

# THE FMSD'S SUPERVISORY STRATEGY IN THE AML/CFT AREA 2023–2026

Pursuant to Article 35 of Act No. 253/2008 Coll., on Certain Measures Against Money Laundering and Terrorist Financing (hereinafter the “AML Act”), the CNB performs supervision in the area of anti-money laundering and countering the financing of terrorism (hereinafter AML/CFT). At the same time, the CNB supervises the implementation of international, European and national sanctions pursuant to Article 15 of Act No. 69/2006 Coll., on the Implementation of International Sanctions.<sup>1</sup> Pursuant to the CNB Organisational Statute, the Financial Market Supervision Department (hereinafter the “FMSD”) performs supervision in the area of AML/CFT over the following institutions: credit institutions, insurance companies when providing life insurance, reinsurance companies, pension management companies, central depositories and operators of markets in investment instruments and foreign branches of these institutions (together hereinafter “financial institutions” or “supervised institutions”).

When performing this activity, the FMSD is subject to the legal rules and guidelines governing its activities and the CNB's general strategies and procedures. These include the following documents:

- Article 35(7) of the AML Act,<sup>2</sup>
- The CNB's supervisory strategy,<sup>3</sup>
- The CNB's long-term supervisory strategy, 2017,<sup>4</sup>
- EBA Guidelines on the characteristics of a risk-based approach to anti-money laundering and terrorist financing supervision, and the steps to be taken when conducting supervision on a risk-sensitive basis under Article 48(10) of Directive (EU) 2015/849.

The aim of the FMSD's supervisory strategy in the AML/CFT area is to identify priority areas. The FMSD, as the supervisory authority, has been and will continue to guide its actions according to these priority areas, so as to utilise the available capacity efficiently and maximise the effectiveness of AML/CFT supervision. The ultimate goal is to ensure the necessary sophistication across the supervised sectors and enhance the effectiveness of the application of measures in the area of AML/CFT so that resources are used and targeted by supervised institutions, both individually and across sectors, in a way that is consistent with minimising risk and the possibility of misusing the financial market for criminal activity. The specific procedures, organisational division and responsibility within the CNB and the FMSD are laid down in internal methodologies.

The CNB updates this strategy once every three years or more often if necessary. It also evaluates its fulfilment as of the date of its change. The supervisory strategy contains

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<sup>1</sup> Where the AML/CFT area is mentioned below, it analogously and adequately also refers to the implementation of international, European and national sanctions. In this document, these refer to all international, European and national sanctions legally binding in the Czech Republic, including sanctions against the proliferation of weapons of mass destruction.

<sup>2</sup> “*Administrative supervision is based on risk analysis that reflects, among other things, the National Risk Assessment, supranational risk assessment, ...*”

<sup>3</sup> <https://www.cnb.cz/en/supervision-financial-market/supervisory-strategy/>

<sup>4</sup> <https://www.cnb.cz/export/sites/cnb/en/supervision-financial-market/galleries/long-term-supervisory-strategy/long-term-supervisory-strategy.pdf>

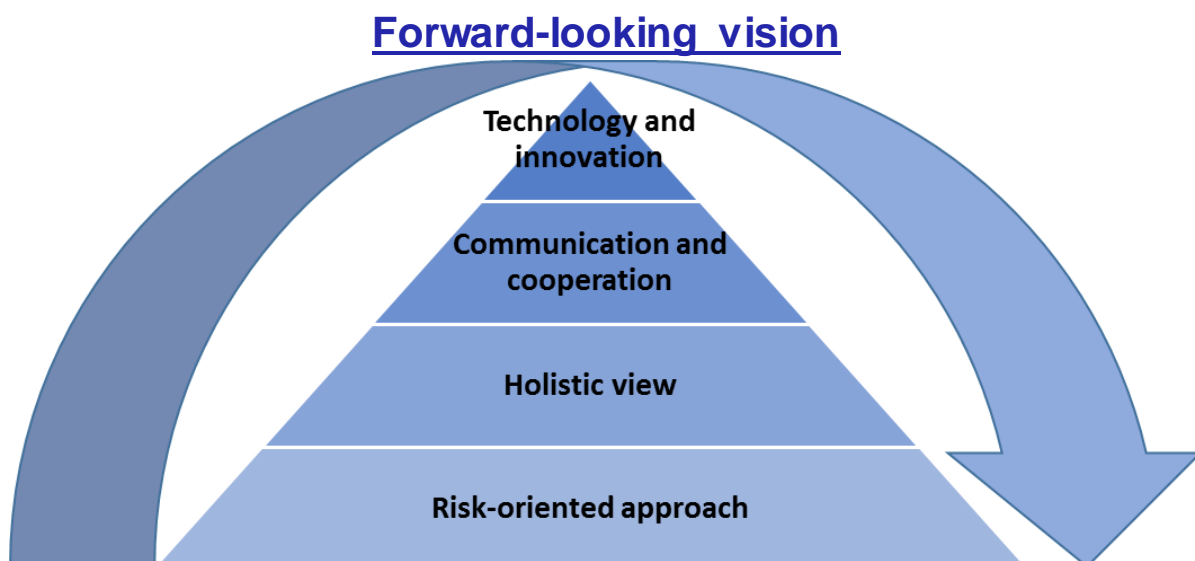
an annex with an action plan which defines the key specific steps towards its fulfilment. This plan is not intended for the public. The implementation of the action plan is evaluated each calendar year and every time the supervisory strategy is updated.

