



EUROPEAN CENTRAL BANK  
BANKING SUPERVISION

## Feedback statement

Responses to the public  
consultation on the draft ECB  
Guideline on the supervisory  
approach by national competent  
authorities to coverage of non-  
performing exposures held by less  
significant supervised entities

BANKENTOEZICHT

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# 1 Introduction and overview of responses

## 1.1 Context

On 15 September 2025 the European Central Bank (ECB) launched a public consultation on a draft ECB Guideline on the supervisory approach by national competent authorities to coverage of non-performing exposures held by less significant supervised entities (“the Guideline”). The public consultation ended on 27 October 2025.

The Guideline addresses national competent authorities (NCAs) as the direct supervisors of less significant institutions (LSIs). It focuses on ensuring sound risk management and consistent supervisory standards, while recognising that NCAs need to exercise supervisory discretion within the Pillar 2 framework. The ECB supports this through oversight, collaboration and information exchange to foster consistency across European banking supervision.

By introducing the approach set out in the Guideline, the ECB aims to make LSIs more resilient to potential adverse developments in the macroeconomic environment and associated deteriorations in credit quality.

The consultation was conducted to collect comments from relevant parties and to foster transparency. The ECB has given due consideration to all the comments received during the consultation period.

## 1.2 Response overview

This feedback statement presents summaries of the comments received during the public consultation together with the ECB’s feedback. In total, 56 comments were received from nine different stakeholders. The respondents included four banking associations and eight banks. In the following section, the ECB has grouped together comments concerning similar or identical issues. Feedback is thus provided on specific issues raised by the consultation respondents.

The tables in Sections 2.1 to 2.5 group the comments into five overarching categories and include the respective feedback:

1. Legal basis and nature of Guideline
2. Purpose and function of the Guideline
3. Implementation timeline
4. Technical proposals and requests for clarification
5. Other comments

## 1.3 Adjustments to the Guideline

As a result of the comments and the ECB's assessment of them, the ECB has incorporated four technical adjustments and amendments to the Guideline. They relate to the following provisions:

- Article 2(1)(3)
- Article 3(2)(a)
- Article 3(2)(c)
- Article 3(2)(d)

The rationale for these adjustments and amendments and the reasoning behind not incorporating other proposed adjustments and amendments are explained in detail in the responses to the individual comments.

