

Content of question:

Article 198, 2 of Decree No. 123/2007 Coll. reads as follows:

"(2) If a receivable simultaneously meets the assignment criteria for several subcategories, the bank or credit union shall assign it to the worst such subcategory. *The bank or credit union shall not proceed in this manner in the case of receivables from financial activities assigned for the purposes of capital adequacy to the category of retail exposures, in which case obligor default is monitored at the level of transactions.*"

Is the application of the last sentence in the above paragraph restricted to the use of the IRB Approach, or is the situation such that individual retail receivables may, or perhaps must, be categorised individually, regardless of other receivables towards the obligor, under the Standardised Approach to credit risk as well?

Answered by: **Helena Šůvová; Jitka Svobodová;**  
**Jaroslava Bauerová**

Approved by: **Pavel Vacek**

Date: **20 August 2007**

|              |   |
|--------------|---|
| Piece of law | <b>Decree No. 123/2007 Coll.</b>  |
| Provision    | <b>Article 198</b><br><b>Article 49</b>   |
| Explanation  | <p>Obligor default is specified in Article 49 of Decree 123/2007 Coll.</p> <p>The transaction-based approach to receivables assigned to the retail exposure category is explicitly permitted under the IRB Approach, and as far as the Standardised Approach is concerned, it is not prohibited if some particular conditions, which are specified in the official information of the Czech National Bank <b>The Retail Exposure Class in the Approaches to Calculate the Capital Requirement for Credit Risk</b>, are met. It follows from paragraph 2, e) of this official information that a bank which uses the Standardised Approach may define subportfolios, which display identical characteristics, which, in turn, provide justification for a separate approach, including a separate monitoring of risk factors. Subsequently, the bank treats these exposures (transactions) as portfolios on the grounds of their identical characteristics and not as exposures assigned to a particular obligor.</p> <p>In case a bank chooses the transaction-based approach in conjunction with any approach to calculating the capital requirement for credit risk, it must do so consistently also for the purpose of categorising receivables.</p> |