Together with prudential supervision and conduct of business supervision, AML/CFT supervision is a key pillar for ensuring financial market stability and integrity. One of the FMSD's priorities is to fight financial crime and protect the Czech financial market against misuse. The presence of illegal funds on the financial market not only allows perpetrators to use their illegally acquired assets freely, but also has much wider implications that jeopardise the soundness, stability and reputation of the financial market while distorting behaviour on that market.

The AML/CFT area is characterised above all by dynamic change. First of all, the trends and types of crime are evolving rapidly. At the same time, however, regulation in this area is also evolving fast, as are the tools for its implementation and therefore for the fight against money laundering and the financing of terrorism (hereinafter "ML/FT") on the part of financial institutions, especially by using new technologies. It is thus vital to constantly adjust supervision to the current developments and trends. Moreover, this area is characterised by considerable interconnectedness with other relevant entities. In addition to the fact that crime is often committed across borders, there are a number of different authorities involved in combating it at the national level, whose coordination and collaboration is crucial.

This strategy defines five priority areas for the FMSD's supervision in the AML/CFT area in 2023–2026: i) maintaining a forward-looking vision, ii) strengthening a risk-oriented approach, iii) the application of a holistic view, iv) the development of communication and cooperation and v) support of innovation and technology.

In each of these five areas, the approach is further defined in the strategy on i) the method of supervision and ii) the focus of supervision. The method of supervision sets out the FMSD's supervisory procedures and the organisational structure of the FMSD as the AML/CFT supervisory authority. The general objective is to strengthen and develop the areas identified, where some of the specific action steps under the action plan are aimed at maintaining and enhancing the existing activities and others at starting or creating new ones. As regards the focus of supervision, these areas determine key supervisory priorities, i.e. aspects of supervised entities' operation which will be examined in more detail during supervision and for which the CNB expects increased attention from supervised entities.



# 1 Forward-looking vision

*The CNB's supervisory strategy: "The CNB performs supervision based on a 'forward-looking' system for assessing the risk profiles and degree of systemic importance of supervised institutions."*

## 1.1 Forward-looking vision in AML/CFT supervision

**One of the overarching and fundamental principles of effective supervision is a broad perspective and strong focus on future developments.** Given the dynamic changes in the functioning of the financial sector and the related regulation, it is necessary to analyse the future evolution of current trends on an ongoing basis. The AML/CFT area in particular has been undergoing significant change. This involves not only changes on the part of supervised entities and in the regulatory framework, but above all also the emergence of new methods and types of crime. The FMSD thus also designs and configures its processes in a manner consistent with new trends, so as to identify risks to the maximum extent possible before they materialise. To this end, the FMSD has defined the priorities listed below, which enable sufficient and timely identification and assessment of risks while also ensuring that the FMSD as the supervisory authority in the AML/CFT area is adequately informed. They also address the need for technological advance and development, which is crucial for the practical implementation of supervisory work in the current conditions, especially as regards work with the available information.

**A forward-looking perspective is an essential tool for the FMSD, not only at the operational level as an early warning system, but above all at the strategic level.** The FMSD's role, shared with the other relevant authorities, is to ensure the continuity and continuous strengthening of the quality of the framework for countering ML/FT. In this regard, it is essential, among other things, that the interpretation of legal rules and supervisory expectations be determined on time and in advance. These expectations must also take into account the upcoming and planned changes and respond to them in a timely manner.

