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Methodology for the development of the Polish experts' position concerning the Financial Stability Board's consultative document titled "Adequacy of loss-absorbing capacity of global systemically important banks in resolution"

The joint position was developed in five stages.

Stage 1

In December 2014, the European Financial Congress[1] team decided to prepare the Polish experts' position concerning the Financial Stability Board's consultative document since it considered the Total Loss Absorbency Capacity (TLAC) solutions proposed of material importance for the safety and stability of the EU and Polish financial systems. In its study, the European Financial Congress focused on strategic questions that concern the basic tenets of the concept presented by the Financial Stability Board, while omitting technical questions since responses to those would necessitate a quantitative impact study.
In addition, in connection with the consultative document by the European Banking Authority announced shortly after the Financial Stability Board's proposal, which set forth the criteria for determining the minimum requirement for own funds and eligible liabilities (MREL), the EFC introduced elements referring to the MREL proposal to the questions concerning total loss absorbency capacity. The European Banking Authority announced that the MREL standard would not interfere with the introduction of the TLAC requirement – on the contrary, the TLAC and MREL standards should complement each other.

Stage 2

The group of experts invited included 88 professionals most competent in matters of financial stability and risk management from Polish public institutions, universities, major banks and consulting firms. The experts were guaranteed anonymity.

Stage 3

The Polish experts' initial position was developed on the basis of 27 opinions (by institutions, individual experts and expert groups - 51 experts in total) which were submitted to the Gdańsk Institute for Market Economics[2] by 10 January 2015. Responses were obtained from:

1 Europejski Kongres Finansowy (www.efcongress.com). The purpose of regular debates held within the EFC is to ensure the financial security of the European Union and Poland.
2 Instytut Badań nad Gospodarką Rynkową (IBnGR) – the first independent think tank in Central and Eastern Europe, founded in 1989 by a group of economists associated with the democratic opposition and the "Solidarity" movement.

i. regulatory institutions and individual experts from such institutions (Ministry of Finance, Polish Financial Supervision Authority, Bank Guarantee Fund, National Bank of Poland), in total: 7 responses;

ii. Management Boards of major domestic banks, in total: 10 responses;

iii. representatives of renowned consulting firms, in total: 3 responses;

iv. university professors, in total: 7 responses.

Stage 4

On 14 January 2015, an open debate was held that involved the experts who had received the consultation questions and other stakeholders, during which the initial position was presented. The day before the debate, all the experts who had actively contributed to developing the position received the opinions and arguments of the other experts (preserving the authors' anonymity). They were asked to:

- adjust if necessary their positions under the influence of arguments by other experts that they had not previously known;
- mark in the other experts' opinions the passages that should be included in the final position.

Stage 5

On this basis, the study coordinator Professor Leszek Pawłowicz[3] prepared the draft position by Polish experts, which was subsequently slightly modified by taking into account the opinions submitted by:

- Andrzej Reich[4] – the supervisory authorities' representative;
- Dariusz Szkaradek[5] – the consultancies' representative; and
- Tomasz Kubiak[6] – the banks' representative.

Anonymous opinions by all the participants in the study will be available (only in Polish) at the website www.efcongress.com as an appendix to this report as of 4 February 2015.

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3 Professor Leszek Pawłowicz – the initiator and coordinator of the European Financial Congress, Head of the Department of Banking at the University of Gdańsk.
4 Andrzej Reich – Director of the Banking, Payment Institutions and Credit Unions Regulations Department of the Polish Financial Supervision Authority, Member of the Management Board of the EBA.
5 Dariusz Szkaradek – Partner, Financial Services Industry Leader, Deloitte Poland.
6 Tomasz Kubiak – Managing Director, Department of Capital Allocation and Asset and Liability Management at Bank Pekao S.A. – the largest subsidiary of the UniCredit Group.

Position of the European Financial Congress concerning the Financial Stability Board's consultative document titled "Adequacy of loss-absorbing capacity of global systemically important banks in resolution"

Question 1.

Is it appropriate to identify a single group of G-SIBs to which uniform rules for determining the required TLAC level would apply or should this group rather be divided into subgroups for which different TLAC levels would be determined?