## 2 Consultation responses and ECB feedback

### 2.1 Legal basis and nature of the Guideline

#### Comments received and ECB feedback

Reference	Respondents	Comment	ECB response and analysis
<b>General</b>	Austrian Federal Economic Chamber/Division Bank and Insurance	It seems legally questionable whether the legal basis cited is sufficient to introduce a prudential backstop and an additional reporting obligation in the form of a guideline, effectively "through the back door."	The Guideline does not establish a prudential backstop for non-performing exposures (NPEs). Instead, it introduces across European banking supervision standardised supervisory practices for assessing NPE coverage. Specifically, Article 5 of the Guideline outlines how NCAs should evaluate LSIs' coverage of NPEs. This assessment does not equate to a prudential backstop. NCAs are expected to incorporate the results of this evaluation into the Supervisory Review and Evaluation Process (SREP), and they retain the discretion to apply their supervisory powers as deemed necessary. As the harmonised practices for assessing NPE coverage require information on this coverage, NCAs will require LSIs to report certain information to them. In this context, the intention is to keep the reporting burden at a minimum, only requiring information which is strictly necessary. Therefore, in adopting the Guideline, the ECB is operating within its mandate and ensuring effective oversight of the system's functioning.
<b>General</b>	Austrian Federal Economic Chamber/Division Bank and Insurance	Under Article 6(1) and (5)(a) and (c) SSM Regulation, the ECB may issue guidelines to coordinate NCAs. Past ECB guidelines under the SSM Regulation have consistently been limited to a qualitative supervisory approach. By contrast, the Guideline links LSI assessments quantitatively to Article 47c CRR and, through staggered factors until 2028, effectively introduces a de facto minimum coverage requirement. This approach unduly restricts NCAs' SREP discretion under the CRD and replaces the case-by-case and proportionality principles with a quasi-automatic "second backstop" for LSIs. Moreover, insofar as the draft is intended to be applied directly in the SREP, it creates binding pressure with external effects that exceed the ECB's coordinating mandate under Article 6 SSM Regulation.	Article 6(1) and (5)(a) and (c) of the SSM Regulation enable the ECB to issue Guidelines addressed to NCAs in respect of LSIs for the purpose of ensuring a consistent application of high supervisory standards and the consistency of supervisory outcomes across the participating Member States. Pursuant to its Article 5, the Guideline establishes a consistent application of high supervisory standards for the supervisory review of NPE management and coverage for less significant supervised entities across European banking supervision. Furthermore, it remains in the hands of the NCAs to decide how to take the outcome of the assessment into account in each case, ensuring effective oversight of the system's functioning. With regards to the quantitative aspects included in the Guideline, it is noted that the ECB is not restricted to requesting NCAs to assess the coverage of NPE solely based on qualitative aspects. However, the Guideline does not aim to introduce any minimum coverage requirement. NCAs retain discretion in adopting supervisory measures following a case-by-case assessment. Moreover, NCAs may choose to follow a different approach to specific individual exposures or portfolios, depending on particular circumstances.
<b>General</b>	European Association of Co-operative Banks (EACB)	The EACB welcomes the possibility to comment on the ECB Guideline on the supervisory approach by NCAs to coverage of non-performing exposures held by LSIs. We agree with the effort of the supervisors in monitoring and supporting the reduction of NPLs to strengthen the banking system, making it more resilient and boosting its ability to grant loans to new and profitable projects in the economy. We also appreciate the careful	Please refer to the response to the previous comment. In relation to the point raised concerning competitiveness, the ECB is of the view that a competitive banking sector requires banks of all sizes to be resilient in the face of challenges. Such resilience requires ensuring that legacy risks are appropriately dealt with. The objectives of the framework set out in the Guideline are therefore not contrary to those of

Reference	Respondents	Comment	ECB response and analysis
		<p>consideration of the specificities of the LSIs and certain structural disadvantages compared to the SIs in achieving expected NPL reduction. Finally, the implementation of a framework should be coherent across the EU, proportionate, and yet flexible enough to allow NCAs to judge on a case-by-case basis. On this latest element, we evidence a step back in the ECB approach and the necessity of fine-tuning.</p> <p>Past ECB guidance under the SSM Regulation have consistently been limited to a qualitative supervisory approach. By contrast, the Guideline links the LSIs' assessments quantitatively to Article 47c CRR and, through staggered factors until 2028, effectively introduces a de facto minimum coverage requirement. This approach unduly restricts NCAs' SREP discretion under the CRD and replaces the case-by-case and proportionality principles with a quasi-automatic "second backstop" for LSIs. Moreover, as the draft is intended to be applied directly throughout the SREP, it creates binding pressure with external effects that exceed the ECB's coordinating mandate under Article 6 SSM Regulation. Such a measure would entail considerable additional costs for institutions, which stands in conflict with the current EU strategy to strengthen the competitiveness of the European banking sector.</p>	the EU strategy to strengthen the competitiveness of the banking sector. The legacy NPE stocks constitute lasting sources of potential further losses and restrict banks' capacity for new lending hence tackling them is pivotal to the banks' resilience.
<b>General</b>	German Banking Industry Committee (GBIC)	We would ask for an indication as to how the guideline is to be implemented nationally. Can the NCA reject its application entirely or make adjustments to administrative practice?	The Guideline is binding on NCAs. It is for the NCAs to decide how they intend to comply with the Guideline, by amending their framework or their supervisory processes.