## 1.2 Forward-looking vision as a supervisory priority

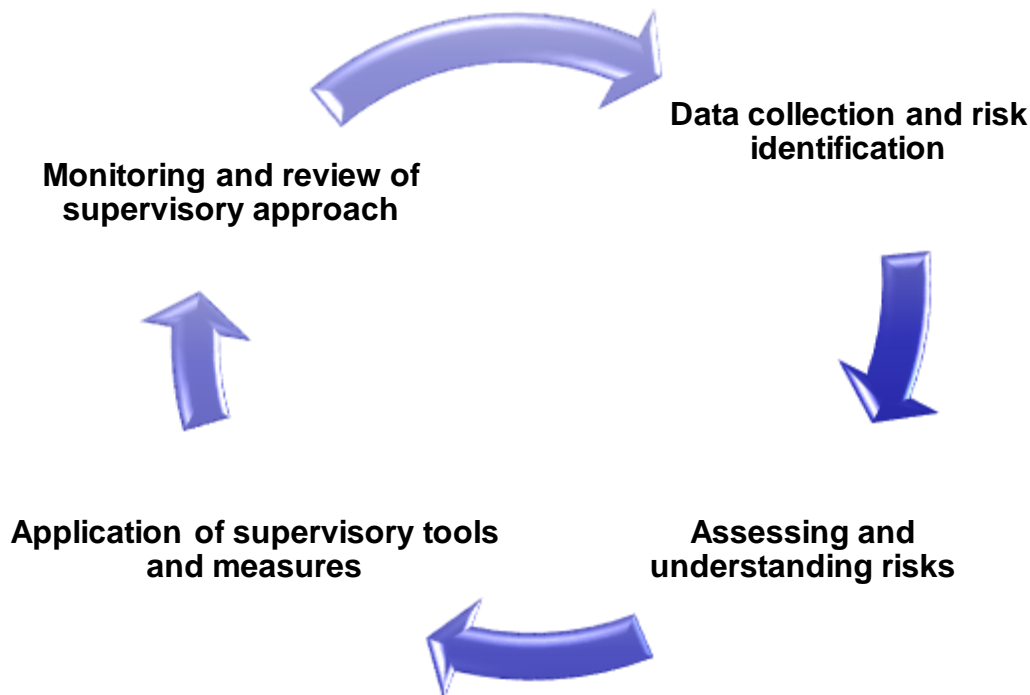
Efforts to look into the future are not undertaken exclusively by supervisory authorities. To **avoid being misused for financial crime, it is crucial that financial institutions identify new changes and trends in advance** so as to adapt their internal risk management procedures and processes accordingly. The FMSD regards such a forward-looking approach as prudent and expects it to be applied by supervised entities. In their efforts to identify and prevent risks, supervised institutions should not examine their activities and individual clients in isolation only but should always analyse their risks in a broader context, including in relation to their overall operation and portfolio, and also in the context of the entire market and developments thereon. As regards new products or new trends and types, it is vital that institutions understand the associated risks in advance and manage them on time.

## 2 Risk-oriented approach

### 2.1 The FMSD's risk-oriented approach to AML/CFT supervision

The CNB's supervisory strategy: *“The Czech National Bank performs supervision based on a ‘forward-looking’ system for assessing the risk profiles and degree of systemic importance of supervised institutions. This system identifies major risks in their activities and quantifies the impacts of those risks. ... Based on the system’s outputs, the Czech National Bank sets the intensity of its supervision of individual financial market areas and individual institutions.”*

The forward-looking vision consists mainly in a risk-oriented approach to supervision, which is based on a continual cycle of data collection and the identification of risks, an assessment of the risks and the subsequent application of supervisory tools and processes in a manner consistent with the risks identified. The configuration of, and approach to, supervision are also regularly monitored and reviewed to ensure that they are up-to-date, appropriate and proportionate.



#### 2.1.1 Data collection and risk identification

The CNB's supervisory strategy: *“In its supervisory work, the Czech National Bank draws on a broad information base comprising both confidential and publicly available information. The information obtained is subject to regular and special (thematic) assessments based on analytical tools developed by CNB supervisors.”*

**To identify and fully assess risks, it is crucial that the FMSD uses the widest possible range of available information.** The key sources include i) information from own activities, ii) information from supervised entities, iii) information from the relevant authorities in the Czech Republic and abroad, iv) commercial databases and v) publicly available

information. The FMSD always uses up-to-date, objective and verified information to the maximum extent.