It is appropriate to identify a single group of G-SIBs to which uniform rules for determining additional capital requirements (TLAC) would apply. Although arguments for differentiating capital requirements depending on the banks' size and the magnitude of the risk they generate appear legitimate, we believe that simpler regulations will be better and more effective. Division of G-SIBs into subgroups would make the solution proposed more complicated and make it tempting to bypass the requirements, the more so that the assessment of systemic risk magnitude is difficult to quantify and is based to a large extent on qualitative criteria. If we assume that the main goal of imposing additional capital requirements (TLAC) is to limit the moral hazard generated by TBTF banks, also including stimulating their break-up into smaller entities, then setting different TLAC levels would significantly limit the effectiveness of these regulations and the ability to achieve this goal.

Question 2.

Should the competent resolution authorities be able to extend the group of systemically important banks indicated by the FSB to include non-globally systemically important banks within their jurisdiction?

In order to ensure the stability of the local financial sector, it should be possible to extend the group of systemically important banks (G-SIBs) indicated by the FSB to include domestic systemically important banks (D-SIBs).

This should be done by introducing another group of banks and not by extending the global bank group because this group will be much less homogeneous than the G-SIB one. Banks that would be considered average in a large country may be deemed systemically important in a smaller one.

This diversity among D-SIBs makes it difficult to establish a coherent system of TLAC requirements for this category of banks. We therefore suggest that only general framework recommendations concerning increased capital restrictions for D-SIBs be formulated which each country could adapt to its specific circumstances. However, the extension of the loss absorbency capacity system to the D-SIB group should not be discretionary, but rather subject to transparent rules.

It should be emphasised that the TLAC system is similar to MREL in terms of the goal pursued. Pursuant to the Bank Recovery and Resolution Directive (Directive 2014/59/EU of the European

Parliament and of the Council of 15 May 2014), the MREL rate is now in force for D-SIBs in the EU. Both standards should be coordinated and only one of them should be implemented at the national level.

From the local perspective, the total number of D-SIBs should be limited e.g. to a maximum of the five largest banks in a given jurisdiction or e.g. to banks whose total assets exceed 50% of the GDP of the country where the bank is domiciled.

Question 3.

FSB proposes to initially exclude the SIBs headquartered in developing countries and emerging markets from having to meet the TLAC requirement.

a) Does this initial exclusion from meeting the TLAC requirement appropriately reflect the different market conditions affecting those banks?
b) Under what circumstances should the exclusion end?

The SIBs headquartered in developing countries and emerging markets should not be excluded from meeting TLAC requirements.

This is supported by the following arguments:

- The exclusion of some G-SIBs from TLAC requirements owing to the location of their headquarters is unjustified, essentially wrong and contrary to the principles of resolution. This is because such an exclusion implies that a G-SIB headquartered in a developing country or emerging market is somehow less global or generates less systemic risk on a global scale than a bank whose headquarters are located in a highly developed country.
- The proposed exclusion will be ineffective since it will result in regulatory arbitrage. It may induce banks to move their headquarters and the authorities to lower their standards in order to encourage banks to relocate. The important thing is the economies where the assets and liabilities are located rather than the headquarters. In addition, it should be noted that the location of headquarters does not necessarily depend on the geographical structure of ownership, much less on the country of origin of the strategic owner.
- The concept of emerging markets is not sufficiently precise, which may stimulate undesirable behaviours.
- The exclusion of some G-SIBs from developing countries from TLAC requirements could become an additional factor undermining confidence in financial markets and could also significantly contribute to increasing systemic risk in those countries.
- There is a concern that this exclusion could cover relatively young global banks, which would thereby enjoy an unjustified competitive advantage.
- The issue of excluding G-SIBs headquartered in developing countries and emerging markets from TLAC requirements probably stems from concerns about the possibility of raising capital in such markets. This means that if a bank is too large for the country in which it is headquartered and if it is unable to meet TLAC requirements, it should be resolved or broken up.

Question 4.

What should be the time limit to conform with the TLAC requirement for those banks that will be designated as systemically important in the future (the FSB suggests that a conformance period of between 12 and 36 months be stipulated; the EBA proposes that the transitional period last no longer than 48 months with the capital requirement being increased every 12 months until the required standard is reached)?

The period of adjustment to TLAC requirements by those banks that will be designated as systemically important in the future should last from 36 to 48 months, with a gradual increase in capital requirements every 12 months.

