BGF with, among other things, information on the scores assigned to banks under the Supervisory Review and Evaluation Process and quarterly assessments of the level of risk existing in banks' operations, as well as information on the economic and financial standing of banks, including their liquidity and capital position. One of important issues in the cooperation between the KNF and the BGF was the issue of recovery plans drafted by banks and the plans for the forced restructuring of the banks drawn up by the Fund (the national forced restructuring authority). The KNF also provided information on the scores granted to brokerage houses in the supervisory review and evaluation process, information on the financial situation and capital adequacy;
- the General Inspector of Financial Information (GIFI), as an executive body of the KNF Board being an entity cooperating with the GIFI, with regard to the performance of obligations resulting from the Act on the prevention of money laundering and terrorist financing<sup>44</sup>;
- Statistics Poland (GUS): regular transmission of data to GUS under the Programme of Statistical Surveys of Official Statistics: regarding the ownership structure of the national banking sector, the insurance and reinsurance sector, the pension sector, the investment fund market sector and the brokerage houses' sector; the UKNF was also involved in work on research programmes for 2020 and 2021;
- the Insurance Guarantee Fund (UFG): On 27 June 2019, the KNF Board signed an agreement on cooperation and exchange of information with the UFG. Pursuant to the agreement, the KNF Board and the UFG exchange information on the insurance sector, including information on motor insurance and other types of compulsory insurance. Cooperation with the UFG also concerned the monitoring of performance of the UFG's tasks, e.g. in relation to the IT database, to the extent necessary to identify, verify and prevent violations of interests of the insurance market participants (Insurance Database) and the Tourist Guarantee Fund, as well as payment of benefits from motor insurance in the form of annuities. As part of that cooperation, in 2019 the KNF Board obtained data from the UFG, in particular on average motor insurance premiums and claims, including data on foreign insurance undertakings), benefits in the form of annuities and

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<sup>43</sup> See Chapter 9.3. of the Report, in the part: Social Campaign 'Oczarowani' ['Enchanted'].

<sup>44</sup> See Chapter 9.3. of the Report, in the part: Reports.

compensations, to analyse the adequacy of premiums and the effects of potential legal changes with respect to third party liability benefits for motor vehicle owners on the financial standing of insurance undertakings. The KNF Board also obtained from the UFG information on the quality of data submitted to the UFG by individual insurance undertakings operating in the Polish market, pursuant to the applicable laws,

- the Polish Insurance Association (PIU): as part of cooperation between representatives of the UKNF and representatives of the expert group on the risk of flood and blackout, and the expert group on expected profits and losses, appointed within the Solvency II Sub-Committee at PIU, the method for calculating expected profits from future premiums (EPIFP) and the assumptions for the blackout scenario in Section II were formulated. The methodology of the annual stress tests was consulted with PIU, and the final version of the methodology is the result of cooperation between the UKNF, PIU and representatives of insurance undertakings. The UKNF cooperated with PIU also in relation to a reported problem concerning the supervision of persons performing agency activities, representing many insurance agents;
- the Polish Bank Association (ZBP): a representative of the KNF Board is a member of the Board of the Bank Arbitrator, which discusses comments on market practices followed by banks in relations with clients;
- the Ministry of Science and Higher Education and the Ministry of Finance in connection with the requirements of the Act of 22 December 2015 on the principles for the recognition of professional qualifications acquired in the Member States of the European Union (Journal of Laws 2018, item 2272, as amended);
- the Senate's Human Rights, the Rule of Law and Petitions Committee: submission of data and information which may provide grounds for concluding whether it was necessary to undertake a legislative initiative concerning an amendment to the Act of 11 September 2015 on the business of insurance and reinsurance, to specify the option to withdraw from unit-linked insurance contracts. Considering a similar request from the Ministry of Finance, information covered by the above-mentioned petition was also submitted to the Ministry of Finance.

In addition, a representative of the KNF Board is a member of the Financial Education Council, whose main task is to raise financial awareness of citizens and to determine the direction and the method of performance of the tasks of the Financial Education Fund.

### 9.3. PUBLIC SUPERVISION EXERCISED BY THE KNF BOARD IN CONNECTION WITH THE ACT ON STATUTORY AUDITORS, AUDIT FIRMS AND PUBLIC SUPERVISION

INFORMATION ON THE ACTIVITIES CARRIED OUT BY THE KNF BOARD IN RELATION TO THE DOCUMENT “THE KNF’S ACTION PLAN FOR 2019’ IN THE FIELD OF PUBLIC OVERSIGHT ARISING FROM THE ACT ON STATUTORY AUDITORS, AUDIT FIRMS AND PUBLIC SUPERVISION (FULFILMENT OF THE OBLIGATION UNDER ARTICLE 89(3) POINT 2 OF THE ACT).

#### Review of practices of certain Public-Interest Entities (PIEs) used to select an audit firm

In 2019, various Departments of the UKNF reviewed, in certain cases, the practices used to by PIEs to select an audit firm or obtained appropriate information from a PIE stating that the selection of the audit firm took place according to the appropriate procedure and the policy for selection of an audit firm to perform the audit.

Inspections involved verification whether a supervised entity had a policy for selection of an audit firm to perform the audit, how the entity selected the audit firm and how the audit committee made recommendations regarding audit firms. In particular, the verification covered the method used by the bank to introduce the rules of rotation of audit firms and the assessment of consistency of those rules with the Act on statutory auditors and Regulation (EU) No 537/2014. No such irregularity was found at the commercial banks under assessment (10 banks).

#### Monitoring of compliance by selected PIEs with requirements on the rotation of audit firms and key auditors

In 2019, monitoring work was carried out in regard to compliance with the requirements on rotation of audit firms and key auditors by all securities issuers, 28 commercial banks, 32 branches of credit institutions, 547 cooperative and affiliating banks, 2 credit unions, 4 domestic payment institutions, 10 general pension societies, 10 open pension fund societies, 127 investment funds, 60 insurance/reinsurance undertakings, and 1 brokerage house.

#### Handling applications of PIEs concerning the renewal of the order for statutory audit after the expiry of the maximum term of the assignment specified in the statutory law

In 2019, the KNF Board granted, by decision, to JZP 18 PIEs authorisation to extend the term of the order for audit of financial statements (including for 5 insurance undertakings, 1 branch of a foreign insurance undertaking, 1 issuer of securities, 1 commercial bank, 3 general pension societies, 3 open pension funds, 1 voluntary pension fund, 1 open-end investment fund, 1 investment fund management company), after the lapse of the maximum term of the order specified in the Act on statutory auditors. The decision to discontinue proceedings was made for 5 PIEs (including for 3 insurance undertakings, 2 issuers of securities). For 2 branches of credit institutions, a refusal decision was made.

## Review of performance of the obligation of PIEs to appoint an audit committee, as required in the statutory law

In 2019, a review was carried out to analyse information provided in the self-assessment surveys concerning compliance by PIEs of the requirements for appointment of audit committees. Where the composition of audit committees or information provided by PIEs in that respect raised any concern, appropriate departments of the KNF conducted investigation activities in relation to PIEs in order to establish the facts and clarify all doubts.

In 2019, as part of the inspection of the activities of PIEs with regard to compliance with the requirements under the Act on statutory auditors, representatives of the UKNF reviewed the fulfilment of the obligation of PIEs to appoint audit committees in accordance with the requirement laid down in the said Act in the case of 10 commercial banks. At 1 of the commercial banks under assessment, a violation of the Act on statutory auditors was identified, which consisted in authorisation of the bank's supervisory board to perform the tasks of the audit committee.

## Review of selected PIEs in terms of compliance of the composition of the audit committee or supervisory board performing the function of an audit committee with the requirements of the Act on statutory auditors, with respect to independence and appropriate skills and knowledge of members of the audit committee/supervisory board

In 2019, as part of ongoing supervision, the UKNF carried out a review of selected PIEs in terms of compliance of the composition of the audit committees or supervisory board performing the function of an audit committee with the requirements of the Act, with respect to independence and appropriate skills and knowledge of members of the audit committee/supervisory board, including in particular in the case of change of the composition of the audit committee/supervisory board, and as part of the SRP at various PIEs for 2018.

For example, in the case of issuers of securities admitted to trading on a regulated market, as part of its ongoing supervisory activity related to the composition and operation of the audit committee and due to concerns about the proper composition of the audit committees, the UKNF sent 110 letters requesting appropriate changes in the composition of the audit committee, or explanations.

In addition, in 2019, as part of inspections at PIEs in relation to compliance with the requirements under the Act on statutory auditors, representatives of the UKNF verified, in relation to selected PIEs, the compliance of the composition of the audit committees or supervisory board with the requirements of the Act, with respect to independence and the appropriate knowledge and skills of members of the audit committees/supervisory boards for 10 commercial banks. At 1 of the commercial banks under assessment, a violation of the Act on statutory auditors was identified, which consisted in the reduction of the composition of the audit committee to 2 members.

## Review, in relation to issuers, of the manner of complying in the annual reports for financial year 2018 with the disclosure requirement concerning the composition and operation of the audit committee or supervisory board performing the tasks of an audit committee, laid down in § 70(6) point 5(I) of Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent

In 2019, in the performance of the activity in question, the UKNF reviewed the reports of the management boards of issuers in relation to information on the composition and operation of the audit committee or supervisory board performing the tasks of an audit committee. At the same time, where such information was missing in those reports of the management board, appropriate recommendations were forwarded to the issuers concerned.

## Review, in relation to selected PIEs, of the operation of audit committees in terms of performance of tasks under the statutory law

In 2019, as part of ongoing supervision, the UKNF carried out a review of selected PIEs in terms of the operation of the audit committee with respect to the performance of tasks under the Act on statutory auditors, including in particular the tasks of monitoring the financial reporting process and the effectiveness of internal control, risk management and internal audit systems, including with regard to financial reporting.

The review was carried out on the basis of, *inter alia*, surveys and additional information provided by various PIEs to the UKNF.

It should also be mentioned that by letter of 13 June 2019, insurance/reinsurance undertakings (60 PIEs) were requested to provide information on the meetings of the audit committees planned for 2019 and 2020, and, through participation of representatives of the UKNF in selected meetings of the audit committee, they could assess their operation (for 5 PIEs).

Moreover, in 2019, as part of inspection of PIEs, representatives of the UKNF reviewed the proper operation of audit committees for compliance with the requirements under the Act on statutory auditors, in the case of 10 commercial banks. At 1 of the commercial banks under assessment, a violation of the Act on statutory auditors was identified, which consisted in authorisation of the bank's supervisory board to perform the tasks of the audit committee.

[Review, in relation to selected PIEs, of the development and implementation of the policy for choosing the audit firm to perform the audit and the policy on the provision, by the audit firm responsible for the audit, the entities related to that audit firm and the member of the audit firm network, of acceptable services other than audit](#)

As part of its activities in 2019, the KNF Board conducted, for various PIEs, a review of their policies on selection of audit firms to audit their financial statements and to submit, to a supervisory board or any other supervisory or control body, recommendations on the appointment of a statutory auditor or audit firm to audit financial statements of PIEs.

In addition, in 2019, as part of inspections at PIEs in relation to compliance with the requirements under the Act on statutory auditors, representatives of the UKNF reviewed the compliance of the preparation and implementation of the policy on selection of audit firms to audit their financial statements and the policy on the provision, by the audit firm performing the audit, the entities related to that audit firm and by a member of the audit firm network, of acceptable services other than audit. No such irregularity was found at the commercial banks under assessment.

[Proceedings in respect of imposition of administrative penalties for violations referred to in Article 192\(1\) of the Act on statutory auditors](#)

In 2019, requests were made for imposition of a financial penalty for failure to comply with the requirements on rotation of the audit firm in relation to 1 issuer of securities, 7 cooperative banks, and natural persons - 3 members of the audit committee of an issuer of securities and 1 member of the audit committee of a cooperative bank.

## Cooperation with the Supervising Audit Committee (SAC) in the performance of tasks related to public supervision

Pursuant to Article 90(7) of the Act on statutory auditors, for the purpose of market monitoring tasks regarding statutory audit for PIEs referred to in Article 27 of Regulation 537/2014, the supervisory authority is obliged to cooperate with the SAC, including to provide information and clarifications to the SAC on the matter in question. In the fulfilment of the obligations under Article 27 of Regulation 537/2014, the SAC requested the KNF Board to provide information about the activities of the audit committees appointed by PIEs. To that end, the 'Questionnaire for audit committees' was submitted to selected PIEs, prepared by the Committee of European Auditing Oversight Bodies (CEAOB). The information collected by UKNF, after proper aggregation, was provided to the SAC in March 2019. In cooperation with the SAC in the implementation of public oversight tasks, an agreement on cooperation and information exchange was concluded on 29 November 2019 between the KNF Board and the Supervising Audit Committee (SAC). In addition, in 2019, the KNF Board provided the SAC, *inter alia*, with information pursuant to Article 17b of the Act on financial market supervision, and information referred to in Article 66(9) of the Accounting Act.

## Opinion on draft legislative acts at national and European level which have an impact on public supervision exercised by the KNF Board

As regards opinions of draft legal acts at national and European level which have an impact on public supervision exercised by the KNF Board, comments were submitted to the Regulation on current and periodic information and the Act on statutory auditors, audit firms and public supervision, Regulation on the amount of remuneration of members of the Council of the Polish Agency of Audit Supervision, Regulation on the amount transferred by the Polish Agency of Audit Supervision to cover the costs of certain tasks carried out by the Polish Chamber of Statutory Auditors.

## Submission for public consultation and subsequent publication of an updated version of the Recommendation on the operation of the audit committee

On 7 November 2019, the UKNF prepared and submitted for public consultation a draft document entitled 'Good practices regarding the rules on the appointment, composition and operation of the audit committee.' In December 2019, the public consultations were completed, all the comments were reviewed and assessed for appropriateness for inclusion in the UKNF's document.

On 24 December 2019, the KNF Board published on its website the 'Good practices for public-interest entities regarding the rules on the appointment, composition and operation of the audit committee', which were first submitted for internal and public consultations. The document contains an overview of the applicable legislation and the position of the UKNF on the set of good practices for public-interest entities regarding the rules on the appointment, composition and operation of the audit committee.

## Dialogue with audit firms auditing the PIEs, including through cyclical meetings

As part of the dialogue with audit firms auditing the PIEs, meetings were held in 2019 between the management of the UKNF and the auditors performing audit of financial statements of:

- commercial banks,
- cooperative banks,
- credit unions,
- insurance/reinsurance undertakings.

Publication of UKNF positions on issues raising doubts as to interpretation, to the extent of the tasks assigned to the KNF Board regarding public supervision

In July 2019, the UKNF sent a letter to cooperative banks in which it expressed its position on the requirements on rotation and selection of audit firms in a situation where a bank is a member of the audit association and entrusts it to carry out a statutory audit.

Educational activities undertaken to promote high standards of operation of the audit committee, in particular through training under the CEDUR Project and participation of UKNF representatives in conference and debates on that subject

In 2019, the UKNF was engaged in educational activities to promote high standard of operation of audit committees, including a cycle of seminars under the CEDUR Project entitled 'Changes in the organisation and functioning of cooperative banks due to the obligation to comply with the requirements of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision'; 'Disclosure obligations of issuers and the topic of audit committees'; 'Issuers' periodical reporting: compliance with the applicable financial framework'; 'Independence of the audit firm, key auditors and members of the audit committee'; 'Responsibility of management boards and supervisory boards for the accounts of cooperative banks'; 'Accounting of cooperative banks: practical aspects for auditors performing audit of financial statements of cooperative banks', and through participation of representatives of the UKNF in conferences and debates on that subject.