### 2.1.2 Assessing and understanding risks

**To fully understand AML/CFT risks, the FMSD examines and assesses available information at all levels.** Risks are thus analysed at both the sectoral and sub-sectoral levels and in individual institutions, and also in relation to specific horizontal aspects (products and specific types of measures, for example). The risks are assessed at the levels of inherent risk, the quality of the measures applied and the subsequent residual risk implying factual vulnerabilities and the significance of their potential impacts.

A sectoral assessment of risks analyses the individual sectors of financial institutions, examines their functioning and, above all, identifies vulnerable areas. It is primarily used to define supervisory priorities. No subsequent individual risk assessment is performed on homogeneous sectors (life insurance companies and pension management companies) and the supervisory approach is defined mainly at the sector level. However, a sectoral and horizontal risk assessment of individual areas also enables supervisors to identify the degree of supervisory attention which should be paid to a given area in all sectors.

A separate risk assessment of individual credit institutions is finally carried out on a four-point scale:

- low,
- medium-low,
- medium-high,
- high risk.

The defined level of risk is used to determine the type of supervisory tools and the intensity and focus of supervisory activities.

### 2.1.3 Application of supervisory tools and measures in connection with the risks identified

The CNB's supervisory strategy: *“The Czech National Bank exercises its supervisory powers by means of off-site surveillance and on-site inspections. It selects the form of supervision with due regard to its effectiveness in each case. Supervisory work is planned and performed systematically in accordance with internal procedures ensuring internal consistency.”*

**The FMSD's supervisory approach in the AML/CFT area is based on continuous and in-depth supervision.** A suitable combination of supervisory approaches ensures their appropriateness for supervised entities, the efficient use of supervisory capacity and, most of all, the maximum effect of supervision on strengthening the financial market's integrity. The FMSD has a large number of supervisory tools, the full range of which is used on an ongoing basis to address the identified risks related to specific institutions, sectors or areas.

The CNB's supervisory strategy: *“In the case of banks, it is in everyday communication where supervision has the greatest effect... Off-site supervision should not be limited to the interpretation of data contained in statements, but should aim to fully understand how each bank operates. ... The nature of supervision should be based not only on knowledge of financial indicators, but also on overall knowledge of the bank's environment and main processes...”*

**Ongoing supervision** ensures continuous knowledge of individual institutions, their business models, client structure and internal processes. Ongoing supervision is indispensable for maintaining the relationship between the private sector and the regulator, but also significantly fosters an increase in sophistication across the private sector. Most of all, however, it is indispensable as an early warning system.



The CNB's supervisory strategy: *“The primary task is to conduct inspections focusing on checking compliance with the AML/CFT legislation. The main aim of inspections in this area is to check the functioning and effectiveness of the system of AML/CFT measures of relevant entities and to determine whether the measures are sufficiently robust and effective to prevent those entities from being used for money laundering and terrorist financing.”*

**On-site inspections** are conducted under the inspection plan, which is updated on a regular, quarterly basis. Entities are included in the inspection plan based on their risk category and supervisory cycles, and on other available information. On-site inspections represent the due diligence of specific institutions, ensuring full and objective verification of their rules and practical procedures. On-site inspections can either be **full-scope** or **targeted**. The aim of full-scope inspections is to assess, both horizontally and vertically, the effectiveness of an institution's overall AML/CFT configuration. Despite involving an overall check, these inspections always identify areas requiring increased or decreased attention from an institution. Full-scope inspections are conducted where there is a reason to check the institution as a whole, especially if a long period of time has elapsed since the last on-site inspection or if there is information that the institution's processes might have significantly failed.

Targeted inspections focus on a specifically defined area, where risk assessment has identified a specific interest in performing an examination in a given institution or across the market. Targeted inspections are primarily a follow-up tool to check compliance with the findings resulting from the previous on-site inspection. The preference is to conduct targeted inspections in a broader set of supervised entities for which the given area is the most relevant so as to compare implementation across the market and then formulate and communicate supervisory expectations for that area.



