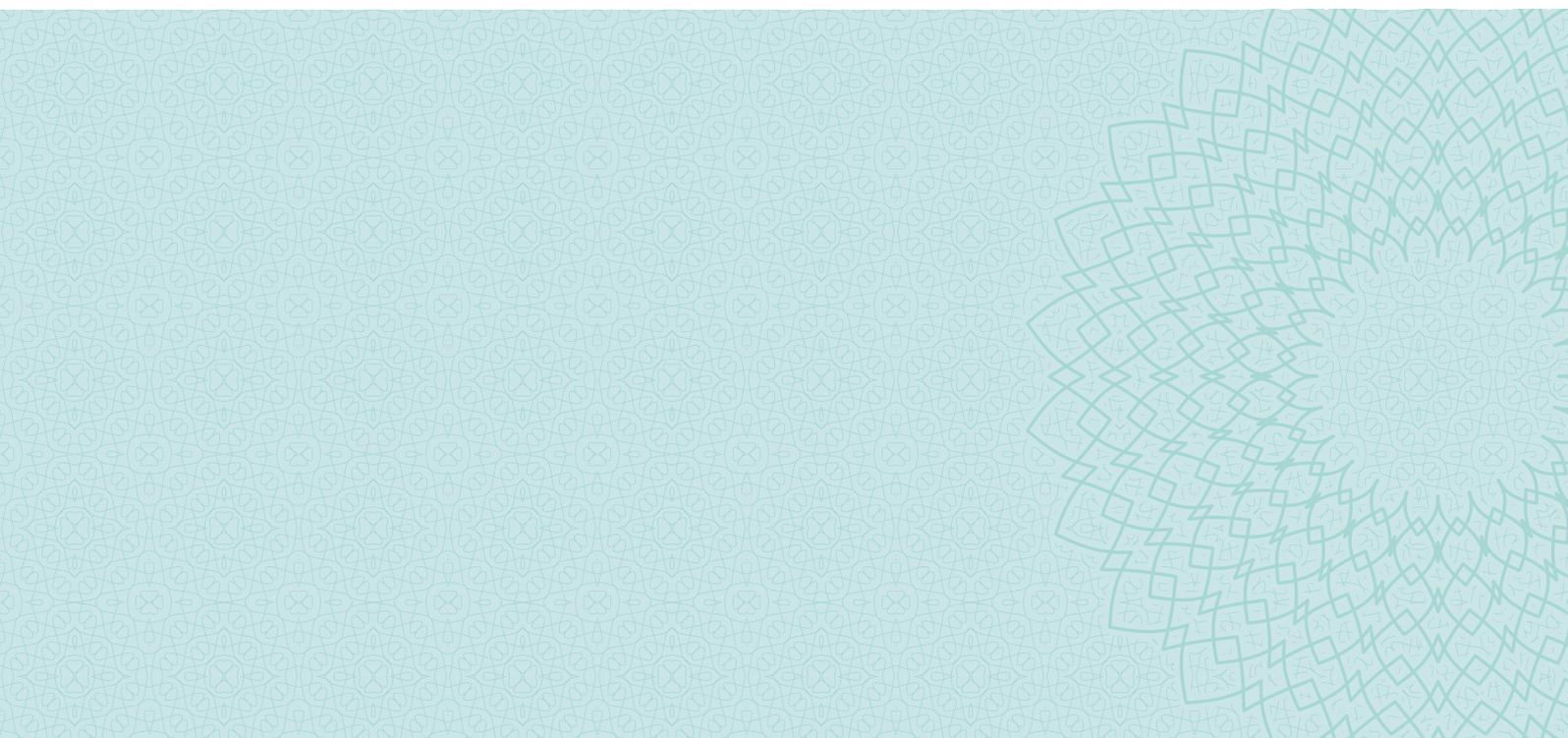


---

# Macroprudential Policy Strategy in Poland



---

# Macroprudential Policy Strategy in Poland

Warsaw, 2019



---

# Table of contents

Introduction	4
1. Mission	5
2. Basic principles of macroprudential supervision	6
3. Strategic priorities	8
4. Cross-institutional cooperation	9
5. Identification and assessment of systemic risk	11
6. Macroprudential instruments	14
6.1. Powers of the Committee – statements and recommendations	14
6.2. Classification of macroprudential instruments	14
6.3. Selection and calibration of instruments	17
7. Communication	18
8. Challenges and long-term development priorities	20

---

# Introduction

**Macroprudential supervision<sup>1</sup> is a relatively new area of regulatory policy.** An impulse to the creation of macroprudential supervision was given by the experience of the recent financial crisis which raised the awareness that the safety of individual financial institutions is not a sufficient condition for ensuring the stability of the financial system as a whole. For this reason, it was considered that a new type of financial security policy is necessary – macroprudential policy oriented towards the stability of the overall financial system and taking into account its linkages with the real economy. The financial system plays an important role in the economy, providing such services as, e.g. financing of business entities and households, allocation of savings, execution of payments, insurance and risk management. A serious disruption in the functioning of the financial system may disturb economic growth and, consequently, may result in a reduction of the living standards of society.