**KNF'S ACTION PLAN FOR 2020 WITH REGARD TO PUBLIC SUPERVISION RESULTING FROM THE ACT ON STATUTORY AUDITORS, AUDIT FIRMS AND PUBLIC SUPERVISION**

Taking into account the obligation under Article 89(3) of the Act on statutory auditors to publish, on the KNF website, information on the action plan for the following year, on 17 December 2019 the KNF Board published the 'Action plan of the Polish Financial Supervision Authority for 2020 in the area of public supervision under the Act on statutory auditors, audit firms and public supervision'

([https://www.knf.gov.pl/knf/pl/komponenty/img/Plan\\_KNF\\_na\\_rok\\_2020\\_wz\\_nadzoru\\_publicz\\_nego\\_wynikajacego\\_z\\_ustawy\\_o\\_bieglych\\_rewidentach\\_firmach\\_audytorskich\\_oraz\\_nadzor\\_ze\\_publicznym\\_68237.pdf](https://www.knf.gov.pl/knf/pl/komponenty/img/Plan_KNF_na_rok_2020_wz_nadzoru_publicz_nego_wynikajacego_z_ustawy_o_bieglych_rewidentach_firmach_audytorskich_oraz_nadzor_ze_publicznym_68237.pdf)).

## 10. NEW LEGAL STATUS AND ORGANISATION OF THE UKNF

As of 1 January 2019, the *Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection* abolished the former KNF Office and established the Polish Financial Supervision Authority as a state legal person responsible for providing support and assistance to the KNF Board and the Chair of the KNF Board. As already mentioned in Chapter 1, the KNF Board and the Chair of the KNF Board have become the bodies of the newly established Polish Financial Supervision Authority (UKNF). The Chair of the KNF Board – in addition to the tasks of directing the activities of KNF Board and representing it externally – also directs the activities of the UKNF and represents it externally.

The activities of the UKNF as a state legal person are supervised by the President of the Council of Ministers.

The new status of the UKNF is mainly to ensure more financial independence. The operating expenses of the UKNF will no longer be paid from to the state budget and reimbursed to the state budget through the payments for covering the costs of supervision but they will be paid

directly through the payments from supervised entities. The UKNF conducts independent financial management based on the annual financial plan adopted by the KNF Board and approved by the President of the Council of Ministers. The annual financial statements of the UKNF are reviewed by an audit firm selected by the President of the Council of Ministers. The KNF's annual financial statements will be approved by the President of the Council of Ministers.

Under Article 14 of the Act of 21 July 2006 on financial market supervision, the internal organisation of the UKNF is defined in the statutes conferred by means of a regulation by the President of the Council of Ministers.

The new statutes were granted to the UKNF by Order No 15 of the President of the Council of Ministers of 4 February 2019, which entered into force on 1 April 2019.<sup>45</sup> By 31 March 2019, pursuant to the transitional provisions, the former statutes were in force, introduced by Order No 111 of the President of the Council of Ministers of 5 October 2017.<sup>46</sup>

The new Statutes maintained the main organisational solutions and introduced significant changes in the organisation and functioning of the UKNF. The Statutes enumerates 31 organisational units, mostly with a status of department. For the first time the following organisational units have been formed within the UKNF's organisational structure: Compliance Department, Cybersecurity Department, and Internal Audit Department. The Purchasing Department has also been set up. The new organisational solutions aimed to increase the transparency and ensure effective prevention of conflicts of interest and the appropriate level of ICT security at the UKNF.

The rules for the organisation and operation of UKNF and the distribution of responsibilities between organisational units are laid down in the Organisational Rules, conferred by Order of the Chair of the KNF Board. An important novelty is the introduction of a solution which allows the Chair of the KNF Board to set up, within the Organisational Rules, divisions comprising at least two organisational units. That solution refers to the solutions applied in the previous Statutes but ensures much more flexibility. The Organisational Rules of the UKNF issued on the basis of the new Statutes has set up seven divisions: Banking Supervision, Insurance Supervision, Capital Market Supervision, International Strategy and Cooperation, Management and Organisation, Innovation and Technology, and Regulatory and Legal. Five organisational units remained outside the structure of divisions. The organisational chart of the UKNF as at 31 December 2019 is shown in Diagram 1.

In accordance with § 2 of the Statutes of the UKNF, the UKNF is managed by the Chair of the KNF Board assisted by Deputy Chairs of the KNF Board, Director General, Managing Directors who direct their respective divisions, and Directors of organisational units.

The new Statutes have introduced the position of Director General. Similarly as a Deputy Chair of the KNF Board, Director General may directly supervise the divisions and organisational units that are not part of any division. The lines of reporting are determined by order of the Chair of the KNF Board.

#### ACTIVITIES UNDERTAKEN TO PREVENT THE RISK OF CORRUPTION AND CONFLICT OF INTEREST AND TO STRENGTHEN THE RULES OF CONDUCT FOR THE UKNF STAFF

In 2019, the UKNF had internal regulations aimed at preventing corruption and eliminating the risk of conflict of interest. In that respect, two Orders of the Chair of the KNF Board were effective. They included: Order on the prevention of the risk of corruption at the UKNF, and Order on the rules of conduct to be followed in the case of actual or suspected occurrence, at the UKNF, of corruption, conflict of interest or unwanted conduct associated with the risk of corruption.

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<sup>45</sup> Order No 15 of the President of the Council of Ministers of 4 February 2019 on granting Statutes to the Polish Financial Supervision Authority (Polish Official Gazette, item 142).

<sup>46</sup> Order No 111 of the President of the Council of Ministers of 5 October 2017 on granting Statutes to the Polish Financial Supervision Authority (Polish Official Gazette, item 947; and 2018, items 103 and 1006).



The process of handling conflicts of interest provides for general and detailed rules for managing conflicts of interest at the UKNF, including in connection with the performance of supervisory activities by the employees of the UKNF, and the rules for managing conflicts of interest in the case where employees of the UKNF perform activities outside the UKNF.

The UKNF maintains and manages the process, identifies areas of potential conflict of interest and risk of corruption, gives opinions, monitors conflicts of interest and corruption activities, and maintains relevant records of cases reported.

In 2019, work began to amend internal regulations aimed at countering corruption and eliminating the risk of conflict of interest, with regard to clarifying the actions taken by the UKNF staff in the management of conflicts of interest and prevention of corruption. As required by the 2019 rules on handling conflicts of interest at the UKNF, each employee will be required to continuously assess whether he or she is not in a conflict of interest situation or whether the situation in which they have found themselves is not causing, or is not likely to give third parties the impression of the existence of, conflict of interest, and every time they find themselves in a conflict of interest situation in connection with their intention to conduct, and the conduct of, specific activities outside the UKNF, or whether the taking up of that activity will not result in a conflict of interest for third parties.

Work was carried out to supplement the internal regulation on the prevention of corruption to include areas of occurrence of corruption risks and the indication of supervisory activities, i.e. inspection activities at supervised entities. The specification of the process aims to further raising awareness of employees of the UKNF in the area of risk conflict of interest and corruption.

The UKNF is one of the entities participating in the Government's Anti-Corruption Programme. Prevention of corruption is one of the key activities of the UKNF and raising awareness of the threats is a top-priority factor in its day-to-day operation.

In 2019, on the basis of the Government's Anti-Corruption Programme for 2018-2020, the UKNF carried out anti-corruption training entitled 'Practical aspects of prevention of corruption', conducted by the Experts from the Central Police Headquarters, the Office of Criminal Investigations, the Corruption Division, and employees of the UKNF's Compliance Department.

The UKNF applies the Code of Ethics for the employees of the UKNF according to which the employees of the UKNF must act in a professional, impartial and independent manner, in accordance with the laws, making sure that they perform their tasks at the highest level of quality and that they observe the procedures specified for each task, which in practice translates into fair and sound supervision. In 2019, the functions of Ethics Officer and the Ethics Committee were maintained. In 2019, work began to update the Code of Ethics and to create the Code of Conduct for employees of the UKNF, which will reflect the fundamental values observed at the UKNF and set out the general rules of conduct for the employees.

The UKNF has a system of management control, defined as all actions taken to ensure lawful, effective, efficient and timely performance of objectives and tasks. Due to organisational changes at the UKNF, since September 2019 the coordination of tasks related to management control at the UKNF has been the responsibility of the Compliance Department. The purpose of management control is to ensure, in particular: compliance with the legislation and internal regulations, efficiency and effectiveness of operations, reliability of reports, protection of resources, compliance with and promotion of the principles of ethical behaviour, efficiency and effectiveness of information flow and risk management.

Moreover, to ensure the adequacy and effectiveness of management control, the UKNF has implemented risk management principles. Their objective is to provide for mechanisms to identify risks that threaten the lawful, effective, economical and timely implementation of

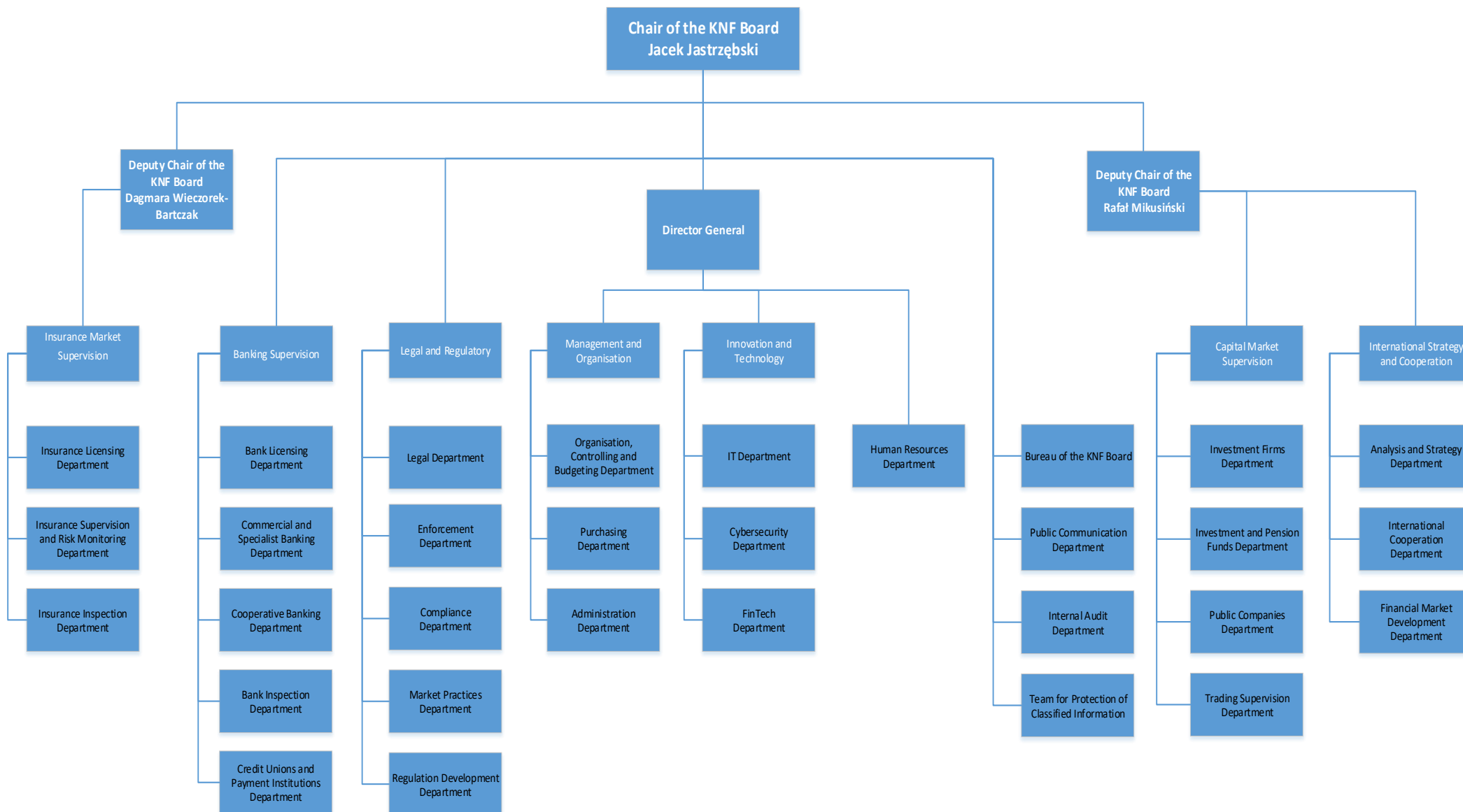
objectives and tasks of the KNF, to identify the effects and weights of these risks, and to take adequate remedies to mitigate the defined risks.

In the fourth quarter of 2019, the UKNF implemented a tool to monitor the level of adaptation of the UKNF to the legal environment which aims to ensure consistency of activities of organisational units with the legal requirements affecting the functioning of the KNF Board and the UKNF, the assessment of risk of non-compliance, and adjustment mechanisms to eliminate/reduce risks.

## INTERNAL AUDIT

On 1 April 2019, the Internal Audit Department was established within the structure of the UKNF (the Department took over the activities of the Team for Internal Control, and the Independent Internal Audit Function) to perform the tasks regarding periodic assessment of the internal control system, including management control, and to perform advisory activities. The purpose of internal audit is to add value and improve the processes at the UKNF by issuing recommendations and giving advice on the shape, functioning and improvement of the existing control mechanisms. The internal audit activity is independent (ensured by, for example, an appropriate line of reporting to the Chair of the KNF Board) and impartial, which actively supports the Chair of the KNF Board in the achievement of goals and objectives. The role of internal audit is to regularly provide the Chair of the KNF Board and the Bureau with an assurance on the adequacy, effectiveness and efficiency of the internal control system, including management control, through impartial and risk-oriented assessment and evaluation.

# Organisational structure of the Polish Financial Supervision Authority as at 31 December 2019



## FINANCIAL MANAGEMENT AT THE UKNF

On 1 January 2019, under the Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection, the UKNF became a state legal person referred to in Article 9 point 14 of the Act of 27 August 2009 on public finance. The UKNF is responsible for providing assistance to the KFN Board and the Chair of the KNF Board. The activities of the KNF shall be supervised by the President of the Council of Ministers.

The financial management at the UKNF is based on the principle of financing the operational costs of the UKNF and the KNF Board, as a rule, from payments from supervised entities. It means that, according to the assumptions, there is a balance between the planned revenue and planned costs. For the Financial Plan for 2019, specific provisions were applied with the aim of maintaining financial liquidity of the UKNF during the transition period, until the payment of the costs of supervision by supervised entities. That is why the Budget Act for 2019, in Part 83 Special-purpose provisions, item 75, provides for a subsidy for the UKNF in the amount of PLN 75 million. The subsidy has been returned in full to the state budget, as agreed with the Minister of Finance.

The UKNF carried out financial management based on the financial plan, which is subject to a two-step approval procedure. The KNF Board passes the Financial Plan of the UKNF and submits it to the President of the Council of Ministers for approval. The Financial Plan of the UKNF for 2019 was prepared for an amount which takes into account the spending needs resulting from the extended subjective and objective scope of supervision exercised by the KNF Board in recent years.

According to the Act on strengthening financial market supervision, the financial penalties imposed by the KNF Board on supervised entities do not represent the income of the UKNF but they represent the revenue of the Financial Education Fund, managed by the Financial Ombudsman and they are regularly transferred to the account of that Fund. For that reason, the penalties were not included in the Financial Plan of the UKNF for 2019.

In the Financial Plan of the UKNF for 2019, the operating expenses and the revenue to pay such expenses were planned in the following amounts:

Total revenue:	PLN 460 054 thousand
– including: payments from supervised entities:	PLN 369 604 thousand
Total costs:	PLN 369 604 thousand

Due to the fact that the Financial Plan of the UKNF for 2019 as a state legal entity is prepared on an accrual basis, i.e. it covers the categories of revenue and costs and in such categories the implementation of the financial plan is presented, it is not possible to maintain the full comparability of the presented data with 2018, when the UKNF was part of the state budget and the financial plan was drawn up and executed on a cash basis, i.e. in the categories of income and expenses.

Tables 90 and 91 show the plan and execution of revenues and costs realised in 2019 (on accrual basis).

