POLISH FINANCIAL SUPERVISION AUTHORITY

Comments of the KNF - Polish Financial Supervision Authority to the consultation paper *Regulatory treatment of accounting provisions – interim approach and transitional arrangements,* issued for comment by 13 January 2017.

In response to consultation paper *Regulatory treatment of accounting provisions – interim approach and transitional arrangements* 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).

Introduction of transitional arrangements for accounting provisions runs counter to the goal of moving away from the incurred loss model which resulted in "too little, too late" provisions as it would prolong the period of full recognition of the impact of new provisioning rules. Nevertheless due to the long implementation process of the new IFRS 9 requirements, the complexity of the process and limited availability of the data it is now hard to determine the impact of IFRS 9 on own funds. The new ECL approach will be based on the extensive use of models and assumptions which need solid evaluation after their implementation and may also make it more difficult to maintain the consistency of IFRS application between institutions. The establishment of the common general principles, which are at this stage of implementation difficult to define, may be required. Due to that it is more justified to retain the current prudential treatment of the regulatory provisions and consider possible changes after the full implementation of IFRS 9 requirements. Also to be able to decide whether any portion of provision under the ECL model should be treated as specific and general it would be better to have reliable data from the period after the full implementation of IFRS 9 by institutions.

If the transitional arrangements are deemed necessary, the transitional period should be shortened to the required minimum, being easy to apply and understand in order to assure their consistent application. The portion of the provision increase as a result of the implementation of the new accounting rules should also be clearly distinguished from the deterioration of the credit quality, and that distinction should be supported by the clear disclosures in the financial statements. The transitional arrangements are aimed at smoothing the effect of the implementation of the new accounting rules under IFRS 9 and as such should refer to the impact these rules have on the own funds at the date of the first implementation. For the banks the requirement to calculate the impact of IFRS 9 at each reporting date requires to keep parallel calculation both under IFRS 9 and IAS 39 which may be impossible to maintain or will create unnecessary burden. Therefore the proposed Approach 1 to transitional arrangements seems to be the most appropriate to apply giving bank time necessary to adjust to the new requirements and impact of IFRS 9 on the regulatory capital. Alternatively the second approach, or some mixture of both are also acceptable.

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