

**15 November 2016**

FOR PUBLICATION

**UniCredit reply to the consultation on the Draft ECB Guidance to banks on  
Non-Performing Loans**  
(Deadline: 15 November)

### **General comments**

UniCredit appreciates that the European Central Bank (ECB) issued a draft guidance on Non-Performing Loans (NPLs), acknowledging that tackling NPLs is a key factor in order to regain confidence in the banking sector, enhance long term stability of the financial system as a whole and release capital that could support economic growth. Therefore, UniCredit recognizes that the NPLs issue is nowadays one of the key aspects to be taken into account when developing a bank strategy. Finally, UniCredit also welcomes the Guidance's provisions aiming at streamlining communication to the market and at improving transparency on NPLs.

Nevertheless, UniCredit would like to take this opportunity to point out to the European Central Bank a few general remarks of the utmost importance regarding this Guidance.

UniCredit welcomes that the Guidance will provide banks a clear path to follow to tackle the NPLs issue, however we believe this won't be sufficient condition to solve the problem. Well-functioning and harmonized legal frameworks, as well as adequate liquidity conditions in the secondary market for NPLs are, indeed, *conditio sine qua non* for banks to smoothly and effectively address their NPLs problem. These factors, which can differ substantially from one country to the other, are particularly relevant in determining the speed at which banks can reduce their backlog of NPLs, and should, therefore, be duly taken into account.

UniCredit is also convinced that, given the Guidance's wide scope and high level of granularity, it would be challenging to comply with all requirements within a short timeframe. UniCredit is concerned that the Guidance might imply an heavy operational burden in terms of additional reporting requirements, related IT infrastructures, granularity of data and processes implementation. Therefore, we strongly believe that a prioritization of the most relevant issues is needed and a "grace period" should be allowed to grant banks a proper timeframe to align their operations to the best practices defined by the Guideline. Moreover, UniCredit would appreciate if the ECB would adopt a differentiated approach when assessing, on the one hand, the management of new flows of NPLs, and, on the other hand, the existing NPLs stock (both in terms of timing and of complexity of compliance measures).

UniCredit exhorts the ECB to provide clarifications on all these aspects, which are particularly relevant in order to understand how this Guideline will affect the ongoing SREP assessment for 2017. In particular, we would welcome an ECB clarification on the implications of not being fully compliant with the Guideline in terms of supervisory measures.

On top of the above mentioned general remarks, there also more specific and operative aspects that deserve careful evaluation.

In UniCredit's opinion, some of the measures required by the Guidance can hardly be applicable to both retail and non-retail exposures, therefore we deem of the utmost importance that a clear and consistent distinction is made throughout the document of the scope of application of each



prescription.

Additionally, UniCredit believes that the Guidance prescriptions in terms of reporting requirements, Non Performing Exposures (NPEs) definitions and related management processes should be coherent with other requirements stemming from EBA guidelines and technical standards, as well as accounting principles (IFRS9) and should not be more restrictive.

Further comments regarding detailed technical aspects have been listed in the ECB excel template published for the consultation purpose.



## Template for comments

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

Institution/Company

UniCredit S.p.A.

ID	Chapter	Section	Page	Type of comment	Detailed comment	Concise statement why your comment is taken on board
1	1 - Intro	1.1		Clarification	<p>UniCredit appreciates that the European Central Bank (ECB) issued a draft guidance on Non-Performing Loans (NPLs), acknowledging that tackling NPLs is a key factor in order to regain confidence in the banking sector, enhance long term stability of the financial system as a whole and release capital that could support economic growth. Therefore, UniCredit recognizes that the NPLs issue is nowadays one of the key aspects to be taken into account when developing a bank strategy. Finally, UniCredit also welcomes the Guidance's provisions aiming at streamlining communication to the market and at improving transparency on NPLs.</p> <p>Nevertheless, UniCredit would like to take this opportunity to point out to the European Central Bank a few general remarks of the utmost importance regarding this Guidance.</p> <p>UniCredit welcomes that the Guidance will provide banks a clear path to follow to tackle the NPLs issue, however we believe this won't be sufficient condition to solve the problem. Well-functioning and harmonized legal frameworks, as well as adequate liquidity conditions in the secondary market for NPLs are, indeed, <i>conditio sine qua non</i> for banks to smoothly and effectively address their NPLs problem. These factors, which can differ substantially from one country to the other, are particularly relevant in determining the speed at which banks can reduce their backlog of NPLs, and should, therefore, be duly taken into account.</p> <p>UniCredit is also convinced that, given the Guidance's wide scope and high level of granularity, it would be challenging to comply with all requirements within a short timeframe. UniCredit is concerned that the Guidance might imply an heavy operational burden in terms of additional reporting requirements, related IT infrastructures, granularity of data and processes implementation. Therefore, we strongly believe that a prioritization of the most relevant issues is needed and a "grace period" should be allowed to grant banks a proper timeframe to align their operations to the best practices defined by the Guideline. Moreover, UniCredit would appreciate if the ECB would adopt a differentiated approach when assessing, on the one hand, the management of new flows of NPLs, and, on the other hand, the existing NPLs stock (both in terms of timing and of complexity of compliance measures).</p> <p>UniCredit exhorts the ECB to provide clarifications on all these aspects, which are particularly relevant in order to understand how this Guideline will affect the ongoing SREP assessment for 2017. In particular, we would welcome an ECB clarification on the implications of not being fully compliant with the Guideline in terms of supervisory measures.</p> <p>On top of the above mentioned general remarks, there also more specific and operative aspects that deserve careful evaluation.</p> <p>In UniCredit's opinion, some of the measures required by the Guidance can hardly be applicable to both retail and non-retail exposures, therefore we deem of the utmost importance that a clear and consistent distinction is made throughout the document of the scope of application of each prescription.</p>	
2	3 - Gov	3.4.2	26	Amendment	UniCredit believes that the second line of defense functions should not have a "veto right", but rather a "check & balance" role on provisioning or implementation of workout solutions.	
3	3 - Gov	3.5.3	30	Deletion	As far as the monitoring of the effectiveness of forbearance activity is concerned, we suggest to eliminate the split between short-term and long-term forbearance measures. UniCredit believes that the distinction between long-term versus short-term measures would imply an excessive cost in terms of data sourcing and collection, hence exceeding the benefit of this specific monitoring activity.	
4	4 - Forb	4.2	40	Amendment	We recognize that the "additional security" would improve the bank's position and probability of recovery of the credit in case of default. However, we would like to highlight that the sole "additional security" does not constitute a concession to the terms of the credit provided to the customer. Therefore, in our view it is not appropriate to consider "additional security" as a forbearance measure (also according to EBA ITS art. 163-164-165).	
5	4 - Forb	4.2	40	Amendment	The draft guidance states that a forbearance solution including short-term forbearance measures should only be considered viable, provided that no other short-term forbearance measures were applied in the past to the same exposure. We share this, however, we believe that the criteria should not be applied automatically (e.g. short term forbearance measures could be provided to the same transaction due to seasonality reasons).	

