

PUBLIC NOTICE
announcing a

PROVISION OF A GENERAL NATURE
on materiality thresholds for exposures past due for banks and credit unions

of 29 June 2018

Pursuant to Article 20d(1) of Act No. 21/1992 Coll., on Banks, as amended by Act No. 135/2014 Coll. (hereinafter the “Act on Banks”) and Article 9a(1) of Act No. 87/1995 Coll., on Savings and Loan Associations and Certain Related Measures and on the Amendment of Czech National Council Act No. 586/1992 Coll., on Income Tax, as amended, as amended by Act No. 135/2014 Coll. (hereinafter the “Act on Credit Unions”), the Czech National Bank as a competent administrative body hereby issues the following provision of a general nature regarding Article 178(2)(d) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (hereinafter the “Regulation”) and Articles 1 and 2 of Commission Delegated Regulation (EU) 2018/171 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due (hereinafter the “RTS”):

A credit obligation past due pursuant to Article 178(2)(d) of the Regulation and Articles 1 and 2 of the RTS shall be deemed material as from 31 December 2020 if it exceeds

- a) **CZK 2,500 for retail exposures and CZK 12,600 for exposures other than retail exposures, and**
- b) **1% of the total amount of all on-balance sheet exposures to that obligor of the institution, of the parent undertaking of that institution or of any of its subsidiaries, excluding equity exposures.**

The thresholds for retail exposures shall also apply to cases where institutions apply the definition of default under Article 178(1)(a) and (b) of the Regulation at the level of an individual credit facility.

Justification

1. Pursuant to Article 20d(1) of the Act on Banks and Article 9a(1) of the Act on Credit Unions, the Czech National Bank may issue a provision of a general nature based on, and within the limits of, the directly applicable legislative act of the European Union governing prudential requirements where this directly applicable legislative act allows a competent authority to grant an exemption or modify the application of the rules set for banks or a set of banks defined by type, or for credit unions or a set of credit unions defined by type. The Regulation and the RTS are the directly applicable legislative acts of the European Union governing prudential requirements.

2. In conformity with its legal powers, the Czech National Bank exercises its power to modify the application of the rules set for credit institutions¹ or other entities² based on, and within the limits of, the Regulation and the RTS.

3. By issuing this provision of a general nature, the Czech National Bank sets the threshold amounts binding on credit institutions in assessing whether the amount of a credit obligation past due is material.

4. Pursuant to Article 178(1)(b) of the Regulation and Articles 1(5) and 2(4) of the RTS, it is assumed that the obligor is defaulted when a material credit obligation of the obligor vis-à-vis the institution, the parent undertaking of that institution or any of its subsidiaries is past due for 90 consecutive days.

5. This provision of the Czech National Bank is based on Article 178(2)(d) of the Regulation, according to which materiality of a credit obligation past due shall be assessed against a threshold defined by the competent authorities, and against the RTS. The threshold shall reflect a level of risk that the competent authority considers to be reasonable, but it shall not exceed the limits laid down for the competent authorities by the RTS.

6. The Czech National Bank sets the amount of the threshold in substantive terms in the context of the previous amount pursuant to the provision of a general nature on the materiality threshold for past due exposures of 16 October 2014, Ref. No. 2014/47553/CNB/560, but after taking into account the limits newly laid down by the RTS. In addition, the Czech National Bank took into account the prevailing prudent practice of institutions and reflected the size of exposures that may be included in the retail exposure category.

¹ Article 4(1)(2) of the CRR Regulation.

² For example a financial institution pursuant to Article 4(1)(26) or an ancillary services undertaking pursuant to Article 4(1)(18) of the Regulation.

7. For reasons stated in paragraph 6, the Czech National Bank used the maximum amounts for the absolute component of the threshold under the RTS, converted them into the domestic currency and rounded them to hundreds of korunas. For the conversion, it used the exchange rate as of 6 February 2018, i.e. the date of publication of the RTS in the Official Journal of the EU, as published in the Official Journal of the EU of 7 February 2018 (2018/C 45/05), amounting to CZK 25.233 to the euro. For the relative component of the threshold, the Czech National Bank maintains the standard level specified in the RTS, i.e. 1%, as in its opinion this reflects the level of risk it deems appropriate.

8. The draft provision of a general nature was published on the Czech National Bank's official noticeboard and in a manner allowing remote access from 16 May 2018 to 31 May 2018. No comments or objections regarding the draft were filed.

Effect

This provision of a general nature shall take effect on 2 July 2018.

Repealing provisions

The CNB provision of a general nature on the default materiality threshold of 16 October 2014, Ref. No. 2014/47553/CNB/560, shall be repealed as of 31 December 2020.

imprint of official stamp

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Vice-Governor

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Process of publication

This provision of a general nature was published on 2 July 2018.