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European Central Bank
Secretariat to the Supervisory Board
60640 Frankfurt am Main – Germany

10 November, 2016

Re: “Public consultation on the draft ECB guidance to banks on non-performing loans”

Dear Sir/Madam,

Following consultation with our members, we would like to comment on ECB guidance to banks on non-performing loans. The definition of non-performing exposures presented in paragraph 145 of Annex V of Commission Implementing Regulation (EU) N680 / 2014 requires assessment of exposure repayment “without realization of collateral” due to uncertainty of the value of the collateral and time required for its realization. However, we believe that this definition should be expanded so as to exclude “cash collateralized loans”, where the banking institution acts as an agent between the borrower and cash collateral provider, because of the following reasons:

- 1) credit risk in substance is transferred to the cash collateral provider;
- 2) the value of cash collateral is clear and equal to the deposit amount, no extra discounts or expenses;
- 3) the settlement of exposures versus cash collateral can be done immediately;
- 4) there is no “realization of collateral” process, the bank can simply set-off the loan and cash deposit on its own discretion, without any court decision or additional consent from any party;
- 5) as the lending bank does not bear any credit risk for such loans, NPEs reporting should be done by the cash collateral provider.

Your kind consideration of our members concerns’ is greatly appreciated.

Sincerely yours,

Kirill Zimarin
President
Association of International Banks (Cyprus)