## 2.2

## Purpose and function of the Guideline

### Comments received and ECB feedback

Reference	Respondents	Comment	ECB response and analysis
<b>General</b>	German Banking Industry Committee (GBIC)	Given the supervisory authorities' stated intention to reduce bureaucracy, it is not clear why the ECB plans to apply regulations for SIs to all LSIs now as well. Rather, attempts are now being made to undermine the legal protection of existing rights via the SREP. The additional value adjustments/provisions that may be required by the supervisory authority are not permitted under commercial law. This would mean keeping "shadow accounts" solely for oversight purposes. And it would conflict with the aim of reducing bureaucracy. It should also be noted that measures taken by institutions to reduce existing NPL portfolios only take effect after a considerable delay. It will be years before these measures are taken into account in new SREP decisions.	The Guideline does not require supervisory authorities to request specific levels of value adjustments or provisions for accounting purposes. It sets out risk-based and differentiated coverage factors that will guide supervisors' prudential assessments of NPL coverage. If and where those assessments conclude that there may be coverage shortfalls from a prudential perspective, this will be addressed via supervisory measures ensuring appropriate prudential treatment. Finally, note that the framework is complementary to banks' and supervisors' efforts to reduce NPLs – it aims to ensure that, while legacy NPLs remain on balance sheets and thus pose risks of additional losses the longer they are not repaid, those risks are adequately covered. The Guideline applies to exposures that were originated prior to 26 April 2019, which is a considerable number of years before the Guideline takes effect. For instance, a full coverage of unsecured loans for the purpose of prudential assessment is expected only as of 31st of December 2028. Therefore, the phase-in foreseen in the Guideline should not be considered problematic under standard risk management practices.
<b>Article 5(1)</b>	German Banking Industry Committee (GBIC)	The necessary coverage should not be assessed according to Article 47c CRR. We request deletion or clarification/amendment to	Guidelines provide criteria already effectively used in prudential supervision regulations and guidelines, incorporating the main elements

Reference	Respondents	Comment	ECB response and analysis
		<p>the effect that NCAs carry out an assessment based on the actual risk and do not apply Article 47c CRR as a general rule.</p> <p>The NCAs should be given appropriate scope to assess the actual risk. Basing the assessment here on Article 47c CRR does not achieve the desired objective. The regulations do not reflect the actual risk because neither the economically available collateral can be taken into account nor is the quality of the collateral (e.g. cash deposits with the institution) appropriately taken into account in the weighting factor.</p>	<p>that define the actual risk. The coverage factors specified in Article 47c of the Capital Requirements Regulation (CRR) reflect the economic reality that expected recoverable amounts decrease as NPL vintages increase. In doing so, the coverage factors appropriately distinguish between types of NPLs (unsecured vs secured, with the secured category further distinguishing between types of collateral). This does not prevent NCAs from taking into consideration additional specific circumstances in their assessments, as outlined in Article 4 of the Guideline.</p>
General	Austrian Federal Economic Chamber/Division Bank and Insurance	National authorities should take into account the respective capital adequacy of institutions. This would ensure that it is not mandatory to create an individual value adjustment in every case if this does not appear necessary from a risk perspective.	The Guideline and its key parameters fully reflect a risk-based approach and do not establish a generalised mandatory requirement for individual value adjustments. Rather, they stipulate a consistent supervisory approach to assess sufficient coverage of prudential risks based on economic reality of decreasing expected recoverable amounts as NPL vintages increase.
Article 3(2)	European Association of Co-operative Banks (EACB)	<p>There is a clear overlap between the proposed ECB Guidelines and EBA Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06). According to the latter, Credit institutions with NPLs ratio (EBA) higher than 5% are required to fulfil a NPE reduction plan to be submitted to the NCA. This plan is highly detailed and it is monitored and oversighted by the NCA which, upon its request, can demand additional measures to be adopted by the credit institution. In this sense, NCAs that have formally adopted EBA Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06) should be exempted from applying the proposed ECB Guidelines.</p> <p>The overlap between the proposed ECB Guidelines and EBA Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06) generates excessive compliance costs to less significant institutions, especially for small and non-complex institutions. The proposed regulation goes against the current trend of regulatory simplification initiated by the European authorities.</p>	<p>The Guideline is fully compatible with, and complementary to, the EBA Guideline on the management of non-performing and forborne exposures. Prudent approaches to assessing NPE coverage, like the one outlined in the ECB Guideline, enable and incentivise the effective execution of NPL management plans. There are also several options under the Guideline to allow NCAs to limit the scope only to less significant institutions for which legacy NPLs are material, therefore the compliance cost is kept proportional to the need to ensure resilience.</p>
Article 6(1) and (2)	European Association of Co-operative Banks (EACB)	<p>The guideline envisages the assessment of NPE coverage as information to be considered by authorities in the SREP process, which could lead to an increase in P2R and/or P2G requirements. However, if there are future plans to integrate this information with Pillar 1 requirements, calculations, and reporting (e.g., COREP statements), it would be essential for authorities to issue the corresponding legal texts. This would include modifying the CRR and Implementing Regulation (EU) 2024/3117 (COREP), issuing specifications for data transmission (xbrl, etc.), adapting their information repositories, and giving institutions adequate time for system adaptations.</p> <p>While the guideline is clear about the SREP implications, any future integration with Pillar 1 would represent a significant change in regulatory and operational burden. Providing a clear roadmap and sufficient lead time for such changes would be critical for institutions to maintain compliance and financial stability. This pre-emptive comment is intended to highlight a potential future issue.</p>	The Guideline is rooted in, and linked to, Pillar 2. Amendments to the Pillar 1 framework are beyond the ECB's competence.
Article 7(2)	European Association of Co-operative Banks (EACB)	<p>Regulation (EU) 2021/451 does not set reporting requirements for the NPLs defined in article 469a of Regulation (EU) No 575/2013. There have been substantial studies about the cost of compliance with regulatory reporting</p>	The need for dedicated IT developments related to the content of the Guideline should be minimal given that it deliberately refers to concepts and calculations that are very closely aligned with those required by the CRR

