



POLISH BANK ASSOCIATION

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Warsaw, 9th February 2017

Financial Stability Board

Dear Sirs,

Subject: Consultative Document on Guiding Principles on the Internal Total Loss-absorbing Capacity of the G-SIBs ("Internal TLAC").

Polish Bank Association welcomes the opportunity to comment the consultative document on the guiding principles on the internal total loss-absorbing capacity of G-SIBs („Internal TLAC”). We treat this document as important one for Polish banking sector because of the capital structure of our sector. We would like to remind that the substantial part of our banking industry are subsidiaries of foreign banks. Until now the share of such subsidiaries in banking sector is higher than 50%. It is also important to mention that big part of these subsidiaries are to be treated as material sub-groups according to the TLAC Term Sheet Section 17.

Before answering to detailed questions we would like to express my general opinion concerning the draft of guiding principles. The proposed principles are very important element of effectiveness of setting up new prudential requirements. TLAC is very important requirement for biggest international banks operating in many countries in the world. That is the reason why the consideration of different aspects of risk generated by these banks is very important for financial stability on global and local scale. Generally we support the division of tasks between home and host authorities proposed in the consultative document and the general recommendation of necessary tight cooperation between all engaged authorities. This cooperation is of crucial importance for

whole process. It will allow to consider the position of different authorities within the G-SIBs and to build the trust that biggest banks can be resolved in proper way without engagement of the public funds for this purpose. In fact this task for resolution authorities is not easy because their interests may not be the same and to find the best solution may be true challenge. Home and host authorities within crisis management group should implement these principles as they identify material sub-groups and formulate requirements for internal TLAC mechanism within globally important banks.

Below I present my answer to some questions posed in consultative document.

1. What factor should the relevant authorities take into account when determining the composition of material sub-groups and the distribution of internal TLAC between the entities that form the material sub-group?

The relevant authorities should take into account different factors when determining the composition of material sub-groups. The basic criteria were included in Section 17 of the TLAC term sheet. However, these criteria can not be treated as the closed list. The host authorities have to look at the systemic importance of local subsidiary on the local financial market. It does not mean that all local subsidiary of systemic importance on local level should have the requirement to create internal TLAC. But the subsidiaries which are important for local financial market should be treated in special way, for example having the privilege to obtain the special guarantee within TLAC as it is described in consultative document.

2. What are your views on the treatment of regulated or unregulated non-banks entities as set out in guiding principle 4? If such entities were included within material sub-group, how should the relevant authorities calculate an internal TLAC requirements?

We agree with the guiding principle 4, that regulated non-banks entities should be included in material sub-groups only to the extent that the inclusion of such entities is necessary to ensure that the resolution strategy is credible and feasible. However, the credibility and feasibility should relate to resolution strategy not only on the group level but also on the sub-group level. These entities may act as members of sub-group, not only as the members of consolidating institution.

The inclusion of non-regulated non-bank entities in the process seems to be doubtful. In our system such entities are much smaller than banks. These entities may be included only in the situation when the services provided by them are of crucial importance for financial system and/or they can not be delivered through alternative arrangements. The good example of such entity may be the provider of payment services.

3. Do you agree with the roles of home and host authorities in relation to the host authority's determination of size of the internal TLAC requirement, as set out in guiding principles 5 and 6? What additional factors, if any, should the host authority take into account when setting the internal TLAC requirements?

We support the idea to retain ultimate responsibility for setting internal TLAC requirements to host authorities. This setting has to be done in consultation with the home authority. Internal TLAC has to be on sufficient level in order to cover the loss-absorption and recapitalization needs of the material sub-group and support the resolution strategy prepared for whole financial group. However, we have in mind that the internal TLAC requirement should be scaled within 75%-90% range of the external minimum TLAC. These two elements may be difficult to include in one system of setting the TLAC requirement. We scare these two factors are too difficult to implement together. It is impossible to exclude the situation that in one-sub-group the requirement of internal TLAC should be higher than in the range of 75%-90% external TLAC. We hope that the discussion as it is suggested in consultative document (between home and host authorities) and coordination of work by the home authority will allow to find together the best solution in these area in order to cover loss-absorption and recapitalization needs on group level and sub-group level.

4. How should TLAC at the resolution entity that is not distributed to material sub-groups ("surplus TLAC") be maintained to ensure that it is readily available to recapitalize any direct or indirect subsidiary, as required by the TLAC term sheet (guiding principle 7)?