**The general principles of macroprudential policy have been framed both globally and at the European Union (EU) level.<sup>2</sup>** As recommended<sup>3</sup> by the European Systemic Risk Board (ESRB), EU Member States have designated in the national legislation an authority entrusted with the conduct of macroprudential policy in their jurisdictions. In Poland, pursuant to the Act of 5 August 2015 on Macroprudential Supervision of the Financial System and Crisis Management (Journal of Laws 2019, item 483; the Act, the Act on Macroprudential Supervision), it is the Financial Stability Committee performing macroprudential supervision tasks (Committee, FSC-M).

**The aim of this document is to outline the approach of the Financial Stability Committee to the performance of its statutory tasks related to macroprudential supervision.** The document sets out the macroprudential policy mission, the main principles of its implementation, strategic priorities and key elements of the system of macroprudential policy conduct.

The description of a macroprudential policy framework in Poland, with particular emphasis on institutional aspects, was presented in the Financial Stability Committee document published in 2016 entitled *Macroprudential Supervision in Poland institutional and functional framework*.<sup>4</sup> This document, referring to the above publication, explains how the FSC-M intends to implement its designated tasks and competences, taking into account international practices and experience gained so far.

**The Committee perceives the process of developing and implementing its strategy as a continuous and long-term process,** bearing in mind that macroprudential policy is at an early stage of development. Therefore, the Strategy focuses on key aspects of the system of pursuing macroprudential policy. Detailed information concerning e.g. methods of analysis and use of specific instruments may be subject to separate studies.

---

<sup>1</sup> In this report, the terms “macroprudential supervision” and „macroprudential policy” are used interchangeably.

<sup>2</sup> For example, International Monetary Fund (2013). *Key aspects of macroprudential policy*, ESRB (2014), *Flagship Report on Macro-prudential Policy in the Banking Sector*, ESRB (2016), *Macroprudential policy beyond banking: an ESRB strategy paper*

<sup>3</sup> Recommendation of the European Systemic Risk Board of 22 December 2011 on the macro-prudential mandate of national authorities (ESRB/2011/3).

<sup>4</sup> Financial Stability Committee (2016). *Macroprudential Supervision in Poland institutional and functional framework*.

---

# 1. Mission

**The mission of macroprudential policy is preserving the stability of the financial system (financial stability) by reducing systemic risk and thereby supporting long-term sustainable economic growth.** Systemic risk is a possibility of an occurrence of a serious distortion in the functioning of the financial system and in the economy as a whole. The materialisation of such risk usually takes the form of a financial crisis which involves a severe decline in national income and may have a negative impact on long-term economic growth and thus on the living standards of the population.<sup>5</sup>

---

<sup>5</sup> Financial Stability Committee (2016). *Macroprudential Supervision in Poland institutional and functional framework*, p. 7.

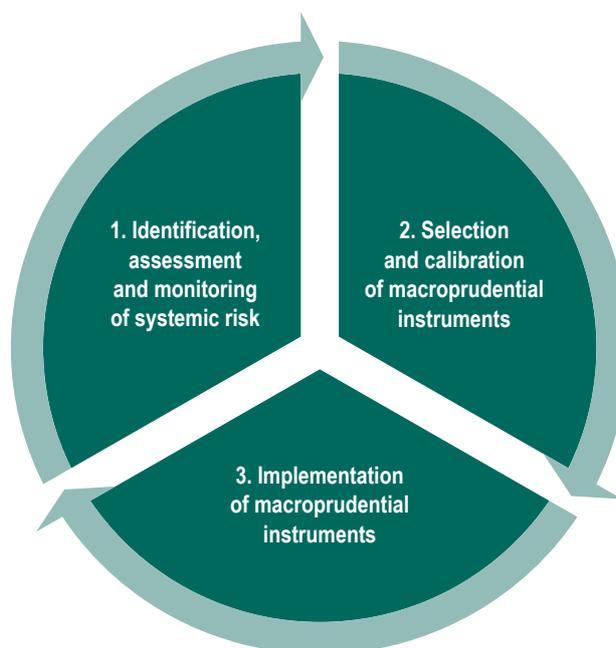
---

## 2. Basic principles of macroprudential supervision

Macroprudential policy is implemented by identifying, assessing and monitoring systemic risk arising in the financial system or in its environment and by taking measures to eliminate or mitigate such risk, including through the use of macroprudential instruments.

