

# Evolving European regulatory landscape for NPLs: how to prepare?

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**European Bank**  
for Reconstruction and Development

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# I. Resolving NPLs: EU regulators' view

## **No single silver bullet for NPL resolution in Europe: it needs a robust “toolkit” for regulators and banks.**

- More robust governance, business model and capital adequacy
- Better incentives for banks, including increasing banks provisioning
- Improving the quality and adequacy of information
- More reliable third party valuations
- Decrease barriers to entry for investors
- Increased coordination with multi-creditors restructuring
- Increase in servicing capabilities
- Further alignment of insolvency laws between countries

## II. Council of the EU's action plan on NPL

On 11 July, The Council of the EU announced its conclusions on an action plan to tackle NPLs in the EU, inviting EU regulators to take concrete actions

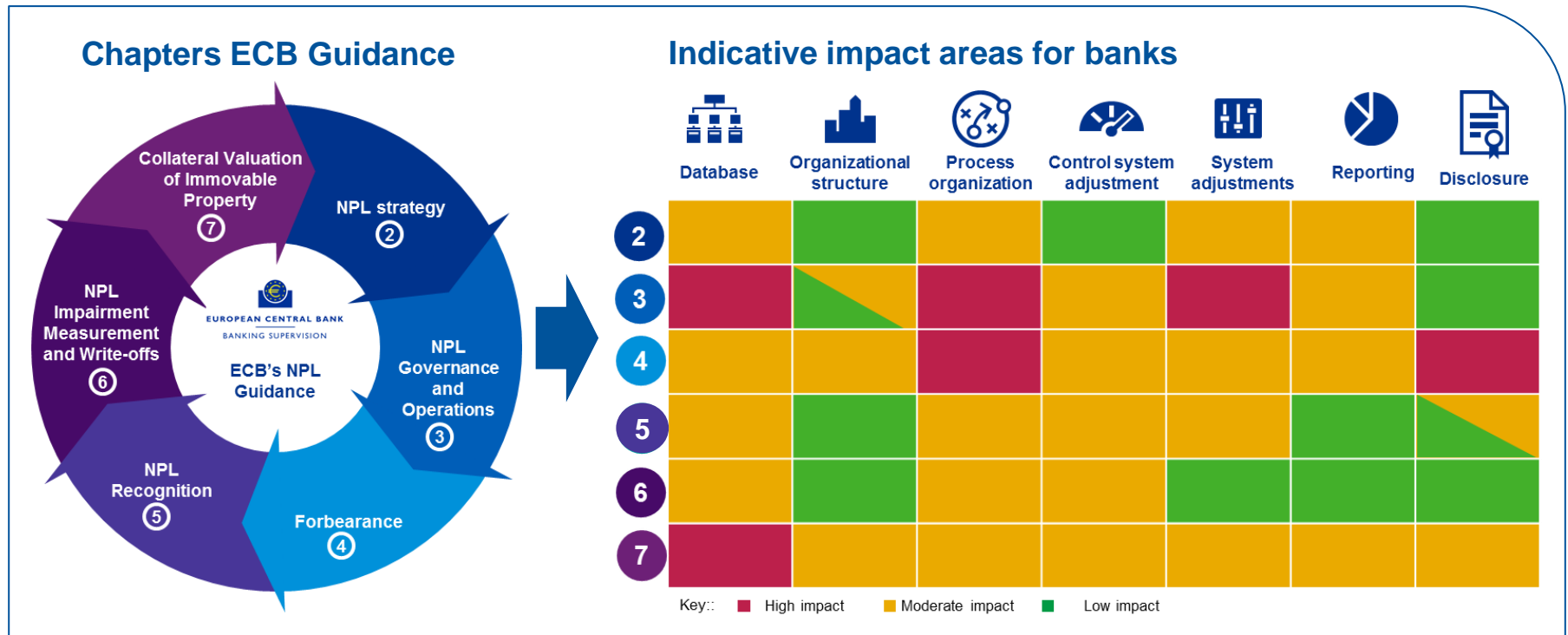
### Non-exhaustive pipeline of initiatives for NPLS