Reference	Respondents	Comment	ECB response and analysis
		<p>requirements for credit institutions. EBA and ECB are currently working in new models of data requirements to reduce the mentioned cost. It should be carefully assessed the cost that it would suppose for LSIs, especially for SNCI, to implement the required IT developments to report the required data set in the proposed Guidelines. Moreover, institutions would be demanded to report some specific data for loans that are not subject to the prudential backstops regulation.</p> <p>Reporting requirements can imply excessive IT development costs for LSIs and especially for SNCIs.</p>	<p>backstop for NPEs originated on or after 26 April 2019, which have formed part of common reporting (COREP) for several years. An impact study conducted with a sample of around 100 LSIs with high legacy NPEs (i.e. the category of LSIs that is expected to be subjected to reporting) has demonstrated that reporting the required data within a period of several months is feasible even for the smallest supervised entities.</p>
General	<p>Banca Ifis S.p.A., Guber Banca S.p.A., Banca CF+ S.p.A., Banca Credito Attivo S.p.A., Banca Sistema S.p.A., Banca AideXa S.p.A. and Bonelli Erede Lombardi Pappalardo<sup>1</sup></p>	<p>I.Introduction</p> <p>The law firm, has requested clarification, incorporation and the proposed amendments, prepared and agreed with the following less significant institutions (LSIs):</p> <ul style="list-style-type: none"> <li>• Banca Ifis S.p.A.;</li> <li>• Guber Banca S.p.A.;</li> <li>• Banca CF+ S.p.A.;</li> <li>• Banca Credito Attivo S.p.A.;</li> <li>• Banca Sistema S.p.A.; e</li> <li>• Banca AideXa S.p.A. (jointly, the "participants").</li> </ul> <p>The aim of this initiative is to foster dialogue with industry participants by providing the ECB with an overview of banks with business models:</p> <p>that are specialised and have a high level of professional expertise in the area of NPE purchasing, management and valuation, while continuing to ensure the supply of credit to the real economy; and/or</p> <p>with low-risk exposures, such as those with or guaranteed by public sector entities.</p> <p>II. The Guideline: preliminary observations and impact analysis</p> <p>The Guideline aims to speed up the reduction of non-performing exposures and strengthen the resilience of LSIs by introducing stricter coverage expectations for legacy non-performing exposures and by extending the requirements currently imposed on significant institutions (SIs) to LSIs.</p> <p>This approach, in the view of the participants – which is fully acceptable to LSIs with a traditional business model where the presence of legacy NPEs is a common indicator in 2 of credit risk management – would better take account of the following:</p> <p>(i) the current context of the banking sector, which is very different from that of 2018;</p> <p>(ii) the crucial role played by LSIs in financing the real economy and core regions; and</p> <p>(iii) the current stock of NPEs on LSIs' balance sheets and the relative share of loans guaranteed by public sector entities.</p> <p>Specifically:</p> <p>(i) Overall, and despite a recent marginal increase, the NPE ratio of the majority of LSIs is below that of SIs (on 31 December 2024, around 60% of LSIs had an NPE ratio below 2%)(1);</p> <p>(ii) Imposing a further capital increase on LSIs, which is not calculated based on their size and operational specificities, could undermine their capacity to provide loans to households and small and medium-sized enterprises;</p>	<p>The preamble to the Guideline as well as the frequently asked questions published upon the launch of this <a href="#">public consultation</a> explain the background to and motivation for this supervisory initiative. They specifically address the points raised in this comment about the general situation of the LSI sector in terms of NPLs and the link between LSIs' resilience and their capacity to serve the real economy.</p>

