



POLISH BANK ASSOCIATION

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Financial Stability Board

Dear Sirs,

Polish Bank Association response to Public consultation on the funding strategy elements of an implementable resolution plan

General Remarks

Polish Bank Association welcomes the opportunity to comment some aspects of the FSB proposal concerning the funding strategy elements of an implementable resolution plan. We are in Poland in specific position because no Polish banks in treated as G-SIBs. However, there are two reasons why this subject is interesting for us. Firstly, there are banks in Poland which are the subsidiaries of the G-SIBs and the rules set for the G-SIBs have the impact on the regulatory framework of local subsidiaries. Secondly, the FSB guidelines are treated by regulators (the BSBC and the UE authorities) as the benchmark for setting more detailed regulations which additionally are applied to smaller banks than the G-SIBs.

The proposal of guidelines creates some confusion for banking industry. The funding strategy elements of an implementable resolution plan concern the activity of institutions responsible for resolution activity. These authorities are obliged to prepare the resolution plan for every bank and they have to make them implementable. Banks do not know the details of resolution plan created by

the authorities responsible for resolution. Banks receive the summary of resolution plan only. This limited access to the information included in resolution plan does not allow the banks to assess correctness of the funding elements in resolution strategy.

The other source of confusion is the financing of resolution activity. We have to have in mind that the resolution authorities collect their own resources for the purpose of implementation of resolution plan in one or other banks. The resolution authorities active in the European Union should have also access to public funds which can be used in particular on the stage of early intervention. These sources should be used for implementation of resolution plan at first stage. If the resolution authorities assess the resolution plan as implementable they should have the access to the temporary funding, for example from the central bank. If the resolution plan is really implementable, there is no risk of temporary financing of the resolution process with the partial share of public funds.

The next concern for banking industry creates the relation between the existing prudential rules for banks concerning the quantitative and qualitative norms in managing of liquidity risk and new proposal recommended by the FSB in funding strategy elements of an implementable resolution plan. Banks have to meet prudential requirements in area of short-time liquidity ratio (LCR) and the long term liquidity ratio (NSFR). We have also to remember that these norms are applied also in stress situation, not only in normal situation. This approach should allow to meet the demand for liquid sources in specific situation in bank. We are convinced that the regulators set up the new rules in this area in such way that the fulfilment of quantitative and qualitative norms can not generate the liquidity problems in bank. The local supervisors set up also additional qualitative requirements in the process of management of liquidity risk. We strongly believe that these norms are rational and may cover the demand of bank for liquid sources in stress scenario. This approach brings us to the conclusion that banks should not meet additional requirements in area of liquidity which are generated by the resolution plan.

The banking industry faces nearly every year new prudential requirements which make banking business less attractive for new investors. The profits of industry, measured as level of return ratios on engaged capital or assets, are lower than few years ago. This approach generates the situation where the traditional banking services are less profitable or are not profitable for banks and this process can lead to the lower capacity of banking industry to finance economy. We are convinced that the process of setting up new prudential requirements should be strictly limited until the full assessment of existing regulation and their consequences for financing economy are prepared.

Answers to consultation questions

1. Do the funding strategy elements in the consultative document address all relevant aspects of resolution funding plan? What other aspects, if any, should be considered?

We support the initiative to address funding strategy elements of an implementable resolution plan and to make the resolution authorities to be better prepared ex-ante for implementation of plan. However, it is difficult to believe that such big banks as the G-SIBs could face a resolution financing without the sources from outside. In other situation the implementation of resolution will be not needed. We have also in mind that the G-SIBs are really big entities and demand for financial sources can large during the implementation of resolution plan. We think that higher liquidity requirements for banks will be always sufficient to finance the implementation of plan.

We recommend to specify in more detailed form the division of responsibility between supervisory authorities, resolution authorities and supervised entities in process of estimating liquidity needs for successfully executing the resolution strategy. In our opinion this responsibility should be concentrated mainly in the resolution authorities. We can imagine that financial entities will have to maintain the financial sources necessary for implementation of resolution plan in one G-SIBs. The potential scale of needed funds can be very high and lack of possibility to use these sources in normal banking activity may cause big costs for banks. This approach could have big impact on the financing real economy and on the cost of credit for entrepreneurs.

In area of monitoring sources, uses and positioning of liquidity the tools are generally similar to the toolkit used for supervisory purpose. We do not believe that maintaining higher LCR than in present regime allows to minimize the risk of implementation of resolution strategy. The reasons why bank has to enter resolution strategy will usually be much deeper than the liquidity problems only. The solvency and reputational problems are very often in play in such situation.

We are also not convinced the assessment should be made in area of intra-day stressed flows for purpose of resolution funding plan. In our opinion the problem of bank in troubles are much deeper that the temporary intra-day liquidity problem and the assessment in this area is the waste of time and money for these purposes.

2. Do you foresee any challenges in the development of firm capabilities to facilitate the execution of the funding strategy, as set out in section 1?

The document should specify which actions should be realised during each of the resolution periods (early intervention/entry into resolution/moratorium/resolution) while being mindful not to overload the bank with operational requirements that would slow down the recovery and/or resolution

process. In our opinion the methodology for estimating liquidity needs for resolution could prioritise the scenario defined by the resolution authority, instead of multiplying the scenarios.

**3. Does section 1 identify all relevant aspects for estimating liquidity needs for resolution?
What other aspects, if any, should be considered?**

The implementation of the resolution strategy should concentrate on the strategy defined by the resolution authority and not evaluate many scenarios. In order to act quickly and to estimate correctly the liquidity needs, we recommend to stress the need of better communication between resolution authorities and banks. This process is particularly important and difficult for cross-border banks and the G-SIBs are this kind of banks.

We would like to repeat also our general remark that existing conservative prudential liquidity norms (LCR and NSFR) should not be duplicated by resolution authorities in other forms by creating additional requirements. We think that other liquidity requirements or more stressed calibration of the current indicators (mainly LCR) will not solve the potential problem of liquidity in resolution.

**4. Are there any obstacles to the identification and mobilisation of assets that could be used as collateral for both private and temporary public sector backstop sources of funding?
How might any such obstacles be addressed?**

Collateral acceptance criteria for credit institutions under resolution should generally remain stable and be similar as for business purpose or monetary policy. However, we can imagine that for bank being in process of resolution the scope of assessable assets may be limited and maybe in this period the recommended approach should be more specific in comparison to the normal procedures.

5. Are there any other actions that should be taken by G-SIBs and authorities to support the development and implementation of resolution funding plans?

We do not support the idea to introduce quantitative indicators as determinants whether an entity has entered into resolution. In our opinion it would be very dangerous to link these indicators to the estimated potential liquidity needs that creates need to implement a resolution strategy in bank. Trying to estimate potential liquidity needs by assuming different hypothesis and counterparties' behaviour is a necessary exercise, but the outcome of this exercise should never be sufficient trigger for resolution action.

We would like also to underline the necessity of close cooperation between all resolution authorities (home and host), central banks and supervisory authorities engaged in resolution process. The good

cooperation should help to implement the single, coordinated and effective resolution plan, including also the financial aspects of this plan.

Yours faithfully,

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

Krzysztof Pietraszkiewicz

President

Polish Bank Association