EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Template for comments

Public consultation on the draft addendum to the ECB guidance to banks on non-performing lo

Institution/Company

Združenje bank Sloven je (The Bank Association of Slovenia)

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General comments

Template for comments

Public consultation on the draft addendum to the ECB guidance to banks on non-performing loans

Please enter all your feedback in this list.
When entering feedback, please make sure that:
- **each comment deals with a single issue only;**
- **you indicate the relevant article/chapter/paragraph, where appropriate;**
- **you indicate whether your comment is a proposed amendment, clarification or deletion.**

Deadline:	8 December 2017

ID	Chapter	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be taken on board	Name of commenter	Personal data
1	5 - Related supervisory reporting	1	12	Amendment	Taking into account the fact that the document w ll start to apply to NPEs that will (already) occur after 1 January 2018, we propose that the ECB defines in advance and in this document, as an annex, a template that the reporting institutions wi l have to use for reporting instead of waiting for details to be provided by the JSTs at a later state.	We cannot agree that the JSTs will provide banks with further details regarding the coverage levels by NPL vintage reporting at a later stage and belive that uniform template should be provided as an annex to this document.	[redacted]	Publish
2	4 - Prudential provisioning backstop	4.1 and 4.2	10, 11	Amendment	Concerning the provisions of Chapter 4, which relate to the requirement to create 100% provisions for the secured exposures in the period of 7 years, we certainly support the view that, in terms of efficient credit risk management, the Bank must realise its collateral in due time, and that in this context, the 7-year period seems long enough for execution. However, we would like to point out that for certain types of real estate collateral such treatment is not appropriate (eg due to longer legal procedures, the specifics of individual types of real estate that, due to their functional characteristics and economic reasons, do not lose value at such rates, the effects of the real estate cycle etc.). This is all the more important if we take into account the requirement included under point no. 4.2. of the document that provisions should be formed gradually, ie approximately equally over a period of 7 years (thus, for example, in the 4th year, NPLs should be impaired almost 60%, regardless of the value of collateral; in the 5th year the impairments would exceed 70% etc...), notwithstanding the notion that the application of the backstop "should not be seen as a best practice timetable for provisioning, but rather as a supervisory tool for addressing outliers". We believe that in any case the value of the property must be permanently assessed. The requirement for a complete devaluation of the property over a seven-year period may (unjustly) force the owner to behave in a non-market manner and attempt to sell the property as soon as possible, which is not necessarily economically just fied and can cause unnecessary damage to the bank (a though we fully agree with the importance of timely and effective resolution of the NPLs). On this basis, we propose a reflection on the introduction of categorization of real estate collateral, for which, for example, a) a less strict regime than proposed in chapter 4 of the document (eg linear creation of additional impairments over a period of 8-9 years or an increase in the minimum value of real estate collateral even after 7 years from 0% to at least 25% of the value), or b) the provision of exceptions to the proposed provisions of chapter 4, would be applied. Alternatively, ECB could consider a suspension of the app ication of the subject requirement for the certain period in order to conduct a specific study on the impact of the proposed rules and analysis for the determination of the appropriate impairment growth rate and period on the basis of recorded recovery rates for different types of collateral that would be presented to the banking industry and on basis of which a final decision could be taken.	As explained in our detailed comment.	[redacted]	Publish