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# Annual Report 2014

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August 2014

## REPORT ON WORK

### INTRODUCTION

Pursuant to Article 494 of the Market in Financial Instruments Act (hereinafter: the ZTFI), the Securities Market Agency (the Agency) must adopt the annual statements of accounts of the Agency for the previous year by 31 March of the current year, which are audited by an official auditor, and the budget for the current year, sending both to the Minister of Finance within ten days after their adoption. An approval for the Agency's annual statements of accounts and the budget is also given by the Government of the Republic of Slovenia. The Agency's annual statements of accounts and the budget are approved unless the Government of the Republic of Slovenia adopts a different decision within 15 days of their receipt.

The annual report consists of the report on the work of the Agency in the business year 2014, auditor's report and annual statements of accounts. The Report on the Work covers entire operations of the Agency in the previous year: information on issued approvals for public offering of securities and takeover bids, data on authorisations granted to management companies, investment funds, investment firms and mutual pension funds, as well as other authorisations and acts adopted by the Agency. It describes the work carried out by the Agency in connection with the supervision of financial instrument market participants, the regulatory work of the Agency, and the Agency's cooperation with other domestic and foreign regulatory authorities, international organisations and institutions. The annual statements of accounts include the Agency's financial statements and explanatory notes to the financial statements.

The figures contained in this report generally refer to the work carried out by the Agency in 2014, except in specific cases where they refer to a period before or after 2014 if that provides a more comprehensive account of particular facts or matters connected with the work of the Agency.

Explanation of use of the terms in this text due to harmonization with the EU acquis:

**1. BROKERAGE COMPANY/INVESTMENT FIRM** – according to the Market in Financial Instruments Act (ZTFI) a brokerage company is investment firm (as defined in MiFID) with its registered office in the Republic of Slovenia.

**that is not a bank** and that has obtained an authorization from the Agency to provide investment services and activities (Article 11). ZTFI in its Chapters 5, 6 and 8 refers to the Article 14 of the Banking Act (ZBan-1) when using the term investment firm: *"Investment firm" shall be a person entitled to perform investment services and transactions subject to an authorization for the provision of such services issued by a competent supervisory authority, except the following persons:*

1. *Credit institutions,*
2. *Local firms and*
3. *Firms*

*- which are only authorised to provide the service of investment advice and/or receive and transmit orders from investors without holding financial assets or financial instruments belonging to their clients and*

*- which may not place themselves in debt with those clients.*

**2. BANK** – according to the Banking Act (ZBan-2) a term “bank” applies to a credit institution established in the Republic of Slovenia which is authorized to provide banking services in accordance with the ZBan-2. Banks usually have the authorization from the supervisory authority to perform other financial services, including investment services and activities.

**3. CREDIT INSTITUTION** – can be established as a bank or savings bank in accordance with the ZBan-2.

## 1. LEGAL STATUS, TASKS AND BODIES OF THE AGENCY

### Establishment and legal status

The Agency was established as an independent authority by the Securities Market Act (hereinafter: the ZTVP), which entered into force on 13 March 1994. The entry into force of the Securities Market Act (hereinafter: the ZTVP-1) on 28 July 1999, replacing the ZTVP, and the ZTFI adopted on 11 August 2007, replacing the ZTVP-1, ensured that the Agency continued to function. According to the ZTFI, the Agency is a public legal entity, independent in implementing its tasks and responsibilities.

Its basic purpose is to supervise the market in financial instruments and certain financial organisations, as well as to implement other tasks and powers set out by applicable legislation, with the aim of ensuring observance of these regulations, thereby creating the conditions for the market in financial instruments to function efficiently.

The funds for the work of the Agency are mainly secured from fees and charges, the level of which is set by the Tariff issued by the Agency, subject to the approval of the Government of the Republic of Slovenia, and from other revenues generated by the Agency. The Government of the Republic of Slovenia also gives its approval to the Agency's annual statements of accounts and budget.

The lawfulness, purpose, economic and efficient use of the Agency's funds is supervised by the Court of Audit of the Republic of Slovenia.

The Agency's registered office is at Poljanski nasip 6 in Ljubljana.

### Main tasks of the Agency

The Agency issues authorisations and approvals, and supervises and implements other tasks and powers set out by the ZTFI, the Investment Funds and Management Companies Act (hereinafter: the ZISDU-2) and the Takeovers Act (hereinafter: the ZPre-1). The Agency conducts supervision by monitoring the reports and notices that the supervised subjects are obliged to submit to the Agency, by means of inspection of their operations and ordering of supervisory measures.

In addition to the above stated acts, the tasks of the Agency are regulated by the Banking Act (hereinafter: the ZBan-1), the First Pension Fund of the Republic of Slovenia and Transformation of Authorised Investment Corporations Act (hereinafter: the ZPSPID), the Pension and Disability Insurance Act (hereinafter: the ZPIZ-1), the Book Entry Securities Act (hereinafter: the ZNVP), the Legal Successors of Authorised Investment Companies Act (hereinafter: the ZPNPID), the Collective Supplementary Pension Insurance for Public Employees Act (hereinafter: the ZKDPZJU), the Financial Conglomerates Act (hereinafter: the ZFK), the Prevention of Money Laundering and Terrorist Financing Act (hereinafter: the ZPPDFT), the amendments and supplements of the Financial Operations,

Insolvency Proceedings and Compulsory Dissolution Act (hereinafter: ZFPPIPP-E), the Macro-prudential Supervision of the Financial System Act (hereinafter: ZMbnFS), the Bridging Insurance of Professional Athletes Act (hereinafter: ZPZPS), the Regulation on the implementation of the Regulation (EU) on short selling and certain aspects of credit default swaps (Official Gazette of the RS, no. 54/12) in connection with the Regulation (EU) no. 236/2012 of the European Parliament and of the Council of March 14 2012 on short selling and certain aspects of credit default swaps, the 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, the Regulation on the implementation of the Regulation (EU) on OTC derivatives, central counterparties and trade repositories (Official Gazette of the RS, no. 22/13), the Commission regulation (EU) no. 583/2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards key investor information and conditions to be met when providing key investor information or the prospectus in a durable medium other than paper or by means of a website, the Commission Regulation (EU) no. 584/2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards the form and content of the standard notification letter and UCITS attestation, the use of electronic communication between competent authorities for the purpose of notification, and procedures for on-the-spot verifications and investigations and the exchange of information between competent authorities, the Commission Regulation (EU) no. 1031/2010 of 12 November 2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowances trading within the Community, the Regulation (EU) no. 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency and other regulations.

Pursuant to the Prevention of Money Laundering and Terrorist Financing Act, the Agency issues recommendations and guidelines related to the implementation of individual provisions of this act, and participate in the compilation of a list of indicators for identifying the parties and the transactions in relation to which it suspects money laundering or the financing of terrorism. Furthermore, the Agency, being a supervisory body, is also competent for monitoring the implementation of the provisions of this act by the persons it supervises. Pursuant to the Financial Conglomerates Act, which is a supplement to or upgrading of the existing supervision of operations of all three areas of the financial sector, the Agency, together with the Bank of Slovenia and the Insurance Supervision Agency, prescribes or cooperates in the drafting of its implementing regulations.

More specific tasks of the Agency include:

1. Issuing authorisations for the operations of financial organisations pursuant to the ZTFI, the ZISDU-2 and the ZPIZ-1 to:
  - Investment firms,
  - Management companies,
  - Investment companies,
  - Mutual funds,
  - Mutual pension funds,
  - Stock exchange,
  - Clearing and depository companies.

2. Issuing authorisations for a qualifying holding in an investment firm, a management company, a stock exchange, and a clearing and depository company, and issuing authorisations for status changes of the companies indicated in the previous item.
3. Approving the prospectuses for the sale of securities to the public and the admission of securities to trading on a regulated market, and granting authorisations for takeover bids.
4. Issuing authorisations to operate as a stock broker, to hold the office of a member of the management board of a management company, an investment firm, a stock exchange or a clearing and depository company, and granting authorisations for the marketing of investment funds and sale of their units.
5. Issuing approvals to the rules of the stock exchange.
6. Issuing approvals to the rules of the central securities clearing company.
7. Supervising management companies, investment companies, mutual funds, mutual pension funds, the stock exchange, the central securities clearing company, as well as investment firms and banks, providing (auxiliary) investment services and transactions, and supervising the reporting by public companies and procedures pursuant to the ZPre-1, and ordering supervisory measures for the elimination of established violations and irregularities.
8. Supervision of market abuses (market manipulation and insider trading).
9. Supervision of the entities that illegally (without appropriate authorisation) in the Republic of Slovenia provide services for which it is necessary to obtain appropriate authorisation from the Agency or from the Bank of Slovenia.
10. Drafting secondary legislation on the basis of the ZTFI, the ZISDU-2, the ZPre-1, the ZPIZ-1 and the ZNVP.
11. Keeping mandatory registers of entities with an authorisation to provide investment services and transactions, management companies and investment funds, tied agents and qualified investors and other public registers.
12. Conducting procedures for violations of the ZTFI, the ZISDU-2, the ZPre-1 and the ZNVP (minor offence authority).

As of 1 May 2004, when Slovenia joined the European Union, financial organisations from other EU Member States have been able to directly provide financial services in the Republic of Slovenia. Furthermore, Slovenian financial organisations have been able to provide such services on the markets

of the Member States. This means that the work and scope of authorisations of the Agency have been expanded so that it (fully or partially) controls the operations of financial organisations from other EU Member States on the territory of the Republic of Slovenia and the operations of domestic persons on the financial markets of other EU Member States.

The bodies of the Agency are the Council of the Agency (the Council) and the Director of the Agency.

### **The Council of the Agency**

The Council consists of five members. The Director of the Agency is also the president of the Council. The members of the Council have been appointed by the National Assembly of the Republic of Slovenia for six years at the proposal of the Government. After the termination of office, the members of the Council and the Director of the Agency can be reappointed. In 2014 the Council consisted of the following members: Mr. Damjan Žugelj, Mr. Primož Pinoza, Mrs. Mojca Majič, Mrs. Vesna Stanković Juričić and Mr. Primož Damjanovič.

The Council held 57 regular meetings in 2014. The Council is competent for adopting the Rules of Procedure of the Agency and the implementing regulations, issued by the Agency, deciding on licenses and approvals, and other individual matters. It is also in charge of adopting the annual report on the work of the Agency and the report on the situation on the market in financial instruments, the annual plan and the budget of the Agency. The Council adopts the Agency's annual statements of accounts, which are audited by a certified auditor, and performs other tasks within the Agency's scope of responsibilities, unless it is stipulated by law that another body of the Agency is responsible for performing those tasks.

The Agency decides according to the procedure set out in the General Administrative Procedure Act unless the ZTFI provides for a different procedure. The Council decides on individual cases according to the procedure set out in the ZTFI.

The procedural bodies are the Senate and the President of the Senate. The Senate decides on all individual matters to be resolved by a decision, unless the law stipulates the competence of the President of the Senate for an individual case, and on appeals against the orders of the President of the Senate. The Senate consists of all the members of the Council (of whom one is the President of the Senate), except in a procedure for deciding on individual matters pursuant to the ZPre-1, when, as a rule, it consists of three members of the Council.

### **Director of the Agency**

Pursuant to the provisions of the ZTFI, the Director of the Agency is appointed by the National Assembly for six years at the proposal of the Government of the Republic of Slovenia.

The Director of the Agency presents and represents the Agency, manages the Agency's operations and organizes its work; pursuant to the provisions of the ZTFI, the Director of the Agency is also the President of the Agency's Council. The Director of the Agency in 2014 was Damjan Žugelj, Ph. D.

## 2. LEGISLATION

On the legislative field the Agency in 2014 continued close cooperation with competent ministries and other participants in relation to the systemic regulation of the capital market in the Republic of Slovenia. The main purpose of the cooperation is consistent harmonization of the domestic legal framework with the European and the elimination of detected flaws and inconsistencies and in the practice.

