

A Public Notice

announcing a

PROVISION OF A GENERAL NATURE regarding valuation

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 24(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”):

Banks and credit unions appraise assets and off-balance-sheet items and determine own funds in accordance with international accounting standards pursuant to Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as amended by Regulation (EC) No 297/2008.

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 is the directly applicable legislative act 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 stipulate a single framework for valuation and determination of own funds for the purposes of prudential rules in accordance with international accounting standards pursuant to Regulation (EC) No 1606/2002¹ (hereinafter referred to as “international accounting standards”) regardless of the accounting standard which a bank or a credit union applies.

4. Pursuant to Article 24(1) of the Regulation, the valuation of assets and off-balance sheet items shall be effected in accordance with the applicable accounting framework. The CNB shall apply Article 24(2) of the Regulation which stipulates that, by way of derogation from Article 24(1), competent authorities may require that institutions effect the valuation of assets and off-balance sheet items and the determination of own funds in accordance with international accounting standards.

5. The Czech National Bank regards as beneficial if banks and credit unions appraise assets and off-balance sheet items and determine own funds in accordance with international accounting standards for the purposes of compliance with the requirements under the Regulation, as this is clearly positive for ensuring the sound operation of the financial system in the Czech Republic and maintaining financial stability. International accounting standards are based on advanced procedures and best practices for valuation, especially when determining the fair value of assets and liabilities. In this regard, international accounting standards are more accurate than the accounting framework applied under Czech legislation and provide a significantly higher degree of comparability of data relating to individual institutions. The procedures for the valuation of financial instruments, including derivatives, are not limited – particularly in the case of the hierarchy of approaches used to measure fair value – only to the market price and, if that is unavailable, the best estimate which lacks a more detailed framework. Because valuation of an asset or an off-balance sheet item is the basis for determining the value of an exposure for the purposes of macroprudential requirements, it is justified to require that this valuation be effected as accurately as possible and in a comparable manner.

6. The use of international accounting standards for the purposes of valuation will make it significantly easier for institutions, which do not use these standards for accounting and the compilation of financial statements, to comply with the requirements pursuant the Regulation. For example, International Accounting Standard No. 13 regulating fair value measurement shall be applied in compliance with the requirements laid down in Article 34 of the Regulation, under which institutions are obliged to apply the requirements for prudent valuation pursuant to Article 105 of the Regulation to both trading portfolio instruments and investment portfolio instruments. The application of procedures in accordance with international accounting standards will also help institutions to comply with the requirements for risk management systems and disclosure pursuant to Part Eight of the Regulation.

7. This provision of a general nature, which lays down the requirement to apply international accounting standards for the purposes of compliance with prudential rules, does not impose the obligation to keep accounts and compile financial statements in accordance to these standards.

¹ Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

8. As regards information submitted to the Czech National Bank (pursuant to Part Seven of the Regulation) and disclosure (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