

PUBLIC DECREE,
announcing a

**MEASURE OF A GENERAL NATURE
on additional filters and deductions**

The Czech National Bank, as the competent authority, issues, pursuant to Article 20d(1) of Act No. 21/1992 Coll., on banks, as amended by Act No. 135/2014 Coll., Article 9a(1) of Act No. 87/1995 Coll., on credit unions and some 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 the “Act on Credit Unions”) and Article 199(5) of Act No. 256/2004 Coll., on capital market undertakings, as amended by Act No. 135/2014 Coll., this measure of a general nature to Article 465(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 (hereinafter the “Regulation”):

A bank, credit union and investment firm pursuant to Article 8a(1), (2) and (3) of the Capital Market Undertakings Act shall apply an applicable percentage of 0% for the purposes of Article 481(1) and (2) of the Regulation.

Justification

1. Pursuant to Article 20d(1) of the Banking Act, Article 9(1) of the Act on Credit Unions and Article 199(5) of the Capital Market Undertakings Act, the Czech National Bank may issue a measure of a general nature on the basis of and within the bounds of the directly applicable European Union law governing prudential requirements where this directly applicable law allows the competent authority to grant a waiver or modify the use of the stipulated rules for banks or a group of type-designated banks, credit unions or a group of type-designated credit unions or investment firms or a group of type-designated investment firms. The Regulation is the directly applicable European Union law governing the prudential requirements.

2. In accordance with the statutory empowerment, the Czech National Bank exercises the power to modify, on the basis of and within the bounds of the Regulation, the application of stipulated rules that are relevant to credit institutions¹, investment firms² or other entities³.

3. The Czech National Bank stipulates through this measure of a general nature whether and to what extent a bank, credit union and investment firm pursuant to Article 8a(1), (2) and (3) of the Capital Market Undertakings Act shall apply prudential filters and deductions from the respective capital tier.

4. Pursuant to Article 481(1) of the Regulation, by way of derogation from Articles 32 to 36, 56 and 66, during the period from 1 January 2014 to 31 December 2017, institutions⁴ shall make adjustments to include in or deduct from Common Equity Tier 1 items, Tier 1 items, Tier 2 items or

¹ Article 4(1) point 1 of the Regulation.

² Article 4(1) point 2 of the Regulation.

³ For example, a financial institution pursuant to Article 4(1) point 26 of the Regulation or an ancillary services undertaking pursuant to Article 4(1) point 18 of the Regulation.

⁴ Article 4(1) point 3 of the Regulation.

own funds items the applicable percentage of filters or deductions required under national transposition measures for Articles 57, 61, 63, 63a, 64 and 66 of Directive 2006/48/EC, and for Articles 13 and 16 of Directive 2006/49/EC, and which are not required in accordance with Part Two of the Regulation.

5. For the purposes of Article 481(1) of the Regulation, the applicable percentages shall fall within the following ranges:

0% to 80% for the period from 1 January 2014 to 31 December 2014,

0% to 60% for the period from 1 January 2015 to 31 December 2015,

0% to 40% for the period from 1 January 2016 to 31 December 2016,

0% to 20% for the period from 1 January 2017 to 31 December 2017.

6. Pursuant to Article 481(2) of the Regulation, by way of derogation from Article 36(1)(i) and Article 49(1) and (3), during the period from the 1 January 2014 to 31 December 2014, competent authorities may require or permit institutions to apply the methods referred to in Article 49(1) where the requirements laid down in points (b) and (e) of Article 49(1) are not met, rather than the deduction required pursuant to Article 36(1). In such cases, the proportion of holdings of the own funds instruments of a financial sector entity in which the parent undertaking has a significant investment that is not required to be deducted in accordance with Article 49(1) shall be determined by the applicable percentage referred to in paragraph 4 of that Article. The amount that is not deducted shall be subject to the requirements of Article 49(4) of the Regulation, as applicable.

7. For the purpose of Article 481(2) of the Regulation, the applicable percentage shall fall between 0% and 50% for the period from 1 January 2014 to 31 December 2014.

8. The Czech National Bank is acting on the basis of Article 481(5) of the Regulation, pursuant to which the competent authorities shall determine and publish for each filter or deduction pursuant to Article 481(1) and (2) of the Regulation the applicable percentages in the ranges indicated in Article 481 (3) and (4) of the Regulation.

9. The initial basis used for determining the amount of the applicable percentage in the ranges pursuant to Article 481(3) and (4) of the Regulation in the given amount is the evaluation of the potential impacts of the planned regulation that the Czech National Bank carried out in 2013. The evaluation of the impacts of the regulation was carried out based on information directly provided by the institutions. Emphasis was placed on data on an individual basis. The relevant data were obtained from all banks, a significant majority of credit unions and the majority of investment firms. With regard to the degree of involvement of key institutions, the obtained data can in aggregate be to be considered highly representative. The result of the evaluation is an impact study. This study was set parametrically in such a scope that it reflected the requirements that the regulated institutions shall have to comply with after the end of the transitional period. This period is defined in the Regulation and the relevant supervisory authorities are, during this period, authorized to set the requirements mostly within a smaller scope than the scope of the requirements after the end of the transitional period. The impact study showed that the amount of capital of the vast majority of institutions reaches such a level that is sufficient to ensure that these institutions meet the requirements without any restrictions under the Regulation in full from the beginning of their usability.

10. Based on the above facts, the Czech National Bank concludes that for objective reasons there is no need, during the transitional period, to mitigate the scope of the requirements applied pursuant to the Regulation in the area of own funds and capital ratios. A mitigation of the scope of the requirements imposed on domestic institutions is also not desirable from the perspective of care for the safe operation of the financial system in the Czech Republic and the maintenance of

financial stability. The fact that this only applied during the transitional period cannot, in this context, be taken as a relevant assertion, since after the expiry of the given period there shall be an expansion of the scope of requirements. The practical impacts of this fact would essentially mean a need for the creation and maintenance of increased minimum own funds. Ultimately, a situation could occur that some institutions that would, in the meantime, use the possibility of maintaining minimum own funds at a reduced rate, would then have to increase their own funds to prevent a breach of legal obligations. The Czech National Bank therefore considers it vital to actively prevent the indicated possible situations, for which it uses the respective powers given to it through individual legal regulations.

11. Not applying any additional prudential filters or deductions from own funds, in addition will result in a rapprochement of data values about own funds pursuant to accounting requirements on the one hand and prudential requirements on the other. The Czech National Bank considers this fact as significantly positive and desirable because it leads to the elimination of differences between two major modifications for a single area. The removal of existing disparities has desirable impacts, especially on the clarity and transparency of data that institutions are required to report and publish on the basis of the requirements under the Regulation.

12. The draft of this measure of a general nature was being published from 25 August 2014 to 15 September 2014 on the notification board of the Czech National Bank and in a manner enabling remote access, while no comments were raised with regard to the draft.

Entry into force

This measure of a general nature shall enter into force on 7 November 2014.

Ing. Mojmír Hampl, MSc., Ph.D., duly signed
Vice-Governor

Ing. Pavel Hollmann, MBA, duly signed
Executive Director, Financial Market
Regulation And International Co-Operation
Department

official stamp

Issuing procedure

This measure of a general nature was published on 7 November 2014.