



Template for comments

Consultation on the draft ECB Guidance for banks on non-performing loans

Institution/Company

Intesa Sanpaolo S.p.A

ID	Chapter	Section	Page	Type of comment	Detailed comment	Concise statement why your comment should be taken on board
1	1 - Intro	1.2	5	Amendment	The overall assessment of the rationale and of the principles of the Guidelines is positive. However, the implementation could require 2-3 years. Accordingly, we request a suitable phase-in period.	An appropriate phase in period (2-3 years) is required to become compliant with the implementation and operational monitoring of KPIs.
2	2 - Strat	2.5	15	Clarification	"Some banks might find it useful to establish dedicated NPL loss budgets (for potential losses stemming from NPL workout activities) to facilitate internal business control and planning": clarification is sought on the fact that such a loss budget should be based on statistical models and could be part of the forecast budget. Such a loss budget should be required only at a portfolio level and not on the single name level. Loss budget should be applicable to the bad loans category, which are expected to be disposed into the market. For legal cases internally managed, instead, loss budget is not applicable, as recoveries are anchored to the legal procedure asset value and not to the market value. We would ask for clarification on the loss budget notion.	Requiring a loss budget at the level of an individual exposure would amount to requiring the impairment of an exposure according to IFRS 9 and would not fulfill the objective of the loss budget itself.
3	2 - Strat	2.6	16	Amendment	The portfolio breakdown used in the NPL Strategy Progress Report of Annex 7 should be aligned to the portfolio segmentation adopted by the bank in its NPLs strategy targets' setting, rather than being prescribed in terms of counterparties' regulatory segments.	If the portfolio breakdown by counterparties' regulatory segment proposed in Annex 7 were a set requirement, it might turn out to be misaligned with respect to the banks' chosen NPLs' strategy targets, as these might be defined on the basis of a different grouping (e.g. Business Units) and therefore result in the report being – at best – of cumbersome production and – at worst – scarcely meaningful.
4	2 - Strat	2.3.2	13	Amendment	The example in the Guidance provides for the definition of high level targets for the main portfolios on a quarterly basis: in our view the target setting should be performed on a yearly basis with full alignment with the budgeting process.	Target setting should be aligned with budgeting process so that there is full coherence with this process.
5	3 - Gov	3.2	17	Amendment	"Steering and decision making: quarterly monitoring of the NPL strategy by the management body": the monitoring by the board should be required at a bi-annual level.	A half-year monitoring of the progress by the board is more appropriate as this is coherent with the periodicity of target definition.
6	3 - Gov	3.5	27	Amendment	Monitoring process of the NPL strategy and consequent detailed KPIs and indicators : monitoring should be required at half year level; KPIs should also be aligned with the monitoring process.	Requiring a quarterly monitoring of KPIs would not allow for tracking significant progresses in the NPL management, because improvements can be assessed in a longer period of time. Requiring a quarterly monitoring will produce seasonal effects, which would not adequately mirror the actual performance of the NPL strategy.
7	3 - Gov	3.3.1	18	Clarification	NPL workout units (WUs) – The Guidelines require the set-up of separate and dedicated units: clarification is sought on the nature of separation of the WUs from the origination business. Is a hierarchical separation of the WUs from the business origination required? Can also a functional separation at the staff branch network level be envisaged? Should the functional separation be allowed, confirmation is sought that credit recovery activities can be performed by the functional units reporting to a different function of the bank.	The level of segregation of the WUs is not clear for banks organizing WUs by loans status (e.g. past due, UTP ..). The loan status should be considered as a legitimate criterion
8	3 - Gov	3.3.1	18	Amendment	NPL WUs: The Guidelines provide for the setting-up of dedicated WUs by stages of life cycle (e.g. early arrears, late arrears/restructuring, liquidation, foreclosure). In our view banks should be able to set up their WUs with the segmentation provided for by the reporting requirements on NPLs according to the segmentation of the Central Credit Register, which specifically includes a specific category for exposures, whose debtors are insolvent – the so called sofferenze. Alternatively, should such a flexibility not be provided for, it is suggested that the SSM introduces the full harmonization of the reporting requirements across the Euro area.	Italian banks regularly report to their NCA the level of their NPE according to their loan status e.g. past due/UTP and bad loans. It is suggested to provide for flexibility in terms of WUs organization or to require for a full EU harmonization of reporting requirements.
9	3 - Gov	3.4.2	26	Amendment	Second line of defence functions... comprises risk management, compliance.. It is suggested to replace risk management with "risk control function".	The required amendment is in line with the clarifications needed about the WUs separation (see comment ID 7)
10	3 - Gov	3.7	37	Clarification	The scope of the "notable changes in the NPL operating model and control framework" to be reported should be better specified.	The clarification is sought in order to appropriately structure internal processes.

