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**From:** Malta Bankers' Association [REDACTED]  
**Sent:** 07 December 2017 09:01  
**To:** SSM Public Consultation  
**Subject:** Public Consultation on the draft addendum to the ECB Guidance to banks on non-performing loans

The European Banking Federation (EBF) is submitting its detailed comments in relation to the ECB's captioned Consultation Document. The Malta Bankers' Association (MBA) is a full member of the EBF and hereby endorses the EBF's submissions and recommendations in this regard.

Nevertheless, the MBA is separately submitting its own comments on certain particular points of concern which its member banks would like to highlight.

1. Our member banks will be adopting IFRS 9 as from 1 January 2018. It is expected that IFRS 9 will require institutions to take a closer and a more statistical approach when analysing credits, and that this will result in an increase in impairment levels. As such, we believe that these new accounting requirements need to be bedded in before contemplating any additional prudential losses which could impact the cost of / access to credit, the more so once the ECB opines that booking of provisions in line with banks' assessment and existing accounting principles should result, in the vast majority of cases, in the backstop not having any effect (page 11 of the Addendum).
2. Our understanding is that for financial reporting purposes, banks will continue to quantify the level of provisions associated with financial assets in accordance with the requirements set out in the respective approved Accounting Standards, as is required by law. The provisions proposed in the addendum will be made for prudential reporting purposes. The latter quantification of regulatory provisions must also be disclosed in financial reporting to the markets. Naturally this gives rise to conflicting asset valuations being reported at the same time, with the resultant doubts that such a situation could give rise to. Such conflicting signals to the capital markets could undermine their efficiency at a time when banks are increasingly reliant on markets for additional capital requirements.
3. Regarding the secured backstop, we do not agree, in principle, that if collateral has not been realised after a period of seven years, the collateral is to be deemed ineffective, and full (100%) prudential provisioning applied. Why should the intrinsic value of the collateral held be totally ignored, the more so when the valuation of such collateral has already been professionally and conservatively reassessed at forced sale prices, and may well exceed the amount of the NPL, even at such "fire-sale" prices? Also, the possibility of such NPLs being sold in the market could be weakened as vintage buckets approach the deadlines under the proposed backstops. And the required linear build-up for the backstop means that its impact will start being felt as from year 1, and in the subsequent early years, during which it is unrealistic to expect recovery efforts to have already borne fruit.

4. For the purposes of the secured backstop, the ECB considers it “*immaterial whether the delays in realising the security were due to reasons beyond the banks’ control (e.g. length of time it takes to conclude legal proceedings)*”. This approach unfairly penalises banks operating in Member States where the judicial system inevitably involves protracted court proceedings. These realities need to be recognised, and the blame for such shortcomings in a country’s legal infrastructure not placed upon the banks by adopting a “one size fits all” policy. In Malta, it is the case that despite court delays, eventual recovery of secured exposures is generally not in doubt, as evidenced by the relatively low level of write-offs.

**James Bonello**  
**Secretary General**

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