The arguments for such a period are as follows:

- Spreading adjustments over time generally increases their cost as compared to concentrated adjustments, and also creates a risk that the global and European economy will enter a crisis phase again, which will make any resolution or raising of additional capital by G-SIBs considerably more difficult. Therefore some experts consider that the EBA proposal (48 months with the capital requirement being increased every 12 months) unduly extends the adjustment period.
- On the other hand, an increase in capital by G-SIBs before 2019 may prove unrealistic in the current environment. These banks will probably require large amounts of capital. It is estimated that the introduction of TLAC restrictions will necessitate the issuance of debt instruments worth from EUR 300 to 400 billion in Europe alone. The raising of funds required for macro-prudential purposes (i.e. TLAC/MREL in particular) will concern a large group of banks (MREL will probably apply to a much higher number of banks than TLAC). The funds to finance TLAC/MREL requirements will therefore have to be raised from the market and both the attractiveness of banks as investments and their credibility for long-term creditors will be lower. This significantly limits the possibility of raising capital from the market in the short term. Even a 4-year period may thus prove insufficient in the first stage of implementing TLAC/MREL requirements. It is probable, however, that new classes of equity instruments will be developed which may make it possible to meet the supervisors' expectations during this period. Therefore a period of 48 months appears to be the most appropriate. A transitional period is a privilege, not a duty, and those banks that are able to achieve the indicated level of TLAC before 2019 will always be allowed to do so.
- Those institutions that will be classified as G-SIBs in the future should have less than 48 months to adjust to TLAC standards. The risk of a sharp increase in demand for additional capital arising from the implementation of TLAC will be reduced significantly. The classification of a bank as a G-SIB and the related additional capital restrictions cannot be regarded as sudden and unexpected events. Banks that engage in significant international operations and are relatively "close" to being identified as G-SIBs should pursue in advance a capital management policy and the introduction of excessively long transitional periods would by default justify the lack of appropriate action on the part of such banks.

Question 5.

a) *Is a minimum TLAC requirement that is set within the range of 16–20% of risk-weighted assets, and at a minimum twice the Basel III leverage requirement, adequate in the light of experiences from past failures to support recapitalisation and resolution?*
b) *What other factors should be taken into account in calibrating the TLAC requirement?*

Re a.
A minimum TLAC requirement set at 16–20% of risk-weighted assets, but not less than twice the Basel III leverage requirement, appears adequate in the current environment. The requirements are not understated but may need simplification.

This is because TLAC restrictions should constitute a compromise between improving financial system safety and reducing the ability to obtain funding and capital, which in consequence weakens support for the real economy. Raising capital requirements will never lead to banks being absolutely safe.

Empirical studies suggest that this should be the optimal level of capital for banks, and not only for the systemically important ones; e.g.

- Miles, Marcheggiano, Yang (2012) indicate that optimal bank capital should amount to ca. 20% of risk-weighted assets;
- in his research concerning Norwegian banks, Kragh-Sørensen (2011) identified an optimal level of the CET1 ratio of between 13 and 23%;
- in its study on key Swedish banks, Sveriges Riksbank (2011) indicated that the CET1 ratio should preferably range from 10% to 17%.

Re b.
TLAC requirement calculations should take into account the possibility of turning assets into cash in cases where liquidation is necessary, i.e. the measure should be related to test scenarios concerning asset valuation and the logic applicable should be similar to that which now holds for calculating the LCR short-term liquidity measure where the possibility of maintaining liquidity within a period of 30 days is considered. TLAC should be based on the funding sources available during the period required to carry out the liquidation, i.e. 6 to 12 months, also taking into account the adjustment to the valuation of assets that will be necessary given not only the problems of the institution itself, but the deteriorated situation in the sector and the difficulties in liquidating the assets as well.

Question 6.

Should the TLAC requirement for G-SIBs be integrated with Basel III so that the minimum TLAC requirement is met first, and any surplus common equity tier 1 (CET1) is available to meet the Basel III buffers?

The implementation of the TLAC and Basel III requirements should be integrated. It is arguable whether the TLAC requirement should be met first and any surplus capital (CET1) made available to meet the Basel III buffers.

