



POLISH BANK ASSOCIATION

Kruczkowskiego 8, PL 00-380 Warsaw, phone: +48 22 48 68 180, +48 22 48 68 190, fax +48 22 48 68 100, e-mail: info@zbp.pl, www.zbp.pl

Warsaw, 9 February 2016

Basel Committee

on Banking Supervision

subject: Consultation Document TLAC Holdings

Dear Sirs,

Polish Bank Association welcomes the opportunity to comment the proposal of TLAC Holdings published in BCBS Consultative Document in November 2015. I would like to indicate that we do not have the G-SIFI banks in Poland which have its headquarter in our country but there are two principal reasons why we are deeply interested in the subject of TLAC holdings. Firstly, we have in Poland the subsidiaries of G-SIFIs which will be treated as enough big to be obliged to maintain the internal TLAC. Secondly, our experience indicates that the majority of regulatory solutions in banking prudential area are later implemented in European Union as the universal rules which are mandatory nearly for all banks active on the financial market. This broader potential application of the standard beyond limited number of G-SIFIs would further raise the regulatory pressure to find the rationale solution and the financial pressure for banks to find the TLAC eligible instruments on the market.

We support the idea to establish a framework which will allow to mitigate the risk of contagion in the banking sector. It was also the important driver of proposal of Total Loss Absorbing Capacity standard published by the Financial Stability Board (FSB). We understand the aim of Basel Committee is to

limit the cross-holding of TLAC instruments from other banks. However, we have also to consider all consequences to establish strict rules concerning the TLAC instrument holding by other banks. We are in favour to set up some limited allowances in order to make a little easier the process of issuance of TLAC instruments and later to make the market of these instruments more liquid. Our general response goes in the direction that the proposed restrictions on holdings of TLAC instruments by other financial institutions should therefore not be more severe than general rules that are already in place in the Basel framework concerning the deductions of capital instruments or large exposure rules.

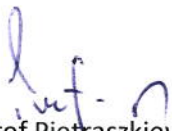
It is the reason why the idea to deduct the TLAC instruments from Tier 2 is questionable. Basel Committee indicates that the corresponding deduction approach was considered and we recommend to follow this direction of search for the best regulatory solution. The treatment proposed now by the Basel Committee will in our opinion unduly penalize these instruments by disregarding their lower risk profile and lower PD. This does not seem logical given that the holdings of Tier 1 instruments are subtracted from Tier 1, holdings of Tier 2 instruments are subtracted from Tier 2. Therefore, TLAC instruments should be also subtracted from TLAC in order to apply the corresponding deductions approach established in Basel III standards. This solution will ensure the consistency with existing Basel III rules and will cause the situation where investment in TLAC instruments will be penalized.

We understand that corresponding deduction approach has its limitation because not all banks are obliged to maintain the TLAC. It is the problem which position should be deducted if the institution does not maintain the TLAC. Therefore, for non- G-SIFIs, or broader speaking for non- TLAC obliged institutions, we recommend to apply the Basel Committee large exposure framework instead of TLAC deduction which is fact impossible to apply. We do not the share the concern expressed by the Basel Committee in Section 3.4 of Consultative Document that the different treatment of G-SIFIs and non- G-SIFIs will cause the complexity of this solution. We see this proposal as an appropriate and rather simple approach which adequately addresses the different capital treatment of two categories of banks. We have in mind that this difference exists because the capital requirements are different for bigger and smaller banks. We can add also that many smaller banks do not have a big capital included in Tier 2 and in this situation the holding of TLAC instruments would have to be deducted from next layer, this is Tier 1. This strict rule will penalized strongly the TLAC holdings and will have the negative impact on their readiness to buy the TLAC instruments traded on the market. It may have the impact on the potential scope of investors which are ready to accept these instruments as

the part of their asset portfolio. We should look for the solution will allow to find many investors which buy the small portfolios of TLAC instruments and in this way will minimize the contagion risk in banking sector. The regulator should establish for prudential purpose such solution which will allow to obtain the spill-over effects and will not generate new important systemic problem in the future. We can understand the idea to limit investment in TLAC instruments for other banks than the G-SIFIs but this limitation will not always be the best solution. We think also about the depth of the market, the liquidity problem of TLAC instruments. The limited number of investors may cause that these instruments will be not treated as liquid and some investors will not decide to put their money in these instruments.

We would like also to raise the problem of TLAC instrument identification by market participants. From capital operational perspective, identifying G-SIFI TLAC instruments, or more subsidiaries of G-SIFI TLAC instruments will be difficult unless the issuing institutions are mandated – for example under Pillar 3 requirements – to disclose on their capital disclosure website instruments as TLAC ones. The lack of such requirement can generate undue burden on the non-G-SIFIs to identify TLAC instruments and will generate the risk of bad capital treatment of these instruments regarding the capital deduction rules. The disclosure at the instrument level would be recommended solution.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'K. Pietraszkiewicz', is written over the printed name.

Krzysztof Pietraszkiewicz

President