



SSP Supervisory Stimulus Package for Security and Development to support the banking sector

Ladies and gentlemen,

For years, the banking sector in Poland has been stable and reliable. Polish banks stand out in the international landscape and represent a strong pillar of our economy. The banks have been strengthening their capital base over years, and thus are now resilient to potential risks, remaining credible in financial markets. This is a fundamental capital in the current situation due to the outbreak of COVID-19.

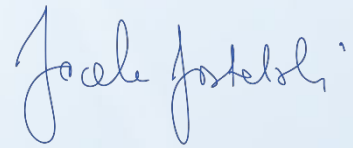
Considering the banks' relevance for the financial situation of their customers and for the financing of the economy, especially the funding of businesses, the Polish financial supervisor has developed a package of measures to further improve the resilience of the banking sector and to enhance its ability to finance the economy under the COVID-19 pandemic conditions. We call it the **Supervisory Stimulus Package for Security and Development**, or the **SSP** for short.

The measures proposed focus on striking a balance between securing the right level of stability indicators of the financial system (especially the banking sector) on one hand and allowing the banks to support and finance business activities (in particular securing continuous availability of credit for businesses) on the other. Maintaining such balance should be the priority of financial supervisors and regulators in the face of the COVID-19 pandemic. Our initiatives follow the approach taken by financial watchdogs in other countries and main central banks, and are also in line with the current recommendations of the International Monetary Fund.

When preparing the SSP, the UKNF looked into possible measures to support the security of the banking sector and to promote economic development. The list of the initiatives is non-exhaustive and its components may be implemented depending on how the situation unfolds. Some of them cannot be launched by the UKNF only, and call for a close collaboration with, among others, the National Bank of Poland, the Ministry of Finance, the Bank Guarantee Fund, the Polish Bank Association, the Polish Agency of Audit Supervision, the Office for Competition and Consumer Protection, with auditors, and mostly with management boards of banks. We are fully committed to working together and to act swiftly to put the proposed arrangements into action. We are also planning to reduce or suspend, as appropriate, the supervisory activities that create a particular burden for banks (in terms of organisation or staffing). We are prepared to take a practical approach to sanctions for temporary non-compliance with standards.

We strongly believe the proposed SSP initiatives will allow the management boards of banks to respond adequately to the current and future risks, giving them the chance to maintain the continuity of customer financing or to offer various safeguard measures.

The UKNF invites all those who will be responsible for the smooth and safe implementation of the Package to join an open dialogue for the sake of preserving the banking sector's ability to finance the economy, while ensuring the sector's security and stability. It is only through joint action that we can support the further development of our country and successfully face the temporary global economic challenges.



Jacek Jastrzębski
Chair of the KNF Board

Measures in the areas of provisions and classification of credit exposures



OBJECTIVES: to maintain the ability to finance customers and economy, to allow for new safeguard arrangements for banks' customers, to reduce the impact of provisions and write-downs on banks' financial standing

Measures aimed at distributing the impact over a longer period of time

With regard to the banks that draw up their financial statements under the Polish Accounting Act and the implementing rules thereto (the Polish Accounting Standards), the supervisory authority is going to propose appropriate amendments to the Regulation of the Minister of Finance on the principles of creating provisions for risk related to banking activity. The change would allow for the exemption from the requirement to reclassify credit exposures to micro, small and medium-sized enterprises, as well as individual customers - especially employees (including those losing their job) in particularly affected industries, where the change of the repayment schedule is caused by the economic and financial situation due to the pandemic.

That can only be done if the supervisory authority and the banking sector cooperate closely with auditors and if auditors can approve the proposed approach.

For banks that draw up their financial statements according to the International Accounting Standards, International Financial Reporting Standards (IFRS) and related interpretations published as Regulations of the European Commission, the management boards of banks are required to determine the accounting principles, including the rules for estimating loss allowances under the International Accounting Standards. IFRS 9 introduces the requirement to estimate expected credit losses for the entire portfolio of financial assets valued at amortised costs or at fair value through other comprehensive income. We remind you that for borrowers of good economic and financial standing, with no delays in repayments, the change of the credit repayment schedule should not result in the reclassification of credit to Stage II or Stage III, i.e. it should not result in an increase in the amount of loss allowances.

