



mBank SA comments to Consultative Paper on Benchmarking under Article 78 CRD IV

The current proposal increases the regulatory obligations regarding calculation and reporting requirements heavily. The process will require in-house resources as well as cooperation with software providers, which will result in additional costs. The implementation period until 11th June 2015 (deadline for the first benchmarking reporting) is not realistic and leaves no room for major changes or delays, incl. delays related to official publication of the approved delegated regulation introducing ITS and RTS. Bank would need at least 1 year of implementation to be able to prepare IT-systems and routines for the new challenging calculation and reporting requirements. Also reporting systems have to be carefully defined and tested in order to secure high quality of the data. Consequently, the implementation should preferably be moved to 1st January 2016 and first remittance date moved to 11th March 2016.

Based on the results of our preliminary analysis of benchmarking process proposal the IT-infrastructure used currently by mBank for own funds requirements calculation and COREP reporting would rather not be suitable for benchmarking purposes. Implementation and maintenance cost of entirely new processes will be high, although hard to estimate at this stage of the proposal. Part of a project related to implementation of the calculation engines, which uses external as well as internal data sources and maintenance of the application regarding among others any regulatory changes will be particularly challenging and resource-consuming.

Moreover, current version of the proposal does not allow for initiation of any project. Reporting templates are optional, preliminary version of XBRL for reporting is not presented and is not mandatory for ITS reporting in Poland. Presently XBRL is used for the purpose of ITS Reporting in Poland, but a different version of XBRL taxonomy is used by institutions, than EBA taxonomy. Benchmarking reporting requires an implementation of EBA XBRL taxonomy. The cost of implementation of XBRL benchmarking reporting will result mainly from the adjustment to the new version of the taxonomy. In light of the initial version of the consultative document and having in mind that preliminary version of the draft taxonomy of XBRL for benchmarking reporting was not presented, we would advise once again to move the implementation date to 1st January 2016.

Many parts of instructions are not clear enough. In our opinion it is of utmost importance that there will be a readiness from EBA or/and the local supervisory authorities to answer questions from the institutions. It would be a great advantage and would significantly streamline the communication of the bank with the supervisor if the questions could be handled by the local supervisory authorities.

Questions regarding definitions used in the consultation documents, Annex VI:

630. Long-run PD

Central tendency from the calibration is not used as a usual PD, because all the calibrated PD models are strongly PIT (point in time), so as a result PD varies in time, but it is regularly calibrated with respect to the recalculated portfolio loss level.

In what terms long-run PD has to be different from the (weighted) central tendency?

640. Cure rate defaulted assets

In our opinion definition of Cure Rate should be clarified, due to the fact that in particular cases default end may be correlated with written-off exposures or sold exposures (it is possible that client may still have relation with bank through the ownership of other healthy exposures). Those cases might be present in datasets.

In other words, the question is: what kind of defaults (in sense of ending) should be included in calculation process? What is the exact definition of cure (e.g. how cases with sold collateral or utilized guarantees should be treated)? How incomplete default cases should be incorporated and what about multiple defaults (of the same client) during 12 months period?

650. Recovery rate not cured foreclosed assets

If we understand correctly, only cases with realized collateral should be included in computations. However, some points should be explained more precisely.

First of all, the definition of recoveries should be clarified (total recoveries, recoveries from collateral, other recoveries not in form of collateral or guaranties). Secondly, how incomplete defaults should be taken into considerations (particularly cases with foreclosed assets)?

660. Recovery period length not cured foreclosed assets

What is the exact meaning of beginning and ending of recovery period? Is it compliant with default start and ending? For example, there can be cases where default ending is not compliant with end of workout process on given exposure (default may last longer, due to the fact that other exposures of given client may be past due).

Comments to Annex IV of Consultative Paper on Benchmarking under Article 78 CRD:

1. Sheet C 102 – Details on exposures in Low Default Portfolios (LDP) – column 210 - Default rate last year. It is not clear if value used as denominator in the definition, should be the exposures of defaulted portfolio or non-defaulted portfolio.
2. Sheet C 102 – Details on exposures in Low Default Portfolios (LDP) – column 220 - Default rate past 5 years. Value of Default Rate is not defined in column 200.
3. Sheet C 102 – Details on exposures in Low Default Portfolios (LDP) – column 240 - Loss rate past 5 years. Referenced column 220 does not define Loss Rate.