

Content of question:

Is there a more detailed specification available regarding the requirements for monitoring and verifying compliance with the loan covenants in the case of an exposure collateralised by receivables (e.g. conditions as to how frequently such verifications should be performed, who should be responsible for this process etc.)?

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Approved by: **Pavel Vacek**

Date: **22 December 2008**

Piece of law	<b>Decree No. 123/2007 Coll. (as amended)</b>
Provision	<b>Annex 15, A, II, 2, b), 5</b>
Explanation	<p>Valid pieces of law lay down no generally applicable time-limits/periods for monitoring the value and the overall condition of receivables serving as credit protection and, similarly, do not single out any particular departments or persons into whose job description the actual fulfilling of the stipulated rules would fall. Establishing principles for risk management processes and procedures within the institution's own governance in a scope and quality sufficient for meeting the requirements laid down primarily in the Act on Banks (Article 8b), the Decree (Articles 7 to 30) and its Annex 1 is left up to the judgement, as well as the responsibility, of the liable entity.</p> <p>Some inspiration can be found, for example, in the list of selected recognised standards contained in Annex 2 to the Official Information of the Czech National Bank of 18 July 2007 regarding the prudential rules for banks, credit unions and investment firms – Recognised Standards. In particular, certain documents issued by the Basel Committee on Banking Supervision, e.g. Principles for the Management of Credit Risk (2000) and Sound credit risk assessment and valuation for loans (2006), can be included among the relevant sources.</p> <p>An exception to the above general principle is the provision of Article 200, 2 in conjunction with Article 203, 1 of the Decree. In this case the liable entity assesses the value of the collateral at least once every quarter, because the amount of the allowances to be established is directly dependent on the amount of the protection constituted by the evaluated receivable.</p> <p>In the case of using the IRB Approach the liable entity must also comply with the requirements laid down particularly in Articles 91 and 92 and, furthermore, in Annex 10, e.g. letter E. In the case of purchased receivables the provision of Annex 10, B, r) is relevant as well.</p>