

Cover letter – Mazars’ response to the European Central Bank (“ECB”) in respect of the public consultation on draft guidance to banks on non-performing loans (“NPLs”)

Paris, 14 November 2016

Mazars welcomes the opportunity to comment on the ECB draft guidance to banks on NPLs which was published by the ECB on 12 September 2016.

We appreciate the ECB’s initiative to clarify banking supervision expectations going forward which aim to attain a deliberate and sustainable reduction of NPLs in banks’ balance sheets - we recognise that this has been a key European banking issue since the Asset Quality Review exercise run in 2013-14.

Nevertheless, we would like to submit the following points for the ECB’s consideration where further developments and/or enhancements could be made:

- **Harmonisation of NPL guidance with other major European initiatives and changes** such as the IFRS 9 new accounting standards, which take effect from 1 January 2018, and the European Banking Authority guidelines of a harmonised definition of default, taking effect from 1 January 2021. Notwithstanding that the NPL guidance is non-binding in nature, further consideration should be given to ensuring that the guidance is harmonised.
- In relation to the above-mentioned note, **the lack of accounting consistency with the application of local GAAP or IFRS standards**, sometimes leading to significant discrepancies in accounting classification and/or provisioning.
- **Provision of a transitional period** to assist banks prepare for and implement the required changes such as adapting IT systems, updating the Risk Management Framework and resourcing Workout Units (WUs), as well as, defining roles and responsibilities.
- **Application of the proportionality principle** as smaller banks will undoubtedly face more operational difficulties when implementing sound and robust NPL management whereas such guidance is generally applicable to SIs.
- **Need of additional transparency and reporting to the Supervisor** as a supervisory tool, however we suggest to further engage in a dialogue with other standard setters, before introducing an additional template for external disclosure.

In addition, it is important to emphasise that NPL management is still mainly constrained by national legal proceedings such as insolvency laws, which makes the adoption of a common European supervisory approach more complex. A robust NPL management for the long term should address these national divergences. For this reason, we believe that a dialogue should be initiated early between banks and the Joint Supervisory Teams (JSTs) in every jurisdiction for efficient coordination.

Once this supervisory guidance is implemented, we encourage further debate to adopt a prospective and dynamic NPL management by identifying solutions to foster European banks' recovery, which is not possible at present due to the inexistence of a secondary market.

Our detailed comments to the specific questions raised in this letter are presented in the attached template.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,



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Partner, Global Head of Banking

ID	Chapter	Section	Page	Type of comment	Detailed comment	Concise statement why your comment should be taken on board
1	1 - Intro	1.1		5 Clarification	Reference is made to a "next step". This indicates the ECB will place further emphasis on the timeliness of provisions and write-off. As this is unclear, if there is more guidance to be issued with regards to the timeframe of provisioning, we would recommend clarifying the wording.	We believe this is necessary to develop further this "next step", in order to have a clear implementation timeline.
2	1 - Intro	1.1		5 Amendment	Principles of proportionality and materiality are not clearly defined. We suggest that you define such principles which are akin to an "cost vs benefit/effort" approach. This definition can be applied in the entire content of the guidelines.	For example, it is stated that an effective NPL operating model is based on dedicated NPL working units. However, this may be difficult to implement for smaller structures.
3	1 - Intro	1.2		5 Amendment	The definition of 'High NPL Banks' should take into consideration the characteristics of each country, i.e. considering a sustainable targeted level of NPL appropriate for that country.	We believe that considering the different level of sustainable NPLs, enables appropriate reflection and takes into account the differences that still exist between countries, as demonstrated by the "Stocktake" document.
4	1 - Intro	1.1		5 Clarification	The guidance is intended to constitute ECB banking supervision expectation from now. We suggest that the immediate implementation of this guideline is referred to, with respect to the setup of the appropriate transformation plans. In addition, we suggest a transition period for implementing the guidance to banks on NPL rather asking for an immediate implementation is clearly specified.	There may be specific aspects of the guidance that require changes in credit processes (governance, IT, risk management update, human impacts...), which will require an appropriate timing to be properly planned and executed.