<sup>1</sup> Version of the comment translated in English. Comment originally received in Italian.



Reference	Respondents	Comment	ECB response and analysis
		<p>(iii) Fully implementing the Guideline may require a gradual and significant business model change, especially for servicers specialising in NPE management, prompting them to cease providing services in purchasing and managing non-performing loans to entities that are not under their supervision (the shadow banking sector), with possible systemic repercussions for the real economy in the event of their insolvency.</p> <p>In fact, some LSIs are highly specialised in these services, providing concrete and tangible support not only to those SIs that had to discard NPEs from their balance sheets, but also to the real economy, by monitoring and reincluding insolvent debtors;</p> <p>(iv) Strictly applying the Guideline would be counterintuitive to the objective of developing a more competitive, efficient and transparent secondary European market for non-performing loans – as upheld by the Secondary Market Directive – as well as to the objective of facilitating and speeding up the process.</p> <p>Without adequate mechanisms to ensure compliance with the principle of proportionality and a level playing field, the draft Guideline could significantly affect specialised LSIs, in particular those whose business model is based precisely on the valuation of legacy non-performing loans.</p> <p>From this point of view, the current exemption for specialised servicers under (1) ECB, LSI supervision report 2024, December 2024, 3 under Article 36 (5) of Regulation (EU) 575/2013, may not sufficiently prevent a blanket-type and non-proportional application of the rules for the specificities of certain servicers.</p> <p>III. Conclusions</p> <p>In view of the above comments, in the attached Excel sheet are the agreed requests for clarification, incorporation and the proposed amendments to the Guideline. The purpose of which is to meet its objectives of safeguarding the principle of proportionality, the high level of professional expertise amongst specialised servicers and the related economic and social function. It also meets the need to ensure a level playing field in a sector with potential significant impacts on the system's capacity to support the real economy.</p> <p>We hope that these suggestions will help foster a constructive dialogue and we take this opportunity to give our best wishes.</p>	

## 2.3 Implementation timeline

### Comments received and ECB feedback

Reference	Respondents	Comment	ECB response and analysis
<b>General</b>	Association of Cooperative Banks of Greece	<p>We appreciate the opportunity to participate in the public consultation on the European Central Bank's Guideline addressed to national competent authorities regarding the coverage of non-performing exposures (NPEs) by less significant institutions (LSIs).</p> <p>The Association of Cooperative Banks of Greece represents the cooperative banks operating in Greece, which are characterized</p>	The common supervisory approach as outlined in the Guideline cannot be described as frontloaded given the gradual implementation of the supervisory assessment of the NPE coverage over four reporting periods stipulated by Article 8. The assessment starts at a maximum coverage factor of 0,60 for the reference date 31 December 2025. Within this multi-year gradual phase in period envisaged by the Guideline,

