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A Public Notice

announcing a

PROVISION OF A GENERAL NATURE
regarding permission to incur selected exposures

of 22 July 2021

Pursuant to Article 20d(1) of Act No. 21/1992 Coll., on Banks, as amended by Act No. 135/2014 Coll., (hereinafter referred to as the "Act on Banks"), and Article 9a(1) of Act No. 87/1995 Coll., on Credit Unions and Certain Related Measures and on the Amendment of Czech National Council Act No. 586/1992 Coll., on Income Taxes, as amended, as amended by Act No. 135/2014 Coll. (hereinafter referred to as the "Act on Credit Unions"), the Czech National Bank as a competent administrative authority hereby issues this provision of a general nature regarding Article 500a(2) 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, as amended (hereinafter referred to as the "Regulation"):

By way of derogation from Articles 395(1) and 493(4) of the Regulation, banks and credit unions may incur exposures referred to in Article 500a(1) of the Regulation, up to the following limits:

a) 100% of the institution's Tier 1 capital until 31 December 2023,

b) 75% of the institution's Tier 1 capital between 1 January and 31 December 2024,

c) 50% of the institution's Tier 1 capital between 1 January and 31 December 2025.

These limits shall apply to exposure values after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403.

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 on the basis of and within the limits of the directly applicable regulation of the European Union governing prudential requirements where this directly applicable regulation enables the competent authority to grant an exemption or to adjust the application of the rules set for banks or a group of banks defined by type or credit unions or a group of credit unions defined by type The Regulation is a directly applicable regulation of the European Union governing prudential requirements.

2. In line with its legal mandate, the Czech National Bank shall apply the power to modify the application of the set rules based on, and within the limits of, the Regulation.

3. In this provision of a general nature, the Czech National Bank shall apply the power pursuant to Article 500a(2) of the Regulation, which enables competent authorities to allow institutions to incur exposures referred to in Article 500a(1) of the Regulation up to the limits stipulated in Article 500a(2) of the Regulation. These are exposures to the central governments and central banks of Member States, denominated in the domestic currency of another Member State.

4. This provision responds to a change in the conditions and mitigates the consequences of the expiration of a transitional provision in Article 493(4) of the Regulation, which enabled the competent authorities to allow the institutions to incur selected exposures exceeding the limit pursuant to Article 395(1) of the Regulation with effect until 31 December 2020 following the expiration of Article 495(2) of the Regulation, which enabled to assign a 0% risk weight to exposures to central governments and central banks of Member States denominated in the domestic currency of any Member State. As exposures to central governments and central banks with a 0% risk weight are exempted from the application of the cap on the size of exposure (pursuant to Article 400(1) of the Regulation), an expiration of this transitional provision would mean a sudden tightening of the cap on the size of these exposures if these were subject to the 0% risk weight because the condition of domestic currency was met and thus were not subject to a limit at all before 31 December 2017 (they were fully exempted). Therefore, Regulation No 2017/2395 of the European Parliament and of the Council of 12 December 2017 amended, among other things, the transitional provision in Article 493(4), which introduced a gradual tightening of the cap on the size of selected exposures. The Czech National Bank has applied this provision. However, it expired on 31 December 2020.

5. In order not to disadvantage the non-euro area Member States, another transitional provision was added to the Regulation, aimed at mitigating the cap on the size of exposures to central governments and central banks denominated in domestic currency of another Member State. As the institutions' exposures to central governments or central banks, even those denominated in euro, may increase due to Covid-19-related government measures to support the economy, using the option of mitigating the cap on the size of exposures denominated in domestic currency of another Member State will enable the institutions to incur these exposures. This measure thus responds to a change in the conditions and mitigates the consequences of the expiration of a transitional provision in Article 493(4) of the Regulation.

6. Exposures referred to in Article 493(5) of the Regulation, which were incurred before 12 December 2017 and assigned a risk weight of 0% as of 31 December 2017 pursuant to Article 495(2), shall continue to be exempted from the application of Article 395(1) of the Regulation in line with Article 493(7) of the Regulation.

7. As regards information submitted to the Czech National Bank (pursuant to Part Seven of the Regulation) and disclosure of information (pursuant to Part Eight of the Regulation), this provision of a general nature shall also be taken into account as of the reference date of 30 June 2021.

8. The draft of this provision of a general nature was displayed on 14 June 2021 and removed on 23 July 2021. No comments were made regarding the draft.

Effect

This provision of a general nature shall take effect on 23 July 2021.

imprint of official
stamp

Marek Mora
Deputy Governor

Signed electronically

Vojtěch Belling
Executive Director, Financial
Regulation and International
Cooperation Department

Signed electronically