The major part of the Agency's activities were connected with the preparation of a draft on Alternative Investment Fund Managers Act (hereinafter: ZUAIS) and preparation of the novel of ZISDU-2, which due to many changes became proposal for a new ZISDU-3. In this context the Agency proposed concrete solutions that would provide the flexibility and the competitiveness of the alternative investment fund branch as well as the further development of this important area. ZUAIS will implement AIFM Directive into Slovene legislation, and thereby, inter alia, regulate the conditions and manner of administration of alternative investment funds, the conditions for the establishment and operation of alternative private investment funds with the status of special investment fund (hereinafter: SIS), the conditions for the marketing of units of these funds in the Republic of Slovenia, the conditions for the marketing of units of alternative investment funds established in the Republic of Slovenia, in another Member State or a third country, supervision over the management of alternative investment funds and operations of the SIS and cooperation between competent authorities. In addition, it is expected that the ZUAIS will also regulate the implementation of the Regulation (EU) of the European Parliament and of the Council of 17 April 2013 on European venture capital funds and the Regulation (EU) of the European Parliament and of the Council of 17 April 2013 on European social entrepreneurship funds, which are directly usable in the legal framework of the EU Member States. ZISDU-3 should be together with the ZUAIS adopted in the National Assembly in the first half of 2015.

In the field of ZISDU-2 and ZPIZ-2 there were no legal changes, but the Agency in relation to the ZISDU-2 issued the Decision amending the Decision on reporting of the management company, the management company of a Member State and branch of a management company of a third country (Official Gazette of the RS, no. 7/14), and the Decision amending the Decision on operations of a management company (Official gazette of the RS, no. 82/14). Amendments and supplements of the abovementioned decisions were necessary primarily due to requirements arising from the EU legislation (harmonization with the Regulation (EU) of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union) and minor editorial corrections. In connection with the ZPIZ-2, the Agency issued, in the beginning of January 2014, a Decision on the audit of the annual report of the mutual pension fund and an umbrella pension fund (Official Gazette of the RS, no. 6/14), which issuance was linked to the implementation of the ZPIZ-2. Pursuant to the ZPIZ-2, the Agency issued also the Decision amending the Decision on the audit of the annual report of the mutual pension fund and an umbrella pension fund and the Decision amending the Decision on reporting of the operator of a mutual pension fund and a pension fund of an umbrella fund. Amendments and supplements of the abovementioned decisions were necessary due to harmonization with the International Accounting Standards.

In 2014 it was also published the Bridging Insurance of Professional Athletes Act (Official Gazette of the RS, no. 41/2014), that granted the Agency new powers and duties in relation to the supervision of the investment management of the Bridging Insurance of Professional Athletes Fund. On the basis of this law, the Agency issued at the end of 2014 the Decision on bank balance certificates, evidence of payments made by sports club and forms for payment of units subscribed to the personal account of the insured person (Official Gazette of the RS, no. 89/14).

With a view to achieve a fair system of regulation and equal status of all persons under the ZPre-1, there were some supplements and amendments of the ZPre-1 in 2014. In the Official Gazette of the RS no. 25/14 was published the Act on amendments and supplements of the Takeovers Act (ZPre-1F), which complement Articles 63 and 64 of the ZPre-1. In Article 63 of the ZPre-1 the proper legal record adjusted, including cases of infringements of the last statutory share of the Article 75, the definition of the concept of takeover threshold or the additional takeover threshold, as used in the first Paragraph of Article 63 of the ZPre-1. According to the amendment of the Article 64 of the ZPre-1, the Agency which has already issued a decision prohibiting the exercise of voting rights, based on new factual circumstances and legal facts establishes that it had ceased the suspension of voting rights arising from the Article 63 of the ZPre-1.

Twice in 2014, the Constitutional Court of the RS intervened into the Minor Offences Act (hereinafter: the ZP-1), which is the basic rule for the conduct of the proceedings for the violations of the ZTFI, ZISDU-2, ZPre-1 and ZNVP and other regulations within the competence of the Agency as a minor offences authority. In the Official Gazette of the RS there were published two decisions of the Constitutional Court of the RS, no. U-I-94/13-14 of 2 October 2014, Official Gazette of the RS, no. 74/14, and no. U-I-12/12-22 of 11 December 2014, Official Gazette of the RS, no. 92/14. The first decision found the inconsistency with the Constitution of the RS the first sentence of the first Paragraph of Article 193 of the ZP-1 (Compensation for damage), as far as excluding the right to compensation of paid fines even in the case when it came to a halt proceedings because of the limitation period, while the second decision annulled provisions of the ZP-1 relating to compliance detention (first, second, third and fourth Paragraph of Article 19, seventh Paragraph of Article 19, if it relates to the enforcement of compliance detention, and Article 202b of ZP-1). It is the latter, as means of constraint to offender to pay, the Agency used regularly in its procedures. In cases when a fine wasn't paid fully or partially within specified period, the Agency proposed to the competent court determination of compliance detention.

In the past year, the Agency acquired another competence. With the implementation of the Regulation (EU) on auctioning of greenhouse gas emission allowances (Official Gazette of the RS, no. 14/14) in connection with the Commission Regulation (EU) no. 1031/2010 of 12 November 2010 that entered into force on 22 February 2014, the Agency became competent for issuing authorisations in accordance with Article 59 of Commissions Regulation no. 1031/2010 of 12 November 2010 for direct access to the auction platform that are subject to auctions of emission allowances to persons who would be only on the basis of the Agency's authorisation entitled to submit an application for access to direct licensing at auctions.

In connection with the EU regulations, the Agency stresses that in 2014 entered into force two binding and largely deferred a directly applicable Regulations of the European Parliament and of the Council, namely the 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, and the 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.

With the implementation of the ZMbnFS, Official Gazette of the RS, no. 100/13, and the Regulation (EU) auctioning of greenhouse gas emission allowances (Official Gazette of the RS, no. 14/14) in connection with the Commission Regulation (EU) no. 1031/2010 of 12 November 2010, there were granted new tasks and responsibilities to the Agency, which in 2014 dictated a corresponding adjustment of the Tariff on charges and fees by issuing the amendments and supplements of the Tariff on charges and fees, published in the Official Gazette of the RS, no. 80/14. These amendments and supplements cover also other identified weaknesses and some new or amended compensation for supervision.

Already in 2012, in the light of solving the financial crisis, two new Acts were adopted, relevant for the Agency's work. In the Official Gazette of the RS, no. 105/12 of 27 December 2012, there were published Slovenian Sovereign Holding Act (hereinafter: the ZSDH) and Act Defining the Measures of the Republic of Slovenia to

Strengthen Bank Stability (hereinafter: the ZUKSB). Among other things, both Acts contain special provisions regarding the mandatory takeover bid for the persons to whom both Acts apply, on the basis of the ZUKSB the Agency is established as the minor offences authority to impose fines for infringements of obligations under the sixth Paragraph of Article 28 of this Act (updating the list of companies or investments). In 2014 there was already the second change of the ZUKSB, this time related to amendment of the Public Information Access Act (ZDIJZ-C), while there was published a new ZSD-1 in the Official Gazette of the RS, no. 25/14 that entered into force on April 26 2014, which repealed the ZSDH. The ZSDH-1 assigned new tasks and responsibilities to the Agency, in particular the Agency is designated as a supervisory authority in relation to public announcements of the Slovenian Sovereign Holding and data protection and insider information.

The ZTFI did not change or complement in 2014, not even in its wording in any way interfered in any other Act. Even the Banking Act (ZBan-1) to which the provisions in many cases rely to the provisions of the ZTFI was not amended in 2014.

Despite the efforts of the Agency that are aimed at preparing as much as possible understandable rules, their growing volume and complexity raise new questions and requirements for additional explanations and opinions. In order to ensure maximum transparency system framework (both internally and to the general public), the Agency very well accepted application of the e-ZISDU-2, also published on its website application of the e-ZTFI, which allows access to the European legislation, general acts adopted on the basis of the ZTFI, the provisions of the ZBan-1, which refer to the ZTFI, the views and the comments of the Agency's Council and supervisory measures.

The Agency considers that the all planned activities in the legislative area in 2014, taking into account its competences, were implemented and with this the Agency achieved the objectives in the projected time frames.

### **3. ISSUING AUTHORIZATIONS AND APPROVALS**

In 2014, the Agency processed a total of 646 cases related to the issue of authorisations and approvals or notifications and announcements. Despite rather unfavourable conditions on financial markets, the number of applications for authorisations and approvals was higher than expected. Within this framework, the Agency processed in 2014 282 notifications on management of financial services received from supervisory authorities of other Member States, and 2 notifications of the Slovene investment firms to start the direct provision of services of the investment firm of the Republic of Slovenia in the EU Member State. In 2014 the Agency also dealt with 6 notifications for marketing of units of UCITS funds from EU Member States. In 2014 the Agency refused or rejected proceedings in 12 cases. Among these cases there were mostly withdrawals of applications for authorisation for the marketing of units of investment funds (6), 2 rejections and 1 refusal were related to the authorisation to perform management services, 1 rejection referred to the management companies to provide ancillary services, 1 rejection referred to granting consent to the change of managing umbrella fund rules in a part that relates to the individual/new sub-fund and one rejection in relation to the authorisation to acquire a qualifying holding in a management company. In 2014 the Agency also dealt with one application for removal from the register of tied agents.

In 2014 has continued the adaptation of the supervised entities to the situation on the capital market. Thus, in 2014 the Agency dealt with one application of a management company for the status reform. The Agency issued to 3 management companies licence to provide management services in financial instruments. In 2014, the Agency also received 3 applications from management companies for the provision of ancillary services. The Agency issued authorization to 2 management companies, but in one case the decision-making process was stopped. In 2014, the Agency in certain cases of issued authorisations and approvals exceeded its plans, while in others did not issue the planned number of applications. The reason of different number of processed requests from planned is in number of individual applications received by the Agency. However, it must be underlined that cases examined by the Agency have become more complex, which reflects the maturity of the industry and adverse conditions on capital market.

#### **3.1. Public offering of securities**

Pursuant to the Market in Financial Instruments Act, a public company is an issuer whose securities have been admitted to trading on the regulated market in the Republic of Slovenia or another EU Member State.

The offer of securities to the public and their admission to trading on a regulated market in the Republic of Slovenia is possible on the basis of a prospectus that must be approved by the Agency. There are also some exemptions pursuant to the ZTFI, in which cases the prospectus needs not be compiled by the issuer. The issuer of the security must inform the Agency about the potential application of provisions that allow for the exemption from the obligation to compile a prospectus. Such a concept allows the Agency to supervise in the framework of its competencies all the offerings of securities to the public and every admission of securities to trading on the regulated market.

In 2014 only one issuer decided to publicly offer securities, which the Agency attributes to the financial crisis, which has seriously shaken the confidence of investors in the securities markets, which have been anticipated by the issuers of securities that did not even attempt to carry out their offers. As a result, 6 issuers decided to place their securities to trade at the Ljubljana Stock Exchange, whereas 1 issuer offered their shares to the public after their prospectus had been approved by the Agency.

In 2014, the Agency issued 6 decisions on the approval of a prospectus for the admission of securities to trading on the regulated market, 1 decisions on the approval of a prospectus for the public offering of securities, 2 decision on the approval of a simplified prospectus for the public offering of securities.

Table: Issued authorisations – approval of the prospectus for the admission of securities to trading on the regulated market in 2014

Issuer of securities	Number of issued securities
KD GROUP, finančna družba, d.d., Ljubljana	Registered bonds, 215.107 at 20 EUR
GORENJE, gospodinjski aparati, d.d., Velenje	No-par value shares, 1.315.166 psc
GORENJE, gospodinjski aparati, d.d., Velenje	No-par value shares, 1.005.020 psc
GORENJE, gospodinjski aparati, d.d., Velenje	No-par value shares, 73.000 psc
POSLOVNI SISTEM MERCATOR, d.d., Ljubljana	No-par value shares, 2.325.582 psc
SIJ – Slovenska industrija jekla, d.d., Ljubljana	Registered bonds, 42.879 at 1.000 EUR

Source: The Agency.

