Content of question:

Is the collateral assignment of, or the pledge on, receivables, without promptly notifying their sub-debtors (the so-called silent cession), deemed eligible credit protection?

Answered by: **Radka Litošová, Martin Pícha**
Approved by: **Pavel Vacek**
Date: **22 December 2008**

Piece of law	**Decree No. 123/2007 Coll. (as amended)**
Provision	**Annex 15, A, II, 2, b), 1**
Explanation	No, such protection is not deemed eligible. We are of the opinion that not all requirements laid down by valid and binding pieces of law are satisfied in the case of the so-called silent pledge on, or cession of, a receivable. Pursuant to Article 103, 2, a) of the Decree all claims arising from credit risk mitigation techniques, i.e. from credit protection, must be legally effective and enforceable in all relevant jurisdictions. This requirement is specified in more detail in Annex 15, A, II, 2, b), 1 to the Decree, which stipulates that the legal mechanism by which the protection is provided is robust and effective and ensures that the lender has clear rights over the proceeds from the receivables. It clearly follows from the general provisions regarding the cession of, or the pledge on, receivables in the Civil Code that until the cession of, or the pledge on, a receivable is communicated or documented to the sub-debtor, i.e. the debtor from the receivable, the creditor (pledgee), i.e. the liable entity in this case, does not possess the rights over the proceeds from the funded credit protection provided.