First, the solution suggested in the question implies that capital buffers would ensure an additional safety margin over and above TLAC. This solution results in higher capital requirements. In other words, when a bank absorbs losses, in addition to the capital required by TLAC it does in fact have additional capital buffers, which can be used to absorb losses, if necessary. Undoubtedly, the safety of the bank should increase. On the other hand, after the bank has absorbed the losses, it must have the capital resulting from capital adequacy calculations, without taking buffers into account. Capital buffers are a special requirement. A bank that does not have the capital to establish such buffers is not breaking the law. It must, however, suspend or at least limit the distribution of dividends and bonuses, which is of course cumbersome, but breaking the law would be worse. Thus, in the solution where capital buffers are not part of TLAC, the bank should maintain these buffers at all times, which will ensure that it is better positioned to rebuild its capital position after resolution. On the other hand, however, care must be taken so that global demand for capital combined with its limited supply does not lead to an excessive increase in funding cost. Therefore, it is difficult to answer this question without knowing the scale of additional demand for capital resulting from the introduction of Basel III requirements.

Secondly, the CRR is already binding on all EU Member States and capital standards, including capital buffers, must be met irrespective of other restrictions, including TLAC. The capital level of each European bank should be in compliance with the CRR. If this level is insufficient to meet TLAC requirements, it should be supplemented. The view that these requirements should not be added together therefore seems reasonable.

In general, however, most Polish experts believe that the TLAC requirement should be met first and any surplus capital (CET1) should be available to meet the Basel III buffers. It is important that the necessary harmonisation of TLAC and MREL requirements not provide an incentive for banks with a relatively safe traditional funding structure based on customer deposits and mortgage bonds to change their funding strategy towards greater reliance on the wholesale market.

Question 7.

Should the requirements introduced by TLAC/MREL apply to the entire banking group on the basis of the risk assessment conducted for the group at the consolidated level, or only to the parent company based on its situation while treating systemic subsidiary banks as separate legal entities irrelevant from the point of view of cross-border systemic risk?

TLAC/MREL requirements should apply to banks both at the individual level (to ensure the safety of individual entities) and at the consolidated level (to prevent the transfer of risk to subsidiaries or any limitations on their freedom to use capital, and also to prevent the establishment of financial holding companies where the parent company is an unregulated institution). A group should have at its disposal assets corresponding to the greater of the two amounts: the amount calculated for the group and the sum of the amounts calculated for individual banks and allocated at the level of these banks. The manner in which TLAC is allocated should stem from the resolution strategy adopted, which in turn should result from the structure of the group and the decisions of national resolution authorities from the home and host countries.

Question 8.

a) Should the assets included in TLAC be distributed by the resolution entity (the entity responsible for resolution at the group level) to systemic subsidiaries in proportion to their size and the risk associated with them?
b) Is this an appropriate means of supporting resolution under different resolution strategies?
c) Which subsidiaries should be regarded as systemic for this purpose?

Yes, this is the right solution. The FSB's proposal that those subsidiaries which meet at least one of the risk or size criteria (more than 5% of the risk-weighted assets of the entire group, more than 5% of group income, more than 5% of the leverage measure for the entire group, importance for the performance of critical business functions) be subject to TLAC is justified. However, the host supervisor should also have the right to decide on the inclusion of subsidiaries that do not meet these criteria, but are systemically important in the host country, in the TLAC requirement. The method for distributing TLAC assets should be subject to supervisory approval by a panel of home and host supervisors, as is the case when applying advanced methods for the measurement of capital. The manner of allocation should take into account the specific nature of the jurisdiction in question; the ability to transfer or allocate capital should be limited to a certain extent due to the possibility of supervisory arbitrage and shifting riskier assets to jurisdictions less resilient to crises.

The development of TLAC plans at the level of the entire group of companies is a priority. Coordination by the resolution entity is an essential element to ensure that the recapitalisation and resolution process is consistently and properly prepared. Coordination at the group level does not exclude different liquidation strategies for subsidiaries.

Bankruptcy/resolution of the parent company should not entail negative consequences for its prosperous and adequately capitalised subsidiaries. It should therefore be ensured that, on the one hand, subsidiaries are adequately recapitalised (and thus their capital is dependent on their risk level), and on the other hand, they are not all treated in the same manner – an assessment of the impact of subsidiary operations on the risk of the entire group would be justified. It may be reasonable here to apply categories of criteria similar to those used when identifying global/European systemically important entities, possibly taking into account the size and characteristics of local markets.