Table: Issued authorisations – approval of the prospectus for the offering of securities to the public in 2014

Issuer of securities	Number of issued securities
DEŽELNA BANKA SLOVENIJE, d.d., Ljubljana	No-par value shares, 1.111.112 psc

Source: The Agency.

When the issuer, offeror or the person who requests the admission of securities on the stock market in relation to an offer of securities with a total sales price in the EU in the 12 month period is less than 5 million EUR, this issuer, offeror or person can draw up simplified prospectus with only basic information about the issuer. The Agency issued 2 simplified prospectuses for admission to trading on a regulated market.

Table: Issued authorisations – approval of the simplified prospectus for the admission of securities on the regulated market in 2014

Issuer of securities	Number of issued securities
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DATALAB, Tehnologije, d.d., Ljubljana	Ordinary shares, 250.000 psc
AG, d.d., Ljubljana	No-par value shares, 463.410 psc

Source: The Agency.

### Exemptions from the obligation to publish a prospectus for certain types of the offering of securities

In 2014, the Agency received 33 notifications from the issuers of securities on the application of the exemption from the publication of a prospectus. These are notifications in cases in which the issuers are not obliged to obtain the Agency's approval of the prospectus for offering securities to the public for individual types of offers of securities, and the prospectus for the admission of securities to trading on a regulated market. The issuers need not compile a prospectus, but they must inform the Agency of the application of exemption within three business days before the beginning of the public offer or the admission of securities to trading on a regulated market. This principle of informing also allows the Agency to supervise those types of securities offering that are not disclosed to the investors through the prescribed contents of the prospectuses for various legal reasons.

The Agency also regularly monitors the increase in the share capital of public limited companies by granting new shares through publications in the Official Gazette of the Republic of Slovenia, the notifications of the clearing and depository company and public announcements (convocations of general meetings, general meetings etc.). If the share capital is increased by issuing new shares, the company must submit to the Agency either the request for the approval of the prospectus for public offering or the notification on the application of exemption in case no approval of the Agency is required for the issue of securities. Furthermore, the Agency monitors potential issue of other securities (e.g., debt securities), since the issuers are obliged to obtain the Agency's approval before offering any type of securities to the public, or inform the Agency for which of the possible exemptions under Articles 49, 50, 51 of the ZTFI they apply. They must notify the exemption to the Agency in accordance with Article 52 of the ZTFI.

### Issuing authorisations for takeover bids

In 2014, the Agency issued 9 authorisations for takeover bids according to the ZPre-1. The Agency would have issued such authorisations after it has verified the compliance of individual elements of the takeover bid with the provisions of the takeover legislation. The Agency verifies in particular if the takeover price offered by the acquirer is in accordance with the law, and the adequacy of other disclosures regarding the acquirer and the target company, which the shareholders need for adopting the decision on the acceptance of a takeover bid. After the announcement of the takeover bid results, the Agency shall issue a decision establishing the takeover bid outcome.

Table: Issued authorisations – authorisations for takeover bids in 2012

Acquirer	Offeree company	Date of issue
OTC DAIHEN EUROPA GmbH,	VARSTROJ Tovarna varilne in	

Germany	rezalne opreme, d.d., Lendava	12.3.2014
PISTOTNIK, d.o.o., Ljubljana	ZVD Zavod za varstvo pri delu, d.d., Ljubljana	19.3.2014
FOTONA HOLDINGS, L.P., Maples Corporate Services Limited, Cayman Islands	FOTONA proizvodnja optoelektronskih naprav, d.d., Ljubljana	9.4.2014
REMHO BETEILIGUNGS, GmbH, Vienna, Austria	HELIOS DOMŽALE, d.d., Domžale	25.4.2014
AGROKOR concern za upravljanje društvima, proizvodnju i trgovina poljoprivrednim proizvodima, dioničko društvo, Zagreb, Croatia	POSLOVNI SISTEM MERCATOR, d.d., Ljubljana	29.7.2014
MAHLE Holding Austria GmbH, Austria	LETRIKA, Proizvodnja električne in elektronske opreme za motorna vozila, d.d., Šempeter pri Gorici	22.9.2014
DNEVNIK, d.d., Ljubljana, DZS, d.d., Ljubljana, AB Sistemi, d.d., Ljubljana, M1, d.d., Ljubljana	DELO PRODAJA, d.d., Ljubljana	7.10.2014
FRAPORT AG Frankfurt Airport Services Worldwide, Frankfurt of Main, Germany	AERODROM LJUBLJANA, d.d., Brnik	23.10.2014
ZAVAROVALNICA TRIGLAV, d.d., Ljubljana	SKUPINA POKOJNINSKA DRUŽBA, d.d., Ljubljana	26.11.2014

DARKO MARTIN KLARIČ, Turjak, AVRIGO, d.o.o., Nova Gorica	IZLETNIK CELJE, d.d., Prometno in turistično podjetje, Celje	23.12.2014
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Source: The Agency.

The number of takeovers in 2014 (10) comparing to the previous year (7) has not significantly increased and remains much lower from the number that was common before financial (economic) crisis. Overview of the dynamics of the number of takeovers throughout the financial crisis also shows that the takeover activities from the initial drastic drop still didn't return to the pre-crisis level. Despite the fact that in 2014 could be detected specific signs of economic recovery, it still has not reflected in the significantly higher takeover activity. This could be because of the fact that even in 2014 had not yet been formulated or adopted the management strategy of state owned property, which leads to the result that investors are still waiting for some bigger sales of Slovenian companies. On the other hand, the sale of some larger packages have still not completed in 2014 (e.g. Pivovarna Laško, Cinkarna Celje, Žito), which were primarily sold through banks (shares of the companies, which the banks on the basis of pawn confiscated due to non-payment of loans), as well as some other owners. Also the fact that the banks after renovation had sufficient liquid assets to finance the economy, this was not reflected in 2014 in the increased takeover activity, and not completely clear whether the banks may be "reluctant" to lending funds for takeovers (at least compared to the practice before the financial crisis), or perhaps offerors became more conservative and decide for takeovers only in the cases when they have available larger share of their own assets to carry out the takeover. It is also worth to stress that due to increased number of bankruptcy procedures it was expected larger numbers of investment sales, which would mean bigger number of takeover bids (in the case of sales packages that would exceed the takeover threshold). However, it appeared that bankruptcy proceedings are of long duration. Because of that fact we can still expect some takeover bids that have not yet occurred in 2014, and the number of takeovers in 2014 due to that fact has not yet significantly increased.

### **Exemptions from the obligation for takeover bid**

Provisions of Articles 22 and 22a of the ZPre-1, Articles 59a, 128a and 262i of the ZBan-1 and Article 28 of the ZUKSB provide exemptions from the obligation for takeover bid. A person who is exempt from the takeover bid must notify the Agency within three working days of the acquisition or disposal of securities. In 2014 the Agency received 22 such notifications.

### **Issue of declaratory decisions on suspension of the voting rights**

In 2014 the Agency issued 2 decisions on termination of suspension of voting rights, in two cases the request after the finding the termination of suspension of voting rights rejected.

### **Issue authorisation for voting at General Meetings under the ZPre-1, ZBan-1 and ZFPPIPP**

In 2014 the Agency did not issue any decision which would allow the exercise of voting rights in the target company to the entities which are otherwise deprived of voting rights due to breaches of the ZPre-1.

### **3.2. Provision of investment services and deals**

#### **Issue of authorisations and approvals to investment firms and banks**

At the end of 2014, there were 18 companies that held an authorisation from the Agency or the Bank of Slovenia to provide investment services and financial instrument services, of which 5 were investment firms and 13 were banks. At the end of 2014, 3 management companies had authorisation to provide services of management and ancillary services, 1 management company only authorised to provide management services. As at 31 December 2014, the authorised participants of the market in financial instruments included 7 banks and 5 investment firms that were also members of Ljubljanska borza d.d., Ljubljana (hereinafter: the Ljubljana Stock Exchange).

In 2014, the Agency issued one authorisation for the acquisition of qualifying holding in an investment firm.

#### **Issue of authorisations to the Ljubljana Stock Exchange**

In 2014, the Agency issued 2 approvals of a change of general regulations of the Ljubljana Stock Exchange.

#### **Issue of authorisations to the members of the management board/executive directors of investment firms and agents**

In 2014, the Agency issued 2 authorisations to hold the office of a member of the management board/executive director of an investment firm, which is in accordance with the plan.

In 2014, the Agency issued 12 decisions on authorisation to operate as a broker, which is less than planned, since the Agency anticipated 16 such decisions.

Deviations from the planned number of applications arise from the situation in the Slovenian capital market. Entities providing investment services and activities are adapting to this situation on the market primarily on the cost part, which represent a very important item of high labour cost. Consequently, the creation of new vacancies in these entities is more the exception than the rule.

### **3.3. Investment funds and management companies**

At the end of 2014, the number of management companies was the same as at the end of 2013. At the end of 2014, 10 management companies managed 9 umbrella funds with 110 sub-funds and 3 mutual funds.

#### **Issue of authorisations and approvals to the management companies**

In 2014, the Agency issued the following authorisations and approvals related to the operations of management companies and investment funds:

- 1 authorisation for status transformation of management company,

- 3 authorisations to provide services with financial instruments and 2 authorisations to provide ancillary services,
- 1 authorisation to manage mutual fund,
- 1 authorisation to manage feeder fund under master fund
- 8 approvals of changed management rules of a mutual or master fund,
- 5 authorisations for publication of a prospectus of a mutual fund and master fund,
- 3 authorisations for acquisition of a qualifying holding in a management company and 4 decisions on expiry of the authorisation for acquisition of a qualifying holding in a management company,
- 4 authorisations for conclusion or amendment of the contract on custodial services,
- 1 authorisation to take over the management of a mutual fund or feeder fund, and
- 6 authorisations for mergers and acquisitions of funds, which is less than planned (8 applications).

In 2014, the Agency processed the following applications submitted by natural persons related to the operations of management companies and marketing of investment funds, and the sales of units:

- 3 applications for holding the function of a member of a management board and executive director of a management company. In the same period the Agency issued 3 decisions on the termination of duties as a member of a management company.
- 76 applications for issuing authorisation for marketing investment funds and selling their units, which is 31 applications more than expected. Applicants withdrew 6 applications.

It is possible to estimate that the Agency in this area dealt with considerably more applications than planned and dealt with in 2013, while performing certain derogations in the case of each type of applications.

### **3.4. Mutual pension funds and managers of mutual pension funds**

In 2014, the Agency received and dealt with 11 applications of managers of mutual pension funds. In 2014, the Agency issued to managers of mutual pension funds the following decisions:

- 1 authorisation to manage master pension fund,
- 1 approval for management rules of master pension fund,
- 1 approval for management rules conduct of mutual pension fund,

- 1 approval of changed management rules of a mutual pension fund,
- 1 authorisation for conclusion of the contract on provision of custodial services to be concluded on behalf of the umbrella pension fund,
- 2 authorisations for conclusion of the contract on provision of custodial services and 4 authorizations for a change of such contract.

### **3.5. Notifications for providing investment services and transactions and selling units of investment funds**

Based on the requests received from supervisory institutions of other EU Member States, in 2014, the Agency received the notification on the provision of services of 158 investment companies from the EU Member States, which requested to provide investment services and transactions in relation to financial instruments in the Republic of Slovenia directly, based on the provisions of the Markets in Financial Instruments Directive (MiFID). The Agency also received 124 withdrawals of notifications. Investors can obtain information which investment companies from the Member States fulfil the conditions for providing their services directly in the Republic of Slovenia at the Agency's websites.

In 2014, the Agency received 6 notifications of marketing of units of investment funds of EU Member States in the Republic of Slovenia. For the purpose of information and protection of investors, the Agency publishes on its website the list of funds from the Member States with authorisation for marketing in the Republic of Slovenia, indicating all amendments.

