

A Public Notice

announcing a

PROVISION OF A GENERAL NATURE regarding the calculation of the net position

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 327(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”):

Where a convertible instrument, which includes an option, can be exchanged for an underlying instrument, banks and credit unions may offset a position in an underlying instrument, set using the delta equivalent, with a position with the opposite sign in that underlying instrument for the purposes of calculating the own funds requirement for position risk referred to in Part Three, Title IV, Chapter 2 of the Regulation. Article 329(1) of the Regulation shall apply *mutatis mutandis* for the purposes of setting the delta equivalent of an option which is not traded on a regulated market or where the delta parameter is not available from the regulated market concerned.

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. In this provision of a general nature, the Czech National Bank shall stipulate, for the purposes of calculating the capital requirement for position risk, a condition under which a positions in an underlying instrument can be offset by an opposite position in that underlying instrument.

3. This provision of a general nature determines the procedure for specifying a position in an underlying instrument generated by a convertible instrument in a manner which is economically justified and consistent with other provisions of the Regulation.

4. Pursuant to Article 327(1) of the Regulation, the absolute value of the excess of an institution's long (short) positions over its short (long) positions in the same equity, debt and convertible issues and identical financial futures, options, warrants and covered warrants shall be its net position in each of those different instruments. In calculating the net position, positions in derivative instruments shall be treated as laid down in Articles 328 to 330 of the Regulation.

5. The Czech National Bank shall thus apply Article 327(2) of the Regulation according to which no netting shall be allowed between a convertible and an offsetting position in the instrument underlying it, unless the competent authorities adopt an approach under which the likelihood of a particular convertible's being converted is taken into account or require an own funds requirement to cover any loss which conversion might entail. The position in the underlying instrument shall be calculated as the delta equivalent, i.e. the fair value of the underlying instrument multiplied by the value of the option's delta.

6. 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.

7. 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