Appendix to
the Resolution No. 114
of the Council of Ministers
of 1 October 2019.

# CAPITAL MARKET DEVELOPMENT STRATEGY

European Bank
for Reconstruction and Development

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## List of Abbreviations

| | |
|---|---|
| **4IR** | Fourth Industrial Revolution |
| **AIFMD** | Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on alternative investment fund managers and amendments to Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No. 1060/2009 and (EU) No. 1095/2010 (*Alternative Investment Fund Managers Directive)* |
| **AML** | Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for money laundering or terrorist financing and amending Directives 2009/138/EC and 2013/36/EU (*Anti-Money Laundering Directive*) |
| **API** | application programming interface |
| **B2B** | business-to-business |
| **B2C** | business-to-consumer |
| **C2C** | consumer-to-consumer relationship in the online sphere of commercial activity |
| **CCP** | central counterparty |
| **CFD** | contract for difference |
| **CMDS** | Capital Market Development Strategy [CDMS - Strategia Rozwoju Rynku Kapitałowego] |
| **CSD** | central securities depository |
| **DLT** | Distributed Ledger Technology |
| **DMA** | direct market access |
| **EBA** | European Banking Authority |
| **EBRD** | European Bank for Reconstruction and Development |
| **EC** | European Commission |
| **ECB** | European Central Bank |
| **EEA** | European Economic Area |
| **EIOPA** | European Insurance and Occupational Pensions Authority |
| **EMIR** | 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 (*European Market Infrastructure Regulation*) |
| **ESMA** | European Securities and Markets Authority |
| **ETF** | exchange-traded fund |
| **ETP** | exchange-traded products |
| **GDP** | Gross Domestic Product |
| **GMRA** | Global Master Repurchase Agreement |
| **ICO** | Initial Coin Offering |
| **IPO** | Initial Public Offering |
| **IRR** | Internal Rate of Return |
| **ISA** | International Accounting Standard |
| **ISIN** | International Securities Identification Number |
| **KDPW** | National Depository of Securities [Krajowy Depozyt Papierów Wartościowych S.A.] |
| **KNF** | Polish Financial Supervision Authority [KNF - Komisja Nadzoru Finansowego] |

| | |
|---|---|
| **KYC** | Know your customer |
| **LSEG** | London Stock Exchange Group |
| **MAR** | Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directive 2003/124/EC, 2003/125/EC and 2004/72/EC (*Market Abuse Regulation*) |
| **MF** | Ministry of Finance |
| **MiFID I** | Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Directive Council 93/22/EEC (*Markets in Financial Instruments Directive I*) |
| **MiFID II** | Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (*Markets in Financial Instruments Directive II*) |
| **MTF** | multilateral trading facility |
| **NBP** | National Bank of Poland [*Narodowy Bank Polski*] |
| **OECD** | Organisation for Economic Co-operation and Development |
| **OFE** | open pension fund [otwarty fundusz emerytalny] |
| **OTC** | over-the-counter |
| **PAIH** | Polish Investment and Trade Agency **[***Polska Agencja Inwestycji i Handlu*] |
| **P/E** | price-to-earnings ratio |
| **PIT** | Personal Income Tax |
| **PPK** | Employee Capital Plans [Pracownicze Plany Kapitałowe] |
| **PSD2** | Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market (*Payment Services Directive 2*), amending Directives 2002/65/EC, 2009/110/EC, 2013/36/EU and Regulation (EU ) No. 1093/2010 and repealing Directive 2007/64/EC |
| **RODO** | Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of individuals with regard to the processing of personal data and on the free movement of such data (*GDPR Regulation*) and repealing Directive 95/46/EC |
| **RRRF** | Financial Market Development Council [RRRF - Rada Rozwoju Rynku Finansowego] |
| **SME** | small and medium enterprises |
| **SRD** | Strategy for Responsible Development for the period up to 2020 (including the perspective up to 2030) [SOR - Strategia na rzecz Odpowiedzialnego Rozwoju] |
| **SRSS** | Structural Reform Support Service |
| **SSP** | state treasury company [Spółka Skarbu Państwa] |
| **TBSP** | Treasury Bondspot Poland |
| **TCA** | transaction cost analysis |
| **TS** | Treasury Securities [SPW - skarbowe papiery wartościowe] |
| **UCITS** | Undertakings for Collective Investments in Transferable Securities |
| **WRR** | Warsaw Repo Rate |
| **WSE** | Warsaw Stock Exchange SA [GPW - Giełda Papierów Wartościowych w Warszawie S.A.] |
| **XBRL** | Extensible Business Reporting Language |

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*To prepare this document an academic literature was comprehensively reviewed and experiences gained from most advanced capital market were analysed. Also around 50 individual meetings with representatives of professional associations and capital market participants took place. Moreover, in order to improve ongoing contacts with stakeholders, a special e-mail address was created: strategiarrk@mf.gov.pl*

*A fundamental part of the work consisted of an action where market participants indicated potential barriers to their ongoing business, and thus to the development of capital market in Poland. Consequently, a questionnaire was prepared and sent on 16 March 2018 by the Ministry of Finance to the members of the Financial Market Development Council (RRRF). In the survey, the stakeholders were also asked to indicate possible solutions for the problems they had reported. The Ministry of Finance (MF), while distributing the questionnaires, emphasised that answers should be addressed only to the external consultants and to the appointed EBRD representatives so as to encourage the respondents to give sincere replies and guarantee impartial analyses. Basing upon feedback, the MF asked the EBRD for an analysis and determination of 20 most burdensome barriers to the capital market in Poland, first of all, long-term ones. A list of those barriers was presented and discussed in detail at the meeting of the Financial Market Development Council, held on 27 July 2018. In addition, at the same day the list was handed over to the meeting participants with a request for remarks and comments with a deadline set for10 August 2018. These remarks were used for making a final list of 20 most burdensome barriers and proposed directional solutions. Both the Ministry and external consultants received from the financial market participants around 200 pages of comments and observations regarding the respective working documents and published during the project realisation, which constituted a significant contribution to the development of this document.*

*An evaluation of the current situation on the Polish capital market, its respective segments and solution proposals for problems raised in the document derive from an analysis of the data obtained from capital market participants during the meetings and consultations aforesaid, making the Strategy a document prepared with a wide cooperation with all stakeholders.*

# Introduction

One of the crucial economic challenges encountered by modern governments is the need for providing domestic enterprises with the widest possible access to finance their activities, which would allow them to gain funds for investments, to increase the levels of employment, and therefore, to contribute to economic growth. Because of a progressive aging of societies, it is also necessary to work out some solutions aimed at ensuring fair pensions for the citizens. A well-developed and efficient capital market may be considerably helpful in facing such challenges.

The main objective of the *Strategy for Responsible Development for the period up to 2020 (including the perspective up to 2030)* (SRD) adopted by the Government on 14 February 2017 is *creating conditions for an increase in the income of Polish residents with a simultaneous increase in social, economic, environmental and territorial cohesion*.[1] According to the SRD, in order to achieve the defined objectives it is required to include Poland in the so-called fourth industrial revolution and economic modernisation, increase innovation of Polish enterprises, raise the level of Poles' savings as well as labour efficiency, and eventually, permanently increase the investment rate and enable Polish companies to meet global competition.

In addition, in the SRD a decisive role of an efficient capital market was noticed, in supplying the capital to innovative branches with high productivity levels, which is also characterised by a higher than the average level of investment risk. Also the need for diversification of sources of capital was underlined in order to facilitate access to funds for the Polish entrepreneurs. The SRD also emphasised the problem of high transaction costs for the market participants and competition from large foreign entities which, due to the economies of scale, maintain competitive advantage over local entities. The SRD pays also attention to the decreasing share of individual investors in the stock turnover in the last few years, which has a negative impact upon the market liquidity and stability. It is clearly noticed that the capital market plays the crucial role for stimulating the saving ratio that is considerably correlated with the household disposable income whose growth constitutes the main objective of the *Strategy for Responsible Development*. At the same time, the SRD indicates some necessary actions in the scope of financial education – for both individual investors and companies which may be also interested in capital market instruments to finance their activities.

International experience and academic literature show that a developed capital market constitutes a fundamental component of the financial market and should not be deemed as being competitive to bank financing, but should be treated as its supplement and a possibility of ensuring enterprises with a better diversification of sources of financing their activity.[2] Actually, the capital market instruments are considerably better designed to finance more risky and innovative projects. A diversification of sources of financing should contribute to a decrease in the cost of capital raising, especially in the case of small and medium-sized enterprises. Due to an efficient infrastructure of the capital market and efficient chain of intermediate institutions operating thereupon, the economy is able to allocate the risk and capital more effectively, which makes it potentially more resistant to shocks.

In the case of issuers, so the companies which finance themselves on the capital market, the status of being a listed company means a series of advantages, among others, access to the capital required for financing development of their business activity, a better reliability among business partners (which, for example, arises from the requirement of complying with the principle of transparency towards listed companies) as well as prestige and the possibility of promoting their own brands. Moreover, due to raising funds from many shareholders, the enterprises may disperse risk of their activity.[3] Nevertheless, the presence on the stock exchange market means also some expenses including the fees paid to the intermediaries and market infrastructure, as well as regulatory charges which – as can be proved by the examples of the best developed markets – should and may be rationalised by adequate modifications to the regulation and functioning of the respective market structures.

Nowadays, the Polish capital market remains still less developed than the leading European markets. Our equity market and debt securities market still play a relatively minor role in financing enterprises. Also the savings rate of Poles lies definitely below the average of EU countries; and the existing savings are not always correctly allocated and used for projects, especially for long-term ones. This is reflected in the low innovativeness of the economy, and thus, its lower international competitiveness. The current condition of Polish capital market has been also recently negatively reflected by the balance of debuts and withdrawals from the Warsaw Stock Exchange (WSE).

As far as the development of the capital market is concerned, of crucial importance is an adequate combination of development policy in conjunction with adequate care of investor protection (especially, the individual one) because, to a large extent, the sense of security among investors is decisive for the level of business confidence on the entire market. Therefore, on the one hand the tendency towards the market development, and on the other a better investor protection are not in conflict, but on the contrary, they should be fully complementary to each other.

Taking the aforesaid into consideration, the SRD obliged the Minister in charge of financial institutions to work out a comprehensive Capital Market Development Strategy (CMDS). This document aims at, according to the SRD, *identification of necessary institutional and regulatory changes (regarding, among other things, the modifications introduced by the European Commission in relation to creating the Capital Markets Union), which implies enhanced significance of equity financing and issuance of debt instruments in the Polish economy*.[4]

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1) *Responsible Development Strategy until the year 2020 (in perspective until 2030)*, Warsaw 2017, p. 49.

2) Levine R., *Bank-Based or Market-Based Financial Systems: Which is Better*, [in:] 'Journal of Financial Intermediation', Vol. 11 Issue 4, October 2002, pp. 398–428.

3) Kachniewski M., Majewski B., Wasilewski P., *Rynek kapitałowy i giełda papierów wartościowych*, Warsaw, June 2008

4)Strategy for Responsible Development ..., op. cit., p. 130.

In line with the Act of 6 December 2006 on the Principles of Development Policy[5], the Capital Market Development Strategy is a document consistent with the medium-term national development strategy which is the SRD. In particular, the CMDS specifies as follows: a diagnosis of the status quo within the scope covered by strategic planning along with taking into consideration the condition of the environment, as well as spatial and territorial diversifications; a forecast of development trends in the period covered by the Strategy; determination of the development objectives including the lines of intervention within the Strategy together with the required implementation indicators. Pursuant to art. 13 par. 3 of the Act aforesaid, the CMDS specifies as follows:

- **until 2020 –** the adoption of actions aimed at improving the effectiveness of administrative procedures related to functioning of capital market entities,
- **until 2023** – undertaking actions aimed at reaching the specific objectives, such as enlarging the scale of raising capital among Polish enterprises, an increase in market liquidity, an increase in effectiveness by Polish intermediaries, and eventually an increase in the savings rate.

The CMDS constitutes the first detailed and comprehensive plan for the development of the Polish capital market. It covers the period 2019-2023 and its intention is to significantly increase the competitiveness of the Polish capital market. Thus, it is a document complementary to the Strategy for Innovation and Efficiency of the Economy (Strategy for Productivity), now under elaboration at the Ministry of Entrepreneurship and Technology.

The CMDS addresses 90 actions to be adopted in order to overcome the barriers indicated by the market entities and, in consequence, to contribute to the development of the Polish capital market.

Due to a significant connection between the reduction of cost of capital raising, the development of capital market and economic development, the Government's actions will be aimed at creating a streamlined capital market. A stronger, more expanded and effective capital market, attracting the capital from home and abroad, ought to be a crucial issue in the long-term national economic policy.

The Capital Market Development Strategy should be first in the series of the development strategies for the Polish capital market which should arise in future and be adopted by the Government for updating the objectives and actions already scheduled.

This document consists of five chapters and an annex which constitutes a set of crucial actions to be adopted to implement the CMDS. Chapter 1 presents characteristics of the Polish capital market and a description of its condition. Chapter 2 indicates the main objective thereof and milestones, and it also introduces some principles to follow. Then Chapters 3 and 4 describe, respectively, an identification and description of barriers to the market development in Poland, and proposals for their solutions. The last chapter includes the implementation program and the system of project reporting and monitoring; there is also presented some information on project financing.

[5)] Act of 6 December 2006 on the principles of conducting development policy (J. of L. of 2019 item 1295).

# Abstract

In 2018 FTSE Russell re-classified Polish capital market to developed market status. However, at the same time, the analysis conducted for the purpose of developing the Strategy proved that the development potential of this market is considerably higher than already achieved. The consultations with financial market participants showed that the capital market development is restricted by a series of barriers, including regulatory, supervisory and those stemming from the market structure.

The Strategy for Responsible Development has delineated, among others, the following main areas of involvement in the national development policy:

- Poland joining the so-called 4th industrial revolution and modernisation of economy,
- growth of innovativeness of Polish enterprises,
- increase in the savings rate of Poles ,
- increase in labour productivity,
- permanent increase in the investment rate,
- release of potential of Polish economy and improvement in life quality of Poles,
- increase in capacity of Polish enterprises to face up to the global competition.

In order to follow the direction indicated in the SRD, the CMDS objective is, first of all, to guarantee as open access as possible to finance the activity and development of Polish enterprises, which means contributing to the growth of Polish economy through implementation of a series of strategic initiatives divided into seven workstreams as indicated in Fig. 11.

## 1 – IMPLEMENTATION OF THE CMDS

Nowadays, some market participants are not sure which national institution (MF, NBP or KNF) is responsible for creating the main directions of development of the Polish capital market. Therefore, the CMDS shall constitute a comprehensive project for the capital market development conducted by the appointed Plenipotentiary of the Minister of Finance, Investment and Development for CMDS implementation, in the rank of Secretary or Undersecretary in the Ministry of Finance, who is provided with effective tools enabling him/her to act. In the MF a team of experts will be also appointed. It's main task will be timely and effective implementation of the CMDS solutions, mainly by way of coordinating and adopting actions addressing the identified barriers. The MF will also try to enter into a trilateral agreement with the Polish Financial Supervision Authority and the National Bank of Poland in order to provide a coherent and effective implementation of the solutions specified in the CMDS and development of the capital market along with taking into consideration the effective provisions which govern the operation of these three institutions. It is expected that this trilateral agreement will consolidate the confidence of the market entities in the created law and the guidelines delineated by the Government which are aimed at developing this market.

## 2 – GENERAL ISSUES

### Confidence

The experience of the most advanced economies shows that the success of the capital market is based mainly on the confidence in both the entities which operate thereupon and the law. Therefore, the prerequisite for the development of the Polish capital market is, on the one hand, a definite increase in confidence between the society and the capital market entities (first of all, by way of education and effective supervisory framework), and on the other, among the stakeholders and the Government, the central bank and the supervisory body (among others in the field of the predictability of their actions and regulations). Therefore, an increase in the confidence on the market is one of four horizontal principles to be followed in order to carry out the actions and achieve the objectives. Moreover, the crucial aspect will be to build the confidence in digital solutions, which become more and more significant not only for modern economies, but also for the capital markets themselves.

### Corporate governance

The compliance with corporate governance is a factor that significantly affects the company activity and its perception by investors. Corporate governance protects the rights of the shareholders, especially individual ones and contributes to a reduction of capital raising cost, thus facilitating access to external financing.[6] In this context, it is worth noticing that one of the advantages of having the public company status is the possibility of making use of a high P/E Ratio (Price-to-Earnings Ratio). One of the crucial factors influencing an evaluation of listed companies is the degree of compliance with the standards of corporate governance[7] due to the increased transparency of actions of managers and bodies of such companies. Therefore, it should be tried to make corporate governance a permanent element on the Polish capital market.

6) G20, OECD, Principles of Corporate Governance, 2015.
7) OECD, Principles of Corporate Governance, 2004.

### Savings and education

The level of private savings in Poland still remains very low. Even the money allocated in products guaranteeing tax advantages, such as IKE/IKZE (open pension funds), has not exceeded 1,000 PLN per adult[8] since the launch of these products.

The Strategy for Responsible Development already identified targets related to savings, whereas the CMDS is aimed at proposing some solutions (including long-term – retirement savings) encouraging consumers to save, in particular, bearing in mind that Poland's demographic structure explicitly shows the tendency towards the aging of society.

Undoubtedly, the level of financial education of a society is a significant factor having a considerable impact upon the propensity to save. This document presents some directional proposals aimed at broadening the knowledge of Polish society in the scope of financial market by making use of social media, official educational channels and by creating better products in this field. In addition, a long-term strategy is required with the division of responsibilities agreed upon by all stakeholders (including state ones, like NBP and KNF) as well as necessary financial support, bearing in mind the regulations governing functioning of afore-mentioned institutions. The knowledge of finance should be promoted to such an extent where not only experienced investors and wealthy people are familiar with it, but also a general public should gain it. A comprehensive program of education on the national level should be as well addressed to the people who are not bank customers (i.e. who do not have bank accounts), which according to the latest estimates, amount to 17% of Poles.[9]

### Human resources

In the further part of the document also a need was identified to encourage a large number of specialists experienced in finance and IT, in particular, those who have gained experience on international financial markets (including the Poles who have emigrated in the recent years and obtained experience on the most advanced markets) to operate on the Polish capital market. Moreover, as it is necessary to timely transpose the EU regulations in the Polish law regulating financial services (without unreasonable tightening), it is necessary to increase the potential of human resources in the respective organisational units of the MF and KNF.

## 3 - PREDICTIBLE SUPERVISIONS AND CHANGES TO THE REGULATIONS

The confidence in the capital market significantly depends upon the certainty related to the regulatory and supervisory environment. Basing upon the responses on the surveys received from the capital market entities, the Government has discerned the need for increasing the effectiveness of supervision over the market and proceeding with legislative proposals in order to boost confidence in the market and the law. This mainly refers to the changes in regulations directly or indirectly governing functioning of various segments of capital markets.

In addition, Poland needs a predictable, pro-business environment and flexible regulations which will enable not only an effective capital mobilisation, but they will also guarantee the protection for investors and removal of barriers to market development. It is also of a high importance to promptly perform reforms in order to maintain competitiveness, since competitive markets and products keep on developing in search of improvements and increasing their advantage.

## 4 – TAX INCENTIVES AND REVENUE ADMINISTRATION

An essential part of the document is dedicated to proposing some solutions in the scope of tax regulations. It is aimed at encouraging companies which have a strong desire to raise funds and to develop their business activity, to use more eagerly the instruments offered by the capital market as well as to make investors and intermediaries more active. Such actions should also reflect in a market enlargement and liquidity. It is also planned to improve revenue administration, among others, in relation to public companies, their shareholders or bond holders.

## 5 – COMPETITIVE MARKET STRUCTURE

The document contains proposals concerning the development of market infrastructure, intermediation, and products offered on the services market. Those proposals are aimed, first of all, at guaranteeing market participants a more competitive process of capital raising with a more effective price formation process on the secondary market and searching for sources of liquidity, which should contribute to making a safer, more competitive post-transaction infrastructure. Moreover, it would support the issuers and their requirements in the field of investor relationships. As far as intermediary services on the Polish capital market are concerned, the following lines of actions have been determined:

[8] Own calculations based on the KNF data.
[9] NBP, *Postawy Polaków wobec obrotu bezgotówkowego*, Warsaw, February 2017.

- a scale enlargement and increase in market depth (i.e. more opportunities) in the sector,
- an improvement of competitiveness as well as of innovative capacities and efficiency of intermediation on primary and secondary markets, for Polish, foreign corporate and individual investors,
- boosting confidence in intermediary institutions.

In this field some solutions are proposed which aim at improving the structure of products and services on the markets that offer a larger choice for issuers and investors. It is expected that the market will eventually maximise liquidity simultaneously with the lowest transaction costs possible.

## 6 – INNOVATIONS AND FINANCING OF THE FOURTH INDUSTRIAL REVOLUTION

According to the OECD, the average level of expenditure incurred by the EU countries on R&D (research and development) is 2.8% of GDP, whereas in Poland – under 0.96% of GDP.[10] In order to be able to compete with the most advanced economies worldwide, Poland must become the leader in technology development in order to improve the productivity and reduction of unit costs. This is attainable provided that technology is supported by legal, taxation and educational frameworks, which are adequate to one another and facilitate the development of the FinTech Sector. It is necessary to encourage stakeholders to innovative actions aimed at trying to eliminate the barriers which, in the case of entrepreneurs, limit their possibility of starting such activities. This includes a vast use of legal and regulatory processes, e-administration as well as creation of prospective FinTech solutions.

## 7 - SUSTAINABLE FINANCE (PRO-ECOLOGICAL INVESTMENTS)

The Polish Capital Market Development Strategy must regard not only the activities in the field of promoting sustainable finance, taken up by international organisations, but also a growing group of investors interested in financing broadly defined activities performed in favour of sustainable development. It is defined as any form of financial service integrating environmental, social and governance (ESG) criteria into investment decisions process that may lead to the long-term business or investment decisions focused on sustainable development.

Growing popularity of sustainable finance is, for example, proved by the 2015 Paris Agreement, the elaboration of the UN *2030 Agenda for Sustainable Development* documents and the EU *Action Plan For Financing Sustainable Growth.* A derivative of the latter is the legislative initiative of the EC consisting of the package of three regulations (the so-called *sustainable finance package*). Those activities are aimed at increasing the involvement of financial market in the sustainable development which favors the elimination of social exclusion. They also aim at taking into consideration the factors related to the environmental protection, social policy and corporate governance while making decisions on investments, and consequently, at the mobilisation of private financial markets so as to direct considerable funds for the transformation of European economy directed towards low emission. Activities performed on the international level show the trend that is followed by the governments worldwide, and also confirm the necessity of having the Polish capital market involved in this global trend. Just now Poland is involved in pro-environmental activities, which is proved by organising the 2018 UN Climate Change Conference in Katowice.

It also seems that the tendency of the Polish capital market towards an increasingly vaster financing of the so-called sustainable projects also complies with Poland’s energy and environmental protection policy (among others, as far as smog control projects are concerned).

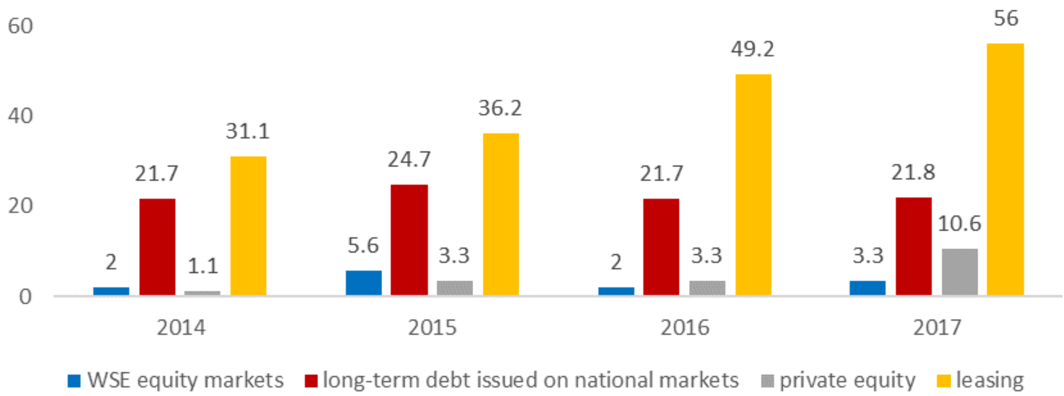
[10]) OECD data for 2016.

# 1. Characteristics of the Polish capital market

In September 2018 FTSE Russell re-classified the Polish capital market to developed market status. As a consequence, Poland is ranked among 25 most advanced worldwide economies, e.g. the USA, Great Britain, Germany or Japan. For almost a decade, Poland has been the first country promoted to this group and it is also the first time that a country from Central and Eastern Europe has been qualified to this group. At the same time, eight Polish companies joined a prestigious Stoxx Europe 600 Index. Such a decision confirms that Poland has all structural elements of advanced markets, for example, trading and post-trading security and developed infrastructure.

Polish enterprises make a relatively little use of external sources of financing. They finance their activity mainly with profits from previous years. According to data obtained from the Polish Agency for Enterprise Development, around 17.5% of SMEs finance their business with bank credit.[11] In addition, Polish enterprises make relatively little use of capital market instruments in financing their activities. The figure below shows that leasing, apart from bank credit is one of the main external sources of financing for Polish companies. Moreover, recently a considerable increase was observed in financing through private equity funds.

**Fig. 1. Selected non-bank external sources of financing for Polish enterprises (in per cent)**




Source: NBP.

A pillar of a developed capital market is a well-functioning stock market, embedded upon solid infrastructural foundations. *Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)* is the largest stock exchange in Central and East Europe. Stocks and bonds of almost 1,000 home and foreign issuers are listed on the markets managed by this exchange. The offer of WSE Capital Group includes as well the trade in derivatives, structured instruments as well as the service of data sales. The Group also manages commodities markets, including one of the most liquid electricity markets in Europe.

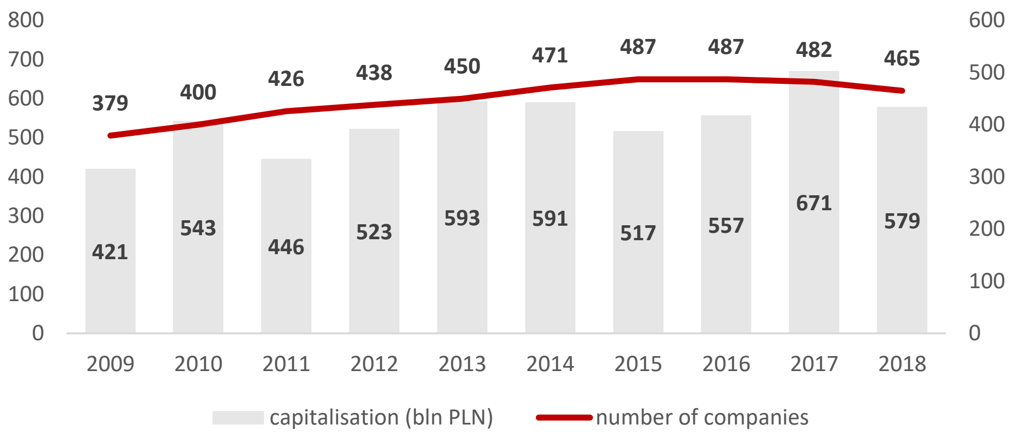
Nevertheless, the current situation of the Polish equity market, which has a decisive impact on the situation of the capital market, gives many signals of concern by indicating the issues requiring a necessary and possible improvement. According to Fig 2, in the recent two years there has been a decrease in the number of companies listed on the main WSE market and a decrease in capitalisation. Undoubtedly, another problem is also a decreasing share of individual investors (especially long-term–oriented) and institutional investors in turnover, which affects both the market liquidity and stability. Such tendencies cause the capital market to be a less attractive source of capital raising. Therefore, the effectiveness of operation of the capital market should be increased in order to make it the most common, available and attractive form of capital raising for Polish enterprises and for the entire economy.

