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Financial Regulation in Poland

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Abstract: The paper aims at short synthesis of the Polish regulatory framework referring to the financial sector with special attention paid to the banking system. We describe origins of the financial regulations in Poland, as well as their further evolution. Then, in the context of changes in the EU directives, we present changes in the Polish regulation resulting from the necessity of adjustments.

Key words: financial regulation, Poland, integration, financial crisis

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1. Introduction

History of the modern financial sector in Poland and its regulations is relatively short. The sector has been developing since the beginning of the 1990s, i.e. since the transformation of the Polish economy from planned into a market one. The first to develop was the interbank deposit market. The next to develop was the Treasury bill market. The introduction of partial convertibility of the Polish zloty in 1994 resulted in the emergence of the FX market. The stock exchange was developing simultaneously with the interbank market, mainly as a result of privatization. Thus, the room for their own initiative and actions was very limited.

Before the transformation financial system in Poland was poorly developed and its regulations were of no greater importance, comparing to their role in a market economy.[1] In fact, the sector consisted only of the banking system. Apart from banks, there was only one state-owned insurance company – Polish Insurance Company (Polski Zakład Ubezpieczeń – PZU). No other types of financial intermediation existed nor other financial markets than the loan-deposit one. Moreover, even banks acted under the non-market rules, with all significant parameters (interest rate, exchange rate, credit restrictions, etc.) determined and strictly regulated by the government.

During the years 1946-1982 predominant in Poland was the so-called monobank system, typical for communist countries with centrally planned economies.[2] In such a system privately-owned banking institutions did not exist. At the same time state-owned banks were highly specialized, in principle not offering services to society. They just realized strictly government plans and decisions. The National Bank of Poland (NBP) acted as the main actor in the financial market. Apart from its activity as the subject of monetary policy, it made loans, accepted deposits and conducted payments and settlements.

The transformation of the Polish financial system started even earlier than the overall systemic change. Moreover, changes in the domain of finance were much deeper and complex than in other subsystems of the economy. The first, though only partial, attempts to rebuild the banking system were made in 1982, but more profound changes within the banking system were enforced at the end of January, 1989 (that is, even before the Round Table Talks). Two new acts were passed then: Banking Law that determined the creation and functioning of commercial banks, and the Act on the National Bank of Poland, redefining the role and responsibilities of the Polish central bank. Both acts made it possible to form a two-tier banking system, typical of market economies. Building such a system, consisting of universal instead of specialized banks, was recognized as the priority and the fundamental objective of banking reform.

At the same time nine commercial banks were created. Those new institutions had capital excluded from the regional branches of the NBP that ceased to make financial services for households and enterprises. At the same time all existing forms of by-operator and by-business-type constraints were lifted and clients became free to choose their banks and shape their relationship with banks on the contract basis. Another important step was the liberalization of the terms of entry into the banking system. Broad opportunities were provided for potential – domestic and foreign – investors to run banking activities in Poland, especially very mild license policy – legal barriers to create a banks were relatively small.[3] As a result, in 1991 already 72 commercial banks functioned in the Polish market.[4] Parallel with development of banking sector, also other types of financial intermediaries were created, increasing competition in the financial market. With time, share of banks in the total assets of the financial sector in Poland started to decrease.

Continuous evolution of the Polish financial system required also development of regulations connected with this domain. Brand new institutions were created, as well as the overall regulatory framework, and many already existing reformulated their objectives, instruments and responsibilities. What is characteristic, the scale and scope of regulations increased systematically, along with growing complexity of the Polish financial market and more and more dynamic activity of financial intermediaries.

This process was additionally reinforced by ongoing integration of Poland with the European Union.[5] The integration implied, among many other things, also adjustments of financial regulations, concerning individual parts of the Polish financial market and functioning of the financial intermediaries.

The integration process moved along with transformation of the economic and political system. It was in a sense, convenient: many adjustment could have been made while creating brand new legal environment. Thus, in many cases, no special modifications were needed – sufficient was just preparing and introducing laws consistent with the EC regulations. It was also the case when one takes into account financial regulations. Moreover, since the very beginning of the transformation, financial institutions from the EC/EU were present in the Polish financial system, being one of the most active investors in the process of privatization. Thus, many links with financial systems of the EU countries were already established, even prior to Poland's formal accession to the EU.

However, some adjustments still had to be made. They involved implementation of the EU *acquis communautaire* relating to free flow of capital and services, as well as to functioning of individual types of financial intermediaries, central bank and monetary policy, supervision authority, and settlements systems actions taken in order to reinforce the stability and strengthen the capitalisation of the whole sector and to improve the quality of the legal, judicial and technological infrastructure.

With reference to the banking sector, the dominant part of the Polish financial system, the main part of adjustments was made with passing new Poland's Constitution of April, 2 1997 and, in the same year the Act on National Bank of Poland and the Banking Act – both of August 29, 1997. These two adjusted almost entirely organization and functioning of the Polish banks to the EU directives. All remaining differences were eliminated by amendments, passed by the Act of 18 December 2003, which entered into effect on 1

January 2004. Since then it can be stated that the domestic regulations blend in with those of the EU. Necessary legal adjustments were also enforced with reference to other parts of the Polish financial system.[6] Synthesis of the Polish regulatory framework is presented in the section 2., while section 3. describes changes of regulations resulting from adjustments to changes in the EU directives.

2. Financial regulations in Poland and their adjustments to the EU requirements before the financial crisis – a short overview

The frameworks within which legal regulations of the financial services sector are created specifies *The Constitution of the Republic of Poland* (1997). It introduces the principle of freedom of business activity as the basis for the whole economic system. As regards the financial sector, this freedom is expressed in the following:

- freedom to conclude contracts of any subject and of any contents;
- freedom to select business partners and a possibility to perform cross-border activities;
- freedom of competition.

According to the *Constitution*, provision of financial services is subject to control and supervision by the State, while "entities put funds entrusted to them by other entities (natural and legal persons) at risk of their operations".

The need – mentioned already – to adjust the Polish legal system to the European Union law and to the commitments stemming from Poland's membership in the Organization of Economic Cooperation and Development (OECD) was the main reason for the amendments introduced to Polish financial legislation. The process of adjustment of the Polish law was very dynamic, since regulations regarding the financial sector in the European law have been frequently changed. This was reflected in numerous amendments to acts or in the creation of new acts (National Bank of Poland 2004). Moreover, some changes have been introduced as a result of the EU laws, and not of domestic legislation, like for example regulations which have introduced the single license (passport) principle in the financial sector of EU countries.

The newly passed then laws may be divided into three groups – those regarding entire financial sector, those referring to its individual sectors: banking, insurance companies, capital market, investment funds, pension funds, etc., and those regarding supervision over financial sector.

Among the most important laws from the first group there should be mentioned The *Foreign Exchange Law.* It specified the rules of exchanging the Polish currency to foreign currencies and procedures for the issuance of permissions to perform market operations that are related to spending in terms of the foreign currency. Changes in the *Foreign Exchange Law* were mainly related to the fulfilment of Poland's obligations towards the OECD and the EU.