---

Diagram 1. Schematic diagram of macroprudential measures



---

**The Committee takes action at an early stage of developing threats to the stability of the financial system.** Activities at the stage of crisis management in the financial system remain outside the remit of the FSC-M.<sup>6</sup>

**The Committee, having regard its competences laid down by law, takes measures necessary to safeguard the stability of the financial system as a whole or of its key parts thereof.** As a rule, the Committee does not focus on the situation of individual financial entities. Individual financial institutions may be the subject to assessment and action by the Committee only if, for structural reasons, such as their size, the nature of their functions, business model or financial linkages, they may generate systemic risk.

---

<sup>6</sup> Competence in this area was conferred upon the Financial Stability Committee that carries out crisis management tasks (FSC-C).

**The Committee strives to reduce the probability of a financial crisis occurrence**, while being aware that it is impossible to eliminate systemic risk and the likelihood of a crisis entirely. This is mainly due to the fact that systemic risk is a phenomenon which is difficult to quantify and is evolving. The current level of knowledge about systemic risk allows, at most, to reduce it partly. In addition, the source of shock may be outside the scope of influence of the Polish macroprudential supervision authority (e.g. due to its location abroad or in the area of other domestic economic policy).

Additionally, the costs of complete elimination of systemic risk may be too high. Reducing systemic risk, e.g. by increasing the resilience of the system, reduces the risk of a crisis, but may be associated with costs in the form of a slowing down GDP growth. Therefore, macroprudential policy takes into account both the benefits and costs of its actions. The attempt to reduce the likelihood of financial crisis occurrence to zero could require very high economic and social costs and would therefore not be economically viable.

**The Committee counteracts the materialisation of systemic risk by:**

- **measures to reduce the build-up and accumulation of excessive imbalances in the financial system; and**
- **strengthening the resilience of the financial system.**

The above-mentioned types of measures reduce the probability of occurrence of a financial crisis while some of them additionally reduce the size of the negative effects (depth) of the crisis if it occurs.

**The Committee recognises that, in principle, the choice of the approach to mitigate systemic risk will depend on the phase of its accumulation.** At an early stage of the process, where imbalances have not yet reached a level that constitutes a significant threat to financial stability, the Committee will seek to contain their build-up. This will be accompanied by measures to strengthen the resilience of the financial system which may also have an impeding effect on the imbalances. Where imbalances reach a very high level, the most appropriate response will be mainly to build adequate buffers to increase resilience. In the materialisation phase of systemic risk, financial entities should be allowed to use previously accumulated buffers. This will help to maintain access to financial services (credit) and reduce the depth of the crisis, mitigating a possibility of a negative feedback within the financial system and between the financial system and the remaining part of the economy.

**The Committee will make every effort to ensure that macroprudential policy is pursued in a transparent manner, while maintaining the necessary confidentiality requirements.**

Adequate transparency is required to enhance the impact of macroprudential policy on the financial system by influencing the expectations of economic agents (the expectations channel – see Chapter 7) as well as to build public confidence, which is an essential condition for maintaining financial stability. Timely communication of assessments and expectations of the macroprudential supervision authority will allow financial institutions to assimilate them into their financial plans, avoiding excessive disruptions to their business activities.

---

## 3. Strategic priorities

**Strategic priorities point to those measures that the Committee considers to be key to maintaining financial stability in Poland.**

**First of all, the Committee aims at ensuring an adequate level of resilience of the financial system to shocks.** This does not mean abandoning the active prevention of the build-up of financial imbalances (credit booms, asset bubbles) or other phenomena that may be a source of systemic risk. However, the Committee does not define the desired level of certain variables, such as the level of debt or credit growth. With the current knowledge on the functioning of the financial system, the cost-benefit balance of such activities is highly uncertain universally.

**The Committee particularly focuses on the resilience of the banking system** since this sector has the greatest potential to generate systemic risk. It results from several reasons:

- banks and other credit institutions constitute over 70% of financial sector assets in Poland,
- the structure of banks' balance sheets means that they can generate systemic risk in most of its dimensions (these dimensions are covered by the intermediate objectives of macroprudential supervision),<sup>7</sup>
- banks provide most basic financial services, including acting as the main payment service provider.

**At the current stage of development, the sector of non-banking financial institutions in Poland has a limited potential to generate systemic risk.** Business models of non-banking financial institutions as well as the existing regulations make them an insignificant source of systemic risk. The evolution of non-banking sector and its business models will be subject to analysis by the Committee.

**The stability of financial infrastructure institutions and systems – payment, clearing, settlement and central counterparties – is essential for maintaining financial stability.** In Poland, these entities are supervised by both the microprudential supervision authority (KNF) and systemic oversight (NBP). The Committee acquaints itself with the supervisory activities that ensure a continuity of service provision and the resilience of the financial infrastructure. If it is recognised that such continuity or resilience can be compromised, the Committee is determined to take appropriate measures to mitigate the occurrence of systemic risk.

