



POLISH BANK ASSOCIATION

Kruczkowskiego 8, PL 00-380 Warsaw, phone: +48 22 48 68 180, +48 22 48 68 190, fax +48 22 48 68 100, e-mail: info@zbp.pl, www.zbp.pl

Warsaw, 11 February 2015

European Banking Authority
Canary Wharf
London

The Polish Bank Association response to EBA Consultation Paper "Draft Guidelines on methods for calculating contributions to Deposit Guarantee Schemes" EBA/CP/2014/35

The Polish Bank Association welcomes EBA Draft Guidelines on methods for calculating contributions to Deposit Guarantee Schemes. These guidelines will have the big impact on the level of contribution paid by each bank for financing the deposit guarantee scheme. The new attitude to this issue will change the scale of contribution paid by each bank in the same jurisdiction. The risk component in fee calculation is very important in order to minimize the scale of potential moral hazard risk generated by establishment of deposit guarantee schemes. Each bank should contribute so much as big risk it generates for stability of banking sector and for outflow of resources from the DGS.

The big achievement of guidelines is the attempt to reduce the possibilities for national discretion across European jurisdictions, implementation of more unified solution in all Member States and inclusion of risk base approach in calculation of fee. This attitude should allow to lead to level playing field in Europe. It is very important challenge in the period of growing cross-border activity of many banks.

Q1: Do you have any general comments on the draft Guidelines on methods for calculating contributions to DGSs?

We believe that the EBA Guidelines on methods for calculating contributions to Deposit Guarantee Schemes will achieve the objectives which are indicated in draft of Guidelines. In our opinion 3 objectives are correctly identified in the Guidelines.

We appreciate also the proposed principles for developing the calculation methods. The banking industry would like to underline particularly three principles. Firstly, the principle 6 indicates that the required data for the calculation of contributions should not lead to excessive additional reporting requirements. In the times when all reporting requirements are growing rapidly it is very important for industry to not create additional requirements for DGS calculation purpose.

Secondly, the principle 7 concerns the protection of confidential information. Proposal of the risk base approach in fee calculation may generate the potential risk of disclosure of confidential information. It is necessary to protect the results of calculation of risk for each bank made by the DGS because their disclosure can be dangerous for stability of financial sector. Thirdly, the principle 8 indicates that calculation methods should be consistent with relevant historical data. The draft Guidelines propose in advance of 2017 to review them in order to compare the results of calculation with the risk assessment performed under the SREP. This task should be achieved, however it is reasonable to consider if the SREP indicator could be implemented in the Guidelines nowadays as one between many indicators used in formula of fee calculation or even as an only and complex indicator, which includes quantitative and qualitative information. It is also important in principle 6 context. SREP and ARW are the different measures of the same problem: the stability of particular institution. To reduce probability of mismatch in assessment of banks' riskiness for the purpose of the DGS and SREP, the contribution to the DGS in our opinion should be based on SREP outcome. We have heard that transparency restrictions in different Member States have caused that EBA had resigned to use SREP, but in our opinion this limitation should not be so important to implement the SREP in the calculation of banks' fee for the DGS.

The general calculation formula is acceptable. The contribution rate (CR) is determined from the target level in combination with a defined calculation formula and setting levels of thresholds for aggregate risk weights (ARW). It can be the pillars of a harmonized method for calculating contributions to DGSs that leads to level playing field in Europe but in the situation when each

countries establishes de facto its own target level, above the target level indicated in DGS Directive it will be difficult to say the system leads to the level playing field.

The analyze of Aggregate Risk Weight (ARW) may arise the question how deep should be the harmonization of set of risk indicators with thresholds of weights for each risk indicator should be. The proposed indicators used in the fee calculation process are quite simple and this approach may put the question if it covers in universal way the risk generated by different types of institutions active in banking sector. We have to remember that risk generated by e.g.: global bank and local banks, wholesale banks and retail banks, investment banks and commercial banks, transaction banks and mortgage banks may differ considerably. The usefulness of draft Guidelines for different banking sectors should be analyzed therefore in near future.

The DGSs are allowed to develop and use their own detailed calculation methods which are consistent with the Guidelines. In this way the Guidelines allow the DGSs to tailor contributions to market circumstances and risk profiles. The ARW indicates the minimum level of harmonization but not full level. This approach allows to adapt the calculation methods to the national banking systems but it can introduce quite high differences in the methods of fee calculation which can be contradictory to the level playing field principle.

We understand the general role which adjustment coefficient (u) should play in the process of fee calculation. We are, however, not convinced that this coefficient has to be included in the calculation formula. It should be the result of the general position expressed by the DGS each year and do not have to be included in the calculation formula. Looking at the proposal of this coefficient we are not sure who will define economic downturn and the change of coefficient. The question is also if the coefficient will measure the present economic situation in the business cycle or it will incorporate the affordability to pay contribution.

We understand that this coefficient will not be used in this jurisdiction where the target level is already achieved and the DGS continues collecting contributions after reaching the target level. The target level in guidelines means the same as in DGS Directive and it is not the higher target indicated individually by each DGS.

Q2: Do you consider the level of detail of these draft Guidelines to be appropriate?

Generally we judge the level of detail of the Guidelines as appropriate. They indicate the main issues which have to be included in the calculation and they give the possibility for DGS to modify the solution according to its experiences in construction of matrices of risk in banking sector.