The CNB's supervisory strategy: *“In cases where the tools the CNB has at its disposal are not sufficient to safeguard its supervisory objectives, it initiates penalty administrative proceedings. This mainly involves cases where it cannot be sure that effective corrective action will be taken in line with its recommendations or calls for action, or where it is necessary to impose a penalty given the harmful effects of the conduct identified.”*

The FMSD's primary interest is to ensure effective functioning of the financial market and its integrity, including, where necessary, to remedy the shortcomings identified. To this end, the FMSD uses the above supervisory tools, including the communication of supervisory findings. Especially in cases where shortcomings have been identified, it is essential to follow-up to check they have been thoroughly rectified and, where necessary, implement appropriate and proportionate penalties. The imposition of penalties serves multiple purposes, but above all it acts as a deterrent for the penalised institution and the market as whole. For this reason, the FMSD consistently publishes the imposed penalties on the CNB website, unless there is a serious reason preventing it from doing so.

**The FMSD has a range of enforcement and sanctioning tools**, the use of which will reinforce the emphasis on thoroughness, speed, consistency and appropriateness. The FMSD also regards the possibility of imposing penalties or other measures on key function holders in the supervised entities' management as an important tool for enhancing institutions' integrity and responsibility among key function holders. Managers in financial institutions play a key role, as they are entrusted with the responsibility of safeguarding the operation of an institution, including its integrity. **Managers who have failed to perform their duties properly will be subject to appropriate measures and held personally accountable.**

#### 2.1.4 Monitoring and review of supervisory approach

The approach to supervision, including this strategy and supervisory methodologies, are regularly reviewed and modified at fixed intervals or whenever circumstances justify changes. Risks and all other available information are also assessed on an ongoing basis and at regular intervals.

## 2.2 Risk-oriented approach as a supervisory priority

**The correct identification and assessment of risks, including the definition of appropriate follow-up procedures, is crucial for supervision and also for the implementation of AML/CFT measures by supervised entities.** This approach will enable supervised entities to increase the efficiency of their activities and maximise the use of the available capacity to achieve the best possible results. The effective application of a risk-oriented approach is thus the FMSD's supervisory priority in the AML/CFT area.

Supervised entities must correctly identify the risks to which they are exposed and introduce follow-up procedures that will help them to manage the risks identified. Financial institutions should assess the risks at the level of individual clients, products and services and also across client categories and their activities. To fight financial crime effectively, it is absolutely essential that the implemented measures are consistent with the risks identified. Many risk factors and follow-up measures are described in legislation and interpretative documents. However, non-standard behaviour can be detected and suspicions confirmed, in particular when the latter are combined correctly. Where an institution is unable to perform client vetting in a manner enabling it to actually identify a client's activities, the point and purpose of a business relationship and the origin of funds, it is necessary to adopt measures preventing the institution's potential misuse.

**However, the implementation of preventive AML/CFT measures is not a reason to avoid risk.** Financial institutions should make maximum effort to set up their internal procedures in a manner enabling them to manage the individual risks to which they are exposed. They should first of all consider limiting the services they provide or modifying their configuration, or demand additional assurances or information. However, the across-the-board termination of contracts of groups of clients, especially vulnerable ones, is an undesirable social phenomenon. The FMSD will consistently check whether credit institutions comply with their duties in situations where they are obliged by law to enter into a business relationship. In the other cases, banks' business relationships are in no doubt subject to freedom of contract. Even here, however, the FMSD emphasises that the aim of AML/CFT measures is not to reject legitimate clients due, for example, to the mere identification of an isolated risk factor.



## 3 Holistic view

### 3.1 The FMSD's holistic approach to AML/CFT supervision

*The CNB's supervisory strategy: "The main components of the functional organisation of supervision are prudential supervision, conduct of business supervision and also AML/CFT supervision. Their activities must be coordinated to prevent conflicts arising between their different approaches and to ensure that they support each other's activities and thereby contribute to meeting the CNB's supervisory objectives."*

#### 3.1.1 Within supervised institutions' life cycle

**As the main financial market supervisory authority, the CNB covers the existence of financial institutions from licence application to the termination of the activities in its supervision.** The CNB is thus authorised to assess the suitability of an institution and its processes for entry to the financial market, continuously verify whether these conditions are still being met and, where necessary, enforce corrective action. The CNB may also revoke the licence of supervised entities. In the area of AML/CFT, the FMSD also monitors the life cycle of supervised entities. The relevant units are involved in all the relevant activities and safeguard the integrity of licensed entities and key persons and the efficiency of institutions' processes to prevent financial crime in their activities. It is thus guaranteed that financial market services are provided only by entities which ensure sufficient compliance with the required measures.

