



**Ceskoslovenska
obchodni banka, a.s.**

The Czech Republic

CSOB Custody Bulletin

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Foreign investment examination Act

A new law applicable to certain foreign investments will enter into force on 1 May 2021. These would be the investments which could potentially compromise the security of the Czech Republic or threaten its internal or external order.

The Act shall ensure an effective degree of control over the acquisition of at least 10% of the voting rights in an entity, participation in any body of such entity, the possibility to dispose of ownership rights to the entity or another level of control, which would result in access to information relevant to the security of the Czech Republic, and applies to both direct and indirect investments. According to the law, a foreign investor is anyone who has made or intends to make a foreign investment in the Czech Republic and is not a citizen of or an entity not based in the Czech Republic or another EU member state, or is directly or indirectly controlled by a person who meets the above criteria.

The law distinguishes between two basic groups of investments to be examined. First are investments that are subject to permission, i.e. may not be made without the prior permission of the Ministry of Industry and Trade ("MIT"). These are mainly investments in entities engaged in the production, research or development of military equipment or dual-use items (these are primarily goods for civilian use, but which can also be used or misused for the production of weapons); or into things used for that purpose; entities operating critical infrastructure elements or elementary services impacting the functioning of energetics, transport, banking, financial market infrastructure, healthcare, water management, digital infrastructure, chemical industry. The second group includes investments that are subject to a consultation regime (i.e. some form of notification regime). These are investments that do not fall into the categories listed above, but still may be "capable of endangering the security of the Czech Republic or internal or public order". These are then divided into two sub-categories, namely media investments, for which the investor is always obliged to request a consultation before the investment is completed, and other investments, for which the investor is not obliged to request a consultation, but if he doesn't, he is exposed to risk that the



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MIT itself will initiate proceedings to verify the foreign investment, up to 5 years from the completion of the investment.

For a breach of obligations under the new law a foreign investor may be fined up to 1 or 2% of his net total turnover for his last completed accounting period; if this value cannot be determined, then in the range from CZK 50,000 to CZK 100,000,000.

Impact on foreign investors:

Foreign investors will need to review their obligations related to their investments in certain industry sectors in the Czech Republic to see if these are subject to permission or consultation of the Ministry of Industry and Trade to avoid possible sanctions.

Source: EPRAVO.CZ, CSOB



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