Question 9.

a) To what extent will pre-positioning of the assets corresponding to internal TLAC in systemic subsidiaries serve the building of mutual trust between the home and host supervisors that SIBs can be resolved in an orderly manner, thereby removing obstacles to the transfer of assets?
b) Can the principle that the internal TLAC allocated to the systemic entity within the group should be between 75–90% of the TLAC requirement that would be applicable to such an entity on a stand-alone basis be considered appropriate?
c) Can the same goal, i.e. the availability of funds for recapitalising subsidiaries in a crisis situation, be achieved through other means, such as collateralised guarantees?

Re a.
This is a step in the right direction. Pre-positioning internal TLAC in systemic subsidiaries ensures the participation of the resolution entity (parent) in the resolution of the subsidiary bank, combining decision-making powers with financial liability for the consequences of those decisions. This should give those banks and their supervisors a much greater sense of security than in the case of

guarantees extended by the resolution entity. This will serve to increase trust in relations between the home and host supervisors.

Despite its obvious advantages such a solution is insufficient in itself and needs to be refined.

Firstly, this solution does not take into account the management structure within the group. Meanwhile, the contribution of the parent (resolution entity) in financing the resolution process of a systemic entity should depend on the actual participation of the parent bank in the management of subsidiaries. In a subsidiary bank whose independence is highly limited by the parent, this should be much higher than for a bank whose owner interferes only to a small extent in the management of the bank. Given strong interference in the management of a systemic subsidiary bank, the 90% level may even prove too low. It should also be remembered that by allocating to a systemic subsidiary bank the assets earmarked for its resolution, the resolution entity that is the parent of the bank in question gains greater bargaining power in discussions concerning the scope of decisions it may make with respect to that bank.

Secondly, the significance of a bank is a relative concept. From the consultative document it follows that special treatment will apply to significant entities within the group. However, if one of the goals of this solution is to build trust between the host and home supervisors, significance should be assessed from the point of view of the banking system of the host country. A bank that is considered significant within its group will also probably (but not always) be of systemic importance in a given market. On the other hand, a bank that is not significant within its group may often be of systemic importance in its market. Therefore from the perspective of the host supervisor the systemic nature of the bank in the local market will be of key importance. Building trust between supervisors will be more difficult if this criterion is not taken into account. Internal TLAC should thus be maintained both for the banks which are significant from the point of view of the G-SIB in question and for those banks that are significant from the point of view of a given jurisdiction, even if they are not significant from the point of view of the G-SIB in question (this may in particular concern smaller countries/jurisdictions).

Thirdly, the solution proposed completely ignores the subsidiary banks that are of no material importance to the group. It is not clear who would finance their resolution process and how. Resolving this issue is particularly important in cases where a bank of no systemic importance is a subsidiary of a significant bank to which TLAC assets have been allocated. Will these assets also be used for the resolution of the non-systemic bank? Contrary to appearances, the answers to this and similar questions will be important for the host supervisor. A possible solution is to assume that for small subsidiaries within a G-SIB, which are not D-SIBs at the same time, the resolution authority of the home entity agrees the minimum level of guaranteed assets subject to distribution to the subsidiary level within the framework of TLAC with the resolution authority of the host entity and establishes different rules for dealing with threats to the safety of that entity.

Re b.
It appears more reasonable to raise that level to between 80% and 100% and to clarify the decision-making process related to determining the level adequate for the entity in question, and in particular the role of the competent host country supervisor. The leading role of the host country supervisor may in this case be significant owing to the need to ensure a local competitive balance between the entities operating in the jurisdiction in question which have their home supervisors in different jurisdictions.

Re c.
Use of other means such as collateralised guarantees seems possible. However, such instruments may generate difficult-to-predict constraints in crisis situations and, consequently, during the first stage it would be advisable to limit their applicability, e.g. to 25% of internal TLAC.

Question 10.

How will the adoption of the TLAC requirement influence SIBs' overall funding costs? (material increase in funding costs/non-material impact/material decrease in funding costs)

The adoption of the TLAC requirement will probably significantly increase G-SIBs' funding costs in the short term. The adoption of a solution where funds are to grow gradually over a fairly long period will reduce the scale of the increase in the banks' funding costs. This seems obvious if systemic entities are indeed to lose the implicit guarantee of public support. Additionally, there will be an increase in costs resulting from the deterioration of the competitive position of G-SIBs vis-à-vis those banks that will not have to bear the costs of TLAC requirements.