#### **Short selling**

##### Notifications of the Member States and third countries with regards to Regulation (EU) No 236/2012 on short selling and certain aspect of credit default swaps.

On November 1, 2012 (EU) No 236/2012 on short selling and certain aspect of credit default swaps entered into force (hereinafter: the Regulation). Article 17 of the Regulation provides an exemption for market making activities and primary market operations. The Regulation determines that the notification of the use of exemption shall be reported to the competent authority in writing. Entities which want to use the exemption as determined in the Regulation must notify it on notification form and the Agency's documents. Notification forms and documents are determined in the document called ESMA Guidelines: Exemption for market making activities and primary market operations under Regulation (EU) on short selling and certain aspect of credit default swaps from 17.9.2012.

In the period from 1.1.2014 to 31.12.2014 the entities that provided notifications to the Agency on exemptions for primary market dealers are mainly banks from the EU, namely: UniCredit Bank AG, J.P. Morgan, Barclays Bank Plc, Jefferies International Limited, HSBC France, Credit Agricole Corporate/Investment Bank, BNP Paribas S.A., ING Bank N.V., Societe Generale, Goldman Sachs International Bank, Deutsche Bank Aktiengesellschaft incl., Branches, Commerzbank AG and Citigroup Global Markets Limited. The last two provided notifications on exemptions in 2014 and didn't notify any

changes. In 2014 the Agency received 6 notifications of net short positions in sovereign securities on which quarterly reports to ESMA.

In the same period the Agency did not receive notification on exemption for market making activities.

#### **4. KEEPING REGISTERS AND PUBLIC LISTS**

Pursuant to the provisions of the ZTFI, the Agency keeps a register of authorisations to perform investment services and transactions, and a register of tied agents. Both registers are publicly available.

##### **Register of authorisations to provide investment services and transactions**

Pursuant to the provisions of the ZTFI, the Agency must establish and regularly supplement the register of authorisations to provide investment services and activities, which includes investment firms, whom the Agency issued an authorisation to perform investment services and activities, and banks, to whom the Bank of Slovenia issued an authorisation to perform investment services and transactions. In accordance with applicable legislation, this register includes also management companies that obtained the authorisation of the Agency to provide management services and ancillary services.

##### **Register of tied agents**

According to the ZTFI, an investment firm may authorise a tied agent to perform on its behalf the activities stipulated by the first paragraph of Article 238 of the ZTFI. A tied agent shall be entered in the register of tied agents kept by the Agency if he/she has good reputation and adequate general, professional and business knowledge needed for appropriate intermediation of all information regarding the services offered to his/her clients or potential clients.

##### **Public lists**

In addition to the above registers, the Agency also keeps other public lists with the aim of informing the investors, the subjects of supervision and various bodies and institutions:

- list of public companies;
- list of issued authorisations for public offerings of securities with prospectuses;
- list of companies from Article 4 of the ZPre-1 (offeree companies to which the takeover legislation applies);
- list of all prospectuses and annexes confirmed by supervisory board of the home Member State of the issuer, if they informed the Agency,
- list of takeover bids,
- list of management companies, master funds with feeder funds, mutual funds and investment companies;
- list of issued authorisations for marketing investment funds, selling units or shares of investment funds;
- list of notified investment companies of the EU Member States;
- list of management companies and investment funds notified for marketing in the RS;

- list of management companies with authorisation to provide the services of managing the financial assets of qualified investors.

## 5. SUPERVISION AND SUPERVISORY MEASURES

In accordance with applicable legislation the Agency shall perform supervision:

- by monitoring, collecting and verifying the reports and notifications of supervised entities and other persons obliged to report to the Agency or to inform it on individual facts and circumstances (supervision of reporting);
- by conducting investigations into the business operations of the subjects of supervision, and
- by issuing supervisory measures.

In 2014, the Agency performed intensive supervision of the market in financial instruments, which is illustrated by the number of performed supervision procedures related to supervision of business operations and verification of reports, where the Agency used new technology and know-how to introduce sophisticated and more rational reporting. In addition, numerous related tasks were performed with the goal to simplify internal procedures, increase the cost effectiveness of the Agency's operations and the efficiency of its supervision.

Pursuant to the ZTFI, the ZISDU-1 and the ZISDU-2, the ZPre-1, the ZNVP, the ZPIZ-2, the ZPNPID and the ZPPDFT, the Agency supervised the following activities in 2014:

- supervision of public offerings of securities;
- supervision of reporting by public companies;
- supervision of reporting by investment firms and banks;
- supervision of reporting by management companies and investment funds;
- supervision of reporting by operators of mutual pension funds;
- supervision of reporting by custodian banks;
- supervision of takeovers;
- supervision of the status structure of investment firms, of the conditions for providing investment services and activities in investment firms, and supervision of brokers;
- supervision of risk management by investment firms (control of capital, capital requirements, liquidity, etc. of investment firms);
- supervision of the books of account and annual reports of investment firms, management companies, investment funds and mutual pension funds;
- supervision of the rules of operation in the provision of investment services and activities;
- supervision of application of the provisions of the Prevention of Money Laundering and Terrorist Financing Act;
- supervision of the Ljubljana Stock Exchange and Central Securities Clearing Corporation (the KDD);
- supervision of market abuse;
- supervision of illegal provision of services for implementation of which requires authorisation of the Agency or of the Bank of Slovenia.

In 2012, the Agency supervised, above all, the following groups of subjects:

- public companies;
- investment firms;
- banks with the authorisation of the Bank of Slovenia to provide investment services and activities;
- tied agents;
- the Ljubljana stock Exchange;
- the Central Securities Clearing Corporation (KDD);
- management companies;
- custodian banks,
- operators of mutual pension funds, and
- persons suspected to have carried out prohibited market abuse activities.

In addition, the Agency's supervision in 2014 also covered the subjects:

- in which compliance with the takeover legislation was examined (the offeree companies and the holders of their securities carrying voting rights are monitored in the supervision procedures);
- which were suspected of performing activities or providing investment services or transactions in the Republic of Slovenia without an adequate authorisation, which should have been obtained from the Agency or the Bank of Slovenia, and
- subjects, who were suspected of a violation of the legislation under the Agency's competence.

The Agency performs regular and extraordinary supervision. Regular controls are planned in advance in the annual work program; extraordinary controls are carried out on the ground of suspected violations. In 2014, the Agency carried out regular controls on the subjects that needed an authorisation of the Agency or the Bank of Slovenia for performing their activities. Extraordinary controls were carried out also on other subjects. In 2014, extraordinary controls were, as a rule, the result of findings, report analyses and notifications, received investor complaints and complaints by other subjects and received information or data from other sources.

In 2014 the Agency initiated 147 supervision procedures, including supervision procedures related to reporting by supervised subjects, supervision of operations and procedures initiated as a result of investors' complaints. Some of the supervisory procedures that the Agency carried out in 2014 covered supervision over investment firms and banks authorized to provide investment services and activities.

## **5.1. Supervision of reporting and imposed supervisory measures**

### **Reporting by public companies**

#### **Public companies**

Public companies are issuers whose securities are admitted to trading on regulated market of the Republic of Slovenia or any other Member State. By the end of 2014 there were 67 companies that had

the status of public companies including the ones that have chosen the Republic of Slovenia as a Home Member State.

### **Companies that chose the Republic of Slovenia as a Home Member State**

Public company that is the entity of a third country and public company that decides to choose the Republic of Slovenia as a Home Member State are obliged to report on this decision to the Agency. Agency received 8 such reports in 2014. Public companies are obliged to report to the Agency on their financial and legal status and on operations with their audited financial statements, semi-annual report, annual report, interim management report and to inform on regular basis on any regulated information they issue. Among others also on insider information that could significantly impact on the price of securities.

### **The Agency supervises the reporting by public companies in two ways:**

- daily monitoring of reporting by public companies (e.g., in relation to announced changes in respect of significant holdings, convocation of general meetings, status changes, etc.) and, if necessary, taking actions in the situations of suspected violations of reporting rules prescribed by the ZTFI. In 2014, the Agency addressed to the public companies many requests for explanations regarding their ad-hoc reporting. In the case of violation, the Agency acts against individual public company. Supervisory measures can be for example: order on the elimination of violations, terminated trading on the regulated market in a specific security.

- as group supervision, i.e., by carrying out an annual inspection of reporting by all public companies for one type of reporting (i.e., disclosures in annual statements). In the framework of such group inspection, the Agency takes measures against the public companies, in which violations are found. Supervisory measures can be for example: order on the elimination of violations, terminated trading on the regulated market in a specific security.

### **Annual, semi-annual and interim management reports**

Each year, the Agency supervises the reporting by all public companies obliged to publish annual reports. The ZTFI stipulates that public companies must publish their annual reports no later than four months after the end of the business year, and they must remain publicly available for at least five years after their publication.

If the annual report is not adopted by the competent body of the company by the deadline specified, the public company must publish the annual report drawn up by the management of the company within the set deadline, and make a note of this in the publication. Furthermore, the company must publish the adopted annual report, either in its entirety or, if amended, only the information on the adoption of the annual report in the contents prepared by the management of the company, within 15 days of its adoption by the competent body.

A public company is obliged to submit its annual report to the Agency, informing the latter on the method of publication. In 2014, the Agency received through "INFO-HRAMBA" 69 audited annual reports by public companies for the period from January 1 to December 31, 2013. The number of public companies may change during the year (issuers admit and withdraw securities to and from organised trading),

which is why the number of received reports is not necessarily the same as the number of public companies that had the status in question at the end of the year.

During the supervision procedure of the reporting of annual operating results, violations were identified in 14 public companies:

- 1 company published its annual reports for 2014 too late. In relation to the company, the Agency submitted to the minor offences body a notice of a suspected violation;
- 4 companies failed to submit to the Agency or »INFO HRAMBA« its audited annual report for 2013, so the Agency ordered publication of the annual report. 3 companies terminated violations, so the Agency issued declaratory decision to eliminate violations. 1 company did not terminate violations. The Agency submitted to the minor offences body a notice of a suspected violation for all 4 companies;
- 9 companies submitted incomplete annual report for 2013, therefore the Agency ordered to supplement the publication of the annual report. 7 companies terminated violations, so the Agency issued declaratory decision to eliminate violations. In 2 companies the supervisory procedure is still ongoing. The Agency will submit to the minor offences body a notice of a suspected violation for all 9 companies.

ESMA published on 28 October 2014 Guidelines on Enforcement of Financial Information (hereinafter: the Guidelines) to establish consistent, efficient and effective supervisory practices in connection to ensure common, uniform and consistent implementation of the Guidelines. The Guidelines are based on fundamental goals of Transparency Directive and ensure efficient and consistent implementation of provisions that require competent authorities to have the power to check whether the financial information published under the Transparency Directive is in accordance with applicable reporting framework. The Agency had to prepare for ESMA until 28 December 2014 declaration of compliance with the Guidelines. The task of the Agency is that in its supervision of financial information takes into account the Guidelines and to harmonize also with those Guidelines with which is still not harmonized.

Each year, the Agency supervises the reporting by public companies on semi-annual operating results. Public companies must publish their semi-annual reports for the first six months of their business year as soon as possible but not later than within two months after the end of this period. Furthermore, they must ensure that their semi-annual reports remain publicly available for at least five years after their publication. The ZTFI also stipulates that an issuer shall submit to the Agency the content of the publication and inform it on the method of publication.

In 2014, the Agency received 68 semi-annual reports for the period from 1 January to 30 June 2014.

During the supervision procedure of the reporting on semi-annual operating results the Agency identified violations in one public company that did not publish report for 2014. The Agency submitted the company to the minor offences body the notice on suspected violation.

Public companies, the shares of which had been admitted to trading on a regulated market, must publish an interim management report for the periods of the first six and the second six months of the business year, until the publication of the interim management report. The interim management report must be published within the period starting upon the expiry of the ten weeks after the end of each six month period and ends six weeks before the end of the next six-month period. This obligation of

publication shall not apply to public companies that publish quarterly reports upon their own initiative, in line with any other provisions or rules of a regulated market.