We have to remember that the Guidelines recommend to use the indicators which are not yet used fully in banking sector. It makes difficult to assess their correctness. The example can be new liquidity indicators, particularly NSFR. Nowadays it is too early to express opinion that their weight in total risk assessment is correct. There is no evidence of statistical proof that the core risk indicator model measures risk accurately.

On first sight the level of detail with defined risk indicators and weights seems to be appropriate. On second sight we miss details on a range of parameters for risk assessment and further guidance on appropriate methodologies for the distribution of risk category weightings. We believe that the national DGSs have a good overview about the structure of their banking industry.

Some further inclusion of parameters for risk assessment criteria would be of value, e.g. further guidance on appropriate methodologies for the distribution of risk category weightings across the 25% flexibility limit would allow for a better understanding of the impacts of the calculation.

The big issue is the treatment of banks which are the members of the Institutional Protection Schemes (IPS). The Guidelines do not give the picture how to calculate the fee for members of the IPS. The one point where the IPS is mentioned is the possibility to include this factor as optional elements for DGS fee calculation. However, first of all, it can be used only as additional factor. Secondly, the wage of this factor is limited. And thirdly, the Guidance do not give the answer if the indicators for members of IPS should be assessed on individual base or on the IPS level as the whole. The Guidelines should give clearer answer to these questions.

Q3: Is the proposed formula for calculating contributions to DGS sufficiently clear and transparent?

We consider the proposed formula for calculating contribution to DGS sufficiently transparent.

Not completely clear, however, is the implementation of the adjustment coefficient μ into the annual contribution process with regard to responsibilities (who will determine a relevant economic downturn), to indicators/indicator thresholds (definition of economic downturn) and to the target level.

The other practical issue is the data used for calculation. During the process of calculation the DGS will have only the historical data concerning the risk generated by each institutions. For example, establishing the fee for 2016 the DGS will have the data concerning the 2014. After one year the position of bank can change and have the impact on level of bank contribution to the DGS. The big question is if the level of contribution has to be adjusted later to the newest data (concerning 2015) collected in 2016 or the contribution level will be established using only historical data?

We have to have in mind that banks used different accounts solutions. The largest banks, listed on stock exchange use the IFRSs and the smaller one use the national accounts' standards. These attitudes will generate the differences in their balance sheet and will have the consequence for DGS fee calculation. The simplest example may be the level of non-performing loans and the level of provisions.

We will see also the differences in bank assessment depending if it use the standard approach or advanced method of risk management according to the CRD IV. These differences will have the impact on the level of contribution paid by each banks after implementation of EBA Guidelines. It would be reasonable to have similar calculation method for all banks in order not to put smaller banks in weaker position to the larger ones.

Q4: Considering the need for sufficient risk differentiation and consistency across the EU, do you agree on the minimum risk interval (75%-150%) proposed in these Guidelines?

We consider the risk interval as appropriate to mitigate moral hazard. We however encourage that this range to be subjected to an empirical analysis of a range of credit institutions.

Q5: Do you agree with the core risk indicators proposed in these Guidelines? If not, please specify your reasons and suggest alternative indicators that can be applied to institutions in all Member States. Do you foresee any unintended consequences that could stem from the suggested indicators?

We would like to express again our general position that the risk indicators are sufficiently detailed. We want, however, to repeat our negative opinion concerning the lack of the SREP assessment in the calculation formula and the insufficient treatment of IPS membership for calculation purpose.

We want also to point to the overreliance of indicators using the data from the balance sheet only, especially with regard to risk weighted assets in respect of total assets. This leads to a high correlation of these indicators and to a potential weakening impact to other risk factors.

Q6: Do you agree with the option to use either capital coverage ratio or Common Equity Tier 1 ratio as a measure of capital? Would you favour one of these indicators rather than the other, and why?

Polish Bank Association agrees with the option to use either coverage ratio or CET1. CET1 ratio is a widely accepted ratio.

Q7: Are there any particular types of institutions for which the core risk indicators specified in these Guidelines are not available due to the legal characteristics or supervisory regime of these institutions? Please describe the reasons why these core indicators are not available.

Generally the core risk indicators are taken from regulatory reporting and therefore we expect them to be available for all institutions. The system should be however adopted to the legal situation of Institutional Protection Scheme.

Q8: Do you think that more guidance, or specific thresholds, should be provided in these Guidelines with regard to calibration of buckets for risk indicators, or minimum and maximum values for a sliding scale approach?

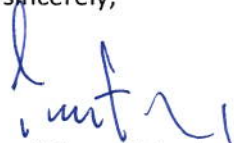
In our opinion DGSs have experience in area bank risk assessment and they do not need further guidance. As it was indicated above, the lack of calibration in the buckets may cause the different level of contribution of the same bank in different jurisdiction but the specific of local banking sector allows to accept such flexible approach.

Questions related to the Impact Assessment

Q9: Do you agree with our analysis of the impact of the proposals in this Consultation Paper? If not, can you provide any evidence or data that would explain why you disagree or might further inform our analysis of the likely impacts of the proposals?

In our opinion further clarity is required with more detailed illustrative examples. It is crucial to have early sight of national average and institution specific examples to facilitate an informed consideration process.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'K. Pietraszkiewicz', with a stylized flourish at the end.

Krzysztof Pietraszkiewicz

President