Notification template for Article 124 of the Capital Requirements Regulation (CRR) – Risk Weights

Template for notifying the European Banking Authority (EBA), European Central Bank (ECB) and European Systemic Risk Board (ESRB) of higher risk weights being set for immovable property pursuant to Articles 125(1) and 126(1) CRR or on applying stricter criteria than those set out in Articles 125(2) and 126(2) CRR

Please send/upload this template to:

- macropru.notifications@ecb.europa.eu when notifying the ECB (under Article 5 of the Single Supervisory Mechanism (SSM) Regulation[1]);
- DARWIN/ASTRA when notifying the ESRB;
- eportal.eba.europa.eu when notifying the EBA.

The ESRB will publish the risk weights and criteria for exposures referred to in Articles 125, 126 and 199(1)(a) of the CRR as implemented by the relevant authority. This notification will be made public by the ESRB after the relevant authorities have adopted and published the notified macroprudential measure[2].

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please submit the notification template in a format that allows the information to be read electronically.

1. Notifying national authority	
1.1 Name of the notifying authority	**Minister of Finance**
1.2 Country of the notifying authority	**Poland**
2. Scope of the notification and description of the measure	
2.1 Exposures secured by mortgages on residential property	a) Do you intend to set a higher risk weight than that set out in Article 125(1) CRR for exposures fully and completely secured by mortgages on residential property? **The higher risk weight than that set out in Article 125 (1) of the CRR (i.e. 150%) was set in the regulation of the Minister of Development and Finance of 25 May 2017 on higher risk weights for exposures secured by mortgages on immovable properties. In the regulation of the Minister of Finance of 18 March 2022 amending the regulation of 25 May 2017, the higher risk weight was temporarily reduced (for 18 months) in comparison to the level being in force in Poland (150%). The measure was subject**

[1] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).
[2] On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

	to previous notification. Current measure is intended to extend the term of reduction of the risk weight set out in the regulation of 18 March 2022 by 24 months. b) If yes, please specify: - Which risk weight you intend to change. Please specify the new risk weight to be set (between 35% and 150%). **In accordance with the regulations currently in force in Poland, there are three levels of risk weights for foreign currency housing loans (set for a period of 18 months):** **- 50% risk weight (except for exposures or their part above the value fully and completely secured by mortgage on residential property), if loan loss provisions and write-offs or adjustments amount to at least 35% of the gross exposure,** **- 75% risk weight if loan loss provisions and write-offs or adjustments amount to at least 28% of the gross exposure,** **- 100% risk weight if loan loss provisions and write-offs or adjustments amount to at least 20% of the gross exposure.** **It is proposed to extend the abovementioned period (18 months) by 24 months.** - To which part(s) of your Member State territory will the new risk weight for exposures set out above apply? **The risk weights shall apply to the whole territory of the Republic of Poland.** - To which property segment(s) will the new risk weight for exposures set out above apply? **The risk weight shall apply to the exposures secured by mortgage on residential property.**
	c) Do you intend to apply stricter criteria than those set out in Article 125(2) CRR for exposures fully and completely secured by mortgages on residential property? **No** d) If yes, please specify: - What criteria you intend to add or tighten. - To which part(s) of your Member State territory the stricter criteria set out above will apply? - To which property segment(s) will the new risk weighting for exposures set out above apply? **n/a**
2.2 Exposures secured by mortgages on commercial immovable property	e) Do you intend to set a higher risk weight than that set out in Article 126(1) CRR for exposures fully and completely secured by mortgages on commercial immovable property? **No** f) If yes, please specify: - What risk weight you intend to set. Please specify the new risk weight to be set (between 50% and 150%). - To which part(s) your Member State territory will the new risk weight set out above apply? - To which property segment(s) will the new risk weight set out above apply? **n/a**
	g) Do you intend to apply stricter criteria than those set out in Article 126(2) CRR for exposures fully and completely secured by mortgages on commercial immovable property? **No** h) If yes, please specify: - What criteria you intend to add or tighten.