### Current results of Polish stock exchange

As far as capitalisation is concerned (579 billion PLN in 2018), the Warsaw Stock Exchange is ten times smaller than the exchanges in Germany or Sweden (with a smaller or significantly smaller number of companies listed there). The value of turnover on the Main Market has maintained a similar level for a few years (211,850 million PLN in 2018; 234,288 million PLN in 2010), which constitutes around 3% of value of turnover on Euronext trading platform (created by the mergers of the Amsterdam, Paris, Lisbon and Brussels stock exchanges). Therefore, as far as the liquidity ratio is concerned (constructed as the ratio of annual turnover to average market capitalisation), the WSE achieves results considerably lower than the European leaders. For the Polish market this ratio is around 35%, whereas, for example, for the Frankfurt exchange it amounts to 80%.[12]

[11] Data for 2016, see PARP, *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce*, Warsaw 2019.
[12] Source FESE, LSEG.

**Fig. 2. Capitalisation of the WSE home companies vs. number of companies**




Note: The left axis shows the capitalisation of WSE domestic companies in PLN billion, while the right axis shows the number of companies.

Source: WSE.

However, recently the most significant problem of the Polish equity market has been a relatively low value of public offering. Through the entire 2018 year, the value of a single offering on the Polish stock exchange did not exceed 100 million PLN. According to the latest PwC report *IPO Watch Europe*, the value of new issues in 2018 was merely 81 million EUR[13], which is the worst result after 2003. Such a low level of activity on the IPO market means that nowadays it is hard to state whether the role assigned to the stock exchange, i.e. financing Polish enterprises, has been fulfilled. Therefore, it is necessary to undertake actions aimed at reversing the negative tendencies on the Polish capital market which will increase the attractiveness of the capital market as the source of capital raising.

## Selected features and size of segments of the Polish capital market

A specific feature of Polish capital market is the functioning and organisational form for trading corporate and municipal bonds (issued by local government units), which takes place on the Catalyst market. This market has been operative since 2009 and consists of four trading platforms, regulated and MTF managed by the Warsaw Stock Exchange and regulated and MTF managed by BondSpot S.A.

A distinctive feature of the Polish corporate bonds market is also the off-market nature of a considerable part of issues. A common practice is the purchase of bonds and keeping them by the banks organising issues until the fixed maturity date. Also a large part of long-term corporate bonds held by non-financial enterprises has an off-market nature. Most corporate bonds are not registered in the KDPW. As of the end of 2017, long-term corporate debt securities worth more than 25 billion PLN were dematerialized (in other words around 30% of value of all issuances is still in circulation on that market). For many years, the domestic corporate bond market has been dominated by private placement, and in 2017 about 90% of all issuances, measured in their values, were performed through private placement.[14]

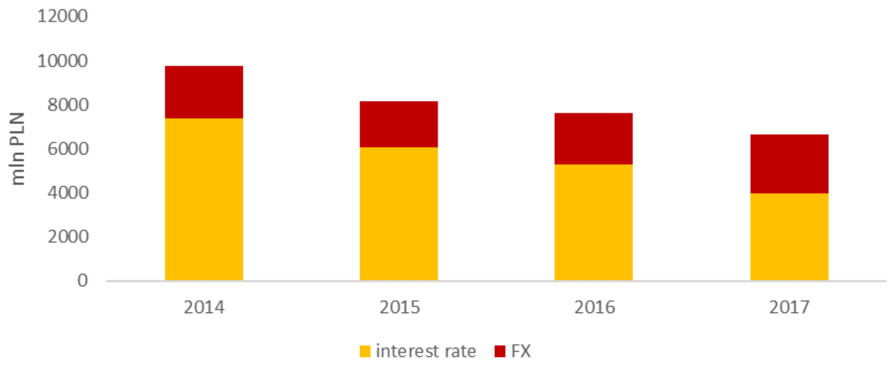
According to the WSE data as of 21 January 2019, the number of issuers of PLN-denominated debt instruments listed on the Catalyst market was 143, and 105 entities thereof issued corporate bonds. The value of issue corporate and treasury bonds equaled 672,39 billion PLN, and the value of issue of corporate bonds only amounted to 42.39 billion PLN. It is worth noticing that only 14 entities issued EUR-denominated debt instruments and the issue value was 17.10 billion EUR.[15]

Derivatives in Poland are traded on the (regulated) exchange market and over-the-counter – OTC. As far as the value of turnover and diversity of offered financial derivatives are concerned, the OTC market is in Poland far and away better developed. In 2017, the average daily turnover on the OTC market was eight times higher than turnover on derivatives listed on the WSE[16], as illustrated in the graphs below.

In this context it is worth noticing that one of 16 EU authorised central counterparties (CCPs) i.e. KDPW_CCP, authorised under EMIR regulation to clear both the exchange and OTC derivatives, has been operating on the Polish market since 2014. The range of services provided by KDPW_CCP includes clearing of derivatives in organised trading system (stock exchange and MTF) and OTC (mainly, the interbank market), denominated in PLN and EUR.

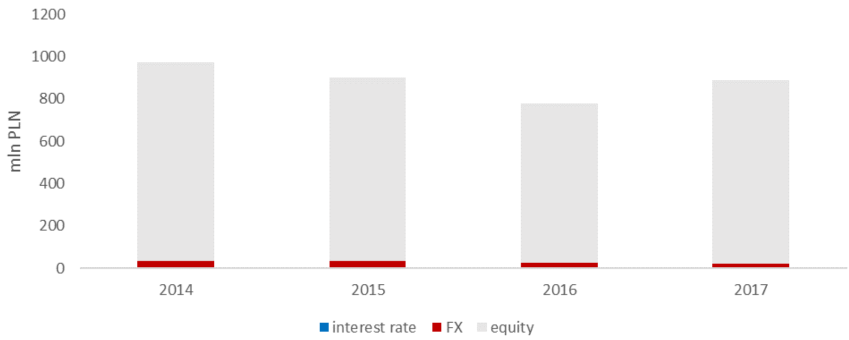
13) PwC, *IPO Watch Europe 2018*, 2019.
14) NBP, *Rozwój systemu finansowego w Polsce w 2017 r.*, Warsaw 2018
15) Data acc. to Catalyst. See https://gpwcatalyst.pl/statystyki.
16) NBP, *Rozwój systemu finansowego w Polsce w 2017 r.,* Warsaw 2018

**Fig. 3. Average daily net turnover in OTC derivatives on the domestic market**




Source: NBP.

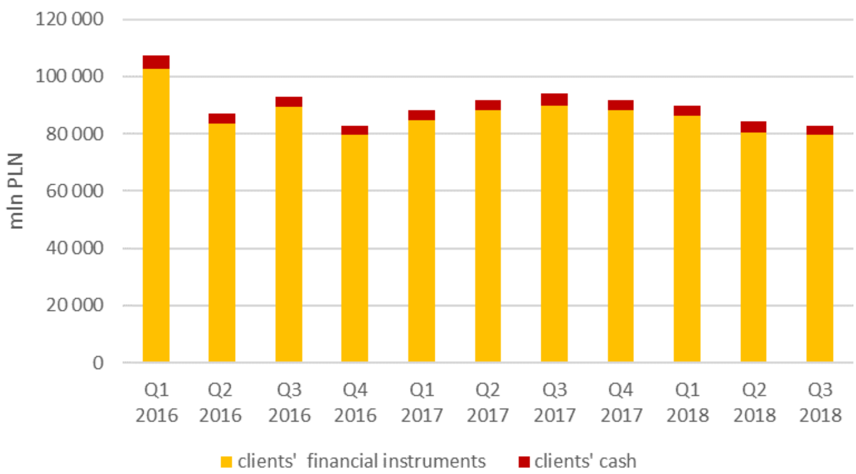
**Fig. 4. Average daily net turnover of derivatives on the domestic market**




Source: WSE i NBP.

Attention should be also paid to the organisational form of intermediaries acting between the issuers and investors on the Polish market. Pursuant to the Act of 29 July 2005 on trading in financial instruments, the Polish law provides the so-called brokerage compulsion in the case of public offerings of securities.[17]. Consequently, public offerings must be conducted through the intermediation of investment firms – mainly by brokerage houses and banks which offer brokerage services. Brokerage activities may be conducted basing upon licenses issued by the Polish Financial Supervision Authority in line with the Act aforesaid.

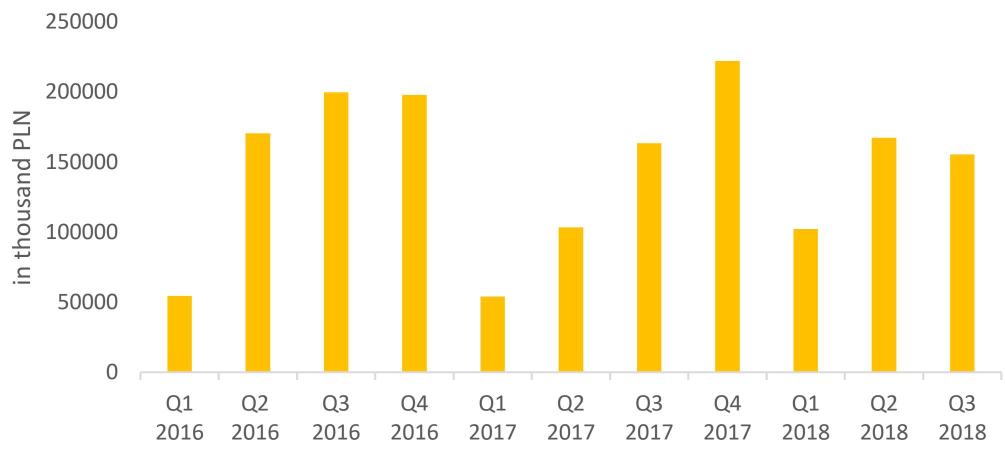
**Fig. 5. Aggregated value of assets of brokerage house clients in Q1 2016 – 3Q 2018**




Source: fKNF.

[17)] Act of 29 July 2005 on trading in financial instruments (J. of L. of 2018 item 2286, as amended).

**Fig. 6. Net financial result of brokerage houses in Q1 2016 – 3Q 2018**

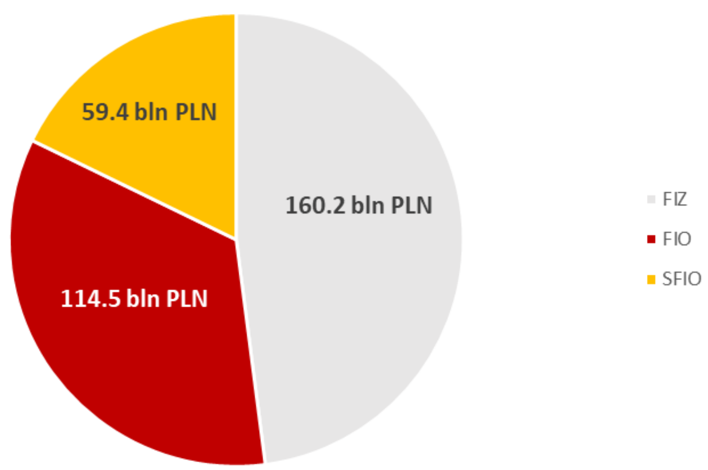



Source: KNF.

A relatively stable segment of the Polish capital market is the investment funds market. In Poland, these entities operate in compliance with the 27 May 2004 Act on Investment Funds and Alternative Investment Fund Management.[18] Accordingly, the investment fund is a legal person whose exclusive scope of activity is the allocation of funds gained from investors. Activities in the name and on behalf of a fund are performed by investment fund managers which at the same time are fund organs. Currently in Poland there are 63 such managers.[19]

As of June 2018, the total value of assets allocated in investment funds amounted to 334.2 billion PLN. Fig 7 shows the total value of allocated assets with a breakdown into the respective fund categories.

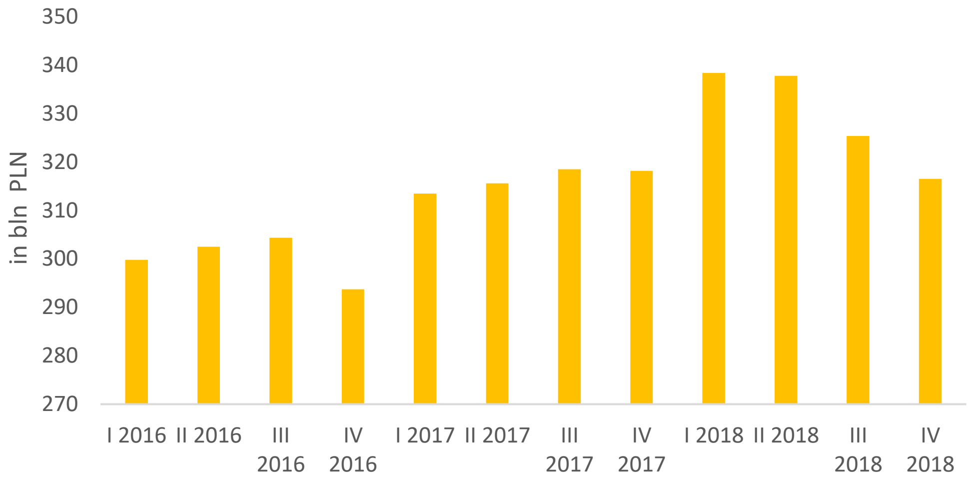
**Fig. 7. Total value of assets broken down by funds as at June 2018.**




Source: GUS.

[18] Act of 27 May 2004 on investment funds and management of alternative investment funds (J. of L. of 2018 item 1355, as amended).
[19] Data acc. to KNF.

**Fig. 8. Investment funds assets in 2016-2018**




Source: KNF.

It is worth noticing that the value of assets managed by Polish investment funds shows a downward trend, amounting to 316.5 billion PLN as of the end of 2018.

Undoubtedly, in the last 30 years, the Polish capital market has developed enough to become a significant player in Eastern and Central Europe. Nevertheless, it is still less attractive than the leading European markets. In addition, since the EU legislator tends to standardise the functioning of EU capital markets and thus, due to a tendency towards having each of their aspect regulated, the Polish market will be subject to an increasing regulatory pressure.

# 2. Objectives and basic principles of CMDS

The main vision of this document is a more developed, dynamic and competitive capital market at an international level, which will significantly support the long-term development of the Polish economy.

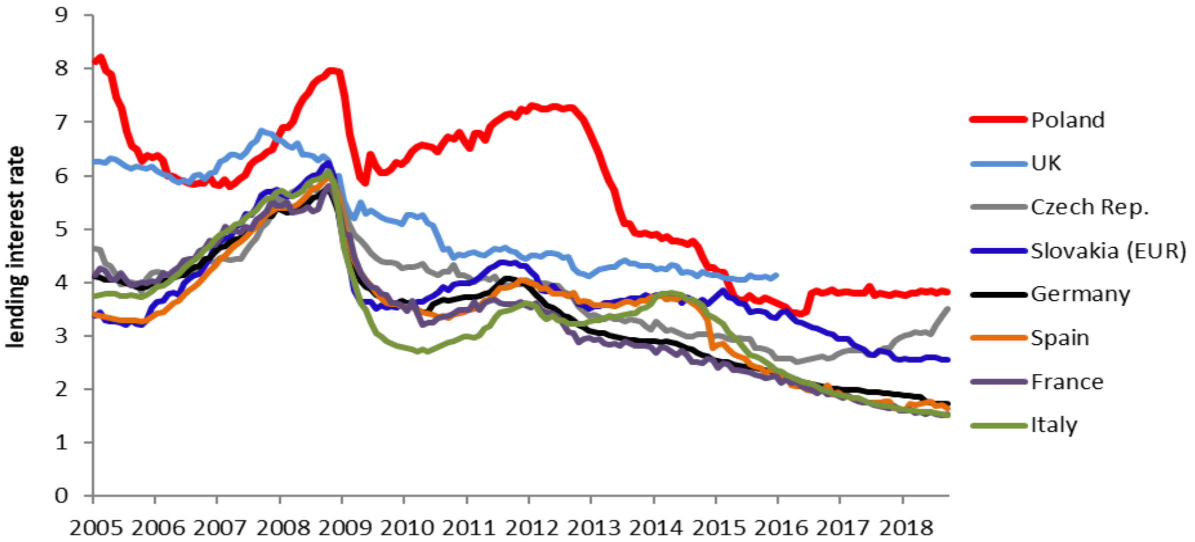
Aiming to create such a market, the Capital Market Development Strategy is based on the following fundamental principles that should guide its implementation:

1. increasing confidence in the market;
2. strong protection for individual investors;
3. stability of the regulatory and supervisory environment;
4. use of competitive new technologies;
5. promoting sustainable finance (pro-ecological investments).

## 2.1. MAIN OBJECTIVE

Raising capital by enterprises is more expensive in Poland compared to seven other EU economies, with the assumption that the average cost of bank loan for enterprises with a maturity from one to five years is a reference point for the cost of capital (Fig. 9). The lending interest rate depends of course on many factors, including the parameters of monetary policy, competition in the banking sector or credit risk assessment by banks. However, this example shows how important it is to reduce the additional costs and risk premiums that market participants incur due to various barriers in accessing finance for their activities. The problem of high cost of capital exists in many aspects of the functioning of the Polish capital market.

**Fig. 9. Cost of a bank loan for non-financial enterprises (monthly data, denominated in national currency, period between 1 and 5 years)**




Source: Own study based on the ECB data.

In connection with the above, the main goal of the Capital Market Development Strategy is to improve access to financing for Polish enterprises by reducing the average cost of raising capital in the national economy.
It is not possible to quantify the exact impact of the implementation of the proposed solutions proposed on the cost of raising capital, among others, due to many factors (including the global economic situation) affecting this cost. However, it can be stated that the diversification of types of financing and sources of raising capital, in accordance with basic market mechanisms, should significantly contribute to reducing the average cost of raising capital as a result of competitive pressure. Importantly, one of the expected effects of implementing the Strategy is deepening the market, which means enabling financing to be obtained for entities outside the sphere of interest of the traditional banking sector. According to observation of trading practice, but also from literature, the significance of capital markets is evident above all in the area of services related to financing innovative and long-term projects that are too risky from the point of view of banking procedures.[20] This is partly due to the fact that non-bank financing is inherently more flexible than bank financing.

[20] See: Jacklin C., *Demand deposits, trading restrictions, and risk sharing*, 1987; Rajan R. G., *Insiders and Outsiders: The Choice between Informed and Arm's-Length Debt*, [in:] 'Journal of Finance', Vol. 47, Issue 4, Sepetember 1992, pp. 1367-1400; Holmström B., Tirole, J., *Financial Intermediation, Loanable Funds and the Real Sector*, IDEI Working Papers 40, Institut d'Économie Industrielle (IDEI), Toulouse 1994; Dewatripont M., Maskin, M., *Credit and Efficiency in Centralized and Decentralized Economies*, [in:] 'Review of Economic Studies',

Above all, however, capital markets treat risk differently than banks - banks act as an intermediary between depositors and borrowers and also take on some risk, while capital markets only allow to find investors interested in undertaking the risk associated with financing. As a result, capital markets are not an exact substitute for banks as they enable additional investments that classic commercial banks would not be ready to finance.[21]

It is expected that achievement of the main objective will be important from the point of view of supporting the long-term economic development of Poland by the capital market - by improving access to financing for domestic enterprises and also due to positive synergies between the development of financial sector and economic growth. According to the literature, the role of capital markets increases with obtaining subsequent levels of development of national economy.[22]The importance of banks is the greatest at an early stage of development, whereas capital markets are becoming necessary for the further development at later stages. In the countries characterised by a high maturity of institutional systems there is a demand for a broader set of tools related to the capital structure than the tools normally offered by banks.

## 2.2. SPECIFIC OBJECTIVES OF THE CMDS

A developed capital market, which complements bank financing, ensures greater diversification of financing methods and reduces the cost of raising capital, especially for small and medium-sized enterprises. Due to efficient capital market infrastructure and efficient network of intermediaries operating on it, the economy increases the capital flow from those having financial resources to specific projects, ensuring a better allocation of risk and capital and hence, making the economy more resistant to possible shocks.[23]

Below there are presented detailed, intermediate goals. Their fulfillment is first needed to create a market able to compete with European most developed markets.

### 2.2.1. OBJECTIVE 1: INCREASING THE SCALE OF CAPITAL RAISING BY ENTERPRISES ON THE CAPITAL MARKET

Poland is the 23rd economy in the world in terms of nominal GDP[24], whereas the WSE in terms of market value of companies is only 33rd in the world.[25] One of the measures that allows to determine the value of market, as well as to enable to compare individual capital markets, is the domestic companies capitalisation to GDP ratio. Therefore, the Polish stock exchange should better reflect the level of economic growth of the Polish economy.[26] Considering the level of this indicator among the most developed EU markets, during the implementation of the CMDS (i.e. until the end of 2023) one should strive to increase the indicator from the current 35% to 50% of GDP, so as to in long-term (i.e. by 2030) reach 75% of GDP[27], thus exceeding the EU average. It is expected that a significant capital flow into public markets should be ensured by:

- development of new FinTech companies and implementation of new technologies,
- introduction of Employee Capital Plans (PPK),

Vol. 62, No. 4, October 1995, pp. 541-555; Acemoglu, D., Zilibotti, F., *Was Prometheus Unbound by Chance? Risk, Diversification, and Growth*, [in:] 'Journal of Political Economy', Vol. 105, No. 4, August 1997, pp. 709-751; Levine R., *Financial development and economic growth: views and agenda*, [in:] 'Journal of Economic Literature', Vol. 35, No. 2, June1997, pp. 688-726; Boot, A., Thakor, A., *Can Relationship Banking Survive Competition?*, [in:] 'Journal of Finance', Vol 55, Issue 2, December 2002; Weinstein D. E., Yafeh, Y., *On the Costs of a Bank-Centered Financial System: Evidence from the Changing Main Bank Relations in Japan*, [in:] 'Journal of Finance', Vol. 53, Issue 2, April 1998, pp. 635-672; Wenger, E., Kaserer, C., *The German System of Corporate Governance – A Model Which Should Not Be Imitated*, Papers 14, American Institute for Contemporary German Studies, 1997; Levine R., *Bank-Based or Market-Based…,* op.cit.

21) Moreover, implementation of the Strategy should also have a positive impact on the banking sector. In the case of many transactions carried out on capital markets, banks are also directly or indirectly involved in them. For example, in case of bond issues, banks often manage this process; In addition, in case of for example banking transaction in the form of a loan, due to the existence of a well-developed capital market, the bank may resell such a loan on the market under securitisation.

22) See King R. G., Levine R., *Finance and growth: Schumpeter might be right*, [in:] 'Quarterly Journal of Economics', Vol. 108, No. 3, August 1993, pp. 717-737; King R. G., Levine, R., *Finance, entrepreneurship and growth*, [in:] '*Journal of Monetary Economics'*, Vol. 32, Issue 3, December 1993, s 513-542; Rousseau P. L., Wachtel P., *What is happening to the impact of financial deepening on economic growth?*, [in:] *'Economic Inquiry'*, Vol 49, Issue 1, 2011, pp. 276–288; Pagano M., Pica G., *Finance and employment*, [in:] 'Economic Policy', Vol 27, Issue 69, pp. 5-55; Allen F., Gale, D., *Corporate Governance and Competition, Center for Financial Institutions Working Papers 99-28, Wharton School Center for Financial Institutions*, University of Pennsylvania, July 1999; Arcand, J. L., Berkes, E., Panizza, U., *Too much finance?*, IMF Working Paper No. 12/161., June2012; Cecchetti, S. and Kharroubi, E., *Reassessing the impact of finance on growth*, BIS Working Papers 381, Bank for International Settlements, June 2012; Langfield S., Pagano M., *Bank bias in Europe: Effects on systemic risk and growth*, ECB Working Paper Series No. 1797, May 2015; Cournède, B. and Denk, O., *Finance and economic growth in OECD and G20 countries*, OECD Economics Department Working Papers, No. 1223, OECD Publishing, Paris, June 2015.

23) See Nassr I.K., Wehinger, *Opportunities and limitations of public equity markets for SMEs*, OECD Journal: Financial Market Trends, Vol 2015/1.

24) According to the World Bank data for 2016

25) Such a state largely results from the specifics of Polish economy, where entities with a relatively small scale of activity predominate in economic turnover, compared to entities operating on other developed markets. Micro, small and medium-sized enterprises (SMEs) play an important role in the Polish and European economy. According to data published by the Polish Agency for Enterprise Development (PARP), such companies generate almost ¾ of the Polish GDP.

26) According to World Federation of Exchanges data for February 2017.

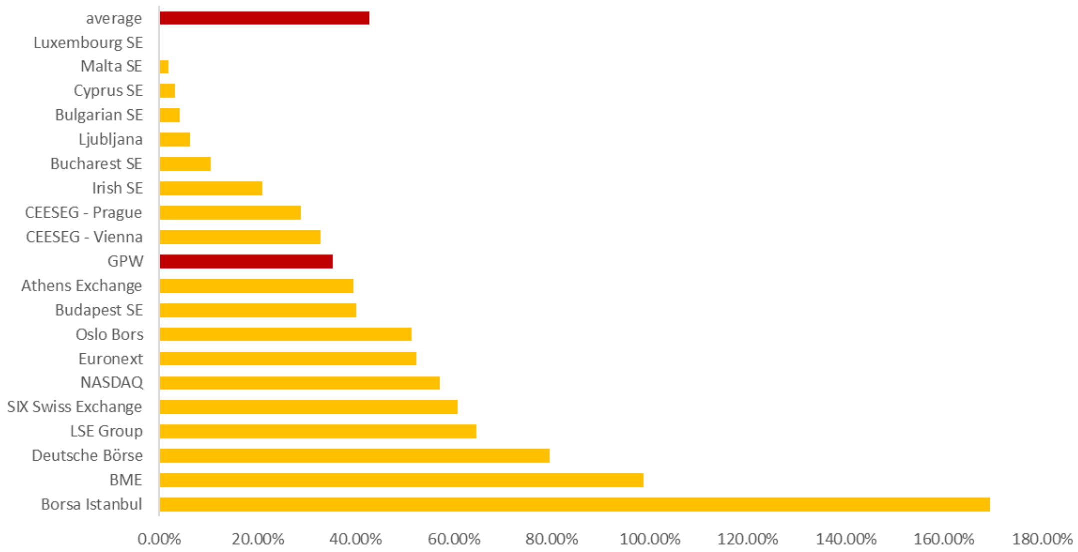
27) According to NBP data for 2013-2017. For comparison, in 2017 this ratio for the euro area amounted to 71%. In the years 2013-2017, in the euro area it increased by 9.5 p.p., while in Poland it decreased by 1.7 p.p. In determining the objective, it was assumed that the economic growth rate would remain at its current level.

- stimulating the activity of individual investors and better financial education,
- development of new market structures and dedicated incentives.

### 2.2.2. OBJECTIVE 2: INCREASE IN LIQUIDITY

Due to the progressing liberalisation of the stock exchange sector, the competition between financial instrument trading platforms in individual countries has significantly increased. Companies operating regulated markets compete with each other to acquire new issuers, investors, inter alia through liquidity level. To measure market liquidity the liquidity ratio is used, which is the turnover to the average monthly market capitalisation ratio.
As shown below, in 2016 the liquidity ratio for the Warsaw Stock Exchange remained significantly lower than the average of European exchanges. Within our region, it should be noted that the liquidity ratio for the WSE was lower than for the Budapest Stock Exchange, while higher than for the Prague or Vienna Stock Exchanges.

**Fig. 10. Liquidity ratio on stock exchanges in Europe in 2016**




Source: FESE (based on data in EUR), LSEG. Note: The indicator was calculated as the ratio of turnover of individual exchanges for 2016 to the average annual capitalisation at the end of each month.

In connection with the above, the objective is to achieve maximum liquidity at the lowest transaction cost, which means:

- a 100% increase in the turnover liquidity ratio in the most important asset categories from the perspective of capital market development within organised trading, and
- reducing transaction costs (direct and hidden, tariffs and spreads).

