Ref.: 2025/004286/CNB/560

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A public notice announcing

PROVISION OF A GENERAL NATURE,

for permission to incur selected exposures

of 20 January 2025

Pursuant to Section 20d(1) of Act No. 21/1992 Coll., on Banks, as amended by Act No. 135/2014 Coll. and Act No. 338/2020 Coll., (hereinafter the "Act on Banks") and Section 9a(1) of Act No. 87/1995 Coll., on Credit Unions and Certain Related Measures and on Supplementing Act of the Czech National Council No. 586/1992 Coll., on Income Taxes, as amended, Act No. 135/2014 Coll. and Act No. 338/2020 Coll., (hereinafter the "Act on Credit Unions") the Czech National Bank, as the competent administrative authority, issues this provision of a general nature on Article 500(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 amending Regulation (EU) No 648/2012, as amended, (hereinafter the "Regulation"):

I. By way of derogation from Articles 395(1) and 493(4) of the Regulation, a bank and a credit union may incur exposures to central governments and central banks of Member States denominated and funded in the national currency of another Member State up to:

a) 100% of its tier 1 capital up to 31 December 2025;

b) 75% of its tier 1 capital from 1 January to 31 December 2026;

c) 50% of its tier 1 capital from 1 January to 31 December 2027.

II. The limits pursuant to paragraph I apply to the exposure values after taking into account the effects of credit risk mitigation pursuant to Articles 399 to 403 of the Regulation.

III. The CNB's provision of a general nature on the authorisation to incur selected exposures of 22 July 2021, ref. no.: 2021/074178/CNB/560, is repealed.

Justification

1. Pursuant to Section 20d(1) of the Act on Banks and Section 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 European Union regulation governing prudential requirements where such directly applicable regulation enables the competent authority to grant an exemption from or modify the application of specified rules to banks or a group of generically designated banks or credit unions or a group of generically designated credit unions. The directly applicable European Union regulation governing prudential requirements is the Regulation.

2. In accordance with the statutory authorisation, the Czech National Bank exercises the power to regulate the application of the set rules based on and within the limits set by the Regulation.

3. By this provision of a general nature, the Czech National Bank is exercising the power pursuant to Article 500a(2) of the Regulation, which allows competent authorities to allow institutions to incur exposures referred to in

Article 500a(1) of the Regulation in excess of the limit pursuant to Article 395(1) of the Regulation, up to the total amount set out in Article 500a(2) of the Regulation. They are exposures to central governments and central banks of Member States denominated and funded in the national currency of another Member State.

4. A similar relief was stated in Article 493(4) of the Regulation, valid until 2020, and subsequently extended by Article 500a(2) until 2025. The Czech National Bank used both of these options, the discretion in Article 500a(2) by issuing a provision of a general nature on the authorisation to incur selected exposures dated 22 July 2021 (ref. no.: 2021/074178/CNB/560), which is repealed and replaced by this newly issued provision of a general nature. The amendment to the Regulation extends the competent authorities' discretion until 2027. The issuance of this provision of a general nature will therefore preserve the continuity of the Czech National Bank's approach under the provision of a general nature on the authorisation to incur selected exposures of 22 July 2021. As exposures to central governments and central banks with 0% risk weight are exempted from the application of the exposure size limit (based on Article 400(1) of the Regulation), the end of the transitional provision would imply a step-change tightening of the size limit for these exposures if they were eligible for 0% risk weight based on meeting the national currency of another Member State condition. This is neither desirable nor justified. Credit institutions in the Czech Republic will be able to use the relief to temporarily invest more in Czech government bonds issued in euros.

5. In order not to disadvantage Member States outside the euro area that cannot benefit from the full exemption for euro exposures based on a 0% risk weight pursuant to Article 114(4) of the Regulation, Regulation (EU) 2024/1623 of the European Parliament and of the Council extended the transitional provision to relax the limit on the size of exposures to central governments and central banks in the currency of another Member State. This will enable greater incurring of these exposures regardless of the currency used by a country.

6. The draft of this provision of a general nature was displayed on 16 December 2024 and removed on 17 January 2025. No comments were made on the draft.

7. No appeal lies against a provision of a general nature.

Effect

This provision of a general nature shall take effect on 20 January 2025.

imprint of official stamp

Ing. Jan Procházka
Member of the Bank Board

electronically signed

doc. JUDr. PhDr. Vojtěch Belling, Ph.D.
Executive Director, Financial Regulation and International Cooperation Department

electronically signed