The impact of the TLAC requirement on the increase in costs in the long term should not be significant if with time the banks that meet the TLAC requirement come to be perceived as less risky, which will reduce the risk premium. Another factor that limits the impact of TLAC is that under the NSFR requirement, an increase in long-term, stable funding sources will be required irrespective of the introduction of TLAC. Such sources can be designed in such a way as to provide the funds required to meet both the NSFR and TLAC requirements.

The price for introducing TLAC will probably be an increase in funding cost, while the benefit will be the elimination of market inefficiency in the form of implicit public subsidy for institutions. In these circumstances the increase in the funding cost should not be interpreted as a negative phenomenon.

TLAC and similar regulations are intended to shift the cost of disturbances in the functioning of banks to other entities and it may turn out that the sum of the costs borne by the bank and by the other stakeholders after the introduction of TLAC will decrease.

Question 11.

What will be the impact of the solution proposed on the financial system and on its ability to provide financing to the real economy? (positive/neutral/negative)

The assessment of the impact of the solutions proposed on the system's ability to finance the real economy will be different depending on the time horizon. In the short term, they may lead to the banks being reluctant to increase assets, but in the current situation it is the demand for credit rather than the supply that appears to be the problem in developed countries. The negative impact of TLAC on the system's ability to finance the economy will be mitigated by the fact that banks subject to TLAC will have to compete with other institutions, which will prevent them from passing their higher costs on to customers. In the long term, we believe the impact will be favourable as safer banks place less of a burden on public finances, which tends to promote growth. This is because the new system will strengthen public finances, which will not be burdened by the unforeseen costs of bailing out systemically important banks. The studies conducted so far on the impact of Basel III on banks suggest that its long-term net effect on the economy is negligible (a slight deceleration in lending growth, and consequently GDP growth rates, while reducing the costs of potential crises).

Additionally, it should be noted that potential limits placed on G-SIBs' ability to finance the real economy may be assessed positively in Europe in the long term. The excessive growth of the banking sector and the uncontrolled trend towards concentration in the banking sector has a negative impact on the real economy (see reports: "Too Much Finance?" and "Is Europe Overbanked?"[7]). The introduction of additional capital buffers for systemically important banks will counteract this trend and may contribute to its partial reversal.

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[7] Cf. Jean-Louis Arcand, Enrico Berkes and Ugo Panizza, "Too Much Finance?", IMF Working Paper WP/12/161, International Monetary Fund, Washington, 2012, June; "Is Europe Overbanked?", report by a group led by Marco Pagano, European Systemic Risk Board, Reports of the Advisory Scientific Committee No. 4/June 2014.

To summarise, if the objective of TLAC introduction is achieved, the ability of the financial system to finance the real economy will decrease in the short term but increase in the long term. This is because risks to financial stability will be reduced and any materialisation of such risks cuts many entities off from external financing, often for a long time.

Moreover, the disintermediation process should intensify due to increased regulatory restrictions (including those resulting from TLAC) for the banking sector. The capital market will become an increasingly important source of loan capital while the importance of banks will decrease. In particular, bank credit should be expected to be substituted by corporate bonds.

Question 12.

Other proposals concerning the manner of addressing the risks related to systemically important banks

We submit the following proposals, which we believe could reduce the moral hazard that accompanies the globalisation of the banking industry:

Firstly, the benefits accruing to shareholders as a result of the break-up of systemically important banks should be additionally boosted in order to increase the pressure resulting from TLAC on the decisions concerning the breaking up of G-SIBs.

Second, interdependencies between institutions should be reduced (e.g. through the broader use of a Central Counterparty) and thorough supervision policies should be pursued in order to mitigate systemic risk.

Thirdly, standards regarding the increase in large banks' assets should be introduced modelled on the solution stipulated in the Dodd-Frank Act; stress tests should be conducted more frequently and more extensively and their results published; the independence of supervisory boards should be increased.

Fourthly, certain types of activities (involving particularly high risk) should be restricted.

Fifthly, the remuneration of key management personnel should be linked to the institution's risk level (including changes to that level). Additionally, punitive measures should be considered against members of management and supervisory boards (or at least lifetime bans on working at financial institutions) where an excessive increase in risk results in financial difficulties for the institution.

Sixthly, a mandatory additional in-depth audit (at the expense of Resolution and DGS) should be conducted every two or three years and additional rating requirements (perhaps two ratings) should be introduced.