The purpose of publication of the interim management report is to maintain the continuity of publishing information on the operation of a public company throughout the year. This is a publication that provides the investors with an access to significant information on the issuer's operations in the six-month business period of the time between the disclosure of the annual and the semi-annual report.

In the first six months of 2014, 57 public companies published and delivered (INFO HRAMBA) quarterly and interim management reports within the period starting upon the expiry of the ten weeks after the end of each six-month period. In the first half of the year 1 company did not publish interim management report, so the Agency ordered the publication of interim report. Company terminated the violation and the Agency issued declaratory decision to eliminate violations and did not submit to the minor offences body the notice on suspected violation.

In the second half of 2014, quarterly and interim management reports were published and delivered (INFO HRAMBA) by 54 public companies. In the first half of the year 1 company did not publish interim management report, so the Agency ordered the publication of interim report. Company terminated the violation and the Agency issued declaratory decision to eliminate violations and did not submit to the minor offences body the notice on suspected violation.

### **Notifications of qualifying holdings**

In 2014, the Agency received 186 notifications on reaching, exceeding and terminated exceeding of 5-, 10-, 15-, 20-, 25-percent, 1/3, 50- and 75-percent shares of voting rights and notifications on every acquisition or disposal of a share of voting rights by a member of the company's management or supervisory body.

In this segment, the Agency carries out supervision on a daily basis, mainly because it is a significant area of reporting, and often the first indication of a concentration of ownership rights and prediction of possible takeovers. On one side supervision is performed in order to provide adequate transparency. In this part, the Agency issues many requests to the holders of qualifying holdings, warning them about their obligation to report to the Agency and the public, and also proposes introduction of minor offence proceedings in case of established violations. On the other side, changes in qualifying holdings may frequently represent indications for a suspected illegal takeover, often through concerted actions of several involved subjects. In the latter case, this is a source of information that can be a significant indicator for the Agency's supervisory activities, which continue in relation to the takeover legislation.

### **Notification of regulated information**

In 2014, public companies made 2,114 notifications of regulated information. The number of announcements by public companies has been increasing, regardless of the fact that their number dropped in that same period. This is mainly due to the fact that several convenient methods of reporting have been established to be used by public companies. A decade ago, for example, public companies mainly reported through publications in newspapers, which were more expensive and did not enable quick responses by public companies to significant business events. More recently, public companies mainly use less expensive channels via the Internet, which enable them to react more swiftly to certain

price-sensitive information. The reason for the increased volume of announcements by public companies since the transposition of the Transparency Directive into the ZTFI in 2007 is also in the broader scope of reporting obligation by public companies.

Better transparency of published regulated information can also be attributed to the central storage of regulated information system (the CSI system) stipulated by Article 137 of the ZTFI, which was established in April 2010. The CSI system with the title "INFO HRAMBA" is being operated by the Ljubljana Stock Exchange on behalf of the Agency; all public companies from Chapter 3 of the ZTFI publish regulated information in this system. Delivery of required information to the CSI system is also considered as delivery to the Agency.

### **SONI and ODNI forms**

The Agency has developed electronic reporting in the part of reporting which is required by Article 387 of ZTFI. This part refers to the list of persons with access to inside information – the information that the Agency receives in the framework of the SONI-1 form. The Agency passed to electronic reporting also with reference to reporting on the ODNI form. This reporting refers to the suspension of announcement of inside information, as required by Article 386 of the ZTFI.

The Agency regularly checks SONI-1 and ODNI forms and in 2014 did not perceive any violations in public companies at electronic reporting on SONI-1 and ODNI forms. SONI-1 forms are helpful when the Agency performs supervisory procedures. With ODNI forms the Agency supervises if the regulated information is published on time on SEO net and Info-hramba.

In the case of violations the Agency can impose an order against individual public company.

### **Reporting on the basis of Slovenian Sovereign Holding Act**

Pursuant to the Article 56 of the ZSDH-1 (data protection and insider information) the Slovenian Sovereign holding (hereinafter: the SDH) must submit to the Agency the list of state owned capital investment in relation to which the SDH obtained confidential information or information that have characteristic of inside information in accordance with the act that governs market in financial instruments and records of all those transactions on investments that ranked on above mentioned list, concluded by the persons from the fourth Paragraph of Article 56 of the ZSDH-1. List and records must be submitted by the SDH submit to the Agency at the end of each month.

On the basis of Article 64 of the ZSDH-1 the Agency implements supervision over the public release of data that must the SDH publish on its website, and which also applies to all companies in which the SDH holds major holdings or prevailing influence.

### **Issue of confirmations of collection of proxies**

Article 8, Paragraph 8 of the ZPre-1 instructs the authorised persons to inform the Agency of the intention, reasons and method of organized collecting of proxies, if individual persons did not want the exercising of voting rights based on organized collecting of proxies to be considered a concerted action.

In 2014, the Agency received 53 notifications on collecting of proxies, in order to vote at the general meeting of a public limited company.

## **Reporting by entities performing investment services and activities**

### **Reporting by investment firms and banks, Ljubljana Stock Exchange and KDD**

In 2014, the Agency regularly collected, monitored and verified the numeric and non-numeric reports and notifications of investment firms, banks (with authorisation of the Bank of Slovenia to perform investment services and activities), the Ljubljana Stock Exchange and the KDD that the subjects are obliged to submit to the Agency based on legislation in force. These entities report to the Agency through the national reporting system (hereinafter: the NRS). In 2014, the Agency received through the NRS 173 numeric reports from investment firms, which referred to:

- capital and capital requirements of investment firms;
- liquidity of investment firms;
- exposure of investment firms;
- investments by investment firms, and
- annexes to non-numeric reports in relation to the financial statements.

Persons obliged to report (investment firms and some banks with the authorisation for providing investment services and activities) daily sent to the Agency the reports on transactions executed in financial instruments admitted to trading in any of the regulated markets of the EU Member States (reporting on the basis of Article 275 of the ZTFI). The Agency received 4,406 data files in 2014. Within the exchange of information on transactions with supervisory authorities of other Member States, the Agency received further 2,721 reports and sent 2,129 data files. The Agency also received 370 non-numeric reports of investment firms through the reporting system in 2014. The Agency received 271 reports in accordance with the Regulation (EU) of the European Parliament and the Council on derivatives and OTC, central counterparties and trade repositories.

When verifying the reports and notifications to be sent to the Agency on the basis of legislation and implementing regulations, the Agency focuses on the timeliness and accuracy of reports and establishes whether the reports indicate any suspected violations of the applicable provisions or whether the reports and notifications indicate any other data or facts important for the supervision and implementation of tasks that lie within the Agency's competence.

### **Reporting on operations of investment funds, mutual pension funds and custodian banks**

Management companies, operators of mutual pension funds and custodian banks must send their reports to the Agency on the basis of Acts and general legal acts of the Agency; the Agency verifies their timeliness and accuracy and in particular establishes if there is any suspicion of violation of provisions.

In accordance with the work plan, the Agency upgraded its integrated information system in 2014 to the extent that it discovers in a significant extent violations of investment restrictions defined by the law or the management rules of individual investment fund. The above stated shall contribute mostly to lower quantity of administrative work and to earlier detection and sanction of eventual violations.

## Management companies

Reporting by management companies comprises regular daily, monthly, quarterly, semi-annual and annual reporting, and the management companies must additionally report certain events as they occur. There is no doubt that the request for regular reporting contributes to more consistent compliance with the regulations and thus increased safety for investors.

Daily reporting by management companies represents reporting on the value and change in the value of the mutual fund unit as at the accounting day. The Agency received 28,791 reports in 2014, the receipt of which is daily controlled and analyzed for any above-average changes in the asset unit value and the number of units in circulation.

Once per month, management companies report the data from their balance sheets as at the last accounting day of the previous month (form MATRIKA/ISBS) and the data on transactions in the period of the previous month (form MATRIKA/ISTR) for each managed investment fund. For 2014, the Agency received 1,371 MATRIKA/ISBS forms and 1,371 MATRIKA/ISTR forms, where the forms represent basis for ongoing review of operations of investment funds, mainly to supervise compliance of the investment policy of investment fund with the provisions of the ZISDU-2, the prospectus or the rules of the investment fund.

The regular monthly review comprises a review of reports on the facts and events related to the operations of a management company and investment fund (the Agency received 195 reports in 2014) and a review of reports on the transfer of the provision of an individual service or agreement to operate an investment fund to another person, and the potential amendment of contract or termination of authorisation (97 notifications received in 2014).

A management company must report the income statement of each investment fund on a quarterly basis. The Agency received 454 forms in 2014.

In 2014, the Agency received 21 audited annual reports relating to operations in 2013, from 10 management companies, 9 master funds and 2 mutual funds. In supervision process over those reports the Agency determined that the auditors gave a favourable opinion on all financial statements of management companies, financial statements of master funds and financial statements of mutual funds. The auditors of all management companies gave a favourable opinion on the rules of prudential and safe operations and compliance with the rules of conduct. They also gave a favourable opinion on all master funds and mutual funds regarding compliance with the rules determined in the ZISDU-2. In addition, the Agency in 2014 also received 12 semi-annual reports relating to operations in the period from 1 January to 30 June 2014 for 9 master funds and 3 mutual funds.

A management company is obliged to submit to the Agency internal audit report and report on fulfilment of capital adequacy requirements on the last day of the calendar year. Both reports must be submitted at the latest upon submission of the audited annual report. In 2014, the Agency received and reviewed 10 reports on internal audit and 10 reports on capital adequacy of a management company for year 2013.

A management company must submit to the Agency all changes of document with key information for investors for each mutual fund that it operates, not later than with its submission to the public. The Agency received 171 such documents in 2014.

A management company must regularly report on the publications concerning legal and business events related to the operation of the management company and the investment funds. The Agency received and reviewed 73 such notifications for 2014.

Should the investments of an investment fund exceed the maximum or the minimum allowed shares of individual types of investments, the management company must immediately inform the Agency thereof. Notification must include description and proportion of deviations, reasons for deviation, description of actions for elimination of deviations and indication of the deadline by which the derogation is eliminated. The Agency received and reviewed 67 such notifications in 2014. In most cases, the cause for such reporting is a fall of the value of investments of investment fund, which can be attributed to the situation on financial markets, or a decrease or an increase of the number of asset units in circulation as a result of higher subscriptions or redemptions from an investment fund.

The management company must inform the Agency of any problems with the payment or its inability to pay the units or dividends of the investment fund under management. The review and analysis of the reports is carried out regularly and the Agency received 40 such forms in 2014. In most cases, the cause for such reporting is a fall in the net value of funds or a fall in fund units in circulation, which did not necessarily result in actual insolvency of an investment fund. All investment funds operating on the territory of the Republic of Slovenia in 2014, regularly serviced their investors with payments.

Management companies must inform the Agency on error in the calculation of the net asset value of a mutual fund. Review and analysis of such reports is carried out regularly. In 2014 the Agency did not receive such reports.

Management companies providing management services in financial instruments and ancillary services must additionally send these reports to the Agency. In 2014 the Agency received 44 such reports.

In the supervisory procedure over the reports of management companies in 2014, the Agency required further clarifying of reports in 11 cases. Furthermore, the Agency issued 4 orders on elimination of violations established during the review of received annual reports, 1 warning and submitted notification to the minor offences body of a suspected violation. In 2014 the Agency issued 3 decisions with which determined that management companies imposed to eliminate violations has done it in appropriate manner.

### **Operators of mutual pension funds**

Operators of mutual pension funds must report monthly about the mutual pension fund asset unit value, the mutual pension fund value of assets, and the composition of mutual pension funds' assets, operator's capital, provisions for the failure to achieve guaranteed value of mutual pension fund and structure of investments from these provisions. The Agency received and reviewed 382 such reports in 2014.

Reporting on the operating result of mutual funds is made on a quarterly basis. The Agency received and reviewed 28 such reports in 2014.

