

PUBLIC DECREE,
announcing a

MEASURE OF A GENERAL NATURE
on exemptions from limits to large exposures

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 400(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) of the Capital Market Undertakings Act (hereinafter “the liable entity”) shall also exempt from the scope of Article 395(1) of the Regulation

- a) an exposure in the form of covered bonds pursuant to Article 129(1), (3) and (6) of the Regulation, up to 75% of the value of the exposure; this is without prejudice to the effects pursuant to paragraph b) points 1 and 2,**
- b) an exposure to**
 - 1. an entity with its registered office in the Czech Republic which controls the liable entity and is a bank or investment firm pursuant to Article 8a(1), (2) and (3) of the Capital Market Undertakings Act,**
 - 2. an entity controlled by the liable entity which includes it in the prudential consolidation,**
 - 3. an entity that is an institution and is subject, together with the liable entity, to the same supervision on a consolidated basis pursuant to the Regulation, Directive 2002/87/EC of the European Parliament and of the Council, or an equivalent law in force in a non-Member State, up to 50% of the value of the exposure; this is without prejudice to the effects of paragraph a) and points 1 and 2,**
- c) an off-balance sheet item in the form of a documentary letter of credit and an undrawn credit facilities with medium/low risk pursuant to Annex I to the Regulation, up to 50% of their value; this is without prejudice to the effects of paragraph b) points 1 and 2, and**
- d) an exposure to a recognized exchange.**

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. The Czech National Bank, through this measure of a general nature, applies an exemption pursuant to Article 400(2) and (3) of the Regulation, permitting exemption from limits to large exposures of credit institutions and investment firms covered by Part Four of the Regulation⁴. The provisions preserve substantial continuity with the previous legislation pursuant to Decree No. 123/2007 Coll., on prudential rules for banks, credit unions and investment firms, as amended.

3. The Czech National Bank is acting on the basis of Article 400(2) of the Regulation, under which the competent authorities under the conditions laid down in Article 400(3) of the Regulation may exempt selected categories of exposures, entirely or partially, from Article 395(1) of the Regulation.

4. The Czech National Bank is proceeding with respect to Article 400(2) with substantial continuity with the previous legislation pursuant to Decree No. 123/2007 Coll., on prudential rules for banks, credit unions and investment firms, as amended by Decree No. 187/2012 Coll., which responded to the recommendations of the International Monetary Fund under the FSAP mission. Exemption from the limits laid down in Article 395(1) of the Regulation, as allowed pursuant to Article 400(2), is partially implemented and relates mainly to exposures between entities included in prudential consolidation.

5. The conditions pursuant to Article 400(3) on the specific nature of exposures, counterparty or the relationship between the institution and the counterparty, and regarding the resolution of concentration risk are fulfilled because only those exposures under Article 400(2) of the Regulation, which are related to counterparties with lower credit risk or to counterparties included in supervision on a consolidated basis, are exempted from the scope of Article 395(1) of the Regulation. An institution is obligated to continuously manage the concentration risk pursuant to Article 31 of Decree No. 163/2014 Coll., regardless of whether the exposure is exempt from the scope of Article 395(1) of the Regulation, or not.

6. 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 3 November 2014.

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 Pursuant to Article 388 of the Regulation, Part Four governing large exposures is not applied to investment firms that fulfil the criteria set out in Article 95(1) of the Regulation, meaning investment firms pursuant to Article 8a(2) and (3) of the Capital Market Undertakings Act or Article 96(1) of the Regulation, meaning investment firms, pursuant to Article 8a(1) of the Capital Market Undertakings Act, if they meet the conditions laid down in Article 96(1) of the Regulation.

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 3 November 2014.