5	1 - Intro	1.2		5 Clarification	This guidance is applicable to credit institutions within the meaning of Article 4(1) of Regulation (EU) 575/2013 (CRR). Please clarify why you are of the opinion that sound NPL management is not applicable for non-significant institutions within the Eurozone.	We believe that NPLs are also a concern for smaller banks.
6	1 - Intro	1.2		5 Amendment	This guidance is addressed to credit institutions within the meaning of Article 4(1) of Regulation (EU) 575/2013 (CRR)2, hereinafter named "banks". It is generally applicable to all significant institutions (SIs) supervised directly under the Single Supervisory Mechanism (SSM), including their international subsidiaries. We think that the guidance should take into consideration the geographical differences and domestic insolvency laws between the member states within the Eurozone as they may have an impact on practices related to the management of NPLs and NPL workout.	We stress the point that differences in national law on legal proceedings may effect the workout scenarios. Also, tax implications may affect provisioning. Consequently, we are of the opinion that the application of a 'one common approach' may be difficult.
7	1 - Intro	1.2		6 Amendment	In order to be more robust, we suggest to reorganise the contents of the document, i.e. structuring a core document that reports clear qualitative principles, accompanied by illustrative examples in the appendices. Non-compliance with the core principles would then be the focus of the supervisory activity.	Our suggested approach would encourage a more robust guidance for banks and help implementing a holistic approach while respecting the proportionality principle. The approach of illustrative examples in the appendices has provided to be effective in other context, such as EDTF principles of disclosure.
8	1 - Intro	1.2		6 Amendment	Change the wording of "banks need to foster a timely convergence of accounting and regulatory views where those differ substantially". We suggest to reword to "banks need to be consistent in their use of tools, models and data and foster a systematic reconciliation of the two views."	The need of coherence is under the responsibility of supervisors (i.e. IASB, BCBS, EBA, ECB) and can't be achieved while the 'principle versus rule' based approach applies in accounting and prudential standards respectively.
9	1 - Intro	1.2		6 Clarification	This NPL guidance is currently non-binding by nature. However, banks should explain and substantiate any deviations upon supervisory request. Non-compliance may trigger supervisory measures. Could you be more specific or clarify the impact of supervisory measures should any substantial deviations observed.	This would make the consequences clearer for banks that are outside the expected NPL guidelines.
10	2 - Strat	2.1		7 Amendment	We suggest "maximisation of recoveries" is replaced by "minimising negative impacts on earnings and equity" and replace "clear, credible, feasible" with "clear, credible, operable and economically effective".	An overarching principle of economic convenience should be fulfilled as part of the NPL reduction strategy. We believe that NPL reduction should not be an objective per-se without considering a sustainable timeline and the overall impact on profitability and equity.
11	2 - Strat	2.2		7 Amendment	We would recommend that the list of 3 elements is specified to formulate and execute the NPL strategy. Additionally, the risk appetite framework (RAF), that corresponds to internal conditions should be considered. This might be added through a stand-alone paragraph (internal condition).	This would make the NPL strategy analysis more complete.
12	2 - Strat	2.2.2		9 Amendment	An annual self-assessment may not be enough, in particular in a difficult macroeconomic context; more frequent may be appropriate depending on the severity of the issue.	An annual self-assessment may not be enough, in particular in a difficult macroeconomic context; more frequent may be appropriate depending on the severity of the issue.
13	2 - Strat	2.3.1		11 Clarification	We recommend to include a footnote clarifying that Change of exposure type meets as well the definition of Forbearance.	Both renegotiation of a loan term (part of the "hold" strategy) and change in the type of exposure (part of the "change of exposure type" strategy) meets the general definition of "forbearance", so it can be misleading.