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Reference	Respondents	Comment	ECB response and analysis
		<p>by their small size, strong regional presence, and focus on financing small businesses and households, particularly Small Business Services (SBSs) and Small and Medium-sized Enterprises (SMEs).</p> <p>As regards NPEs, the Total GBV of NPEs for Greek Cooperatives amount to circa 445mn, therefore, not considered overall material for the Greek Banking system (Total GBV of loans of Greek Cooperatives is &lt; 1% of total banking sector).</p> <p>With this note, we wish to express our deep concern regarding the option of an immediate/front-loaded rather than gradual/proportional approach to addressing the issue of NPEs.</p> <p>Following the severe Greek financial crisis of 2010–2019, OSIs in Greece addressed the NPE issue through securitisation mechanisms supported by the Greek State Aid scheme (HAPS). However, Greek Cooperative Banks did not benefit from similar support.</p> <p>In light of the above, taking into account proportionality and materiality as well as level playing field considerations, we would like to request an extended and gradual timeline of implementation of prudential backstop, i.e. 2026-2030 horizon, starting from 60% at 31.12.2026 with a step of 10% for each following year.</p> <p>This will allow Greek Cooperative Banks sufficient time to strengthen their capital position, gradually reduce their NPE ratio to single digits (below 5%), and preserve their role in serving local communities.</p> <p>We trust that our observations will contribute to strengthening the proportionality and effectiveness of the supervisory framework, taking into account the unique conditions and challenges faced by cooperative banks in Greece.</p>	<p>this first iteration provides an opportunity for all parties involved to establish and test the processes and reporting arrangements for the framework, thus ensuring they run smoothly in subsequent iterations. Further, to take into account the request for additional implementation time, for the first year of implementation of the Guideline, NCAs have the possibility to set the deadline for the receipt of the data up to 6 months after the reference date (December 2025) to account for possible implementation lags. This time is considered sufficient given the familiarity of subject banks with the data submission template based on COREP.</p> <p>In addition, proportionality considerations accounting for specific challenges in reducing NPEs faced by smaller supervised entities are already reflected in the broader timing of this supervisory initiative, which comes more than seven years after the ECB published similar supervisory expectations for the significant institutions under its direct supervision. Given the above and considering the background to and objectives of the Guideline, the ECB sees no basis for further extending the phase-in period for the assessment of NPE coverage.</p>
<b>Article 8(2)</b>	ABI – Italian Banking Association	<p>Article 8 paragraph 2 letter (a) is based on reporting with reference date as of 31 December 2025. ABI deems that the first reference date should be envisaged as of 31 December 2026.</p> <p>In light of the fact that the Guideline has not yet been finalised, and the exact reporting requirement is not yet defined, it would be too challenging for banks to complete the necessary implementation to start the reporting as of 31 December 2025, as they would overlap with the multiple fulfilments required in the first weeks of the year (year-end reporting, year-end financial statements). Given that the Guidelines already envisage the possibility not to consider the reporting as of the first reference date (paragraph 3 of Article 8), it appears preferable to directly postpone the reporting obligation to 2026.</p>	<p>The ECB and NCAs will ensure that reporting requirements in the first iteration of the common supervisory approach are feasible. To do so, the NCAs are to ensure that they will draw on their specific experience with LSIs' reporting of very similar templates as part of COREP and the impact study conducted during the preparation of this Guideline. The approximately 100 LSIs that formed part of the impact study have proven capable of reporting the required data within a period of approximately two months.</p> <p>Within the multi-year gradual phase in period envisaged by the Guideline, this first iteration provides an opportunity for all parties involved to establish and test the processes and reporting arrangements for the framework, thus ensuring they run smoothly in subsequent iterations. Further, for the first year of implementation of the Guideline, NCAs may decide to request the LSIs to submit the information later in the calendar year to account for possible implementation lags (e.g. providing supervised institutions with three additional months compared to subsequent years).</p>
<b>Article 8</b>	Austrian Federal Economic Chamber/Division Bank and Insurance	<p>The proposed first reporting date of 31 December 2025 is unrealistic given the very short implementation time and the lack of available reporting templates.</p>	<p>Please refer to the response to the previous comment.</p> <p>The ECB and NCAs will ensure that reporting requirements in the first iteration of the common supervisory approach are feasible. The reporting template deliberately refers to concepts and calculations that are very closely aligned with those required by the CRR backstop for NPEs originated on or after 26 April 2019, which have formed part of common</p>