Until 2002, foreign exchange operations were regulated by the *Foreign Exchange Law* of 1998 (*Act of December 18, 1998 – Foreign Exchange Law*). The adopted legal solutions, despite their contribution to the liberalisation of foreign capital flows, did not meet the standards of the European Union. Non-residents were not able to purchase short-term securities or financial derivatives in Poland without a foreign exchange permit. However, these restrictions did not pertain to purchases by non-residents of Treasury securities and financial derivatives offered on stock exchange markets, nor to the purchase of short-term securities and financial derivatives offered by authorized banks.

The new law (*Act of July 27, 2002 – Foreign Exchange Law*) implemented in 2002 had already met the obligations stemming from European Union law. The abolition of restrictions in the flow of capital to countries within EU, countries within the European Economic Area and other countries in the OECD, made it possible for residents to freely invest on capital markets of these countries. As a result of these changes, residents obtained the right to maintain accounts with foreign banks and to deposit funds on such accounts.

Since 2007 restrictions on capital flows have been additionally lifted. Amendments introduced in this very year to the *Foreign Exchange Law* (*Act of 26 January 2007 Amending the Foreign Exchange Law Act and Other Acts*) resulted from obligation to ensure compliance of Polish legal regulations with the European Union law. The most important solutions lifted restrictions on (National Bank of Poland 2010): disposal and acquisition of securities and participation units of joint investment funds by non-residents from third countries, as well as granting and taking loans and lending facilities in trading between residents and non-residents.

The amendment to the *Foreign Exchange Law* did not remove restrictions on settlements in foreign currency between residents. Removing restrictions imposed on agreements and on performing other activities which result or may result in domestic settlements in foreign currency was put on hold.

Other important "general" law was passed on 17 June 2010. Then entered into force in Poland the requirements of European Directive MiFID (*Markets in Financial Instruments Directive*). The MiFID has been introduced into the Polish law through the *Act on Trade in Financial Instruments* together with its implementing provisions. Its implementation means that investors are entitled to the same level of protection in Poland's financial markets as they are in other EU states. The protection offered to clients in line with the implementation of the MiFID in Poland consists of, inter alia:

- submission and preparation of detailed information on the products and services in a way which is comprehensible and not misleading,
- assessment of the client's understanding of the product, particularly the risks involved,
- verification whether the services or products to be provided are suitable by establishing client's level of investment knowledge and experience.

Among all the "sectorial" regulations, the most significant were those referring to the banking sector, dominating in the Polish financial system. As it was mentioned, the reform of the banking sector was one of the crucial components of the 1989 transformation. In January 1989 the Sejm passed two acts: the *Banking Act* and the *Act on the National Bank of Poland*. The basic importance of the first of them was to be seen, among others, in the reconstruction of the banking sector, as the act allowed for the operation of state banks, joint stock banks and cooperative banks, an abolition of the mechanism of automatic lending for governmental purposes, as well as the extension of the catalogue of banking activities and services (National Bank of Poland 2001).

The Acts of 1989 were complex in the way they set out to regulate the operation of the banking system. However, as the time went by banking legislation became a component of a larger whole, which forced the introduction of new acts in 1997, specifically aforementioned the *Act on the NBP* of 1997 and the *Banking Act* of 1997. These acts have become the source of principles of conducting banking business, as well as the principles of performing banking supervision, and bank liquidation and bankruptcy procedures (National Bank of Poland 2001).

Thus, one may consider the year 1998 as a kind of milestone for the legal and institutional framework for Polish central bank and the banking sector. This framework was first outlined by the new *Constitution of the Republic of Poland* of April 2, 1997, and then fleshed out by two mentioned acts: the *Act on the National Bank of Poland* and the *Banking Act*, both adopted on August 29, 1997.[7]

Significant changes were introduced in the organisation of the banking supervision, which was entrusted to the Commission for Banking Supervision, which took over previous competence of the National Bank of Poland and its President. The General Inspectorate of Banking Supervision became the executive body of the Commission, remaining an organisational unit of the National Bank of Poland.

The Banking Act, like the preceding one, formed the regulations to perform certain banking operations. These included: bank accounts, bank settlements, loans, advances, bank guarantees, endorsements, letters of credit and also the issue of bank securities. Generally speaking, the regulations on individual operations were expanded as compared with the previous regulations resulting from the 1989 Banking Act.

The design of the licensing process, worked out on the grounds of previously binding regulations, was maintained. The establishment of a cooperative bank and a joint-stock bank required the founders obtaining the authorisation of the Commission for Banking Supervision, granted in agreement with the Minister of Finance. A state bank may be set up by ordinance of the Council of Ministers at the request of the Minister of Treasury, which should have obtained the opinion of the Commission for Banking Supervision. The *Banking Act* of 1997 specified also the capital requirements set to the founders. The initial capital provided by the founders shall not be less than the zloty equivalent of EUR 5,000,000. A part of the initial capital might be contributed in kind, in the form of equipment and property holdings, if they are directly useful in the banking business; however in any case, the value of non-cash considerations cannot exceed 15% of the initial capital. If the bank's capital is increased, the value of non-cash considerations shall not exceed 15% of the bank's core capital.

The further significant changes appeared in the banking regulations with the Amendment of 23rd August 2001. It assumed primarily the adjustment of Polish law to the Directive 2000/12/EC of the European Parliament and of the Council relating to the taking up and pursuit of the business of credit institutions. Among many other things, it introduced into the Polish law definitions of: a credit institution, a branch of credit institution, a branch of domestic bank, providing services within cross-border operations.as well as defined the principles of the taking up and pursuit of the business by credit institutions in Poland and by domestic banks in the EU.

More precisely, the Amendment of August 2001 regulated and adjusted to the EU standards such areas and issues as:

1) making declarations of intent on electronic data media;

2) introduction of a definition of electronic money;

3) introduction of consolidated supervision;

4) modification of regulations on the cooperation and exchange of information with domestic financial supervision authorities and with foreign banking supervision authorities;

5) modification of regulations on risk-based capital ratio and introduction of the grounds for

the CBS to determine the principles of banks observing the capital requirements against individual risks, including the market risk;

6) removing problems connected with the application of bilateral netting in case of insolvency; the amendment aims at protection of the domestic financial system stability in case of bankruptcy of a major financial institution – in relation to deepening mutual relationships between individual institutions;

7) introduction of regulations on cross-border transfers; the amendment introduces to the Polish system numerous provisions of the Directive No 97/5/EC of the European Parliament and of the Council relating to the performance of transfer orders within foreign relationships and the Directive 98/26/EC of the European Parliament and of the Council relating to the finality of settlements within the payment and the securities settlement systems;

8) introduction, for supervisory purposes, of definitions of: a financial institution, a financial group, a mixed-activity group, a parent undertaking, a significant influence, close links;

9) extension of the catalogue of sanctions used by the Commission of Banking Supervision;

10) modification of provisions on the control of joint-stock banks' shares transfer.

Thus, the changes that have been introduced to the *Banking Act* since 1997 have been largely a consequence of gradual adaptation of Polish regulation to EU requirements (Kowalski, Matysek-Jędrych 2010). In consequence, significant regulatory changes took place in Polish banking sector, especially with the reference to capital requirements and risk management in banking institutions. These changes were related to the implementation of the New Capital Accord, prepared by the Basel Committee and incorporated then into the EU law (*Directive 2006/48/EC*, *Directive 2006/49/EC*).