14	2 - Strat	2.3.1		11 Deletion	We recommend "once adequately provisioned" is deleted, in the last sentence of the page.	We believe adequate provisioning is a general principle which is applicable to all of the portfolio, i.e. timely write-off has to refer to the point in time where according to objective evidences the loan is deemed uncollectable.
15	2 - Strat	2.3.2		12 Amendment	In the note, we suggest to delete or rephrase the reference to "Supervisory teams can advise here".	We believe that setting down the strategy of a bank is a responsibility of the governance & senior management bodies.
16	2 - Strat	2.3.2		12 Clarification	We recommend clarification that foreclosed assets are an issue when they are sub-performing assets.	Banks should be able to choose the strategy for managing the assets after the foreclosure. A general objective should be the active management of these assets.
17	2 - Strat	2.3.2		13 Clarification	We suggest a definition of "denounced exposures" is provided.	It is not a commonly used word and would therefore need a definition to ensure clear understanding.
18	2 - Strat	2.3.3.		13 Amendment	It could be difficult to implement such a plan in all institutions, even in the largest banks. The goal is laudable but we recommend to emphasise that the proportionality principle underpins the approach and that a transitional period is considered by the Supervisor.	This would enable the banks to have more time in designing and implementing a robust and effective NPL management.
19	2 - Strat	2.3		14 Clarification	We recommend "required technical infrastructure" is replaced with "required Information Technology"	We would recommend use of a more known phrase for more of a ubiquitous understanding.
20	2 - Strat	2.5		15 Clarification	We recommend that the sentence "to establish dedicated NPL loss budgets" is replaced with a concept of "targeted level of running cost of risk".	When impairment evidences exist, credit losses which have been estimated, need to be incorporated into accounting provisioning. We believe a reference to a budgeting concept is less appropriate than a targeted/expected level.
21	3 - Gov	3.3.1	18/19	Amendment	It is specified that banks should implement separate and dedicated NPL WUs, ideally starting from the early warnings. We believe the 1st bullet point is too focused on past-due criteria (early arrears) while other triggers might be considered for early warnings (without any dpd).	
22	3 - Gov	3.3.1		19 Amendment	Post completion of a restructuring/forbearance arrangement the borrower should be constantly monitored for a clearly defined minimum period (recommended to be aligned with the probation period in the EBA definition), given their increased risk, before they can eventually be transferred out of the NPL WUs if no further NPL triggers are observed. We believe that the probation period should be fully aligned with existing definition in order to avoid further divergence (transitional period).	We strongly support harmonisation between NPL guidance and existing regulations.
23	3 - Gov	3.3.1		20 Amendment	We suggest an amendment the following sentence "Trigger levels should be clearly defined and only allow minimal room for management discretion" to "Trigger levels should be clearly defined and only allow application of management discretion under specifically identified circumstances and conditions".	Our suggestion is to better limit the scope for management discretion to specific situations only.
24	3 - Gov	3.3.4.		25 Amendment	If the Supervisory body expect regular reporting, we recommend to amend and state that the "automated reporting should be ready for inspection upon request by the Supervisor".	We believe that this will clarify what are the requirements are with regards to the reporting process to Supervisor.

25	3 - Gov	3.5	27/28	Amendment	We recommend "monitoring of NPLs" is replaced with "monitoring of credit risk", as the 'monitoring' concerns both performing and non performing loans in this section.	Our suggestion aims to be more precise to avoid any misunderstanding between early warning signal and the performing/non performing classification.
26	3 - Gov	3.5.1	28	Amendment	With respect to the sentence "Where possible, indicators related to NPL ratio/level and coverage should also be appropriately benchmarked against peers" - We are unsure that the banks would be in position to discuss and collect data between them in regards to NPL.	We would recommend to delete this sentence as we believe this is not a feasible approach between competitors.
27	3 - Gov	3.5.1	29	Clarification	There is a real IT difficulty to capture such information. In terms of comparison, the COREP reporting has evolved with Basel III and new templates CR GB also have been developed, in which credit institutions are expected to indicate the amount of defaulted loans and the part of loans which have been defaulted between two quarter closings. We would like to stress the point that columns remain empty because it is difficult to have such information in the risk databases with the time regulatory constraints	We would recommend to leave more time to financial institutions to gather this information.