Operators of a mutual pension fund must submit to the Agency the audited annual report of the mutual pension fund for the past business year, no later than on 30 May of the current year. In 2014, the Agency received on time 8 audited annual reports from mutual pension funds for the 2013 financial year: 6 mutual pension funds, the First Pension Fund of the Republic of Slovenia, and the Compulsory Supplementary Pension Insurance Fund. In supervisory procedures over these reports the Agency determined that auditors gave favourable opinions on financial statements of all mutual pension funds and favourable opinions regarding compliance with management rules of mutual pension funds as determined by the ZPIZ-2.

In the case when operators of mutual pension funds change the statement of investment policy must no later than in 3 working days of changes submit to the Agency the text of amended statement and explanation of the reasons for the change. In 2014 the Agency received 5 such notifications.

In supervisory procedure over the reporting of mutual pension funds in 2014 the Agency did not identify any violations of the rules.

### **Custodians of investment funds and pension funds**

Custodians must report to the Agency the data on supposed irregularities in operations of investment funds or pension funds, established while performing the custodian services for an individual investment or pension fund. In 2014, the Agency received and reviewed 25 reports related to the area of investment funds and 2 reports related to the area of mutual pension funds or guarantee fund of supplementary pension insurance and underlying assets of pension companies. The most frequent reasons for reporting are non-aligned investment policy and exceeding of the threshold of maximum allowed exposure of the fund's investments. In one case, the Agency continued with the procedure of carrying out supervision and in the rest, the violations have been eliminated within the specified time.

Custodians must quarterly report on its operations involving the assets of an investment fund or a mutual pension fund. In 2014, the Agency received and reviewed 132 reports (113 for investment funds and 19 for mutual pension funds).

### **EU Member State Management Companies**

An EU Member State management company that offer UCITS funds in the Republic of Slovenia shall inform the Agency on changes of prospectus, changes on management rules, latest annual report and any subsequent semi-annual report, and changes on documents with key information for investors. In 2014 the Agency received 124 such reports.

In the supervisory procedure over the reporting of the EU Member State management companies the Agency issued 1 order to eliminate violations (the EU Member State management company did not promptly inform the Agency on any changes to the above mentioned documents).

## 5.2. Reviews of operations and imposed supervisory measures

Considering fierce economic conditions, the Agency performs regular and extraordinary reviews of operations of financial organisations very actively in order to establish eventual violations and irregularities. In 2014, the Agency issued 70 orders on elimination of the established violations, 6 warnings and 5 recommendations. In 2014, the Agency initiated the following procedures by monitoring, collecting and verifying reports and notifications by subject groups:

- 71 supervision procedures referring to public companies and takeover cases,
- 6 supervisions over investment firms;
- 11 supervisions over banks;
- 1 supervision over Ljubljana Stock Exchange;
- 1 supervision over KDD;
- 27 supervisions over management companies;
- 1 supervision over board members and supervisory board in a licensed entity;
- 1 supervisions over other subjects suspected of illegally providing investment services and activities;
- 24 supervisions as a result of suspected activities related to prohibited market abuses;
- 1 supervision over the holders of qualifying holdings in a management company or investment firm.

In the framework of these procedures, the Agency issued an order to eliminate violations to the following supervised subjects:

- 20 orders to terminate violations and 5 warnings and 1 recommendation to investment firms, banks and KDD;
- 11 orders to terminate violations and 4 recommendations to management companies;
- 1 order as a result of activities related to prohibited market abuses;
- 1 order to terminate violations to non-licensed entities;
- 3 orders to terminate violations to holders of qualifying holdings;
- 34 orders to public companies.

In 2014, the Agency issued in supervision procedures 46 decisions, with which it was established that the subject, who had been ordered termination of violations, adequately eliminated them, and 1 decision on termination of procedure.

## 5.3. Minor offences proceedings treated by the Agency as a minor offences authority

In 2014, the Agency issued 11 decisions on minor offences related to violations of provisions, as a minor offences authority under the Minor Offences Act (hereinafter: the ZP-1):

- 3 decisions to violators in relation to the violations of the ZPre-1, whereby 9 penalties have been imposed, while it was with one of those decisions decided that the proceedings against one of alleged offenders stops on the ground that there is no proof that the offender committed an offense;
  - 4 decisions to violators in relation to the violations of Chapters 3 of the ZTFI by imposing to violators 2 penalties and 17 warnings,
  - 1 decisions related to a breach of a person that the Agency supervises under Article 525 of the ZTFI by imposing 2 penalties,
  - 1 decision in relation to the violations of the ZTFI at obligations of the issuer regarding the publication of inside information by imposing 2 warnings, while 1 such proceeding was suspended with the decision on the ground that there was no proof that the alleged offender committed an offense, and
  - 1 decision regarding violations of custodian under the ZISDU-2 by imposing 2 fines.
- In addition to this, the Agency imposed 1 warning in relation to the violations of the ZPre-1, 36 warnings in relation to the violations of the ZTFI and 7 warnings in relation to the violations of the ZPPDFT.

In all the above-described cases, the Agency imposed 18 fines on the violators and issued 6 reprimands and with 1 decision suspended violation procedure, while it was on partial suspension of the proceeding only against one of the alleged offenders decided in the violation procedure. All together the Agency imposed 44 warnings.

For the (alleged) violations of the provisions of the ZTFI in 2014, the Agency issued 5 official notes, as the acts did not represent a minor offence or they were just insignificant offences. The Agency issued also 5 official notes for the (alleged) violations of the provisions of the ZPre-1, and for (alleged) violations of the provisions of the ZISDU-2 and the ZPPDFT, because the prosecution is time-barred or was given other reason that exclude prosecution.

In 2014, the Agency as the offences authority ex officio initiated 2 procedures on which has not yet decided in this year - in 1 case for violations of the provisions of the ZTFI, and in 1 for violations of the provisions of the ZPre-1.

As at 1 January 2014, 5 minor offence proceedings were still pending before competent local courts with reference to requests for judicial protection, and two proceedings were in course before competent higher courts in relation to appeals against decisions of local courts.

In 2014, 3 proceedings referring to requests for judicial protection that had been filed against the Agency's decisions were concluded before local courts having jurisdiction, whereas 1 proceeding referring to appeals by violators were also concluded by the competent courts.

In 2014, 2 requests for judicial protection were filed at local courts against the Agency's decisions, no new procedure was initiated on the basis of offenders appeal from legal person or responsible person.

As at 31 December 2014, 4 minor offence proceedings were still pending before competent local courts with reference to requests for judicial protection, 1 procedure before competent higher court related to appeal against the judgement of district courts. On that day there was no proceeding referring to a petition for protection of legality.

## **Warnings by the Agency and foreign supervisors**

In 2014, the Agency continued publishing its own warnings and the warnings of other supervisors on its websites. In 2014 the Agency published:

- 3 warnings in the segment of the Agency's warnings, and
- 371 warnings in the segment of warnings by other supervisors.

## **6. COURT PROCEEDINGS**

### **Proceedings before the Administrative Court and Supreme Court of the Republic of Slovenia**

Already in the second half of 2013 it was enforced the provision of Article 48 of Amendments and Supplements of the Court Act (hereinafter: the ZS-K), which enforced the Administrative Court of the Republic of Slovenia to decide on procedures of judicial protection instead of the Supreme Court of the Republic of Slovenia.

As at 1 January 2014, there were 3 ongoing judicial protection proceedings before the Administrative Court of the Republic of Slovenia against the Agency's decisions.

In 2014, the Agency received 6 lawsuits contesting its decisions and submitted answers to them. 2 lawsuits were filed against the Agency's decisions, in which it refused request for declaratory decision on termination of suspension of voting rights in the offeree company. 1 lawsuit was filed against the Agency's decision on rejection of the request for approval of prospectus for issuing shares to the public, 1 lawsuit against the decision on rejection of the request for authorization to perform management services in financial instruments, 1 lawsuit against the decision on rejection the complaint, filed against the Agency's order to eliminate violations of the obligation to publish annual report and audit report in a public company, and 1 lawsuit against the Agency's decision on rejection of the request to access file.

In the same period the Agency received 5 decisions of the Administrative Court of the Republic of Slovenia. In 2 cases the Administrative Court refused the request, in 2 cases it dismissed lawsuit due to withdrawal of lawsuit, and 1 case it dismissed a lawsuit due to time-barring. In one case when the Administrative Court of the Republic of Slovenia rejected the claim, the applicant appealed to the Supreme Court of the Republic of Slovenia. The Agency timely responded on the appeal.

As at 31 December 2014, there were 4 ongoing judicial proceedings before the Administrative Court of the Republic of Slovenia and 1 ongoing judicial proceeding before the Supreme Court of the Republic of Slovenia.

### **Proceedings before the Constitutional Court of the Republic of Slovenia**

In 2013 the Agency addressed to the Constitutional Court a proposal for the recognition of the status of participant on the opposite side in connection with the request constitutional review of the provisions of the ZPre-1, which relate to the irrefutable presumption on acting in concert and which was placed by the

initiator of a legal person, which was also the only procedure before the Constitutional Court of the Republic of Slovenia in 2014.

In the second half of 2014 the Constitutional Court of the Republic of Slovenia rejected with the decision initiative for constitutional review.

As at 31 December 2014, the Agency was not involved in proceedings before the Constitutional Court of the Republic of Slovenia.

### **Civil proceedings before district or higher courts**

As on 1 January 2014 the Agency was involved in 4 proceedings, one of which was already interrupted in 2012 due to initiation of bankruptcy proceeding, and in 1 appeal before Higher Court.

In the period from 1 January to 31 December 2014 there were no new procedures initiated before competent District Courts. In the same period competent District Courts decided in 3 proceedings due to cancelled enforcement orders, issued on the basis of the Agency's proposals for execution based on authentic documents, while in 2 cases fully upheld to the Agency, and in 1 only partially. Against the latter judgement the Agency filed an appeal which was rejected by the competent Higher Court. During this period competent Higher Court ruled on the appeal against the judgement of 2013, with which the competent District Court upheld the Agency's claim and applicant's appeal, and the Agency's requested appeal fully rejected.

On 31 December 2014 the Agency was not involved in any other proceedings before high courts, only in one proceeding dismissed due to initiation of bankruptcy procedure.

### **Notification of a suspected criminal offence prosecutable *ex officio***

In 2014, the Agency lodged 1 criminal charge with the competent state prosecutor's office for suspected criminal offense of inside information abuse and 1 criminal charge for suspected criminal offense of document falsification.

In the same period the Agency received a decision on dismissal of criminal charges against one of the major companies suspected of the criminal offense of abuse of inside information, based on the Agency's announcement from 2013.

### **Proceeding before the Labour and Social Court**

As of 1 January 2014 the Agency participated in 1 proceeding before the Labour and Social Court in Ljubljana due to the Agency's appeal against the final decision of the ZPIZ, which rejected the request of the Agency's employee to grant new rights from disability insurance.

In 2014 two lawsuits began of two employees for regular termination of the employment due to an extraordinary termination of the employment contract. Both procedures were during the same period completed. In one case the Court dismissed the claim the second terminated with the settlement. The Court also ruled on the Agency's appeal from 2013, the lawsuit was dismissed. Against this judgement

the Agency appealed to the Higher Labour and Social Court, on which the Court still haven't decided and the process is still in progress as of 31 December 2014.

## **7. COOPERATION WITH OTHER SUPERVISORY AUTHORITIES AND INSTITUTIONS**

### **7.1. Cooperation with supervisory authorities and institutions in the Republic of Slovenia**

When necessary, the Agency co-operates with other authorities and institutions when performing its tasks and competences, specifically:

- with the Bank of Slovenia and the Insurance Supervision Agency pursuant to the Rules on Cooperation between Regulatory Authorities;
- with the Tax Administration of the Republic of Slovenia and the Police pursuant to the existing agreements on cooperation;
- with the Office for Money Laundering and Financing Terrorism;
- with the Agency for Public Oversight Over Auditing;
- in relation to the violations identified by the Ljubljana Stock Exchange or the KDD during inspections within their scope of competence;
- with other authorities competent for the supervision of financial organisations (e.g., the Tax Administration of the Republic of Slovenia, the Office of the Republic of Slovenia for the Prevention of Money Laundering, Criminal Police, etc.);
- with supervisory authorities in the Working Group for monitoring the implementation of the cooperation of the Public Prosecutions, the Police and other competent authorities and institution in the detection and prosecution of offenders and functioning of specialized and joint investigation actions (Tax and Customs Office, Commission for the Prevention of Corruption, The Police, Slovenian Competition Protection Agency)
- with supervisory authorities from the EU Member States;
- with foreign supervisory authorities based on the concluded agreements on cooperation.