The implementation of the CRD directive to the domestic law was a very complex process due to its high complexity. In contrast to previous prudential regulation applied by banks, the CRD was implemented based on maximum harmonisation principle. To ensure the transposition of the directive provision to Polish law as soon as possible, the legislator decided to apply an analogical approach to the proposed in the Lamfallusy report. The banking Act specified only those of the CRD directive provision that required statutory regulations. Other provisions were regulated in the resolutions of the (then) Commission of Banking Supervision. In details, Directives 2006/48/EC and 2006/49/EC have primary been implemented into Polish law by the following regulations:

- the Act of 29 August 1997 (Journal of Laws of 2002, No. 71, Item 665 as amended) on banking law (the "*Banking Law*");
- the Act of 21 July 2006 (Journal of Laws of 2006, No. 157, Item 11119, as amended) on the financial supervision (the "*Financial Supervision Act*");
- the Act of 29 September 1994 (Journal of Laws of 2002, No. 74, Item 694, as amended) on accountancy (the "*Accountancy Act*");
- the Act of 15 April 2005 (Journal of Laws of 2005, No. 83, Item 719, as amended) on supplementary supervision (the "*Act on Supplementary Supervision*");
- the Ordinance of the Minister of Finance of 19 November 1999 on consolidated banking accounts;
- Resolution of the Banking Supervision Commission No. 1/2007;
- Resolution of the Banking Supervision Commission No. 3/2007;

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- Resolution of the Banking Supervision Commission No. 4/2007;
- Resolution of the Banking Supervision Commission No. 5/2007;
- Resolution of the Banking Supervision Commission No. 6/2007;
- Resolution of the Banking Supervision Commission No. 10/2007.

In December 2008 a number of new resolutions of the newly created Polish Financial Supervision Authority (see further) has been adopted, replacing the Resolutions listed above adopted in 2007. Since then, the Directives 2006/48/EC and 2006/49/EC were implemented into Polish law by the following regulations:

- Resolution of the Polish Financial Supervision Authority No. 380/2008 KNF 3 ("Resolution No. 380/2008 KNF");
- Resolution of the Polish Financial Supervision Authority No. 381/2008 KNF ("Resolution No. 381/2008 KNF");
- Resolution of the Polish Financial Supervision Authority No. 380/2008 KNF ("Resolution No. 385/2008 KNF");
- Resolution of the Polish Financial Supervision Authority No. 387/2008 KNF ("Resolution No. 387/2008 KNF")

However, some changes in a domestic legislation have been introduced not for purpose of the adjustment to the EU law. Among them, one can distinguish the amendment to the Polish banking legal framework not linked with the EU legislation is the *Act on the so-called Prevention of Usury*, which has been passed by Polish parliament in 2005. According to the Act the maximum interest rate which can be charged on bank loans, trade credit and cash loans cannot be higher than four times the lending credit rate of the NBP. This regulation limits also the total value of all fees and commissions arising from a conclusion of a consumer loan agreement (excluding costs of credit insurance and security) to 5% of the value of a consumer credit

Significant changes have been introduced to the institutional structure of financial supervision since 2007. The *Act on Financial Market Supervision*, provisions of which entered into force on 19 September 2006, has changed the rules of supervision in Poland (*Act of 21 July 2006 on Financial Market Supervision*). The new solutions were aimed at integrating the supervisory bodies overseeing the financial market (The Commission of Banking Supervision, The Securities and Exchange Commission, The Insurance and Pension Funds Supervisory Commission). One organizational body is now responsible for the tasks and powers that formerly belonged to several bodies supervising the individual sectors of the financial market. The Polish Financial Supervision Authority comprises the Chairperson, two Vice-Chairpersons and four members: the minister competent for financial institutions or his/her representative; the minister competent for social security or his/her representative; the President of the NBP or a delegated Deputy President of the NBP; a representative of the President of the Republic of Poland. The activity of the PFSA activity is being supervised by the President of the Council of Ministers.

The Polish Financial Supervision Authority (PFSA), which on 19 September 2006 replaced the Insurance and Pension Funds Supervisory Commission and the Securities and Exchange Commission, was entrusted with conducting integrated supervision. The PFSA initiated its activity on 19 September 2006. In the second phase of the merger of financial supervision, on January 1, 2008, the PFSA took over the powers of the Commission for Banking Supervision together with its Office – the General Inspectorate of Banking Supervision. Thus, there occurred an establishment of authority separate from the structure of the National Bank of Poland and unifying all supervisory bodies into single authority, the task of which is to provide a surveillance over the financial sector (Kowalski, Matysek-Jędrych 2010).

It must be stressed the Polish financial regulations were in principle assessed relatively high. Proof of their efficiency might be that in Poland no financial (banking, currency or debt) crisis occurred, even despite of changing environment and ongoing transformation processes, connected with high uncertainty. Moreover, the pace of the process, as well as the selection of goals and milestones during the development of regulation is perceived positively. Also supervisory authorities were assessed to work satisfactory.[8] It has also been found that the banking legislation in force since January 1998 has ensured a high consistency with the European Union regulations (*National Bank of Poland* 2002).

3. Changes in regulations after the crisis

The onset of the global financial crisis did not directly influence Poland. The country avoided heavy losses brought about by the crisis and the Polish financial system remained relative stable. One reason – apart from "confidence package" implemented by the National Bank of Poland and "Plan for stability and development", adopted by the Government – might be stable institutional and regulatory framework.

Some problems occurred and the growth rate was lower, but still the Polish economy functioned well, especially when compared to other European countries. No financial institutions were bankrupted, and there were no drastic tensions in the financial market. But as the crisis escalated, it started to interfere with economic processes in Poland and negative tendencies occurred within the financial system. Those tendencies along with the need to incorporate new regulations introduced by the EU, brought another modifications of financial regulations. The most significant changes took place within the years 2009-2011. Among them, the most important were those referring to capital requirements, deposit guarantee scheme and accounting.

Capital requirements

Since 2007, the PSFA, in several resolutions, adjusted the Polish regulations concerning capital requirements to laws introduced in the EU, aimed at straightening stability of the financial sector of individual member countries. The specific objective behind the adoption of those resolutions was to:

- adjust the Polish legal framework to the amended directives of the European Parliament and of the Council, i.e. Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions, and Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions (CRD), adopted by virtue of Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009, Commission Directive 2009/27/EC of 7 April 2009 and Commission Directive 2009/83/EC of 27 July 2009 (CRD II);
- adjust the Polish legal framework to the amended directives of the European Parliament and of the Council, i. e. Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions, and Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions (CRD), adopted by virtue of Directive 2010/76/EC of the Europe an Parliament and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies (CRD III);
- reflect amendment proposals submitted within the PSFA Office and by the banking sector.

In 2010, the PFSA, acting on the basis of statutory delegations included in the Banking Law, adopted the following legal acts:

– resolution on the scope and detailed rules for determination of capital requirements for individual types of risk (*Resolution No. 76/2010 of the Polish Financial Supervision Authority on the scope and detailed rules for determination of capital requirements for individual types of risk* – Official Journal of the PFSA of 2010, No 2, item 11, as amended). The Resolution came into force on 10 March 2010;
– resolution on other items of a bank's balance sheet included in Tier 1 capital, their amount, scope and conditions of inclusion in a bank's Tier 1 capital (*Resolution No 434/2010 of the Polish Financial Supervision Authority of 20 December 2010*) that came into force on 31 December 2010.