### 2.2.3. OBJECTIVE 3: ENHANCING THE EFFICIENCY OF INTERMEDIARY INSTITUTIONS

On the capital market intermediary is an institution which as an essential link enables contact between entities that need capital to finance their activities or any investment projects with entities that have this capital. Due to the key role of intermediaries in the investment process, one should strive to increase the scale of operations of Polish intermediaries.

Market practice shows that when choosing a given intermediary, a market participant often becomes tied to the market on which the intermediary operates. Therefore, it is extremely important that intermediaries are competitive, thereby attracting to the Polish market new investors, including foreign ones.

In this regard, it is highly necessary to increase the innovation capacity and efficiency of intermediaries of Polish and foreign investors on the primary and secondary market along with boosting confidence in the market and the law created for this sector.

The implementation of this goal depends, to a large extent, on the commitment of intermediaries and their readiness for development. Undoubtedly, however, the Government should support these entities through appropriate legislative initiatives, boosting confidence in the entire market. Given the above, the common goal of the Government and Polish intermediaries should be to achieve, until 2025, by minimum two of these entities the status of pan-European intermediaries and by minimum one intermediary being able to compete with their international counterparts.

### 2.2.4. OBJECTIVE 4: INCREASING THE SHARE OF SAVINGS IN THE ECONOMY

Savings are important element of development of state economy, because due to them capital accumulation process takes place, leading to their transformation into investments. This transformation is possible with the use of many channels, including financial institutions that raise funds from households. In this respect the capital market also plays an important role as it enables enterprises to accumulate new funds by issuing new shares and selling them to households. Therefore, both financial institutions and the capital market play a key role in stimulating the flow of household savings to enterprises that want to incur the loans needed to finance expenditure on new capital goods. Due to this relationship, a higher level of private savings should translate into higher private investment.[28]

Therefore, the objective is to increase the share of savings in the economy to:

- by 2025, have the gross saving rate of household increased to approx. 8% of gross disposable income (from 2.60%)[29], achieving the private savings rate observed in countries such as Finland or Denmark;
- by 2030, match the level of the average saving rate of the EU countries, i.e. around 11%.[30, 31]

The average saving rate in the EU countries is assumed as a reference point for the implementation of the above objective, because in these countries societies have primarily similar to the Polish one demographic structure.[32] It is worth noticing that the saving rate is influenced by many factors such as: economic growth, pension system, tax system, legal environment, demographic structure of the society as well as cultural and historical conditioning.[33] In addition, the legal regime is not without significance on the level and structure of savings, which is unified in all EU Member States. Also future EU regulations will have a comparable impact on the shape of Member States' regulations.
Additionally , the Polish financial market is a part of the European single market, thus it is strongly linked to the systems and financial markets of other Member States.
In achieving this goal, it will be necessary to consider making appropriate changes to tax regulations. Moreover, at this point the intention of this document is also to increase the number of people saving in IKE and IKZE through new digital financial channels.

### 2.2.5. OBJECTIVE 5: MORE EFFECTIVE ADMINISTRATIVE PROCEDURES

An important factor influencing the condition of the capital market is its legal and administrative environment. Undoubtedly, all legal and administrative changes should be the starting point for making any other type of changes on the market aimed at its development.
This objective aims to achieve more cost-effective administrative procedures (including primarily shorter processes for approving prospectuses and increasing the transparency and consistency of issued decisions).

Greater efficiency of administrative procedures for capital market entities should be ensured by actions such as:

- review of legal provisions relating to capital market entities, thus contributing to the reduction of so-called inflation of regulations regarding this market,
- greater involvement of market entities in the process of creating legal acts (including EU acts) at the earliest possible stage,
- enhanced dialogue between the regulator, market and supervisor on current law changes, especially those arising from EU law,
- increasing consistency and transparency regarding decisions and guidelines issued,
- shortening the processes of approving documentation, issuing licenses for operating on Polish markets,
- elimination of delays in the registration of securities by courts after the issue of shares,
- as far as possible, ensuring the official and uniform version of the national capital market regulations, also in English language.

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28) Tesar L., *Savings, investment and international capital flows*, [in:] 'Journal of International Economics', Vol. 31 Issues 1-2, August 1991, pp. 55–78.
29) According to the latest available comparative data from Eurostat. This is the average gross saving rate from 2012-2016. The gross saving rate of households is defined by Eurostat as total gross savings divided by total disposable income, taking into account changes in household capital accumulated on retirement accounts. Gross savings, in turn, are defined as part of the gross disposable income that is not allocated to consumption expenditure.
30) Average saving rate in 2012-2016 according to Eurostat data.
31) Considering the WSE data for 2018 Q1 regarding the structure of Poles' savings, indicating that 62% of savings are bank deposits, bonds are amount to 2% of savings, shares are 4%, and investment funds 11%. In the CMDS it is assumed to increase the level of Poles' savings in the last three forms of investing.
32) According to Eurostat data for 2017 and long-term forecasts for 2050.
33) Smith R., *Factors affecting saving, policy tools, and tax reform: a review*, International Monetary Fund Staff Papers, Vol. 37, No. 1, March 1990, pp. 1-70; Shoham A., Malul M., *The role of cultural attributes in savings rates*, [in:] 'Cross Cultural Management: Adn International Journal', Vol. 19, Issue 3, 2012; Jordan S., Treisch C., *The perception of tax concessions in retirement savings decisions*, [in:] 'Qualitative Research in Financial Markets', Vol. 2, Issue 3, 2010.

# 3. Diagnosis - current barriers on the Polish capital market

On 16 March 2018, when preparing the Strategy, the Ministry of Finance sent to the members of the Financial Market Development Council questionnaires developed by external consultants, whose purpose was to indicate by Polish financial market participants potential difficulties in their current functioning, and thus barriers to development of capital market in Poland. In the survey, stakeholders were also asked to indicate potential solutions to the problems raised by them. By sending questionnaires, the Ministry of Finance indicated that answers should be directed only to external consultants and representatives of the EBRD, in order to encourage recipients to provide honest answers and ensure impartiality of the analysis.

The Ministry of Finance subsequently asked the EBRD to analyse and identify the 20 most important barriers to the development of the capital market in Poland, including above all the long-term ones. The list of these barriers was presented and discussed in detail during the meeting of the Financial Market Development Council on 27 July 2018. In addition, the aforementioned list was forwarded to participants on the same day, with request for opinion and comments by 10 August 2018. These comments were used to construct the final list of the 20 most important barriers and proposed directional solutions.

This list is as follows:

**GENERAL BARRIERS**

1. Low level of savings and investments, especially in the retail sector.
2. Lack of measurable goals and action plans aimed at financial integration of individual investors.
3. Insufficient level of financial education of the society.
4. Insufficient compliance with corporate governance principles and financial management requirements by listed companies, including those of the State Treasury companies.
5. Low attractiveness of the initial public offering (IPO) and capital raising structures.
6. Lack of explicit responsibility for implementing solutions and development of the Polish capital market (who is responsible - MF, NBP or KNF).

**STRUCTURAL BARRIERS**

7. Insufficient use of competitive and innovative functionalities and technologies on the treasury securities market.
8. Insufficient efficiency, transparency and liquidity, in particular of many key capital market segments, e.g.:
    - repo transactions on Polish securities,
    - derivatives.
9. Lack of national ‘leaders’ among issuers and intermediaries operating on a pan-European or global level.
10. Lack of legal, operational and supervisory framework for certain important products and services:
    - Securities Lending and Borrowing (SLB),
    - ETFs and ETP-type instruments.
11. Obsolete technologies or lack of technology in key market segments, including insufficient investment in FinTech solutions.
12. Expensive market infrastructure and agents offering products / services that do not meet modern requirements.
13. Insufficient activity of capital market entities in the area of lobbying activities in the European Union.

**REGULATORY BARRIERS**

14. Insufficient market experience of the supervisor - not adapted to the dynamics of market development.
15. Legal uncertainty perceived by the market related to, among others, pension system reforms (e.g. OFEs).
16. Introduction of the so-called gold-plating, i.e. excessive regulation and restrictions in relation to EU law.
17. Gaps in legal regulations that contribute to market inefficiency and increasing risk, while reducing confidence in it, including:
    - lack of courts specialising in financial crimes,
    - lack of standardisation of legal documentation (prospectuses, documentation regarding information obligations related to listing on the market, contracts),
    - inability to process the prospectus in English, which reduces the attractiveness of the Polish capital market for foreign issuers,

- insufficient regulatory framework regarding the protection of the rights of market participants,
- failure to implement the bond valuation standard in accordance with market value,
- deficiencies in post-transactional infrastructure to ensure greater market security.

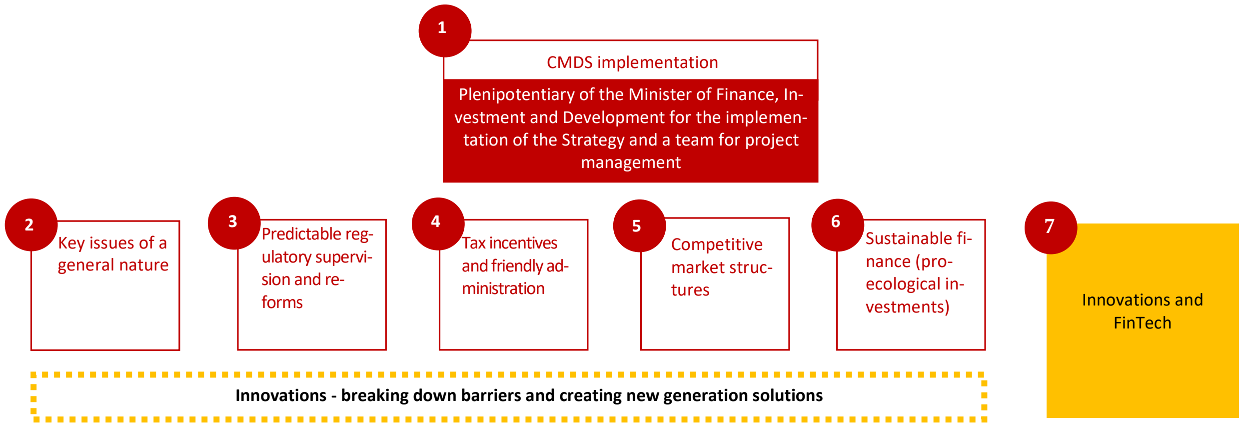
**TAX BARRIERS**

18. Lack of sufficient tax incentives for issuers, investors and intermediaries.
19. Tax structure and administrative barriers that discourage entering the capital market.
20. Low popularity of employee share schemes.

# 4. Planned activities

This chapter presents proposals for actions that address the barriers presented in the previous section. Individual solutions were discussed in accordance with the thematic blocks presented in the diagram below.

**Fig. 11. Structure of the CMDS implementation**




Source: Own study.

## 4.1. AREA 1: CMDS PROJECT MANAGEMENT

### 4.1.1. APPOINTMENT OF A PLENIPOTENTIARY OF THE MINISTER OF FINANCE, INVESTMENT AND DEVELOPMENT FOR IMPLEMENTATION OF CMDS

The Government will take measures to develop the Polish capital market. It will also strive for this market to become a significant support for the Polish economy in terms of its long-term development and achieve a competitive position on the international arena. One of the most important success factors of CMDS is to entrust direct supervision over the implementation of the Strategy to the Plenipotentiary of the Minister of Finance, Investment and Development, who the project management team will serve to. It is expected that the Plenipotentiary's direct supervision over the actions postulated in this document will contribute to their timely and reliable implementation.

### 4.1.2. ESTABLISHMENT AND FUNCTIONING OF THE PROJECT MANAGEMENT TEAM AND ESTABLISHMENT OF THEMATIC WORKING GROUPS AT RRRF

#### 4.1.2.1. Implementation

The process of implementing the CMDS will formally commence at the time of adopting this document by the resolution of the Council of Ministers, however, from the beginning of work on the Strategy, the Ministry of Finance has taken measures to improve the regulatory environment in order to ameliorate the implementation of the changes foreseen in this document.

Importantly, so far, due to the lack of a formal capital market development strategy in the economic policy of the state, there was no coherent approach to managing capital market development. Many strategic issues were discussed in the Financial Market Development Council[34]. Therefore, currently it also seems justified to maintain this form of dialogue with the market, including continuation of regular meetings of the Council devoted to specific thematic areas discussed in the CMDS. At the same time, issues related to the implementation of solutions in the field of advanced innovations will also be discussed at the meetings of the Inter-ministerial Team for Innovation.

In addition, due to the growing number of EU regulations, it becomes necessary to coordinate activities and cooperation between individual stakeholders in order to improve the regulatory and supervisory processes of the Polish capital market. It is necessary for entities representing individual market segments to establish a lobbying office in Brussels with organisational support from the Government. The Brussels office should focus its efforts on influencing the projects of regulations, decisions, guidelines etc., designed by European Commission, European Parliament and Council of the European Union or European Supervisory Authorities (ESMA, EBA and EIOPA).

[34)] The Financial Market Development Council was established by ordinance No. 25 of the Minister of Finance of 14 September 2006 regarding the establishment of the Financial Market Development Council.

In order to efficiently carry out the implementation phase, the Plenipotentiary of the Minister of Finance, Investment and Development for the implementation of CMDS will:

- ensure effective communication regarding CMDS activities within the Government,
- publicly present the solutions envisaged by the CMDS, its objectives, main assumptions, as well as the roadmap,
- ensure the recruitment of an experienced project team.

#### 4.1.2.2. CMDS project management team

The project management team will be created within the structure of the Ministry of Finance, in line with the organisational chart of the CMDS project which is presented below. The activities undertaken by the team should be reviewed annually in order to take into account the needs for next year.

The main tasks of the CMDS project management team:

- substantive and organisational support of the Plenipotentiary in ongoing supervision over the implementation of activities provided in the Strategy,
- establishing and coordinating tasks within the thematic working groups,
- monitoring the timeliness and completeness of CMDS implementation,
- removing identified barriers through the design and implementation of solutions, supported by previous analysis and consultation with stakeholders,
- preparation a quarterly report on progress in the implementation of the Strategy and further planned activities, needed for the Plenipotentiary in order to present it on the RRRF forum

#### 4.1.2.3. Establishment of a working group at RRRF for the implementation of the CMDS project

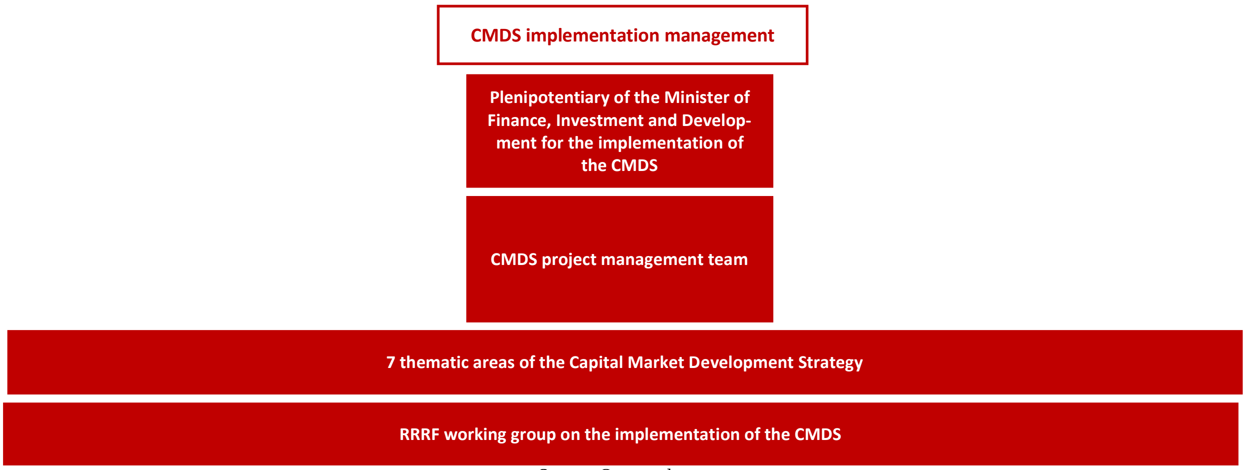
In the process of implementing the CMDS, it is necessary to use the knowledge and experience of participants of the Polish capital market. Therefore, a working group will be set up within RRRF to implement the solutions provided for in this project, coordinated by the above-mentioned CMDS project management team. This group will carry out its works according to the thematic areas for which there is the greatest demand from market participants for conducting discussions and in-depth analysis.

Proposed thematic areas of the RRRF working group on the implementation of the CMDS:

1. Organised market,
2. SMEs and private market,
3. Innovations and FinTech,
4. Derivatives,
5. Post-trading infrastructure and investor relations,
6. Corporate governance,
7. Expansion and international competitiveness,
8. Individual investor protection,
9. Transaction costs and other market fees,
10. Investment funds and institutional investors.

During meetings of working groups, experts with experience obtained in the largest international financial, consulting or IT institutions will be invited, if possible to use their knowledge and experience in working on the most developed foreign markets.

**Fig. 12. Organisation of the CMDS implementation project**




Source: Own study .

### 4.1.3. COORDINATION OF ACTIONS BETWEEN MF, NBP AND KNF

The implementation of actions necessary for development of the capital market is also largely dependent on the future cooperation and convergence of implemented goals between the Ministry of Finance, the National Bank of Poland and the Polish Financial Supervision Authority, which are the three main entities supervising and regulating the Polish financial market. It is postulated that these three parties develop and conclude an agreement for a coherent and effective implementation of the solutions provided in the CMDS, along with taking into account the applicable provisions regulating the functioning of these entities. This trilateral agreement should contribute to boosting confidence of market entities in the law and directions of actions designated by the Government aimed at market development.[35]

**ACTIONS - MANAGEMENT OF CMDS**

1. Appointment of the Plenipotentiary of the Minister of Finance, Investment and Development for the implementation of the CMDS.
2. Establishment of the CMDS project management team within the structures of the Ministry of Finance.
3. Preparation of quarterly reports on the progress in the implementation of the CMDS presented at the meetings of the Financial Market Development Council.
4. Conclusion of an agreement between the Ministry of Finance, the National Bank of Poland and the Polish Financial Supervision Authority in order to coherently implement the solutions provided in the CMDS.
5. Establishment of working group at the Financial Market Development Council for the implementation of solutions provided in the CMDS.
6. Acquiring Poles working abroad in the largest financial, consulting, IT and FinTech companies for the domestic capital market.
7. Establishment by market participants, with Government support, of an office in Brussels to deal with lobbying in key EU institutions.

## 4.2. AREA 2: GENERAL ISSUES

The following general issues have been identified in the CMDS that require targeted action to be taken:

- trust,
- corporate governance standards,
- savings and education in the field of the financial market,
- human resources.

[35] For example, a trilateral agreement can be based on documents adopted in many countries, for example Great Britain.

### 4.2.1. IMPROVING TRUST

Improving trust in the market is one of the basic principles of this document. This is a key task for all stakeholders, i.e. the Government, the central bank, supervisors, intermediaries, issuers and others, which should also be based on the use of modern technologies, guaranteeing data security, price competitiveness as well as speed and transparency of processes. A prerequisite for the development of the capital market in Poland is on the one hand a considerable enhancement of public confidence to the capital market entities (primarily through education and effective supervisory framework), and on the other hand, of stakeholders to state bodies (including in the scope of predictability of their activities and regulations).

The capital market is a complicated environment where the fundamental factor in decision making is the objective advisory of market intermediaries. At the same time, the risk always remains with the investor or issuer. To ensure a balance between the risk incurred and the return on investment and the appropriate quality of recommendations received from intermediaries, the risks and benefits should be laid out in a transparent and effective manner. Advisors should also bear part of that risk. In addition, the development of domestic capital market needs to minimise fraud, not by reducing a scale of operations and investment, but by properly enforcing regulations and using regulatory deterrents.

In this context, a major challenge for the capital market is also the way of implementing legislative changes resulting from a need to adapt to a changing environment or technology. The factor that guarantees predictability of regulations should be the high quality of the legislative process, proportionality of the implemented solutions and the allocation of sufficiently long time for public consultations and for implementation of new regulations by market participants. Situations where market conditions change rapidly and unexpectedly should be avoided.

This document aims to provide high level of protection to all stakeholders, and in particular to individual investors, so that the law and enforcement measures create a stable legal environment allowing for efficient allocation of capital and obtaining proper benefits by risk takers. At the same time, investors should be protected without having to pay brokers and advisors excessive fees. In this regard, CMDS must also limit the possibility of making wrong decisions by investors as a result of unobjective advisory, which promotes short-term profits for advisors, products characterised by high fees or products being not adapted to the client's profile and his investment goals.

In the remaining sections, the CMDS presents a number of proposals that are aimed at promoting confidence in the markets.

**ACTIONS – TRUST**

1. Taking care of for stability and predictability of the regulations.
2. Increasing the broker's responsibility for recommended investments through effective law enforcement measures.

### 4.2.2. STRENGTHENING AND COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS

One of issuer’s benefit to be a public company is the possibility to use a potentially favorable valuation, which is not available in practice to companies choosing other, non-public forms of financing.

Corporate governance and market standards can have a direct impact on the valuation of companies, as investors attach more importance to well-managed companies, especially in economies that have a lower level of corporate governance. One of the most important indicators of corporate governance level is a respect for the rights of minority shareholders in public companies. OECD states that corporate governance *provides the structure within which the objectives of the company are set, and the means of attaining those objectives and monitoring results are set.* [36]

Based on conversations with Polish market stakeholders, it can be concluded that compliance with corporate governance standards on the Polish capital market is still not satisfactory. This can have a significant impact on the propensity of new companies to debut on the stock exchange.

Therefore, one should strive to create conditions enabling the development of corporate governance on the Polish market.

[36] OECD, *Principles of Corporate Governance*, 1999.

### Increase of the WSE competencies

The currently applicable requirements for companies in the field of corporate governance result from the Act on Public Offering[37], implementing the so-called Transparency Directive[38], which requires issuers to publish a statement on the application of corporate governance principles together with annual financial statements. Such a statement should specify which corporate governance code the issuer is subject to or which set of rules they apply. In addition, this statement should contain all relevant information about the corporate governance practices applied that go beyond the requirements of national law. When the issuer does not comply with a specific set of rules, they should add an justification and explanation about any parts of the code they deviate. If the issuer breaches its obligation to publish a statement on the application of corporate governance principles, the KNF may impose a fine on the issuer or exclude them from trading. However, this is a sanction for lack of publishing, rather than for non-compliance with the set of rules, which is here a key issue.

It is suggested that the Warsaw Stock Exchange exercises its powers set out in the WSE Statue to a greater extent than before. It means the WSE is to verify statements of listed companies regarding corporate governance, as well as to impose regulatory penalties on issuers that incorrectly fulfill the information obligations arising from the application of standards under the document 'The Best Practice for GPW Listed Companies 2016'. In addition, the WSE should undertake educational activities in the field of corporate governance. These measures should include:

- training provided for members of management and supervisory boards,
- promoting technical solutions that improve availability of information on the application of The Best Practice principles by listed companies, including the public announcement of corporate governance statistics.

In addition, as the State Treasury directly and indirectly controls around 70% of capitalisation of WIG 20 index companies, it is justified for the Government to be a precursor to the application of corporate governance principles in relation to the Polish capital market. Therefore, the Government should take measures to ensure that WSE listed companies with the Treasury as shareholder apply to the greatest extent possible the corporate governance rules applicable to listed companies as contained in the document 'The Best Practice for GPW Listed Companies 2016'. The State Treasury companies should also be a role model for other listed companies in terms of compliance with corporate governance rules.

**ACTIONS - CORPORATE GOVERNANCE**

1. Exercising by the WSE, to a greater extent than before, the rights set out in the WSE Statue regarding enforcing from listed companies compliance with corporate governance rules.
2. Undertaking by the Government actions aimed at ensuring that WSE listed companies with the Treasury as shareholder apply, to the highest extent possible, the corporate governance rules applicable to listed companies contained in the document 'The Best Practice for GPW Listed Companies 2016'.

## 4.2.3. SAVINGS, INTEGRATION AND EDUCATION ON THE FINANCIAL MARKET

The Strategy assumes an increase in the share of savings in the economy so that by 2025 the level of the gross saving rate of household rises from 2.60% to approx. 8% of gross disposable income. Hence, it would achieve the level of the private savings rate observed in countries such as Finland or Denmark, as well as the level of the average saving rate of EU countries by 2030, i.e. around 11%.

A key role in this respect will be played by financial integration and education of Polish society on the functioning of the financial market.

### 4.2.3.1. Savings

In 2012–2016, the average gross savings rate of households was 2.60%, which is well below the average in EU countries.[39]

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37) Detailed regulations in this respect can be found in the regulation of the Minister of Finance of 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the law of a non-member state (J. of L., item 757).

38) Directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013 amending Directive 2004/109/EC of the European Parliament and of the Council on the harmonization of requirements regarding the transparency of information about issuers whose securities are admitted to trading on a regulated market, Directive 2003/71/EC of the European Parliament and of the Council on the prospectus published in connection with a public offering or admission to trading of securities, and Commission Directive 2007/14/EC laying down detailed rules for implemening certain provisions of Directive 2004/109/EC (Official Journal of the EU L 294 from 06.11.2013, p. 13, as amended).

39) According to the Eurostat data for 2012–2016, the average gross saving rate of households in the European Union in the same period was 11%. In turn, in 2016 the gross saving rate of households in Poland amounted to 4.36%. For comparison, in 2016 Switzerland had the highest gross saving rate of households, reaching 22.85% (according to forecasts). Equally high level of savings was achieved by households from Luxembourg, where its level mounted to 19.44%. The high level of savings is also common for households from Germany and France, which had a saving rate of 17.17% and 13.57% respectively (according to forecasts). In turn, countries from the Central and Eastern Europe region, such as the Czech Republic and Slovakia, reached 11.60% and 8.71% respectively. In the same year, the lowest saving rate was achieved by Lithuania 0.16% and Cyprus -3.15%.

The following barriers may constitute an obstacle to development of a savings culture in Poland:

1. Low level of average earnings in relation to the most developed countries.
2. Low level of knowledge on the functioning of financial market, which should be explained, among others, by the fact that Polish market has merely existed for 30 years.
3. Changes in the national pension system in recent years.
4. Low long-term interest rates.
5. Negative net financial results of key index products, high brokerage costs and early redemption costs severely limiting long-term savings.
6. Lack of trust in financial institutions in relation to recorded misseling cases.
7. High propensity to consume.

In the face of aging processes of the Polish society, it is extremely important that long-term savings become a priority not only for those in power, but also to be placed higher in the priority hierarchy of consumers. To stimulate this change the following should be done:

1. developing a comprehensive Financial Education Strategy (see 4.2.3.3),
2. introducing programs aimed at obtaining savings from Poles living abroad. Initial proposals include treasury savings products distributed among others through a mobile application (potentially using blockchain technology), and
3. implementing tax system reforms encouraging long-term saving by lowering the capital gains tax rate for long-term investments,
4. in the case of Employee Capital Plans (PPKs), ensuring control over transaction fees[40], using clear and publicly available guidelines published by the KNF,
5. considering the introduction of selected new models of saving products with simple functionality, e.g. solutions similar to those offered by the British NS&I (nsandi.com). These products can be offered by mobile applications (wallets) together with a number of different structures dedicated to particular demographic groups. In addition, such a mobile platform should achieve the highest digital standards,
6. analysing, within the framework of one of the thematic blocks of the RRRF working, the legitimacy of introducing a mechanism for making the intermediary's commission dependent on the investor's long-term profits.

**ACTIONS – SAVINGS**

| | |
|---|---|
| **1.** | Strengthening the efforts in education in the field of financial market - both unprofessional investors and potential issuers - among others by creating the Financial Education Strategy. |
| **2.** | Implementation of schemes aimed at attracting Poles living abroad to the Polish financial market. |
| **3.** | Tax reforms encouraging long-term saving. |
| **4.** | Considering introducing selected new models of savings products with very simple functionality. |

### 4.2.3.2. Financial integration

In the literature financial integration is primarily defined as a state in which individual segments of the regional and international financial market are connected with one another. It is also emphasised that financially integrated market should remain independent of other financial structures in the region. In addition, to achieve a full financial integration, individual components of the brokerage process, e.g. access to investment capital through institutions or markets, should work symmetrically. A full financial integration requires equal access, including to banks, markets, clearing, etc. for both investors and issuers.[41]

The benefits associated with achieving a full financial integration include a wider choice of risk sharing and diversification options, better capital allocation to investment projects, and potentially higher economic growth.[42]

Therefore, overcoming barriers in this area will contribute, among others, to strengthening financial stability. It is also going to stimulate growth of micro enterprises, which eventually translate to the growth of other sectors of economy. Financial integration cannot be achieved without constant cooperation of all stakeholders. Achieving this goal requires, above all, a consistent approach based upon cooperation between market players.