#### 3.1.2 Horizontal view of supervised institutions

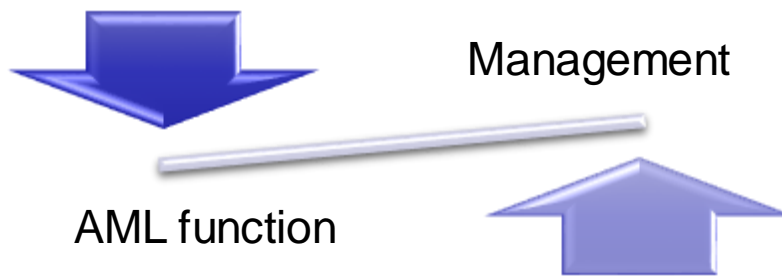
**Together with prudential and conduct of business supervision, the CNB's supervision of the AML/CFT area is one of the pillars of supervision.** The supervision itself is performed independently within the FMSD, albeit with the necessary coordination. The key linkages include:

- two-way sharing of information to evaluate risks,
- *ad hoc* sharing of suggestions and information,
- shared use of synergies and expertise, and
- joint inspections.

The linkages between all the areas of supervision within the FMSD allow for wider interconnection where relevant while maintaining the necessary autonomy and thus bringing unquestionable benefits. The FMSD will therefore continue to develop cooperation in the above areas.

#### 3.1.3 Vertical concept of supervised institutions

*The CNB's supervisory strategy: "The CNB meets the senior managers of systemically important institutions on a regular basis and communicates with middle managers on an ongoing basis. The main purpose of these meetings and this communication is to obtain detailed knowledge about the supervised institution's strategy and a general overview of its governance and relations with the other members of the business group to which it belongs. The senior management of systemically important institutions is also directly presented with material supervisory findings and any other topics of special importance."*



**The FMSD views the AML/CFT area as part of institutions' broader governance system.**

The internal regulations and system in this area must be linked to an institution's overall mechanisms, especially to governance processes. In its supervisory work, the FMSD thoroughly examines the systemic reasons for specific findings, and vice versa. At the same time, it analyses the possible implications of systemic findings in the AML/CFT area for other supervised areas (IT, OpRisk, credit risk, etc.), and vice versa. Specific consequences are drawn in the event of failure of control mechanisms or managers' misconduct.

**3.2 Holistic approach as a supervisory priority**

Just as the FMSD views the AML/CFT area holistically in the context of supervised institutions' overall activities and its own supervisory work, it requires supervised entities to adopt the same approach. **At the organisational level, the AML/CFT function in institutions must be integrated into all the relevant units and have access to all the relevant information.** The processes and procedures in the AML/CFT area are related to, and must be integrated with, an institution's overall regulations. At the same time, institutions must manage ML/FT risks in their own activities and their own business counterparties.

Regulations and duties in the AML/CFT area apply to all the activities of an institution related to its clients and partly also to its own transactions and other internal procedures. At the horizontal level, this area is thus part of all processes and procedures of an institution. In particular, the associated risks should be assessed for all the activities of an institution, followed by defining and applying processes to manage them (as part of, among other areas, all product lines).

**At the vertical level, the FMSD expects integrity and the fight against financial crime to be a key priority for institutions.** In addition to establishing an adequately equipped AML function with access to information, AML/CFT regulations require every institution to appoint a member of the board of directors responsible for this area. Even at this highest level, there must thus be sufficient expertise, awareness and interest in an effective functioning of an institution's processes in this area. The FMSD considers it crucial that institutions ensure functional communication channels in both directions within their hierarchy and consistent control mechanisms. **The consequences of personal neglect of duties in this area may be imposed by the FMSD on the responsible persons.**

## 4 Communication and cooperation

### 4.1 The FMSD's communication and cooperation during AML/CFT supervision

#### 4.1.1 The FMSD's communication with supervised institutions

*The CNB's supervisory strategy: "The CNB's supervisory authority is grounded not only in powers laid down in legislation, but also in its ability to defend its conclusions in open communication with supervised entities. The CNB strives for a broadly comprehensible dialogue in which it expresses its opinions and requirements. ... The CNB's supervisory unit discloses its approaches in official information documents and provides information about generalised findings from its work in supervisory benchmarks. By doing so, it strives to ensure that the expected standard of behaviour is communicated to the market in a predictable way and this best practice is recommended by the relevant professional associations and associations of supervised entities."*

**Active communication with supervised institutions is one of the key roles of the FMSD as the regulator and supervisory authority.** Open dialogue is a key instrument for increasing the awareness and expertise of both parties. It will ensure that supervisory expectations are communicated appropriately and that they are also clearly understood. At the same time, it enables the supervisory authority to hear and assess the trends, the situation and the needs on the financial market.