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- The first of those resolutions replaced the previous resolution[9] concerning these matters. The measures adopted in the new resolution were a consequence of adapting domestic regulations with the requirements of CRD II (*Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management* – EU Official Journal L 320 of 2009, p. 97). as well as, inter alia, planned then amendments to that Directive[10].

The second resolution repealed the provisions of the Resolution of the Polish Financial Supervision Authority of 14 October 2009 (*Resolution No 314/2009 on other items of a bank's balance sheet included in Tier 1 capital, their amount, scope and conditions of inclusion in a bank's Tier 1 capita*l –Official Journal of the PFSA of 2009, No 1, item 8). The necessity of adopting a new resolution concerning banks' core funds also resulted from the need to adapt Polish law to the provisions of CRD II. This act limited the scope of financial instruments which may be included in own funds of credit institutions. As a consequence, pursuant to the new Resolution of the PFSA, from 31 December 2010 banks cannot include financial resources raised from new issues of convertible bonds and long-term bonds in their Tier 1 capital.

Article 2 of the Resolution provides that financial resources raised from the issuance of long-term bonds and already recognised as Tier 1 capital pursuant to a decision of the PFSA (given in accordance with the resolution of the PFSA of 14 October 2009) can be included in Tier 1 capital in amounts no higher than:

- 35% of total Tier 1 capital – from 31 December 2010 to 31 December 2020;
- 20% of total Tier 1 capital – from 1 January 2021 to 31 December 2030;
- 10% of total Tier 1 capital – from 1 January 2031 to 31 December 2040.

In 2010, the PFSA also adopted the following legal acts, amending previous regulations:

- Resolution No 367/2010 of the PFSA of 12 October 2010 amending Resolution No. 381/2008 of the PFSA of 17 December 2008 on other deductions from original own funds, their value, scope and conditions for a deduction of these items from the bank's original own funds, other bank's balance sheet items that are included into the bank's supplementary own funds, their, scope, and conditions of their inclusion in the bank's supplementary own funds, reductions of supplementary own funds, their value, scope and conditions for a deduction of such items from the banks' supplementary own funds; and the scope and method of including banks' activities in holdings when calculating own funds (Official Journal of the PFSA of 2010, No 8, item 36).
- Resolution No 368/2010 of the PFSA of 12 October 2010 amending Resolution No. 385/2008 of the PFSA of 17 December 2008 on detailed principles and methods of publication of qualitative and quantitative information on capital adequacy by banks and the scope of published information (Official Journal of the PFSA of 2010, No 8, item 37).

Both those amendments came into force on 31 December 2010. The first resolution increased, in accordance with the provisions of CRD II, the number of items reducing Tier 1 capital, the number of items included in supplementary own funds and provided a precise specification of items included in a bank's regulatory capital account. The second resolution extended the scope of disclosed information on the application of the Value at Risk method (VaR) in calculating capital requirements and on the use of Advanced Measurement Approaches (AMA) in calculating the capital requirements for operational risk. Moreover, banks which apply the AMA to calculate the capital requirements for operational risk will be obliged to disclose information not only on relevant insurance policies, but also on other risk transfer mechanisms.

In 2011 into the national legislation were introduced resolutions of CRD II and CRD III Directives. On April 2011, the Parliament passed amendments to the *Banking Act* and the *Act on Trading in Financial Instruments*, which were the first steps towards the implementation of the *Directive 2010/76/UE* (the so-called CRD III). With reference to the banking sector they were included in the Banking Act and in resolutions of the Polish Financial Supervision Authority. The amendment to the Banking Act of April 28, 2011, introduced significant changes in supervisory limits of risk exposures. The total amount of a bank's claims – off-balance sheet commitments and shares or participations held by the bank directly or indirectly in another entity, contributions to a limited liability company or limited partner shares – depending on that which of these amounts is higher – in a limited partnership or a limited joint-stock partnership (exposure), exposed to a single entity or to entities linked by capital or organisation structure may not exceed the exposure concentration limit which amounts to 25% of the bank's own funds.

Moreover, the bank's exposure towards another domestic bank, credit institution, foreign bank or a group of entities linked by capital or organisation structure, comprising at least one domestic bank, credit institution or foreign bank may not exceed 25% of the bank's own funds or the equivalent of EUR 150 million, calculated in Polish zloty at the mid-rate published by the National Bank of Poland and ruling on the last reporting day – depending on which of the amounts is higher; and the aggregate amount of exposures towards all linked entities in the group which are not a domestic bank, credit institution or foreign bank may not exceed 25% of the bank's own funds.

In 2011, the Polish Financial Supervision Authority adopted the following resolutions:
1. Resolution No. 153/2011 of the Polish Financial Supervision Authority of 7 June 2011, amending Resolution No. 76/2010 of the Polish Financial Supervision Authority on the scope and detailed procedures for determining capital requirements for particular risks

The resolution introduced an amendment that raised to 100 percent the risk weight of the retail exposures for which the principal payment or interest payment depend on the exchange rate of currency or currencies other than the currency of the debtor's income for: retail exposures, exposures secured by residential real property as an actual or potential place of residence of the owner or his/her rental property. By increasing the capital requirement, the amendment was aimed to take into account a higher (than in the case of

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national currency or other currency of the debtor's income) level of risk associated with the above exposures.

2. Resolution No. 206/2011 of the Polish Financial Supervision Authority of 22 August 2011, amending Resolution No. 76/2010 of the Polish Financial Supervision Authority on the scope and detailed procedures for determining capital requirements for particular risks

The resolution introduced changes associated with the need to transpose CRD II and CRD III. CRD II was implemented through a change of reference to the Banking Law of 29 August 1998, with respect to exposure concentration limits and a large exposure limit, resulting from the amendment (also implementing the provisions of CRD II), implemented by the Act of 28 April 2011 amending the Banking Law, the Act on Trading in Financial Instruments and the Act on Financial Market Supervision (which entered into force on 12 July 2011).

3. Resolution No. 207/2011 of the Polish Financial Supervision Authority of 22 August 2011, amending Resolution No. 384/2008 of the Polish Financial Supervision Authority, on the requirements concerning identification, monitoring and control of concentration of exposures, including large exposures

The resolution introduced changes related to the implementation of CRD II, which amended the provisions on stress-testing concentration risk. The resolution: specified that the tests should cover the risks connected with possible changes in economic circumstances of the bank, including market conditions, which could have a negative impact on the adequacy of the bank's own funds, specified the rules and procedures that banks should include in their strategies to address concentration risk, took into account the transposition of the definition of a "large exposure" from the Banking Law to the resolution superseding Resolution No. 382/2008 of the Polish Financial Supervision Authority on detailed rules and conditions for considering exposure when determining the observance of the exposure concentration limit and the large exposure limit.