	- To which part(s) of your Member State territory will the stricter criteria set out above apply? - To which property segment(s) will the new risk weight set out above apply? **n/a**
2.3 Other relevant information	Any other relevant information **In terms of growing costs of legal risk associated with housing loans in foreign currencies in recent years and significant uncertainty as to the further scale of these costs, the Chairman of the Polish Financial Supervision Authority proposed that banks offer borrowers settlements resulting in the conversion of loans into PLN. This is to equate their situation with the situation of borrowers who have taken out housing loans in PLN.** **The significant involvement of banks in arbitration proceedings to conclude settlements with borrowers is particularly important from the perspective of maintaining the stability of the financial system. On 30 September 2021 the portfolio of foreign currency housing loans accounted for approximately 23% of the gross carrying amount (before the adjustments) of the entire domestic commercial banks' housing loan portfolio. Significant risk exposures classified as foreign currency housing loans are also held by the majority of banks which have been recognised as other systemically important institutions (O-SII). In addition, on 31 July 2021 the value of covered deposits at banks with a portfolio of foreign currency housing loans accounted for approximately 98% of all deposits of commercial banks guaranteed by the Bank Guarantee Fund. Therefore, the involvement of banks in arbitration proceedings is an important factor limiting the increase in risk related to foreign currency housing loans.** **The Financial Stability Committee (FSC), which is responsible for macroprudential supervision in Poland, recommended in September 2021 to:** **1) assign a risk weight to exposures secured by mortgages on residential property, where the amount of the principal or interest installment depends on changes in the exchange rate of one or more foreign currencies, different from the ones, in which the borrower receives income, lower than 150%;** **2) the risk weights referred to in point 1 should depend on the amount of loan loss provisions, write-offs or adjustments to the gross carrying amount created in connection with the planned settlements with borrowers, as a result of which the amount of the principal and interest installments will be independent of changes in the exchange rate of foreign currencies;** **3) return to the risk weight of 150% for the exposures referred to in point 1, after 18 months of lower risk weights being in force.** **It was proposed to amend the risk weight for exposures secured by mortgages on residential immovable property, where the amount of the capital or interest installment depends on changes in the exchange rate of one or more foreign currencies, different from the ones, in which the borrower receives income, so as to gradually reduce the capital burden on those banks that actively engage in the settlement scheme.**

	The reduction of the risk weight was to be temporary and to reduce the capital burden on the banks involved in the settlement scheme. According to accounting rules, banks would have to recognize the costs of concluding settlements at the time of their probability (by creating loan loss provisions, write-offs or adjustments to the value of loans), in particular – at the time of approval by the relevant corporate bodies to offer settlements to borrowers. Thus, according to the regulation of 18 March 2022, the increased capital requirement shall apply to the bank until the actual conclusion of a settlement with the borrower. **A temporary reduction in the cost-related risk weight of settlements was intended to encourage banks to enter into such settlements. In the long term the reduction of the portfolio of housing loans in foreign currencies should be beneficial from the point of view of the stability of banks and whole national financial system. According to the regulation of 18 March 2022 after a period of 18 months from the introduction of the amended law, which seemed sufficient to finalize the settlement program, the risk weight for housing loans in foreign currencies shall return to the current level of 150%.** **The applied mechanism of linking the risk weight to the recognized settlement costs was a significant stimulus supporting the process of settlements in the bank-borrower relationship. These activities allowed to limit to some extent the legal risk related to the portfolio of foreign currency housing loans.** **Pursuant to the currently applicable regulation of the Minister of Finance of 18 March 2022, temporarily reduced risk weights for exposures secured by a mortgage on residential immovable properties, where the amount of the principal or interest installment depends on changes in the exchange rate or currencies other than the currency of the debtor's income, shall be valid until 30 September 2023.** **In accordance with the recommendation of the Financial Stability Committee of 6 July 2023, the temporary reduction of the risk weight on a scale depending on the recognized costs of settlements should be extended by 24 months in order to continue to encourage banks to offer such settlements. Reducing the portfolio of housing loans in foreign currencies through settlements is beneficial from the point of view of the stability of banks and the domestic financial system as a whole.**
3. Timing for the measure	
3.1 Timing for the decision	What is the date of the official decision? <u>For SSM countries when notifying the ECB:</u> provide the date on which the decision referred to in Article 5 of the Single Supervisory Mechanism Regulation (SSMR) will be taken. **The FSC recommendation was issued on the 6 July 2023 to the minister responsible for financial institutions – the Minister of Finance. The Ministry prepared the proposal for a regulation amending the regulation of 25 May 2017, aimed at extending the term of risk weight reduction, implemented by the regulation of 18 March 2022, by 24 months, and then initiated legislative process on the 18 July 2023.** 06/07/2023
3.2 Timing for publication	What is the date of publication for the notified measure? **September 2023**