In 2014, the Agency cooperated with the Bank of Slovenia in supervisory procedures over the bank with the authorisation of the Bank of Slovenia to provide investment services and activities, and in reviewing the operations of the KDD. The Agency cooperated with the Bank of Slovenia also in other cases defined by law. Cooperation between both institutions also took place in other professional fields.

The Agency occasionally cooperates with the Bank of Slovenia also in the field of international cooperation, mainly at the visits of the World Bank and the International Monetary Fund, organized by the Bank of Slovenia falling within the respective missions of those institutions. With respect to the topics addressed by the three European agencies: ESMA, EBA and EIOPA, the Agency works with the Bank of Slovenia in the preparation of some common statements for discussion, as well as clarifying specific issues or harmonizing certain supervisory data. The third type of cooperation is obtaining information from commercial banks, which in the international exchange of information are required from

us by foreign regulators in the exchange of information and cooperation process under the IOSCO or the ESMA MMoU.

With the Insurance Supervision Agency the Agency cooperated mainly in the field of supervision of pension funds and at the exchange of opinions in the preparation of general acts, which must be issued on the basis of the ZPIZ-2. The Agency regularly and on special request sent to the Insurance Supervision Agency and to the Bank of Slovenia aggregated data and statistics on the operations of investment funds and mutual pension funds.

In the scope of its competence, the Agency cooperates with the relevant ministries, in particular the Ministry of Finance, the Ministry of the Economy (the present Ministry of Economic Development and Technology) and the Ministry of Labour, Family and Social Affairs. The cooperation with the Ministry of Finance and the Ministry of Labour, Family and Social Affairs was focused on drafting the legislation at the European and national levels. At the request of the Ministries, the Agency presented its opinion on proposals and drafts of the European directives, regulations and proposed acts, regulating the financial system, and their amendments.

The Agency's representatives participated in different working groups, such as the national user group T2S.

The Agency also cooperates with the Association of the Securities Exchange Members (the GIZ). Also in 2014, the Agency continued with the practice of organising a regular annual meeting with the representatives of the industry. Representatives of the Agency also participated in the various lectures organized by different associations.

## **7.2. EU and international cooperation**

2014 was for the ESMA and the other two comparable institutions the reviewing year of current work done. In August the European Commission published the report, so called ESFS review (European System of Financial Supervision), on working in first 3 years of existence (2011-2013). In the middle of 2013 was held public consultation in which participants interested in financial market contributed their assessment on the performance of these institutions. The purpose of the review was to determine whether the new structure of financial supervision in the EU meets the requirements and needs of the market and whether the institutions are adequate and effective from both organizational as well as substantive point of view.

The overall assessment is that the new ESAs (European Supervisory Authorities) have quickly and efficiently set up new organizations trying to meet the expected tasks. The fact is that they were organized differently and that there are certain differences in powers among them despite similar or comparable provisions in the regulations. Among them only the ESMA has direct supervisory powers in the field of credit rating agencies and central counterparties. The Commission summarized the outstanding achievements in each one of the analyzed situation and proposed possible improvements. ESMA has been very successful in activities that contribute to the common legislation (Single Rulebook), it proposed to the Commission more than 90 proposals for technical standards in various areas of activities, such as EMIR, AIFMD, MiFID II and MiFIR, MAD, CRD, successfully contributed to a

higher degree of supervisory convergence with the preparation of expert opinions, adopted concrete initiatives in consumer protection (Guidelines in the field of appropriateness and compliance of operations) and other. The ESMA performed the specific supervisions over licensed credit rating agencies and started with inspections over central counterparties.

The Agency participated in the work of the ESMA in certain professional areas, starting with those where the active participation is mandatory; Review Panel WG, Board of Supervisors, Investment Management Standing Committee, Market Integrity Standing Committee, Investor Protection and Intermediaries Standing Committee and IT Group.

The main tasks of the ESMA are:

- Development of a single rule book,
- Supervisory convergence in the implementation of legislation in financial markets,
- Licensing and supervision of credit rating agencies,
- Licensing and supervision of central counterparties,
- Investor protection and
- Financial stability in the EU.

In accordance with the one of the findings of the ESFS review – the ESMA has been particularly active in the preparation of draft regulatory technical standards and advice; in 2014 the majority of these activities in this segment was focused on the drafting of the implementing standards on two key laws; MiFID II and MiFIR and MAD II and MAR. The European Parliament adopted MiFID II/MiFIR in April 2014, the Council in May, entered into force in July. The EU Members have to implement the provisions of the Directive into national legislation in 2 years, until July 2016, both acts starting to use in practice in 30 months after entry into force, it means until July 2017. In accordance with the prescribed procedure, which involves public debates and broad consultations with stakeholders, the ESMA sent to the Commission in December the first set of proposals in the field of MiFIR, from Secondary Markets and Investor Protection segments. The main emphasis are: mandatory transparency rules for financial instruments other than shares, in addition to bonds also for derivatives and structured financial instruments and emission allowances and the obligations of trading in derivatives on trading platforms and new rules to regulate high frequency trading. In the field of investor protection there are more detailed rules on the research carried out by operators of investment services to clients and the conditions when they are entitled to payment of incentives in the performance of activities, detailed disclosure requirements of costs in providing the services, and others.

The ESMA in 2015 continues to work based on the requirements and the Commission's mandate until the application of MiFID II and MiFIR in practice in January 2017 is obliged to provide two package proposals.

In the same time, in December 2014, the ESMA sent to the Commission two drafts of technical standards in the field of regulation of capital requirements.

Similar as in the field of MiFID the work was also conducted in the field of market abuse, special working group MISC (Market Integrity Standing Committee) in cooperation with other experts started in

preparing the drafts of technical standards already in November 2012. MAR was published in June 2014, first draft of proposals was ready at the end of 2014, officially confirmed in January 2015 when it was also sent to the Commission. Technical standards include detailed explanations of market manipulation indicators, the choice of the national regulator in the case of suspension of the publication inside information, the rules on the reporting of the transactions carried out by the management members and persons related in issuers, setting thresholds for exemption from reporting inside information in the case of emission allowances and reporting on violations, where for the first time the MAR enforces the instrument of whistleblower. The work in this field continues in 2015, as the ESMA shall provide two more packages of proposals to the Commission.

Right after the ESMA licensed first trade repositories in accordance with the provisions of the EMIR in the beginning of 2014 settlement obligation entered into force. ESMA has adopted the plan of supervision of trade repositories for 2014, maintained register of central counterparties, including the list of classes of derivatives for each central counterparty. In reporting period ESMA updated document Q&A with practical solutions and discussed proposed solutions for the needs of regulatory technical standards. In October has prepared a proposal for a technical standard for certain classes of interest rate swaps subject to the obligation settlement under the EMIR. It has also published the Guidelines for the implementation of the CPSS-IOSCO Principles relating to the infrastructure of the financial markets for central counterparties. In Slovenia there has not yet been registered any central counterparty nor was filed a request for it in 2014. In 2014 the ESMA signed two agreements on cooperation and exchange of supervisory information in the field of EMIR with two regulators from third countries, with Hong Kong and Australia, with their competent regulatory institutions.

In Short Selling the ESMA in 2014 published opinion concerning the restrictions on short selling on which decided Italian regulator.

In 2014 the Investment Management Standing Committee (IMSC) adopted the Guidelines for reporting in accordance with Articles 3(3)(d) and 24(1), (2) and (4) Directive AIS and updated Guidelines on ETFs and other questions related to UCITS. The IMSC prepared also opinions and recommendations in the form of Q&A in connection with single implementation of the AIFMD, Regulation (EU) no. 345/2013 of 17 April of the European Parliament and of the Council on European venture capital funds and Regulation (EU) no. 346/2013 of 17 April of the European Parliament and of the Council on European social entrepreneurship and on uniform interpretation of the Guidelines on ETFs and other issues relating to UCITS funds.

Also the Financial Innovation Standing Committee was very active in the past year, in the spring has issued opinion to ESMA on structured financial products, on the recommended practices in their sales mostly to individual, retail investors. It prepared official statement on the potential risks involved in the investing in financial instruments, so-called CoCo (Contingent Convertible Instruments, valid for the purposes of meeting the capital adequacy of banks). At the end of the year the ESMA prepared and published also its opinion and advice concerning the activity of 'crowdfunding' in the EU.

The ESMA registered two credit rating agencies last year and recognized the two from the third countries. It supervised the operations of the already licensed agencies, observed whether in the area of EU institutions work, the activities of which would fall within the scope of the Regulation of credit rating agencies, but do not hold the appropriate authorization for their operations. The supervision includes both; the supervision over the reports and transmitted documents as well as inspection reviews of work in practice. In the middle of the year the ESMA submitted to the Commission draft regulatory standards

on the basis of the provisions of the CRA III Regulation, at the end of the year presented the report on the functioning of credit rating agencies in the field of issuing ratings for structured financial instruments, and where appropriate complemented the Q&A document. In the middle of the year ESMA announced the results of concrete supervisory procedure, which was from the existence of ESMA held in accordance with the provisions of the Regulation. Following detailed investigation and careful consideration as a supervisory measure the ESMA issued a public warning regarding irregularities in the operations of one of the major credit rating agencies.

In the area of the financial stability the ESMA has intensified its activities in the field of analysis and research and refined its reports on trends, risks and vulnerabilities of the markets. The mentioned report is published twice a year, but the ESMA regularly prepared a short overview of developments on the markets, four times a year, and for ESMA Members on weekly basis (Risk Dashboards).

Supervisory convergence is one of the fundamental tasks of the ESMA; in this area the constantly active group is the Review Panel in which the participation of all EU Members is mandatory. In the last year the Members intensively worked in several areas, first on self assessment or questionnaires from the provisions of MiFID and in peer reviews. The latter method is becoming increasingly important to warn on inconsistencies practice of individual supervisors, the plan is to intensify peer reviews in coming years. Projects from 2014 according to the new methodology of the Review Panel include the visits of the colleagues from other countries and employees of the ESMA (assessment team) in the ESMA Members. In the reporting period there were carried out visits to the Member States for three different areas of analysis, the Agency has not yet been selected. At the end of the year the group published its first report, namely peer reviews on information submitted by providers of investment services provided to clients in accordance with the MiFID provisions. Other activities from 2014 will be published in the beginning of 2015.

The area of supervisory convergence includes activities of identifying potential EU law infringements where the ESMA in 2014 did not find any violations. The EECS group in the area of supervision of financial reporting was also very active in 2014, it coordinated the solutions in the case of decisions on violations of reporting in accordance with certain accounting standards (IFRS), which had regularly represented in its published extracts, in October has set priorities for supervision over financial reporting in 2015 for statements of 2014, and in September published Guidelines on financial reporting, on implementation of which all Members had to comply with.

Among documents Q&A the ESMA updated them in the area of prospectus, the EMIR and the AIFMD.

Also in the previous year the Agency regularly exchanged supervisory information with the ESMA members as well as with regulators from the third countries in accordance with received requests and the provisions of the agreements and acts which regulate these provisions. The Agency also submitted to the ESMA required information and data.

The World Bank and its Centre for Financial Reporting has already in 2013 launched ROSC Project in the area of accounting and auditing where the Agency also participated. The project included answers to the questionnaire and a workshop in the premises of the Agency with lectures on accounting standards and examples specific supervision in practice. In the first half of 2014 the operators prepared a report on compliance of standards in this area.