4. Resolution No. 208/2011 of the Polish Financial Supervision Authority of 22 August 2011 on detailed rules and conditions for considering exposure when determining the observance of the exposure concentration limit and the large exposure limit

The amendment of CRD II also warranted amendment of the Banking Law. The amendments to the Banking Law were published on 27 June 2011 (Journal of Laws of 2011, No. 131, item 763) and became effective on 12 July 2011. The amendment of the Banking Law involved introducing a single exposure concentration limit of 25 % of the bank's own funds. The delegation contained in the Banking Law required the KNF to:

- determine the rules and conditions for considering exposure when observing the exposure concentration limit, taking into account credit risk mitigation techniques,
- specify the detailed conditions to be met by exposures excluded from the concentration limit so that they do not jeopardise secure conduct of business and proper risk management at the bank.

Some of the most important changes introduced by the resolution included excluding from the concentration limit short-term exposures related to cash transfer, modifying reporting obligations, and excluding from the concentration limit exposures reserved by CRD II for the assessment of national regulators.

5. Resolution No. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles of the operation of the risk management system and the internal control system and detailed conditions for estimation of internal capital by banks and for reviews of the internal capital retention and estimation process and the principles of determining the policy of variable components of the remunerations of persons in managerial positions at banks

The resolution introduced changes associated with the need to transpose CRD II and CRD III. CRD II is implemented through a regulation that requires banks to include reputational risk (applicable to complex structures and products) in their securitisation risk management procedures and also requires investing banks (in addition to sponsoring and originating banks) to develop such procedures.

CRD III is transposed by regulations concerning the principles of determining the policy of variable components of the remunerations of persons in managerial positions at banks.

6. Resolution No. 259/2011 of the Polish Financial Supervision Authority of 4 October 2011 amending Resolution No. 385/2008 of the Polish Financial Supervision Authority on detailed principles and manner of disclosure by banks of qualitative and quantitative information pertaining to capital adequacy and the scope of information subject to disclosure.

The resolution introduced changes associated with the need to transpose CRD III. The amendments to the resolution are associated with the regulations, introduced in Resolution No. 258/2011 of the Polish Financial Supervision Authority, transposing CRD III and concerning the principles of determining the policy of variable components of the remunerations of persons in managerial positions at banks. The new regulations introduced the requirement to publicly disclose: information concerning the process of determining the policy of variable remuneration components, most important information concerning changes in remunerations, in particular with respect to performance

7. Resolution No. 324/2011 of the Polish Financial Supervision Authority of 20 December 2011, amending Resolution No. 76/2010 of the Polish Financial Supervision Authority on the scope and detailed procedures for determining capital requirements for particular risks and Resolution No. 386/2008 of the Polish Financial Supervision Authority on determining liquidity standards binding on banks

8. Resolution No. 325/2011 of the Polish Financial Supervision Authority of 20 December 2011 on other deductions from the capital base, their amount, their scope and conditions of their deduction from a bank's capital base, other balance sheet items included in the supplementary capital, their amount, their scope and the conditions of their inclusion in the supplementary capital, deductions from the supplementary capital, their amount, their scope and conditions of their deduction from the supplementary capital and the scope and *manner of treating the activity of banks that are members of conglomerates in calculating own funds*

The Resolution was a consolidated text prepared in connection with implementing CRD III. It superseded Resolution No. 367/2010 of the PSFA of 12 October 2010, which amended Resolution No. 381/2008 of the PSFA of 17 December 2008 and in order to eliminate any formal concerns, both resolutions were repealed.

9. Resolution No. 326/2011 of the Polish Financial Supervision Authority of 20 December 2011 amending Resolution No. 385/2008 of the Polish Financial Supervision Authority on detailed principles and the manner of disclosure by banks of qualitative and quantitative information pertaining to capital adequacy and the scope of information subject to disclosure The resolution introduced changes associated with the need to transpose CRD III.

In 2012, the PSFA adopted consequent resolutions, amending domestic regulation to the EU requirements:

1. Resolution No 172/2012 of the Polish Financial Supervision Authority of June 19th 2012 amending the resolution on the scope and detailed rules for determining capital requirements for particular types of risk.

The Resolution was amended, among others, (PSFA. 2012):

– following the modified supervisory practice and the changes caused by implementation of EBA GL45 guidelines for AMA and the needs to made analogical changes for IRB and VaR approaches, aimed at revising and organising the regulations for the content of the applications for approval to use the IRB approach, VaR method and advanced measurement approach for operational risk (AMA);

– to ensure consistent approach to the duty to comply by the bank with the requirements as applicable for IRB approach, VaR method, mixed method and AMA approach as well as the procedure in case a bank no longer satisfies the application requirements for those models;

– following the revision of the Resolution No 208/2011 of August 22nd 2011 on detailed rules and conditions for considering exposure when determining the observance of the exposure concentration limit and the large exposure limit–incorporation of the new title of the resolution.

2. Resolution No 173/2012 of the Polish Financial Supervision Authority of June 19th 2012 amending the resolution on the detailed rules and conditions for taking account of exposure when determining compliance with the limit of exposure concentration and the limit of large exposures, and amending the resolution on the requirements for identifying, monitoring and controlling exposure concentrations, including large exposures.

The Resolution amends the Resolution No 208/2011 of the PFSA on detailed rules and conditions for considering exposure when determining the observance of the exposure concentration limit and the large exposure limit. The Resolution introduced changes in response to the need to perform the activities whereby the Polish banking sector would be prepared for the planned regulatory changes following implementation of the new EU regulations: CRR/CRD IV (PFSA 2012).

3. Resolution No 307/2012 of the Polish Financial Supervision Authority of November 20th 2012amending the Resolution on the scope and detailed rules for determining capital requirements for particular types of risk

The Resolution extended the applicability period for the regulations on the calculation of the total capital requirement benchmark for the year 2013 so as to ensure continuity of those regulations application, also included in the proposal for a regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms(CRR). Previously, the regulations were effective until December 31st 2012. The period was extended versus the one set out in the Directive 2006/48/EC, since the effective date for CRR was then planned for January 1st 2013.

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Changes in deposit guarantee scheme

The reconstruction of the Polish banking system required, among other things, the establishment of an institution that would deal with banking deposit guarantees. On February 1995 such an organisational body in form of the Bank Guarantee Fund was established (*Act on the Bank Guarantee Fund of 14 December 1994*). According to the law, the basic tasks of the Fund included, inter alia: reimbursement of funds accumulated on bank accounts in the event of the bankruptcy of a bank which is a participant in the deposit guarantee scheme as well as financial assistance to banks which have found themselves faced with a loss of solvency and are engaging in independent reforms. The entities covered by the guarantee system contribute compulsory annual payments to the Fund and are obliged to establish a protection fund for guaranteed funds.

In more details, The Act covered the following specifics: principles of establishment and operation of obligatory and contractual guarantees of bank account funds, types of action that may be taken to assist entities covered by the obligatory system of funds guarantees in cases of dangers of insolvency, as well as principles for collecting and using information regarding entities covered by the guarantee system. The banks covered by the guarantee system contribute compulsory annual payments to the Fund and are obliged to establish a protection fund for guaranteed funds. Treasury securities and the National Bank of Poland money-market bills, deposited on a separate account, are assets that cover this fund. In addition, assets that cover the protection fund of guaranteed funds must not be pledged or be charged in any form and not be subject to a court or administrative enforcement.

