POLISH FINANCIAL SUPERVISION AUTHORITY

Comments of the KNF - Polish Financial Supervision Authority to the discussion paper *Regulatory treatment of accounting provisions,* issued for comment by 13 January 2017.

In response to discussion paper *Regulatory treatment of accounting provisions* issued by the Basel Committee of Banking Supervision (further: BCBS) on 11 October 2016, we would like to submit the following opinion of Polish Financial Supervision Authority (further: PFSA).

Firstly, PFSA concurs with BCBS on the general opinion that the Standardized (SA) and IRB Approaches would benefit from a harmonization in terms of an influence of provisioning on capital requirements, where in particular the introduction of the shortfall mechanism to the SA seems to be the right solution. For that reason retaining the current regulatory treatment of provisions, including the distinction between general (GP) and specific provisions (SP) should be avoided. Similarly, an introduction of universally applicable and binding definitions of GP and SP will pose a challenge and will not add enough value in terms of comparability of impact of provisions on capital requirements. From the PFSA perspective the only approach that meets the two criteria (risk sensitivity and coherence of adoption) is the one stating that provisioning between SA and IRB approaches should be aligned to the maximum extent possible (i.e. the division should be removed and regulatory EL under SA should be introduced).

Nevertheless, PFSA would like to highlight the importance of the proper calibration of EL under the SA approach with special attention paid to the granularity of the regulatory EL, as well as a proper level of conservatism , i.e.:

- presented in the discussion paper way of translation of RWA (IRB) to EL (SA) is a straightforward mechanism but may lead to systematic underestimation of the EL parameter for SA institutions for some of their portfolios (especially corporate, where SA risk weights compared to IRB risk weights seem not to be prudent enough) – this issue might be resolved if EL will act as a floor, i.e. required level of provisions = max(IFRS9; EL),

- it should be noted that different products show different risk profiles, including their sensitivity to the systemic risk. Under the IRB regime the same mean EL may be accompanied by different UL, due to different risk weight formulas (due to sensitivity to the systematic factor via the correlation coefficient),

- exposure classes under SA and IRB differ and direct implementation of EL from IRB to SA may be problematic (e.g. exposures secured by immovable properties).

Exact derivation of parameters would require further analysis and data acquired directly from the institutions (QIS) to make sure EL (SA) estimates will not be biased. Since the aim of adoption of the IRB focuses on the fostering of good credit risk practices, PFSA raises its concerns whether proposed

EL parameters will not give a substantial advantage to SA portfolios and encourage the institutions to return to the use of less advanced approaches due to capital considerations.

Finally, considering local implementation of the framework, PFSA would like to note that present local adjustments to the capital requirements calculation imposed by the authorities (e.g. regulatory increase of RW for RRE exposures in SA) would need to be adequately addressed in the regulatory EL framework extension.