

Comments to CEBC Consultative Paper CP 16 Large Exposures

Polish Bank Association appreciates the possibility to comment on the CP 16 Large Exposures. We have reviewed the consultative document and provided our responses to the questions asked by CEBS. We have not responded to all questions but to those which we consider relevant to the Banks which are our members.

Responses to Questions

Q2. "Do you agree with the proposal and suggested interpretation of 'control' and of 'interconnectedness'? Do you find the guidance/examples provided in both cases useful? Please explain your views, provide examples. And where relevant provide feedback on the costs and benefits."

Overall, we agree with the proposed interpretations of control. However, the examples do not consider all possibilities. Additionally, the proposed interpretation of interconnectedness should be further explained.

For example: the bank has exposures to two different clients (say A & B). Although the entities are not directly linked to each other, they are owned by a third company (say C), which is not the bank's customer. How such clients A & B should be treated? It seems that interconnectedness could be justified in this case.

The indications of relationship of dependency between clients are not clearly understandable and should be explained in more detail:

- the first bullet point ("majority of the rent") – how the majority should be assessed?
- the third bullet point (take time to substitute) – how the time should be defined?
- fourth bullet point ("identical customer base") – we do not believe that such clients represent single risk.
- sixth bullet point ("the same natural persons are involved in management") – it is not clear if only one person is enough, whether always such involvement could create connection. It is more important in Polish legal system where natural person can be a member of management board of one company and a member of supervisory board of another entity.

We cannot agree with the CEBS proposition that in the case of divergence between the opinion of the institution and that of the supervisor, the supervisor takes final decision. It is the bank's management board who has the sole responsibility for management of the bank's activities, including risk assessment and risk management. If the supervisor would decide on the treatment, it would exercise the management function of the bank.

The supervisor should provide explanations and justification, why the clients should be treated as connected clients. Under CRD rules (Pillar 2), the supervisor may impose additional capital requirement if they consider that the risk management of the bank is inappropriate or inadequate.

Q3. "In your view, how should exposure values for on-balance sheet items be calculated, gross or net of accounting provisions and value adjustments? Please provide examples to illustrate your response and feedback on relevant costs and benefits."

The proposed exposure definition, net of accounting provisions and value adjustments may provide difficulties in calculations, especially for the banks using Foundation/Advanced IRB approach. As the exposure definition will be different from that used for credit risk capital calculation, the treatment of expected losses (EL) also would need to be changed, causing additional costs for the banks to implement changes in their calculation engines. The exposure definition should be similar to that used by the banks in risk management processes (for IRB-banks it will be gross exposure).

Q4-7. Conversion factors.

We agree with the proposed 100% conversion factor. The low risk items could receive 0% conversion factor, but a detailed definition of such items should be provided by the regulator.

Q9. “Do you agree that for large exposures purposes there can be cases where it is justified to treat mitigation techniques in a different way from the treatment under the minimum capital requirements framework? Please explain your view and provide examples. And where relevant, please provide feed back on the costs and benefits.”

In our opinion, the large exposures mitigation techniques should be treated in a similar way to the treatment under the minimum capital requirements framework.

Q10. “Do you agree that the three alternatives set out for the recognition of CRM techniques are the relevant ones? Do you think there are other alternatives CEBS should consider? Please explain your views and provide examples. And where relevant, please provide feed back on the costs and benefits.”

From the three proposals provided, we support the Proposal 1 – to accept the same protection treatment in both the large exposures and the minimum capital frameworks (eligibility, minimum requirements and effects).

Q12. “Do you support CEBS’ proposal that institutions that use the simple method should follow the minimum capital rules (substitution approach) instead of applying the haircuts included in the current large exposure rules? Please explain your views and where relevant provide feedback on the costs and benefits.”

We support the CEBS’ proposal to use the substitution approach. It is justified to have the common framework for the risk mitigation techniques.

Q13. “Do you agree that physical collateral should not in general be eligible for large exposures purposes? Do you support CEBS’ views that residential and commercial real estate should be eligible and that the current large exposures rules should be applied instead of the minimum capital rules? Please explain your views and provide examples. And where relevant, please provide feedback on the costs and benefits.”

We do not agree with CEBS proposal. In our opinion, the physical collateral should be eligible, as the connected clients may represent different risks and such risks should be mitigated by the relevant collateral.

Q14. “Do you agree that the development of a set of principles or guidance to require institutions to take indirect exposures into account when addressing ‘unforeseen event risk’ is the best way forward? Which principles do you think are relevant? Do you have suggestions for possible principles? Please explain your responses and provide feedback on the costs and benefits where relevant.”

In our opinion, the indirect risk will be better addressed by appropriate stress testing framework.

Q26. “What are your views on the proposal to remove the national discretion and to automatically exempting exposures to sovereigns and other international organisations (within Art 113.3 (a – f)), as well as some regional governments and local authorities? Please explain your views.”

In general, we support the treatment. However, the banks should be allowed to apply the large exposures rules to local governments/local authorities, if they believe that the risk assessment justifies such treatment for business purposes.

Q32. “Would a 25% limit on all interbank exposures unduly affect institutions’ ability to manage their liquidity? Should maturity of the exposure continue to play a role? CEBS would find any practical examples useful as aids to its thinking (CEBS would not disclose confidential information).”

Taking into consideration the current situation on the financial markets impacting the liquidity, imposing such limits could cause difficulties for institutions to manage the liquidity and capital requirements. The current regulations seem to be sufficiently beneficial to the institutions.

Q35. “What are your views on the 3 reporting options? Please explain and provide feedback on the costs/benefits of CEBS’ initial views.”

We support Option 3 – reporting to supervisory authorities based on reports defined by the supervisors.

Q36. “Do you support CEBS’ thinking on the purpose and the benefits of regular reporting using predefined reporting templates?”

Yes, we support CEBS’ thinking. The common reporting templates are beneficial to market participants.

Q37. “What is your opinion on CEBS’ initial thinking regarding the elements to be reported under the large exposures regime?”

We support the CEBS' initial thinking on the elements to be reported. The key elements proposed in paragraph 314 will support the harmonisation of disclosures.

Additional comments

Paragraph 90

In our opinion, even if the general exclusion will be agreed, each bank should have the possibility to treat subsidiaries of central governments and local authorities as connected clients if the risk assessment justifies such treatment.

Paragraph 95

The rules where one entity should be included in more than one group of connected client should be clarified. In particular, how the exposure of such entity should be calculated? Should it be divided or added to all groups? The double-counting may provide inappropriate increase of capital requirements.

On behalf of Polish Bank Association

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