**Access to information and adequate analytical framework are essential for exercising effective macroprudential supervision.** They enable the identification and assessment of systemic risk and assessment of the impact of introducing individual macroprudential instruments.

---

<sup>7</sup> See Chapter 5.

---

## 4. Cross-institutional cooperation

**Macroprudential policy in Poland is implemented in a collegial manner, therefore the Committee recognises that efficient cross-institutional cooperation is a key condition for its effectiveness.** Members of the Committee include:

- **President of the National Bank of Poland,**
- **Chairman of the Polish Financial Supervision Authority,**
- **Minister of Finance,**
- **President of the Management Board of the Bank Guarantee Fund.**

The institutions they govern play significant roles in supporting the stability of the national financial system since they perform the functions, respectively, of the central bank, the microprudential supervision, the financial system regulator and the deposit guarantor and, at the same time, the resolution authority.

The collegial nature of the Committee allows for:

- using all the information available to the institutions represented in the FSC in the process of systemic risk assessment, in particular information of a qualitative nature;
- using the analytical resources of individual institutions and their comparative advantages in specific areas of analysis;
- reducing so called in-house view, i.e. one-sided assessments of systemic risk sources;
- multilateral assessment of potential consequences of policies pursued by the institutions represented in the Committee (e.g. microprudential supervision, monetary and fiscal policy, the resolution system) for the achievement of macroprudential policy objectives and its effectiveness;
- enhancing the capacity to coordinate economic policies that have a significant impact on systemic risk.

**The Committee acknowledges that one of the basic conditions for the effectiveness of macroprudential supervision is the consistency of regulatory measures relating to the financial system.**

**The Committee recognises that for the efficient implementation of macroprudential policy, it is recommended to establish appropriate cooperation mechanisms.**

The cooperation of financial safety net institutions whose representatives are members of the Committee will take three organisational forms: (i) Committee meetings, (ii) activities of the Permanent Working Group (SGR), and (iii) meetings of task forces. The Committee sees the importance of structures ensuring cooperation at the technical and expert level, especially the SGR, in preparing the analyses underpinning the decisions of the FSC-M.

**The Committee takes decisions at its meetings<sup>8</sup> by voting, and seeks to reach a consensus.** In the Committee's opinion, the consensus allows to increase the effectiveness of the FSC-M activities. The Committee recognises that the consensus-building process based on sound

---

<sup>8</sup> The FSC-M meets at least once a quarter. In exceptional cases, decisions may be taken without a meeting.

---

and in-depth analyses allows to reduce the likelihood of responding to false signals about sources of risk. The consistency of the message conveyed by the members of the Committee in relation to the public serves to build the reputation and credibility of the Committee as a macroprudential authority in Poland. However, if consensus cannot be reached, to prevent postponing measures aimed at mitigating risk accumulation, the Committee will make its decisions by a majority vote.

**The Committee sees the importance of international cooperation, particularly at the European Union level.** The European financial system is highly interconnected and systemic risk can be transmitted across jurisdictions. Macroprudential measures should therefore take this fact into account. The Committee monitors with particular attention the activities of the European Systemic Risk Board and other national macroprudential supervisors in the EU. At the same time, it duly implements the ESRB recommendations to strengthen the effectiveness of cross-border macroprudential policies.

---

## 5. Identification and assessment of systemic risk

**The accurate and timely identification and assessment of systemic risk is a prerequisite for effective macroprudential supervision.**

**Systemic risk is embedded in the financial system and requires a holistic view of both the financial system and its linkages with the real economy.** The nature of systemic risk evolves with changes in the economy, the structure of the financial system, technological and financial innovations or regulations. Systemic risk is therefore complex, evolutionary and rarely materialised, which makes its analysis difficult.

**The identification of systemic risk should cover two aspects – cyclical and structural.** The cyclical aspect of systemic risk stems from periodic changes in its level over the financial cycle and is to a large extent associated with the risk of excessive growth in indebtedness and leverage and instability of the funding model. On the other hand, the structural aspect of systemic risk results, among others, from the interconnectedness of institutions, the concentration of exposures and the structure of incentives in the financial system which influence the behaviour of financial system participants. It is important that systemic risk analyses are forward-looking and have a perspective of several years or more. This is associated with another challenge for the identification of systemic risk since the longer the analysis horizon, the greater the uncertainty as to the accuracy of conclusions.

The dimensions of systemic risk which reflect these two basic (cyclical and structural) aspects and which the FSC-M uses to identify systemic risk are presented in Table 1. They correspond to the intermediate objectives of macroprudential supervision proposed by the ESRB and adopted by the FSC-M. These dimensions allow for the decomposition of risk and thus facilitate its identification. However, systemic risk is more than just a simple sum of its components, since the risks building up in particular dimensions tend to mutually reinforce one another. Thus, the information on risk accumulation in several areas provides important qualitative information on the overall risk.