The FMSD has a number of communication tools which differ in the extent to which they are binding and formal and in the range of entities they address. Important tools include, for example, supervisory benchmarks, blogs, conferences and round tables, notifications, information-gathering visits and letters. A suitable tool is always chosen in view of its characteristics and the goal the FMSD wants to achieve. The FMSD also supports proactive communication by supervised entities both on an individual and multilateral basis.

#### 4.1.2 The FMSD's cooperation and active involvement at the European and international levels

*The CNB's supervisory strategy: "The CNB cooperates in the area of supervision with European institutions (the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority) on unifying supervisory procedures and creating conditions for close cooperation between home and host supervisors."*

The importance of the cross-border aspect in the AML/CFT area should not be overlooked. Given the predominantly cross-border nature of this crime, a functional prevention system in the AML/CFT area cannot be configured in isolation without coordination and cooperation across jurisdictions. **The international and above all European standards and coordinated activities in the AML/CFT area are a key instrument in the fight against financial crime and the FMSD understands its obligation to make every effort to contribute to their development.** The FMSD as the supervisory authority considers active involvement within the EBA and, in the future, within the European AML/CFT authority (AMLA), to be its main priority.

*The CNB's supervisory strategy: "The CNB cooperates actively with other (foreign) supervisors to ensure effective supervision within its area of competence and coordinated crisis resolution."  
The long-term supervisory strategy: "The CNB seeks to adopt a partner approach*

*in cooperation with the home supervisor. To this end, it approaches such cooperation with the highest possible degree of professionalism. The CNB actively participates in the meetings of colleges.”*

The importance of cross-border coordination and cooperation is strengthened further by the cross-border nature of the functioning of financial groups. In addition to the general coordination of standards and requirements, it is thus also vital to establish coordination and cooperation with supervisory counterparties. **Cross-border cooperation is one of the key priorities for the FMSD that endeavours not only to respond to challenges and offers of cooperation positively, but also to actively initiate them.** All information received through cooperation is always used actively. The FMSD often cooperates bilaterally with foreign counterparties through *ad hoc* consultations and meetings. However, the most important cooperation channel is through supervisory colleges, where the FMSD proactively contributes to ongoing discussions. The FMSD also sees benefits in the coordination of joint supervisory activities.

#### 4.1.3 The FMSD's cooperation at the national level

*The CNB's supervisory strategy: “The CNB cooperates with relevant units of the state and seeks to exchange information that will support it in meeting its supervisory objectives. Such cooperation with other units of the state must not influence or jeopardise the independence of the CNB's supervisory work.”*

Financial crime not only often takes place across borders, but the fight against it and its prevention are also a multidisciplinary activity. A large number of state and other authorities, institutions and associations are thus involved in this area at the national level. To increase the effectiveness of the fight against financial crime, it is necessary in particular to integrate all the relevant areas, perspectives and available information. **The FMSD supports multilateral coordination activities at the national level and is actively involved in them.** At the same time, it actively provides and demands information from other relevant authorities. In this regard, it has been involved in robust cooperation mainly with the Financial Analytical Office, which is a key authority in the AML/CFT area. The CNB signed an updated memorandum of understanding with the Financial Analytical Office in 2022. The FMSD will continue to develop and extend cooperation at the national level in the future.

## 4.2 Communication and cooperation as the FMSD's supervisory priority

### 4.2.1 Open communication with the supervisory authority

**Given the above approach to communication in supervision, the FMSD also expects reciprocal active and open communication from supervised entities.** First of all, it is crucial that the provision of information, whether through reporting or by other means, is transparent, complete and factually correct to the maximum possible extent. Despite the different roles played by the supervisory authority and the private sector, the integrity of the financial market represents a common interest and goal which can only be achieved through joint action. In the event of critical failures or other significant problematic aspects, the FMSD expects proactive communication from supervised entities so as to define a joint solution. The FMSD already regularly communicates this expectation.