40) The Act of 4 October 2018 on employee capital plans (J. of L. item 2215, as amended) introduces the transaction fees, by indicating that these fees (as well as other costs) may not differ from the usual costs of execution on the market where such services are provided - art. 50 paragraph 4 in connection with art. 50 paragraph 1 point 2 of the Act.
41) Stavarek D., Repkova I., Gajdosova K., *Theory of Financial integration and achievements in the European Union*, Munich Personal RePEc Archive, July 2011.
42) Baele, L. et al., *Measuring Financial Integration in the Euro Area*, European Central Bank Occasional Paper Series No. 14, 2004.

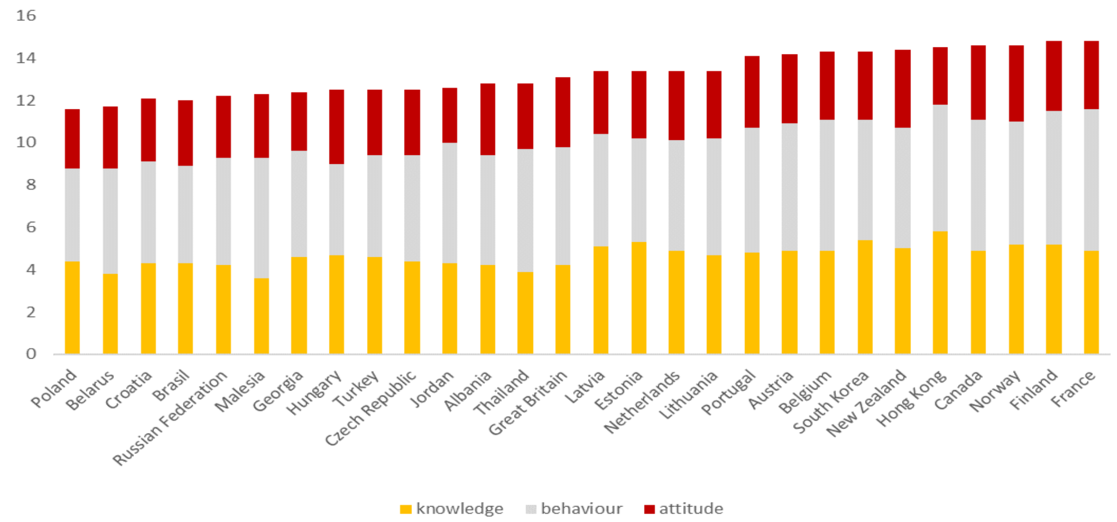
**ACTIONS - FINANCIAL INTEGRATION**

1. The main factors strengthening financial integration:
   - enhanced financial market education, e.g. through social media,
   - promotion of treasury savings bonds, among others by distribution through mobile channels,
   - active supervision over costs incurred by individual investors while preventing the use of hidden (alternative) fees,
   - enabling issuers to run loyalty programs for investors,
   - tax incentives, including those related to employee share schemes.

### 4.2.3.3. Education in the functioning of the financial market

Knowledge of finance and the financial market should be available to the general public, as it leads to an increase in the level of financial integration, stimulates innovation, creates competition and potentially reduces social inequalities.[43] In addition, a high level of financial literacy should have a positive impact on household budget management or the propensity to save. As shown in the figure below, in terms of financial education Poland is at a low level (especially in terms of propensity to save) compared to other countries where the OECD conducted a survey.[44]

**Fig. 13. Knowledge of finance, its use in practice (behaviour), the degree of propensity to save (attitude)**




Source: OECD / INFE, International Survey of Adult Financial Literacy Competencies, 2016. Note: The maximum possible score to be obtained in the OECD survey was 21 points: 7 points for knowledge, 9 points for behaviour and 5 points for attitude. The highest score was obtained by France and Finland (14.8 points). In turn, Poland was on the last place, reaching 11.6 points (55% of the possible maximum result).

In addition, it should be noticed that financial market education should include not only potential investors, but also potential issuers - enterprises that today often use only bank financing. For them the use of capital market instruments, which are tailored to their needs, could be very beneficial for their development and expansion or increase in innovation.

Therefore, the CMDS project management team will cooperate with the newly established Financial Education Council[45], in order to propose, as a part of the Financial Education Strategy for Poland, a model for educating Polish society in the functioning of the financial market.

This model should be agreed with key stakeholders. It should also clearly assign responsibilities for its implementation. In addition, it should be consistent with OECD standards for financial education strategies.[46]

In addition, the Ministry of Finance will work with the Ministry of National Education and the Ministry of Science and Higher Education to promote compulsory education in finance. They will as well review syllabuses for introduction a content related

43) Leifels A., Metzger G., *Financial literacy helps with business start-ups: easier, better funded, more competitive*, KFP Research, October 2015.
44) OECD/INFE, *International Survey of Adult Financial Literacy Competencies*, 2016.
45) The Financial Education Council was introduced in the Act of 9 November 9 2018 amending some acts in connection with the strengthening of supervision over the financial market and investor protection on this market (J. of L., item 2243, as amended). The Council determines directions and a method of implementation of the tasks foreseen for the Financial Education Fund, supervises the implementation of its tasks and the management of the Fund's resources.
46) OECD, *National Strategies for financial education. OECD/INFE Policy Handbook*, 2015.

to financial education at each stage of education, and will eventually consider introducing to schools a separate subject dedicated to financial education. Financial market associations should also participate in teacher training in financial education.

Due to the fact that education in the field of the financial market can only be carried out through active measures, CMDS will aim at introducing:

- games on social platforms, taking advantage of the experience of a very strong computer games industry in Poland,
- additional savings products distributed by using new, more accessible mechanisms, including e.g. mobile applications or cost-free mobile wallets, stimulating competitiveness and boosting confidence in the capital market,
- products also addressed to retail clients currently not using banking services,
- educational solutions for issuers, institutional investors, brokers and advisors to increase the attractiveness of more advanced capital market products and technologies, e.g. structured products, ETFs, additional derivatives, algorithmic trading.

**ACTIONS - EDUCATION ON THE FINANCIAL MARKET**

1. Activities in the field of financial education will include, among others:
   - preparation of the Financial Education Strategy and conducting activities in the field of financial education by the Financial Education Fund,
   - introducing games in the field of financial education, mainly available on social platforms,
   - promotion of treasury savings products distributed through a mobile application,
   - educational programs for issuers, institutional investors, brokers, advisors and individual investors, including through the cooperation of the KNF with organizations of individual investors,
   - analysis of the legitimacy of introducing savings products addressed to Poles who do not use banking products,
   - ensuring that the market and investors can identify improper practices and eliminate them. It should be considered to introduce an obligation to publish information about what kind of violations in the activities and actions of a given entity the KNF has identified, which also led this authority to submit an appropriate notification to the prosecutor's office.

### 4.2.4. HUMAN RESOURCES

It is important to attract to the Polish capital market specialists in finance, consulting and IT, who have been already working for domestic and international capital markets (including Poles who have emigrated and gained experience in the most developed markets). These experts should be obtained for the Ministry of Finance, KNF and the private sector in order to use more advanced skills gained on other markets and branches. Also the expansion of scope of their skills will help raise the level of knowledge on finance and the competitiveness of the Polish market. Acquiring such specialists for the Polish market would allow for a certain cultural change and instill the spirit of innovation. In addition, considering the need for timely implementation of EU regulations (without their unnecessary tightening) in the field of financial services, the potential of human resources in relevant organisational units of the Ministry of Finance and KNF should be increased.

**ACTIONS – HUMAN RESOURCES**

1. Acquiring IT and financial services professionals for the domestic capital market, including mainly Poles abroad working for leading companies.

## 4.3. AREA 3: SUPERVISION AND REGULATORY REFORMS

Poland needs a predictable legal environment which would be favorable to business and would facilitate the efficient capital mobilisation, provide investor protection and remove obstacles to market development. It is also necessary to ensure an ambitious schedule of reform implementation in order to maintain competitiveness of our market against the most developed European ones.

Therefore, the solutions proposed in this area should be implemented. They should also ensure transparent communication with stakeholders, including active use of official recommendations and guidelines available for the entire market, in order to harmonise the interpretation of supervision rules and practices.

### 4.3.1. ENSURING CONSIDERABLE AND EFFECTIVE SUPERVISION

#### Changing the method of financing the KNF and introducing requirements for the level of service provision

The principles of financial management for budgetary units, to which the supervisory authority was subject until the end of 2018, significantly limited the possibility of financing its activities. Changes in the financing of this authority were introduced by the Act of 9 November 2018 amending certain acts in connection with the strengthening of supervision over the financial market and investor protection on this market (J. of L., item 2243, as amended). The new financing model of the KNF assumes that it will conduct independent financial management within its financial resources. There is an expectation of a part of capital market entities that obtaining greater financial independence by this authority will translate into the development and maintenance of high standards of supervision. Therefore, it is recommended that the KNF prepares and publishes on its website an obligation towards capital market participants in relation to the maintenance of specific standards of proceedings conducted by the authority and other activities undertaken towards market entities, in accordance with applicable regulations. This declaration should primarily concern:

1. preparation, publication and use of templates (drafts) of required documents,
2. transparent definition of maximum deadlines required for analysis of documents and their processing by the authority, in accordance with applicable regulations (in this context, it is important to create a new type of procedure described here, to a certain extent independent of the provisions of the Code of Administrative Procedure), provided that interested entity delivers full and correct documentation,
3. introduction of modern methods of electronic communication, e.g. the supervisor placing remarks in the form of comments in editable documents[47], while supervised entities submit relevant documents in a searchable version,
4. standards of relation management with regard to market participants in the most sensitive market segments,
5. issuing written guidelines to achieve legal certainty,
6. adopting schedules of activities agreed with the Ministry of Finance and, if necessary, other groups of stakeholders to effectively remove the barriers identified in the CMDS.

Once a year, the KNF should verify and monitor the standards of its proceedings and other actions taken against market entities, with a view to:

- increase the authority’s operational capacity,
- save time and resources, while increasing the level of services and efficiency of operations,
- use of more advanced market access technologies, its monitoring and supervision,
- employ experienced specialists in the authority.

A comparative analysis of supervisory activities should also be considered, taking into account examples of supervisors of the most developed European markets.

#### Adoption of the operational strategy by the KNF

The supervisory policy over capital market and the entire financial market should be based to a greater extent on *ex ante* actions. It can be accomplished by increasing human resources, primarily acquiring experienced employees from financial institutions *(inter alia* those with work experience on international markets). It could be designed as a part of direct employment at the authority, but also as a temporary secondment of the authority’s employees to internships and training programs in supervised entities in order to better understand the specifics of functioning of these entities. In this context, the process of analysing data held and processed by the supervisor should also be improved, as well as the creation of thematic inter-departmental task groups within the KNF.

The KNF needs an in-depth understanding of business models, strategies and risks incurred by regulated entities, and use of modern technologies to a much greater extent. Therefore, it is necessary for the KNF to regularly design and present to the Prime Minister an operational strategy regarding, among others:

- areas of activity requiring the improvement of the KNF’s operational capacity,
- the way it intends to improve the efficiency of its operations, including how it plans to eliminate barriers to innovation and the development of the capital market, and - separately - how it intends to increase efficiency in new areas of services,
- methods of implementing and applying new technologies in the KNF activities,
- ways of using funds effectively and determining the criteria used to assess the implementation of statutory tasks.

#### Increasing the KNF's involvement in the development of the capital market

[47] Files in the .pdf format can be attached as an indisputable record.

Both when performing supervisory activities and participating in development of regulations, the KNF should consider the potential impact of its activities on development of the capital market and the objectives set out in this document. In this respect, the KNF's strategy should specify the goals and means that it can use to support such development. It may include the areas in which the Polish market can achieve a competitive advantage in relation to other EU markets, as well as may define the specific local needs of the Polish market.

### Ensuring transparency and proportionality of supervision

It is important for supervised stakeholders to understand approach undertaken by the KNF when exercising its supervisory activities and issuing decisions, as well as feel assured that the supervisory authority applies its powers in a proportionate manner.

Therefore, when fulfilling its obligations, the KNF should be obliged to:

- act in a transparent manner, in particular by publicly presenting their position regarding supervision, *inter alia*, through regularly published guidelines, periodic market development analyses and documents in the form of ‘questions and answers’. Such action should eliminate any ambiguity in the interpretation by stakeholders. In case of a discrepancies in the interpretation of EU rules between Polish supervisor and ESMA, the KNF should closely cooperate with participants of the Polish financial market in order to develop a common position of the Polish side, which will be presented to ESMA,
- adopt a proportionate and risk-based approach when imposing burdens or restrictions on market participants, taking into account the benefits of such activities for the entire sector. The KNF should use its knowledge on business models and the requirements for financial institutions, especially in the areas where improper conduct and circumvention of the regulations by a given entity could cause the greatest damage, especially to consumers or key market segments. This applies in particular to investment products targeted exclusively at professional investors, such as shares of non-public alternative investment companies, where the interpretation of regulations issued by the KNF should mean leaving more freedom and discretion to professional investors and, as a consequence, be more flexible than the interpretation of regulations regarding retail clients,
- take into account differences in the nature, size and objectives of the economic activity carried out by individual participants in various market segments,
- conduct regular consultations with financial institutions, mainly in order to learn how planned particular regulatory changes may affect a given entity, market segment and the entire market. Instead of acting in the reactive manner, the KNF should be able to understand and notice market changes or practices early enough to be able to apply appropriate supervisory measures if their use proves to be required. An example of best practice in this respect are periodic meetings with capital market entities, associations of brokerage houses and banks on the implementation of MiFID II regulations that took place in 2018 at the Polish Financial Supervision Authority’s offices,
- adopt a proactive approach to supervision of financial institutions to prevent abuse or the malfunctioning of the financial market, instead of taking action *post factum*.

In addition, in order to increase the efficiency of management and operation of supervised entities, it is proposed to review areas of regulations of the WSE, BondSpot or KDPW and other entities that do not need to be approved by the KNF as part of the RRRF working group on the implementation of the CMDS. The model currently adopted in Poland extends the time to examine changes in regulations and internal procedures, and prevents them from being quickly adapted to changing competitive conditions (including in relation to the amount of fees). Exclusion of certain areas of the above regulations could also release some of the KNF's resources.

### Change in provisions governing proceedings pending before the KNF

In order to increase the efficiency of proceedings pending before the KNF, including the approval of prospectuses, it is necessary to create a new type of procedure, to some extent independent of the provisions of the Code of Administrative Procedure (KPA).

This change would allow, *inter alia*, for modifications to improve the contact between financial market institutions and the supervisory authority. It assumes introduction of full electronic communication by 2020, the widespread use of English, shortening the deadlines for issuing decisions, introducing online editing of documents, using new communication channels, including telephone and video conferences, increasing the quality of services provided by the supervisor.

In order to encourage foreign issuers to issue debt and equity in Poland, the supervisory authority should make extensive use of English language.[48] A change in this area could be a step towards Warsaw achieving the status of a hub for the Central and Eastern Europe.

### Introduction of a ‘regulatory sandbox’ for companies in the FinTech sector

[48)] English is a widely used language among supervisory authorities in EU countries, including in the process of approving prospectuses. See ESMA, *Languages accepted for the purpose of the scrutiny of the Prospectus and requirements of translation of the Summary*, Information Note, 31.03.2014.

Considering the complexity of regulatory requirements in the field of investment services raised by market entities, which at the same time may constitute barriers to market entry, measures are needed to build a friendly regulatory environment for companies trying to introduce innovative solutions and new technologies. Such innovation may lead to increasing the level of investment activity in Poland and guarantee the competitive advantage of Polish entities over counterparts from EU countries.

Therefore, the KNF should launch the so-called regulatory sandbox[49] for FinTech entities in which the licensing process will be adapted and dedicated to the requirements included in the principles proposed by the KNF. The maintenance of the 'regulatory sandbox' should be an important element of the CMDS, including transfer of experience gained by the supervisor and market regulator to the mainstream regulatory framework. All regulatory improvements should be addressed at the CMDS implementation level. It is recommended that actions taken as a part of this 'regulatory sandbox' allow for efficient cooperation between the KNF and the users. It is advisable to use the experience of 'sandboxes' conducted by other supervisory authorities, such as the British FCA. In addition, efforts should be undertaken to make the Polish financial market attractive to FinTech start-ups. Hence, it is proposed to assign to each user of such a 'sandbox' a dedicated tutor, which will also translate into an increase in the efficiency of this solution.

In addition, the *Innovation Hub* program should be continued to support the development of FinTech. This program should contribute to the implementation of the principle concerning predictable and effective supervision over the financial market. The knowledge and experience acquired during issuing interpretations of regulations should, in turn, be used in the future when creating public statements of the supervisor, which are to be addressed to the representatives of a given FinTech market segment, and introduce understandable and uniform standards for all participants of financial innovation market.

### KNF's active participation in financial market education programs

The KNF should also play an important role in the activities proposed in the CMDS in the field of education of issuers, intermediaries and investors, including through:

- active participation in works on development and implementation of the Financial Education Strategy,
- using supervisory tools to encourage entities to issue clear guidelines or enforcing transparent and simple communication with clients,
- conducting educational activities towards individual investors and cooperation with associations of individual investors,
- wider use of social media,
- acting as a creator of best practices for financial market participants, primarily in the area of investment products targeted at retail clients, including by issuing simple guides and brochures, e.g. for employees of investment companies having direct contact with the client.

### Taking action resulting from the expected Brexit

Irrespective of the final agreement on the UK withdrawal from the structures of the EU or even in case of the absence of such an agreement, the KNF should cooperate with other stakeholders in order to guarantee the security of business flows between the United Kingdom and Poland. The establishment of a program addressed to all interested parties should be considered to ensure that Poland is still open to maintain business relations with Great Britain. In addition, due to the negotiation of various transitional mechanisms between the EU and the UK, Brexit is expected to be a process rather than a single event. Therefore, it is more important for Poland to take specific actions in response to changes in the business environment in the EU resulting from Brexit.

### The need for effective risk monitoring resulting from the growing international economic connections

Considering the fact that development of the Polish economy and capital market may be associated with growing internationalisation and greater links with foreign economies, there is a need for ongoing and effective monitoring of potential risk for the Polish economy and financial system. This is particularly important in the situation where some financial products or services used by Polish entities are cleared outside Poland (such as, for example, some OTC derivatives or securities loans). It means that the Polish supervisor does not always have full information on these transactions, the scale of exposure and potential systemic risk. From the point of view of interest of the Polish market, one should strive to create conditions and incentives that would allow for development of these products and services in Poland. In addition, in case of transactions in financial instruments, in which both parties are Polish entities and which are not cleared in Poland, the KNF should conduct appropriate monitoring of their transactions.

### Introduction of the tool (functionality) on the KNF website enabling access to existing regulations

Due to the high level of complexity of legal provisions related to functioning on the capital market, it would be desirable to introduce a tool (functionality) on the KNF website, following the example of sourcebooks published by the British regulatory authority or interactive sourcebooks of ESMA. The new functionality could allow for access to legal provisions (both national and EU legal acts) as well as the positions of the competent supervisory authority (both the KNF and the EU competent supervisory authority: EBA, ESMA, EIOPA) grouped in a thematic way. The implementation of such functionality and ensuring its ongoing update should help market participants to identify relevant legal provisions and supervisory positions, as well as enable the correct application of complex and multi-level regulations (directly applicable EU legislation, acts, executive

[49]) In 2018, the KNF introduced a regulatory sandbox, as yet in the decentralized model.

acts, supervisory positions). The analysis of possibility to introduce such a functionality that will also take into account the staff and technological resources of the KNF, should be carried out within the one the thematic blocks of the RRRF working group.

**ACTIONS - ENSURING CONSIDERABLE AND EFFECTIVE SUPERVISION**

1. Publication by the KNF obligations towards market participants regarding the maintenance of specific standards of conducted proceedings and other supervisory activities.
2. Adoption of the operational strategy by the KNF.
3. Temporary secondment of KNF employees for internships and training programs in supervised entities.
4. Increasing the KNF's involvement in the development of the capital market while ensuring transparency and proportionality of supervision.
5. Changing the rules of procedures pending before the KNF, e.g. by modifying the Code of Administrative Procedure (KPA).
6. Review of regulations, among others of WSE, BondSpot and KDPW, in areas not requiring KNF approval.
7. Creation by the KNF a‘regulatory sandbox’ for FinTech-type entities.
8. KNF's active participation in financial market education programs.
9. Cooperation between the KNF and stakeholders in order to guarantee the security of operations of Polish entities in connection with the consequences of Brexit.
10. The need for effective monitoring of the risk arising from the growing international connections of the Polish economy performed by the KNF.
11. Analysis of a need to introduce a sourcebook tool on the KNF website to facilitate understanding of financial market regulations

### 4.3.2. IMPROVING THE LEGISLATIVE PROCESS IN THE FIELD OF THE CAPITAL MARKET AND AVOIDING GOLD-PLATING

The regulations governing European capital markets have their source predominantly in EU law. Nevertheless, the way they are implemented or applied in individual Member States is still important. Therefore, the legislative solutions adopted in Polish legislation should not do not overburden Polish entities, especially when compared to entities from other Member States where the analogous transposition of EU legislation is conducted with a literal approach to particular legal acts. In addition, when preparing individual legal acts, a transparent impact assessment of the proposed solutions on the capital market should be undertaken, as well as analyses of potential effects, guided by the principle of not creating additional burdens for entities covered by this regulation. In addition, cyclical reviews of existing regulations should be considered from the perspective of capital market entities.

#### Implementation of the EU legislation in a timely manner

EU regulations that require implementation into the Polish legal order (mainly directives) should be implemented in a timely manner, leaving market participants sufficient time to adapt to new requirements, sometimes strongly affecting the day-to-day operations of these entities. The date of entry into force and adaptation to changes in statutory provisions should be properly coordinated with the issuance of new regulations, in order to avoid double adjustment of market participants to the new regulations, as well as to prevent situations in which the current regulation expires in the absence of a new act being announced. At the same time, to prevent the need to modify the solutions adopted at the implementation stage, it is also necessary to publish the KNF guidelines and positions early enough. This approach is aimed at ensuring legal stability and predictability and thus strengthening market confidence in the regulations being created, as well as effective supervision of the capital market. The timely implementation of EU regulations (without their unnecessary tightening) in the field of financial services should be considered as a priority achievable only by increasing the potential of human resources in the relevant organisational units of the Ministry of Finance and the KNF.

#### Avoiding gold-plating in national regulations

In the process of implementing EU provisions into national law, in some cases more restrictive or more extensive solutions were adopted than those literally indicated in a given EU legal act (the so-called *gold-plating*), which led to additional burdens on the part of the Polish market stakeholders.

Therefore, it seems advisable to appoint a working team by the Ministry of Finance and the KNF, which will conduct a consultation process with entities from all capital market sectors in order to identify excess provisions in relation to EU regulations. Identified barriers should be removed - the most important of them within 12 months of establishing the team.

In addition, when implementing new EU provisions into Polish law or when developing national provisions regarding the capital market, it is necessary to always analyse the costs and benefits of the proposed changes. In cases where the KNF or the Government propose to implement provisions more restrictive than EU standards, the proposed provisions should be consulted with entities that will be associated with them.

Examples of provisions indicated by capital market participants as *gold-plating*, which require a change:

- **outsourcing** – requirements in this sphere make it impossible to achieve the objectives of the SRD, which is a preferential solution for competitors from abroad and is unfavorable for the Polish capital market. Currently, 524 foreign companies have their business process outsourcing (BPO) centers, shared service centers (SSC) and research and development (R&D) centers employing over 244,000 people in Poland. One of the key elements of the Polish BPO industry is outsourcing for global financial institutions.[50] However, based on the analysis carried out for the CMDS, there is almost no outsourcing provided by local intermediaries and financial market infrastructure institutions.
- **MiFID I** – restrictions on the admission to trading in Poland securities admitted to trading on other EU markets including the requirement to obtain the consent of the issuer.

### Developing, on the EU forum, regulations being proportional from the point of view of the Polish market

Proportionality is defined as the imposition of EU requirements that were created for larger developed economies, without taking into account the development needs or transitional economies of Central and Eastern Europe.

An example of a failure to apply the principle of proportionality may be some regulations and standards established by the European legislator treating equally countries from Western Europe and Central and Eastern Europe. It means also not taking into account the level of development of particular capital markets, as exemplified by the maximum penalties for disclosure of confidential information from the MAR Regulation[51)] - EUR 1 million for natural persons and EUR 2.5 million for legal persons. For example, when considering the average market capitalisation of companies listed on the NewConnect market (to which these penalties also apply), which in January 2019 was EUR 1.9 million[52], the amount of penalties indicated for the Polish market seems far and away too high.

In the above context, among others it is crucial for market participants to create the office in Brussels referred to in point 4.1.2.1. In addition, in the EU forum (primarily the Council of the EU) the Government should strive to develop solutions ensuring compliance with the principle of proportionality of regulations from the point of view of the domestic capital market. At the same time, it is necessary to communicate to the Government positions of Polish market participants at an adequate early stage of legislative work in the EU and the active involvement of these entities in the process of creating EU law.

### Developing a code of good practice in avoiding gold-plating and maintaining the principle of proportionality in national regulations

In order to avoid the phenomenon of gold-plating in national regulations and to develop legislative solutions taking into account the principle of proportionality as much as possible, it is proposed that the KNF, in cooperation with market participants, develop a code of good practice.[53] The draft code should then be forwarded to the Ministry of Finance and constitute a set of guidelines for the regulator in the legislative work undertaken.

**ACTIONS - IMPROVING THE LEGISLATIVE PROCESS IN THE FIELD OF THE CAPITAL MARKET AND AVOIDING GOLD-PLATING**

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1. Implementing EU capital market legislation in a timely manner to allow market participants sufficient time to adapt to regulation.

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2. Appointing a working team by the Ministry of Finance and the KNF to identify excess national regulations in relation to EU regulations.

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3. Avoiding gold-plating and changing the rules regarding:
   - outsourcing,
   - the requirement to obtain the issuer's consent to admit securities to trading.

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4. Developing solutions within the EU forum ensuring the principle of proportionality of regulations from the point of view of the domestic capital market.

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5. Developing a code of good practice in avoiding gold-plating and maintaining the principle of proportionality in national regulations.

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[50)] See https://braincode.xyz/blog/fintech-guide-poland/.

[51)] Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Regulation on market abuse) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directive 2003/124/EC, 2003/125/EC and 2004/72/EC (Official Journal of the EU L 173 from 12.06.2014, p. 1, as amended).

[52)] According to the NewConnect data.

[53)] Among others by identifying together with market stakeholders and indicating in the Code of Good Practice examples of situations where the desire to introduce stricter requirements would result from striving to provide special and necessary investor protection.

### 4.3.3. IMPLEMENTATION OF THE PRINCIPLES AND REGULATIONS AIMED AT PROTECTING INVESTORS

#### Creating a legal framework to strengthen the enforcement of corporate governance principles in WSE listed companies

As indicated in point 4.2.2, it is necessary to strengthen the possibility of corporate governance standards being enforced by listed companies, including the state treasury companies (SSP). The WSE should be authorized to enforce corporate governance principles, in particular as regards protection of the rights of minority investors. Corporate governance of listed companies should be periodically assessed, for example in the form of ‘a set of corporate governance assessment forms’[54], along their results being public.