28	3 - Gov	3.5.1	29	Amendment	We recommend amendments of the following sentence "monitor their loss budget" to "assess deviations of current versus expected annual cost of risk".	When impairment evidences exist, credit losses estimated have to be already incorporated into accounting provisioning. We believe a reference to a budgeting concept is less appropriate than a targeted/expected level.
29	3 - Gov	3.5.3	30	Clarification	Efficiency of forbearance measures should be monitored based upon key metrics. Based upon our experience it is to be noted that at this point time few banks will be able to generate these key metrics as the data related to forbearance are often not captured in the IT system. Same comment is valid for the monitoring of the effectiveness of forbearance measures.	
30	3 - Gov	3.5.3	32	Amendment	We recommend amendment to the sentence "monitor their loss budget" to "assess deviations of current versus expected annual cost of risk".	When impairment evidences exist, credit losses are estimated to have been already incorporated into accounting provisioning. We believe a reference to a budgeting concept is less appropriate than a targeted/expected level.
31	3 - Gov	3.5.4	32	Clarification	We suggest "securitisation" is replaced by "risk transfer securitisation".	We recommend clarification that only risk transfer securitisation realises a resolution of the asset.
32	3 - Gov	3.5.4	33	Clarification	We suggest rephrasing "also accounting for costs" to "including recovery costs".	We believe this is a more robust wording.
33	3 - Gov	3.6.1	35	Amendment	We recommend specification that the size of exposure should be considered when reviewing specific early warning signals.	A large corporate exposure may be reviewed differently from a small SME
34	3 - Gov	3.6.2	36	Amendment	We recommend to add "borrower level" to the following extract (e.g. industry/segment/portfolio level research).	This would enhance completeness of this section.
35	3 - Gov	3.6.2	36	Deletion	We believe that the following extract "This analysis should at least enable sorting of buckets in terms of riskiness" papers to be a duplicate task. This might have been already performed by the Risk analysis when defining homogeneous portfolio or analysing the client profile.	
36	3 - Gov	3.6.3	37	Amendment	"Operation teams should be provided with effective tools and operational reporting instruments customised to the relevant portfolio/borrower types, which give them the opportunity to promptly identify the first signals of client deterioration. This should include automated alerts at borrower level with a clear workflow and indications of required actions as well as timelines, all of which should be aligned with the early warning policies. Actions taken should be clearly tracked in the systems, so that quality assurance processes can follow up." We stress the point that the set-up of such tools and operational reporting instruments are not feasible in a short time-frame.	We recommend to implement a transitional period to implement the NPL guidance.
37	3 - Gov	3.6.3	37	Amendment	We recommend to complete the section by specifying that alerts shall come from various divisions of the bank.	All divisions of the banks either in the same entity or in different operating entities (e.g. leasing, factoring, Credit cards) should share relevant information in regards to a single borrower. If not, an alert in one division may not reach the risk management of the bank
38	3 - Gov	3.7	37	Amendment	We recommend the title is rephrased from "Supervisory reporting" to "Communication with the supervisors"	This amendment is to make the title more consistent with the content of the section.
39	4 - Forb	4.2	39	Amendment	Temporary liquidity constraints should be assessed taking into account the macro environment and a specific horizon of time. Under a long recession, temporary liquidity problems could be indicators of repayment difficulties. In this case a long-term forbearance solution may be also suitable.	We believe that forbearance options should be given as an example rather than compulsory. The classification between short and long term options should remain with the management of the Bank.
40	4 - Forb	4.2	39	Clarification	Could you clarify the term "Significant reduction" and "medium and long term" in the following sentence "a significant reduction in the borrower's balance in the medium to long term is expected."	This would better clarify the context.
