



POLISH BANK ASSOCIATION

Warsaw, 20 August 2013

European Banking Authority

Polish Bank Association Response to EBA consultation on the Draft Guidelines on capital measures for foreign currency lending to unhedged borrowers under the Supervisory Review and Evaluation Process (SREP) (EBA/CP/2013/20)

Dear Sirs,

Polish Bank Association welcomes the opportunity to comment the EBA consultation paper related to the Draft Guidelines on capital measures for foreign currency lending to unhedged borrowers under the Supervisory Review and Evaluation Process (SREP) (EBA/CP/2013/20).

The problem of foreign currency lending to unhedged borrowers is carefully monitored in Poland because many banks in our country have relatively big share of assets engaged in foreign currency lending to unhedged borrowers. In our opinion the situation in Polish banking sector in this area is under control and have not generated and do not generate big systemic risk for stability of financial market. However, we are conscious that some measures have to be implemented in order to minimize the systemic risk in the future and diminish the share of foreign lending in Polish banks. We would like to mention that Polish supervisor has taken different measure in order to reduce the role of foreign lending. These measures are taken step by step in order not to destabilize the situation in banking sector. We appreciate this way of action to minimize potential negative impact of new regulatory measures.

Our experience indicates that the definition of unhedged borrowers as expressed in the draft of guidelines can not be easy. The practice in real economy is more complicated. The definition of natural hedge as borrowers which receive income in foreign currencies is too simplified. The draft does not take in consideration that the borrowers are mostly the couples and the couples can have different sources of income. The variety of sources of income includes also the currency of income. In countries where the emigration play important role in national economy this factor should be taken in consideration because a lot of couples are in situation where one person receive income in local currency and the other in foreign currency. The regulator should take into consideration the real scale

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of unhedged credit granted to such couples. We would like recommend in such situation, to exclude from the definition of unhedged borrowers the borrowers which receive the majority of their income in foreign currency, as naturally hedged.

Polish banking sector understands the idea of application of additional supervisory measures where the supervisor assesses the standard measures as inadequate to cover the risk of financial institution. This higher risk should be covered by higher capital requirements. However, the application of additional capital add-ons can be treated as groundless in these banks which apply the advanced method of capital calculation for credit risk. In our opinion the supervisor has the opportunity to assess in these banks if the additional risk generated by the FX lending is correctly included in bank internal models. The supervisor monitors and assesses the changes in internal models on an ongoing basis in process of bank supervision. We have also to remember that the macro-prudential add-ons is indirectly applied in these banks because in the process of capital calculation for credit risk banks have to apply the Basel I floor (Article 500 of the regulation 575/2013).

We would like to mention that the application of additional supervisory capital add-ons can generate high negative impact in the moment of their entering into force. The capital adequacy ratio in bank can be reduced rapidly and be bad sign of market participants: investors, clients, other banks. That is the reason why would like to recommend other solution. The same regulatory effect can be achieved by application of higher internal capital adequacy ratio for these banks. The banks applying internal models can include additional capital add-ons in the process of capital planning and the process can be spread over the longer period without the negative impact of bank assessment by other market participants.

The risk assessment of fully unsecured borrowers to foreign currency risk in its cash flow is part of the credit assessment. Therefore, we would like to recommend that additional risk management processes, including policies, stress tests, etc., which are to be implemented in the banks, where the risk associated with such exposures have been identified as significant, should be elements of the lending process carried out in these banks, rather than separate processes of separate risk management. Unfortunately, currently the supervisory expectation for certain recommendation is that the bank is forced to create separate documents and processes of the lending process. It is not effective and we want to avoid this in the case of new regulations.

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