

A Public Notice

announcing a

PROVISION OF A GENERAL NATURE regarding qualifying holdings outside the financial sector

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”), the Czech National Bank as a competent administrative authority hereby issues this provision of a general nature regarding Article 89(3) 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 amending Regulation (EU) No 648/2012, as amended (hereinafter referred to as the “Regulation”):

Banks shall apply an approach in line with Article 89(3)(a) of the Regulation to qualifying holdings outside the financial sector pursuant to Article 89(1) and (2) of the Regulation.

Justification

1. Pursuant to Article 20d(1) of the Act on Banks, the Czech National Bank may issue a provision of a general nature on the basis of and within the limits of a 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. 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 stipulates that banks may acquire qualifying holdings to the extent laid down in Article 89(1) and (2) of the Regulation and are obliged to apply a risk weight pursuant to Article 89(3)(a) of the Regulation to such qualifying holdings.

4. Pursuant to Article 89(1) of the Regulation, a qualifying holding, the amount of which exceeds 15 % of the eligible capital¹ of the institution², in an undertaking which is not one of the following shall be subject to the provisions laid down in Article 89(3) of the Regulation:

- a) a financial sector entity,
- b) an undertaking, that is not a financial sector entity, carrying on activities which the competent authority considers to be any of the following:
 - i) a direct extension of banking,

¹ Article 4(1)(71) of the Regulation.

² Article 4(1)(3) of the Regulation.

- ii) ancillary to banking,
- iii) leasing, factoring, the management of unit trusts, the management of data processing services or any other similar activity.

5. Pursuant to Article 89(2) of the Regulation, it holds true that the total amount of the qualifying holdings of an institution in undertakings other than those referred to in Article 89(1) of the Regulation that exceeds 60% of its eligible capital shall be subject to the provisions laid down in Article 89(3) of the Regulation.

6. The Czech National Bank thus proceeds from Article 89(3) of the Regulation, under which competent authorities shall apply the requirements laid down in point (a) or (b) to qualifying holdings of institutions referred to in Article 89(1) and (2):

- a) for the purpose of calculating the capital requirement in accordance with Part Three of the Regulation, institutions shall apply a risk weight of 1,250% to the greater of the following:
 - i. the amount of qualifying holdings referred to in paragraph 1 in excess of 15% of eligible capital,
 - ii. the total amount of qualifying holdings referred to in paragraph 2 that exceed 60% of the eligible capital of the institution,
- b) the competent authorities shall prohibit institutions from having qualifying holdings referred to in Article 89(1) and (2) of the Regulation the amount of which exceeds the percentages of eligible capital laid down in those paragraphs.

7. Banks may currently not acquire qualifying holdings outside the financial sector exceeding the above limits. The scope of activities of credit unions is limited by the Act on Credit Unions and investment in investment instruments is excluded with few exceptions. Therefore, the Czech National Bank considers it more appropriate to require a full capital coverage of a possible exceeding of the set limits of 15% and 60% rather than to stipulate the prohibition on acquiring capital investment outside the financial sector above the given limits. The structures of groups headed by banks are broadly steady and foreign parent banks can carry out non-financial activities through affiliates of domestic banks. A diversification of activities into the non-financial sector is usual for financial holdings which include a credit institution. The Regulation has also changed the definition of the financial holding company. As a result, a group which includes a credit institution is considered a financial holding even if the non-financial part accounts for 49% of the group. It is thus admissible to exceed 15% and 60% of capital but the risk weight of 1,250% must be applied, which ultimately means that the above-limit part of these qualifying holdings is fully covered with capital.

8. 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.

9. 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