It will be the task of management board of banks to implement the proposed approach but we feel they should work closely with, and seek approval from, auditors.

Reduction of costs related to deterioration in asset quality

The UKNF follows a flexible approach to the application of Guidelines of the European Banking Authority (EBA) on management of non-performing and forborne exposures. We note the EBA statement expressed in relation to COVID-19: ‘it is crucial that the classification of exposures accurately and timely reflects any deterioration of asset quality. There is, however, flexibility in the implementation of the EBA Guidelines on management of non-performing and forborne exposures and the EBA calls for a close dialogue between supervisors and banks, also on their non-performing exposure strategies, on a case by case basis’.

The KNF Board is ready to extend the time limit for implementation of Recommendation R, which will give the management board of banks more flexibility in determining the accounting rules, including the rules for expected credit loss calculation.

With regard to banks that apply the Polish Accounting Standards, the UKNF recommends that the Ministry of Finance amend the statutory rules concerning the period of recognition of collateral in the account of provisions (Regulation of the Minister for Finance on the principles of creating provisions for risk related to banking activity). The amendment would consist in extending the period for collateral recognition for the purpose of reduction of the basis for calculating provisions.

Measures in the area of capital buffers



OBJECTIVES: to enable banks to offer safeguard arrangements to customers and to maintain banks' ability to finance customers and the economy due to the release of a significant amount of capital

The Chair of the KNF Board, as Member of the Financial Stability Committee, has supported the reduction of the systemic risk buffer, to be effected under a Regulation of the Minister for Finance.

The supervisory authority is aware of the risk that banks may be temporarily operating below the combined buffer requirement and, when undertaking supervisory activities, the authority will be considering the external circumstances and the bank's endeavours to continue to finance the economy.

Next, the supervisory authority will consider the possibility of consumption or reduction of an O-SII buffer.

The UKNF may agree to a change in the structure of the Pillar 2 Requirement on own funds (P2R, the add-on) and the possibility that the P2R will be covered by CET1 capital.

Measures in the area of liquidity requirements



OBJECTIVE: to secure customer service and circulation of money in the economy, while protecting the depositors – through alleviating any additional liquidity squeeze due to the LCR requirements

The UKNF will approach the required liquidity buffer on a case-by-case basis, considering external circumstances, and will adequately adapt its supervisory response if a bank's LCR falls below the regulatory standards.

Measures in the area of day-to-day supervision



OBJECTIVE: to allow banks to focus on customer service, key processes, and day-to-day operations

The UKNF is updating its inspection plans, taking into account supervisory objectives (we expect a reduction in inspections in the nearest future).

The UKNF will minimise or postpone certain supervisory tasks, e.g. non-reporting reviews, or information gathering activities for the purposes of SREP.

The UKNF will consider the current special circumstances when deciding to postpone the time limits for updating recover plans and for meeting other requirements, according to the needs of banks and to the UKNF's capacities.

The UKNF will extend, for six months, the time limit for banks to adapt to the EBA Guidelines on outsourcing.

Legislative measures



OBJECTIVE: to allow banks to consider the special situation of certain borrowers from the micro, small and medium-sized enterprises segment due to occurrence of the epidemic threat

For businesses whose capacity to generate income may be significantly reduced or 'frozen' due to the epidemic threat, the key priority will be to maintain the current revolving credit facilities. That could apply mainly to micro, small and medium-sized enterprises. To enable banks to handle a potential special situation of borrowers (especially from the micro, small and medium-sized enterprises segment) due to the threat from COVID-19, the UKNF has proposed a regulation that allows banks to extend the maturities of credit facilities in relation to their current customers from the above-mentioned segment, or otherwise modify the terms of such credit agreements, at the customer's favour. Such a decision may be based on a prior assessment, by the bank, of the customer's financial and economic standing (carried out not earlier than on 30 September 2019). The lack of such kind of measures would expose many business owners from the small and medium-sized enterprises sector to unavailability of credit and to delays in the settlement of liabilities, or even insolvency. The arrangement we propose increases the bank's flexibility, and thus the customers' perspective to maintain their financing.

On the initiative of the UKNF, the proposed arrangement is now being the subject-matter of urgent legislative work.