

PUBLIC DECREE,
announcing a

MEASURE OF A GENERAL NATURE
on the default materiality threshold

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 178(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 credit obligation pursuant to Article 178(2)(d) of the Regulation is considered material if it exceeds the amount that a bank, credit union and investment firm pursuant to Article 8a(1), (2) and (3) of the Capital Market Undertakings Act, does not recover when writing off a receivable, but not exceeding an amount corresponding to EUR 100 for retail exposures and an amount corresponding to EUR 1,000 for other exposure categories.

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, through this measure of a general nature, establishes the threshold amounts that are binding for institutions⁴ for the purposes of assessing whether the exposure from a provided credit is material.

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.

4. According to Article 178(1)(b) of the Regulation, a particular obligor is considered to be in default if any material credit obligation of the obligor to an institution, the parent undertaking or any of its subsidiaries, is more than 90 days past due.

5. The Czech National Bank is acting on the basis of Article 178(2)(d) of the Regulation, pursuant to which the materiality of a past due credit obligation is assessed according to the limit set by the competent authorities. This limit reflects the level of risk that the competent authority deems appropriate.

6. The Czech National Bank determines, in a material manner continuing on from the previous legislation pursuant to Decree No. 123/2007 Coll., on prudential rules for banks, credit unions and investment firms, as amended, upper limits up to which exposure from a provided credit need not be regarded as material for the purposes of establishing default of an obligor. These upper limits have been chosen by the Czech National Bank after an analysis of the predominant sound practice of institutions so as to avoid unjustified differences between prudential rules and the approach of institutions to the materiality threshold for accounting purposes. The Czech National Bank also took into account the size of the exposure that may be included in the retail exposure category.

7. 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.

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.