POLISH BANK ASSOCIATION

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European Banking Authority

Subject: Polish Bank Association response to EBA consultation on Draft Guidelines on the minimum list of qualitative and quantitative recovery plan indicators (EBA/CP/2014/28)

Dear Sirs,

Polish Bank Association welcomes the opportunity to comment the EBA consultation paper related to the Draft Guidelines on the minimum list of qualitative and quantitative recovery plan indicators. We are convinced that the subject raised in this document is very important for stability of financial market and is fundamental for right process of decision – making for recovery action. The appropriate definition of indictors should allow in the future to concentrate the accessible resources in the right place and in the right time for high effectiveness of banking recovery.

General Comments

We support the general idea expressed in draft guidelines to promote individual assessment of appropriate indicators (qualitative or quantitative) established by each institution for the purpose of its recovery plan according to Article 9(1) of Directive 2014/59/EU. We would like to emphasize strongly that from perspective of financial stability and safety of each institution it is very important to permit that each institution has its own recovery plan containing a framework of indicators set up by this institution. Such solution will allow to take into consideration the specific situation of each institution as the legal structure, business profile, risk profile accepted by the management and shareholders and other factors which describe unique position of financial institution. Recommending this approach we have in mind that the list of proper indicators for each institution has to be agreed by competent authorities. The application of elastic approach will then bring at least two very important positive consequences. Firstly, it will force each institution to consider, to search and to adopt the solution which is appropriate only for it. Secondly, it allows the competent authorities to make deeper review of institution's situation and recommended proposal of indicators. The competent authorities will have to consider and to recommend the best solution for each institution. The existing process of indicators approval by competent authorities will be the guarantee that the final solution should be appropriate for the institution and for stability of financial market.

In our opinion the minimum list of indicators should be very restricted, concentrating only on capital and liquidity indicators. All other categories could be treated as additional, but not being mandatory for illustration of economic situation of institution. These above-mentioned prudential indicators are the first and most important factors which describes the health of financial institution. Each institution has to fulfil these requirements. All others are not used in such restrictive way in European banking regulations. That is the reason why we recommend to safeguard this consistency – the consistency between prudential regulation and resolution.

We appreciate also the indicates describing the profitability of institution and assets quality. But we have to remember that they can not be treated in the same way for all institutions. For example, the assets quality may depend on the business strategy of institution and this indicator can be established on different level in each institution. Higher level of impaired loans can not be sufficient individual indicator of economic situation of institution.

We try always to underline that the requirements for banks running from regulations and guidelines must respect the principle of proportionality. This principle is especially important for such countries as Poland where there is a lot of small and medium banks which concentrate their business on local market with limited number of types of financial services delivered to their clients. We have also to remember that the impact of each institution on the stability of all financial sector varies significantly. Against this background, it is important that the guidelines are structured as guidelines with a view to promote the safety and soundness of markets and convergence of regulatory practice and not designed as imperative requirements, such as rebuttable presumptions.

We have some concerns regarding the usefulness of such metrics as the market-based and the macroeconomic indicators. In our opinion they have important impact on the economic situation of each institution but the level of dependence varies significantly for each institution. That is why it is better to measure the situation of institution using the impact of these indicators on principal metrics of each institution as capital and liquidity requirements. The general market indicators may give the picture of potential problems growing in whole banking sector but not address the problem to individual institutions.

<u>Answer to specific questions</u>

Q1: Do you agree with the inclusion of both quantitative and qualitative indicators for recovery planning purposes?

We generally support the possibility of using both quantitative and qualitative indicators for recovery, because all together they can present the economic situation of institution in more detailed way. However we maintain our former remark, that only the limited number of indicators should be treated as mandatory ones. The needs to determine the qualitative indicators should depend on the profile of each institutions. We have also have in mind that it can be difficult to define the appropriate level of qualitative indicators which should stimulate any recovery action.

We recommend also to coordinate the indicators with the reporting requirements that already exists. Such solution will give easier permanent access to the most important information.

Q2: Do you consider that there are other categories of indicators apart from those reflected in the draft Guidelines which should be included in the minimum list of recovery plan indicators?

As stated above, we would like to minimize the list of indicators to be restricted to capital and liquidity indicators. Nevertheless, each institution, but also competent authorities should have the flexibility to use other indicators which should be more appropriate for institution and may be monitored regularly by this institution and can be used in effective way in process of decision-making for recovery purpose.

In relation to the minimum and the additional list of recovery plan indicators, we consider that the minimum list is sufficiently extensive. Therefore, some of the additional indicators may be considered unnecessary for banks that do not have certain types of business lines or exposures. In our opinion some indicators are also strongly correlated or repetitive.

Q3: Do you agree with the list of specific recovery plan indicators included in Annex I, Section C, or would you propose to add other indicators to this Section?

As we have noted in our response to Question 2, we agree with Section A as minimum recovery indicators, particularly point 1 and 2 and we also generally support using the categories of recovery indicators from these areas defined in Section C. Other indicators should be treated as the illustrative list, not as the strict indicators for any recovery action.

The majority of specific indicators described in Section C are the metrics that are usually used for measuring the effectiveness of financial institution. We do not see any problems to demand the institution to monitor them.

Q4: Do you consider that these Guidelines should establish the threshold for each quantitative recovery plan indicator to define the point at which the institution may need to take recovery measures to restore its financial position?

No, generally the threshold must be defined by each institution depending on their risk appetite and risk management framework. The banks themselves are best-qualified to establish the indicators, as they have the best knowledge of the nature, value of the business model, activities and strategic choices. Therefore banks in collaboration with their competent authorities should establish the appropriate thresholds for each quantitative indicator which is relevant to its business model and risk appetite. The common threshold can be used only in area where there are clear prudential requirements.

In practice we are convinced that only the sum of individual indicators will allow to assess the situation of institution correctly. The level of majority of individual indicators should not be the sufficient trigger for any recovery action in institution.

Q5: 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?

No comment.

Your sincerely,

Krzysztof Pietraszkiewicz

President