

RELATIONS OF CENTRAL BANK TO TRADING BANKS

Diploma paper

First chapter is called The Introduction. This chapter describes the content of my diploma paper. Two basic ideas are mentioned here too:

1. Banking regulation and supervision are necessary in our system.
2. Banking regulation and supervision must be flexible and easy to check all the time.

Second chapter is called The Banking System. This chapter defines what the banking system is. It consists of banking institutions and relations among these institutions. That's why the banking system has two components – institutional component and functional component. Institutional component of banking system implies every single bank. The bank can be specified in two ways (economical and legal):

1. The bank conducts business and manipulates with money (economical).
2. The bank is an institution with banking licence (legal).

Functional component of banking system comprises arrangement of all relations among banking institutions. It is proper to make differences among single stage, two stage and three stage banking systems. There are two types of two stage banking system – universal and specialized. Basic criteria of bank specialization are territory, sector, clients and offered bank products.

Third chapter is called The Banking Regulation. This chapter is divided into two main parts. First one is about conditions which have to be satisfied by bank to obtain the banking licence and join the banking system (e.g. minimum capital needed to establish a bank, to submit an application containing the essential information). Second one is about special rules (prudential rules), which must be followed by bank in order to exist in the banking system. The basic prudential rules are laid down directly in the Act on Banks, e.g. the requirement to have an adequate governance, the requirement to maintain capital adequacy, limits on the bank's qualifying holdings in other entities, a prohibition of preferential trading with persons having close personal and proprietary links with the bank ("persons having a special relation to the bank"), and the requirement for "Chinese walls" between the bank's lending and investment transactions. These rules are further specified in a series of CNB (Czech National Bank) provisions and decrees.

Fourth chapter is called The Banking Supervision. CNB Banking Supervision uses two basic supervisory methods - off-site surveillance and on-site examinations. Off-site surveillance involves monitoring banks' activities using all available information (reports and returns submitted by banks in compliance with the CNB's standard methodology, auditors' reports, information obtained directly from banks on an ad hoc basis, publicly available databases, etc). Each bank is subject to regular analysis and assessment in accordance with uniform criteria, and the results obtained are then used to determine the need for further monitoring, on-site examinations, remedial measures and the like. The information obtained from off-site surveillance is also used to draw up comprehensive analyses of the banking sector. Inspections carried out directly in banks - known as on-site examinations - are gradually becoming the main tool of banking supervision.

Fifth chapter is called Czech National Bank – “the Bank of banks”. General idea of this chapter is to draw the attention to the fact, that not all relations of central bank to trading banks have “regulatory” or “supervisory” character. CNB manages the payment system and settlement between banks, keeps banks' accounts etc.

Next chapters include summary and list of literature. A supplement is a part of this diploma paper too.