The objective of the compulsory guarantee system of bank account deposits was to ensure that the depositors may be repaid funds collected on those accounts up to the amount specified by the Act. According to the initial provisions of the Act, deposits up to the zloty equivalent of EUR 1,000 were entirely covered by a full guarantee. The upper limit of funds guaranteed at 90% rose in 2001 to EUR 15,000 (in 2002 this will rise to EUR 17,000 euro and in 2003 to EUR 22,500).

The legislator specified also the deposit guarantee principles. Deposits maintained in all banks with their registered offices within the territory of the Republic of Poland were covered by the Fund. In the event of the bankruptcy of a domestic bank, the BFG was obliged to pay the guaranteed funds up to the amount determined by law, except for the deposits of, inter alia: the State Treasury, banks, brokerage houses, pensions funds, investment funds, entities providing insurance services, managers of the bank and its main shareholders (holding at least 5% of the shares).

The current legal provisions on the Banking Guarantee Fund are in full in compliance with the *Directive 2009/14/E*C of the European Parliament and of the Council of 11 March 2009, which amends the *Directive 94/19/EC* on deposit-guarantee schemes. After the outburst of the global financial crisis the most important changes in the functioning of the BFG, took place in 2010. In the very year two amendments to the Act on the Bank Guarantee Fund were adopted, that made the law consistent with changes in the EU legislation.

The first amendment of 10 June 2010 amended the principles for remunerating members of the Fund's Council. In accordance with the new regulations, remuneration for participation in a meeting of the BGF Council was replaced with a monthly remuneration consisting of a fixed part and a variable part. These measures made the amount of the variable part conditional on the presence of the member of the Council at its meetings and on the frequency of the meetings in a given month.

The second amendment to the Act on the Bank Guarantee Fund, dated 16 December 2010, was of much greater importance to the domestic financial market. It was aimed at fully adapting Polish law to the provisions of European law[11]. The most significant changes consisted in:

– raising deposit guarantees from the PLN equivalent of EUR 50,000 to the PLN equivalent of EUR 100,000[12];

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– shortening the period for paying out guaranteed funds to 20 working days;

– obliging banks to draw up and maintain an up-to-date list of depositors;

– shortening the period within which the PFSA is obliged to take a decision on the suspension of a bank's operations if for reasons directly related to the bank's financial standing the bank fails to fulfil its commitments with respect to paying out guaranteed funds.

The second amendment to the Act also changed the principles according to which the National Bank of Poland may extend a loan to the BGF. The provisions of Article 16a (6) of the Act specify that such a loan will be possible if the BGF exhausts the assets held in its dedicated funds, allocated to the payout of guaranteed deposits and if the stability of the domestic financial system is at risk. Moreover, similarly as in the case of the previously applicable regulations, such a loan may be provided to the Banking Guarantee Fund on condition that appropriate collateral for the NBP is established.

Accounting

The passage by the Sejm of the Republic of Poland of the *Accounting Act* in 1994 and issuing regulations based on it had a crucial importance for the development of principles of

bank accounting in the 1990s. The regulations of special importance specifically concerned here were the Regulation No 1/95 of the President of the NBP on particular principles of bank accounting and the preparation of additional information of 16 February 1995 and the Regulation No 10/95 of the President of the NBP on particular principles of drawing up consolidated financial statements by banks of December 1995. The regulations were adjusted to the European Union requirements, including the Directive 86/635/EEC.

On the basis of provisions of the Accounting Act, requirements on bookkeeping for banks, the drawing up of financial statements, assets and liabilities valuation and determination of earnings were specified in the regulations of the President of the NBP. The scope of information presented as notes to the financial statements was also defined. The requirements on auditing and publishing the financial statements were also specified.

Regulations of the President of the NBP on bank accounting were then replaced in 1998, because of formal requirements, with resolutions of the Commission for Banking Supervision, which has not substantially changed the principles of bank accounting.

Another amendment to the Accounting Act was made in November 2000. Its implementation at the beginning of 2002 coincided with the issuance of specific provisions adjusted to it in the field of bank accounting. New regulations were to a larger extent adjusted to International Accounting Standards (IAS). The issues connected with the valuation and presentation of financial instruments were regulated in a more precise way. The accounting principles for hedging consistent with the concept provided in IAS 39 were admitted to use. The scope of notes to the financial statements was also expanded, e.g. by the information on hedging by banks against individual risks resulting from the banking operations.

Generally, according to the World Bank Report (2005), very significant progress was achieved by Poland in the area of accounting, financial reporting, and auditing. The report stated that financial companies were required to prepare their financial statements in conformity with Polish accounting requirements, based on the Fourth and Seventh European Union Company Law Directives, and provide a simplified financial reporting framework for small and medium sized enterprises. Banks were required to prepare their consolidated financial statements in conformity with endorsed International Financial Reporting Standards (IFRS), and their legal entity financial statements in conformity, either with accounting regulations set by the Minister of Finance based on the Banking Accounts Directive, or, with endorsed IFRS. Insurance companies are required to prepare their financial statements in conformity with accounting regulations set by the Minister of Finance based on the Insurance Accounts Directive.

After the outburst of the financial crisis some adjustments in accounting and auditing of financial institutions were, however, needed. The Regulation of the Minister of Finance on special accounting principles of banks, applicable since 30 October 2010, implemented new measures introduced by the *Act on Trading in Financial Instruments* in 2009. The Act repealed the obligation providing for a financial separation of brokerage activities carried out by a bank, the requirement to establish separate share capital for such activities, to keep separate accounting books and draw up separate financial statements.

The provisions of the Regulation were supplemented accordingly with relevant accounting principles, pertaining to:

– presenting operations related to the bank and the brokerage house in the accounting books;

– presenting and valuing financial assets and liabilities of banks, including financial instruments acquired for a bank and on its own account and held in the securities accounts of clients by the brokerage house,

– recording and valuing financial instruments of clients.

Another important amendment to this Regulation was the extension of the scope of additional information relating to significant events from previous years which were presented in the financial statements for a given period (inter alia the type of errors made and the amount of correction).

In order to achieve greater comparability of financial statements of banks, the Regulation introduces principles applied by the International Accounting Standards (IAS). A new category "financial assets and liabilities at fair value through profit or loss", including "financial assets and liabilities held for trading" was introduced. The definition of financial assets and liabilities, as well as their classification were adapted to the requirements of IAS 39. The obligation to disclose information concerning fixed assets held for sale and the

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requirement of valuation and disclosure in the financial statement of the value of shares held for sale in subsidiaries were also introduced.

In addition, the new provisions made it possible to reclassify financial assets from the category of "financial assets and liabilities at fair value through profit or loss" to other categories of assets. The measures will first apply to financial statements drawn up for the financial year starting in 2010.

Selected domestic regulations

Apart from changes in regulations aimed at ensuring compatibility of the Polish law with the requirements of the EU, there were also adopted in Poland some specific additional regulations. They include acts and directives, as well as recommendations of the PSFA. The latter ones have no strictly binding character, nevertheless, banks are usually obey them.

In February of 2010 the *Act on the Recapitalisation of Certain Financial Institutio*ns (Journal of Laws of 2010, No. 40, item 226) was adopted. It was aimed at creating a legal basis for the State Treasury to recapitalise financial institutions which are at risk of losing liquidity or becoming insolvent. The Act introduced two methods of recapitalisation of financial institutions: the State Treasury granting guarantees of increasing the capital of financial institutions and the right of the State Treasury to perform a compulsory acquisition of a financial institution.