<b>EBA</b>	Guidelines for banks on loan tapes monitoring (incl. minimal information requirements)	End 2017
<b>EBA + ECB + EC</b>	Strengthen the data infrastructure: <ul style="list-style-type: none"> <li>• Standardise data for NPLs</li> <li>• Consider the setting-up of NPL transaction platforms</li> </ul>	End 2017
<b>EC</b>	Develop a "blueprint" for the potential set-up of national AMCs	End 2017
<b>EC</b>	Results of the benchmarking exercise on national loan enforcement / insolvency regimes	End 2017
<b>ECB</b>	Guidance similar to "Guidance to banks on NPLs" for less significant institutions.	End 2018
<b>EBA</b>	General guidelines on NPL management	Summer '18
<b>EBA</b>	Guidelines on banks' loan origination, monitoring and governance	Summer '18
<b>EC</b>	European approach to foster the development of secondary markets for NPLs <ul style="list-style-type: none"> <li>• Remove impediments to the transfer of NPLs</li> <li>• Simplify and potentially harmonise the licensing requirements for third-party loan servicers</li> </ul>	Summer '18
<b>ESRB</b>	Macro-prudential approaches to prevent the emergence of system-wide NPL problems	End 2018
<b>EBA + ESMA</b>	Enhanced disclosure requirements on asset quality and NPLs to all banks	End 2018
<b>Member States</b>	<u>To consider</u> carrying out dedicated peer-reviews on insolvency regimes across the EU	End 2018



# III. ECB Guidance to banks on NPLs

- Published on 20 March 2017
- Applies to SIs directly supervised by the ECB
- Expectations based on severity and scale of NPLs
- Assessment of banks NPLs management in SREP cycle (Pillar 2 implications)



Source: KPMG ECB Office



## IV. ECB prudential provisioning for NPEs

- **Addendum to the ECBs guidance on NPLs**
- Published on 4 Oct. 2017
  - Consultation until 8 Dec. 2017
  - Public hearing 30 Nov. 2017
- **Non-binding**
- Sets out supervisory expectations for minimum levels of prudential provisioning (“backstop”)
- **For new NPLs**
  - Covers the flow (not the stock)
  - New NPLs recognized from 1 January 2018
- Full coverage for (at least)
  - unsecured portion of NPLs after 2 years (100% at year 2)
  - secured portion after 7 years (linear provisioning)
- Banks are expected to explain any deviation from the guidance to supervisors
- Non-compliance **may dictate additional supervisory measures** (unclear)

# V. Other EU regulatory initiatives

## EBA Guideline on NPLs

- The EBA is translating the ECB Guidance into a Guideline
- Will apply to all EU banks but proportionality not yet known

## EBA standardised data templates for NPL sales

- Pan-European, multi-asset class templates to EU regulated banks.
- New standard (non-binding) for data requirements for NPL sales
- (1) Portfolio screening, and (2) FDD

## Blueprint for national AMC

- Not a menu: sets out common principles for the relevant topics (e.g. assets perimeters, valuation rules, capital structure, governance / operations)
- Permissible design vs BRRD / state-aid rules
- ONE of the solutions of which to choose from

## Enforcement and insolvency

- Desire to move towards standardisation of approaches in EU
- Difficult to achieve in practice, but national authorities encouraged to do so

# VI. Key considerations for Hungarian banks



## Key considerations

- 1 While Hungary non-Euro, EBA NPL Guideline would apply
- 2 NPL strategy and link to operations and market
- 3 Provisioning targets (quantitative and timing)
- 4 NPE definition and implications
- 5 Quality of data for NPL management AND sales
- 6 Out-of-court restructuring (MNB recommendation)
- 7 EU regulators emphasis on preventing new NPL flows

<http://npl.vienna-initiative.com/>



Thank you!