#### Introduction of courts specialising in financial market

Due to the complexity of financial market law and its practices, and when taking into account the experience and solutions adopted in the most developed European countries, in order to improve the enforcement of investor protection laws, it is needed for prosecutors to further specialise in the capital market and to create specialised in financial market panels of juries. Pursuant to the ordinance of the Minister of Justice of 1 September 2016 on determining the jurisdiction of the Regional Prosecutor's Office in Warsaw in cases concerning individual types of crime regardless of their commission (J. of L. item 1484), only the Regional Prosecutor's Office in Warsaw is competent to conduct proceedings regarding the broadly understood capital market, so under the scope of the Act of 26 October 2000 on commodity exchanges, the Act of 27 May 2004 on investment funds and management of alternative investment funds, the Act of 29 July 2005 on trading in financial instruments, the Act of 29 July 2005 on public offering and conditions for introducing financial instruments to organized trading, and on public companies and the Act of 29 July 2005 on supervision of the capital market. Works should be started in order to establish a specialised capital market court, including consideration of introducing specialisation in adjudication in criminal matters related to the capital market. It is also necessary to introduce additional educational elements and training for all prosecutors and judges. In this regard, also educational and training activities, organised by the KNF as a part of the Education Center for Market Participants (CEDUR project), e.g. through publications and training addressed in particular to administrative court judges, would be helpful. The program of law studies should be supplemented with issues related to the financial market, taking into account the latest legal and factual status. Considering the above, the Ministry of Justice and the KNF should attempt to develop solutions aimed at further specialisation of prosecutors and at establishing specialised courts, with a view to improving enforcement of regulations protecting investors, and improving procedures of functioning of registration courts in relation to the supervised entities operating on the capital market.

#### Enhancing the quality of services provided and increasing the responsibility of intermediaries distributing financial instruments among individual investors

In order to solve *misseling* problem, it should be analysed whether: existing principles of appropriateness or suitability in accordance with the MiFID Directive, assessing the creditworthiness of financial instruments issue, better disclosing the financial risk associated with the products offered, adjusting the model of distribution of fees throughout the lifetime of the financial instruments offered, sufficiently provide adequate incentives for agents and if they are effectively used by them (more on this subject in section 4.5.6).

#### Introducing the obligation for issuers to provide financial stability reports to the KNF

Private placements are not covered by the MAR Regulation and are neither subject to a reporting regime nor to the control in order to confirm the issuer's financial stability (with the exception of historical financial information on an annual basis). In order to improve consumer protection, a regular financial reporting to the KNF should be laid down. It is proposed to change the model of the disclosure obligation and introduce provisions obliging directors, management boards and auditors of issuers and products distributors to exercise due diligence towards the market, so that the risk related to investing in private bonds is not only on the investor's side. A template of the relevant report should be available on the KNF website. Audit obligations should also be implemented, whereby auditors should be required to exercise due diligence on the market.

With regard to the financial stability reports of entities that carried out issue of securities via private placement, as part of the work of the RRRF working group, in the organised markets thematic block, it should be analysed whether there is a need for issuers to publish additional information.

#### Introducing the so-called *active repentance* mechanism for supervised entities

It should be considered to introduce the *settlement* mechanism known from the British supervisory practice, which consists in taking into account in the supervisory activities the fact that the supervised entity expressed active repentance, i.e. by eliminating irregularities in the organisation, repairing damage caused to investors or indicating other perpetrators of acts. Such an attitude would result in a lower level of punishment, and in case of extremely positive attitudes and existence of extraordinary mitigating circumstances it would even be reasonable to refrain from imposing the punishment.

[54] For example, you can use the recommendations of the World Bank for this purpose. See: International Finance Corporation, *Corporate Governance Scorecards. Assessing and promoting the implementation of codes of corporate governance*, 2014.

### Increasing transparency of the private bond market

Market information systems in Poland do not offer a transparent, publicly available mechanism that allows for an adequate understanding of the issuer's credit risk regarding non-compliance with the terms of issue for private or public issues of debt instruments. This information remains available to investors only through a detailed prospectus analysis, if only the prospectus is available.

With regard to the above, the KNF should enforce the MiFID II requirements for providing transparent and not misleading information and ensure that persons responsible for bond trading are obliged, when recommending a given product, to explain the risks and benefits associated with this product, as well as the requirements regarding product suitability for the investor. Analysis of practices should also be carried out in terms of changes in the adequacy of portfolio management and investment advice in case when the company has introduced a periodic appropriateness assessment system (e.g. in the event of a change in credit risk, the investment firm should provide investors with an update on appropriateness, together with an explanation of the change in circumstances and proposed alternatives if necessary). In case of instruments such as corporate bonds, transparent information on the terms of issue will be helpful, based on standardised documentation and a publicly available database containing information about issuers and issued instruments, which was discussed in point 4.5.34.

### Ensuring transfer of securities on the same day in case of declaring bankruptcy by a KDPW participant maintaining securities accounts

As one of the principles of this document is to increase confidence in the market, investors should have a right to have so-called sponsored securities accounts and to keep these accounts through a KDPW participant, where under the Polish law the settlement finality principle applies. This would allow the investor for retaining control and for a smooth transfer of securities in the event of the KDPW participant's insolvency. With the current structure of securities accounts should such a case occur, a smooth transfer of securities is not guaranteed.

To avoid a need to change the current structure of securities accounts maintained by KDPW participants, it is necessary to develop solutions based on existing deposit accounts at KDPW. It should be enabled to transfer the assets of bankrupt participant's client within the same day, when the consent of another KDPW participant for the transfer of such client's securities is obtained. The target solution should be agreed within the RRRF working group. In addition, as a part of the work of the same group, an analysis should be carried out, which should be focused on the effectiveness of functioning of the compensation system in the event of KDPW participant's insolvency.

### Introducing regulations ensuring effectiveness in the event of bankruptcy of clearing members or KDPW_CCP

The existing provisions of national law do not ensure full legal effectiveness in the scope of efficiency of some CCP (central counterparty) activities in the event of bankruptcy of an entity (bank, investment firm, credit institution, foreign investment firm) which is a clearing member in the clearing system operated by a CCP. In case of the bankruptcy of such participant, a CCP should carry out activities under the procedure in the event of clearing member's default referred to in Article 48 paragraph 1 of Regulation (EU) No. 648/2012 of the European Parliament and of the Council ('EMIR'). Such activities are aimed at limiting losses and liquidity pressure resulting from the default, as well as ensuring the continuation of CCP's operations and not exposing other participants to the clearing system. Therefore, CCP undertakes specific actions to this end, such as terminating contract with the clearing member in relation to which bankruptcy has been declared, transferring positions and collateral to another clearing member (porting) or concluding 'reverse' transactions to close clearing positions. The effectiveness of these activities should be fully ensured at the level of the provisions of the act, so that they are enforceable in all extreme conditions. Lack of legal efficiency in this respect may constitute a barrier to the full use of KDPW_CCP services, in particular by foreign participants. Therefore, in the event of the bankruptcy of a clearing member, *inter alia* indisputability of power of attorney and effectiveness of termination of the participation agreement and termination of settled transactions should be ensures in the national level.

### Introducing the obligation for investment funds to use the market valuation of corporate bonds

The use of the Internal Rate of Return (IRR) method for valuation of illiquid corporate bonds in investment fund portfolios does not encourage investment funds to invest in listed securities and to seek for market valuation at banks. Therefore, information available to investors on the actual value of investments may be distorted.

Therefore, the IRR valuation should be limited to exceptional situations. Market value or own model valuations (including the issuer's credit risk) should become a standard valuation model and be enforced by the KNF.

### Introducing the obligation to record conversations when providing portfolio management and investment advice services

The act of 1 March 2018 amending the act on trading in financial instruments and some other acts[55] imposed on investment firms the obligation to record telephone conversations and electronic correspondence related to activities that could result in providing reception and transmission of orders to acquire or sell financial instruments; executing orders on the account of the principal and the services of acquiring or selling financial instruments on their own account, even if as a result of these conversations or correspondence the service would not be provided. This act did not, however, cover portfolio management services that include one or more financial instruments and an investment advice service.

[55)] Act of 1 March 2018 amending the act on trading in financial instruments and some other acts (J. of L., item 685).

The lack of obligation for investment firms to record conversations with retail clients in connection with the provision of investment advice and portfolio management services significantly hinders investors in subsequent claiming for compensation. It also impedes the KNF supervision over the compliance with required standards for services provided by investment firms' employees and retards investment firms' complaint processes. The applicable regulations also differentiate the situation of clients making use of services such as reception, transmission and executing orders from the situation of clients for whom the services of financial instruments portfolio management and investment advice are provided.

In order to increase the protection of investors' interests on the capital market, and thus to increase confidence in the entire market, it is reasonable to supplement the provisions of the act on trading in financial instruments with the obligation for investment firms to record conversations with retail clients in connection with provision services such as management of portfolio consisting of one or more financial instruments and investment advice. This solution is also in accordance with art. 16 paragraph 7 of the MiFID II Directive, which indicates that obligation to record conversations covers at least the transactions effected as a part of the concluding transactions on the own account and the provision of services arising from client orders related to the reception, transmission and execution of client orders, which also allows Member States to extend this obligation.

**ACTIONS - IMPLEMENTATION OF THE PRINCIPLES AND REGULATIONS TO PROTECT INVESTORS**

1. Creation of a legal framework to strengthen the enforcement of corporate governance principles in the WSE listed companies.
2. Introduction of courts specialising in financial market.
3. Enhancement of the quality of provided services and increase of the liability of intermediaries responsible for distribution of financial instruments to individual investors.
4. Introduction of an obligation for issuers to provide the KNF with financial stability reports.
5. Introduction of the so-called active repentance mechanism towards supervised entities.
6. Increase in transparency of the private bond market.
7. Assurance of the transfer of securities on the same day when a KDPW participant maintaining securities accounts declares bankruptcy.
8. Introduction of regulations ensuring effectiveness in the event of bankruptcy of clearing members or KDPW_CCP.
9. Introduction of an obligation for investment funds to use the market valuation of corporate bonds.
10. Introduction of the obligation to record conversations when providing portfolio management and investment advice services.

## 4.3.4. IMPLEMENTATION OF THE PRINCIPLES AND REGULATIONS FOR THE MARKET DEVELOPMENT

### Introduction of legal and regulatory frameworks and guidelines for products and services available or already used only to a limited extent

Due to the need to develop a product offer for investors on the Polish capital market, it is necessary to introduce new legislative solutions for products that are not provided for in the Polish legal order or are only available on other foreign markets.[56] These products are, among others:

- ETFs and structured products issued on the domestic market,
- securities loans (including permission to grant loans to funds investing for retirement purposes).

### Introduction to the national legal system of a new investment fund model attractive for institutional investors

A characteristic feature of Polish investment funds is their legal personality, despite the fact that they are only assets created from the participants contributions and the assets acquired through these contributions. In addition, they are a legal person and they are managed by another legal person, such as an investment fund company. This solution is not recognisable in other countries where, as a rule, investment funds are created:

- on the basis of law of obligations - as joint funds managed by management companies (e.g. Austria, Czech Republic, Germany, Slovakia, Switzerland, Ireland),
- under trust law - as trust funds (e.g. Great Britain, Ireland),

[56] This aspect is discussed in more detail in section 4.5.1.

- on the basis of the statute - as investment funds / investment companies (e.g. Great Britain, Ireland, the Netherlands, Belgium, Luxembourg).

Low recognition on foreign financial markets of the legal form of investment funds adopted in Poland, in particular open-ended investment funds, which are considered as UCITS funds[57], may result in the low popularity of Polish investment funds among foreign investors. The adopted legal form also generates other practical problems resulting, for example, from the inability to trade units sold by these funds. Consequently, these funds cannot be listed on the stock exchange, including as ETFs which are popular on other markets.

All the above justifies the creation of an additional legal form in the national legal order for conducting collective investment activities that would meet the standards adopted in the most developed investment fund markets. It can take the same form as extremely popular in other Member States, and also recognisable outside the EU, the form of an investment company established on the basis of the statute and adopting the construction of the SICAV fund. In particular, funds of this type are recognised in the law of the following countries: Switzerland, Italy, Spain, Belgium, Malta, France and the Czech Republic, but it is Luxembourg jurisdiction that is the most popular in the EU to create SICAV funds. . SICAV funds are characterised in particular by the fact that:

- they are commercial law institutions with variable capital equal to the value of net assets paid in by participants,
- participants are both investors and shareholders (with specific corporate rights),
- participants have the right to unrestricted redemption of their own shares,
- reduction or increase of the share capital does not require formal consent,
- the liability of partners is generally limited to the amount declared in the SICAV,
- shares carry voting rights.

In addition, the regulations preventing investment by institutional investors in the VC/PE sector should be reviewed by the RRRF working group (the investment funds thematic block) so as to eliminate them.

### Introduction of standardised and automated issue processes

The process of issuing securities in Poland should be simplified and its efficiency should be increased. To this end, it is necessary to analyse, as a part of the work of RRRF working group, the legitimacy and possibility for the KNF to introduce standardised and automated issue processes, including templates for prospectuses or other information documents. Some changes to existing legislation may also be required, as described in section 4.5.6.

### Elimination of organisational barriers regarding provision of investment services in banks

The current lack of direct access for banks to organised trading is perceived by financial market participants as one of the most important restrictions of further, harmonious development of the Polish capital market, which is particularly important in the context of growing competitive pressure. The lack of active participation of banks in organised trading negatively affects the liquidity of financial instruments, thus hindering their correct valuation. Banks also have adequate capital to act as market makers. Without ensuring their direct access to the market, it is also not possible to launch new segments, such as covered bonds, futures contracts and transactions hedging the interest rate risk. An obstacle to the active participation of banks on the capital market is the need to obtain, apart from the banking license under the provisions of the Banking Act, a license for brokerage activities. With this in mind, it is postulated to amend the regulations by introducing the so-called uniform banking license, consisting in covering all investment activities of banks (also in the scope of organised trading) with one authorisation for conducting banking activities. At the same time, the KNF should publish detailed recommendations on management of conflict of interest and information control when providing investment services at banks. This issue has been described in detail in section 4.5.6.

With regard to the uniform license, due to the scope of necessary regulatory changes and their consequences for the functioning of supervision over the capital market, it will be necessary to actively engage the KNF in the process of designing relevant legislative changes.

In addition, to ensure optimal competition on the market, investment firms should also be able to offer services in models similar to solutions currently developed in banking (*Banking as a Service or Bank as a Platform*). This applies to business models based on partnerships with other financial service providers and technology partners in order to provide as wide range of services as possible, reflecting the needs of each client. One of the possible approaches may also be to construct the advanced programming interfaces (APIs). They enable third parties to build applications and services using data or services made available by traditional institutions providing investment services on a similar basis to the model introduced by the PSD2

[57]) In accordance with the provisions of Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS ) in the scope of the functions of the depositary, remuneration policy and sanctions (Official Journal of the EU L 257 of 28.08.2014, p. 186).

Directive on the payment services market.[58] Such an approach would fit into the latest trends in economics based on the use of APIs to create new services and products, using data or certain functionalities coming from traditional financial service providers, to stimulate competition and to provide consumers with more tailored and cheaper services - in this case in the capital market.

### Identification of securities holders and running loyalty programs by issuers

It seems reasonable to change the model of investor relationship management on the Polish capital market, primarily for the purpose of:

- improving confidence in this field,
- enabling creation of a regional financial center for companies and entrepreneurs from Central and Eastern Europe,
- improving the competitiveness of the Polish market,
- creating opportunities for issuers to continuously interact with investors and develop investor relations, including the development of the 'investor-customer' concept.

In this context, it is important to, *inter alia*, promote the concept of investor-customer, so investor who is both a shareholder and a customer of the company. Supporting such a model from the point of view of the Polish capital market would allow for strengthening stable and long-term shareholding. The investor-customer is also characterised by the fact that in order to profit from offers proposed by issuers for the most loyal shareholders, he focuses his consumption on the products of the given issuer, whose shares he holds. Such mechanism can lead to greater brand recognition of the given issuer and creation of loyalty programs that bring both sides additional benefit.

Strengthening transparency in relations between issuers and investors and building developed investor relations on the Polish capital market requires introduction, at the stage of implementing the Directive on Shareholders' Rights[59], regulations facilitating loyalty programs by issuers on regulated market and guaranteeing possibility for obtaining information about their shareholding from KDPW after the investor exceeds 0.5% of the share capital. At the same time, investors with less than 0.5% of the share capital of a company listed on a regulated market should be allowed to submit an appropriate statement on voluntary consent to provide their identifying data. In case of registering shares of non-public companies in KDPW, it should also be possible for the issuer to obtain information about shareholders at its request, in a manner similar to solutions for public companies.

### Introduction of a legal framework for distributed ledger technology (DLT) and positioning of cryptographic assets on the Polish market

It should be expected that in next few years, as a result of EU regulations, the positioning of cryptographic assets will be unified using distributed ledger technology with clearing in fiat currencies or using token swaps. Therefore, the Government should examine the possibilities of using distributed ledger technology on the capital market. To this end, it is proposed to conduct a pilot national program that could assess solutions in relation to securities of private companies, using an approved distributed ledger (*the so-called permissioned blockchain*), as well as other solutions (see point 4.6.). Experience in legal and operational issues related to new technologies, gained as a result of such a pilot project, could also be helpful in lobbying in Brussels for solutions suitable for the Polish market, at the stage of designing new EU regulations on DLT and tokenisation.

Furthermore, many developed countries have already adopted legislation regulating new technology, including the use of distributed ledger technology. Regulatory gaps in the above scope should be minimized, while allowing the introduction of new technologies to the Polish market by analogy with the solutions adopted in developed countries.

According to the standards adopted in EU countries, a market infrastructure provider, bank or investment firm intending to maintain DLT infrastructure should apply for a supervisor's license. The KNF should specify detailed technical and security conditions necessary to obtain such license.

**ACTIONS - IMPLEMENTATION OF PRINCIPLES AND REGULATIONS AIMED AT THE DEVELOPMENT OF THE CAPITAL MARKET**

1. Introduction of legal and regulatory frameworks and guidelines for products and services available or used only to a limited extent.
2. Introduction to the national legal system of a new investment fund model, attractive from the point of view of institutional investors (e.g. SICAV).
3. Introduction of standardised and automated emission processes by the KNF.

58) Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC, 2013/36/EU and Regulation (EU ) No. 1093/2010 and repealing Directive 2007/64/EC (Official Journal of the EU L 337 of 23.12.2015, p. 35).

59) Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC in the scope of encouraging shareholders to long-term commitment (Official Journal EU L 132 of 20.05.2017, p. 1).

4. Implementation of the so-called uniform banking license and elimination of organisational barriers regarding the provision of investment services in banks.
5. Introduction of the legal framework for distributed ledger technology (DLT) and positioning of cryptographic assets on the Polish market.

## 4.4. AREA 4: TAX INCENTIVES AND REVENUE ADMINISTRATION

The intention of this document is to ensure that competitive tax incentives are used and reforms are carried out that will change behaviour among capital market participants. In addition, the document aims to increase tax revenues while implementing improvements related to e-administration.

Recommended changes are based, among others, on solutions adopted in the most developed countries. Tax incentives should be used in particular to promote savings, long-term investments, business continuity and transparent trading, as well as to increase the popularity of IPOs in such a way that the price formation process maintains resistance to market volatility, potentially even in case of systemic events. The tax policy provided for in the CMDS is to use the tax system as an effective tool to encourage issuers, intermediaries and investors to make more extensive use of the capital market, rather than to promote speculative transactions. According to the SRD, not only the modification of various taxes should be planned, but also a number of improvements in the area of revenue administration, especially in relation to public companies and holders of their securities.

In later years of the CMDS implementation, the project management team should review the effectiveness of these proposals, and in the event of their failure perform additional analyses, as well as examine detailed documentation obtained during the implementation of the CMDS in order to possibly develop other proposals.

The following changes in the scope of taxes should be introduced with particular emphasis on the stability, efficiency and sustainability of public finance, in particular the conditions resulting from the functioning of the stabilising expenditure rule (SRW) specified in art. 112aa of the Public Finance Act.[60]

### 4.4.1. TAX INCENTIVES FOR ISSUERS

CMDS envisages active measures to increase value of acquired capital and reduce its costs for public issuers, regardless of the currency of the issue. The proposals concern the entire process of capital raising.

Removing existing tax barriers and introducing tax incentives for issuers

- **Eurobonds:** exemption from withholding tax interest due on Eurobonds admitted to trading on regulated markets or multilateral trading facilities (ASOs) in the European Union and elimination of barriers regarding the obligation to present certificates of residency for each bond holder.[61] Such an exemption will reduce the cost of borrowing for bond issuers other than those denominated in PLN and potentially make Poland an alternative to other jurisdictions where there is no withholding tax for issuing Eurobonds. As a result, the Polish issuer should not incur higher costs when raising capital in a foreign currency compared to capital raised in PLN.
- **IPO costs:** the introduction of clear, standardised and simple rules regarding tax deductions of all IPO costs up to 125% of incurred costs, including those imposed by court, notary, stock exchange, and other fees, which are not deductible in their current legal status. The tax relief is to be combined with maximum deductible cost level to avoid artificially inflating consulting costs. Such a change would remove current uncertainty concerning which costs are deductible for tax purposes.
- **Employee share schemes:** in accordance with the SRD postulate regarding promotion of the use of employee share schemes, CMDS foresees exempting profits from the sale of employee shares (including incentive programs for management) from capital gains tax up to a certain amount, provided that the shares will be sold only after the required minimum period since their granting. Exemption from the capital gains tax would only be allowed if the employee remains in the company, however, with subject to certain exceptions (e.g. death or documented difficulties due to medical circumstances). At the implementation stage, an annual reduction limit for one taxpayer and a minimum period of holding shares or stocks that would entitle to exemption will be determined. Employee share schemes can contribute to achieving faster development of the company and higher overall economic growth, as it introduces motivation consistent with motivation of shareholders, contributing to the increase of total tax revenues from issuers (higher CIT, VAT, payroll taxes, dividend taxes). It is also worth emphasizing that the above proposal applies only to programs offering real shares, not equity options.

[60] Act of 27 August 2009 on public finance (J. of L. of 2019 item 869, as amended).
[61] This change was introduced by the Act of 23 October 2018 on the amendment to the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Ordinance Act and some other acts (J. of L., item 2193, as amended).

- **Development bonds:** in order to implement the SRD postulate regarding improvement of liquidity of financial instruments in order to finance investments, the Ministry of Finance will consider introducing tax preferences for development bonds. The advisability of introducing such a solution is further described in section 4.5.3.

### 4.4.2. TAX INCENTIVES FOR INVESTORS

Removing existing tax barriers and introducing tax incentives for investors

- **Compensation of capital gains and losses:** it should be possible to compensate annual income and losses on investments in equity funds, including income and losses in other capital investments. It should be considered whether the income and losses on high-risk investments should be compensated only within this group of investments (without combining income and losses on investments in products classified as less risky). In addition, it can be considered to introduce a loss settlement limit, for example for a 5 year-period.
- **Reduction of dividend taxation:** the dividend tax should be reduced from 19% to 9% for profits on capital investments held for more than 36 months for all investors in order to attract both local and foreign investors and issuers to the Polish capital market. During the implementation phase of the Strategy, a quota limit entitling to apply for a tax deduction will be determined.
- **Taxation of interest**: change in the current method of taxation of interest on bonds in a way that will ensure a similar level of taxation regardless of whether the investor purchases bonds on the primary or secondary market.

### 4.4.3. EXEMPTION FROM TAX ON CERTAIN FINANCIAL INSTITUTIONS

The analysis carried out for the purposes of preparing this document showed that the tax on some financial institutions in its current form may:

- distort prices on the domestic market of bonds sold / bought back in outright transactions, especially at the turn of the month,
- contribute to foreign banks gaining a competitive (price) advantage over domestic banks and force them to cover short positions, unnaturally changing their trading strategies in favor of foreign entities.

In light of the above, it is proposed to exempt from this tax funds received as a result of repo transactions, provided that these transactions are carried out on an EU regulated market or MTF, cleared in a CCP operating on the basis of EMIR Regulation[62] provisions and contracted based on the standard GMRA documentation. The introduction of such an exemption should help in the development of the repo market for transactions with a maturity of over 1 week and reduce spreads. The proposed exemption should apply to both the passive side of a repo transaction (accepted deposit secured by an asset) as well as the reverse side of a repo (investment secured by an asset). This exemption should not apply to *buy-sell-back* transactions.

At the same time, it is recommended to precede introduction of the above changes by a comprehensive assessment of effects of the discussed tax on the Polish financial market and consideration whether there is a need to introduce further adjustments to the mechanism for determining this tax. These analyses should determine whether other asset classes promoted under the CMDS, such as development bonds, which are the subject of repo transactions, should also be exempt from tax on certain financial institutions. A similar assessment should conducted with relation to the possibility of exemption of position for other types of transactions / instruments, for example deposits made on the unsecured interbank deposits market or assets deposited with the central bank (in the form of a deposit at the end of the day, funds held in current accounts and open market operations). It should also be emphasized that works on increasing the scope of tax exemptions should be carried out taking into account works aimed at adapting benchmarks to the requirements of the BMR Regulation.

### 4.4.4. IMPROVEMENTS IN REVENUE ADMINISTRATION AND OTHER TAX CHANGES

In order to guarantee consistency with the SRD and to minimise costs related to ensuring compliance with tax liability and collecting taxes, in the CMDS the following proposals are envisaged.

Improvements in revenue administration for listed companies and other market participants

- Centralisation of treasury service processes in specialised tax offices for issuers in order to ensure consistent and uniform service for these entities.

Other changes in the tax system

62) Assuming that CCP will obtain a license extension (for clearing of repo transactions at ASO) within one year of implementing CMDS.

- Removal of differences in tax treatment of bonds issued before and after 2015 for entities that operate securities accounts and omnibus accounts in order to ensure administrative efficiency.

**ACTIONS - TAXATION**

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**1.** Tax incentives for issuers:
- withdrawal from withholding tax for Eurobonds in order to equalize the cost of raising capital in a foreign currency with the cost of capital raised in PLN,
- introduction of a tax exemption for the issue of development bonds,
- for public issuers:
  - introduction of an allowance for the costs of IPO,
  - increased allowances for employee share schemes.

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**2.** Tax incentives for investors:
- enabling compensation of capital gains / losses for investment fund units and other securities,
- reduced dividend tax rate for long-term investments,
- a change in the current method of taxation of interest on bonds in a way that it will ensure a similar level of taxation regardless of whether the investor purchases bonds on the primary or secondary market.

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**3.** Tax incentives for intermediaries:
- exemption of repo transactions meeting certain criteria from the tax on certain financial institutions.

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**4.** Improvements in revenue administration for issuers:
- centralisation of processes for issuers,
- harmonisation of tax treatment of bonds (for bonds issued before and after 2015).

## 4.5. AREA 5: MARKET STRUCTURE

One of the CMDS goals is to propose solutions regarding market structure and to ensure its competitiveness against the most developed European markets, increase its scale, improve efficiency and international expansion.

CMDS will be implemented in close cooperation with market participants in order to reduce the cost of capital, achieve maximum liquidity and create new market segments.

### 4.5.1. EQUITY MARKET

The goal for equity market is to increase its competitiveness and efficiency as well as to introduce improvements in the administrative sphere.

The assumed goals can be achieved provided that primary market becomes much more accessible and attractive to the average potential participant. Currently, the combination of cheap capital provided by banks and active *private equity* market results in the withdrawal of public issuers from the market and makes the public equity market the least attractive option for some companies, their founders and investors.

As a rule, reorganisation in the listing of SME shares is necessary in order to increase their attractiveness. The time needed to raise capital and the associated costs should be significantly reduced. Authorization process for trading on a regulated market by its automation must become more predictable, allowing to achieve assumptions regarding the level of public services. This means introduction of the improvements indicated below.

#### Primary market initiatives coordinated by the Government in cooperation with the KNF and industry representatives

The primary market is the most important segment of the capital market, as it affects other segments, market participants and finances the real economy. The CMDS project management team will set up an RRRF primary market working group to propose solutions in the following areas:

- **Limit of issues without a prospectus:**
  - analysing, within the RRRF working group, the possibilities and legitimacy of increasing issues that do not require a prospectus.
- **Prospectus:** agreeing the prospectus template including:
  - parts that can be standardised and then subject to automatic assessment by the KNF (in terms of standard content),
  - prospectus requirements for tokenised financial instruments.