**Table 90. Implementation of the UKNF's plan of income/revenue in 2018 and 2019**

	Budget revenue	2018 plan	Implementation of the 2018 plan (on accrual basis)	2019 plan	Implementation of the 2019 plan (on accrual basis)	Plan for 2019 compar	Implementation for 2019
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1	2	(in PLN thousand)	(in PLN thousand)	(in %)	(in PLN thousand)	(in PLN thousand)	(in %)	ed to 2018	compar ed to 2018
		3	4	5	6	7	8	(in %)	(in %)
	Payments from insurance undertakings to cover the costs of supervision of the insurance and brokerage businesses	37 930	40 645	107%	57 786	58 994	102%	152%	145%
	Payments from general pension societies to cover the costs of supervision of the activities of open pension funds	14 031	12 680	90%	22 042	16 207	74%	157%	128%
	Payments from capital market entities to cover the costs of supervision	43 821	51 202	117%	55 073	33 702	61%	153%	66%
	Payments from banking market entities (commercial banks, cooperative banks, credit unions, payment service officer, domestic payment institutions)	149 315	160 822	108%	234 702	227 873	97%	150%	142%
	<b>Revenue representing payments to cover the cost of supervision</b>	<b>245 097</b>	<b>265 348</b>	<b>108%</b>	<b>369 604</b>	<b>336 776</b>	<b>91%</b>	<b>151%</b>	<b>127%</b>
	Fees collected for activities related to exams and improving professional qualifications	1000	696	70%	1000	860	86%	100%	124%
	Fines imposed on the supervised entities	9 000	26 625	296%	0	0	n.a.	0%	0%
	Other	50	3 457	6914%	89 450	93 319	104%	178900%	2 699%
	<b>Revenue not constituting payments to cover the cost of supervision</b>	<b>10 050</b>	<b>30 777</b>	<b>306%</b>	<b>90 450</b>	<b>94 179</b>	<b>104%</b>	<b>900%</b>	<b>306%</b>
	<b>Total revenue</b>	<b>255 147</b>	<b>296 125</b>	<b>116%</b>	<b>460 054</b>	<b>430 955</b>	<b>94%</b>	<b>180%</b>	<b>146%</b>

Source: UKNF's own study

**Table 91. Implementation of the plan of expenses of the KNF Board in 2018/costs of the UKNF in 2019**

Budgetary expenses	2018 plan	Implementation of the 2018 plan		2019 plan	Implementation of the 2019 plan		Plan for 2019 compared to 2018	Implementation for 2019 compared to 2018
	(in PLN thousand) after changes	(in PLN thousand)	(in %)	(in PLN thousand) after changes	(in PLN thousand)	(in %)	(in %)	(in %)
1	2	3	4	5	6	7	8	9
Expenditure relating to remuneration, including charges and derivatives for remuneration	139 230	138 617	100%	170 626	167 525	98%	123%	121%
Non-wage spending	105 995	75 174	71%	198 978	202 027	102%	188%	269%
- current expenses	81 180	62 912	77%	182 978	184 757	101%	225%	294%
- defence expenses	15	12	80%	0	0	n.a.	0%	0%
- asset expenditures	24 800	12 250	49%	16 000	17 270	108%	65%	141%
<b>Total</b>	<b>245 225</b>	<b>213 791</b>	<b>87%</b>	<b>369 604</b>	<b>369 552</b>	<b>100%</b>	<b>151%</b>	<b>173%</b>

Source: UKNF's own study

The main part of income/revenues in Table 90 were income/revenue on payments from supervised entities to cover the supervision costs. Other income which is not supervision cost was executed in the amount of PLN 94 179 thousand. Penalties imposed on and paid by supervised entities do not constitute revenues of the UKNF and are paid onto the account of the Financial Education Fund, established within the Financial Ombudsman. Penalties are not included in the UKNF's financial plan.

Table 24 shows the breakdown of costs of supervision of individual markets into indirect and indirect costs.

**Table 92. Breakdown of supervision costs into direct and indirect costs in 2018-2019 (in PLN thousand) in comparative terms**

Name of the market	2018				2019			
	plan after changes	implementation	including:		plan after changes	implementation	including:	
			Direct supervision costs	Indirect supervision costs*			Direct supervision costs	Indirect supervision costs*
1	2	3	4	5	6	7	8	9
Capital market	55 735	49 535	27 091	22 444	95 016	95 003	38 307	56 696
Insurance market	38 309	32 768	19 110	13 658	59 282	59 273	23 900	35 373
Pension market	13 235	11 341	6 912	4 429	13 929	13 926	5 615	8 311
Banking market** including:	137 818	120 144	69 887	50 257	201 377	201 350	81 187	120 163
- banks	n.a.**	109 979	63 974	46 005	n.a.**	188 738	76 102	112 636
- BUP	n.a.**	1 026	597	429	n.a.**	1 482	598	884
- KIP	n.a.**	3 541	2 060	1 481	n.a.**	4 995	2 014	2 981
- credit unions	n.a.**	3 889	2 262	1 627	n.a.**	3 542	1 428	2 114
- mortgage credit intermediaries	n.a.**	1 709	994	715	n.a.**	2 470	996	1 474
- small payment institutions	n.a.**	0	0	0	n.a.**	123	49	74
- domestic electronic money institutions	n.a.**	0	0	0	n.a.**	0	0	0
- account information service providers	n.a.**	0	0	0	n.a.**	0	0	0
<b>Total</b>	<b>245 097</b>	<b>213 788</b>	<b>123 001</b>	<b>90 788</b>	<b>369 604</b>	<b>369 552</b>	<b>149 009</b>	<b>220 543</b>

Source: UKNF's own study

\* administrative costs

\*\* Costs of supervision of the banking market are planned on an aggregated basis.

The breakdown of the operating costs of the UKNF and KNF Board incurred in 2019, divided into areas of supervision defined in Article 1(2) of the Act on financial market supervision, and the administrative costs is presented in Annex 9.

According to Regulation of the Minister of Finance of 13 June 2017 on detailed manner, mode and dates for preparing materials for the draft Budget Act, the UKNF also drew up a draft of the budget in a task-based format. The amount planned to carry out task 4.3. The amount planned for the supervision of the capital, insurance, pension and banking markets in 2019, in line with the 'Catalogue of functions, tasks, sub-tasks and activities for 2019' was PLN 369 604 thousand. The performance budget system of the UKNF is presented in Table 93.

**Table 93. Execution of the financial plan in 2019 by task (in PLN thousand)**

Item	Name of the function/task/sub-task/action	Plan for 2019 after changes	Implementation of the plan as at 31/12/2019
<b>4.</b>	<b>Management of State finances</b>	<b>369 604</b>	<b>369 552</b>
4.3.	Supervision of the capital, insurance, pension and banking markets	369 604	369 552
4.3.2.	Supervision of the capital, insurance, pension and banking markets	369 604	369 552
4.3.2.1.	Supervision of the capital market entities	95 016	95 003
4.3.2.2.	Supervision of operations of insurance undertakings	59 282	59 273
4.3.2.3.	Supervision of activities of the pension market	13 929	13 926
4.3.2.4.	Banking supervision	201 377	201 350

Source: UKNF's own study

### Task 4.3. Supervision of the capital, insurance, pension and banking markets

The purpose of the task was to ensure compliance of the proceedings of the supervised entities with financial market regulations and protection of the interests of financial market participants. This goal was achieved by:

- conducting inspection proceedings (comprehensive and targeted inspections) in the supervised entities, with the manner of conduct depending on the inspection activities selected in a given case, the provisions of law related to inspection and the complexity of the problem, and thus affected the amount of dedicated resources,
- conducting administrative proceedings consisting in the examination of applications submitted by the supervised entities and issuing decisions which were proceeded depending on the complexity of a case and the quality and completeness of documentation submitted by a party.

The following measures were used to monitor the performance of task 4.3.:

- the number of completed administrative proceedings related to the financial market in relation to the number of requests for conducting these proceedings submitted by the supervised entities. The measure was planned at the level of 89%.
- the number of completed inspection proceedings in the supervised entities in relation to the number of planned inspection proceedings. The value of the measure was planned at 100%.

The adopted measures were implemented in the performance system for 2019, and the values reached were 109% and 101%, respectively.

Positive deviation from the planned value of the measure results from the involvement and professionalism of the employees of the KNF Office, and the high efficiency and high quality of administrative proceedings and inspections carried out in the supervised entities.

Table 94 shows the planned and achieved values of measures at the level of activities (concerning individual markets) and sub-tasks.

**Table 94. Classification of the performance-based budget: implementation of measures of 2019**

Item	Name of the function/task/sub-task/action	Objective	Measure		
			Name	2019	
				Plan	Implementation of the measure 31.12. 2019
<b>4.</b>	<b>Management of State finances</b>				
4.3.	Supervision of the financial market	Ensuring compliance of the proceedings of the supervised entities with financial market regulations and protection of the interests of financial market participants	The number of completed administrative proceedings related to the financial market in relation to the number of requests for conducting these proceedings submitted by the supervised entities	89%	109%
			The number of completed inspection proceedings in relation to the planned inspection proceedings	100%	101%
4.3.2.	Supervision of the financial market	Ensuring compliance of the proceedings of the supervised entities with financial market regulations and protection of the interests of financial market participants	The number of completed administrative proceedings related to the financial market in relation to the number of requests for conducting these proceedings submitted by the supervised entities	89%	109%
			The number of completed inspection proceedings in relation to the planned inspection proceedings	100%	101%
4.3.2.1.	Supervision of the capital market	Ensuring compliance of the proceedings with the capital market regulations	The number of completed administrative proceedings related to the capital market in relation to the number of requests for conducting these proceedings submitted by the supervised entities	84%	122%
			The number of completed inspection proceedings in relation to the planned inspection proceedings	100%	88%
4.3.2.2.	Supervision of the insurance market	Ensuring compliance of the proceedings with the insurance market regulations	The number of completed administrative proceedings related to the insurance market in relation to the number of requests for conducting these proceedings submitted by the supervised entities	90%	98%
			The number of completed inspection proceedings in relation to the planned inspection proceedings	100%	110%
4.3.2.3.	Supervision of the pension market	Ensuring compliance of the proceedings with the pension market regulations	The number of completed administrative proceedings related to the pension market in relation to the number of requests for conducting these proceedings submitted by the supervised entities	91%	94%



			The number of completed inspection proceedings in relation to the planned inspection proceedings	100%	100%
4.3.2.4.	Supervision of the banking market	Ensuring compliance of the proceedings with the banking market regulations	The number of completed administrative proceedings related to the banking market in relation to the number of requests for conducting these proceedings submitted by the supervised entities	90%	112%
			The number of completed inspection proceedings in relation to the planned inspection proceedings	100%	100%

Source: UKNF's own study

The Implementation of the Financial Plan of the UKNF, which forms Annex No 14 to the Budget Act, is audited annually by the Supreme Audit Office. The annual financial statements of the UKNF are reviewed by an audit firm selected by the President of the Council of Ministers. The KNF's annual financial statements drawn up by the KNF Board shall be submitted, together with the audit report, to the President of the Council of Ministers for approval. The approved financial statements of the UKNF is then submitted to the minister competent for financial institutions.

## PUBLIC PROCUREMENT

All current and asset expenses at the UKNF are executed in accordance with the Public Procurement Plan, pursuant to the provisions of the Public Procurement Law (Journal of Laws 2019, item 1843) and in accordance with the UKNF's internal regulations on public procurement. In 2019, the UKNF signed 66 public procurement contracts under the procedures provided for by the Public Procurement Law, including: 22 delivery contracts, 43 service contracts, and 1 contract for construction works.

**Table 95. The number of awarded public procurement contracts in 2019 by the mode**

Mode	Number of awarded public procurement contracts
Open tender with a contract value exceeding the amounts specified in the regulations issued pursuant to Article 11(8) of the Public Procurement Act	29
Open tender with a contract value smaller than the amounts specified in the regulations issued pursuant to Article 11(8) of the Public Procurement Act.	36
Direct contracts with a contract value smaller than the amounts specified in the regulations issued pursuant to Article 11(8) of the Public Procurement Act.	1
<b>Total number of public procurement contracts awarded in the modes provided for by the Public Procurement Act in 2019</b>	<b>66</b>

Source: UKNF's own study

## MANAGEMENT OF HUMAN RESOURCES

In 2019, the activities undertaken by the UKNF in the area of management of human resources focused on ensuring appropriate resources for the purpose of supervisory tasks, strengthening the management and professional skills, and building a positive image of the employer. Those activities included planning, acquisition and allocation of human resources

in the UKNF's organisational structure and the process of managing the funds for remuneration of the employees, financial management of the UKNF with regard to the remuneration fund, payment of monetary benefits under social insurance in case of disease and maternity, settlements with the Social Insurance Institution, settlements with the Tax Office, reporting on remuneration and financial management of EU Twinning Projects.

The employment plan at the UKNF for 2019 envisaged 1 181 jobs. The employment level as at 31 December 2019 was 1 136.08 jobs. The fluctuation rate in 2019 was 11.48%. For comparison, in the years 2015- 2018, it was: 9.77%, 9.93%, 10.99%, 12.87%. The implemented organisational changes and changes of the form of activity of the UKNF under Article 231<sup>1</sup> of the Labour Code and the high demand for specialists in finance conducive to worker mobility did not increase the turnover rate; in fact, the turnover rate is more than 1 p.p. lower than in the previous year, which is a positive factor supporting the efforts to further improve the efficiency of HR activities.

Over the year, 262 persons were employed and 128 ceased their employment at the UKNF. The recruitment procedures were related mainly to the new organisational changes, including the increased number of organisational units and managerial and expert positions. That translated directly into the training and development processes, including the following projects dedicated to the management of the UKNF:

- Development Centre, in which 57 individuals participated,
- incentive assessment using the MAPP3 methodology, which was used to assess the managerial potential of 170 individuals,
- the 360-degree assessment - a pilot assessment carried out on a group of managers in one of the key departments of the UKNF.

Many HR initiatives were in line with the adaptation of internal acts and procedures to changes in the legislation and allocation of tasks within the new structure of the UKNF. As part of the training activities, a total of 77 group training projects were completed, on 51 topics. 69 out of 77 training projects were specialist training courses, mostly in the field of:

- banking,
- financial market and capital market,
- reporting and accounting,
- audit and internal control,
- insurance,
- payment services,
- MiFID II/MiFIR
- legal issues.

As a result of the ongoing assessment of training needs, the group training processes were supported by individual training courses. In 2019, 637 employees benefited from training projects: 539 employees in national projects, and 98 individuals in international projects.

Overall, 2 833.91 training 'man-days' were completed in 2019. For comparison, in the years 2017-2018 the figures were 5 396.41 and 5 441.03 training 'man-days', respectively.

The intensity of participation of the UKNF staff in training initiatives in 2019 is reflected by the rate of 2.8 training days, which represents 22 hours of training per employee.

For comparison, in the years 2017-2018, the respective rates were: 44 and 45 hours, respectively. The lower rate is related to a smaller number of group trainings, dictated by the reorganisation of the UKNF in 2019 and the resulting migration of tasks and employees between various internal units of the UKNF.

In 2019, an Employee Satisfaction (Opinion) Survey was conducted among employees of the UKNF. The purpose of the survey was to determine the level of job satisfaction of employees of the UKNF. The results of the survey will be used to prepare a plan of activities to improve working conditions and increase job satisfaction at the UKNF. The survey participation rate was 76.5%.