6	4 - Forb	4.4	44	Amendment	We deem important to keep a high level of monitoring and reporting for forbore positions. Anyhow, mainly for retail clients, the documentation related to the affordability assessment should be leaner, as it is not possible to provide high levels of details. Moreover, the costs for additional information might be excessively high. The same concept also applies to NPV analysis.
7	5 - Recog	5.2.2	49	Amendment	We deem that some "hard criteria" should not be considered as automatic triggers for the classification to UTP because of the following reasons: – The client could be able to repay the bank also if the criteria is met (e.g. "a borrower's sources of recurring income are no longer available to meet the instalment payments (EBA); customer becomes unemployed and repayment is unlikely", "breach of the maximum LTV in the case of asset-based finance or margin call not met", "payment moratorium (sovereigns, institutions)"). These events should be evaluated within a credit assessment – Some criteria are linked to the forbearance regulation that already considers an assessment of the creditworthiness of the client (e.g. "credit institution stops charging of interest (also partially or conditionally)", "restructuring with a material part which is forgiven (net present value (NPV) loss)", "restructuring with conditional forgiveness", "out-of-court negotiations for settlement or repayment (e.g. stand-still agreements)", "postponements/extensions of loans beyond economic lifetime", the latter is related to Project Finance – Some criteria are subject to nonpublic information or to information that is not public until it becomes definitive (e.g. "license of the borrower is withdrawn", "credit institution or leader of consortium starts bankruptcy/insolvency proceedings", "obligor has filed for bankruptcy or insolvency")
8	5 - Recog	5.3.1	53	Clarification	UniCredit asks for clarification on the definition of forbearance because according to EBA (CP/2014/07) and Bankit (272/2014), as in our view an increase in PD should not be considered as an indicator of financial difficulties
9	5 - Recog	5.4.1	58	Clarification	EBA Guidelines (EBA/GL/2016/07) based on the Capital Requirements Regulation (CRR) requires banks to identify in a consistent manner all NPEs at the entity and banking group levels by 2021. Hence, we deem it necessary to receive from ECB a clear indication on the expected timeframe in relation to the identification of NPEs.
10	5 - Recog	5.4.1	58	Amendment	The guidance states that "banks are expected to ensure that if a unique non-retail customer is classified as non-performing in one of the group's institutions, this default status event is communicated ("propagated") and registered in all other members of the group at short notice". We suggest to subordinate this propagation to an analytical valuation of the customer.
11	6 - Prov	6.3.2	74	Amendment	Some criteria for grouping exposures for collective assessment are already included in the calculation of LGD (e.g. geography). We deem that if an element is already included in the LGD, it is not necessary to cluster it again in the calculation of the collective allowances estimation.
12	6 - Prov	6.6	79	Amendment	We agree on the concept of setting up general rules that establish maximum periods for full provisioning and write-off, but in our opinion the decision should not be automatic. Indeed, an individual approval will allow to consider the specific situation of a certain position (e.g. sometimes the timing of the collection is related to the constraints of the local judicial system).
13	7 - Coll	7.2.1	86	Amendment	We deem that the policies should be reviewed yearly by the management body only in case significant changes that might impact policies and procedures arise after the preliminary assessment.
14	7 - Coll	7.2.3	87	Amendment	UniCredit suggests to increase the individual valuation thresholds. The €300.000 threshold envisaged by the Guideline is deemed to be too low, as it would imply an excessive burden for banks which would be required to immediately proceed with individual property valuations for a significant amount of NPLs.
15	Annex - 7		121	Clarification	UniCredit asks for clarification regarding the meaning of the columns reported in the table (< 3 months, 3-6 months, 6-12 months, > 12 months).