41	4 - Forb	4.2	39	Amendment	We would recommend this being less specific in the criteria for accepting short-term forbearance measures. This section might be seen in interfering too much in the daily activity of the banks.	We believe that setting down the strategy of a bank is a responsibility of the governance & senior management bodies.
42	4 - Forb	4.2	41	Amendment	We believe the number of months to be considered for the viability of projects, should not be specific. As an example, a 12 months measure for a project finance could be seen as too short, notably in the early stage of developing, financing and constructing.	The status of each country and situation should be taken into account and we recommend the principle of forbearance measures is stated without being too rigid in the criteria.
43	4 - Forb	4.3	43	Clarification	The concept of "viable" forbearance needs clarification.	This would enable a better harmonisation between banks strategy.
44	5 - Recog	5.1	47	Clarification	In the 2013 EBA ITS, there were 4 different concepts: forbearance, non performing, default and impaired, that might be too many definitions to deal with and lead to interpretations. In the last EBA GL on 30 September 2016, there is a willingness to be clearer and much consistent in the definitions but 2 main points are still pending, i.e. the alignment of definition between defaulted and non performing exposures. In addition, we have the classification of exposures according to IFRS 9 stages (what about stage 2?). Please note the EBA GL should be implemented from 1 January 2021, so what is the approach to adopt in the mean time?	We strongly believe harmonised concepts will enforce a common implementation of NPL guidelines.
45	5 - Recog	5.2.2	49	Amendment	For assessing UTP, we believe banks should collect not only financial information but also non financial qualitative information. Therefore, we would recommend to structure the following sentence: "These reviews should be accompanied by updated financial and non financial information and an updated rating of the customer."	This would clarify the meaning and make the wording more robust.
46	5 - Recog	5.4.1	58	Deletion	Banks are recommended to provide reporting in both standards, which represents a real operational difficulty, time-consuming and contrary to the need of harmonisation	
47	5 - Recog	5.4.1	58	Clarification	We stress the point that it is difficult to implement a unique approach for groups which apply IFRS standards at a consolidated level and local standards at a statutory level	
48	5 - Recog	5.4.1	58	Amendment	We believe the differences in national laws for legal proceedings might also be a source of local differences.	This would enhance completeness of this section.

49	5 - Recog	5.5.2	62	Amendment	<p>We believe that the guidance should not interpret the IFRS standard. If we share the view that further harmonisation is required across Europe, we believe these guidelines could bring additional complexity and could be seen against the spirit of IFRS.</p> <p>First, IFRS are principle-based and the IASB board avoids setting up specific rules and leaves each entity autonomy to apply the standard.</p> <p>Second, covering other framework (accounting, regulation) could be a source of misunderstanding. As a matter of fact, it is written page 62 that under IFRS, a transfer to Stage 2 and thus lifetime credit losses is generally expected to be recognised before the financial instrument becomes over-due, or other borrower-specific default events are observed. Actually, IFRS 9 prescribes that an entity shall measure the loss allowance for a financial instrument as an amount equal to the lifetime expected credit losses if the credit loss on that financial instrument has increased significantly since initial recognition. We believe the meaning need to be more clearly defined.</p>	This comment is to be read as a general comment on section 5 and 6.
50	6 - Prov	6.1	63	Amendment	We recommend to include a paragraph that clarifies the scope of application: Financial instruments classified as Available for Sale are not covered by this chapter.	This would better clarify the scope of application.
51	6 - Prov	6.1	64	Deletion	We suggest to eliminate reference to "Stress test".	In our opinion, a stress test is a risk management tool and does not necessarily provide evidences in regards to accounting provisioning.
52	6 - Prov	6.1	64	Deletion	We suggest delete "relevant" from "relevant and applicable accounting standards".	
53	6 - Prov	6.1	64	Clarification	We recommend amendment from "requires supervisors to make decisions on whether banks' provisions are adequate" to "requires supervisors to assess whether banks' provisions are adequate".	We believe this is in more aligned with the applicable context.