## TASKS IMPLEMENTED IN THE FIELD OF SECURITY AND PROTECTION OF INFORMATION PROCESSED AT THE UKNF

In 2019, tasks related to security and protection of information, physical protection, fire protection and defence preparations were carried out. The most important tasks were:

- fulfilment of obligations resulting from the provisions of the Act on the protection of classified information, the Act on the protection of persons and property, the Act on fire protection, and other industry acts,
- activities relating to defence tasks of the UKNF,
- ensuring the security of the processing of information protected by law or on the basis of internal regulations of the UKNF,
- ongoing cooperation with the National Crime Information Centre (PL: *Krajowe Centrum Informacji Kryminalnych*–KCIK),
- fulfilment of the obligation resulting from Articles 41a and 47 of the Act on the organisation and operation of pension funds,
- cooperation with authorities and institutions operating in the field of state security in the area of counteracting threats to the security of the financial system and the security of critical infrastructures in connection with the Act on crisis management and the Act on macroprudential supervision of the financial system and crisis management in the financial system,
- cooperation with uniformed services (Police, State Fire Service, City Guard) for protection of the employees and facilities of the UKNF,
- supervision, monitoring and management of incidents in relation to physical security systems,
- supervision and monitoring of the physical protection systems, supervision and monitoring of tasks in the area of crisis management and contingency planning.

During the period covered by this report, the above-mentioned tasks involved:

- updating the concept of physical protection of the building at 20 Piękna street,
- updating the plans for protection of UKNF facilities,
- provision of theoretical and practical training on fire protection to the employees designated for fire fighting and evacuation operations in the facilities of the UKNF,
- launching a cycle of trainings on security for newly hired workers,
- development of a new Emergency Plan of the UKNF,
- provision of basic and specialised training in first aid to persons assigned to the above-mentioned operations in the facilities of the UKNF,
- development of a new Operational Plan of the UKNF.

## COMPLAINTS ABOUT THE ACTIVITY OF THE UKNF AND THE CONDUCT OF THE EMPLOYEES OF THE UKNF

Following the appointment on 1 April 2019 of the Compliance Department, the handling of complaints about the activity of the UKNF and UKNF employees is the responsibility of the Compliance Department. In 2019, preliminary investigation activities were completed in respect of complaint handling. 35 complaints in that respect were examined.

## 11. ANNEXES

ANNEX 1. INFORMATION ABOUT RESOLUTIONS, ADMINISTRATIVE FINAL AND INTERIM DECISIONS ISSUED BY THE KNF BOARD AND ON THE BASIS OF AUTHORISATION GRANTED BY THE CHAIR OF THE KNF BOARD, AND INTERIM DECISIONS TO INITIATE EX OFFICIO PROCEEDINGS OR TO EXTEND THE SCOPE OF THE PROCEEDINGS – UNDER ARTICLE 13 OF THE ACT ON CAPITAL MARKET SUPERVISION, ISSUED IN 2019

**Table 1.1. Number of resolutions adopted by the KNF Board in 2019**

Subject-matter of resolution	Number of adopted resolutions
<b>Matters concerning the banking sector</b>	
approval of appointment of a president of the management board of a bank in the form of a joint-stock company	4
approval of appointment of a member of management board responsible for material risk at a bank operating as a joint-stock company	4
approval of appointment of the president of the management board of a cooperative bank	42
approval of appointment of a member of management board responsible for material risk at a cooperative bank	4
refusal to approve the appointment of the president of management board of a cooperative bank	3
approval of appointment of the president of management board of a cooperative protection scheme	2
approval of bank merger	13
refusal to grant authorisation of bank merger	1
statement of no grounds for objecting to the planned acquisition of shares	1
authorisation to commence activity as a bank	1
indication of conditions to be met by a branch of a credit institution when operating in the territory of the Republic of Poland in the interest of the general good	1
upholding a final decision	1
discontinuance of proceedings	17
authorisation to establish a bridge institution	3
a final decision to appoint temporary administrator	3
approval of the bank's recovery plan	20
refusal to approve the recovery plan	2
approval of the bank's group recovery plan	6
restriction on bank's operations,	2
suspension of activities of a bank	1
final decision setting a limit on exposures	1
repealing a decision	5
amendment to a final decision of the KNF Board	5
other	8
<b>Total:</b>	<b>150</b>
<b>Matters concerning the sector of credit unions</b>	
acquisition of a credit union by a bank	1
approval of merger with another credit union	3

repealing a final decision	2
discontinuance of administrative proceedings	5
upholding an interim decision	2
other	2
<b>Total:</b>	<b>15</b>
<b>Matters concerning the payment service sector</b>	
imposition of fines on payment service offices	16
financial penalty waiver	18
repealing a final decision	1
discontinuance of administrative proceedings	9
amendment to a final decision of the KNF Board	4
prohibition of the conduct of business	11
upholding a final decision	1
authorisation to issue electronic money and provide services as a domestic electronic money institution	1
authorisation to provide payment services as a domestic payment institution	2
withdrawal of authorisation to provide payment services as a domestic payment institution	4
refusal to grant authorisation to provide payment services as a domestic payment institution	1
statement of no grounds for objecting to the acquisition of shares	6
Resolution on making information available to the public	1
other	1
<b>Total:</b>	<b>76</b>
<b>Matters concerning the insurance sector</b>	
approval of appointment of a member of the management board of an insurance undertaking responsible for risk management	12
granting permission for the appointment of the chairman of the management board of an insurance undertaking	8
granting authorisation to conduct the business of insurance	1
imposition of a fine on the insurance undertaking	7
discontinuance of proceedings	1
upholding a final decision	7
repealing a final decision	3
withdrawal of authorisation to conduct the business of insurance	1
lack of grounds for filing the objection against the acquisition of shares of a domestic insurance undertaking	5
lack of grounds for objecting to a merger between insurance undertakings	1
approval of a change in the material scope of business of a society	2
approval of articles of association of a society	1
other	3
<b>Total:</b>	<b>52</b>
<b>Matters concerning the pension sector</b>	
approval of an amendment to the articles of association of a general pension society	2
approval of an amendment to the articles of association of an open pension fund	1
authorisation to shorten the deadline for entry into force of amendments to the articles of association of an open pension fund	1

approval of appointment of member of management board of a general pension society	5
approval of an amendment to the articles of association of the voluntary pension fund	5
authorisation to shorten the deadline for entry into force of amendments to the articles of association of a voluntary pension fund	4
withdrawal of authorisation to establish an occupation pension society	1
liquidation of an occupational pension fund	1
approval of acquisition of shares of an occupational pension company	2
other	2
<b>Total:</b>	<b>24</b>
<b>Matters concerning the capital and commodity markets</b>	
granting authorisation to convert shares into certified form (dematerialisation of shares)	16
transfer of financial instruments, and funds and documents relating to account keeping referred to in Article 69(3) point 1 of the Act on trading in financial instruments	2
authorisation to conduct brokerage activities	3
withdrawal of authorisation to conduct brokerage activities and imposition of a fine	1
refusal of authorisation to conduct brokerage activities	1
imposition of fines on TFI	7
withdrawal of authorisation to conduct activities as TFI and imposition of fines on TFI	1
withdrawal of authorisation to conduct business as TFI, imposition of fines on TFI and discontinuance of part of administrative proceedings	2
imposition of fines on entities (on issuers, shareholders being legal persons, investment firms)	22
imposition of fines on natural persons	8
upholding a final decision	13
repealing a final decision	11
refusal to enter a company in the register of AIC managers	13
removal from the list of securities brokers	1
lack of grounds for objecting to the planned acquisition of shares in a TFI	2
Resolution on making information available to the public	59
approval of appointment of a member of management board of a brokerage house	6
approval of appointment of the president of management board of a brokerage house	5
granting authorisation to change the depositary	9
lack of grounds for objecting to the planned acquisition of shares	1
notification of a competent supervisory authority of an intention to conduct brokerage business without opening a branch	7
authorisation of an issuer to delay public disclosure of inside information	6
decision on the prohibition on the marketing, distribution or sale of binary options to retail clients (product intervention)	1
decision on the introduction of restrictions on the marketing, distribution or sale of contracts for differences to retail clients (product intervention)	1
other	3
<b>Total:</b>	<b>201</b>
<b>Cross-sectoral matters and matters concerning internal organisation of the KNF's work</b>	

Report on the activities of the KNF and the KNF Board in 2018	1
Draft Financial Plan of the UKNF	6
other	15
<b>Total:</b>	<b>22</b>
<b>TOTAL</b>	<b>540</b>

Source: UKNF's own study

**Table 1.2. Number of interim and final decisions issued in 2019 on the basis of an authorisation granted by the KNF Board and on the basis of an authorisation granted by the Chair of the KNF Board**

Subject-matter of final and interim decisions	The number of final and interim decisions issued
<b>Matters concerning the banking sector</b>	
authorisation to include profit for a given period in the Tier I core capital	30
authorisation to classify the issued shares to the Tier I core capital	8
authorisation to reduce own funds	402
authorisation to reduce own funds–prior consent	34
permission to classify liabilities arising from the financial instruments issued by the bank as Tier I capital	113
authorisation to classify cash of a bank gained from the issue of long-term bonds and subordinated loans as instruments to the Tier II capital	19
authorisation of early redemption of subordinated bonds included in Tier 2 capital	1
decision on the Institutional Protection Schemes (IPS) (including: giving up, on an individual basis, the application of the provisions of Articles 412 and 414 of the CRR (in part relating to Article 412 of the CRR ) by banks, which authorise them not to apply the requirements of Article 113(1) of the CRR in respect of exposures to banks with which banks joined the Institutional Protection Scheme, allowing banks not to deduct participations in the Affiliating Bank held by them for the purpose of calculating own funds on an individual basis)	36
discontinuance of proceedings	19
refusal to initiate proceedings	6
recommendation to a bank to maintain an additional own funds requirement in accordance with Article 138(1) point 2a of the Banking Law	8
authorisation of early return of the funds deriving from the subordinated loan included in the Tier 2 capital	3
authorisation to exempt from the obligation to provide translation of the financial statements of the parent company into Polish	2
authorisation to limit the scope of the translation of consolidated financial statements	1
authorisation to entrust performance, by business owners indicated in the decision, of activities other than those specified in Article 6a(1) point 1(a) of the Banking Act for and on behalf of a bank	9
authorisation to conclude a contract with a foreign business owner who does not have a registered office in the territory of a Member State or an agreement providing for the performance of activities outside the territory of a Member State	46
decision on the expiration of a final decision on the recommendation to maintain own funds for covering additional capital requirement to safeguard against the risk resulting from mortgage-secured foreign currency credit facilities and loans for households	2



agreement to an opt-out from the requirements laid down in Article 113(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012	1
approval of the rules for establishing the mortgage lending value of real property	1
authorisation to amend the articles of association of a bank operating as a joint-stock company	43
authorisation to amend the articles of association of a cooperative bank	188
appointment of the trustee or deputy trustee at a foreign mortgage bank,	2
indication of conditions that must be met by a branch of a credit institution when operating in the territory of the Republic of Poland in the interest of the general good	6
interim decision refusing the resumption of proceedings in respect of approval of appointment of the president of management board	1
discontinuance of proceedings in respect of approval of appointment/delegation of functions of members of management boards supervising the management of risks relevant to the activities of a bank	9
discontinuance of proceedings in respect of notification of intention to acquire shares in a bank	1
discontinuance of proceedings in respect of authorisation to establish a branch of a foreign bank in the Republic of Poland and approval of appointment of director and deputy director	1
declaration of the expiry of authorisation to open a representative office of a foreign credit institution/ bank in the Republic of Poland	3
discontinuance of proceedings in respect of authorisation to amend the articles of association of a bank	9
KNF authorisation to modify/extend the application of the AMA Approach and to calculate delta using internal approaches to option valuation	7
initiation of <i>ex officio</i> administrative proceedings	5
interim decision pursuant to Article 17(6) of Regulation (EU) No 537/2014 of the European Parliament and of the Council	1
other	137
<b>Total</b>	<b>1154</b>
<b>Matters concerning the sector of credit unions</b>	
approval of an amendment to the articles of association of a credit union	9
discontinuance of proceedings in respect of approval of amendments to the articles of association of a credit union	2
interim decision on the refusal to allow an entity to act as a party to administrative proceedings in respect of appointment of a commissioned regulator at a credit union	3
Interim decision on the resumption of suspended proceedings	1
<b>Total</b>	<b>15</b>
<b>Matters concerning the payment service sector</b>	
suspension of proceedings for granting authorisation to provide payment services as a domestic payment institution	1
full discontinuance of proceedings for authorisation of provision of payment services as a national payment institution in its entirety	2
discontinuance of proceedings	38
other	4
<b>Total</b>	<b>45</b>
<b>Matters concerning the insurance sector</b>	

final decision on the repayment of a subordinated loan	1
interim decision pursuant to Article 17(6) of Regulation (EU) No 537/2014 of the European Parliament and of the Council	6
interim decision pursuant to Article 403(8) of the Act on the business of insurance and reinsurance	1
final decision pursuant to Article 374(5) point 2 of the Act on the business of insurance and reinsurance	1
final decision on exemption in whole or in part from the requirement laid down in Article 11(3) of EMIR	1
final decision amending a final decision pursuant to Article 155 of the Administrative	1
suspension of proceedings	1
resumption of suspended proceedings	1
discontinuance of proceedings	17
approval of amendments to the articles of association of an insurance undertaking	14
entry in the register of actuaries	9
authorisation to conduct brokerage in the area of insurance	73
authorisation to conduct brokerage in the area of reinsurance	3
withdrawal of authorisation to conduct brokerage activity in the field of insurance	53
withdrawal of authorisation to conduct brokerage in the area of reinsurance	4
setting a new date to deal with the case	38
notice of initiation of administrative proceedings	9
refusal to take into account requests to provide evidence	2
other	3
<b>Total</b>	<b>238</b>
<b>Matters concerning the pension sector</b>	
authorisation to appoint a member of the supervisory board of a general pension society	8
authorisation to amend the agreement on the safekeeping of assets of an open pension fund	1
entry of an occupational pension scheme in the register	710
inclusion of an employer in an inter-company scheme	68
entry of changes to the occupational pension scheme in the register	324
removal of the occupational pension scheme from the register	30
resumption of suspended proceedings	7
suspension of proceedings	3
discontinuance of proceedings	13
extension of the time for removal of formal defects/irregularities	51
setting a new date to deal with the case	2
conducting one set of proceedings concerning requests for review of a case	65
determining the weighted average rate of return of pension funds	2
notification of irregularities identified in the activities of a pension fund, a pension society or a depositary's bank	7
approval of the report on activities of KDPW S.A. in respect of management of the Guarantee Fund for 2018	1
interim decision pursuant to Article 17(6) of Regulation (EU) No 537/2014 of the European Parliament and of the Council	7
other	11