**Table 1. Systemic risk dimensions**

Risk dimension	Description
Risk arising from excessive growth or level of debt or leverage	<b>Risk resulting from pro-cyclical behaviour of financial institutions</b> reflected in the credit/financial/debt cycle; this risk manifests itself, inter alia, in excessive leverage, level and growth of debt (including lending), credit risk, which may be accompanied by price bubbles on the asset market. This risk may also manifest itself in standards and terms on loans.
Risk resulting from excessive mismatch between assets and liabilities, or from the risk of illiquidity of financial markets	<b>Risk of unstable funding models</b> arising from the structure and sources of funding and excessive funding costs. <b>Liquidity risk</b> as a consequence of excessive <b>maturity mismatch of assets and liabilities</b> (as well as off-balance sheet operations) or <b>their degree of liquidity</b> . <b>Risk of illiquidity of financial markets</b> as a consequence of, among others, the materialisation of the two above mentioned risk categories and structural changes in financial markets.
Risk resulting from excessive concentration of exposures and relations between entities of the financial system	<b>Risk arising from large exposures</b> to individual financial and non-financial entities (concentration of exposures towards entities) or homogeneous groups of exposures (concentration of exposures towards risk factors). <b>Contagion risk</b> as a consequence of the existence of a network of mutual exposures or the interdependencies of asset prices or a similar balance sheet structure of financial institutions (resulting in increased sensitivity of the entire system to disruption).
Risk arising from misaligned incentives	<b>Excessive risk-taking by managers</b> (management boards, owners) of <b>financial institutions</b> , in particular risk related to the excessive size of financial institutions or complexity of their business models as a result of their specific role and the lack of substitution of their services (aspect of incentives to increase the size and the role in the financial system, aspect of market structure). <b>Risk of misaligned incentives leading to increased moral hazard among depositors or investors</b> resulting, among others, from the legal framework concerning the protection of depositors and certain investor groups, lack of/inadequate resolution system for financial institutions of financial infrastructure entities or lack of oversight of certain sectors.
Risks arising from insufficient resilience of the financial infrastructure	<b>Risk of instability of financial market infrastructure:</b> risk of discontinuation of key services for many financial institutions (among others, functioning of payment and settlement systems, clearing houses), inadequate institutional solutions (e.g. risk management rules in clearing houses), inadequate resilience to risk materialisation.

**A prerequisite for the identification of systemic risk is the knowledge of the functioning of the financial system, its individual sectors and cross-sectoral linkages, as well as interdependencies with the real economy.** Understanding of the mechanisms of shock transmission in the context of systemic risk is fostered by the analysis in terms of:

- vulnerabilities in the financial system,
- risk triggers,
- features conducive to the spread and amplification of shocks in the system, and
- phenomena mitigating the effects of shocks.

**The analyses performed by the Committee to identify systemic risk are based on quantitative methods and qualitative assessment.** Due to the complex nature of systemic risk, a wide range of indicators and models as well as expert methods are used for its identification. In cyclical terms, important information is provided, among others, by credit and financial cycle measures and indicators as well as models of early warning against banking crises. Stress tests and simulations to assess the resilience of the financial system to shocks form another set of tools. They make it possible to reflect both the cyclical aspect of risk and, above all, its structural aspect, among others, by taking into account the linkages between institutions and the impact of individual entities on the whole system. On the other hand, the structural models of the financial system and the economy enable taking into account, in a consistent manner, the interactions between various dimensions of risk and their overall impact on system behaviour.

**Risk identification is a major challenge not only in Poland but also worldwide.** It is currently difficult to conclude that the available data and models allow for coherent and holistic modelling of systemic risk. It should be expected that the set of indicators and

analytical tools used will evolve with the growth of knowledge about the functioning and evolution of the financial system and changes taking place therein. For this reason, it is important that representatives of the institutions gathered in the FSC-M participate in the activities of international bodies dealing with systemic risk analysis, in particular in the work of the European Systemic Risk Board.

**Identification of data unavailable in the process of systemic risk analysis (so-called information gaps) and supplementing them is one of important activities of the Committee.** Systemic risk arises, among others, from the nature and strength of the linkages between financial sector actors. Therefore, in order to identify this risk, granular information on individual entities, relations between them and distribution of features in the entire system becomes important.

**A structured exchange of information between the Committee members is a permanent element of the process of systemic risk identification.** Systemic risk may arise in areas where not all Committee Members have the same information since they are responsible for different aspects of the financial system functioning. For this reason, members regularly share their systemic risk assessments within the Committee. These assessments include, among others, the identification of areas that may trigger systemic risk, the severity of this risk, the horizon of its materialisation, risk amplifiers and risk mitigants and proposed macroprudential actions to counteract it. Such regular exchange of information among Committee Members increases the chances of early detection of systemic risk and taking appropriate remedial measures. On its basis, the FSC-M takes decisions on recognising a specific phenomenon as a source of systemic risk.

