



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Template for comments

Public consultation on the draft addendum to the ECB guidance to banks on non-performing loans

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Please tick here if you do not wish your personal data to be published.

General comments

[Empty text area for general comments]

Template for comments

Public consultation on the draft addendum to the ECB guidance to banks on non-performing loans

Please enter all your feedback in this list.

When entering feedback, please make sure that:

- each comment deals with a single issue only;
- you indicate the relevant article/chapter/paragraph, where appropriate;
- you indicate whether your comment is a proposed amendment, clarification or deletion.

Deadline: 8 December 2017

ID	Chapter	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be taken on board	Name of commenter	Personal data
1	2 - General Concept	2.1	3	Clarification	Subjective scope of the Addendum. The Addendum applies both to NPLs of traditional banks and to the ones deriving from the activity of purchasing and managing of third-party portfolios, carried out by specialized companies, with a very specific business model. This means that the Addendum only considers the market selling NPLs and not the one purchasing such exposures. Specialized companies, that derecognize NPLs at a different pace compared to the traditional banks, include in the discount applied to the purchase price not only the risk but also the cost of managing and funding NPLs (other than a profit margin); therefore, the request to provide full coverage for the unsecured portion of new NPLs after 2 years at the latest (7 years at latest, for the secured portion) would reduce the asymmetry of management between the seller and the purchaser of NPLs, by depriving the latter of the essential resource producing its extra value (i.e. the time). Such effects are further increased by the application of the backstops in a gradual way, before the moment when the entire prudential provisioning is expected, that further reduces the profitability of the purchasing of NPLs.	The application of the provisions of the Addendum to all banks, involving the whole credit stock held by the those companies specialized in purchasing and managing of NPLs, would be potentially able to weakening the structure of the entire NPLs' market, by lowering the profitability of the activity of purchase and management of such loans, with subsequent difficulties in the relevant divestment.	, Università Europea di Roma	Don't publish
2	2 - General Concept	2.1	3	Clarification	Going concern and forborene positions. The application of the prudential provisioning backstops to the "going concern positions", in relation to which restructuring plans aimed at restoring the economic-financial conditions have been adopted, should be reconsidered. In fact such positions involve counterparts that are following restructuring plans. Similar considerations could be extended to all forborene positions (also in the retail segment).	In both cases, the prudential provisioning backstops would discourage the banks from the adoption of rescue and restructuring measures.	, Università Europea di Roma	Don't publish
3	2 - General Concept	2.3	5	Clarification	Prudential provisioning levels. According to the Addendum – par. 2.3 – "The underlying aim [of the prudential provisioning backstop] is to ensure that NPEs are subject to sufficient provisioning (...)". However, the hedging of the 100% exposures seems more than sufficient, considering that the required measures imply the zeroing of the value of the loan.	Regardless the recovery time, is out of doubt that at the end of a recovery proceeding the loans (at least the secured ones) should have their own value.	, Università Europea di Roma	Don't publish
4	2 - General Concept	2.3	6	Clarification	The list of exemption cases (see par. 2.3 of the Addendum) could be more exhaustive/specific.	It could be useful to clarify the single circumstances in which a deviation from the prudential provisioning backstop is allowed. In any case, a revision/extension of the list is deemed appropriate, at least to include all those actions potentially aimed at generating incomes.	, Università Europea di Roma	Don't publish
5	3 - Definitions	3.1	7	Amendment	Objective scope of the Addendum. Even if the prudential provisioning expectations apply to all exposures that are newly classified as non-performing – in line with the EBA definition - as of January 1st, 2018, it seems that the actual scope of the provisions of the Addendum is potentially broader; in fact, the Addendum would also apply to the stock of outstanding loans, considering that in-bonus loans could become non-performing after January 1st 2018.	The Addendum should rather apply only to loans arised after January 1st 2018; such timing would also let the Member States' institutions adapt to the new regulatory framework.	, Università Europea di Roma	Don't publish
6	3 - Definitions	3.1	7	Amendment	The length of time an exposure has been classified as non-performing (i.e. the "vintage") should be calculated starting from the resolution date of the agreement (or from the date of starting of the judicial actions for recovery) and not from the classification of the position to NPE.	From the resolution date of the agreement (or from the date of starting of the judicial actions for recovery) the bank effectively starts the recovery phase.	, Università Europea di Roma	Don't publish

7	4 - Prudential provisioning backstop	4.2	11	Amendment	<p>Functioning of the prudential provisioning backstop. It is deemed advisable a review of the backstop calibration – 2 years since the default date for unsecured exposures and 7 years for the secured ones – taking into consideration that:</p> <p>(i) the quantitative supervisory expectations regarding the minimum levels of provisions within the prudential regime provided by the Addendum apply to all the credit institutions;</p> <p>(ii) paragraph 4.1 of the Addendum clarifies that "(...) It is 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)".</p>	The comments underline that the functioning of the prudential provisioning backstops' mechanism does not consider the single management models used in each bank to handle the non-performing exposures as well as the circumstance that a calibration of the provisioning backstops considering the judicial recovery time of loans in the different Member States is crucial, otherwise the measure would have a different specific-weight in each of them.	, Università Europea di Roma	Don't publish
8	4 - Prudential provisioning backstop	4.2	11	Amendment	The application of the backstops implemented in a gradual way with a linear path should be subject to further reflections/revisions.	The linear path introduces an elevated capital burden.	, Università Europea di Roma	Don't publish
9	4 - Prudential provisioning backstop	4.2	11	Clarification	Certain guidelines for the backstops (at least unsecured) should be provided.	The path to be followed is specified for the secured segment only – see par. 4.2 of the Addendum, according to which "(...) For the secured backstop, banks should therefore assume at least a linear path for the backstop, building up to 100% over the seven years (...)"	, Università Europea di Roma	Don't publish