<b>Total</b>	<b>1310</b>
<b>Matters concerning the capital and commodity markets</b>	
approval of a prospectus	
approval of an annex to the prospectus	53
prohibition of further public offering of securities	1
suspension of administrative proceedings	47
suspension of <i>ex officio</i> proceedings	1
Initiation of administrative proceedings	15
discontinuance of administrative proceedings	131
authorisation to keep registers or accounts of commodities	3
agreement to the performance by a member of supervisory board of an additional	1
refusal to take into account requests to provide evidence	12
refusal to suspend the enforcement of a final decision	7
upholding an interim decision on the refusal to resume proceedings	1
upholding an interim decision on refusal to initiate proceedings for authorisation to credit an unapproved profit	1
refusal to initiate administrative proceedings	4
refusal to give consent	8
refusal to take into account requests to provide evidence	1
demand to suspend trading in financial instruments issued by a public company	17
repealing a final decision	14
refusal to stay administrative proceedings	9
interim decision pursuant to Article 17(6) of Regulation (EU) No 537/2014 of the European Parliament and of the Council	3
transfer of financial instruments, and funds and documents relating to account keeping referred to in Article 69(4) point 1 of the Act on trading in financial instruments	1
declaring a final decision to be expired	8
authorisation of an investment fund management company to extend its activities to include the management of portfolios composed of one or more financial instruments	1
authorisation to extend the scope of activity of an investment fund management company to include investment advisory services	1
authorisation to merge internally two sub-funds of an open-end investment fund or a specialised open-end investment fund	1
authorisation to manage the securitised loans of the securitisation fund by an entity other than a company	1
approval of amendments to the articles of association of an investment fund, including the shortening of the deadline for the entry into force of amendments to the fund's articles of association	96
Authorisation to establish a public closed-end investment fund, which corresponds to the approval of a prospectus for investment certificates	4
authorisation to set up a specialised open-ended investment fund	2
approval of a prospectus for closed-end investment fund certificates	2
approval of an annex to the investment certificates prospectus of a closed-end investment fund	10
authorisation to act as an agent in selling and redeeming participation units in investment funds or participation units in foreign funds	1

approval of conclusion, by an investment fund management company, of the agreement referred to in Article 46(3a) of the Act on investment funds and the management of alternative investment funds	9
removal from the Register of AICMs pursuant to Article 70zf of the Law on investment funds and management of alternative investment funds	1
entry on the List of Investment Advisers	45
entry on the list of securities brokers	73
entry in the Register of Tied Agents	29
removal of an investment firm's tied agent	41
amendment to a decision	1
expiration of authorisation	1
decision on an objection to a transfer, to another entity, of authorisation to conduct brokerage business to another entity	2
recovery plan of a brokerage house	10
inclusion of shares in Tier I core capital	6
approval of the Regulations of KDPW S.A. or approval of amendments thereto	6
approval of amendments to the Rules for settling transactions of KDPW_CCP S.A. or the Rules of a compensation fund	4
authorisation to provide services as a CCP or to extend the scope of authorisation	1
approval of trading conditions for the forward programme of the Warsaw Stock Exchange	4
approval of amendments to the articles of association of Towarowa Giełda Energii	1
authorisation to the order to perform the most important operational functions of Towarowa Giełda Energii S.A.	2
approval of amendments to the Trading Rules for the exchange commodity market of the Polish Power Exchange	6
approval of amendments to the articles of association of BondSpot S.A.	1
approval of amendments to the Rules of the Guarantee Fund of the Clearing and Settlement House	1
approval of amendments to the Rules of the Warsaw Stock Exchange	1
entry of an alternative trading system operated by the Warsaw Stock Exchange in the SME MTF Register	1
approval of amendments to the articles of association of the Warsaw Stock Exchange	1
exemption from the requirements concerning transparency for trading systems provided for in Regulation (EU) No 600/2014	5
refusal to refer a case for mediation	3
allowing a civil society organisation to act as a party to proceedings	1
refusal to exclude an employee of the KNF Office	5
interim decision upholding an interim decision refusing to allow for participation of a social organisation in proceedings	1
authorisation to operate as a benchmark administrator pursuant to Article 34 of Regulation (EU) 2016/1011	1
interim decision declaring an appeal against a decision of the KNF Board to be	1
<b>Total</b>	<b>721</b>
<b>Matters concerning mortgage credit intermediaries</b>	
authorisation to carry on business as a mortgage credit intermediary and entry in the Register of Credit Intermediaries (in Section I)	22

withdrawal of authorisation to carry on business as a mortgage credit intermediary and removal from the Register of Credit Intermediaries (from Section I)	86
discontinuance of proceedings in respect of authorisation to carry on business as a mortgage credit intermediary	2
discontinuance of proceedings in respect of withdrawal of authorisation to carry on business as a mortgage credit intermediary	14
refusal of authorisation carry on business as a mortgage credit intermediary	1
<b>Total</b>	<b>125</b>
<b>Matters concerning consumer credit intermediaries</b>	
refusal to enter a credit intermediary in the Register of Credit Intermediaries (Section II)	5
discontinuance of proceedings with respect of entry of a credit intermediary in the Register of Credit Intermediaries (in Section II)	1
<b>Total:</b>	<b>6</b>
<b>Matters concerning other areas</b>	
decision under Article 49a (11) and (13) of the Geological and Mining Law	7
recognition of an entity as a key service operator pursuant to the Act of 5 July 2018 on the national cybersecurity system	2
declaration of expiration of a final decision on the recognition of an entity as a key service operator pursuant to the Act of 5 July 2018 on the national cybersecurity system	1
other	15
<b>Total</b>	<b>25</b>
<b>TOTAL</b>	<b>3 639</b>

Source: UKNF's own study

**Table 1.3. Number interim decisions to initiate *ex officio* proceedings or to extend the scope of proceedings – under Article 13 of the Act on capital market supervision, issued in 2019**

Subject-matter of the interim decision	Number of interim decisions
initiation of <i>ex officio</i> administrative proceedings	117

Source: UKNF's own study

## ANNEX 2. ISSUERS WHOSE PROSPECTUSES WERE APPROVED BY THE KNF BOARD IN 2019 AND CLOSED-END PUBLIC INVESTMENT FUNDS WHOSE PROSPECTUSES WERE APPROVED BY THE KNF BOARD IN 2019

**Table 2.1. Issuers whose prospectuses were approved by the KNF Board in 2019**

Item	Issuer	Date
1.	XTPL S.A.	25/01/2019
2.	HM INWEST S.A.	28/01/2019
3.	Pharmena S.A.	19/03/2019
4.	BoomBit S.A.	05/04/2019
5.	Pekao Bank Hipoteczny S.A.	10/05/2019
6.	PKO Bank Hipoteczny S.A.	31/05/2019
7.	PCC Rokita S.A.	06/06/2019
8.	Pekao Bank Hipoteczny S.A.	03/07/2019
9.	Kruk S.A.	05/07/2019

10.	PCC Exol S.A.	19/07/2019
11.	Ultimate Games S.A.	19/07/2019
12.	Intersport Polska S.A.	19/07/2019
13.	Ferrum S.A.	19/07/2019
14.	Stalexport Autostrady S.A.	19/07/2019
15.	Braster S.A.	19/07/2019
16.	Selvita CRO S.A.	03/09/2019
17.	Sygnity S.A.	16/10/2019
18.	Grupa Azoty Zakłady Chemiczne Police S.A.	05/11/2019

Source: UKNF's own study

**Table 2.2. Closed-end public investment funds whose prospectuses were approved by the KNF Board in 2019**

Item	Name of the fund	Date of approval of the prospectus
1.	PZU Akord FIZ	19/07/2019
2.	Beta ETF WIG20TR FIZ	24/10/2019
3.	Beta ETF mWIG40TR Portfelowego FIZ	26/06/2019
4.	Beta ETF WIG20short Portfelowego FIZ	12/07/2019
5.	Beta ETF WIG20lev Portfelowego FIZ	12/07/2019
6.	UniMulti Dochód FIZ	19/07/2019

Source: UKNF's own study

### ANNEX 3. LIST OF ITEMS OF THE OFFICIAL JOURNAL OF THE POLISH FINANCIAL SUPERVISION AUTHORITY ISSUED IN 2019

Item in the OJ of the KNF Board	Announcement date	Title of the act
1.	17/01/2019	Resolution No 5/2019 of the Polish Financial Supervision Authority of 2 January 2019 on the resolution on the 'Rules of Procedure of the Arbitration Court at the Polish Financial Supervision Authority'
2.	17/01/2019	Resolution No 9/2019 of the Polish Financial Supervision Authority of 15 January 2019 on the procedure for supervision over banking activities
3.	17/01/2019	Communication from the KNF Board of 16 January 2019 on the amount of the maximum actuarial interest rate
4.	17/01/2019	Communication No 230 of the Examination Board for Investment Advisers of 17 January 2019 on the date, scoring rules and completing tasks of the third stage of the examination for investment advisers
5.	23/01/2019	Announcement of the decision of the KNF Board Ref. No DPS.WPII.456.7.2018.AS to the extent relating to the imposition of a financial penalty
6.	23/01/2019	Communication of the Chair of the Examination Board for Securities Brokers of 23 January 2019 on the designation of the date and place of the aptitude test
7.	15/02/2019	Communication from the Chair of the KNF Board of 14 February 2019 on the level of the rate applicable in 2019 and the planned supervisory costs referred to in § 1 of Regulation of the President of the Council of Ministers of 8 February 2019 on payments to cover the costs of banking supervision in 2019
8.	22/02/2019	Communication from the Chair of the Examination Board for Securities Brokers of 22 February 2019 on the expected number of question and duration of the next aptitude test and the amount of the fee for the text
9.	15/03/2019	Communication from the Chair of the KNF Board of 14 March 2019 on the amount of the rate applicable in 2019 and the planned costs of supervision referred to in § 1 of Regulation of the President of the Council of Ministers

		on payments to cover the costs of supervision of the insurance, reinsurance and insurance mediation activities, to be paid in 2019
10.	29/03/2019	Communication from the Chair of the KNF Board of 28 March 2019 on the amount of costs of supervision of payment service offices in 2018 and the maximum amount due from all payment service offices in 2018
11.	29/03/2019	Communication No 233 from the Examination Board for Investment Advisers of 29 March 2019 on the dates of aptitude tests
12.	29/03/2019	Communication No 234 from the Examination Board for Investment Advisers of 29 March 2019 on the thematic scope of the aptitude test
13.	04/04/2019	Resolution No 106/2019 of the Polish Financial Supervision Authority of 26 March 2019 on the 'Rules of Procedure of the Arbitration Court at the Polish Financial Supervision Authority'
14.	04/04/2019	Resolution No 107/2019 of the Polish Financial Supervision Authority of 26 March 2019 on the issuance of Recommendation B on limiting the risk of banks' capital investments
15.	11/04/2019	Communication No 235 from the Examination Board for Investment Advisers of 10 April 2019 on the date, the content of problem-related tasks, the scoring rules and completion of tasks of the second stage of the examination for investment advisers
16.	11/04/2019	Communication from the KNF Board of 11 April 2019 on the removal of an investment adviser from the List of Investment Advisers
17.	31/05/2019	Communication from the Chair of the KNF Board of 31 May 2019 on the costs of supervision of mortgage credit intermediaries in 2018 and the amount of advance payments due from mortgage credit intermediaries in 2018
18.	26/06/2019	Decision of the KNF Board of 25 June 2019 on the prohibition on the marketing, distribution or sale of binary options to retail clients (Ref. No DAS.456.1.2019)
19.	04/07/2019	Communication No 238 of the Examination Board for Investment Advisers of 4 July 2019 on the date, scoring rules and completing tasks of the third stage of the examination for investment advisers
20.	19/07/2019	Communication No 239 from the Examination Board for Investment Advisers of 19 July 2019 on the date of the first stage of the examination for investment advisers
21.	19/07/2019	Communication No 240 from the Examination Board for Investment Advisers of 19 July 2019 on the thematic scope of the examination for investment advisers
22.	26/07/2019	Communication No 1/2019 from the Examination Board for Securities Brokers of 26 July 2019 on the date of the examination for securities brokers and the supplementary examination
23.	26/07/2019	Communication No 2/2019 from the Examination Board for Securities Brokers of 26 July 2019 on the thematic scope of the examination for securities brokers and the supplementary examination
24.	31/07/2019	Announcement of the decision of the KNF Board on the imposition of a financial penalty on Vistra Cee Holding Limited based in Limassol by Decision Ref. No DPS-WPAII. 456.5.2018.AS
25.	31/07/2019	Announcement of the decision of the KNF Board on the imposition of a financial penalty on Baring Private Equity Asia Gp VI Limited based in the Cayman Islands, by Decision Ref. No DPS-WPAII.456.6.2018.AS
26.	31/07/2019	Communication from the Chair of the KNF Board of 29 July 2019 on the value of total balance sheet assets of all credit unions and the amount of costs of supervising credit unions and the National Association of Credit Unions in 2018
27.	01/08/2019	Decision No DAS.456.2.2019 of the KNF Board of 1 August 2019 on the introduction of restrictions on the marketing, distribution and sale of contracts for differences (CFDs) to retail clients
28.	19/08/2019	Communication from the Chair of the KNF Board of 13 August 2019 on the costs of supervision of payment institutions in 2018, the total fees paid by all domestic payment institutions in 2018 and the maximum amount due from all domestic payment institutions for 2018 and the sum of the

		amounts referred to in Article 76(4) point 2 of the Act, determined for all domestic payment institutions for 2018
29.	29/08/2019	Communication from the Chair of the KNF Board of 28 August 2019 on the amount of rates and the value of correction coefficients for each of the groups referred to in § 22 of Regulation of the Minister of Finance on payments to cover the costs of capital market supervision and the value of the coefficient of change of the costs of capital market supervision in 2019
30.	30/08/2019	Communication from the Chair of the KNF Board of 30 August 2019 on the level of the rate applicable in 2019 and the costs of supervision of payments services offices to be paid in 2019
31.	11/09/2019	Announcement of the decision of the KNF Board on the imposition of financial penalties on Saturn Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw (Ref. No DPS.456.18.2019.JP)
32.	16/09/2019	Announcement of the decision of the KNF Board on the imposition of a financial penalty on Eques Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Gdańsk (Ref. No DPS-WPO.456.1.2019.MZ)
33.	31/10/2019	Communication from the Chair of the KNF Board of 31 October 2019 on the level of the rate applicable in 2019 and the costs of supervision exercised by the KNF Board over credit unions and the credit and savings banks and the National Association of Credit Unions, to be paid in 2019
34.	06/11/2019	Communication No 246 from the Chair of the Examination Board for Investment Advisers of 6 November 2019 on the date, the content of problem-related tasks, the scoring rules and completion of tasks of the second stage of the examination for investment advisers
35.	06/11/2019	Communication from the Chair of the KNF Board of 6 November 2019 on the level of the rate applicable in 2019 and the costs of supervision of small payment institutions, to be paid in 2019
36.	29/11/2019	Announcement of the decision of the KNF Board on authorisation of GPW Benchmark S.A. to operate as administrator of significant and non-significant benchmarks for given regulated significant and non-significant benchmarks other than interest rate benchmarks (Ref. No DAS.4000.1.2019)
37.	04/12/2019	Announcement of the decision of the KNF Board on the imposition of a financial penalty on Lartiq Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw (Ref. No DPS-WPO.456.15.2019.MS)
38.	04/12/2019	Announcement of the decision of the KNF Board on the imposition of a financial penalty on Forum Towarzystwo Funduszy Inwestycyjnych S.A.
39.	10/12/2019	Resolution No 492/2019 of the KNF Board of 3 December 2019 on the issuance of Recommendation S on good practices in the management of credit exposures secured by mortgages
40.	18/12/2019	Announcement of the decision of the KNF Board on the imposition of financial penalties on ALTUS Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw (Ref. No DPS.456.22.2019.MZ)
41.	19/12/2019	Announcement of the decision of the KNF Board on the imposition of financial penalties on GO Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw and withdrawal of authorisation to conduct business (Ref. No DFF-FIZ.456.3.2018.MW)
42.	24/12/2019	Communication No 248 from the Examination Board for Investment Advisers of 23 December 2019 on the date of the first stage of the examination for investment advisers
43.	24/12/2019	Communication No 249 from the Examination Board for Investment Advisers of 23 December 2019 on the thematic scope of the examination for investment advisers
44.	27/12/2019	Communication No 3/2019 from the Examination Board for Securities Brokers of 27 December 2019 on the date of the examination for securities brokers
45.	27/12/2019	Communication No 4/2019 from the Examination Board for Securities Brokers of 27 December 2019 on the thematic scope of the examination for securities brokers