---

## 6. Macroprudential instruments

### 6.1. Powers of the Committee – statements and recommendations

**The Financial Stability Committee may indirectly influence the financial sector by using statements and recommendations.** The Committee is not authorised to issue acts directly regulating the activity of the financial system in Poland. The Committee issues statements when it considers it appropriate to inform of the sources of systemic risk, the extent of its impact and potential consequences. Such a statement informing of the identification of the systemic risk source may in itself result in desirable adjustments on the part of market participants. Statements are addressed primarily to entities outside the FSC-M.

**Recommendations are issued if the Committee wishes to indicate the necessity for NBP, KNF, the Minister of Finance or BFG to undertake measures mitigating systemic risk.** Recommendations are not legally binding; however, the Act introduced the “act or explain” principle, according to which the addressees of recommendations are obliged to inform the FSC-M about measures undertaken to mitigate systemic risk or to explain the reasons for not taking such actions.

### 6.2. Classification of macroprudential instruments

Given the evolutionary nature of systemic risk, it is difficult to determine ex-ante what instruments will be needed to mitigate it at a given moment. However, as the FSC-M has identified priorities in Chapter 4 of the Strategy, these will be mainly instruments affecting the banking sector.

In practice, most of macroprudential instruments are used to mitigate risks classified in one dimension of systemic risk, only few (such as the systemic risk buffer) can be more widely applied (see Table 2).

**Table 2.** Risk dimensions and corresponding examples of macroprudential instruments

Risk dimension	Examples of macroprudential instruments
Risk arising from excessive growth or level of debt or leverage	<ul style="list-style-type: none"> <li>– countercyclical buffer</li> <li>– limits on the leverage ratio</li> <li>– increasing risk weights for credit exposures in the residential or commercial real estate market,</li> <li>– borrower’s income encumbrance limits (DTI, DSTI)</li> <li>– limits for the ratio of the loan amount to the value of the collateral (LTV)</li> </ul>
Risk resulting from excessive mismatch between assets and liabilities or from the risk of illiquidity of financial markets	<ul style="list-style-type: none"> <li>– tightening and determining the short-term and long-term liquidity requirements</li> </ul>
Risks arising from excessive concentration of exposures to entities or risk factors and related links between financial system entities	<ul style="list-style-type: none"> <li>– systemic risk buffer</li> <li>– tightening of the requirements for large exposures</li> <li>– increasing risk weights for exposures inside the financial sector</li> </ul>
Risk arising from misaligned incentives affecting the behaviour of financial institutions or their clients	<ul style="list-style-type: none"> <li>– systemically important institution buffer</li> <li>– systemic risk buffer</li> <li>– raising the own funds requirements</li> </ul>
Risk arising from insufficient resilience of the financial infrastructure	<ul style="list-style-type: none"> <li>– rules of risk management in the payment system* and other systems and entities of the infrastructure</li> </ul>

Notes:

\* The rules of risk management in the payment system are subject to systemic oversight by NBP, and the FSC-M obtains information on the practices applied and may present its statement and recommendations.

Taking into account the procedures for the implementation of macroprudential instruments and, in certain cases, the existing legal constraints and conditions for their application, measures relating mainly to the banking sector can be divided into two groups:

- **harmonised instruments**, i.e. those regulated at the European level in the provisions of the CRR<sup>9</sup> and CRD,<sup>10</sup> implemented in Poland through the Act on Macroprudential Supervision;
- **non-harmonised instruments**, i.e. measures other than those specified by the Act and the CRR, which may be used by national authorities, in compliance with the provisions of Polish law.

Pursuant to CRD/CRD harmonised instruments include:

- capital buffers:
  - countercyclical capital buffer,
  - systemic risk buffer,
  - other systemically important institution buffer<sup>11</sup>,
- increasing risk weights for credit exposures in the residential or commercial real estate market.<sup>12</sup>

<sup>9</sup> CRR – Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

<sup>10</sup> CRD – Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

<sup>11</sup> The CRD still provides for the application of a global systemically important institution buffer, however, no financial institution in Poland meets the criteria of a global institution.

<sup>12</sup> The risk weights for credit exposures in the residential or commercial real estate market may also be increased to a defined maximum level under Article 124 of the CRR.

---

In addition, reference should be made to instruments activated under the procedure laid down in Article 458 of the CRR:

- increasing the minimum level of own funds,
- tightening of the requirements for large exposures,
- tightening of the liquidity standards applicable in the EU (LCR and – in the future – NSFR),
- increasing risk weights for exposures inside the financial sector,
- increasing the scope of information published by financial entities.

**Non-harmonised instruments** affecting primarily the banking sector include all other instruments that may be available, including, for example:

- limits related to the value of collateral of specific credit obligations (collateral-based measures),
- limits on the relation of borrower's current income and its credit obligations (borrower-based measures).