11	4 - Forb	4.4	44	Amendment	The Guidance requires banks to apply a standard and documented methodology to assess the affordability for each debtor identified as eligible for a forbearance strategy; the areas that banks should analyse in the context of the affordability assessment are very wide. It is suggested to simplify the width and depth of information to be considered when assessing a debtor file under the "gone concern approach".	The reason for suggesting the simplification of the depth and breadth of information is due to the fact that in gone concern cases, the repayment cash flow will mostly come from collateralized assets liquidation rather than current and future income of the company.
12	5 - Recog	5.2.2	52	Clarification	Table 2 "Mapping between non –performing, default and impairment "UTP" indicators": in relation to NPLs, default and impairment definitions, the clear link between the objective evidence of loss of IAS 39.59 (a breach of contract such as a default or the failure to pay interests or capital) and the Past due, that are in the definition of default and non performing, is missing.	The clarification is sought in order to avoid misunderstanding when using the table.
13	5 - Recog	5.3.4	57	Amendment	The Guidelines state that checking the fulfillment of all the criteria to meet the forborne classification on performing credits is not sufficient. In fact, the Guidelines require a manual assessment of all forborne credits irrespective of their origin (i.e. performing/non performing) and category of exposure (residential mortgage, consumer credit, etc.). Such a provision involves considerable organizational and procedural efforts not necessarily worth the materiality of the issue. Moreover, in potentially riskier situations (e.g. forborne originating from non performing), irrespective of the relevance of the payments made, with the first payment later than 30 days (or in case of a further forbearance measure) would automatically reclassify as UTP and the 3 year cure and observation periods would be reset. Given the conservatism of these conditions, we would suggest the introduction of a materiality threshold under which automatic classification to performing is allowed.	The amendment is sought for operational reasons
14	5 - Recog	5.3.4	57	Deletion	We asks for the deletion of point (3) of the section.The regular payment of more than an insignificant aggregate amount of interest and principal is required to for an exposure to be identified as forborne. Such a requirement is particularly penalizing for restructuring plans (e.g. Piani di ristrutturazione concordatari - arrangements with creditors) that involve forms of renegotiation of exposures with long pre-amortization periods and/or payment of capital at the end of the plan (balloon/bullet financing).	This requirement (3) introduces a further operational constraint which is not provided for by the EBA ITS.
15	5 - Recog	5.3.4	58	Clarification	As to the identification of a credit as forborne, there is no provision in relation to the extinction of the exposure through subjective novation (which extinguishes the original obligation and creates a new one with a new debtor), for example in the case of the "concordato in continuità" which is carried out through the sale of business or through the conferral to third solvent subjects, that are not in financial difficulties. The Italian law provides for that such exposures are reclassified as performing but does not specifies whether the forborne indication should be maintained. We ask to clarify whether the forborne indication should be maintained during the related regulatory time periods, considering that the financial difficulty element is failing.	Such a clarification would help for a right classification of exposures and for reporting requirements.
16	7 - Coll	7.2.3	87	Amendment	The Guidelines provide for that the evaluation of the collateral has to be updated on an individual level at a minimum every year for commercial immovable properties and every 3 years for residential ones (excluding files below 300 k EUR); it is suggested to increase the threshold for indexed valuations beyond 300K EUR.	It is suggested to raise the threshold for indexed valuations , and align it to the threshold for calculating LLP on statistical basis.
17	7 - Coll	7.3	89	Amendment	Frequency of updates: We suggest requiring less strict parameters for valuation updates. The frequency for updating the valuation of immovable properties should be aligned to 3 years.	The frequency for updating the valuation of immovable properties should be aligned to 3 years, both for commercial and residential properties, subject to absence of material differences from indexed valuations.
18	Annex - 7		118-126	Amendment	As the implementation and availability of all required information will take some time, we request a suitable transitional implementation period (about 2 years).	An appropriate transitional implementation period is required to adapt procedures and technologies (e.g. IT systems) and to become fully compliant with some new disclosure requirements
19	Annex - 7		118-126	Clarification	In order to avoid diversification and misunderstandings, we would appreciate a more detailed and precise definition of some terms and disclosure requirements (such as tables 7 and 8, by way of example).	Clear and homogeneous definitions of contents, applicability and scope of the required disclosure can avoid differences in the application of the Guidance among banks in different jurisdictions.