Source: UKNF's own study



## ANNEX 4. LIST OF REGULATIONS AND DRAFT RREGULATIONS REVIEWED DURING THE LEGISLATIVE WORK IN 2019

**Table 4.1. List of regulations issued in 2019 and reviewed during the legislative work in 2019**

Item	Regulation
1.	Regulation of the Minister of Finance of 22 February 2019 on the amount of the fee for the creation and operation of the PPK portal and the amount of the fee for participation in the portal (Journal of Laws, item 416)
2.	Regulation of the Minister of Finance of 5 March 2019 on the documents to be enclosed to the statement on compliance with the requirements for inclusion in the Records of Employee Capital Plans (Journal of Laws, item 467)
3.	Regulation of the Minister of Finance of 21 March 2019 on the fee for keeping Records of Employee Capital Plans and for performing the obligations referred to in Article 8(4) and (5) of the Act on employee capital plans (Journal of Laws, item 613)
4.	Regulation of the Minister of Finance of 12 April 2019 on the detailed conditions to be fulfilled by a regulated market and an auction platform (Journal of Laws, item 726)
5.	Regulation of the Minister of Finance of 12 April 2019 on the conditions to be fulfilled by an alternative trading system or organised trading platform operated by an investment firm (Journal of Laws, item 734)
6.	Regulation of the Minister of Finance of 25 April 2019 on the detailed conditions to be fulfilled by the market of official quotations and issuers of securities admitted to trading on that market (Journal of Laws, item 803)
7.	Regulation of the Minister of Finance of 25 April 2019 on the detailed criteria for members of the management board and supervisory board of a company operating a regulated market (Journal of Laws, item 874)
8.	Regulation of the Minister of Finance of 26 April 2019 on the compulsory third party liability insurance of a property manager (Journal of Laws, item 802)
9.	Regulation of the Minister of Finance of 26 April 2019 on the compulsory third party liability insurance of a real estate agent (Journal of Laws, item 804)
10.	Regulation of the Minister of Family, Employment and Social Policy of 21 May 2019 on the determination of the scope of data contained in a payment document transmitted by a financial institution to the Social Insurance Institution and on the method and procedure for converting the transferred amounts into the benefit assessment basis (Journal of Laws, item 1034)
11.	Regulation of the Minister of Finance of 12 June 2019 on the declaration of will to stop making contributions to employee capital plans (Journal of Laws, item 1102)
12.	Regulation of the Minister of Finance of 13 June 2019 on the method of determining the reference rate and the detailed method of calculating the remuneration for the result generated, collected by investment fund management companies, general pension societies, occupational pension societies or insurance undertakings listed in the Records of Employee Capital Plans (Journal of Laws, item 1198)
13.	Regulation of the Minister of Finance of 2 July 2019 on the method, procedure and conditions for conducting the activities of investment fund management companies (Journal of Laws, item 1312)
14.	Regulation of the Minister Finance of 9 July 2019 on the detailed scope, procedure and dates of disclosing to the Bank Guarantee Fund information other than information submitted to the National Bank of Poland and to the Polish Financial Supervision Authority necessary for the performance of the Bank Guarantee Fund's tasks (Journal of Laws, item 1299)

15.	Regulation of the Minister of Finance of 31 July 2019 on the minimum amount of insurance guarantee, amount of bank guarantee, amount of insurance guarantee or the value of another security of the user's claims referred to in Article 117a(3) of the Act on payment services (Journal of Laws, item 1458)
16.	Regulation of the Minister of Finance of 31 July 2019 on the minimum amount of insurance guarantee, amount of bank guarantee, amount of insurance guarantee or the value of another security of the user's claims referred to in Article 61b(1) of the Act on payment services (Journal of Laws, item 1459)
17.	Regulation of the Council of Ministers of 30 July 2019 amending the Regulation on settlements with banks for the temporary purchase of interest on housing loans from the state budget (Journal of Laws, item 1706)
18.	Regulation of the Minister of Finance of 2 August 2019 amending the Regulation on the procedure and conditions to be followed by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks (Journal of Laws, item 1548)
19.	Regulation of the Minister of Finance of 7 August 2019 amending the Regulation on the detailed rules for determining contributions to the financing of compulsory restructuring of credit unions based on risk (Journal of Laws, item 1544)
20.	Regulation of the Minister of Finance of 21 August 2019 on the preparation and submission by a selected financial institution of information concerning a participant of an employee capital plan from whose account a transfer payment is to be made (Journal of Laws, item 1742)
21.	The Regulation of the President of the Council of Ministers of 28 August 2019 on payments to cover the costs of the supervision of payment services offices (Journal of Laws, item 1646)
22.	Regulation of the Minister of Digital Affairs of 6 September 2019 on the amount of liability of the entity responsible for the electronic identification system (Journal of Laws, item 1710)
23.	Regulation of the President of the Council of Ministers of 23 September 2019 on payments to cover the costs of the supervision of account information service providers (Journal of Laws, item 1876)
24.	Regulation of the President of the Council of Ministers of 26 September 2019 on payments to finance the National Association of Credit Unions (Journal of Laws, item 1855)
25.	Regulation of the Minister of Finance, Development and Investment of 3 October 2019 on the level of materiality of an overdue credit commitment (Journal of Laws, item 1960)
26.	Regulation of the Minister of Finance of 3 October 2019 on the procedures to be followed by entities operating in the area of intermediation in the disposal and repurchase of units and participation titles, and investment advisory services in relation to such instrument (Journal of Laws, item 2110)
27.	Regulation of the President of the Council of Ministers of 28 October 2019 on payments to cover the costs of supervision of small payment institutions (Journal of Laws, item 2073)
28.	Regulation of the Minister of Finance of 6 November 2019 amending the Regulation on the detailed scope and time limits for submission to the National Bank of Poland of information necessary to define the monetary policy, the periodic assessment of the State's monetary situation, and the analysis of systemic risk (Journal of Laws, item 2187)
29.	Regulation of the Minister of Finance of 27 November 2019 on the fees paid for supervision by audit firms in connection with the provision of attestation and related services in accordance with national standards of exercising the profession (Journal of Laws, item 2321)
30.	Regulation of the Minister of Finance of 2 December 2019 amending the Regulation on technical means and requirements for the submission of certain information by entities supervised by the Polish Financial Supervision Authority (Journal of Laws, item 2364)
31.	Regulation of the Minister of Finance of 2 December 2019 on quarterly and additional annual financial statements and statistical reports of a domestic payment institution (Journal of Laws, item 2431)

32.	Regulation of the Minister of Digital Affairs of 4 December 2019 on the organisational and technical conditions for entities providing cybersecurity services and internal organisational structures of key service providers responsible for cybersecurity (Journal of Laws, item 2479)
33.	Regulation of the Minister of Finance, Investment and Development of 16 December 2019 on the level of remuneration of the Council of the Polish Agency of Audit Supervision (Journal of Laws, item 2438)
34.	Regulation of the Minister of Finance of 17 December 2019 on payments to cover the costs of supervision of the capital market (Journal of Laws, item 2486)
35.	Regulation of the Minister of Finance of 19 December 2019 on the model application for support, promise or loan for repayment of debt to borrowers that have contracted a housing loan and are in financial difficulties (Journal of Laws, item 2474)
36.	Regulation of the Minister of Finance of 23 December 2019 on compulsory third party liability insurance of a person holding a licence of a restructuring adviser and a commercial company, performing a function in restructuring, insolvency or enforcement proceedings (Journal of Laws, item 2527)
37.	Regulation of the President of the Council of Ministers of 24 December 2019 on payments to cover the costs of supervision of mortgage credit intermediaries (Journal of Laws, item 2514)
38.	Regulation of the Minister of Finance of 24 December 2019 on the manner of keeping records of shares by the Polish Financial Supervision Authority (Journal of Laws, item 2548)

Source: UKNF's own study

**Table 4.2. List of draft Regulations still not issued before the end of 2019 and reviewed during the legislative work in 2019**

Item	Draft regulation
1.	Draft Regulation of the Minister of Finance on the detailed scope of information and type and form of documents to be enclosed to the request for authorisation to conduct activity as a domestic payment institution
2.	Draft Regulation of the Minister of Finance on compulsory third party liability insurance of a brokerage house
3.	Draft Regulation of the Minister of Finance, Investment and Development on the detailed requirements on information memoranda
4.	Draft Regulation of the Minister of Finance amending the Regulation on specific accounting principles of investment funds
5.	Draft Regulation of the Minister of Finance on the amount transferred by the Polish Agency of Audit Supervision to cover the costs of certain tasks carried out by the Polish Chamber of Statutory Auditors

Source: UKNF's own study

## ANNEX 5. PROTECTION OF NON-PROFESSIONAL FINANCIAL MARKET PARTICIPANTS; ANALYTICAL ACTIVITIES AND PRELIMINARY INVESTIGATIONS CARRIED OUT BY THE UKNF IN 2019 WITH REGARD TO MALPRACTICES OF KNF-SUPERVISED ENTITIES

Banking sector
Review of practices of selected banks in regard to their engagement in the apart-hotels and condo hotels segment.
Review of compliance by banks and credit unions with the requirements under the Act on 'dormant accounts.'
Review relating to the opening of bank accounts using identity documents (ID card, passport) with an emphasis on Polish citizens living abroad: selected issues.
Review of practices of selected banks with respect to the disposal of property on the basis of an instruction concerning the deposit in the event of death of the account holder
Review of practices of selected entities with respect to time limits for submission of the decision on granting mortgage credit.
Review of practices of selected banks with respect to the payment of claims from bank accounts.
Review of compliance by selected banks with the requirements under Article 15a(1)-(6) of the Act on payment services, in relation to compliant handling.

Review of practices of selected banks in regard ensuring access to accounts for successor managers.
Review on the adaptation of selected commercial banks to Article 70a of the Banking Law.
Review of the banks' practice of making copies of customers' identity documents.
Review of compliance with the requirements under the Act on 'dormant accounts' for obliged entities: review of information submitted as part of ongoing supervision.
Review of the practice of a bank with respect to the implementation of a new business strategy.
Assessment of cases where proxies had no access to accounts at a bank.
Review of a bank's practice of concluding contracts through a courier.
Review of the practice of a bank with respect to inheritance by a foreigner.
Review of practices of selected banks with respect to minimising credit fraud through participation in the 'Credit Freeze System' [„System Zastrzezenie kredytowe"] of BIK S.A.
Review of practices of selected banks with respect to applying for an order for payment based on a banking ledger excerpt after 20 July 2013
Review of the practice of a non-supervised entity that provided information to potential users on its website
Review of the practice of offering financial instruments managed by an investment fund management company through a third party (bank) that was not authorised, during the period of offering the instruments, to conduct the activities referred to in Article 69(2) points 5 and 6 of the Act of 29 July 2005 on trading in financial instruments.
Review of the practice of bank employees of offering financial instruments not included in the bank's offer.
Review of banks' failure to include reverse mortgage credit in their offer.
Review of the regulatory environment and threats associated with the service of annuity for a flat, offered in its current form in the financial market.
Analysis of cases where a consumer obtained, through a credit intermediary, consumer credit that did not meet the consumer's requirements.
Review of the practice of a bank with respect to concluding bank accounts agreements through intermediaries.
Analysis of cases where two banks were charging fees for operating a payment account although the account holders fulfilled the requirements for fee waiver.
Analysis of irregularities in the execution, by banks, of the instruction referred to in Article 56 of the Banking Law (instruction concerning the deposit in the event of death).
Analysis of cases of incorrect procedure applied by a bank with regard to the seizure of claims from a payment account.
Review of practices used by four banks to execute and monitor the execution of customer's instruction to terminate a bank account contract.
Analysis of cases of improper issuance, by a bank, of payment cards to new bank accounts opened via Internet by a person that previously used the bank's services – linking cards with inactive accounts.
Analysis of cases where, according to customers, a bank executed an unauthorised payment transactions.
Analysis of cases where a bank opened payment accounts contrary with internal procedures (without the required set of documents).
Review of the functioning of a new technical solution in online banking of one of banks.
Analysis of issues occurred at four banks after the implementation of the obligation of strong customer authentication for a user of payment services.
Review of practices of two banks with respect to the quality of data submitted through the Central Information System.
Analysis of irregularities consisting in a bank forwarding a demand for repayment to a person that was not a borrower.
Analysis of a case where a bank failed to consider the form of succession under benefit of inventory and unduly deducted funds from an heir's account.
Review of operations of banks participating in a transaction using an incorrect unique identifier.
Analysis of a bank's practice with respect to directing incorrect demands to borrowers
Review of a signal concerning inaccurate information about the costs of issuance of a card in express mode.
Analysis of a case where a bank carried out debt recovery activities against a wrong person.
Analysis of a case where a bank refused to open an account for bankrupt consumer by a receiver.
Analysis of a bank's practice of presenting an incorrect amount of the premium.

Analysis of practices of give banks with respect to the handling of requests for back assignment of debts in the case of intention of aggrieved parties to pursue a disputed part of compensation.
Review of a bank's practice related to the service of preferential currency transfers of funds between accounts.
Review of practices of two banks with respect of classification of claims for securitisation purposes.
Analysis of reoccurring issues in the functioning of mobile applications and trading systems of one of banks.
Review of a bank's practice with respect to the exercise of the right to terminate a consumer credit agreement in the case of a consolidation loan.
Analysis of practices of four banks in informing clients about organisational changes and ensuring continuity of the service in the case of changes of ownership at banks.
Analysis of cases where a bank carried out debt recovery activities in relation to receivables against operations in respect of claims held for sale.
Review of a bank's practice of reporting to BIK on the liabilities of a bankrupt borrower.
Review of the method of classification of repayments made by a borrower who had more than one liability at a bank.
Analysis of a case of refusal to exchange a damaged PLN banknote by one of the banks.
Analysis of a case where a bank lost the documents of a customer's agreement.
Review of a bank's practice of informing customers about an increase in the interest rate resulting from the loan agreement.
Review of a bank's practice related to the method of informing heirs about the funds collected on investment accounts (inheritance of units).
Analysis of irregularities in issuing and sending the PIT-11 declaration by the bank to the client for the purpose of the settlement in connection with the cancellation of debts by the lender, including the method of charging penalty interest in the event of expiry of the limitations period of the claim.
Review of a bank's practice of informing customers about f an increase in the interest resulting from the loan agreement in the case of failure to meet the requirements of a promotion.
Analysis of an identified irregularity consisting in the conclusion of a bank account contract, through an intermediary acting on behalf of the bank, by a person who did not request it.
Analysis of a case where a bank applied an understated interest rate of a term deposit.
Review of a bank's practice of preventing customers from deciding, in the loan application, on the type of consumer credit being granted to them (cash, revolving, consolidation, limit on the credit card account).
Review of a bank's practice of reporting to BIK on liabilities that arose due to a criminal offence.
Review of a bank's practice in the process of blocking bank accounts in connection with the seizure of claims by the enforcement body .
Analysis of irregularities in customer identification and opening personal accounts and online banking services - identify theft, credit fraud.
Analysis of irregularities in the conclusion of credit agreements through a credit intermediary.
Review of a bank's practice regarding parametrisation of the rules monitoring the events in online banking in relation to unauthorised payment transactions.
Analysis of irregularities in the bank's accounting system leading to double charge on payment accounts of customers.
Analysis of irregularities in the execution of a high-volume cash disbursements at a branch of a bank.
Review of conduct of employees of a bank's helpline in the case of report on a suspected unauthorised transactions.
Review of implementation of new business strategy of bank consisting in the limitation of provision of certain services in foreign currencies.
Analysis of irregularities concerning the fulfilment of obligations referred to in Articles 143a and 143b of Act on payment services - transactions executed using an incorrect unique identifier.

#### **Insurance sector**

Review of the insurance undertakings' policies to be followed in the case of acquisition of ownership of a vehicle by a person that concluded a contract of compulsory third party motor insurance before the person became the owner of the vehicle.
Review of provisions of templates of contract of unit, linked life insurance, posted on the website of an insurance undertaking, to the extent of provisions defining the right of the insurance undertaking to increase its fees.
Review of an insurance undertaking's practice of concluding, in 2018, contracts of insurance of

agricultural crops and then verifying such crops in terms of compliance with the requirements for obtaining insurance for such crops.
Review, based on the reports from non-professional financial market participants, of compliance by insurance undertakings with the requirements provided for in Article 14(1), (2) and (3) of the Act of 22 May 2003 on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurer' Bureau.
Review, based on the reports from non-professional financial market participants, of compliance by insurance undertakings with the requirement to provide the policyholder, the insured, the person making the claim and/or the beneficiary under the insurance contract, with information and documents collected to determine the liability of the insurance undertaking or the amount of compensation or value of performance.

