

A Public Notice

announcing a

PROVISION OF A GENERAL NATURE regarding retail exposures secured by property

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 164(6) 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 shall assign the higher of the following values to retail exposures secured under the Regulation by residential property or commercial immovable property located in the Czech Republic and not benefiting from guarantees from central governments:

- a) the minimum average weighted loss given default pursuant to Article 164(4) of the Regulation, or**
- b) the minimum average weighted loss given default stipulated by the Czech National Bank for the relevant period, possibly differentiated by exposure segment and part of the Czech Republic’s territory where the underlying property is located, and published by the European Supervisory Authority (the European Banking Authority) pursuant to Article 164(6) of the Regulation.**

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 shall 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, for the purposes of calculating the capital requirement for the credit risk of banks and credit unions that use the internal ratings-based (IRB) approach, the minimum value of average weighted loss given default (LGD) which these institutions must apply to exposures secured by property located in the Czech Republic, or parts of these exposures differentiated by exposure segment and part of the territory of the Czech Republic in which the underlying property is located.

4. The Czech National Bank cannot automatically increase the minimum average weighted LGD values for exposures secured by property located in the Czech Republic. Pursuant to the Regulation, the designated authority is obliged to analyse the domestic property market regularly, and also consider other existing or planned macroprudential measures so as to avoid duplicative or inconsistent action.

5. Pursuant to Article 164(4) of the Regulation, the exposure-weighted average LGD for all retail exposures secured by residential property and not benefiting from guarantees from central governments shall not be lower than 10%. The exposure-weighted average LGD for all retail exposures secured by commercial immovable property and not benefiting from guarantees from central governments shall not be lower than 15%.

6. Based on the data collected under Article 430a of the Regulation, and taking into account forward-looking immovable property market developments and any other relevant indicators, the authorities designated in accordance with Article 164(5) of the Regulation shall periodically, and at least annually, assess whether the minimum average weighted LGD values referred to in Article 164(4) of the Regulation are appropriate for exposures secured by residential property or commercial immovable property located in their territory or parts thereof. The designated authorities shall also take into account financial stability and may set higher minimum exposure-weighted average LGD values for exposures secured by property in their territory or only parts thereof, or only in some segments of these exposures. The designated authorities shall notify the European Banking Authority and the European Systemic Risk Board before making the decision.

7. The Czech National Bank uses this provision of a general nature to direct banks and credit unions to a list, maintained by the European Banking Authority, which contains the minimum average weighted LGD values stipulated by the designated authorities in Member States for retail exposures secured by property. Relevant to institutions are not only the LGD values pursuant to the Regulation and the values stipulated by the Czech National Bank, but also the minimum average weighted LGD values stipulated by the designated authorities of the Member States in whose territory the underlying property is located.

8. As regards information submitted to the Czech National Bank (pursuant to Part Seven A 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