The new provisions allowed domestic banks and insurance companies to obtain State Treasury guarantees when increasing their own capital under recovery proceedings. As a result, such financial institutions will be able to increase their share capital through the issue of shares, bonds or bank securities (in the case of banks) without the risk that such securities are not taken up by new investors or existing shareholders. A guarantee of the State Treasury may be obtained only on condition that the recovery programme is accepted by the Polish Financial Supervision Authority. In accordance with the provisions of the Act,

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the guarantee will be granted by the Minister of Finance at the request of a financial institution in the form of an agreement, after having consulted the PFSA and the President of the NBP and, in the case of banks, also of the Bank Guarantee Fund (BGF).

The second recapitalisation method involves the State Treasury acquiring a financial institution by means of a compulsory buyout of shares from its existing shareholders. Such a compulsory acquisition will be possible in the case where a financial institution is at risk of losing its solvency or in the case of the financial institution's serious infringement of the terms and conditions of the State Treasury guarantee agreement referred to in the previous paragraph. Only if statutory conditions specified in Article 14 (1) and Article 9 (2) are met, the Council of Ministers will be able to acquire the financial institution on behalf of the State Treasury by means of an administrative decision. Such a decision will be taken at the request of the Minister of Finance after having consulted the President of the NBP and the Chairperson of the PFSA and, in the case of banks, the Banking Guarantee Fund.

With reference to risk management and adequate functioning of banks in Poland recommendations of the PSFA[13] are of crucial importance, in spite of their not binding character. After the 2007, observing rapid growth of lending to retail banking clients and intending to avoid potential problems with liquidity and growing scale of irregular loans the PFSA took actions aimed at limiting the excessive indebtedness of households and improving credit risk management at banks.

Due to the need to extend protection of market participants, on 17 December 2008 PFSA adopted a resolution introducing *Recommendation S II*. The Recommendation introduced suggestions that are additional to those included in Recommendation S, related to the obligation to inform customers about currency spread, burdens and risk related to differences between the sell rate and buy rate of foreign currencies before and during the period of validity of the credit agreement in the case of loans granted in foreign currency or indexed to foreign currency. In accordance with the new recommendations, the banks

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should permit the customer upon request to repay installments in the indexation currency in the case of a loan indexed to foreign currency (change in the manner of repayment should cover all installments from the date of amendment of the agreement, which means that it may occur only once throughout the agreement validity period). The PFSA expected that these amendments should improve the relations between banks and customers who will be better informed about the consequences of their decisions.

Another step in actions aimed at strengthening banks' position and their stability was *Recommendation T* was adopted on 23 February 2010 (PFSA Resolution 52/2010). This recommendation was a collection of best practices in retail lending and was based on the principle of fair examination of customers' creditworthiness The recommendations contained in the document set forth the principles of analysis of creditworthiness of clients, the relation of collateral to debt for retail loans, including loans indexed to changes in FX rates, and introduce limits of the level of general debt in relation to the borrower's income. According to the guidelines of the PFSA, the loan repayment burden on income should not exceed the level of 50% of net income in the case of borrowers with income not exceeding the average level in the economy. With respect to other borrowers, this threshold should not exceed 65% of net income. A significant element of the Recommendation is the instruction that banks also take into consideration debt limits of credit cards and limits of revolving credit facilities, even if they are not fully used, when calculating the client's creditworthiness. *Recommendation T* also introduced guidelines for banks concerning the verification of the value of the potential borrower's income, monitoring of the timeliness of the client's debt repayment and the use of databases containing information on the borrower's debt level and the history of repayment of their liabilities.

Another recommendation prepared by the PSFA that entered into force on 1 July 2010, was *Recommendation I concerning the management of currency risk at banks and rules of execution of transactions carrying currency risk* (PFSA Resolution 53/2010 of 23 February 2010). This Recommendation replaced the previous *Recommendation I* issued by the

Commission for Banking Supervision in 2002. It was aimed e amendment aimed at reducing the credit risk associated with the conclusion of foreign currency lending transactions and at improving management within banks of foreign exchange risk. The PFSA guidelines extended the process of currency risk management by requiring banks to examine the impact of changes in FX rates on the counterparty's credit risk. In order to enhance the protection of the client's interests, it is recommended that banks inform the client on potential liabilities towards the bank which may arise as a result of a significant change in the FX rate, and present a simulation of the effect of various changes in the FX rate on the result of the transaction before closing a transaction exposed to currency risk. The Recommendation also prescribed that banks offer clients primarily simple currency derivatives such as forward transactions and options. Moreover, before concluding a transaction, banks should try to identify the character of the client's activities, its awareness of credit risk and the need to secure against that risk.

The third recommendation enforced in 2010 was *Recommendation A on the management of risk related to derivatives transactions executed by banks* (PFSA Resolution 134/2010 of 5 May 2010). The adoption of the recommendation by the PFSA was aimed at improving the quality of risk management associated with banks concluding derivative transactions or transactions with embedded derivatives, as well as at defining the principles for concluding such transactions by banks. The recommendations, which came into force on 1 August 2010, concerned the monitoring and control of risk (in particular, counterparty credit risk), the documentation and exchange of information with clients, as well as the introduction of procedures making it possible to streamline the information flow between the bank's units responsible for risk management.

Recommendation A specified also that banks should examine whether clients conclude transactions involving derivatives for speculative purposes or in order to hedge against risk related to their economic activities. Banks should also monitor whether such risk-hedging transactions involving derivatives lead to heightened risk in situations of adverse market parameters. Moreover, the Recommendation contained instructions according to which banks should conduct simulations of the valuation of the counterparty's exposures related to currency derivatives, including the hedged position.

In 2011 three other recommendation were adopted/amended. The first one was *Recommendation H* concerning internal control at banks. The need to amend *Recommendation H* resulted from: implementing provisions concerning internal control at banks in the *Banking Act* of 29 August 1997 and Resolution No. 383/2008 of the Polish Financial Supervision Authority of 17 December 2008 on detailed principles of the operation of risk management and internal control systems and detailed conditions of estimating internal capital by banks and reviewing the process of estimating and maintaining such capital.

The second recommendation adopted/amended in 2011 was *Recommendation S* on good practices in the management of credit exposures financing real estate and secured by a mortgage. The reasons listed for amending the recommendation included (PSFA 2011).:

- the risk associated with a growing share of the portfolio of mortgage-backed credit exposures and credit exposures financing real estate in dues from the non-financial sector;
- harmonisation of *Recommendation S II* and *Recommendation T* concerning best practices in managing credit exposures financing real estate and mortgage-backed credit exposures;
- insufficient effectiveness of *Recommendation S II*;
- the need to protect the Polish banking sector against disruptions such as those suffered by a number of other economies in the CEE region, which were caused by unrestricted foreign-currency lending to households.

The last recommendation from 2011 was amended *Recommendation R* concerning the rules for identification of impaired balance-sheet credit exposures, calculation of impairment losses on balance-sheet credit exposures and provisions for off-balance-sheet credit exposures. The amendment of the recommendation resulted from the need to adjust it to current market practice and the fact that its then-current version was implemented at a time when the provisions of international regulations were only starting to be effective in Poland and banks did not yet have the requisite knowledge and experience in that regard.