<b>Sector of payment services</b>
Review of the activities of a payment service provider with respect to the method of execution of payments using a foreign payment card.

<b>Capital sector</b>
Review of the issue of an ICO by a company due to the infringement of applicable laws.
Review of the practice of a brokerage house with respect to misrepresentation of transaction data (incorrect quotations for financial instruments).
Review of the activity of an investment firm mediating the placement of a private issue of bonds in relation to the infringement of the principle of acting in the best interest of the customer.
Analysis of irregularities in the functioning of a mobile application provided by a brokerage house.
Review of operations of a limited liability company as an issuer of tokens in connection with a breach of, <i>inter alia</i> , Article 178 of the Act on trading in financial instruments.
Review of operations of a limited liability company providing financial advisory services in the capital market without appropriate authorisation.
Review of incorrect quotations made available by a brokerage house for a public company.
Review of the method used by a TFI to calculate the tax on capital gains for foreign-exchange funds.
Review of activities of a foreign investment fund operating in the Republic of Poland on a cross-border basis and its practice of unjustified treatment of clients as professional clients - breach of MiFID II.
Review of a practice of a brokerage house restricting the access for a receiver to an investment account of the bankrupt person.
Review of the activities of a brokerage house providing brokerage services without a contract and engaged in the introduction of offers of bonds in the form of a private offering in breach of the principle of acting in the best interest of customers.
Review of the practice of a foreign investment firm operating in the territory of the Republic of Poland on a cross-border basis in relation to classification of clients to the group of professional clients.
Review of operations of domestic and foreign entities in terms of the possibility that such entities operate without the required authorisation or permission provided for in the laws governing the capital market.

Source: UKNF's own study

## ANNEX 6. REPORTS SUBMITTED TO THE UKNF (BY SUBJECT-MATTER)

**Table 6.1. Reports received by the UKNF and relating to the activities of commercial banks in the years 2018-2019 (by subject-matter)**

Subject-matter of the report	2018	%	2019	%
Maintenance of accounts	893	33.09%	863	41.53%
Loans and consumer credits	500	18.53%	407	19.59%
Other activities of the bank	636	23.56%	274	13.19%
Quality of service	374	13.86%	263	12.66%
Mortgages	211	7.82%	192	9.24%
Payment instruments	85	3.15%	77	3.70%
Other	0	0.00%	2	0.09%
<b>Total</b>	<b>2 699</b>	<b>100.00%</b>	<b>2 078</b>	<b>100.00%</b>

Source: UKNF's own study

**Table 6.2. Reports received by the UKNF and relating to the activities of cooperative banks in the years 2018-2019 (by subject-matter)**

<b>Subject-matter of the report</b>	<b>2018</b>	<b>%</b>	<b>2019</b>	<b>%</b>
Maintenance of accounts	38	31.67%	54	45.38%
Loans and consumer credits	28	23.33%	23	19.33%
Other	0	0.00%	19	15.97%
Quality of service	11	9.17%	10	8.40%
Other activities of the bank	36	30.00%	9	7.56%
Mortgages	6	5.00%	4	3.36%
Payment instruments	1	0.83%	0	0.00%
<b>Total</b>	<b>120</b>	<b>100.00%</b>	<b>119</b>	<b>100.00%</b>

Source: UKNF's own study

**Table 6.3. Reports by the UKNF and relating to the activities of credit unions (SKOK) in the years 2018-2019 (by subject-matter)**

Subject-matter of the report	2018	%	2019	%
Loans and consumer credits	32	56.14%	35	70.00%
Maintenance of accounts	12	21.05%	7	14.00%
Quality of service	5	8.77%	4	8.00%
Other activities of credit unions	7	12.28%	3	6.00%
Mortgages	1	1.75%	1	2.00%
<b>Total</b>	<b>57</b>	<b>100.00%</b>	<b>50</b>	<b>100.00%</b>

Source: UKNF's own study

**Table 6.4. Reports received by the UKNF and relating to the activities of life insurance undertakings in the years 2018-2019 (by subject-matter)**

Subject-matter of the report	2018	%	2019	%
Refusal of payment	45	21.53%	31	19.62%
Contract performance	26	12.44%	24	15.19%
Tardiness	22	10.53%	21	13.29%
Redemption value	25	11.96%	14	8.86%
Objections to the claim settlement process	17	8.13%	14	8.86%
The amount of compensation	11	5.26%	10	6.33%
Problems with termination of contract	7	3.35%	10	6.33%
Valuation of units of a unit-linked insurance product or IMC investment method	25	11.96%	9	5.70%
Interpretation of General Terms and Conditions of Insurance	3	1.44%	4	2.53%
Problems with making damage files available	4	1.91%	4	2.53%
Unreliability of an agent	1	0.48%	3	1.90%
Refusal to accept for insurance	0	0.00%	3	1.90%
Problems with conclusion of contract	2	0.96%	3	1.90%
Indexation of the premium	0	0.00%	1	0.63%
Information policy of insurance undertakings	7	3.35%	1	0.63%
IKE transfer	0	0.00%	1	0.63%
Change of contractual terms and conditions	0	0.00%	1	0.63%
Return of premium	0	0.00%	1	0.63%
Cross-border activities of domestic entities	0	0.00%	1	0.63%
Withdrawal from a contract	2	0.96%	1	0.63%
Premium rate	5	2.39%	1	0.63%
Challenging a power of attorney by an insurance undertaking	2	0.96%	0	0.00%
Sum insured	2	0.96%	0	0.00%
Breach of insurance secrecy	1	0.48%	0	0.00%
Unauthorised debt collection	1	0.48%	0	0.00%
Protection of personal data	1	0.48%	0	0.00%
<b>Total</b>	<b>209</b>	<b>100.00%</b>	<b>158</b>	<b>100.00%</b>

Source: UKNF's own study

**Table 6.5. Reports received by the UKNF and relating to the activities of non-life insurance undertakings in the years 2018-2019 (by subject-matter)**

Subject-matter of the report	2018	%	2019	%
Problems with making damage files available	173	10.79%	398	26.57%



Objections to the claim settlement process	360	22.44%	268	17.89%
Tardiness	323	20.14%	267	17.82%
The amount of compensation	312	19.45%	226	15.09%
Refusal of payment	193	12.03%	159	10.61%
Contract performance	63	3.93%	46	3.07%
Unauthorised debt collection	53	3.30%	39	2.60%
Problems with termination of contract	34	2.12%	31	2.07%
Premium rate	35	2.18%	21	1.40%
Return of premium	13	0.81%	6	0.40%
Sum insured	8	0.50%	6	0.40%
Problems with conclusion of contract	6	0.37%	8	0.53%
Information policy of the undertaking	19	1.18%	5	0.33%
Withdrawal from a contract	4	0.25%	5	0.33%
Interpretation of General Terms and Conditions of Insurance	2	0.12%	4	0.27%
Refusal to accept for insurance	0	0.00%	3	0.20%
Protection of personal data	3	0.19%	2	0.13%
Change of contractual terms and conditions	2	0.12%	2	0.13%
Unreliability of an agent	0	0.00%	2	0.13%
Breach of insurance secrecy	1	0.06%	0	0.00%
<b>Total</b>	<b>1604</b>	<b>100.00%</b>	<b>1498</b>	<b>100.00%</b>

Source: UKNF's own study

**Table 6.6. Reports received by the UKNF and relating to the activities of branches of insurance undertakings of EU Member States in the years 2018-2019 (by subject-matter)**

Subject-matter of the report	2018	%	2019	%
Refusal of payment	10	45.45%	6	27.27%
Tardiness	4	18.18%	5	22.73%
Contract performance	0	0.00%	4	18.18%
Unauthorised debt collection	0	0.00%	2	9.09%
Problem with making claim files available	0	0.00%	2	9.09%
The amount of compensation	3	13.64%	1	4.55%
Protection of personal data	1	4.55%	1	4.55%
Unreliability of an agent	0	0.00%	1	4.55%
Withdrawal from a contract	1	4.55%	0	0.00%
Premium rate	1	4.55%	0	0.00%
Return of premium	1	4.55%	0	0.00%
Information policy of the insurance undertaking	1	4.55%	0	0.00%
Problems with termination of contract	0	0.00%	0	0.00%
<b>Total</b>	<b>22</b>	<b>100.00%</b>	<b>22</b>	<b>100.00%</b>

Source: UKNF's own study

**Table 6.7. Reports received by the UKNF and relating to the activities of notified insurance undertakings of EU Member States in the years 2018-2019 (by subject-matter)**

Subject-matter of the report	2018	%	2019	%
Tardiness	165	82.50%	80	57.55%
The amount of compensation	14	7.00%	20	14.39%
Objections to the claim settlement process	7	3.50%	18	12.95%
Problems with making damage files available	2	1.00%	13	9.35%
Refusal of payment	7	3.50%	4	2.88%
Unreliability of services provided	2	1.00%	1	0.72%
Contract performance	2	1.00%	1	0.72%
Problems with termination of contract	1	0.50%	1	0.72%

Unauthorised debt collection	0	0.00%	1	0.72%
<b>Total</b>	<b>200</b>	<b>100,00%</b>	<b>139</b>	<b>100,00%</b>

Source: UKNF's own study

**Table 6.8. Reports by the UKNF and relating to the activities of credit unions (OFE) in the years 2018-2019 (by subject-matter)**

Subject-matter of the report	2018	%	2019	%
Irregularities in the division and payment of funds collected in the account	3	30.00%	4	40.00%
Fund's information activity	2	20.00%	3	30.00%
Fund's investment policy	2	20.00%	2	20.00%
Transfers to other OFE	0	0.00%	1	10.00%
Complaints about data in the register of OFE members and their changes	2	20.00%	0	0.00%
Irregularities relating to the funds deposited in the OFE account	1	10.00%	0	0.00%
<b>Total</b>	<b>10</b>	<b>100.00%</b>	<b>10</b>	<b>100.00%</b>

Source: UKNF's own study

**Table 6.9. Reports received by the UKNF and relating to public companies and other financial market participants in the years 2018-2019 (by subject-matter)**

Subject-matter of the report	2018	%	2019	%
Financial instrument quotation rate	91	31.82%	62	30.10%
Corporate rights of shareholders	50	17.48%	53	25.73%
Other	24	8.39%	35	16.99%
Disclosure requirements of companies listed on the regulated market	42	14.69%	30	14.56%
Disclosure requirements of companies listed on NewConnect	31	10.84%	14	6.80%
Management of a public company	25	8.74%	5	2.43%
Private issue of financial instruments	17	5.94%	5	2.43%
Companies withdrawn from official trading	6	2.10%	2	0.97%
<b>Total</b>	<b>286</b>	<b>100.00%</b>	<b>206</b>	<b>100.00%</b>

Source: UKNF's own study

**Table 6.10. Reports received by the UKNF and relating to the activities of investment firms in the years 2018-2019 (by subject-matter)**

Subject-matter of the report	2018	%	2019	%
Quality of services	22	27.50%	31	37.80%
Other	18	22.50%	20	24.39%
Execution of orders	12	15.00%	10	12.20%
Provision of on-line services	2	2.50%	6	7.32%
The amount of fees and commissions	15	18.75%	6	7.32%
Distribution of investment certificates	3	3.75%	3	3.66%
Recommendations	2	2.50%	2	2.44%
Management result	3	3.75%	1	1.22%
Service of public issue	1	1.25%	1	1.22%
Collection of a capital gains tax	1	1.25%	1	1.22%
Maintaining the individual retirement account (IKE)	1	1.25%	1	1.22%
<b>Total</b>	<b>80</b>	<b>100,00%</b>	<b>82</b>	<b>100,00%</b>

Source: UKNF's own study

**Table 6.11. Reports received by the UKNF and relating to the activities of foreign investment firms in the years 2018-2019 (by subject-matter)**

Subject-matter of the report	2018	%	2019	%
Quality of services	12	57.1%	5	55.56%
Other	6	28.6%	2	22.22%
Execution of orders	2	9.5%	1	11.11%
Provision of on-line services	1	4.8%	1	11.11%
<b>Total</b>	<b>21</b>	<b>100,00%</b>	<b>9</b>	<b>100,00%</b>

Source: UKNF's own study

**Table 6.12. Reports received by the UKNF and relating to the activities of investment fund management companies in the years 2018-2019 (by subject-matter)**

Subject-matter of the report	2018	%	2019	%
Management of investment funds	0	0.00%	34	24.11%
Deadline for execution of orders (for investment certificates)	12	9.76%	28	19.86%
Other	10	8.13%	13	9.22%
Quality of service provision	18	14.63%	12	8.51%
Implementation of an investment policy	21	17.07%	12	8.51%
Valuation of investment certificates	10	8.13%	12	8.51%
Maintaining the individual retirement account (IKE)	2	1.63%	8	5.67%
Liquidation of a fund	23	18.70%	6	4.26%
The amount of fees and commissions	1	0.81%	5	3.55%
Transfer of receivables to the securitisation closed-end investment fund	11	8.94%	4	2.84%
Valuation of participation units	3	2.44%	2	1.42%
Informing a participant of a change in the articles of association	2	1.63%	1	0.71%
Deadline for execution of orders (for participation units)	3	2.44%	1	0.71%
Provision of on-line services	2	1.63%	1	0.71%
Combination of investment funds	2	1.63%	1	0.71%
Maintaining the individual retirement protection account (IKZE)	0	0.00%	1	0.71%
Pledge on participation units	1	0.81%	0	0.00%
Collection of a capital gains tax	2	1.63%	0	0.00%
<b>Total</b>	<b>123</b>	<b>100,00%</b>	<b>141</b>	<b>100,00%</b>

Source: UKNF's own study

## ANNEX 7. LIST OF EVENTS ORGANISED BY THE UKNF AS PART OF THE CEDUR PROJECT IN 2019

**Table 7.1. Training seminars addressed to the representatives of KNF-supervised entities (by sector)**

Item	Topic	Date
<b>Banking sector</b>		
1.	Business continuity plans - practical aspects of the development and testing and business continuity - contingency plans	31/01/2019
2.	Cycle of seminars: Changes in the organisation and functioning of cooperative banks due to the obligation to comply with the requirements of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision	22/02/2019 26/02/2019 05/03/2019 12/03/2019
3.	Selected obligations of investment firms arising from the entry into force of the amendment to the Act on trading in financial instruments, implementing the provisions of MiFID II to the Polish legal order*	25/02/2019

