CZECH NATIONAL BANK

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CZECH REPUBLIC
MAREK PETRUŠ
CHANCELLOR

30 September 2014

Mr Francesco Mazzaferro
Head of Secretariat
European Systemic Risk Board

RE: Czech National Bank – Notification of the intended use of the systemic risk buffer rate

Dear Mr Mazzaferro,

Please find enclosed a document whereby the Czech National Bank notifies you of the intended use of the systemic risk buffer rate in accordance with Article 133(11) of Directive 2013/36/EU. The banks concerned will be required to hold the buffer effective from 1 November 2014.

Yours sincerely,

Enclosure: Systemic Risk Buffer Notification – Czech National Bank

Copy: European Commission, European Banking Authority, authorities of Member States, authorities in third countries

Enclosure

Systemic Risk Buffer Notification - Czech National Bank

1.NOTIFYING NATIONAL AUTHORITY	
1.1 Name of the notifying national authority	Czech National Bank (CNB)
2. BUFFER LEVELS AND THE INSTITUTIONS TO WHICH THEY APPLY	
2.1 Type of measure intended	Activation of a Systemic Risk Buffer (SRB)
2.2 Buffer level	CET1 at the level of 1%, 2.5% or 3% depending on a bank's contribution to systemic risk as indicated by their systemic importance (SI) score, where the percentages refer to a bank's total sub-consolidated risk exposure regardless of the territory where the exposure is located. Given these features of the measure, it is subject to "notification only procedure" under Article 133(11) of the Capital Requirements Directive 2013/36/EU (CRD).
2.3 Institutions covered by the intended SRB	The measure concerns the following four banks (henceforth "relevant banks") on a sub-consolidated basis: • Česká spořitelna, a.s. ... buffer level 3% • Československá obchodní banka, a. s. (ČSOB) • ... buffer level 3% • Komerční banka, a.s. ... buffer level 2.5% • UniCredit Bank Czech Republic and Slovakia, a.s. ... buffer level 1%
3. REASONS FOR THE INTENDED SRB	
3.1 Description of the structural systemic risk (Article 133(1) of the CRD)	SRB is being activated in order to mitigate systemic risk implied by potential destabilisation of relevant banks, that is, those domestic banks which contribute most to the systemic risk within the Czech economy, as indicated by their very high SI scores. Destabilisation (in the sense of capital falling close to or below the regulatory minimum in any one or more of these banks) might damage confidence in the capacity of the banking sector to provide all their services in an efficient manner and have serious adverse implications for the financial system and the whole Czech economy.

3.2 Analysis of the potential to have serious negative consequences for the financial system and the real economy in your Member State	Potential destabilisation of the relevant banks may undermine financial stability in the Czech Republic. The banking sector plays the key role in the Czech financial system and the whole economy (banking sector assets correspond to about 130% of the country's GDP). The Czech banking sector is characterised by relatively high degree of concentration (the relevant banks represent about 65% of the whole banking sector). Further source of vulnerabilities stems from common significant exposures to common sectors: residental/commercial real estate and non-financial corporate sector. Since the Czech economy is highly open and production is export-oriented, both sectors are strongly sensitive to the swings in external conditions.
3.3 Indicators used for activation of the measure	The SRB is imposed on a bank if the bank's SI score exceeds a certain threshold. The SI score for a bank is calculated using four categories of indicators: size, interconnectedness, substitutability, complexity. The buffer level for a given bank is determined primarily on the basis of the bank's SI score. Details of the analytical basis for the calculation of SI scores and buffer levels are described in CNB's Financial Stability Report 2012/2013 - see: http://www.cnb.cz/en/financial_stability/fs_reports/fsr_2012-2013/fsr_2012-2013_article_i.pdf.
3.4 Justification of the scope of the SRB	The intended measure is expected to ensure high resilience of banks with the most systemic impact and thus the financial sector as a whole. While in principle the other systemically important institutions (O-SII) buffer might be used for such purpose as well, the use of the O-SII buffer cannot serve the purpose as to the horizon of application and the size of add-on. The CNB thus deems necessary to implement the measure in the form of the SRB.
3.5 Suitability, effectiveness and proportionality of the measure	Suitability, effectiveness and proportionality of the measure will be ensured by virtue of the fact that both the choice of banks to maintain the buffer and the level of the buffer are determined on the basis of the systemic importance (SI score) of the bank.
3.6 Assessment of the likely impact of the measure	Each of the four relevant banks holds voluntary capital buffers at a level that exceeds the sum of the relevant SRB and the 2.5% capital conservation buffer which the recently adopted Czech legislation requires all banks to hold. Also, the likely activation of the SRB has been announced to banks in 2H 2013. Given this, the measure will just help conserve the capital that is already in place. For these reasons, the immediate impact of the intended activation of the SRB will

	be immaterial. However, we expect the buffer to prevent the relevant banks from letting their capital adequacy fall to uncomfortably low levels in the future. As for the cross-border impact, the relevant banks are subsidiaries of foreign banks. They are focusing primarily on local clientele, especially regarding the non-financial sector exposures which dominate their balance sheets. The impact of the measure on other MSs and the whole EU will probably be immaterial. The buffer levels apply to the total amount of risk exposure regardless of geographical aspects. The measure is therefore expected not to hinder the operation of the EU's internal market.
4. COMBINATION OF THE SRB WITH OTHER BUFFERS AND TIMING OF THE MEASURE	
4.1 Combination with G-SII buffers (Article 133(4) and (5) of the CRD)	None of the relevant banks is subject to the G-SII buffer.
4.2 Combination with O-SII buffers (Article 133(4) and (5) of the CRD)	None of the relevant banks is subject to the O-SII buffer.
4.3 Combined buffer requirement (Article 133(6) and (7) of the CRD)	The relevant banks belong to consolidated groups none of which is currently subject to the G-SII buffer or the O-SII buffer.
4.4 Timing of the measure	The requirement is to be formally effective from November 2014. No phase-in period is viewed as necessary (see 3.6) and thus it is not intended.
4.5 Review of the measure	The measure and its specific parameters will be reviewed in two-year intervals (or more frequently, if necessary).
5. MISCELLANEOUS	
5.1 Publication (Article 133(16) of the CRD)	The analytical basis for the way the CNB will construct and apply the SRB has already been published in 2013, as was the fact that the CNB intends to activate the SRB in 2014. The specific parameters (relevant banks, buffer levels) will be published at the CNB's website at the moment the measure will be formally activated.
5.2 Contact persons at notifying authority	Jan Frait, +420 224 414 430, jan.frait@cnb.cz