From an economic point of view, the main difference between the former and the latter group is the former's impact on the resilience of the banking sector and the latter's impact on the parameters of banks' lending policy and, indirectly, on the capacity of non-financial entities to borrow on the basis of income or collateral criteria.

From a formal point of view, the procedure for the use of harmonised instruments is laid down in the CRR and the Act on Macroprudential Supervision. The said Act also sets out the role of the Committee in applying a given instrument. The use of the aforementioned harmonised instruments is subject to a number of requirements and many of them can only be applied in specific circumstances and in a strictly defined manner. In the case of non-harmonised instruments, the current practice shows that they are implemented through KNF recommendations to banks. The FSC-M recommendations can apply to both these areas, i.e. the use of harmonised and non-harmonised instruments.

The provisions of European law also provide for a possibility of introducing some instruments which can be applied to meet macroprudential objectives to non-banking financial institutions.<sup>13</sup>

Other regulations of the European Parliament and of the Council also provide for counteracting the infringement of the stability of the entire financial system. The PRIIP<sup>14</sup> and MIFIR<sup>15</sup> Regulations provide for a possibility to carry out a product intervention, i.e. to prohibit or restrict the offering of financial instruments, structured deposits or insurance-based investment products posing a threat to the stability of the entire financial market.

---

<sup>13</sup> AIFM Directive (Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010), the provisions of which are implemented in Poland through the Act on Investment Funds, provides for the power of the national capital market supervision authority to impose limits to the level of leverage that an AIFM can apply. The aim of the limit is to reduce the extent to which the use of leverage contributes to the build-up of systemic risk. Therefore, also in this case, this macroprudential supervision measure can also be deemed harmonised, although its scope of application extends beyond the banking sector.

<sup>14</sup> PRIIP – Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products.

<sup>15</sup> MIFIR – Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.

### 6.3. Selection and calibration of instruments

The decision on macroprudential action requires the selection of an appropriate measure or measures, defining their impact and the way they are applied, i.e. calibration.

**While recommending the use of macroprudential instruments to its member institutions, the Committee is guided by the following principles:**

- **the measure should not directly interfere with individual decisions of financial institutions regarding the financing of economic agents;** however, it may set prudential limits regarding credit policy, e.g. LTV, DTI, DSTI;
- **the measure should be proportionate to the severity of systemic risk and must mitigate it in an effective manner,** i.e. taking into account both the benefits in the form of risk reduction and the associated costs. This means that in its recommendations the Committee takes account of the economic costs of the measures taken but above all, it seeks to reduce systemic risk to an acceptable level;
- **the set of applied macroprudential instruments should be as short as possible,** which facilitates the calibration and assessment of the systemic risk impact of individual instruments as well as fosters the transparency of implemented policy and its communication. Reducing the number of instruments used does not entail using a single instrument in response to increased risk in one dimension. Some instruments are mutually complementary, and it may be advisable to use more than one instrument at the same time to effectively address systemic risk and to reduce the risk of regulatory arbitrage.

**The Committee is aware that the calibration of individual measures is and will remain a major challenge.** Some of the instruments are relatively new and the experience in their application is limited. Consequently, the calibration of instruments in Poland must be based on theoretical analysis and case studies of their application in other countries. This reinforces the importance of cooperation within the ESRB and other international bodies dealing with macroprudential policy as well as research on the impact of macroprudential instruments on systemic risk and the economy.

---

## 7. Communication

**Communication is an important aspect of macroprudential policy.** Many of the communication obligations of the Committee result directly from the Act. However, the Committee's intention is to actively develop its communication activities in a number of areas, given the positive impact this can have on the effectiveness of the macroprudential policy pursued by the Committee.

**Communication on macroprudential supervision aims to achieve the following objectives:**

- **enhancing the knowledge of market participants and the public about developments that may pose a threat to financial stability;** this should limit behaviour of market participants leading to increasing systemic risk and strengthen market discipline;
- **ensuring a better understanding the rationale behind measures undertaken by the Committee,** their consequences and increasing public acceptance of these measures;
- **strengthening the Committee's role as a macroprudential authority** and, in the long term, influencing the effectiveness of the macroprudential policy;
- **building public confidence in the financial system,** which is a prerequisite for its stability and uninterrupted provision of financial services.

**Effective communication contributes to strengthening of the so-called 'expectations channel',** increasing predictability of the regulatory environment for financial institutions that can integrate new prudential requirements into their plans. This should have a positive impact on the effectiveness of macroprudential policy.

**Macroprudential communication is addressed to both professional users (market players, public institutions) and other actors of economic life (e.g. media, politicians, consumers of financial services).** The Committee therefore recognises that the form and content of communication should be adapted to the recipient.