We suppose that the cases when there is surplus TLAC on group level will be often. If the internal TLAC should be within 75%-90% range, the remaining amount of TLAC requirement has to be maintained at the group level. We have also to indicate that the proposed guideline concerning the characteristics of the correspondent assets of such surplus TLAC is of general matter. This approach has an advantage because it allows to act by the home authority and banking group in elastic way. However, the disadvantage of this approach is the lack of detailed recommendations in this area. We support the position that the characteristics of the assets should support the readiness to recapitalize any direct or indirect subsidiary.

5. What are your views on the composition of internal TLAC, as set out in guiding principle 8? In particular, should there be an expectation of the inclusion within internal TLAC of debt liabilities accounting for an amount equal to, or greater than, 33% of the material sub-group's internal TLAC?

We support the general idea that host authorities should determine the composition of internal TLAC in consultation with the home authority. The composition of internal TLAC has the impact on the credibility and sustainability of the resolution strategy and the ability of

material sub-group to effectively pass losses and recapitalization needs to the resolution entity.

6. What are your views on the potential benefits or drawbacks of different approaches to the issuance of internal TLAC instruments as set out in guiding principle 10, and what steps could be taken to mitigate the drawbacks that you have identified?

The issuance of internal TLAC by the material sub-group is important challenge. The subsidiaries are active in different countries, where the level of development of capital market may differ in substantial way. There are the local markets where the capital market is not so well developed in order to successfully absorb the issuance of instruments necessary for TLAC purpose. The idea of issuance of TLAC instruments by the entities within the sub-group is reasonable, but we would like to express the view that it will be difficult to do it by many of such entities. In many countries it will be difficult to issue the instruments by the entity at the head of sub-group and the successful issuance on lower level is less probable. This recommended way of issuance should remain open for all entities in the sub-group but we do not believe it can be efficient way to cover the TLAC requirement within resolution group.

7. Should the FSB conduct further work on the need for deduction mechanism for internal TLAC, as proposed in guiding principle 10?

In the context of our answer to question 6 of this consultative document we recommend not to conduct further work on the need for deduction mechanism for internal TLAC.

8. Do you agree with the obstacles to the implementation of internal TLAC mechanisms set out in guiding principles 12? How should G-SIBs and authorities address those obstacles and what additional obstacles, if any might raise?

In our opinion the obstacles identified by the FSB are the most important one. The details may differ across jurisdiction but the identified problems should be solved.

9. Do you agree with the key features of contractual trigger language for internal TLAC, as set out in guiding principle 13 and in Annex 2? Should authorities consider the use of contractual triggers for internal TLAC in the form of regulatory capital instruments, including in cases where statutory point of non-viability powers exist in relation to such instruments?

No comment to this question.

10. Do you agree with the process for triggering internal TLAC in Section V? In particular, what are your view on the timeframe for the home authority to decide whether to consent to the write-down and/or conversion into equity of internal TLAC?

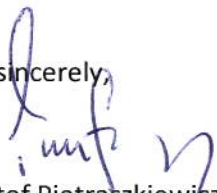
Generally we agree with the recommended process of triggering expressed in Section V. The early and close cooperation between resolution authorities is the crucial condition of success

in whole process of restoration of material sub-group within G-SIBs. We have only one doubt concerning Section V: risk of potential change of control of material sub-group. This change is not the purpose of restoration of material sub-group, however this scenario should not be excluded. The reaching the point of non-viability by the sub-group is the clear evidence that some mistakes were made by the G-SIBs in the process of its supervision. In order to correct them the action of resolution authorities is necessary but the change of ownership of sub-group should not be excluded if there is the risk of similar mistakes made in the future. We do not afraid of the structure of ownership on the level of sub-group because the process of restoration is supervised by the resolution authorities and they have big impact on effectiveness of this process. The composition of TLAC instruments and knowledge of their holders should indicate the risk of change of ownership in sub-group and the resolution authorities have the impact on the type of instruments used in restoration process. At the end of the day the process should be to grand extend manageable by the resolution authorities.

11. Are there any other actions that should be taken by G-SIBs and authorities to support the implementation of the internal TLAC requirement, consistent with the TLAC term sheet?

The authorities, the FSB, the Basel Committee and other prudential regulators should strictly monitor the implementation of TLAC requirements in the G-SIBs and quality of cooperation between home and host authorities and prepare periodically the report on progress made by the G-SIBs and on recommendations of reasonable changes in these requirements. We have to have in mind that TLAC is completely new prudential requirement, as well as whole process of resolution. These processes are complicate for authorities and for banks and the effectiveness and correctness of these requirements should be regularly monitored.

Yours sincerely,



Krzysztof Pietraszkiewicz
President