Among the most important changes brought by this recommendation were: verification of the adequacy of the parameters used in calculating impairment losses, developing a methodology for applying balance sheet credit exposures to restructured balance sheet credit exposures, which, among other things, contained a definition of a restructured balance sheet credit exposure and the conditions for impairment of these items, indication of the conditions for re-classification of exposure as exposure without impairment, requency of conducting reviews associated with banks' historical data.

Recommendation R was addressed to banks operating in Poland that prepare consolidated or separate financial statements in accordance with the IAS/IFRS. The guidelines contained in *Recommendation R* also applied to branches of a domestic bank and the bank's subsidiaries located outside of Poland, taking into account the legal environment of local markets and the feasibility of ensuring compliance with the good practices set forth in the recommendation (PSFA 2011).

In 2012, the Polish Financial Supervision Authority adopted the *Recommendation J* concerning the principles of gathering and processing real estate data by banks. *Recommendation J* provides the guidelines for creating and using external (interbank) real estate market databases by banks, which would contribute to improved risk management market standards for mortgaged-backed credit exposures. The main changes made to the amended Recommen*dation J* encompass recommendation of uniform standards for gathering, processing and making available real estate market data in reliable databases, description of the set of characteristics identifying real estates which should be gathered in the base and recommendation of use of statistical models to assess the risk of change in value of real estate-based collateral for the banks with significant mortgage-backed exposures.

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Resolution No 380/2008 of the Polish Financial Supervision Authority of 17 December 2008 on the scope and detailed rules for determination of capital requirements for individual types of risk and the detailed principles to be applied in determining those requirements, including but not limited to, the scope and conditions of applying statistical methods and the scope of information attached to applications for authorisation to apply them, principles and conditions of taking account of contracts on debt assignment, subparticipation, credit derivatives and contracts other than those on debt assignment, and subparticipation, in calculating the capital requirements, terms and conditions, scope and manner of making use of the ratings assigned by external credit assessment institutions and the export credit agencies, manner and specific principles for calculation of the capital adequacy ratio of a bank, the scope and manner of taking account of banks conducting their activities in groups in calculating their capital requirements as well as establishing additional items of bank balance sheets included in bank regulatory own funds in *the capital adequacy account, the amount thereof and the conditions to be used in calculating them (Official Journal of the PFSA of 2008, No 8, item 34, as amended).*

Resolution No.381/2008 of the PFSA of 17 December 2008 on other deductions from original own funds, their value, scope and conditions for a deduction of these items from the bank's original own funds, other bank's balance sheet items that are included into the bank's supplementary own funds, their, scope, and conditions of their inclusion in the bank's supplementary own funds, reductions of supplementary own funds, their value, scope and conditions for a deduction of such items from the banks' supplementary own funds; and the scope and method of including banks' activities in holdings when calculating own funds

Resolution No.385/2008 of the PFSA of 17 December 2008 on detailed principles and methods of publication of qualitative and quantitative information on capital adequacy by banks and the scope of published information

The Constitution of the Republic of Poland of April 2, 1997

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[1] It has to be stressed that some consequences of this underdevelopment (especially with reference to the cooperative banks) seem to last even until now.

[2] However, according to Kokoszczyński (2006), in the Polish banking system a classic example of a monobank had never existed. There functioned few so-called specialized banks, formal monopolists in particular fields of banking activity (e.g. foreign currency operations or agriculture).

[3] In 1989 initial capital required for establishment of new bank amounted only circa one million of USD.

[4] Initially, there was only one bank with dominant foreign capital. However, the situation changed very fast and foreign investor started to prevail within the banking system .

[5] Poland finished the accession negotiations in December 2002. Then the Accession Treaty was signed in Athens on April, 16, 2003. After the ratification of that Treaty, Poland became the members of EU on May, 1, 2004.

[6] For instance, insurance market was re-regulated with passing the Insurance Activity Act, the Insurance Brokerage Act and Compulsory Insurance, Insurance Guarantee Fund and Polish Motors Insurers' Bureau Act – all of them of May, 22, 2003.

[7] The third part of the legislative package passed then was the Act on Mortgage Bonds and Mortgage Banks (the Journal of Laws, 1997, No. 140, item 940). It determined the principles of issue of, purchase, and redemption of mortgage bonds as well as principles of establishment, organisation, operation and supervision over mortgage banks.

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[8] Controversy arose only in 2006-2007 when legislation setting up a new integrated financial supervisory authority came into force.

[9] Resolution No 380/2008 of the Polish Financial Supervision Authority of 17 December 2008 on the scope and detailed rules for determination of capital requirements for individual types of risk and the detailed principles to be applied in determining those requirements, including but not limited to, the scope and conditions of applying statistical methods and the scope of information attached to applications for authorisation to apply them, principles and conditions of taking account of contracts on debt assignment, subparticipation, credit derivatives and contracts other than those on debt assignment, and subparticipation, in calculating the capital requirements, terms and conditions, scope and manner of making use of the ratings assigned by external credit assessment institutions and the export credit agencies, manner and specific principles for calculation of the capital adequacy ratio of a bank, the scope and manner of taking account of banks conducting their activities in groups in calculating their capital requirements as well as establishing additional items of bank balance sheets included in bank regulatory own funds in the capital adequacy account, the amount thereof and the conditions to be used in calculating them (Official Journal of the PFSA of 2008, No 8, item 34, as amended).

[10] For instance, Article 14 of the resolution included the planned amendment to Article 152 of Directive 2006/48/EC extending until 31 December 2011 the transition period during which banks applying advanced methods for determining the capital requirements for credit and operational risk (IRB ,AMA) are required to maintain regulatory capital at a level no lower than 80% of the comparative total capital requirement calculated in accordance with the principles of the Basel I Accord.

[11] Directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009 amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay (EU Official Journal L 68 of 2009, p. 3).

[12] Since 2010, a deposit amount not exceeding the equivalent of EUR 100,000 has been guaranteed in full, but the guaranteed amount is as before calculated from the total funds located in all the accounts of a single person in a given bank, while in the case of a joint account, each account holder is entitled to a separate guaranteed amount.

[13] Before institutional changes in the Polish supervision, recommendations were prepared by the General Inspectorate of Banking Supervision. During the years 1996-2000, this body prepared 11 recommendations, concerning different aspects of risk management in banks.

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THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?'

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THE PARTNERS IN THE CONSORTIUM ARE:

Participant Number	Participant organisation name	Country
1 (Coordinator)	University of Leeds	UK
2	University of Siena	Italy
3	School of Oriental and African Studies	UK
4	Fondation Nationale des Sciences Politiques	France
5	Pour la Solidarite, Brussels	Belgium
6	Poznan University of Economics	Poland
7	Tallin University of Technology	Estonia
8	Berlin School of Economics and Law	Germany
9	Centre for Social Studies, University of Coimbra	Portugal
10	University of Pannonia, Veszprem	Hungary
11	National and Kapodistrian University of Athens	Greece
12	Middle East Technical University, Ankara	Turkey
13	Lund University	Sweden
14	University of Witwatersrand	South Africa
15	University of the Basque Country, Bilbao	Spain

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