#### 4.2.2 Cooperation and information sharing within a group

Cross-border crime and close links within multinational and international financial groups require not only the coordination and cooperation of the supervisory authorities, but above all the institutions themselves. **The FMSD expects maximum coordination and cooperation at group level, including enhanced coordination directly through the group AML function.** As part of its supervision, the FMSD prioritises that group management is sufficiently robust to ensure the effective implementation of preventive measures across individual institutions within a group. This takes sufficient account of local aspects, while allowing each country adequate responsibility and flexibility.

There is also little doubt that group processes and the concentration of functions may be beneficial as part of the efforts to maximise the effectiveness of preventive measures. The advantages of group links should mainly be used in the sharing of information, which may significantly enhance the effectiveness of AML/CFT measures. However, the responsibility for compliance with AML/CFT measures always remains with the entity on which the obligations have been imposed. The FMSD thus does not regard the concentration of processes at group level as an acceptable reason for inappropriately configured processes, especially as regards time limits. **It is therefore necessary to define group processes in a way that will simplify and streamline the implementation of AML/CFT measures, and not the other way round.**

## 5 Technology and innovation

### 5.1 The FMSD's technology and innovation in AML/CFT supervision

#### 5.1.1 Technology as a supervisory tool

**Maximum efficiency in supervision across the above priorities and all the FMSD's activities in the AML/CFT area is achieved with the significant aid of supervisory technological tools (SupTech).** Technological tools can be used in almost all AML/CFT supervisory activities.

Data collection and data analysis technological tools are being developed for the purpose of continuous supervision. In addition, technological tools enabling data visualisation are applied to strengthen the use of the available data and obtained analyses. Last but not least, support tools are being created to facilitate the management of individual processes (the monitoring of compliance with remedial measures and negative information, for example). For the purposes of on-site inspections, database tools are regularly applied to check the systems used by supervised institutions. Tools to increase effectiveness will also be developed for the automated processing of data obtained during on-site inspections.

The FMSD develops some tools independently and others in cooperation with the CNB's other units. At the same time, it uses commercial solutions in cases where own development is not effective or possible (especially database tools used to identify persons on sanction lists, ownership structures, etc.).

The use of communication tools that have now become common practice should not be overlooked either. These tools enable supervised institutions to reduce their burden through the potential use of distance communication. At the same time, they facilitate communication with other actors, especially foreign counterparties. Information sharing and common supervisory procedures have thus become much more flexible.

#### 5.1.2 Technology as the subject of supervision

**Knowledge of new technologies and their development is also indispensable during supervisory work itself.** Financial institutions have also been using an increasingly broader range of technological solutions to enhance the effectiveness of their processes. In the AML/CFT area, these include new technologies used for client identification, data storage and processing, sanctions screening and above all transactions monitoring, or the monitoring and assessment of business relations in general. There has also been significant progress in developing solutions using artificial intelligence in recent years. Advances have also been made in the development of new services (new types of payment transactions and payment models and services related to crypto-assets). This includes technological innovation.

The supervisory authority must above all understand the technologies used and their configuration, sustainability and interconnectedness. At the same time, it must have sufficient means to check the functionality of such tools.

### 5.2 Technology and innovation as a supervisory priority

**The CNB as the supervisory authority is technologically neutral and above all requires credit institutions to fulfil the duties imposed on them by legislation.** The specific method

of implementation or the specific technical solution is subject to the FMSD's supervision only to the extent of assessing whether it actually ensures compliance with the duty in question, unless it is directly required or prohibited by legislation.

Given the increasing amount of duties, clients, activities and data, there is little doubt that supervised institutions implement automated solutions ensuring compliance with the existing duties or even directly enabling them, as this would not be possible without such solutions. In some cases, automated solutions are directly required by legislation, unless this would not be reasonable (Articles 17 and 17b of Decree No. 67/2018 Coll., on certain requirements for the system of internal principles, procedures and control measures against the legitimisation of the proceeds of crime and financing of terrorism).

**Financial institutions must always assess the extent of their individual activities and their options to choose an appropriate and adequate solution.** As regards the use of automated solutions, the FMSD always thoroughly examines compliance with basic rules, especially as regards continuity, traceability, understanding and explainability. When using manual or semi-automated solutions, supervised institutions must prove at all times that they have sufficient personnel capacity to operate them. Here, too, the FMSD is open to communication about new and developing solutions.