

PUBLIC DECREE,
announcing a

**MEASURE OF A GENERAL NATURE
on capital ratios**

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 at all times maintain pursuant to the Regulation

- a) a Common Equity Tier 1 capital ratio of at least 4.5%**
- b) a Tier 1 capital ratio of at least 6%;**

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 the minimum capital ratios that each institution⁴ shall achieve to meet the applicable capital requirements.

4. Pursuant to Article 465(1) of the Regulation, in derogation from Article 92(1)(a) and (b) of the Regulation, in the period from 1 January 2014 to 31 December 2014, the following capital requirements apply:

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.

- a) a Common Equity Tier 1 capital ratio of a level that falls within a range of 4% to 4.5%,
- b) a Tier 1 capital ratio of a level that falls within a range of 5.5% to 6%.

5. The Czech National Bank is acting on the basis of Article 465(2) of the Regulation, pursuant to which the competent authorities shall determine and publish the levels of the Common Equity Tier 1 and Tier 1 capital ratios in the ranges specified in Article 465(1) of the Regulation that institutions shall meet or exceed.

6. The initial basis used for determining the amount of the capital ratios pursuant to Article 465(1) of the Regulation is the assessment 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 institution over which the Czech National Bank performs supervision. 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 will 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 narrower 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 application.

7. 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 capital and capital ratios. From the perspective of care for the safe operation of the financial system in the Czech Republic and the maintenance of financial stability it is also not desirable to decrease the requirement for minimum capital levels that domestic institutions are obliged to continuously maintain. The fact that this would only apply during a transitional period cannot, in this context, be taken as a relevant assertion, since after the expiry of the given period there will be an increase in the required minimum capital. Ultimately, a situation could occur where some institutions that would, in the meantime, use the possibility of maintaining minimum capital at a reduced rate, then have to increase their capital 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.

8. 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 5 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 5 November 2014.