## IOSCO

The Agency is active member of the IOSCO and it is present in its three committees; Presidents Committee, Growth and Emerging Markets Committee (Gem) and European Regional Committee (ERC).

The work of the IOSCO is aimed at deeper cooperation between members and stakeholders, mainly in determining the IOSCO Principles, exchange of information and education and protection of investors. Also in 2014, the IOSCO Board sought to establish the IOSCO Foundation which would financially support its members in providing technical assistance and education of regulators to improve their quality in supervision at the global level. The funds of the IOSCO Foundation will enable members to best technical assistance, education and training programs. The aim of the Foundation is to strengthen the global role of the IOSCO in the protection of investors/consumers, strengthening the capacity of markets and addressing systemic risks, which are the key objectives of the IOSCO. The Foundation will be financed from various sources, including (if possible) from the membership of the organization, otherwise the IOSCO expects that the funds for the Foundation will come from international organizations and in particular from the private sector. Members of the European Regional Committee have suggested the establishment of the so-called 'Regional Hubs' to carry out education for the members through the IOSCO Secretariat, as the main organizer, and the members would take over the role of the host (similar as at the ESMA), it is necessary to specify the financial details (sharing of the costs). The IOSCO Board will decide on this case.

At the Annual Conference in September 2014 in Rio de Janeiro, also attended by the Agency's director, were elected presidents of the regional committees and their representatives in the IOSCO Board for the period 2014-2016, and the president, vice president and representatives for the IOSCO Board within GEM Committee.

In addition to the Annual Conference in Rio de Janeiro, representatives of the Agency also attended the GEM Committee Annual Conference which took place in Mauritius in April 2014 and the European regional Meeting in Brussels in December 2014.

The employees of the Agency attended some training seminars, organized by the ESMA and IOSCO (IOSCO's annual seminar in October in Madrid), and the regular meetings of the working groups of the ESMA. In September the Agency hosted a seminar on UCITS in Ljubljana (Overview of UCITS) organized by the ESMA, that attended 30 delegates from 15 Member States. The Agency will try to host similar trainings also in the future.

In the final stage is also the publication of the website for investor education, which will offer in one place all the information regarding the products and the functioning of the financial markets. IOSCO assessed its members in 2012 and their websites that offer this kind of information. On the basis of this research and the great interest of the public the Agency will try to contribute to a better awareness on the work of financial markets.

## **8. OTHER ACTIVITIES OF THE AGENCY**

### **8.1. Public relations**

In 2014 there were no major deviations in the Agency's relations with the public; the communication with internal and external public is in accordance with the established practice through usual communication channels (e.g. intranet, internet, emails, and personal communication).

In addition to informing employees on the adoption of individual internal documents and other relevant information, the Agency was in the previous year devoted to communication with external public, e.g. individual stakeholders and mainly media. The Agency informed the public on its decisions through publications on its website and with press releases. In the context of public relations it has consistently and closely monitored the media coverage and prepared clippings on information relevant for the Agency's work. It has always replied to inaccurate and incomplete news in the media. In 2014 the Agency required 5 times the publication of the correction and reply on the basis of the Media Act. Once the Agency reacted on the content of the public release, it published its adequate explanation in a press release.

Given the important role of the internet in the global society it is understandable that the Agency pays a lot of attention to the content of its website. In 2014 the Agency published 57 public releases, among them 16 press releases.

In 2014 the Agency continued with its activities in obtaining a certificate Family Friendly Enterprise. In early 2014 the project team that was consisted of the representatives from all the Agency's departments presented to the Agency's College a set of measures to improve the management of work process and the quality of the working environment with the objective of better coordination of work and private of the employees. After the Agency obtained the Certificate it published its logo in the Agency's website together with the logo of the European Social Fund.

### **9.2. General, human resources and other matters**

In 2014, the Agency employed on average 39.77 employees, considering the number of hours actually worked. At the end of 2014 the Agency had 48 employees. In 2014 one person was newly recruited (for fixed term), to 5 persons employment terminated (one termination of a fixed-termed contract, 2 due to business reasons and 2 to consensual termination of employment), so that at the end of 2014 the Agency employed 44 persons, including 1 for fixed term and 3 for part-time (work disability). On 31 December 2014 one employee was absent due to maternity leave.

The Agency focuses in particular on additional education and training of the employees, which is required by fast development of financial markets and new services. Thus the Agency allowed to its employees off-the-job studies and other forms of external education and internal training. The qualifications held by the Agency's employees were as follows, as of 31 December 2014: one doctor of science, seven masters of economics, three masters of science in economics (Bologna course), 12 bachelor's degrees in law, 10 bachelor's degrees in economics, one bachelor's degree in engineering mathematics, one bachelor's degree in journalism, one bachelor's degree in communication sciences, one bachelor's degree in administrative organisation, one bachelor's degree in organisation-

management, 3 graduates in economics, 2 business secretaries and 2 graduates from secondary school.

In 2014, the Agency amended or supplemented the following general acts:

- Rules of Procedure of the Securities Market Agency (23 September 2014);
- Regulations on Internal Organisation and Job Classification (19 February 2014, 13 March 2014 and 23 September 2014);
- Regulations establishing working hours (17 June 2014);
- Regulations on annual leave and other absences from work (17 June 2014);
- Regulations on public relations (15 October 2014);
- Regulations on the procedures for publishing information on the Agency's website (15 October 2014).

In addition to labour-law relations and internal relations, the Agency independently handles other contractual relations and relations with different entities in connection with its operations, including public procurement procedures (preparation of the relevant documentation at the beginning of the procedure, evaluation and selection of bids, drafting of various contracts and delivery notes, monitoring and evaluation of the implementation of orders, record-keeping and resolving of potential complaints, etc.).

In 2014 the Agency provided in accordance with the regulations from the area of health and safety at work and fire safety order that its employees passed necessary medical examinations and trainings, and provided suitable working environment.

The Agency has in accordance with the Integrity and Prevention of Corruption Act constantly monitored the implementation of the Agency's integrity plan. In 2014 the Guidelines on the production, introduction and implementation of integrity plans came into force. Therefore, the Agency re-appointed the working group that prepared the amendments and supplements to the Agency's integrity plan.

By the end of February 2014, the Agency compiled and sent to AJPES the annual statements of accounts for 2013, including the business report, as prescribed by the Accounting Act and Public Finance Act. By the prescribed deadline on 31 March 2014, the Council adopted the Agency's annual statements of accounts for 2013 and the budget for 2014, including the plan of work of professional services, which the Government of the Republic of Slovenia approved on 17 April 2014, and for the budget 2014 on 22 May 2014.

In accordance with Articles 472 and 473 of the ZTFI, The Agency prepared for the National Assembly the Annual Report of the Work of the Agency in 2013 and the Report on the Situation on the Market in Financial Instruments in 2013, which were examined by the Committee on Finance and Monetary Policy.

At the beginning of September 2014, the Agency drafted a proposal of the budget for 2015 and 2016 required for indirect state budget users by Article 13 of the public Finance Act and the Regulation on Development Planning Documents and Procedures related to Drafting of the State Budget Proposal. In the framework of drafting the state budget, indirect budget users shall receive an invitation and guidelines of the Ministry of Finance related to preparation of the budget for the next year or two years.

In addition, the Agency promptly and timely prepared other various compulsory reports and data (the Agency's balance sheet for 2013, corporation tax for 2013, reports in relation to salaries, statistics of financial accounts, etc.), and prepared different internal reports and accounting statements.

The Agency has its own accounting department, a part of accounting tasks, primarily in the area of wages, transferred to the external contractor on January 1 2014. The accounting department performs all accounting functions of book-keeping, invoicing, control and analysis, managing the books of account and various accounting records; in 2014, it recorded nearly 17,647 entries in its books of accounts (data kept on the accounts used for recording changes arising from business events in individual asset parts of the Agency). The figure is slightly lower than in the previous years, as the number of supervised subjects started to decrease, which has been described in the chapter on supervision. A part of entries were made in order to monitor the movement in general government revenue and expenditure (the cash-flow accounting principle applies to recognition of revenue and expenditure in books of accounts).

As a rule, the Agency independently handles its own debt collection, using reminders, and then lodging motions for enforcement at local courts or Financial Administration of the Republic of Slovenia (FURS). The Agency lodges its claims if the process on the basis of Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP) starts against the debtor. In 2014 the Agency submitted 5 applications for enforcement at the FURS and 5 claims in bankruptcy proceedings at local courts.

The Agency had outstanding receivables of EUR 326,192 as of 31 December 2014 for accrued interest, taxes and fees under the Tariff, lump-sum court fees from minor offences procedures, refunding of compensation for sickness and disability of its employees and other, of which EUR 240,300 were bad and doubtful debts.

Pursuant to the Articles 9 and 12 of the Regulation on Quota for Employment of Disabled Workers, the Agency can no longer assert the incentives (exempt from the payment of contributions for pension and disability insurance for disabled person employed above the prescribed quota of 2 % and the reward for exceeding quotas).

External provider of internal audit for the year 2014 made annual internal audit of the Agency's operations, which consisted of checking procedures in the Capital Department, General Office and IT Department.

## **8.2. Information technology**

In the first half of 2014 the Agency proceeded with upgrades and adjustments of the system for electronic capture and delivery of data (the National Reporting System – NRS) and implemented the following changes:

- Set up reporting for managers of mutual pension funds (2 January 2014),
- Prepared complementation of the functional specification for reporting administrator. The amendment concerns the possibility of sending the data necessary to calculate the annual fee

for monitoring. The data is sent in a file which is prepared in the same way as unstructured part of a combined report (7 January 2014),

- Reporting of management companies in a part that relates to compliance the draft on amending Decision on reporting on the management company, management company of a Member State and a branch of a management company in a third country (February 2014),
- The introduction of reporting numerical reports of management companies that have obtained the authorization from the Agency for the provision of management services in financial instruments pursuant to Point 1 of Paragraph 1 of Article 159 of the ZPIZ-2 (15 March 2014),
- The introduction of uniform length record registration numbers in all reports (1 April 2014).

In the second half of 2014 the Agency implemented the following changes of the NRS:

- Electronic reporting of investment firms has changed at the reporting on IZP-POS form and can now be reported as individual report (25 July 2014),
- The Agency prepared amended and supplemented functional specification of then system for electronic reporting – Reporting under EMIR on unconfirmed transactions and conflict settlement. The specification includes the change at the date of the report (19 September 2014).

In 2014 at the ESMA level was established the reporting system the ESMA Registers that enables publication of information in one place from the following EU's Directives MiFID, UCITS and MAD. The project started in February 2013 and successfully finished a year later.

At the ESMA level it was also established the reporting of alternative investment funds managers. The project started in July 2013, it is currently ongoing and it is expected to be completed in April 2015.

In 2014 the Agency completed the project for the construction of an integrated information system of the Agency (IISA), which enables more efficient IT support for business processes in the Agency. The fourth and the fifth phase were successfully completed; the next phase was abandoned due to lack of funding.

In 2014 the Agency have successfully updated and regulated the system of security information management (SUVI) and moved to a new version of the standard in 2013, and in December 2014 successfully passed the regular audit of the standard ISO/IEC 27001:2013.

In 2014 the Agency purchased the secondary disk array, disk and memory capacity to increase performance of the IT platform in order to ensure the increase in the number of users. It also purchased and replaced the entire RSA technology to facilitate the reporting to the Agency. During 2014 the Agency replaced 225 RSA cards and additionally enabled reporting to additional 50 users.

Technically and systemically the Agency updated the document system in order to improve its performance and a faster and better response to users.

In 2014 the Agency introduced the receipt and processing of e-invoices and purchased 2 licences for remote support.

In 2014 the Agency initiated and completed the transition from Windows XP to Windows 7. On the server it has been initiated part of transition from Windows Server 2003 to Windows Server 2013. The transition will be completed in July 2015.

In 2014 the Agency carried out a considerable modernization, adaption and change of the system (mail server, servers, databases, operating systems, infrastructure) and application software (webpages, e-meetings application, SAOP, ISPO Spica).