



POLISH BANK ASSOCIATION

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Warsaw, 12 July 2016

Basel Committee

on Banking Supervision

Dear Sirs,

Subject: Consultative document on guidelines concerning prudential treatment of problem assets – definitions of non-performing exposures and forbearance

Polish Bank Association welcomes the opportunity to comment the consultative document on guidelines concerning prudential treatment of problem assets – definitions of non-performing exposures and forbearance. We appreciate the idea to harmonize the definitions of non-performing exposures and forbearance to ensure consistency of its application in banking sector all over the world. We share the general view there should be the broader consistency between reporting and supervisory framework. However, we have to mention that definition introduced by the BSBC is not the mandatory solution in accounting rules and the accounting rules vary significantly between themselves. This environment causes that adoption of guidelines by the BSBC will probably have very limited impact on the broader consistency between reporting and supervisory framework. We recommend closer cooperation between the banking supervisors and the accounts settlers in order to minimize the gap in the future.

Looking at the possible interaction between the proposed guidelines and the accounting rules we have to remember that banking sector is now in the preparatory process for implementation of new IFRS 9. This new accounting framework introduces completely new approach for accounting provision model. We are convinced of the necessity to indicate the reciprocal relation between the non-performing assets for supervisory purpose and the indication of default in IFRS 9. To avoid any doubts we recommend to state clearly in the guidelines that the IFRS 9 stage 2 should be not considered as indication of non-performing assets. Also, the classification of the exposure as forborne should not be automatically considered as a driver to classify the exposure to stage 2 under IFRS 9. In Europe, where EBA Guidance on non-performing assets has been in place since 2015, the non-performing assets could be associated with stage 2 or stage 3 of IFRS 9 assets classification since not all non-performing exposures will be defaulted.

While exposures in stage 3 under IFRS 9 (exposures where credit risk of financial asset increases to the point that is considered credit impaired) will be defaulted and non-performing also in the prudential terms, it can not be assumed automatically that non-performing and defaulted loans under the prudential framework would be in stage 3 under IFRS 9. Loan that are not defaulted but would be categorized as non-performing for prudential purpose, will be in stage 2 most often as the exposures with significant increase in credit risk. When credit impairs, then it will be moved in stage 3.

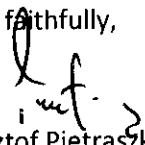
In area of probation period we recommend to consider the possibility to set up the common probation period in guidelines in order to harmonize the rules applied in different jurisdictions. This approach will allow to diminish the scope of diversity and we do not see any reason why such harmonization should not be recommended by the BSBC. This unification of probation period can be applied for non-performing and forborne exposures, but for both categories the period may be different. We recommend also to indicate in clear way the starting point for the probation period.

We recommend also to consider the application the harmonized rules concerning the materiality threshold. This unification can be expressed in absolute and relative threshold. We are cautious that the absolute threshold may generate the problem because the level of the GDP may differ in significant way between countries but some recommendations how to set up the materiality

threshold could be indicated. We have to remember that this BSBC document is the guidelines and this formula allows to recommend the way of setting up the materiality threshold on the local level.

Concerning the role of collateralization we agree that the collateral should not be taken into account in the categorization of non-performing or forborne exposures. The value of collateral should have the impact on the level of provisions but not on classification of exposure as non-performing or forborne.

Yours faithfully,

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

Krzysztof Pietraszkiewicz

President