

Template for notifying/consulting on Article 124 CRR

Template for consulting the EBA and notifying the ECB and ESRB on setting higher risk weights for immovable property or applying stricter criteria than those set out in Article 125(2) and Article 126(2) CRR

Please send this template to

- notifications@esrb.europa.eu when notifying the ESRB;
- macropru.notifications@ecb.europa.eu when notifying the ECB;
- notifications@eba.europa.eu when notifying the EBA.

Emailing this template to the above-mentioned addresses constitutes an official notification, no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows electronically copying the information.

1. <u>Consulting/notifying</u> national authority	
1.1 Name of the consulting/notifying authority	Minister of Finance
2. Scope of the consultation/notification and description of the measure	
2.1 Exposures secured by mortgages on residential property	a) Do you intend to set higher risk weights for exposures secured by mortgages on residential property? No
	b) If yes, which risk weight would you set? Please specify the new risk weight (between 35% and 150%). n/a
2.2 Exposures secured by mortgages on commercial immovable property	c) Do you intend to apply stricter criteria than those set out in Article 125(2) CRR (exposures fully and completely secured by mortgages on residential property)? No.
	d) If yes, which additional or stricter criteria would you set? n/a
	e) Do you intend to set higher risk weights for exposures secured by mortgages on commercial immovable property? No, we have reduced the risk weight from 100% to 50% for exposures secured on commercial real estate used by the borrower to conduct his own business and do not generate income from rent or profit from their sale. For other commercial properties, the 100% risk weight still applies.
	f) If yes, which risk weight would you set? Please specify the new risk weight (between 50% and 150%). n/a
	g) Do you intend to apply stricter criteria than those set out in Article 126(2) CRR (exposures fully and completely secured by mortgages on commercial immovable property)? No
	h) If yes, which additional or stricter criteria would you set? n/a

2.3 Other relevant information	<p>- Any other relevant information (e.g. interaction with other supervisory measures, description of any other measures addressing the same risk).</p> <p>The Financial Stability Committee (FSC), which is responsible for macroprudential oversight in Poland, recommended in July 2020, to reduce risk weights for exposures secured on commercial real estate used by the borrower to conduct his own business and not generate income from rent or profit from their sale.</p> <p>Lowering the risk allowed to reduce the required capital of the domestic banking sector by approximately PLN 0,5-1 billion.</p> <p>Banks are able to allocate more capital to finance the economy, which will have a positive impact on economy in Poland.</p>
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3. Timing of the measure	
3.1 Timing of the Decision	<p>What is the date of the official decision? <u>For SSM countries when notifying the ECB:</u> provide the date when the decision referred to in Article 5 of the SSMR shall be taken.</p> <p>The FSC recommendation was issued on the 13 July 2020 to the minister responsible for financial institutions – the Minister of Finance. The regulation changing risk weight entered into force on 16 October 2020.</p>
3.2 Timing of the Publication	<p>What is the date of publication of the notified measure?</p> <p>15 October 2020.</p>
3.3 Disclosure	<p>Information about the communication strategy of the notified measure to the market.</p> <p>The FSC informed public opinion about its recommendation from 13th July 2020, so the market was aware of intention to introduce lower risk weights. Moreover, the Minister of Finance, which is empowered to issue legally binding regulations, initiated legislative process on 16th July 2020. This process requires public announcement and part of it are public consultations with the market.</p> <p>The regulation of the Minister of Finance has been published in the Journal of Laws on October 15th 2020:</p> <p>http://isap.sejm.gov.pl/isap.nsf/download.xsp/WDU20200001814/O/D20201814.pdf</p>
3.4 Timing of the application	<p>What is the intended date of activation (i.e. as of which date shall the measure be applicable)?</p> <p>The regulation entered into force on 16 October 2020.</p>
3.5 Frequency/review	<p>- When did the Member State last change the risk weights for exposures secured by mortgages on residential property? Which change has been applied?</p> <p>The current (higher) risk weights apply from 2 December 2017.</p> <p>- When did the Member State last change the risk weights for exposures secured by mortgages on commercial immovable property? Which change has been applied?</p> <p>The previous (higher) risk weight was applicable from 2 December 2017.</p> <p>- How long will the higher risk weights apply? When will the decision be reviewed?</p> <p>The decision will be reviewed once a year.</p>
4. Reason for setting higher risk weights or stricter criteria than those set out in Article 125(2) or Article 126(2) CRR	
4.1 Regulatory context	<p>- What were the risk weights applied to exposures secured by mortgages on residential property and commercial immovable property before January 2014?</p>

	<ul style="list-style-type: none"> - Is the objective of setting of higher risk weights or stricter criteria under Article 124 CRR a continuation of the previous regulatory treatment of residential and commercial property exposures? - Do you apply a similar measure in the context of real estate exposures under Article 164 CRR?
4.2 Risk weights versus actual risks	<ul style="list-style-type: none"> - Does the risk weight of all residential or commercial property segments, which are fully and completely secured by mortgages on residential property or commercial immovable property, reflect the actual risks related to these exposures? - If not, specify the reasons and put your answers in perspective to the real estate markets of other European countries.
4.3 Motivation	<u>a) Loss experience</u> <ul style="list-style-type: none"> - Give details about the loss experience in the real estate market of the Member State that justify the setting of higher risk weights or the application of stricter criteria than those in Article 125(2) and Article 126(3) CRR. - Which of the data mentioned in Article 101 CRR did you use? - Which other indicators have been taken into account?
	<u>b) Forward-looking real estate market developments</u> <ul style="list-style-type: none"> - Describe the forward-looking real estate market developments which justify the setting of higher risk weights or application of stricter criteria. - Provide the indicators and any other relevant information on the basis of which the assessment is made. If possible please provide the data (preferably an Excel-file).
	<u>c) Financial stability considerations</u> <ul style="list-style-type: none"> - Which are the financial stability considerations that were taken into account? - Provide the indicators on the basis of which the assessment is made. If possible please provide the data (preferably an Excel-file).
5. Cross-border and cross-sector impact of the measure	
5.1 Assessment of cross-border effects and the likely impact on the internal market (Article 133(11)(d) of the CRD IV and Recommendation ESRB/2015/2)	We don't expect lowering of risk weights to have a significant impact on the internal market, given i.a. the size of the portfolio affected.
5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	Given the structure of the Polish financial system which is heavily bank-dominated, we do not expect any leakages and regulatory arbitrage to occur. Non-banking financial institutions do not grant mortgage loans (including those secured by the CRE of any type). Also, investments are considered not to represent a significant share of CRE financing from the macroprudential point of view.
6. Miscellaneous	
6.1 Contact person(s) at consulting/notifying authority	Jarosław Niezgoda Jaroslaw.niezgoda@mf.gov.pl

6.2 Any other relevant information	<p>The motivation to lower risk-weights for a specific subsector of the CRE was twofold:</p> <ol style="list-style-type: none">1. Our assessment of risk – owner-occupied and income-generating properties are two distinct types of CRE, with different risk associated to them (as noted e.g. in the ESRV Recommendation 2016/14 on closing real estate data gaps). We assess the risk connected to loans secured by the owner-occupied CRE to be relatively lower which justifies lower risk-weights for this segment (as compared to loans secured by income-generating CRE).2. COVID 19 shock - the move can be considered a part of a broader package of measures to help the economy to absorb the shock related to the COVID-19 pandemic. Lowering risk weights for loans secured by the owner-occupied CRE should in principle support economic recovery.
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