4.	Independent members of supervisory boards of banks in the light of the rules and recommendations of the KNF Board and EBA	01/04/2019
5.	Bank as a party to administrative proceedings before the KNF Board	21/05/2019
6.	Consumer credit	28/05/2019
7.	The use of benchmarks in light of BMR and designing contingency plans	25/06/2019
8.	Assessment of propriety of members of management board, supervisory board and key function holders	08/07/2019
9.	Management of liquidity risk and interest rate risk in the banking book at a cooperative bank	31/07/2019
10.	Regulatory requirements for the management of interest rate risk in the banking book (IRRBB)	05/09/2019
11.	Responsibility of management boards and supervisory boards for the accounting of cooperative banks**	24/09/2019
12.	Act on mortgage credit - major changes***	03/10/2019
13.	CRR II - Net Stable Funding Ratio (NSFR)	09/10/2019
14.	Obligations of banks to disclose qualitative and quantitative information on capital adequacy - Pillar 3 of Basel III (Disclosures)	22/10/2019
15.	Accounting of cooperative banks – practical aspects for auditors auditing financial statements of cooperative banks**	05/11/2019
16.	Prevention of money laundering and terrorist financing at cooperative banks in the context of the Act of 1 March 2018. Inspection results and related market practices	14/11/2019
17.	Prevention of money laundering and terrorist financing at commercial banks in the context of the Act of 1 March 2018. Inspection results and related market practices	21/11/2019
18.	Tasks of the KNF Board in the light of the new Act on statutory auditors, audit firms and public supervision	09/12/2019
<b>Sector of credit unions</b>		
1.	Basic account and transfer of accounts (PAD)	20/02/2019
2.	Judicial and amicable debt collection procedures. Amendment to the Act on inheritance - effect on the debt collection process	27/02/2019
3.	Calculation of the solvency ratio at credit unions – practical aspects for auditors**	28/08/2019
4.	Act on mortgage credit – major changes****	03/10/2019
5.	Prevention of money laundering and terrorist financing at credit unions in the light of the Act of 1 March 2018. Inspection results and market practices.	19/11/2019
<b>Capital market</b>		
1.	Selected obligations of investment firms arising from the entry into force of the amendment to the Act on trading in financial instruments, implementing the provisions of MiFID II to the Polish legal order****	25/02/2019
2.	Commodity markets after the entry into force of MiFID II/MiFIR	27/06/2019
3.	ICT security at investment funds sector entities. Practical approach	13/09/2019
4.	Rules for operation and supervision of tied agents of investment firms	03/10/2019
5.	Disclosure requirements for issuers and the topic of audit committees	08/11/2019
6.	Limits on positions for commodity derivatives. The electricity market.	28/11/2019
7.	Rules for verification of reliability and credibility of entities offering services in the market of financial and investment services	04/12/2019
8.	Limits on positions for commodity derivatives. The natural gas market	06/12/2019
9.	Issuers' periodical reporting: compliance with the applicable financial framework, in particular IAS/IFRS**	12/12/2019
10.	Rules for conducting inspections at investment funds entities supervised by the KNF Board	16/12/2019
<b>Insurance sector</b>		
1.	Status of the review of the Solvency Capital Requirement SCR standard	07/06/2019

	formula	
2.	Cycle of seminars: Register of Insurance Agents and Ancillary Insurance Agents in the light of the new Act on insurance distribution	10/06/2019 18/06/2019 26/06/2019
3.	Internal models - the supervisory authority's approach to modelling by insurance undertakings in the light of the market situation and reviews carried out by the supervisory authority	28/10/2019
<b>Sector of payment services</b>		
1.	Prevention of money laundering and terrorist financing at payment institutions in the light of the Act of 1 March 2018. Inspection results and market practices.	12/11/2019
2.	Risk management system at a domestic payment institution - legal framework and practice aspects following the inspection	11/12/2019
<b>Cross-sectoral</b>		
1.	Imposition of administrative financial penalties by the KNF Board in the light of the amendments to the Administrative Procedure Code	08/04/2019
2.	General principles of the Administrative Procedure Code and their practical application in administrative proceedings conducted by the KNF Board	21/10/2019

Source: UKNF's own study

\* A seminar addressed also capital market entities

\*\* A seminar addressed also to auditors

\*\*\* A seminar addressed also to entities in the credit unions sector

\*\*\*\* A seminar addressed also to banking sector entities

**Table 7.2. Seminars and lectures addressed to representatives of the judiciary and law enforcement agencies**

Item	Topic	Date
1.	Cybersecurity of the financial sector. Systemic aspects and the practice of prevention of cybercrime	20/03/2019
2.	Operation of investment fund management companies and cooperating entities. Rules of operation and functioning of investment funds. Supervisory and inspection practice of the UKNF	03/04/2019
3.	Capital market and stock market offences - mechanisms and potential threats	30/04/2019
4.	Threats associated with crypto-currencies**	16/05/2019
5.	Investment and securitisation funds - identification of holders, reporting obligations, state supervision	29/05/2019
6.	Conducting activities related to trading in financial instruments without authorisation, types of brokerage activities and definition of 'offering' a financial instrument taking into account of the differences between the terms 'advertising', 'informing', 'educating' as terms that are close to each other but they do not meet the conditions of an offence consisting in the offering of financial instruments without KNF authorisation	06/06/2019
7.	Manipulation of financial instruments, types of financial instruments and manipulation methods/techniques noted so far	13/06/2019
8.	Activities in the debt sector	26/06/2019
9.	Forms, methods and scope of capital market supervision. Rules of operation and functioning of brokerage houses. Issues related to the functioning of the capital market, Warsaw Stock Exchange, and financial institutions. Supervision and inspection of brokerage houses, banks engaged in brokerage activities, the possibility of using data obtained from the KNF Board for the purpose of proceedings conducted by law enforcement authorities	10/09/2019
10.	Unlawful offering and promoting of acquisition of securities	16/10/2019
11.	Commodity exchanges**	24/10/2019

12.	System of prevention of money laundering and terrorist financing at financial institutions - the supervisor's experiences. Overview of the KNF's AML/CFT activities and the possible uses of information collected under the AML/CFT system for the purpose of cases conducted by the judiciary and law enforcement agencies	15/11/2019
13.	Verification and approval of a prospect with a particular focus on the review of economic, financial and legal information contained in the prospectus and documents attached to the application of approval of the prospectus**	20/11/2019
14.	Conducting insurance activities without authorisation, definition and types of insurance activities	21/11/2019

Source: UKNF's own study

\* Seminars organised in cooperation with the Internal Security Agency, the Central Anti-Corruption Bureau, the Central Investigation Bureau of the Police, the Central Police Headquarters, the Border Guard Headquarters

\*\* Seminars organised also in cooperation with the National Prosecutor's Office

**Table 7.3. Seminars addressed to the representatives of consumer protection institutions**

Item	Topic	Date
1.	Activities open-end and closed-end investment funds	09/04/2019
2.	Implementation of Regulation (EU) No 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds	14/06/2019
3.	Stock manipulation - mechanisms and detection	27/09/2019
4.	Cybercrime and offences related to the financial market	23/10/2019
5.	Non-financial corporations - valuation of derivatives and hedging strategies	28/11/2019

Source: UKNF's own study

**Table 4. Seminars addressed to statutory auditors**

Item	Topic	Date
1.	Calculation of the solvency ratio at credit unions – practical aspects for auditors*	28/08/2019
2.	Responsibility of management boards and supervisory boards for the accounting of cooperative banks**	24/09/2019
3.	Accounting of cooperative banks – practical aspects for auditors auditing financial statements of cooperative banks**	05/11/2019
4.	Issuers' periodical reporting: compliance with the applicable financial framework, in particular IAS/IFRS***	12/12/2019

Source: UKNF's own study

\* A seminar addressed also to the entities in the credit unions sector

\*\* A seminar addressed also to representatives of cooperative banks

\*\*\* A seminar addressed also capital market entities

**Table 5. Seminars, workshops, lectures and conferences addressed to schools and academic community**

Item	Topic	Date
1.	Cybersecurity from the perspective of a user of financial services*	04/10/2019
2.	How to read a credit/loan agreement?	06/12/2019

Source: UKNF's own study

\* A seminar organised as part of World Investor Week 2019 in cooperation with the WSE Foundation and the Centre for the Development of Education

## ANNEX 8. LIST OF RECOMMENDATIONS, POSITIONS OF THE KNF BOARD AND THE UKNF, COMMUNICATIONS FROM THE UKNF, AND CIRCULAR LETTERS IN 2019

**Table 8.1. Assumptions for recommendations and Recommendations of the KNF Board issued in 2019**

Item	Subject-matter of the recommendation	Date
<b>Banking sector</b>		
1.	Recommendation G on the management of interest rate risk (assumptions for the amendment)	05/02/2019
2.	Recommendation A on the management of risk associated with bank transactions in the derivatives market (assumptions for the amendment)	05/03/2019
3.	Recommendation B on limiting the risk of banks' capital investments (amendment)	26/03/2019
4.	Recommendation S on good practices in the management of credit exposures secured by mortgages (amendment)	03/12/2019

Source: UKNF's own study

**Table 8.2. Positions of the KNF Board and the UKNF, Communications from the UKNF, and circular letters presented in 2019**

Item	Subject-matter of the statement/communication/circular letter	Date
<b>Banking sector</b>		
1.	Position on compliance by banks and credit unions with the requirements under Articles 56a, 59a(6) and (7), 59b and 111c of the Banking Law and Articles 13a(6) and (7), 13b, 13c and 14(2a) of the Act on credit unions, and compliance with requirements for banks and credit unions under Articles 92ba-92bd of the Banking Law and Articles 13d-13f of the Act on credit unions (Central Information System)	04/03/2019
2.	Position on the inconsistent practices of banks with respect to opening accounts for consumers using identity documents other than an ID card	04/03/2019
3.	Position of the UKNF addressed to presidents of management boards of mortgage banks on the calculation of capital requirements when transferring a portfolio of loans secured by mortgage on residential property	19/04/2019
4.	Position on the procedure for submitting quarterly assessment of the level of risk to cooperative banks and affiliating banks	03/06/2019
5.	Position of the UKNF 5 June 2019 on customer identification and customer identity verification at banks and branches of credit institutions through video ID verification, due to business relationships and/or transactions being entered into to offer new products and services and due to products or services being offered through new distribution channels	05/06/2019
6.	Position on irregularities in the management of credit risk	14/06/2019
7.	Position on indices used as benchmarks in financial instruments and financial contracts	26/07/2019
8.	Position on the disposal of property by banks on the basis of an instruction concerning the deposit in the event of death of the account holder as referred to in Article 56 of the Act of 29 August 1997 – the Banking Law	29/08/2019
9.	Position on banks operating as settlement internalisers	11/09/2019
10.	Position of the UKNF of 16 September 2019 on certain issues related to the entry into force of EBA Guidelines on outsourcing, and their observance in banks' activities	16/09/2019
11.	Letter addressed to the cooperative banks sector concerning the most common irregularities identified during inspection activities at banks during the period between 1 January 2017 and 30 June 2019	30/10/2019

12.	Letter addressed to cooperative banks and affiliating banks concerning a high risk associated with establishing relations with entities whose activities are related with the trade in and management of virtual currencies	12/11/2019
<b>Credit unions</b>		
1.	Position on compliance by banks and credit unions with the requirements under Articles 56a, 59a(6) and (7), 59b and 111c of the Banking Law and Articles 13a(6) and (7), 13b, 13c and 14(2a) of the Act on credit unions, and compliance with requirements for banks and credit unions under Articles 92ba-92bd of the Banking Law and Articles 13d-13f of the Act on credit unions (Central Information System)	04/03/2019
<b>Insurance sector</b>		
1.	Position of the UKNF on the technical rates used to calculate the balance-sheet technical provisions for accounting purposes	13/02/2019
2.	Position of the UKNF on the adequacy of premium in motor insurance	06/05/2019
3.	Position of the UKNF on insurance under Class 3 of Section I of the Annex to the Act of 11 September 2015 on the business of insurance and reinsurance	17/07/2019
4.	Circular letter on the updated guidelines for insurance/reinsurance undertakings on the method of disclosing information about the payment of dividend	02/08/2019
5.	Circular letter on the submission of a regular report for the supervisory authority for 2019	24/10/2019
6.	Communication from the KNF Board on the supervisor's position on the objectives of the dividend policy of commercial banks, cooperative banks and insurance/reinsurance undertakings in 2020	03/12/2019
7.	Circular letter on the information presented in regular reports for supervisory purposes	16/12/2019
8.	Position of the UKNF on the fulfilment of the obligation to improve professional skills referred to in Article 12(1) of the Act on insurance distribution	27/12/2019
9.	Circular letter on the ongoing assessment of the situation in the insurance market	31/12/2019
10.	Circular letter on the application of IFRS 16 for the purpose of preparation of annual and quarterly reporting forms	31/12/2019
<b>Capital market</b>		
1.	Communication from the UKNF on entities offering the service of property management	08/01/2019
2.	Communication from the UKNF on the fulfilment of disclosure and reporting requirements by AIC managers entered in the Register of AICMs	29/01/2019
3.	Position of the UKNF on the definition of service of offering financial instruments in Article 72 of the Act of 29 July 2005 on trading in financial instruments	29/03/2019
4.	Communication from the UKNF on public offerings of securities conducted without the obligation to draw up a prospectus, addressed to retail investors	06/05/2019
5.	Position of the UKNF of the risk of failure to adapt the Polish legal system, by 21 July 2019, to the provisions of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 (following the position, an updated position on the same subject was announced on 2 August 2019)	11/07/2019
6.	Communication from the UKNF on the obligations of depositaries of investment funds	19/07/2019



7.	Position of the UKNF on the rules of fulfilment, by persons discharging managerial responsibilities and persons closely associated with them, of the notification obligations under Article 19 of MAR in connection with pledging of shares of an issuer	25/07/2019
8.	Position on the procedure, form and time limits for submission to the KNF Board of information by investment firms and banks referred to in Article 70(2) of the Act on trading in financial instruments	04/09/2019
9.	Supplement to the 'UKNF Position on accepting and giving 'incentives' in connection with the provision of services of acceptance and transmission of orders' of 21 December 2018 with regard to the requirements to document the incentives	17/09/2019
10.	Position of the KNF Board on the dividend policy of investment fund management companies in 2020	17/12/2019
11.	Communication from the UKNF on the regulatory technical standards for ESEF reporting	17/12/2019
12.	Supplement to 'KNF Statement on accepting and giving 'incentives' in connection with the provision of services of acceptance and transmission of orders pertaining to participation units in investment funds', of 21 December 2019, in relation to the determination of remuneration for incentives	20/12/2019
13.	Communication from the UKNF on the practical aspects of fulfilment of reporting obligations of AIC managers entered in the Register of AICMs	30/12/2019
<b>Pension market</b>		
1.	Position of the KNF Board on the dividend policy of general pension societies in 2020	17/12/2019
<b>Matters of a cross-sectoral nature</b>		
1.	Communication from the KNF Board on the rules for changing the method of handling reports on irregularities in the operation of supervised entities received from non-professional financial market participants	12/07/2019
2.	Communication from the UKNF on the publication of the <i>National Risk Assessment of Money Laundering and Terrorist Financing</i> , which recommends that obliged institutions should analyse their own risk assessments and update them according to the current national risk assessment	24/07/2019
3.	Good practices for public-interest entities regarding the rules on the appointment, composition and operation of the audit committee	24/12/2019

Source: UKNF's own study

**ANNEX 9. BREAKDOWN OF THE OPERATING COSTS OF THE UKNF AND KNF BOARD INCURRED IN 2019, DIVIDED INTO AREAS OF SUPERVISION DEFINED IN ARTICLE 1(2) OF THE ACT ON FINANCIAL MARKET SUPERVISION, AND THE ADMINISTRATIVE COSTS**

<b>Area</b>	<b>Cost of supervision (in PLN thousand)</b>
bank supervision	PLN 188 738 thousand, including administrative costs*-PLN 112 636 thousand
pension supervision	PLN 13 926 thousand, including administrative costs*- PLN 8 311 thousand
Insurance supervision	PLN 59 273 thousand, including administrative costs*-PLN 35 373 thousand
capital market supervision	PLN 95 003 thousand, including administrative costs*- PLN 56 696 thousand
supervision of payment institutions, small payment institutions, providers providing only the account information service, payment service offices, electronic money institutions, branches of foreign electronic money institutions	PLN 6 600 thousand, including administrative costs*- PLN 3 939 thousand
supervision of rating agencies	- **
supplementary supervision	- **
supervision over credit unions and the National Association of Credit Unions	PLN 3 542 thousand, including administrative costs*- PLN 2 114 thousand
supervision of mortgage credit intermediaries and their agents	PLN 2 470 thousand, including administrative costs*-PLN 1 474 thousand

Source: UKNF's own study

\*The provisions of the financial market cost financing regime do not require a distinction to be made between the costs of supplementary supervision and the costs of supervision of credit rating agencies. Due to the organisational solutions adopted at the KNF, the cost of supplementary supervision and the costs of supervision over credit rating agencies are treated as costs not directly assigned to the separated sectors (they are treated as indirect costs).

\*Administrative costs must be understood as so-called indirect costs, i.e. operating costs of the KNF Board and the UKNF, which are not directly related to individual costs assigned separately. Such costs are allocated proportionally to individual, separately settled sectors, by direct cost.

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