- **Distribution:**
  - cooperation between the WSE and Polish Investment and Trade Agency (PAIH) to promote the Polish capital market abroad and attract foreign investors and issuers to the Polish market.
- **Market structure:**
  - assessment of the potential for three-tier market structure (main market, SME market and market for companies debuting in the sector). This structure was successfully introduced in South Korea,
  - dedicated market for technology companies, with separate indexes, which will ensure an optimal financing structure for the so-called fourth industrial revolution and the FinTech revolution in Poland,
  - creation of legal, regulatory and operational base to launch private markets functioning in various models, using modern technologies, e.g. blockchain for eligible contractors, peer-to-peer retail trade. This applies to markets where issuers will be present in the form of a new, simplified joint-stock company that can be 100% established on-line, without the need for participation of intermediaries and advisors (based on standard models), with low share capital or no minimum paid-up share capital.
- **Cost structure:**
  - As part of the work of the RRRF working group, the reasons for the persistently relatively high level of costs of entering and operating on the Polish stock exchange and the possibility of reducing them should be analysed.[63]
- **Dematerialisation and registration:**
  - creation of registers of non-public companies (equity and debt instruments) in dematerialised form, kept at affordable prices for users,
  - as indicated in point 4.3.4, creating a register of holders of public company securities and strengthening transparency between issuers and investors on the public market regarding investor relations based on structures of *direct holding* registers, similar to registers operating on other markets, assuming that the cost of keeping the register will not be unduly burdensome for issuers. The above solution should increase the benefits associated with the status of a listed company and reduce the cost of capital through loyalty programs for shareholders. The lack of a register of securities holders in the Polish market structure hinders the introduction of the ‘investor-customer’ concept described earlier.
- **Efficiency:** elimination of unnecessary or ineffective administrative processes, e.g.
  - creating contracts regulating specific conditions for services provision for approving the prospectus. These agreements should concern both advisors and sponsors of the issue, as well as the KNF itself. Advisors and issue sponsors should present the final version of the standard prospectus and participate in practical workshops at the end of each IPO process,
  - elimination of delays in the registration of securities by courts after the share issue. Registration should take place before the issue date so that the securities will be admitted to trading on the issue date.

### Initiatives in the field of market development undertaken by market infrastructure entities

As a part of works of the appointed RRRF working group, with the broad participation of experts representing market participants, analyses should be carried out to propose solutions on, *inter alia*, the following issues:

- **Compliance and consumer protection**
  - as indicated in section 4.3.2., a cooperation between financial market participants and the Government is needed to maintain the principle of proportionality in the EU regulations. This particularly applies to sanctions introduced by the MAR Regulation. In addition, it is necessary for the KNF, WSE and relevant industry associations to provide issuers (and potential issuers) with information documents and training that would fully explain the legal status and eliminate all ambiguities,
  - on the SME market, the rules should be updated to include the necessary skills and due diligence obligations, including for authorised advisors, not only issuers,
  - KNF should review the entire market and verify compliance in order to assess whether the best performance principles are properly enforced, including readiness to fragment the capital market.
- **Secondary market:** To be able to successfully compete with foreign multilateral trading facilities (MTFs), the Polish secondary equity market must become, among others, more efficient and diversified, which is why:
  - WSE should implement new technologies supported by market participants in order to achieve (a) positive external effects of the network, (b) improved market structure models (‘dark pools’, ‘lit trading’, periodic auctions) offering higher quality of order execution (new types of orders) ), (c) smaller spreads. This change

[63] According to the WSE and mBank data, in 2016 the average cost of IPO among Polish companies, depending on the value of new shares, was in the range of 3.2% -12.5%. For the value of new shares up to PLN 25 million, the average IPO cost was 12.5%, for issues worth PLN 26-50 million it was 6.2%. The lowest cost of raising capital, amounting to 3.2%, was characterised by issues worth PLN 51-100 million. On the other hand, for issues worth PLN 101-200 million and over PLN 200 million, the cost of IPO was 3.8% and 5.1%, respectively. Cf.: WSE *The main market. An issuer’s guide to listing on the Warsaw Stock Exchange,* 2017.

will improve the quality of order execution, which will translate into lower fees for participants and increased liquidity. This is necessary in the context of very high international competition,

- the experience of developed foreign stock exchanges shows that access to a large community of participants and a more heterogeneous group of intermediaries and investors is a key success factor for liquid markets. This can be achieved by further natural growth and targeted stimulus measures. The target group should include, among others:
  - buy-side brokerage through direct market access (DMA) or sponsored access - currently DMA's share in the Polish market is low. Moreover, there is no sponsored access,
  - sell-side activities (operation on own account - currently it is a small market segment),
  - users applying algorithmic trading,
  - active retail investors,
- one should strive to lower fees in every market area and ensure that these reductions translate primarily into a reduction in fees for individual investors. This should promote increase in scale and attract highly automated intermediaries to the market.

  In this context, in the sphere of investment services, the possibility of using solutions analogous to those adopted in the PSD2 Directive to stimulate market access for FinTech entities should also be analysed,
- New low-cost technologies should be implemented throughout the entire value chain to capture profits associated with trading in financial instruments through more efficient order execution and larger volumes. The industry should create a plan to re-attract foreign institutional investors concluding proprietary trading,
- By the end of 2020, the Ministry of Finance in cooperation with the KNF will determine national regulations for products that do not exist or are not used on the Polish market, and which are popular on the most developed capital markets, including ETFs and structured products listed on the local market. Securities loans (SLBs) must be available locally to compete with foreign services, including competitive offer from the WSE/KDPW and KDPW_CCP, licensed by the KNF in accordance with clear guidelines and regulations regarding short sales. In order to enable the development of new ETFs and derivatives, the WSE must also introduce a number of additional index-based products (with low multipliers to be competitive with CFD and FX contacts) that better reflect the structure of the private sector of the economy. Such product diversification will increase liquidity due to multiplier effects (and help reduce fees for basic products), which will also be very beneficial for PPK (Employee Capital Plans) in the context of hedging against market risk.

**ACTIONS - MARKET STRUCTURE – SHARES**

1. Elimination of delays in the registration of securities by courts after the share issue.
2. Improvements in consumer protection:
   - transparency and proper information for issuers regarding compliance with the MAR Regulation and lobbying at EU level,
   - imposing the obligation of due diligence by authorised advisors on the SME market,
   - enforcing best execution obligations.
3. Cooperation between the WSE and PAIH to promote the Polish capital market abroad.
4. Secondary market development plans to compete with the best-developed markets in the world:
   - change of technology on the WSE in order to achieve better price formation mechanisms and searching for sources of liquidity,
   - using easy access to attract a more heterogeneous user community,
   - implementation of sponsored access,
   - reduction of fees at every stage of trading reflecting lower cost structures in Poland,
   - striving to reduce access costs for individual investors,
   - creating a ‘market recovery’ strategy regarding lost foreign volume,
   - product differentiation and development of services, e.g. types of orders, auctions, SLB (among others due to clear guidelines and regulations regarding short sales),
   - educational activities for intermediaries and investors.
5. Defining by the end of 2020 national regulations for products not yet existing or not used on the Polish market, but popular on the most developed markets - including the ETF.

### 4.5.2. TREASURY SECURITIES AND REPO-TYPE TRANSACTIONS

With regard to the institutional market of treasury securities and repo transactions, the goal is to eliminate market distortions and significantly increase the volume of transactions concluded through electronic channels, with lower transaction costs, using the best order execution rule. It is necessary to further strengthen the treasury securities market, both in terms of outright transactions and repos (without buy-sell back transactions). They should be, among others concluded on standardised documentation (for example, for repos - compliant with GMRA[64)]) and cleared in a CCP.[65] Strengthening this market segment should ensure that the price formation process translates into a reduction in the cost of capital (through the possibility of using effective benchmarks, for example based on the repo market).

The following main assumptions are made in the area of the Treasury securities market:

1. in the case of institutional markets, the infrastructure of a transparent electronic trading platform for bond transactions does not have sufficiently flexible functionalities to ensure a sufficient level of attractiveness of the prices available on the platform. Narrowing the spreads and greater liquidity along with high transparency are necessary to reduce hidden costs on the market,
2. tax on certain financial institutions may have a disturbing effect on the repo market, thus causing a deviation of the Polish market profile from comparable EU markets and *de facto* favouring foreign dealers and institutional investors,
3. for repo transactions, a low level of use of compression and risk mitigation techniques is observed to reduce counterparty risk and replacement cost risk, such as central clearing in CCPs. On the Polish repo transaction market, the counterparty risk is increased by the lack of standard contractual documentation and the lack of standardised products, which would also have an impact on delays in the event of early termination of the transaction in case of insolvency of the counterparties. In addition, actions to develop the repo market may be relevant from the point of view of the need to adapt Polish benchmarks to the requirements of the EU Regulation on reference indicators used in financial instruments (the so-called *Benchmark Regulation*).[66] Indeed, one of the potential solutions aimed at adapting Polish benchmarks to the indicated provisions may be the use of an indicator based on repo transactions.

As far as the development of treasury securities markets and repo transactions are concerned, one should strive for, at least as competitive as on the OTC market price formation and liquidity sources searches on the electronic market (in terms of spreads, market depth and immediate availability of liquidity), with transparent prices of securities constituting a reliable reference point. The treasury securities trading model based on the implementation of the above objectives should allow for an evolution towards a level equal to or above international standards.

#### 4.5.2.1. Potential solution - structure of the treasury securities market

One should strive for a model for price formation on the treasury securities market that will be beneficial to the public interest in general. An analysis of this model should be undertaken as part of the work of the RRRF appointed working group. In addition, due to the expected interaction between the electronic market and turnover on the OTC market that ensures greater competitiveness, the market structure should have a positive impact on the availability of liquidity sources. This means, among other things, that effects of changes introduced by the Ministry of Finance in recent years regarding the Treasury Securities Dealers (TSD) system should be monitored, in particular in the context of the efficiency of the price formation process and finding liquidity sources. These modifications were a response to the changing market environment and consisted in simplifying existing rules while increasing the weight of key aspects of the system. The formula of the competition was rejected as a way of selecting TSD. Also the indefinite nature of the function of TSD was given, the rules for verifying the fulfillment of obligations by TSD were simplified, as well as the conditions for applying for the function of TSD. The choice of contractor for the Ministry of Finance to carry out individual financial operations was even more dependent on the results achieved by the TSD. From the beginning of 2019, TSD introduced the possibility of buying additional bonds directly after each sale auction at the minimum price established at this auction, depending on the amount of additional purchases based on the place in the ranking in order to increase the role of this ranking and competition among banks, including fulfilling their obligations on the electronic market. The procedure of treasury bond conversion has also been simplified by setting one minimum conversion price, irrespective of the repurchased bond, which will prevent market distortions caused by the existence of different prices.

In addition, the developed market model should assume that:

1. the market will offer a pre- and post-trade transparency regime, compliant with the MiFIR[67], with appropriate exemptions and deferrals favouring regular liquidity provision,
2. transactions on trading venues should use transparent mechanisms for placing and executing orders, using competitive functionalities and cooperating models based on the principles of 'dark pools' (i.e. not covered by the

[64)] One should strive to develop local documentation fully compliant with *Global Master Repurchase Agreement* (GMRA) based on existing ZBP documentation, which will primarily aim at (i) eliminating underlying risk, (ii) enabling the development of more complex structures, including tri-party repo, and (iii) adapting to CCP clearing processes.
[65)] Assuming that CCP will obtain a license extension (for settlement of repo transactions on ASO) within 1 year of implementing CMDS.
[66)] Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as reference indicators in financial instruments and financial contracts or for measuring the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (Official Journal EU L 171 of 29.06.2016, p. 1, as amended).
[67)] Regulation (EU) 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No. 648/2012 (Official Journal EU L 173 of 12/06/2014, p. 84, as amended).

transparency requirement) and 'lit trading' (i.e. covered by the transparency requirement), using transparent order books, various or selected multilateral price and liquidity detection tools, e.g. RF(C)Q/RFQ/IoI, with the involvement of all these tools together and with the use of various order matching algorithms, including fuzzy match solutions[68],

3. the KNF will strengthen market supervision in the area of transaction execution. All potential client transactions concluded on the OTC/OTF market or on the electronic market subject to the requirement for the best order execution under the MiFID II Directive should be verified in terms of execution conditions (including prices) in another market segment to ensure the best order execution, both in the 'lit trading' and 'dark pools' environment. This applies in particular to transactions that have previously been traditionally concluded on the OTC market,
4. the quality of the best oder execution should be verified by the supervisory authority using Transaction Cost Analysis (TCA) tools that could become a part of algorithmic trading models,
5. transaction data will be used for calculating indicators and market share / quality statistics, published in an anonymised form to promote competitiveness.
6. rules on TSD will take into account the promotion of a liquid and transparent electronic market so that it is a reliable reference for all participants of the TS market and contributes to reducing the cost of financing the State Treasury and, as a consequence, entities other than the State Treasury.

MF will cooperate with the electronic marketplace operator and stakeholders to achieve the optimal structure of this market segment. After making the appropriate changes, the infrastructure will also be able to be used to improve the transparency of the corporate bond market (both public and non-public).

#### 4.5.2.2. Potential solutions – structure of repo transaction market

The market structure proposed in CMDS for repo transactions should include the following elements:

1. the rules on tax on certain financial institutions should be modified to guarantee their neutrality for repo transactions. In order to obtain tax exemption, transactions should be:
   - concluded on the basis of standard GMRA documentation, and in the event of possibility to clear repo transactions in central counterparties, the standard documentation will be accepted by central counterparties, so that CCP, as the entity performing enabling novation, also concludes the contract according to GMRA standards,
   - concluded on a transparent trading systems (regulated market or MTF) and ensuring the best order execution,
   - cleared by central counterparties (subject to the extension of the CCP license to clear regulated market transactions / ASOs).

   Obtaining this tax exemption (as indicated in section 4.4.3) should be assessed in relation to individual transactions. This means that if, for example, a bank decides to conclude transactions without meeting the above requirements, then the funds received as a result of these transactions will not be subject to the exemption. Tax on certain financial institutions should be structured in such a way as to promote behaviour minimising the above systemic risk related to the OTC trading,
2. CIT rules should be modified so as not to disturb the desired economic effect of the transaction (repos should not be treated as two independent transactions, which creates taxable capital gains / losses of both legs of this transaction),
3. transactions concluded on the regulated market or MTF will be the basis for determining indices, including the potential benchmark based on repo transaction rates ('WRR'),
4. the industry should agree and use harmonised standardised transaction documentation. Buy-sell back transactions should be replaced with repos which are more flexible and compliant with the standards of other developed markets,
5. stakeholders should develop documentation that is fully compliant with GMRA and used for all market segments. Commonly accepted standards for transaction service, taxation and risk management should also be adopted on a bottom-up basis and approved by the KNF,
6. banking activity on the repo transaction market should be stimulated, among others by encouraging market participants by the KNF to use repo transactions as a standard liquidity management transaction (instead of unsecured deposits), including the use of more advanced repo transaction structures, such as a 'tri-party repo'.

[68] Trading systems should implement functionalities, including click-to-trade, enabling effective competition with foreign entities, in particular voice brokers, registered under MiFID II as OTF. These functionalities should include the use of trading to a certain extent excluded from the requirement of pre-trading transparency (the so-called 'dark trading'; with the KNF's decision regarding the relevant exclusions), flexible order types, e.g. RFQ/RF(C)Q/ IoI (Request for Quote, enabling to obtain a quote from a specific market-maker, Request for Competitive Quote, enabling the requesting party to get a quote from several competing market-makers, Indication of Interest, i.e. indicating a conditional, non-binding interest in buying / selling a security), using a variety of algorithms for combining orders, including a fuzzy match solution, enabling to combine orders with similar parameters within the tolerance indicated by participants.

#### 4.5.2.3. Potential solutions - treasury savings products for individual investors

In order to further strengthen confidence in the financial market, as well as to facilitate achievement of the CMDS objectives in the field of knowledge on the market and to encourage individual investors (home and abroad) to invest in safe savings products issued by the State Treasury, it is proposed to further develop retail savings products. Increase in the scale of savings should be implemented through a diversified offer, encouraging to create investor's own investment portfolio consisting of securities with different time horizons, different rules of interest and calculation of interest. The range of opportunities created by treasury savings products should be wide, and access to them as simple and secure as possible - access through secure channels, including Internet and mobile applications. Such mobile applications, as an important element of the distribution network, should achieve the highest digital standards. It should also be possible to cash the bonds quickly through the option of early redemption by the State Treasury. Savings products should have a simple design - eliminating the complexity, terminology and features of the 'institutional market'.[69] Increasing the knowledge on finance (activities of the Financial Education Council) should translate into an increase in interest in savings products and an increase in the level of savings of Poles.

Bearing in mind the existing conditions, further market development should take into account the possibility of applying solutions consisting in the implementation of blockchain technology. It is reasonable for treasury savings products to meet the following assumptions:

- affordable marketing using mass media,
- addressed to target groups of individual investors for whom education in the financial market is the most important. Definitions of target groups and channels should be consistent with the main goal of the product (education in the field of financial market). Familiarising investors with safe, affordable government-backed savings products should provide these investors with a good basis for investing in other financial instruments offered by intermediaries, including brokerage houses, investment funds and banks,
- addressed also to Poles living abroad,
- easy, secure access, including via the Internet and e.g. a secure mobile application,
- simple KYC / AML verification in the mobile application to consider,
- product tokenisation to consider,
- minimum investment - PLN 100,
- immediate withdrawal of funds from redeemed bonds,
- possible fees for early redemption,
- maintaining no transaction fees.

The intention is for the above infrastructure to create an additional communication channel between the Government and citizens, as well as Poles living abroad, where the potential is largely untapped.

In addition, as a part of works of the RRRF working group (the Innovation and FinTech thematic block), it is necessary to analyse the possibility of introducing tokenisation of retail treasury bonds using blockchain technology, as well as to test and use the concept of blockchain in the clearing of the OTC derivatives market.

**ACTIONS - MARKET STRUCTURE - TREASURY SECURITIES AND REPO TRANSACTIONS**

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**1.** The use of new and competitive technologies by entity operating the electronic treasury bond market to improve price formation and liquidity lookup mechanisms.

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**2.** Treasury savings products targeted at individual investors (in Poland and Poles living abroad):

- very simple products without barriers, promoting saving and knowledge on financial markets,
- mobile application increasing the attractiveness of treasury bond distribution channels.

### 4.5.3. DEVELOPMENT AND MUNICIPAL BONDS

In the perspective of the next several years, it is necessary to diversify and increase access to sources of finance for the largest and most important infrastructure projects from the point of view of economic development.

Therefore, the possibility of increasing the financing through municipal bonds should be explored. Development bonds will also be introduced that will allow the creation of an additional source of financing regional and national infrastructure.

Activities in this area will be preceded by development of a feasibility study, which should in particular be consulted with institutional investors seeking financial instruments with a long investment horizon. Institutions such as the Ministry of

[69] The development directions of this segment should be subordinated to the goal of the Debt Management Strategy, i.e. minimising service costs in the long-term with risk restrictions being present.

Investment and Development, the Ministry of Infrastructure, Bank Gospodarstwa Krajowego (as an issuer of infrastructure bonds on behalf of the National Road Fund) and the Polish Development Fund (as an investor in local and national infrastructure projects) should also participate in the above-mentioned works. Solutions should be developed taking into account the need to create attractive instruments from the point of view of foreign investors, in particular in the context of changes in the taxation of Eurobonds and other planned activities. Solutions for financing Eurobonds may be of interest in the context of planned large infrastructure projects, for example the 'Three Seas' initiative and other large projects planned in Poland. Development bonds can be an important instrument for financing Polish needs for future infrastructure development. The tax incentive for the issue of development bonds is described in section 4.4.1.

**ACTIONS - MARKET STRUCTURE - INFRASTRUCTURAL AND MUNICIPAL BONDS**

1. Analysis of possibilities for financing development through municipal bonds.
2. Introduction of development bonds, which will be able to become an instrument for financing Polish infrastructure needs.

## 4.5.4. CORPORATE BONDS

Corporate bonds are an important source of financing for the economy. However, due to the large number of ineffective solutions that have been adopted on the domestic market, especially resulting in a lack of transparency of information about issuers, it is necessary to strengthen confidence in the private market. Therefore, the following recommendations should be taken into account in the process of implementing the CMDS.

### 4.5.4.1. Improvements in the primary corporate bond market

1. Mandatory dematerialisation of all bonds and consideration of creating a bond register with full information on issuers available to investors:
   - mandatory dematerialisation of all bonds and use of the International Securities Identification Number (ISIN) due to regulatory changes implemented in November 2018. This change should also aim to introduce a number of other measures to improve market transparency[70],
   - with a view to the market development and investor safety, a need to create a bond register as well as a need for additional reporting obligations for issuers in the reporting area should be considered within the RRRF working group (the organised markets thematic block).
2. Standardisation of documentation elements on the non-Treasury bond market:
   - in order to reduce costs, improve and accelerate market access, as well as to reduce systemic, counterparty and legal risk, efforts should be made to harmonise, as far as possible, the forms and structures of documents required for the issue and their individual elements that are most important for investors (for example, definitions of terms or how interest is calculated). This would allow investors to more easily identify non-standard conditions that generate additional risk. In this process the leading role should be played by associations representing financial market participants. The KNF should participate in this work to ensure a proper balance between the rights and obligations of the issuer and investors,
   - the purpose of the above work should also be to develop a concise summary template accessible to individual investors regarding the most important issue conditions and all non-standard conditions. Such a summary should be a statutory requirement, as should be the summary presentation to individual investors before purchase, including an explanation of the differences in income compared to an investment in risk-free assets.
3. Strengthening auditor regulation:
   - it should be examined whether due diligence is sufficiently enforced for the current rules on auditing the financial statements of private bond issuers and the principle of supervision over auditors.

In relation to the need to guarantee transparency in the corporate bond market, consideration should be given to:

1. Increasing access for investors to information about the issuer:
   - all prospectuses and non-standard information for corporate bonds should be collected in an information system available to market participants free of charge or for a reasonable fee.
2. Restriction on the use of internal rate of return as a model for illiquid bonds valuation in investment fund portfolios:
   - as indicated in point 4.3.3., currently some investment funds use the internal rate of return methodology to value illiquid corporate bonds, classified as low quality instruments. This misleads the market and generates systemic risk due to too a high valuation of securities and lack of investor protection. In addition, such practices

[70] These changes have already been introduced in the Act of 9 November 2018, on the amendment of certain acts in connection with the strengthening of supervision over the financial market and investor protection on this market (J. of L., item 2243, as amended).

may not encourage funds to search for liquid bonds, as their valuation and, as a result, the valuation of fund units could be subject to a greater fluctuations. The MF should consider introducing a requirement for using market valuation methodologies or a model that reflects the liquidity and credit profile of investments in line with international standards for all bonds in investment fund portfolios. The use of internal valuation methodologies should be the exception used on the basis of appropriate justification including full disclosure of differences between results of market valuation and other one with the use of the internal rate of return model.

### 4.5.4.2. Corporate bonds - secondary public market

The WSE should introduce improvements to the functioning of *fixed income* trading platforms by migrating all instruments of this type to market structure established in accordance to the point 4.5.2.2, which implies:

- restructuring of segments (trading platforms) to reduce costs (including transaction costs and spreads),
- simplification of access to the fixed income instruments market (markets), regardless of whether the access is provided by dealers, banks or brokers; providing institutional and individual clients with direct market access (DMA) and sponsored access solutions,
- improvement of price formation mechanisms and searching for sources of liquidity by adapting them to more modern methods,
- attracting more foreign investors and brokers to bond markets by increasing market attractiveness and changing technology.

### 4.5.4.3. Other improvements regarding the corporate bond market

1. Amendments to regulations regarding bondholders' meetings and collateral administrators:
   - rules regarding bondholders' meetings contained in the Act on bonds[71] should be revised and simplified to enable an effective way for bondholders to exercise their rights. It is also necessary to redefine the concept of collateral administrator, who must first and foremost work for bondholders. In addition, the administrator's role should not end when the issuer ceases to pay his remuneration. The risk of different legal interpretations should also be removed as to whether bondholders' assets under the control of such collateral administrator are seized by the bankruptcy administrator of the bankrupt collateral administrator. In addition, it should be clarified whether the collateral administrator can accept a voluntary declaration of voluntary submission to debt recovery on behalf of bondholders.
2. Enforcing MiFID II rules concerning intermediaries:
   - practices of intermediaries subject to MiFID II regarding individual investors protection should be particularly carefully verified by the supervisory authority. This verification should concern e.g. rules on the best order execution, conflicts of interest and appropriateness assessment One should also consider publishing a list of good and bad practices of brokers in this respect.
3. Verification of regulations preventing banks from conducting public issues:
   - under current regulations, banks are not allowed to conduct public issues. Given their close relationship with issuers (due to loans, account maintenance and payment) and the fact that they are often a so-called first contact institution for potential issuers, this limitation may encourage banks to organise private placements instead of transferring clients to investment firms as to organise a public offer. As a result, the above limitation contributes to reducing market transparency and lowering the quality of information available to investors. Therefore, the organisational barrier for banks in providing investment services should be removed (for more details, see section 4.5.6.).

**ACTIONS - MARKET STRUCTURE - CORPORATE BONDS**

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1. Improvements in consumer protection on the private primary market:

- mandatory dematerialisation at KDPW,
- greater scope of responsibility and transparency regarding the overall obligations of issuers,
- striving to standardise documentation for the non-treasury bond market in order to reduce costs, improve and accelerate market access and reduce systemic, counterparty and legal risk,
- strengthening the tasks and responsibilities of auditors,
- information system for prospectuses and non-standard issues.

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71) Act of 15 January 2015 on bonds (J. of L. of 2018, item 483, as amended).

2. Limiting the use of valuation methods based on internal rate of return for illiquid bonds.

3. Secondary market:
   - restructuring of segments (trading platforms) in order to reduce costs (including transaction costs and spreads),
   - simplifying market access,
   - improving price formation and liquidity source lookup mechanisms,
   - attracting a more heterogeneous group of investors.

4. Revised and ultimately simplified rules for the bondholders' meetings and collateral administrators to enable the bondholders to effectively enforce their rights.

## 4.5.5. DERIVATIVE INSTRUMENTS

### 4.5.5.1. Equity derivatives

The following measures are proposed to improve market depth, diversity and liquidity of the offered equity derivatives:

1. increasing educational activities for investors in relation to derivatives traded on regulated market that are subject to an appropriate regulatory regime,
2. enabling funds investing for pension purposes to hedge market risk using derivatives while maintaining a clear prohibition on speculative activities using derivatives,
3. diversification of products and technology base on the WSE in order to increase a range of products, order types, trading strategy; ensuring access technology connecting the WSE with investors using sponsored access by applying the possibility of clearing in CCP for various types of current and new financial instruments,
4. introduction of improved fee models contributing to lower costs for end investors.

### 4.5.5.2. OTC derivatives

According to the EMIR regime, derivatives can be divided into centrally cleared (obligatory), centrally cleared (optional) and bilaterally cleared.[72]

Currently, a significant part of OTC derivatives denominated in Polish currency and concluded between domestic banks and non-residents (mainly London banks), which are subject to the obligation of central clearing, is cleared in one of the British CCPs.[73] Therefore, domestic and foreign financial market entities should be encouraged to clear these transactions in KDPW_CCP. Achieving this goal requires first of all increasing the competitive position of the Polish central counterparty and thus, the domestic capital market (more broadly: point 4.5.8.2).

Increasing the competitiveness of the Polish market can be achieved, among others, by supporting such solutions that would allow for further development of trading and post-trading infrastructure for derivatives that are not subject to the central clearing obligation. To this end, it is proposed to conduct a feasibility study for the use of blockchain technology (or possibly other modern technology) in the clearing of bilaterally cleared derivatives. This technology could be used on the domestic market, contributing to the increase of its technological advantage and, as a result, constitute a potential export technology. This demand requires a broader analysis at a later stage of developing specific solutions and mechanisms.