54	6 - Prov	6.1	65	Clarification	"If supervisors determine that provisions are inadequate for prudential purposes they have the responsibility to reassess and increase provisioning levels". We recommend clarification that this does not necessarily imply an accounting issue.	We believe that an increase of provisioning for prudential purposes does not necessarily imply additional accounting provisioning. Only when there is an issue of compliance with relevant accounting standard the latter applies.
55	6 - Prov	6.1	65	Clarification	We suggest to delete "provide guidance" in the following sentence "Supervisors need to provide guidance, as well as information as to their expectations, regarding accounting for credit losses in order to ensure an adequate level of consistency across supervised entities".	We believe that providing guidance is not the role of the Supervisors as this remains with the IASB. However, we do agree that it is important to inform about expectations.
56	6 - Prov	6.1	65	Clarification	We suggest to reword as follows "Supervisors need to provide information as to their expectations, regarding accounting for credit losses in order to ensure an adequate level of consistency in the application of IFRS 9 across supervised entities".	We suggest to clarify the meaning, in order to avoid ambiguity: IFRS 9 relies on internal risk management approaches that in turn have to reflect differences of each portfolio. Therefore, expectations of consistent level of provisioning between banks is not consistent with IFRS.
57	6 - Prov	6.1	65	Amendment	We believe there is a gap in this regards between the IFRS view that relies on the internal assessment of credit risk and the regulator point of view. The regulator would like to have the same level of impairment everywhere and this is not what is expected or required by IFRS.	
58	6 - Prov	6.1	66	Amendment	we recommend to acknowledge that NPE loans that are not impaired represent an exception but not an impossible situation, such as with reference to overcollateralization	The fact that perimeter of NPE is broader than perimeter of impairment is commonly accepted also in EBA documents and definitions.
59	6 - Prov	6.2.1	67	Amendment	We believe a word missing in the following extract: "A loan classified as an NPL is an impairment trigger that should be tested for impairment either individually or collectively". We suggest: "The classification of a loan as NPL is an objective evidence that the loan is impaired. The related amount of impairment to be recognised shall be estimated either individually or collectively."	This would clarify the meaning and make the wording more robust.
60	6 - Prov	6.2.1	68	Clarification	We suggests to replace "A loan classified as an NPL is an impairment trigger that should be tested for impairment either individually or collectively." with "The classification of a loan as NPL is an objective evidence that the Loan is impaired. The related amount of impairment to be recognised shall be estimated either individually or collectively."	This would clarify the meaning.
61	6 - Prov	6.2.2	68	Deletion	The sentence "provisions for exposures that are not individually estimated should be estimated using collective estimations" is repeated twice in the same page.	
62	6 - Prov	6.2.2	68	Clarification	We recommend that in the sentence "Provisions for exposures that are not individually estimated should be estimated using collective estimations", the terms "individually estimated" should be replaced by "individually assessed".	The sentence should be aligned to IAS 39 wording.
63	6 - Prov	6.3.1	73	Clarification	There is a reference to section 6.2 for "general requirements". We suggest a clearly drafted section detailing the "general requirements" applicable to both individual and collective assessment.	
64	6 - Prov	6.2.3	69	Clarification	The terms "steady state" and "two-steps cash-flow" approach are not clearly defined. We suggest to add a note or reference to these terms (AQR Phase 2 manual).	This would better clarify the context.
65	6 - Prov	6.3.1	73	Clarification	Methods and procedures for estimating allowances must be integrated in the entity's 'credit risk management system' and form part of its processes. We suggest an addition of "When risk management indicators differ in principle with accounting allowances concepts systematic reconciliation and explanation of the gaps has to be provided".	This would better clarify the context.
66	6 - Prov	6.3.1	74	Clarification	We suggest a rationale for sensitivity measures is included, i.e. is it for risk model?	This would better clarify the context.
67	6 - Prov	6.3.1	74	Clarification	The text refers to "users". We recommend specification of who are the "users" are?	This would better clarify the context.