**The main elements of the Committee's communication policy** include: (i) a document describing the organisational and functional framework of macroprudential supervision; (ii) a description of the macroprudential policy strategy (i.e. this document); (iii) the annual report on the Committee's activity; (iv) cyclical information on systemic risk assessment; (v) information on macroprudential measures; and (vi) follow-up information concerning these measures.

- Information concerning the **institutional and functional framework**<sup>16</sup> of the authority entrusted with the macroprudential supervision mandate provides the legal basis for its functioning, its objectives and tasks, the macroprudential powers and instruments available to it and the control mechanisms.
- The document describing the **strategy** of the Committee presents the main ideas (mission, principles) of the macroprudential policy pursued, priorities, ways of achieving the objectives, instruments and main principles of their use.

---

<sup>16</sup> Financial Stability Committee (2016), *Macroprudential Supervision in Poland institutional and functional framework*.

- **Annual report of the Financial Stability Committee** is a cyclical document describing the overall macroprudential supervision activities in a given year. The document also serves the purpose of fulfilling by the Chairman of the FSC-M of its obligation which results from Article 9(2) of the Act on Macroprudential Supervision and refers to the presentation of an annual report on the activities of the Committee to the Sejm (Lower House of Polish Parliament).
- The Committee regularly informs of the **identified sources of risk** to financial stability and their assessment. This information is contained in press releases after each meeting of the Committee. In its press releases, the FSC-M provides synthetic assessments of the discussed developments in the context of their impact on the stability of the financial system and presents current issues important from the point of view of systemic risk assessment.
- The Committee communicates the **macroprudential measures undertaken to the public**. Press releases after the Committee meetings are the basic form of communication. They may be accompanied by a publication containing a detailed description of the identified risk and the recommended measure to mitigate it, the addressees of the recommendations (i.e. who is responsible for taking the specific action) and the timeframe of potentially applied instruments.
- **Follow-up actions** comprise monitoring the implementation of instruments, monitoring the compliance of addressees with the macroprudential measures taken (verification of implementation of the “act or explain” principle) and ex-post evaluation of the effectiveness of macroprudential instruments and their potential verification. Such information is contained in the press releases of the meetings or communications of the institutions represented in the FSC.

Communication tasks performed by NBP at the request of the Committee include notifying European institutions of macroprudential policy decisions taken in Poland.

**The Committee may use the following types of communication policy tools.** They include:

- a **website** dedicated to macroprudential supervision and the activities of the Committee. For the purposes of the communication policy of the FSC-M, a separate tab dedicated to macroprudential<sup>17</sup> supervision was launched on the NBP website in 2015. It provides a central communication platform and gathers all types of information that the macroprudential authority is obliged or willing to publish;
- **publications** – comprising reports, shorter analytical studies, research results and brochures;
- **events** – a form of direct interaction with stakeholder groups, such as seminars, thematic conferences, speeches, hearings (e.g. within public consultations);
- **direct relations with media** – including press conferences and press releases, briefings and interviews with representatives of the macroprudential authority.

The Committee’s communication policy takes account of its collegial nature and the fact that consistency of communication is one of the factors affecting its effectiveness.

The Committee will seek to gradually increase the amount of information made available on systemic risk assessments and the Committee’s activities and their justification as well as to develop new forms of communication better adapted to a diverse audience.

---

<sup>17</sup><http://www.nbp.pl/nadzormakroostroznościowy/index.aspx>

---

## 8. Challenges and long-term development priorities

Since its inception, the Committee has been gathering experience and developing analyses and studies on systemic risk. The Committee recognises the need for further intensifying analyses and research and the long-term development of a number of macroprudential policy aspects.

**The Committee has identified the following long-term macroprudential policy development priorities:**

- **increasing the Committee's capacity to identify, measure and assess systemic risk** by:
  - (i) broadening access to data enabling the analysis of risk distribution, in particular in the area of credit risk assessment, real estate market, household debt, and (ii) developing models intended for systemic risk analysis, in particular those of a predictive nature and for contagion effect analysis.
- **enhancing the capacity of the FSC-M to effectively mitigate systemic risk** by developing models to calibrate and analyse the impact of macroprudential instruments on the financial system and the economy and the interaction between different instruments.
- **developing methods of analysis allowing to assess the impact of structural changes in the financial system and its environment on systemic risk**; in particular, long-term phenomena and processes such as technological and financial innovation and climate change may be drivers of such changes.
- **developing the Committee's approach to the interaction and relationship of macroprudential policy with other economic policies**, in particular microprudential supervision, monetary policy, fiscal policy as well as competition and consumer protection policy.
- **developing and elaborating new communication methods of the Committee with the public** in order to influence a better understanding of systemic risk and measures undertaken by the Committee by politicians, public opinion and the general public.

The measures discussed above are elements required for a fully-fledged macroprudential policy framework in the future.

Progress in the implementation of these priorities will be reviewed by the Committee on a three-yearly basis.