### 4.5.5.3. Commodity futures market

In parallel with the evolution of the development bond market, within the RRRF working group (the derivatives thematic block), it is necessary to examine the possibility and direction of development of futures exchanges in Poland. There trading would take place, including standardised building materials or energy raw materials. The indicated contracts could be helpful for hedging contracts concluded by transport companies, contractors, the public side (at the governmental and local government level, in particular in connection with the clauses introduced to contracts on participation in the increase in the cost of building materials on construction contracts).

**ACTIONS - MARKET STRUCTURE - DERIVATIVE INSTRUMENTS**

1. Taking five measures described in the Strategy to improve the scale and efficiency of the derivatives market.

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72) Which category a given derivative class belongs to depends in particular on the level of its standardisation. The list of derivatives that are subject to the central clearing obligation is included in the European Commission delegated regulations.

73) These are primarily interest rate derivative contracts. See: NBP, *Financial Stability Report*, Warsaw, December 2018.

2. Conducting a feasibility study for the use of blockchain technology (or possibly other modern technology) in the clearing of bilaterally cleared derivatives.

3. Analysing the possibilities and direction of development of futures exchanges.

## 4.5.6. INTERMEDIARIES

One of the specific objectives of the Strategy is to significantly improve the competitive position of Polish intermediaries, especially in the area of offering more technologically advanced services.

### 4.5.6.1. Current weaknesses of Polish intermediaries

It should be noted that innovations in the brokerage industry and the share of entities concluding proprietary trading are at a low level compared to foreign competitors and banking services in Poland. This is significant because the strong position of intermediaries in the most developed markets usually translates into increased liquidity, market dynamics, and also increases the confidence of market participants in these institutions.

Low innovativeness and thus, the competitiveness of intermediaries is caused by many factors, which include above all:

- **scale imbalance**: a significant number of investment funds and sell-side brokers are too large in relation to the market size, which reduces the strength of individual companies,
- **lack of balanced service model**: liquid capital markets are characterised by a proper combination of various trading models, including proprietary trading and clients' investments. Given the Polish equity market, there are a number of important gaps that need to be filled, including:
  - buy-side brokerage through direct market access (DMA) or sponsored access - currently there is a slight share of DMA and virtually no sponsored access,
  - sell-side activity (operation on own account - market-making) - currently it is insufficiently developed market segment,
  - relatively small number of users applying algorithmic trading technologies,
  - largely inactive retail trade,
- **low profitability**: the reported low profitability in key sell-side brokerage sectors (and even resulting in losses in secondary trading on regulated markets) is the cumulative effect of many of the insights contained in this document, especially regarding the lack of confidence. Given the experience of more developed markets, it is recognised that low profitability is the result of no economies of scale, and in this case the scale is reduced by factors such as the level of fees,
- **high cost base**, resulting from: (a) potentially excessively tight regulation ('gold-plating'), especially in the area of outsourcing, (b) high fees charged by market infrastructure entities, which, combined with high spreads (hidden costs) result in a high level of total costs and undoubtedly lower liquidity, (c) high costs (direct and indirect) associated with the technologies used, and (d) operational inefficiencies related to, among others mandatory organisational separation of banks' operations on the regulated equity market from other services subject to the MiFID II regime,
- **uncertainty arising from the historical supervisory approach to certain market areas** (for example, short sales), which could have reduced the intermediaries' willingness to grow their business and invest in new technologies.

The current operating model may not be appropriate given the long-term challenges for the industry, e.g. the so-called *unbundling* under the MiFID II directive, potential liquidity fragmentation, Brexit, the risk of further outflow of investors from the market, and growing competitive pressure from remote market participants.

### 4.5.6.2. Confidence in intermediaries

Strengthening trust in intermediaries requires a consistent approach of regulatory and supervisory authorities to law enforcement and, where necessary, proposing new regulations. The following proposals are envisaged in this regard:

- regulations regarding commissions, including maximum fees, which exclude the possibility of introducing additional hidden fees or cross-border fees. Consideration should also be given to introducing the need for an intermediary to demonstrate, based on empirical research and future forecasts, that products charged with high fees can provide reimbursement and higher returns than their cheaper alternatives,
- fee benchmarking, which will contribute to creating competition and transparent structures for investors to do fee comparison, for example in the form of an internet fee comparison and investment results, presenting fees in relation to the results of a given financial instrument or product. This solution will help increase price and performance competitiveness, replacing the relatively oligopolistic local fee structure and increasing investor

protection. Investors should feel that the level of fees is justified. At the same time, fees for the least complex products should be minimal,

- responsibility for charged commissions, which implies creating a regime that will counteract the situation in which agents credit commissions directly towards profit and pay bonuses at the time when they carry out the client's order, as well as a stronger relationship between the financial result of the product, the solvency of the investment and the responsibility of people working in investment firms, responsible for selling products,
- effective and quick law enforcement by the supervisory authority. The above activities will have to be supported by conducting regular and thorough inspections of investment firms. Regular thematic market analyses based on the effects of such studies are also foreseen.

#### 4.5.6.3. Customer value increase

As indicated above, one of the specific objectives of the CMDS is to achieve by 2025 the status of pan-European intermediary by at least two Polish intermediaries. Obtaining this goal should also enable to achieve the assumption regarding improving the standards of the Polish market and increasing the scale of operations.

Polish intermediaries indicate that one of the biggest restrictions on the development of their activities are the significant costs resulting from high fees for the infrastructure of the Polish capital market. Another important problem may also come from the fact that intermediaries do not use solutions consisting in more flexible profiling of the model of services provided and in seeking a model that would overcome the above-mentioned problem related to infrastructure costs. This applies, for example, to the more frequent offering of direct market access (DMA) services that could be offered to, among others, the largest investors. It should be noted that investors using DMA are often sensitive to the price and quality of services. Therefore, it seems that, given the relatively lower labour costs, Polish entities could effectively compete with foreign companies by offering good quality services at a lower price than brokers abroad. More frequent use of the above described solutions requires increase in investment outlays. At the same time, an access to highly qualified employees (including IT specialists) is the advantage of the Polish labour market, while on the other hand some of the work should be outsourced to third parties.

It should be remembered that remote stock exchange participants are already responsible for 40% of transactions carried out on the stock market[74] and it seems that the lack of changes in the intermediaries' business model may result in further loss of volume to other EU capital markets.

Other solutions that increase customer value include creating a regional capital market service center or focusing on specific niches.

Importantly, the introduction of changes in the customer service model by the Polish brokerage industry could also create the potential of tie-in sale of such services to other market sectors. There are groups of local portfolio investors as well as Polish investors interested in advanced IT solutions, who for the above-mentioned reasons may conclude transactions on other markets, not on the WSE.

It is also worth emphasizing that in order for the Polish brokerage industry to develop, new advisory services and more advanced trading models should be introduced. The model of concluding transactions on own account on equity and debt instruments should be supplemented with services related to a much broader spectrum of instruments, including derivatives, locally issued ETFs, structured products and locally regulated securities loans. This will allow (a) to overtake foreign competitors and (b) achieve the best order execution.

Functioning on the PPK market will be an important support for brokers. However, an analysis and possible modification of the service model that would attract investors and activate private savings will still be needed.

#### 4.5.6.4. Reforms needed for regulation and supervisory policy

The regulatory and supervisory approach is also important for the increase in the competitiveness of Polish intermediaries:

- a significant number of brokers and buy-side firms in well-developed markets outsource their front and back office systems to third parties to reduce the cost base and take advantage of the IT solutions created by the industry. In Poland it is much more difficult. Excessively strict regulations on outsourcing constitute a barrier preventing the use of this business model,
- lack of the so-called uniform banking license (see, among others, section 4.3.4),
- it is necessary to implement regulations for products that do not exist or are not used on the Polish market (for example, securities loans or ETFs) in a timely manner and in consultation with market participants.

[74] Own calculations based on the WSE data.

### 4.5.6.5. Elimination of organisational barriers regarding the provision of investment services in banks

As mentioned in point 4.3.4., banks currently do not have direct access to organised trading and it is necessary to maintain parallel IT and organisational structures (compliance issues, back office, etc.). This has many adverse effects, both in terms of the effectiveness of the organisation and the quality of services offered to clients.

The above barriers can be eliminated by covering all investment activities of banks (also in the field of organised trading) with one authorization for conducting banking activities, due to which banks will not have to, as is currently the case, to separate organisational activity of brokerage activities from banking activities. At the same time, in order to ensure the security and protection of individual investors, the KNF should publish detailed recommendations and guidelines aimed at harmonising service standards for brokerage houses and banks providing brokerage services.

### 4.5.6.6. Technology modernisation

There is currently a large qualitative difference in technologies used on the capital market compared to technologies used by entities on the banking and payment markets. The brokerage industry should strive to modernise its technological solutions, introducing, among others, FinTech solutions such as robo-consulting, algorithmic trading and modern front and back office systems. The modernisation of technologies used on the domestic capital market may also be supported by introduction of the so-called uniform banking license, as described in point 4.5.6.5.

First of all, it is recommended to make the following changes in this respect:

- **analytical support for companies and electronic information analysis:** to increase analytical coverage, in particular for SMEs. The WSE should consider creating a program propagating the preparation of company analyses.

  In addition, in connection with the so-called unbundling, it is necessary to make a qualitative leap in technology and methodology for analysing information. Results of local analyses should be available for automatic use by 2020, and then be able to be offered internationally and even sold to larger international research service providers. Automating a significant part of the analysis process, expanding the input data to cover big data analysis, and the analysts' focus on important aspects and opinions will also allow for expanding the scope of the surveyed companies. To this end, as part of the above-described program, one should strive to maximise the use of innovative solutions and cooperation with entities from the FinTech industry,
- **algorithmic trading:** the level of automation in the local brokerage industry is not high enough. Concluding transactions using simple Direct Market Access (DMA), where *buy-side* agents or retail investors make their own decisions, is largely untapped. Algorithmic trading on the Polish market is also very limited and only a few local brokers use the colocation services center on the WSE. Algorithmic trading is also not sufficiently used in market-making activities combined with a low capital requirements and a short term commitment. As a consequence, local Polish market participants (investors and market makers) lose market share and offer a less attractive prices than remote exchange participants and market participants using the WSE colocation services center. This vulnerability contributed to the aforementioned loss of market volume for remote exchange participants. A potential solution to the algorithmic trading gap would be to offer algorithms and access to liquidity as products sold under the own brand, as this would bypass the process of gaining experience and reduce risk levels, ensuring all appropriate safeguards and controls. In order to facilitate the implementation of the CMDS, the Government must create a friendly atmosphere for outsourcing,
- ***best execution* rules:** the principle of the best order execution is not sufficiently observed, especially on the OTC market. Transaction cost analysis (TCA) tools that should normally be used on liquid markets, such as the treasury bond and repo market, are not used. Investors on the Polish equity market do not use advanced algorithms for best execution. The introduction of such tools will be important for the Polish equity market after its fragmentation. The MF and KNF should stimulate market participants and potentially entities providing infrastructure to create, maintain and use TCA tools,
- ***back office* systems:** Polish brokers use expensive systems that have been inherited from their predecessors, but they do not have standard features such as the ability to configure the minimum size of the price change, the possibilities offered by access systems to many markets, and other features that are necessary for modern intermediaries. The lack of good *back office* systems slows down the development of the market. Therefore, they should be changed and transferred to external entities as a part of outsourcing. On the other hand, outsourcing regulations should not go beyond the requirements of MiFID II.

### 4.5.6.7. Improvements related to risk assessment

Regulatory and supervisory practice on the primary and secondary market should indicate more clearly that the duty of market due diligence lies with intermediaries. Intermediaries must also improve risk management strategies, in particular with regard to due diligence of issuers, not only on the primary market, but also with regard to their ongoing obligations, e.g. when the issued instrument is still offered to clients. This should also include the role of the KNF in the continuous assessment of the solvency of issuers in order to eliminate *misseling* from the market. The rules on target markets in the MiFID II Directive could apply here.

**ACTIONS - MARKET STRUCTURE - INTERMEDIATION**

**1.** Effective enforcement to rebuild trust:

- transparency in terms of commissions and possible returns.

**2.** Changes in regulation:

- solving problems related to outsourcing,
- implementation of a uniform banking license.

**3.** Increased enforcement of the obligation for intermediaries to exercise due diligence towards market participants.

**4.** Striving to attract companies to Poland which, due to restrictive regulations, may have transferred their activities abroad.

**5.** A program that propagates preparation of analyses for companies.

**6.** Modernisation, change and development of technology:

- striving for greater use of algorithmic trading,
- increased compliance with the best execution rules, especially on the OTC market,
- improvements in *back office* systems.

## 4.5.7. FEES AND COSTS

One of the challenges for the Polish market is to create economies of scale by reducing fees and alternative costs, which should help increase competitiveness and price comparison requirements. At the same time, consideration should be given to introducing a statutory restriction on fees where there is no self-regulation of the market.

The Polish capital market is currently one of the most expensive markets in Europe, including in terms of transaction costs on the WSE[75], and is characterised by high hidden costs (including spreads) and opportunity costs (resulting from example from the speed of order execution)[76], which is largely due to the under-utilization of new technologies by intermediaries.

With regard to the level of explicit costs, it should be noted that these fees are primarily shaped by intermediaries and market infrastructure entities. It is worth noting that the level of market fees does not reflect labour costs, which are lower than average costs on other developed markets, and may result from the operational inefficiency of some market participants. For example, Polish intermediaries do not sufficiently use new technologies, which may have a negative impact on price formation on the market.

In addition, it may be difficult for investor to choose products as there are insufficient opportunities to compare investment results reduced by costs, since fees charged by intermediaries are immediately recognised by intermediary in its results, while the investment results are determined in favour of the investor in the long run. The current approach may be harmful, *inter alia*, in the scope of attracting foreign investors and may result in the Polish market and investors being, to a greater extent, served by foreign entities.

Therefore, the Government and the KNF should take the following actions:

- considering introduction of regulation on fees (e.g. in the form of introduction of maximum fees). This should be accompanied by a long-term perspective on the target business model of intermediaries, in order to create a system in which it will pay off to offer services and products more beneficial for customers,
- enforcing best execution principles in accordance with the MiFID II Directive to verify that customers do not incur unjustified costs, e.g. when offering more complex products. This may be particularly important for products offered outside the regulated market. The KNF should pay special attention to some principles resulting from MiFID II, e.g. the principle of fairness of the price offered to the client and the use of trading systems, if they are available for products traded on the OTC market,
- with respect to financial instruments traded on the stock exchange, the level of market costs should be examined as part of the work of the CMDS implementation working group. In the context of indicated problem of the level of fees on the market, this group should, among other things, analyse: the possibility to expand and internationalise the offer of services on the part of capital market infrastructure entities (for example services in the area of expanded market data and indices on the WSE), and to expand the KDPW offer with securities loans.

[75] PwC report, *Development challenges and the regulatory environment and market situation of investment companies in Poland*, March 2017.
[76] This problem was repeatedly raised by stakeholders during bilateral meetings conducted as part of work on the document.

**ACTIONS - MARKET STRUCTURE - FEES AND COSTS**

1. Strengthening the enforcement of MiFID II provisions in the field of best execution to protect investors.
2. International fee benchmarking and, where necessary, regulatory intervention while ensuring that hidden fees cannot be introduced.
3. Implementation of new technologies to reduce spreads and opportunity costs.
4. Analysis of the level of market costs on the domestic capital market as part of the work of the CMDS implementation working group.

## 4.5.8. POST-TRADING INFRASTRUCTURE

### 4.5.8.1. Product development through the KDPW infrastructure

There is a need to diversify services in the post-trading infrastructure to achieve greater economies of scale, while introducing improvements to enhance consumer protection. In addition, the development of the infrastructure of the KDPW itself should be sought, allowing for registration (clearing) of specific bond issues and roll-over of these issues.

#### Eurobonds

Considering the proposed solutions for taxation of Eurobond issues and comparison of the level of costs of services provided by KDPW and those provided under T2S, it is expected to create an RRRF working group to determine ways to capture parts of the international Eurobond market, offering the fastest approval process of prospectuses and the lowest costs associated with access, turnover and settlement.

#### Identification of securities holders and investor relations services

This proposal (described in detail in section 4.3.4) comes down to strengthening transparency in relations between issuers and investors, and thus building developed investor relations on the Polish capital market. It requires introducing at the stage of implementing the provisions of the shareholders' rights directive[77] regulations facilitating loyalty programs by issuers of regulated market companies and guaranteeing the possibility of obtaining information about their shareholding from KDPW after the investor exceeds 0.5% of the share capital. At the same time, investors with less than 0.5% of the share capital of a company listed on a regulated market should be allowed to submit an appropriate statement on voluntary consent to provide their identifying data.

#### Securities lending and borrowing

As explained above, the development of a securities lending service cleared by the central counterparty, which is potentially related to the market of transactions on these securities on the WSE, is needed. The product will require a specific mechanism to ensure the efficiency of settlement, which will also ensure that demand and supply translate into an effective price and enable the search for other places to carry out transactions related to it. At a later stage, launching securities lending on the trading venue should be consider.

### 4.5.8.2. Product development - KDPW_CCP

The main goal of CMDS for post-trading infrastructure of CCPs is to diversify services and increase infrastructure system security.

#### The expansion of the Polish CCP

As indicated in point 4.5.5.2., one should strive to attract clearing of OTC derivative contracts denominated in the Polish currency to KDPW_CCP and thus, to strengthen the position of the Polish CCP in the EU. To this end, it is advisable to analyse within the RRRF working group the current position of KDPW_CCP in terms of factors that affect the lack of interest in this clearing house's offer among foreign financial institutions, taking into account the conditions for the *client clearing* service.

#### Central clearing of repo transactions

As indicated in point 4.5.2. one should strive for lowering the system risk associated with OTC trading. Therefore, the benefits of a multilateral netting solution should be exploited by promoting central clearing of repo transactions among market participants. In connection with the proposal to exempt funds received under repo transactions from tax on certain financial

[77]) Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC in the scope of encouraging long-term involvement of shareholders (OJ EU L 132 of 20.05.2017, p. 1).

institutions (as indicated in point 4.4.3), the above-mentioned actions should be taken at the earliest possible stage of CMDS implementation.

### Providing the NBP with legal possibilities to grant KDPW_CCP intraday credit

The KDPW_CCP is obliged to ensure safe and effective functioning of the part of the financial market infrastructure for which it is responsible for. This requires, in particular, taking into account the liquidity needs that may arise in connection with the cleaering activity. KDPW_CCP, by operating a system securing transaction clearing liquidity, accepts safe and liquid securities as a collateral for cleared transactions. It also supports liquidity on the side of banks, investment companies and their clients, who can bring securities as collateral with having cash at their disposal. However, this solution requires KDPW_CCP to take into account the risk associated with obtaining liquidity at an adequate level. In addition, the funds of this system are invested by KDPW_CCP in order to reduce losses due to limited access of these entities to these funds, which increases the temporary demand of KDPW_CCP for liquidity.

The presented actions are necessary to maintain long-term competitive ability. Despite the adaptation of KDPW_CCP to a situation where access to liquidity is implemented in a different way than access to the liquidity of the central bank, current solutions hamper the ability to effectively compete with foreign clearing houses from other EU countries that have direct access to central bank money and the possibility of using the liquidity tools offered by these central banks. In accordance with art. 44 paragraph 1 of EMIR, CCPs operating in the EU must have permanent access to adequate liquidity to provide their services and activities.

Considering the above, it should be possible for the NBP to grant KDPW_CCP an intraday credit by appropriately modifying the provisions of the Act on the NBP. The credit would be granted on the same basis as the technical loan currently offered to banks, so secured by securities accepted by the NBP, which will be interest-free and repaid on the same business day. KDPW_CCP would use this tool only in special situations and would only have to perform the clearing function, so fulfill obligations in which KDPW_CCP would be on the debt side and which would result from transaction clearing or from systems securing transaction clearing liquidity.[78]

**ACTIONS - MARKET STRUCTURE - POST-TRADING INFRASTRUCTURE**

1. Central clearing of repo transactions.
2. Development of a securities lending service (among others due to clear guidelines and regulations regarding short sales) cleared by the central counterparty.
3. Providing the NBP with legal possibilities to grant KDPW_CCP intraday credit.

## 4.6. AREA 6: INNOVATION

One of the CMDS goals is to use FinTech innovation as a way to ensure the competitiveness of the Polish market at the European level and Poland to achieve a status of the Central and Eastern Europe regional center in the field of private and public SME issues.

So far, the KNF has carried out appropriate actions in this area to identifying barriers to innovation within the FinTech working group. It also plans to launch a virtual regulatory sandbox. However, the market potential in the area of innovation still remains unused, which is why for the purposes of the CMDS an assessment was carried out regarding the efficient introduction of a more dynamic culture of innovation on the Polish capital market. The topic of new financial instruments has become a leading thread in the discussion undertaken, among others as a part of the work of the distributed ledgers and blockchain group, which was created as part of the stream of distributed ledgers in the ‘From paper to digital Poland’ Task Force operating at the Committee for Digitalization of the Council of Ministers. In implementing the CMDS goals, new technologies should also take into account the achievements of this group, as well as other works of teams and groups with similar goals and structure.

According to OECD data, the average level of state spending on research and development in the EU is about 3% of GDP, while in Poland it equals 0.96%.[79] At the same time, however, innovative solutions are already popular in some areas of the financial market, such as banking services and, especially, payment services.

Currently, the processes on global capital markets are more automated, and on the most advanced markets one can see full automation of the value chain from the investor to the trading system, as well as a significant number of processes from the

[78] Pursuant to art. Pursuant to Article 4 of Council Regulation (EC) No 3603/93 of 13 December 1993, overnight loans that the European Central Bank or national banks grant to the public sector will not be considered as credit facilities, provided they are limited to one day, without extension. This provision therefore introduces an exception to the prohibition on central banks granting credit to public entities, as referred to in Art. 123 TFEU. Confirmation of the application of this exception in Poland is the admissibility of the grant by the National Bank of Poland, in accordance with art. 43 paragraph 1 of the Act of August 29, 1997 on the National Bank of Poland, short-term loan to the Bank Guarantee Fund in cases regulated in the Act of 10 June 2016 on the Bank Guarantee Fund, deposit guarantee system and forced restructuring. In turn, the possibility of granting intraday credit for KDPW_CCP is confirmed by the provisions of the EMIR Regulation, which determines the admissibility and the need for CCP to use central bank money and access to the bank's liquidity. The availability of this tool is not only not limited, but it is considered desirable for the proper implementation of the clearing function and allows CCP to safely perform clearing services in accordance with the EMIR Regulation.

[79] According to the OECD data.

issuer to the investor. At the same time, innovation is not seen as a critical success factor for the market and its participants on the Polish capital market. The architecture of systems and functionalities used abroad are beginning to reveal a competitive edge to the disadvantage of local participants, who, as indicated above, for example, lose share in equity market in favour of remote exchange participants.

Therefore, the increase in revenues and the increase in market share are largely dependent on technological investments and the introduction of advanced distribution models. The internationalisation of the Polish capital market also depends on the implementation of new technologies, standard access and principles (without gold-plating). However, in case of the capital market, investments in technologies alone are not enough. Unlike banking, which is based on B2B or B2C and C2C via B activities, capital market technologies must be accompanied by attracting a critical mass of stakeholder groups in order to achieve positive network externalities. Therefore, technology must attract the community, and access technology must match the standards used in well-developed markets, so that participants who are not yet involved in the capital market can quickly and easily join it.

The Polish capital market must also reach the necessary level of technological sophistication required in each area of the capital market, i.e. from both financing platforms (including private ones, such as crowdfunding platforms), through transaction execution technologies (which are key in the context of the need to ensure transparency and best execution), post-trading services or data analysis. This is particularly important because well-used modern technologies allow for changes in business models, support financial integration, help reduce direct costs, and eliminate opportunity costs. So far, excessively stringent outsourcing regulations have often been one of the restrictions on the use of new technologies.

One should strive to change the current model and propagate new technologies on the market. Particularly critical is regular update of technology, replacement of manual solutions with electronic decision making mechanisms and IT systems to minimise operating costs. The shared service model must be used.

Therefore, it is necessary to understand why the use of the latest technologies on the Polish capital market is limited. This is in contradiction to the fact that, according to some data, as much as 83% of Polish enterprises are interested in new technologies.[80] In Poland, there is also a vigorous and dynamic environment gathering entrepreneurs from the FinTech industry. In addition, Poland is characteriaed by a large number of young, well-educated IT specialists, whose skills are currently not sufficiently used on the domestic capital market. Therefore, it is proposed to conduct a survey among market participants in order to understand the problem being described and to work out appropriate solutions.

### Start-ups and crowdfunding

In the context of striving to increase innovativeness of the Polish economy, it should be noted that many of the fastest growing companies in the world are starting their functioning in the form of start-ups. It is therefore necessary to enable such entities to start their business and development in Poland. An important step towards this direction is the introduction of a new type of commercial company - a simple joint-stock company.

The next step towards improving the legal environment for the development of start-ups should be to increase funding opportunities for their activities, including through crowdfunding. Crowdfunding in the investment model includes entrepreneurs who present projects requiring financing and offer shares in their companies to investors who can finance these projects, as well as an internet platform, which is a kind of intermediary between the investor and the entrepreneur. The indicated financing model is becoming an increasingly popular form of initial financing for innovative enterprises and start-ups.

Crowdfunding platforms operating in Poland currently operate on the basis of national and EU regulations governing trading in financial instruments and public offering of these instruments.[81] These provisions do not take into account specifics of running crowdfunding platforms, causing great uncertainty regarding the rules of operation of such entities. Investing in company shares exclusively via online platforms also requires care for ensuring a high level of investor protection, given the lack of direct contact between the client and the service provider. With this in mind, it is reasonable to regulate in the Polish legal order the so-called crowdfunding platforms. Creating a clear legal framework for investment by crowdfunding should contribute to increasing legal certainty and to propagating this form of investment among potential investors.

At the same time, it should be noted that a draft regulation of the European Parliament and of the Council on European crowdfunding service providers for enterprises (COM (2018) 113) is currently under way, which will harmonise the legal framework for crowdfunding platforms operating in the European Union, regardless of whether they operate cross-border or restrict their activities only to the market of one Member State. Therefore, work on the solution proposed in the Strategy will depend on the final shape of the indicated EU regulation.

### Development of the venture capital and private equity segment

In Poland, the capital market segment specialised in high-risk investments is still at an early stage of development. Therefore, it still requires patient support from the state, both in the area of public investments and in the area of constant adaptation of the legal framework (e.g. regulatory sandboxes), as well as tax incentives. Since constant volatility is the nature of an innovative economy, also the capital market development policy must constantly meet it.

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80) See: https://braincode.xyz/blog/fintech-guide-poland/

81) In this context, it is also worth mentioning the KNF position issued on 29 March 2019. *KNF position regarding the definition of the service of offering financial instruments contained in art. 72 of the Act of 29 July 2005 on trading in financial instruments.*

### Potential solutions for innovation and the use of new technologies

The Strategy also envisages undertaking such measures that will enable the Polish capital market to compete equally with other European markets in the area of innovation. This will allow for the market growth, its greater efficiency and better financing of the needs of the Polish economy, among others in the context of the need to finance projects under the so-called fourth industrial revolution.

The most modern technologies should be used by the market for:

- maximum risk reduction on the market (e.g. *misseling* risk),
- developing product and service offerings and achieving liquidity goals,
- attracting consumers to the market due to more attractive solutions from the system user's point of view,
- enabling the introduction of electronic regulation, supervision and control in the field of compliance to ensure a higher level of consumer protection.

As part of the CMDS implementation, it will be necessary to create a program that will allow for a greater use of technical and IT skills as well as experience of university graduates in all segments of the Polish capital market.

To compete with the most developed economies and to support development of the international competitiveness of the Polish capital market, Poland must specialise in the technologies of the so-called fourth industrial revolution and offer the appropriate regulatory, tax and educational foundations supporting FinTech and other advanced technologies.