Reference	Respondents	Comment	ECB response and analysis
			reporting (COREP) for several years. There is proportionality in the reporting template, in comparison to the one for significant institutions
<b>Article 8(2)</b>	German Banking Industry Committee (GBIC)	<p>We request clarification as to whether a grace period is envisaged for institutions reporting to the NCAs. The current wording only provides for a grace period for the supervisory authority.</p> <p>Once the consultation has concluded, the institutions will have only three months to prepare for the first reporting deadline. The templates are not yet available. The reporting content is not yet defined. From the perspective of the institutions, a possible first reporting date of 31 December 2025 is unrealistic and should therefore be categorically rejected. We see no reason to justify placing the institutions under such time pressure. The institutions must be given an implementation period of at least 6 months after notification by the NCAs.</p>	<p>Please refer to the response to the previous comment made by ABI – Italian Banking Association.</p> <p>The foreseen transitional arrangements for supervised entities that fall within the scope of the Guideline are those stipulated in Article 8. Within this multi-year gradual implementation period envisaged by the Guideline, this first iteration provides an opportunity for all parties involved to establish and test the processes and reporting arrangements for the framework, thus ensuring they run smoothly in subsequent iterations. Further, for the first year of implementation of the Guideline, NCAs may decide to request the LSIs to submit the information later in the calendar year to account for possible implementation lags (e.g. providing supervised institutions with three additional months compared to subsequent years).</p>
<b>Article 8(1) and (2)</b>	European Association of Co-operative Banks (EACB)	<p>The effective date of December 31, 2025, for the assessment of NPE coverage is overly ambitious given the consultation process is ongoing and the final guideline, along with the required reporting templates, has not been published. This means that LSIs would hardly have any time to implement the necessary IT developments.</p> <p>A staggered implementation plan with a reasonable lead time is essential. The lack of a finalized guideline and reporting templates prevents institutions from planning and executing the required IT developments to meet the reporting obligations. While the transitional arrangements provide for a corrective factor, they do not address the fundamental operational challenges of building the necessary IT infrastructure in a compressed timeframe. A longer implementation period is needed to ensure a smooth transition and accurate reporting.</p>	<p>Please refer to the response to the previous comment made by ABI – Italian Banking Association and German Banking Industry Committee (GBIC).</p> <p>In addition, the need for dedicated IT developments related to the content of the Guideline should be minimal given that it refers to concepts and calculations that are very closely aligned with those required by the CRR backstop for NPEs originated on or after 26 April 2019, which have formed part of COREP for several years.</p>
<b>Article 7(1) and (2)</b>	European Association of Co-operative Banks (EACB)	<p>To undertake the necessary IT developments, it is crucial for NCAs to provide the required reporting specifications and templates as soon as possible.</p> <p>The success of this guideline hinges on the ability of NCAs to accurately report the required data. This can only be done once the reporting templates and technical specifications are available. Providing these details promptly will allow institutions to begin the necessary IT development and ensure compliance.</p>	Please refer to the response to the previous comment.
<b>Article 8(2)</b>	Banca Ifis S.p.A., Guber Banca S.p.A., Banca CF+ S.p.A., Banca Credito Attivo S.p.A., Banca Sistema S.p.A., Banca AideXa S.p.A. and Bonelli Erede Lombardi Pappalardo2	<p>Given that the consultation will end on the 27 October, in order to allow LSIs to manage the impact of the new measures and consequently amend their management strategies for non-performing exposures that were in place before 26 April 2019 (to which the exemption currently applies under Article 469 bis of the CRR), we request that:</p> <p>(i) the transitional period for the implementation of the Guideline start from the reporting reference date on 31 December 2026; and</p> <p>(ii) if, during the transitional period, the entities do not fully satisfy the expectations set out in the Guideline and the supervisory authorities deem it necessary to assess whether Pillar 2 measures need to be implemented, these be</p>	<p>Please refer to the response to the previous comment.</p> <p>Concerning point (ii), the ECB sees no basis from a risk and proportionality perspective for limiting the discretion of NCAs with respect to the adoption of supervisory measures via the specific mechanism proposed here.</p>

<sup>2</sup> Version of the comment translated in English. Comment originally received in Italian.