	Click here to enter a date.
3.3 Disclosure	Information about the strategy for communicating the notified measure to the market. Please provide a link to the public announcement, if any. **The FSC informed public opinion about its recommendation, so the market is already aware of intention to extend the term the lower risk weights shall apply. Moreover, the Minister of Finance, which is empowered to issue legally binding regulations, initiated legislative process on 18 July 2023. This process requires public announcement and part of it are public consultations with the market. When the legislative process will come to an end and the regulation will be signed by the Minister of Finance, it will be published in the Journal of Law.** **The market is and will be informed about planned measure at every stage of its introduction.** **https://nbp.pl/en/press-release-after-the-meeting-of-the-financial-stability-committee-on-macroprudential-supervision-11/** **https://nbp.pl/wp-content/uploads/2023/07/Uchwala-Nr-69-2023-Komitetu-Stabilnosci-Finansowej-w-sprawie-rekomendacji-dotyczacej-wag-ryzyka-dla-ekspozycji-zabezpieczonych-hipoteka-na-nieruch.pdf** **https://legislacja.gov.pl/projekt/12375053**
3.4 Timing for application	What is the intended date for application of the measure? **The date of entry into force of the regulation will be properly adjusted in order to ensure continuity of the measure already implemented (i.e. lower risk weights).** Click here to enter a date.
3.5 Frequency/review	Does your decision to set higher risk weights have an expiry date? When will the decision be reviewed? **The reduction of the risk weight is temporary (24 months expiry date).**
4. Reason for setting higher risk weights or stricter criteria than those set out in Articles 125(2) or 126(2) CRR	
4.1 Regulatory context	What are the current risk weights applied to exposures secured by mortgages on residential property and on commercial immovable property?
4.2 Risk weights versus actual risks	Specify the reasons why the risk weights for exposures to one or more property segments fully secured by mortgages on residential property or on commercial immovable property located in one or more parts of your Member State territory do not reflect the actual risks of these exposures and put your answers in perspective vis-à-vis the real estate markets of other European Member States.
4.3 Motivation	a) Loss experience - Provide details about the loss experience in the real estate market of your Member State that has led you to conclude that higher risk weights must be set or stricter criteria applied than those set out in Articles 125(2) and 126(2) CRR.

	- Which of the data referred to in Article 430a CRR were considered in your assessment? - Provide any other indicators and other relevant information on the basis of which the assessment was made. If possible, please provide the data (preferably in an Excel file).
	b) Forward-looking real-estate market developments - Describe the forward-looking real-estate market developments that led you to conclude that higher risk weights should be set or stricter criteria applied than those set out in Articles 125(2) and 126(2) CRR. - Provide the indicators and any other relevant information on the basis of which the assessment was made. If possible, please provide the corresponding data (preferably in an Excel file).
	c) Financial stability considerations - What are the financial stability considerations that were taken into account? - Please include: o the factors that could 'adversely affect current or future financial stability' as referred to in Article 124(2)(2) CRR; and, o the indicative benchmarks that you took into account in determining the higher risk weights. - Provide the indicators and any other relevant information on the basis of which the assessment was made. If possible, please provide the data (preferably in an Excel file).
5. Sufficiency, consistency and non-overlap of the policy response	
5.1 Sufficiency of the policy response	For a macroprudential policy to be 'sufficient', the policy responses must be deemed to significantly mitigate, or reduce the build-up of, risks over an appropriate time horizon with a limited unintended impact on the general economy. Note that the ESRB will use the assessment of the macroprudential stance as relevant input in assessing the sufficiency of the macroprudential policy in the Member State. Please provide any additional information that the ESRB should consider in assessing the sufficiency of the policy response. **The measure encourages credit institutions to reach legal settlements with their clients in case of FX mortgage loans. This in turn will reduce legal risk that pose threat for financial stability in Poland.** **The applied mechanism of linking the risk weight to the recognized settlement costs was a significant stimulus supporting the process of settlements in the bank-borrower relationship. These activities allowed to limit to some extent the legal risk related to the portfolio of foreign currency housing loans.** **According to the data of the Chairman of the Polish Financial Supervision Authority, by the end of April 2023, a total of 35.2 thousand settlements in accordance with the model proposed by the Polish Financial Supervision Authority and 28.5 thousand settlements on other, individual terms, were reached.**