It is also necessary to consider tax incentives and reforms in the legal and regulatory sphere in order to strengthen the foundations for innovation in the financial sector that would support development and provide access to capital for technology companies as one of the most effective types of enterprises in Europe. Encouraging innovative activities by comprehensively removing barriers limiting entrepreneurs' opportunities to enter the capital market is one of the basic assumptions of this document.

This includes, to a significant degree, use of the e-government legal and regulatory processes and the creation of competitive FinTech solutions in the following areas:

1. KYC / AML repositories,
2. distribution of treasury securities,
3. technologies supporting trade in development bonds,
4. clearing OTC derivatives using *blockchain* or other new technologies,
5. use of technology to reduce the cost of access to public and private equity markets, and
6. outsourcing of *front-office* and *back-office* services using new multi-market systems.

In addition, to support the development and to streamline financing of innovation on the Polish capital market, the WSE will create an accelerator for start-ups developing FinTech solutions on the capital market in all segments and areas of this market (both in terms of capital access platforms and trading systems, performing transactions, post-trading infrastructure, data analysis and others).

The above-mentioned new technologies should be consistent with new brokerage systems, capital market infrastructure systems on the WSE/Bondspot, which should be launched by the end of 2020 in order to provide adequate technical infrastructure supporting the development objectives of the CMDS.

**ACTIONS - MARKET STRUCTURE - INNOVATION**

1. The feasibility study of prospective areas of technological innovation conducted by the Ministry of Finance, which will allow, among others, to increase market scale and reduce spreads and alternative costs.
2. Regulation of crowdfunding platform activities in order to develop the market.
3. Creation of the FinTech accelerator at the WSE.

## 4.7. AREA 7: SUSTAINABLE FINANCE (PRO-ECOLOGICAL INVESTMENTS)

According to the data of the *Global Sustainable Investment Alliance* association at the beginning of 2018, assets that took into account environmental factors amounted to USD 30 trillion and since 2016 increased by 34 percent. In turn, the value of these assets in Europe amounted to just over USD 14 trillion. For comparison, according to the World Bank data in 2017, Poland's GDP amounted to about USD 524 billion.[82] These data largely reflect the nature and scale of sustainable finance.

Sustainable finance activities undertaken by the European Union are to force private financial markets to direct EUR 180 to 270 billion a year to support the implementation of the Paris Agreement goals.[83] An important part of these funds may support the transformation of the Polish economy in such areas as: air, water, mining, nature and biodiversity protection, energy

[82] Global Sustainable Investment Alliance, *The Global Sustainable Investment Review*, 2018.
[83] The European Commission, *Action plan: financing sustainable economic growth*, COM (2018) 97 final, 2018.

efficiency, development of innovative low-carbon technologies, support for electromobility, development of energy production from renewable resources or thermo-modernisation of residential and commercial buildings. Poland is already working towards, among others, improvement of air quality, more rational waste management, development of electromobility, reduction of nuisance resulting from mineral extraction, protection of biodiversity and construction of Polish nuclear energy production. By their very nature, these projects are capital-intensive, and therefore require increased capital market involvement.

Therefore, the Polish capital market should systematically and, in a well-considered way, join in activities in the field of sustainable finance. To this end, an RRRF working group on sustainable finance is being sought, whose main tasks should be to designate and coordinate activities in this area.

When implementing these activities, Poland should primarily use its experience as a pioneer in green bond issues. Currently, the Ministry of Finance plays a leading role in the development of the green bond market in Poland. The funds obtained from their issues are allocated to projects favourably affecting the environment. They finance investments in, among others, clean transport, renewable energy resources or afforestation, and thus, contribute to building a low-carbon economy. Poland was the first governmental issuer in the world that issued green bonds in 2016 and has since then offered investors 4 bonds of this type with a maturity of 5 to 30 years. This allowed the Ministry to build an effective green bond yield curve. All these issues were denominated in euros and were characterised by high demand from investors.

In addition, in order to effectively include the Polish capital market in the mainstream, one should strive for intensified education of market representatives and the society in the field of sustainable finance. Increased awareness of this issue is a minimum condition, because without demand for sustainable products (primarily from individual investors) it will be difficult to achieve the objectives.

Therefore, below five actions in the area of sustainable finance are proposed.

### Establishment of an RRRF working group on sustainable finance

Sustainable finance is an extensive and relatively new issue for the Polish market. Its growing popularity and potentially high impact on the activities of financial market entities necessitates the establishment and conduct of a dialogue between individual institutions, including to exchange views, propose specific actions related to this area. Therefore, it is proposed to set up a permanent working group on sustainable finance at the RRRF.

### Analysis of the possibilities of further development of the green bond market

In recent years the interest in green bonds has been strongly growing, as more and more investors aware of changes taking place in the natural environment want to safely invest assets, while being sure that they are financing pro-ecological projects. The green bond market creates such opportunities. The Ministry of Finance observes the changes taking place in this market and actively supports its participants. The MF issue of green bonds denominated in the Polish zloty would be the next stage in the development of this market and would allow Poland to further expand its investor base. At the same time, it would create conditions for buyers to optimally diversify the asset portfolio, enabling heterogeneous allocation. The Ministry of Finance is considering such an issue. Its implementation will depend mainly on the demand from investors. Under the CMDS, an analysis of the possibilities for further development of the so-called green bond market should be prepared.

### Undertaking two-track educational and promotional activities in the field of sustainable investments and products

The effectiveness of actions aimed at increasing the financial market's commitment to sustainable growth depends, among others from knowledge on sustainable finance, attitudes of financial market participants towards this issue, and above all the popularity of sustainable investments and products among potential investors. Therefore, it is proposed to undertake, in cooperation with the Ministry of the Environment, the Ministry of Energy and the KNF, two-track educational and promotional activities in the field of sustainable finance, addressed to representatives of financial market institutions and potential investors. An important educational and promotional element of sustainable investments would also be the development of public administration models and requirements for regular reporting of the impact of sustainable finance activities on selected areas covered by this funding.

### Lobbying by entities of the Polish market and energy companies on the international forum

Sustainable finance is becoming an increasingly popular topic in the international environment. Bearing in mind this tendency, as well as the interdisciplinary nature of the subject, which includes issues related to the functioning of the financial market, environmental protection, energy, mining of raw materials, etc., it is necessary to undertake joint lobbying activities by entities of the Polish financial market and energy companies. Only such cooperation would enable a consistent defense of Polish interests.

### Analysis of the legitimacy of introducing the low-carbon benchmark by the WSE Benchmark

Currently, there is no low-carbon benchmark on the Polish market, but it is worth noticing that similar indicators have existed in the world for several years (for example, developed by the benchmark administrator from the German stock exchange group - STOXX, STOXX Europe Low Carbon 100 index). Bearing in mind the desire of EU bodies to introduce harmonised types of low-carbon benchmarks into the single market[84], it is reasonable for the Polish benchmark administrator, i.e. the WSE

[84] Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2016/1011 as regards low-emission benchmarks and benchmarks for positive impact on emissions, COM (2018) 355.

Benchmark, to commence analytical activities towards the legitimacy of introducing the low-carbon benchmark to the Polish market in line with EU standards.

**ACTIONS - SUSTAINABLE FINANCE (PRO-ECOLOGICAL INVESTMENTS )**

1. Establishment of an RRRF working group on sustainable finance.
2. Analysis of the possibilities of further development of the green bond market.
3. Undertaking two-track educational and promotional activities in the field of sustainable investments and products.
4. Lobbying by entities of the Polish market and energy companies on the international forum.
5. Analysis of the legitimacy of introducing the low-carbon benchmark by the WSE Benchmark.

# 5. Implementation program

## 5.1. SYSTEM OF REPORTING AND MONITORING THE PROGRESS OF WORK

The project team will regularly report on the implementation of tasks to the Plenipotentiary of the Minister of Finance, Investment and Development for the implementation of the CMDS.

The project team should also prepare a quarterly progress report to be presented by the Plenipotentiary to the Financial Market Development Council. During the RRRF meeting, among others, the following will be discussed: removed barriers, identified problems in the CMDS implementation process, acceptance of the implemented solutions by the stakeholders, as well as progress in each area of tasks indicated in the document and a work plan for the next quarter. It is recommended that the last report in a given calendar year also contains information on the degree of implementation of the CMDS objectives.

In addition, the team should publish a bi-annual newsletter on CMDS in Polish and English to promote the Polish capital market among potential investors and issuers, also abroad.

The RRRF working group on implementing the CMDS should report at least once every two months to the project team on the progress of work in individual thematic areas.

## 5.2. FINANCING

The Capital Market Development Strategy has a directional character and at the present stage does not cause financial effects. Expenses related to the implementation of this document will be financed (in case of work performed by a team of specialists within the Ministry of Finance) in 2019 and in subsequent years within the expenditure limit specified for part 19 of the state budget without applying for additional funds from the state budget and from the funds obtained under EU Structural Reform Support Service program (SRSS) (in case of the work of external consultants cooperating with the Ministry of Finance in the implementation of CMDS).

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# 7. Glossary

**Algorithmic trade** – trading in financial instruments carried out automatically by algorithms analysing and processing data without the participation or with a limited human participation

**Back office** – business administration and organisational processes

**Best Execution** – executing the order for financial instruments in a way that best reflects intentions of the person concerned

**Blockchain** – decentralised database encoded using peer-to-peer public and cryptographic algorithms

**Brokerage house** – type of investment firm; conducts brokerage activities

**Buy-side** – entities operating in the field of purchasing financial services

**Compliance** – ensuring compliance between the functioning of the entity and legal, financial standards or assumed criteria

**Corporate bond** – debt security issued by a company

**Corporate governance** – standards and rules for enterprise organisation and management, including good practices

**Crowdfunding** – form of crowdfunding carried out using online platforms

**Cryptographic asset** - a type of virtual asset that uses a distributed cryptographic system

**Dark pools** – financial market without a public order book, where financial instruments are traded

**Direct holding** – traditional securities clearing and settlement system in which the owner of the securities is directly connected to the issuer

**Due diligence** – comprehensive enterprise analysis covering commercial, financial, tax and legal areas

**E-government** – public administration in which IT technologies are used

**ESG factors** – non-financial organisation assessment factors; they consist of 3 elements: E (*environment*), S (*social responsibility*), G (*corporate governance*)

**ETP** (*Exchange-Traded Product*) – financial instrument that is traded on the stock exchange, having the features of a structured product

**Eurobond** – debt security placed outside the country in which the currency is denominated

**European Investment Fund** (EIF) – a joint-venture company whose shareholder is the European Investment Bank, the European Commission and other financial institutions; supporting small and medium enterprises

**Financial integration** - a state in which individual segments of the regional and international financial market are connected with each other

**Fintech** (*financial technology*) – innovative technologies used in the area of financial services

**Fixed income security** – a security that brings unchanged income over a predetermined time

**Fourth Industrial Revolution** – a process that determines changes in the modern world including the extensive use of automation, digitalization, new technologies and artificial intelligence

**Front office** – the space in which the client and company employee interact

**Fuzzy match** – approximate matching solution that implements buy / sell orders for financial instruments in a manner most similar to the originally specified parameters

**Gold-plating** – implementing the provisions of European Union law to a wider extent than is required at a minimum level

**ICO** (*Initial Coin Offering*) – type of crowdfunding, during which capital is raised using tokens generated for this purpose or virtual currencies

**IKE** – individual retirement account; the pension saving system functioning under the third pillar within the meaning of the Act of 20 April 2004 on individual retirement accounts and individual retirement accounts (J. of L. 2016, item 1776, as amended)

**IKZE** – individual retirement security account; the pension saving system functioning under the third pillar within the meaning of the Act of 20 April 2004 on individual retirement accounts and individual retirement accounts (J. of L. of 2016, item 1776, as amended)

**Investment firm** - an entity that has obtained the permission of the supervisory authority to conduct brokerage activities

**Investment fund** – a legal person whose sole object of activity is investing funds collected by proposing the purchase of participation units or investment certificates in specific securities, money market instruments and other property rights

**IPO** (*Initial Public Offering*) – public offering of newly issued or sold by existing shareholders shares of the company, consisting in the introduction of securities for the first time to trading

**IRR** (*Internal Rate of Return*) – internal rate of return; assessment method of investment effectiveness based on discounted cash flows

**Issuer** – entity issuing securities (e.g. shares or bonds)

**Issue sponsor** – an institution keeping a register of persons who have acquired bearer or registered securities in primary trading or under IPO

**Know Your Customer / Anti-Money Laundering repository** – a collection of digital data stored in accordance with a due diligence procedure for the purposes of counteracting money laundering and terrorist financing

**KYC** (*Know Your Customer*) – customer identification procedure for assessing his risk profile and identity verification in relation to transaction security and prevention of money laundering, financing of terrorism and other crimes

**Lit trading** – trading financial instruments through an intermediary using a publicly available order book

**Market digitalization** – the process of transforming data and market structures into a digital form

**Market-making** – organising own market available for other participants, where the client concludes transactions directly with the organizer, which is a party to the transaction

**Misseling** – offering financial products and services not adapted to the client's capabilities and profile as well as in a misleading manner

**MTS** (*Multilateral Trading System*) **–** a system or platform enabling to buy and sell financial instruments by third parties

**Municipal bond** – debt security issued by a local government unit

**Omnibus accounts** – accounts on which dematerialised securities may be registered that do not belong to the persons for whom those accounts are kept, but belonging to another person or persons

**Order Book** - list of purchase and sale offers for financial instruments

**OTC derivative** (*over-the-counter*) – non-standardised financial instrument, the price of which depends on the value of the underlying instrument; traded on the OTC market

**OTF** (*Organized Trading Facility*) – organised trading platform; a multilateral system enabling the submission of orders to buy and sell financial instruments resulting in concluding a contract

**Outsourcing** – transferring to external entities activities previously carried out within the organisation

**P/E Ratio** *(Price and Earnings)* – price to earnings ratio; market value indicator obtained after dividing the price of one share by the company's net profit per share

**Post-trading infrastructure** – a set of processes taking place after concluding the transaction on the financial market

**Private equity** – type of investment in non-public enterprises of medium or long-term nature undertaken by specialised entities characterised by high risk; it is a broader concept than venture capital

**Prospectus** – information document providing information about the publishing entity or the issue of securities

**Public company** – company listed on the public market

**Public market –** place where securities are traded (among others, such as shares, bonds, investment certificates, mortgage bonds), i.e. regulated market (stock exchange) or alternative trading system

**Repurchase agreement –** a transaction in which one of the parties disposes certain securities (by transferring their ownership) and at the same time undertakes to buy back equivalent securities at a predetermined price (the so-called repurchase price). In the economic sense, entering into such a transaction is equivalent to taking out a loan secured by securities. In repo transactions, benefits (coupons) from securities held during the transaction are transferred by their temporary owner to the entity that has undertaken to repurchase. For a counterparty buying securities and at the same time committing to resell them, this transaction is known as reverse repo.

**Regulatory sandbox** – a regulatory solution that allows companies to test new financial products and services in circumstances of reduced legal discipline

**Robo advisory** – digital financial consulting based on algorithms and artificial intelligence

**Securities account** – the account on which the dematerialised securities are recorded

**Secondary market** – segment of the financial market, where there is the turnover between primary investors relative to subsequent buyers and between next subsequent buyers

**Sell-buy back** (SBB) – a transaction in which one of the parties disposes certain securities (by transferring their ownership) and at the same time undertakes to buy back equivalent securities at a predetermined price (the so-called repurchase price). In the economic sense, entering into such a transaction is equivalent to taking out a loan secured by securities. In SBB transactions, benefits (interest coupons) from securities held during the transaction are retained by their temporary owner, and the value of these benefits is included in the repurchase price. For a counterparty who buys securities and at the same time undertakes to resell them, this transaction is known as buy-sell back (BSB)

**Sell-side** – entities operating in selling financial services

**Shared Service Center (SSC)** – an organisationally separated part of a multi-department enterprise that provides services to other units in this entity

**SLB** (*Securities Lending and Borrowing*) – market mechanism consisting in granting or obtaining securities loans

**Spread** – the difference between the sale price and the purchase price of a given asset

**Structured product** – a complex financial instrument consisting of several other instruments that differ from each other and have a simpler design

**Success fee** – a fee charged by investment funds as part of their remuneration after meeting certain criteria or after achieving certain results

**SWIFT** – Society for Worldwide Interbank Financial Telecommunication, which is, among others responsible for issuing codes identifying financial institutions (BIC codes, usually also called SWIFT codes in Poland)

**T2S (TARGET2-Securities)** – pan-European securities settlement platform

**Tokenisation** – a process that uses blockchain technology to create tokens or virtual currencies that are a digital form of value associated with a given good

**Token swap** – a digital derivative that is not a security, it means the exchange of tokens according to established conditions

**Unbundling** – mandatory separation of certain services, e.g. transfer of market analyses from transactions

**Uniform European Passport** – enables functioning of financial institutions that have been authorised in one Member State without the need to obtain an additional authorisation to operate in other Member States; based on EU law

**Venture capital** – type of investment in non-public enterprises in the early stages of development with a medium or long investment horizon, characterized by high risk; venture capital investments are undertaken by specialised entities - venture capital funds, which also support the operations of a growing enterprise

**Virtual currency** – virtual unit saved in systems based on cryptography technology

**Warrant** – derivative entitling the holder to purchase new issue securities at a fixed price

# 8. Annex - list of the most important activities

**THE MOST IMPORTANT ACTIONS PLANNED UNDER CMDS**

**1.** Appointment of the Plenipotentiary of the Minister of Finance, Investment and Development for the implementation of the CMDS responsible for implementing the solutions provided for in the Strategy.

**2.** Establishment of the CMDS project management team within the structures of the Ministry of Finance.

**3.** Preparation of quarterly reports on the progress in the implementation of the CMDS presented at the meetings of the Financial Market Development Council.

**4.** Conclusion of an agreement between the Ministry of Finance, the National Bank of Poland and the Polish Financial Supervision Authority to coherently implement the solutions provided in the CMDS.

**5.** Establishment of working group at the Financial Market Development Council for the implementation of solutions provided in the CMDS.

**6.** Acquiring Poles working abroad in the largest financial, consulting, IT and FinTech companies for the domestic capital market.

**7.** Establishment by market participants, with Government support, of an office in Brussels to deal with lobbying in key EU institutions.

**8.** Taking caring for stability and predictability of regulations.

**9.** Increasing the broker’s responsibility for recommended investments through effective law enforcement measures.

**10.** Exercising by the WSE, to a greater extent than before the rights set out in the WSE Statute regarding enforcing from listed companies compliance with corporate governance rules.

**11.** Undertaking by the Government actions aimed at ensuring that WSE listed companies with the Treasury as shareholder participation apply the corporate governance rules applicable to listed companies contained in the document ‘Best Practice for GPW Listed Companies 2016’.

**12.** Strengthening the efforts in education in the field of financial market - both for unprofessional investors and potential issuers - among others by creating the Financial Education Strategy.

**13.** Implementation of schemes aimed at attracting Poles abroad to the Polish financial market.

**14.** Considering introducing selected new models of savings products with very simple functionality.

**15.** Promotion of treasury savings bonds distributed, e.g. by mobile channels, with simple functionality (possibilities of using solutions using distributed ledger technology).

**16.** Active supervision over costs incurred by individual investors while preventing the use of hidden (alternative) fees and commissions, and international fee benchmarking.

**17.** Allowing issuers to run loyalty programs for investors.

**18.** Introduction of games in the field of financial education, mainly available on social platforms.

**19.** Educational programs for issuers, institutional investors, brokers, advisors and individual investors, including through the cooperation of the KNF with organizations of individual investors.

**20.** Analysis of the legitimacy of introducing savings products addressed to Poles who do not use banking products.

**21.** Ensuring that the market and investors can identify improper practices and eliminate them. It should be considered to introduce an obligation to publish information about what kind of violations in the services and activities of a given entity the KNF has identified, which also led the authority to submit an appropriate notification to the prosecutor's office.

**22.** Publication by the KNF obligations towards market participants regarding the maintenance of specific standards of conducted proceedings and other supervisory activities.

**23.** Adoption of the operational strategy by the KNF.

**24.** Temporary secondment of KNF employees for internships and training programs in supervised entities.

**25.** Increasing the KNF's involvement in the development of the capital market while ensuring transparency and proportionality of supervision.

**26.** Changing the rules of procedures pending before the KNF, e.g. by modifying the Code of Administrative Procedure (KPA).

**27.** Review of regulations, among others of WSE, BondSpot and KDPW, in areas not requiring KNF approval.

**28.** Creation by the KNF a ‘regulatory sandbox’ for FinTech-type entities.

**29.** KNF's active participation in financial market education programs.

**30.** Cooperation between the KNF and stakeholders in order to guarantee the security of operations of Polish entities in connection with the consequences of Brexit.

**31.** The need for effective monitoring the risk arising from the growing international connections of the Polish economy performed by the KNF.

**32.** Analysis of a need to introduce a sourcebook tool on the KNF website to facilitate the understanding of financial market regulations.

**33.** Implementing EU capital market legislation in a timely manner to allow market participants sufficient time to adapt to regulations.

**34.** Appointment of a working team by the Ministry of Finance and the KNF to identify the excess national regulations in relation to EU regulations.

**35.** Avoiding gold-plating and changing the rules regarding:

- outsourcing
- the requirement to obtain the issuer's consent to admit securities to trading.

**36.** Developing solutions on the EU forum ensuring the principle of proportionality of regulations from the point of view of the domestic capital market.

**37.** Developing a code of good practice in avoiding gold-plating and maintaining the principle of proportionality in national regulations.

**38.** Creation of a legal framework to strengthen the enforcement of corporate governance principles in the WSE listed companies.

**39.** Introduction of courts specialising in financial market.

**40.** Enhancement of the quality of provided services and increasing the liability of intermediaries responsible for distribution of financial instruments to individual investors.

**41.** Increase in transparency of the private bond market – introduction of an obligation for issuers to provide the KNF with financial stability reports.

**42.** Introduction of the so-called active repentance mechanism towards supervised entities.

**43.** Assurance of the transfer of securities on the same day when a KDPW participant maintaining securities accounts declares bankruptcy.

**44.** Introduction of regulations ensuring effectiveness in the event of bankruptcy of clearing members or KDPW_CCP.

**45.** Introduction of the obligation for investment funds to use the market valuation of corporate bonds.

**46.** Introduction of the obligation to record conversations when providing portfolio management and investment advice services.

**47.** Introduction of legal and regulatory frameworks and guidelines for products and services available or used only to a limited extent.

**48.** Introduction to the national legal system a new investment fund model, attractive from the point of view of institutional investors (e.g. SICAV).

**49.** Introduction of standardised and automated emission processes by the KNF.

**50.** Implementation of the so-called uniform banking license and elimination of organisational barriers regarding the provision of investment services in banks.

**51.** Introduction of a legal framework for distributed ledger technology (DLT) and positioning of cryptographic assets on the Polish market.

**52.** Tax incentives for issuers:

- withdrawal from withholding tax for Eurobonds in order to equalize the cost of raising capital in a foreign currency with the cost of capital raised in PLN,
- introduction of a tax exemption for the issue of development bonds,

- public issuers:
  - introduction of a discount for IPO costs,
  - increased allowances for employee share schemes.

**53.** Tax incentives for investors:

- enabling compensation of capital gains / losses for investment fund units and other securities,
- reduced dividend tax rate for long-term investments,
- change in the current method of taxation of interest on bonds in a way that it will ensure a similar level of taxation regardless of whether the investor purchases bonds on the primary or secondary market.

**54.** Tax incentives for intermediaries:

- exemption of repo transactions meeting certain criteria from tax on certain financial institutions.

**55.** Improvements in revenue administration for issuers - centralisation of processes for issuers.

**56.** Harmonisation of the tax treatment of bonds (for bonds issued before and after 2015).

**57.** Elimination of delays in the registration of securities by courts after the share issue.

**58.** Improvements in consumer protection:

- transparency and proper information for issuers regarding compliance with MAR Regulation and lobbying at EU level,
- imposing the obligation of due diligence by authorised advisors on the SME market,
- enforcing best execution obligations.

**59.** Cooperation between the WSE and PAIH to promote the Polish capital market abroad.

**60.** Secondary market development plans to compete with the best developed markets in the world:

- change of technology on the WSE in order to achieve better price formation mechanisms and searching for sources of liquidity,
- using easy access to attract a more heterogeneous user community,
- implementation of sponsored access,
- striving to reduce access costs for individual investors,
- creating a ‘market recovery’ strategy regarding lost foreign volume,
- product differentiation and service development, e.g. types of orders, auctions, SLB,
- educational activities for intermediaries and investors.

**61.** Defining by the end of 2020 national regulations for products not yet existing or not used on the Polish market, but popular on the most developed markets - including the ETF.

**62.** The use of new and competitive technologies by entity operating the electronic treasury bond market to improve price formation and liquidity lookup mechanisms.

**63.** Treasury savings products targeted at individual investors (in Poland and Poles living abroad):

- very simple products without barriers promoting saving and knowledge on financial markets,
- mobile application increasing the attractiveness of treasury bond distribution channels.

**64.** Analysis of possibilities for financing development through municipal bonds.

**65.** The introduction of development bonds, which will be able to become an instrument for financing Polish infrastructure needs.

**66.** Improvements in consumer protection on the private primary market for corporate bonds:

- mandatory dematerialisation in KDPW,
- greater scope of responsibility and transparency regarding the overall obligations of issuers,
- analysis of the need to create a bond register, as well as the need to introduce additional reporting obligations for issuers,
- striving to standardise documentation in order to reduce costs, improve market access and reduce investor risk,
- strengthening the tasks and responsibilities of auditors,
- information system for prospectuses and non-standard issues.

**67.** Limiting the use of valuation methods based on internal rate of return for illiquid bonds.

**68.** Secondary market for non-treasury bonds:

- restructuring of segments (trading platforms) in order to reduce costs (including transaction costs and spreads),
- simplifying market access,
- improving price formation and liquidity source lookup mechanisms,
- attracting a more heterogeneous group of investors.

**69.** Revised and ultimately simplified rules for the bondholders' meetings and collateral administrators to enable the bondholders to effectively enforce their rights.

**70.** Taking five measures described in the Strategy to improve the scale and efficiency of the derivatives market.

**71.** Conducting a feasibility study for the use of blockchain technology (or possibly other modern technology) in the clearing of bilaterally cleared derivatives.

**72.** Analysing the possibilities and direction of development of futures exchanges.

**73.** Increased enforcement of the obligation for intermediaries to exercise due diligence towards market participants.

**74.** Striving to attract companies to Poland which, due to restrictive regulations, may have transferred their activities abroad.

**75.** A program that propagates preparation of analyses for public companies.

**76.** Modernisation, change and development of technology:

- striving for greater use of algorithmic trading,
- increased compliance with the best execution rules, especially on the OTC market,
- improvements in back office systems.

**77.** Strengthening the enforcement of MiFID II provisions in the field of best execution to protect investors.

**78.** Implementation of new technologies to reduce spreads and opportunity costs.

**79.** Analysis of the level of market costs on the domestic capital market as part of the work of the CMDS implementation working group.

**80.** Central clearing of repo transactions.

**81.** Development of a securities lending service (among others due to clear guidelines and regulations regarding short sales), cleared by the central counterparty.

**82.** Providing the NBP with legal possibilities to grant the KDPW_CCP intraday credit.

**83.** The feasibility study of prospective areas of technological innovation conducted by the Ministry of Finance, which will allow, among others, to increase market scale and reduce spreads and alternative costs.

**84.** Regulation of crowdfunding platforms to develop the market.

**85.** Creation of the FinTech accelerator at the WSE.

**86.** Establishment of an RRRF working group on sustainable finance.

**87.** Analysis of the possibilities of further development of the green bond market.

**88.** Undertaking two-track educational and promotional activities in the field of sustainable investments and products.

**89.** Lobbying by entities of the Polish market and energy companies on the international forum.

**90.** Analysis of the legitimacy of introducing the low-carbon benchmark by the WSE Benchmark.