

OFFICIAL INFORMATION OF THE CZECH NATIONAL BANK

of 5 April 2011

regarding the prudential rules for banks, credit unions and investment firms

Rules for the Transfer of Risk in the Trading of Securitised Exposures

The Czech National Bank hereby provides the following information with regard to Decree No. 89/2011 Coll., amending Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms, as amended:

1. Decree No. 89/2011 Coll., amending Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and investment firms, as amended, imposes upon the liable entity which is a bank or a credit union an obligation to comply with some specific rules for the transfer of risk applicable to the trading of securitised exposures.
2. This Decree transposes the provision of Art. 1 (30) of Directive 2009/111/EC of the European Parliament and of the Council into the Czech legal system. The provision of Art. 1 (30) inserts new Art. 122a into Directive 2006/48/EC of the European Parliament and of the Council laying down a requirement for the retention of net economic interest.
3. With a view to maintaining consistency of supervision across the Member States and creating transparency for market participants, the Committee of European Banking Supervisors¹ issued Guidelines to Article 122a of the Capital Requirements Directive² on 31 December 2010 (hereinafter the "Guidelines"). The Guidelines explore the rules for the transfer of risk in the trading of securitised exposures in detail.
4. The Czech National Bank expects liable entities to be compliant with the Guidelines while trading securitised exposures and its exercise of supervision will be based on this expectation.
5. At the same time the Czech National Bank calls attention to the point that from the prudential perspective the liable entity is not exposed solely to the credit risk of securitised exposures which arises from its own trading activities, but it is also exposed to the credit risk of securitised exposures which arises from the trading activities of other entities belonging to the regulated consolidated group which it forms.
6. The Czech National Bank will require in connection with the credit risk of securitised exposures which arises from the trading activities of other entities from the regulated consolidated group that the liable entity fully reflects the risk in its internal capital adequacy assessment system. As far as this particular issue is concerned, the approach of the Czech National Bank will thus divert from the procedure pursuant to paragraphs 8 and 9 of the Guidelines.

¹ The Committee is replaced by the European Banking Authority as of 1 January 2011.

² The document can be accessed at <http://www.eba.europa.eu/Publications/Standards-Guidelines.aspx>.

7. At the same time the Czech National Bank calls the attention of liable entities to the point that modifications to the prudential rules for credit institutions and investment firms are currently being prepared (so called "CRD IV"). These modifications may further impact the manner of reflecting the credit risk of securitised exposures which arises from the trading activities of other entities from the regulated consolidated group formed by the liable entity and this impact may be significant.

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