5.2 Consistency of application of the policy response	For a macroprudential policy to be 'consistent', the policy instruments must be deemed to meet their respective objectives, as outlined in ESRB/2013/1[3], and they must be implemented in accordance with the common principles set out in the relevant legal texts. Note that the ESRB assessment of consistency will consider whether the same systemic risks are addressed in a similar way across and within the Member States over time. Please provide any additional information that the ESRB should consider in assessing the consistency of the policy response. **Yes. The proposed regulation is implemented in accordance with the applicable legal principles.**
5.3 Non-overlap of the policy response	For a policy instrument to be 'non-overlapping', it should aim to address a systemic risk that either differs from a risk addressed by other active tools in the same Member State, or be complementary to another tool in that Member State which addresses the same systemic risk. - Are other policy instruments used to address the <u>same</u> systemic risk? - If yes, please explain the need for more than one instrument to address the same systemic risk and how the different instruments interact with each other. **There are no other policy instruments used to address the same risk.**
6. Cross-border and cross-sector impact of the measure	
6.1 Assessment of cross-border effects and the likely impact on the Internal Market **(Recommendation ESRB/2015/2[4])**	Assessment of the cross-border effects of implementation of the measure. a. Assessment of the spillover channels operating via risk adjustment and regulatory arbitrage. The relevant indicators provided in Chapter 11 of the ESRB Handbook on Operationalising Macroprudential Policy in the Banking Sector[5] and the Framework to assess cross-border spillover effects of macroprudential policies of the ECB Task Force on cross-border spillover effects of macroprudential measures can be used. b. Assessment of the: o cross-border effects of implementation of the measure in your own jurisdiction (inward spillovers); o cross-border effects on other Member States and on the Single Market of the measure (outward spillovers); o overall impact on the Single Market of implementation of the measure. o **We don't expect extending of the application of the lower risk weights will have a significant impact on the internal market, given i.a. the size of the portfolio affected.**

[3] Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1) (OJ C 170, 15.6.2013, p. 1).
[4] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2) (OJ C 97, 12.3.2016, p. 9).
[5] Available on the ESRB's website at www.esrb.europa.eu.

6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	Referring to your Member State's specific characteristics, what is the scope for "leakages and regulatory arbitrage" in your own jurisdiction (i.e. circumvention of the measure/leakages to other parts of the financial sector)? Is there scope for "leakages and regulatory arbitrage" in other jurisdictions? **We do not expect any leakages and regulatory arbitrage. There is ban for granting new mortgage loans which instalments are in different currency than the main income currency of the borrower. Therefore the measure is applicable only to outstanding loans. Non-banking financial institutions do not grant mortgage loans**.
7. Miscellaneous	
7.1 Contact person(s)/mailbox at notifying authority	Contact person(s) (name, phone number and e-mail address) and mailbox for further inquiries. **Anna Wendler** **anna.wendler@mf.gov.pl**
7.2 Any other relevant information	
7.3 Date of the notification	Please provide the date on which this notification was uploaded/sent. 03/08/2023