68	6 - Prov	6.3.2	75	Amendment	"when estimating parameters for collective provisioning models, the levels of management judgement should be at a minimum with parameter estimations for collective provisioning models". We believe the wording is unclear. Do you mean "the use of management judgement, in the context of collective management, should always be supported by evidences such as time series data".	This would clarify the meaning and make the wording more robust.
69	6 - Prov	6.3.2	75	Clarification	"any parameters should be reflective of the credit characteristics of each appropriately stratified loan pool (especially when banks estimate loss given default, cure rates and default rates)". It is not clear why this is especially valid for the mentioned parameters.	This would better clarify the context.
70	6 - Prov	6.3.2	76	Clarification	"Banks are required to create a full data set for the calculation of key parameters". We suggest that this is replaced with "key parameters shall be supported by robust and supportable data set".	This would clarify the meaning and make the wording more robust.
71	6 - Prov	6.3.2	76	Clarification	"The principles of IFRS 9 are more aligned to prudential calculation of expected losses from the perspective that IFRS9 is based on expected losses and, although necessarily methods for accounting and prudential estimation differ in some elements". We suggest to add "basic data are common but prudential calculation embeds several stress factors not retained under IFRS 9".	This would clarify the meaning and make the wording more robust.
72	6 - Prov	6.3.2	77	Clarification	"all other key elements of the systems related to their practical implementation must be aligned". We suggest clear rationale is added, such as "in order to facilitate reconciliation and to use same data and tool".	This would clarify the meaning and make the wording more robust.

73	6 - Prov	6.4.1	77	Amendment	"as an alternative, the credit conversion factors stipulated...". We suggest that these factors are only mentioned in absence of other more representative estimations.	We recommend to introduce reference to the measurement attribute in IAS 37, which are not necessarily aligned to the CRR directive.
74	6 - Prov	6.4.2	78	Clarification	We suggest the following extract "the debtor has amortised a higher fraction" is replaced with "the debtor has earlier repaid".	This would clarify the meaning and make the wording more robust.
75	6 - Prov	6.4.2	78	Clarification	We suggest that "cash flows have improved" has "compared to previous estimate" added to it.	We consider the wording to be in contraction with IFRS principles.
76	6 - Prov	6.6	79 & 81	Deletion	We recommend reference to "conservatism" is deleted.	We consider the wording to be in contraction with IFRS principles. Clarification of using caution in making judgments may be useful, however conservatism intended as a deliberate understatement of net income is not consistent with IFRSs.
77	6 - Prov	6.5	78 & 79	Amendment	Write off is an issue in France, as a loan subject to write off is harder to collect and this might compromise the legal action (the court will consider that the bank has given up its receivable). Therefore the practice in France is to write loans off at the latest to maximise their chance to recover the largest amount.	In our opinion, the NPL guidance should be applied whilst taking into consideration the peculiarity of each country.
78	6 - Prov	6.6	80	Amendment	The paragraph illustrating a "partial write-off" is unclear. We suggest it is reworded so it refers to a situation of "partial write-off reflecting debt forgiveness of a part of the exposure due".	This would clarify the meaning and make the wording more robust.
79	6 - Prov	6.7.1	80	Amendment	"Supervisory expectation is that this would occur at a minimum every 6 months." -We believe the frequency is too high and it might be difficult for a bank to comply with this expectation.	We recommend to extend the expected period for back-testing loss rates to make it more manageable by banks.
80	6 - Prov	6.7.1	81	Clarification	Could you clarify if the following sentence refers to IFRS 7 disclosure or to internal reporting: "the management judgements, estimates, considered assumptions and related sensitivity analysis should be subject to appropriate disclosures".	This would clarify the meaning and make the wording more robust.
81	6 - Prov	6.7.1	81	Clarification	"Banks should also consider the contractual obligation of the expected cash flows before considering including them in discounted cash flows. " we suggest to rephrase it as "Only expected cash flows coming from enforceable contractual obligation shall be considered".	This would clarify the meaning and make the wording more robust.
