Warsaw, 28 June 2013

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Comments of the KNF - the Polish Financial Supervision Authority on the

Basel Committee on Banking Supervision

Consultative Document

Supervisory framework for measuring and controlling large exposures

Polish Financial Supervision Authority (PFSA) appreciates work done by the Basel Committee on Banking Supervision to strengthen large exposures framework that was presented in consultative document (Supervisory framework for measuring and controlling large exposures) issued for comment by 28 June 2013.

We believe that large exposures framework plays a crucial role not only in limiting excessive concentration of exposures of individual financial institutions, but more importantly, it helps to reduce systemic risk in a financial system. In our view however, large exposures framework should be looked at comprehensively, taking into account exposures to unrelated entities, as well as exposures to sovereigns and intragroup entities. Therefore, we strongly encourage the Committee to complement the published consultative document to include Committee's view on intragroup exposures and sovereigns, as concentration risk in those exposures is of the most importance from the systemic standpoint.

We would like to present our view in relation to Committee's questions.

1. **The Committee welcomes views on the proposed definition of large exposures and on the proposal for reporting.**

PFSA supports the change of the threshold defining a large exposure from 10% to 5% of a bank's eligible capital base. In our view, this change should not add much of a burden to reporting entities as they should already have necessary data concerning exposures available on demand by authorities, thus this change would only encourage them to submit more data to authorities on regular basis.

2. **The Committee welcomes views on the criteria proposed for the identification of connected counterparties when they pose a single risk.**

PFSA supports criteria proposed for the identification of connected counterparties when they pose a single risk. Also, in our view, it is important to note that in case of divergence between the opinion of the institution and that of the competent authority, competent authority should be able to decide whether given entities should be considered connected counterparties.

3. **The Committee welcomes views and quantitative information on whether the limit should be based on CET1 or Tier 1.**

PFSA supports more prudent approach with the limit based on CET1 as we believe that only highest quality capital should be considered being able to absorb losses from large exposures on a going-concern basis. Also, we would like to point out that the definition of limit based on CET1 would not generally force banks to increase their capital base as banks should be able to decrease their largest exposures when needed (in contrary to increase in minimum capital adequacy ratio).

4. **The Committee welcomes views on the extent and nature of the use of internal models (when they have received supervisory approval for being used for Pillar 1 capital requirements purposes) to measure large exposures.**

PFSA supports Committee view that model risk should have no bearing on exposure values in a large exposures framework. We agree that use of internal models introduces model risk into the exposure measure and could generate differences in the way that individual banks measure similar exposures. Also, in our view, additional complexity that is introduced with internal models, does not contribute to transparency of the large exposure framework and makes it more disputable whether large exposures limits are actually abided by.

5. **The Committee welcomes views on the proposal to calculate exposure value of banks' investments in OTC derivatives.**

PFSA supports Committee view on the use of simple non-internal method (Current Exposure Method).

6. **The Committee welcomes views on the proposal for how the exposure values of banks' investments in securities financing transactions should be calculated, in particular on the need to deviate from the risk-based capital requirement rules given the objectives of a large exposures framework.**

PFSA supports the Committee believe that banks should use the comprehensive approach for SFTs with supervisory haircuts, instead of allowing banks to use the exposure measures that they use for risk-based capital requirement purposes for the reasons listed by the Committee.

7. **The Committee welcomes views on the proposal to generally apply a 100% CCF for "traditional" off-balance sheet commitments.**

PFSA supports the view that CCFs for the purpose of calculating a large exposure should be set to 100% for the reasons listed by the Committee. In our opinion however, the Committee should reconsider whether it is appropriate to make exemptions from this rule by allowing lower than 100% CCF for trade finance activities, as this exemption seems not to be motivated by a strictly prudential concern.

8. **The Committee welcomes views on the proposed hybrid approach for banks that apply the "comprehensive approach" to financial collaterals.**

PFSA supports Committee view on the proposed hybrid approach for banks that apply the comprehensive approach to financial collaterals for the reasons listed by the Committee.

10. **The Committee welcomes views on the proposals for offsetting long and short positions, in particular when these positions are in different issues.**

PFSA supports Committee view on the proposal regarding interbank exposures. We would like to note however, that the seniority of different issues may not be always easy to determine, which may cause problems with practical application of offsetting between long and short positions in different issues.

11. The Committee welcomes comments on the proposal regarding interbank exposures and in particular in which cases specific exemptions would be warranted.

PFSA supports Committee view on the proposal regarding interbank exposures.

12. The Committee welcomes comments on the calibration of the granularity threshold and whether the mandatory application of the look-through approach to the transaction where an underlying exposure may exceed the granularity threshold will raise specific issues.

PFSA supports look-through approach (LTA) presented by the Committee, however we would like to point out that in many instances LTA does not remain at the sole decision of a bank (investor). In many cases, bank (investor) may know only the general investment strategy of a given vehicle or only investment bands for underlying exposures. Exact underlying exposures could be unknown to investor and they could be revealed only retrospectively on a few reporting dates throughout the year. Also for that reason, in many cases bank may not be able to verify granularity of given underlying portfolio and would be forced to recognize exposure to "the unknown client".

13. The Committee welcomes comments on the proposals for the treatment of the identified additional risks in the large exposures framework.

PFSA supports the Committee view for the treatment of the identified additional risks in the large exposures framework. We believe however, that more detailed guidelines on identification of additional risks may be needed.

14. The Committee welcomes views on the options for the treatment of banks' exposures to CCPs.

In our opinion, hard limit should not generally apply to a bank's Q-CCP exposures for the reasons listed by the Committee, however national competent authorities should be empowered to impose such limit when needed on case-by-case basis, taking into account systemic risk considerations.