82	6 - Prov	6.7.1	82	Amendment	We recommend to delete the reference to 6 months for binding frequency of back testing as it depends on the frequency of availability of reliable updated information and cost/benefit.	We believe it is undue cost and effort. In addition, updating the parameters is appropriate, provided that revised information are available in such a frequency.
83	6 - Prov	6.7.2	83	Amendment	We would recommend to add to the list of internal documentation "A map of Impairment models / related portfolio"	We believe that such map is usefull for complex models.
84	6 - Prov	6.8	84	Deletion	We recommend to delete reference to disclosure/public disclosure and to refer to IFRS 7, Pillar disclosure and EDTF contents.	Before introducing an additional template for external disclosure, we believe a separate consultation process is advisable, similarly to EDTF discussion forum.
85	7 - Coll	7	84	Amendment	Could you specify why the guidance only focuses on collateral valuation for immovable property and not receivable, physical collateral etc.	This would better clarify the context.
86	7 - Coll	7.3	89	Amendment	We suggest to delete the reference to a quantitative minimum threshold of 300k Euros and require to identify appropriate level reflecting peculiarities of each portfolio/bank.	While we strongly push for harmonisation, setting a common quantitative threshold might not enable gathering specifics of each situation that may exist in practice.
87	7 - Coll	7.3	89	Amendment	We recommend an introduction of the general principle of operability and 'undue costs and efforts' / 'balance of costs and benefits' in this section. For example, requiring a frequency higher than 1 year, only when there is deterioration of evidence at sector level.	This would clarify the meaning and make the wording more robust.
88	7 - Coll	7.5	94	Amendment	In regards to "Banks are strongly encouraged to classify foreclosed real estate assets as IFRS 5", we suggest an addition of "provided that a different strategy, such as hold as investment properties, would not bring a higher recovery rate".	We believe there may be circumstances where in order to reduce negative impacts, a hold strategy would be more appropriate. The decision should remain with the management.
89	Annex - 6		113	Amendment	The following aspects should also be addressed. We suggest and addition of "on the basis of reasonable and supportable information".	In order to be operable, we are of the position that the assessment has to rely on information that is accessible without undue costs and efforts, reliable and supportable (e.g. how to monitor biological risks?).
90	Annex - 7		118	Deletion	"A summary of the supervisory reporting and disclosure items related to NPLs is provided below". We suggest the reference to disclosure/public disclosure is deleted..	The proposed templates are useful tool for management reporting and communication with the supervisors. However, before introducing an additional template for external disclosure, a separate consultation process is advisable as with the to EDTF discussion forum. Additional issues for public disclosure is the discernibility of the information provided (e.g. collateral valuation topic).
91	Annex - 7		121	Clarification	Could you clarify and/or define "provision", "impairment" and "value adjustment" in the context of Table 5.	This would clarify the meaning.
92	6 - Prov	6.7.2	83	Amendment	The outlined characteristics of breadth, depth, accuracy, consistency and traceability have to be taken into account through a realistic and operational feasibility for which a best effort should be required.	We recommend to integrate best effort principle when the guidance is expected to be difficult to be implemented by banks.
93	7 - Coll	7.4.1	90	Clarification	Does the term "estimated" refer to the term "expected" used in the IFRS 9 ECL concept?	
94	Annex - 7			Deletion	Banks are requested to disclose items, including assumption. This publication needs to be restricted to the supervisor. If not, we believe there is a risk of adverse reaction of financial markets and a lack of consistency amongst assumptions, notably for defining the concept of "unlikely to pay".	
95	Annex - 7			Clarification	Concerning table 7, when ECB mentions "LGD", does it deal with the accounting or the regulatory definition?	
96	Annex - 7			Amendment	We noticed the granularity is more detailed than in the template proposed on the same topic in the last EBA consultation on 29 June 2016 about Part VIII of CRR (financial information). We would recommend consistency to avoid double reporting on same topic.	This would facilitate the bank reporting process.