Reference	Respondents	Comment	ECB response and analysis
		implemented within the meaning of Article 104 of the CRR (Pillar 2 guidance), except under specific circumstances whereby binding requirements are to be imposed under Article 104 bis of the CRR (Pillar 2 requirement).	

## 2.4 Technical proposals and requests for clarification

### Comments received and ECB feedback

Reference	Respondents	Comment	ECB response and analysis
<b>General</b>	European Association of Co-operative Banks (EACB)	We would also suggest that the ECB clarifies whether the new LSI Guidelines require that shortfalls be recognised separately within each booking unit, rather than being recorded only at the consolidated entity level in accordance with IFRS. Further guidance on the intended level of recognition (entity-by-entity vs. group level) would ensure consistent application across LSIs.	The supervisory approach set out in the Guideline is to be applied to supervised entities at the highest level of consolidation within the participating Member States.
<b>Article 2(1)</b>	Banca Ifis S.p.A., Guber Banca S.p.A., Banca CF+ S.p.A., Banca Credito Attivo S.p.A., Banca Sistema S.p.A., Banca AideXa S.p.A. and Bonelli Erede Lombardi Pappalardo <sup>3</sup>	<p>The provisions of the "calendar provisioning" referred to in Articles 47 bis et seq. of Regulation (EU) 575/2013 (CRR) laid down a coordinated set of provisions, adjustments and deductions for non-performing exposures, based on the assumption that the longer an exposure remains non-performing, the lower the likelihood of recovery.</p> <p>This risk is mainly inherent in activities such as granting loans and the resulting (initial) creditworthiness assessment and any (ongoing) ineffective credit risk management.</p> <p>If, however, the loans purchased from originator banks are the result of overall ineffective management (because of both internal inefficiencies and delays due to judicial recovery times commonplace in the Italian system), the purchasing LSIs:</p> <ul style="list-style-type: none"> <li>- face exposures for which it is no longer possible to intervene effectively or proactively to cure them swiftly; and</li> <li>- determine the purchase value (and balance sheet recognition) of non-performing loans based on price/fair value resulting from a negotiation between independent counterparties, thereby harnessing the best possible recovery times and values for each individual position. These are calculated using analytical criteria that take into account the specific nature of the individual positions/portfolios, and they are therefore more accurate than fixed parameters defined at a regulatory level with their reference point being the activities of "traditional" banks. <p>In this respect, we would ask that you narrow the scope to solely non-performing exposures purchased after the Guideline entered into force by amending the definition of "non-performing exposure" under Article 2(1)(3), in order to:</p> <ul style="list-style-type: none"> <li>(i) safeguard the principle of legal certainty for the purchase transactions of loans concluded before the date it entered into force; and</li> <li>(ii) prevent significant retroactive effects and consequent capital impacts that the purchasing LSIs would incur (the difference between the actual purchase price and the</li> </ul> </li></ul>	<p>Purchased NPEs are not isolated from the phenomenon of recovery expectations decreasing as NPE vintages increase, and per-se exclusion of such NPEs from the scope of the framework set out in the Guideline is therefore not justified from a risk perspective.</p> <p>This said, with respect to supervised entities with business models that specialize in the purchase and management of NPEs, note that:</p> <ol style="list-style-type: none"> <li>1. Article 3(2)(e) of the Guideline explicitly provides the option for NCAs to exempt supervised entities that are 'specialised debt restructurers' as defined in Article 36(5) of Regulation (EU) 575/2013 from the framework set out in the Guideline; and</li> <li>2. NCAs can additionally assess whether Article 3(2)(f) may apply to such entities.</li> </ol>

<sup>3</sup> Version of the comment translated in English. Comment originally received in Italian.

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		<p>price that would have been paid had these loans been subject to prudential provisioning requirements from the outset).</p> <p>The same considerations apply to LSIs which were formerly purchasers of non-performing portfolios but have since changed their business model, yet they continue to manage portions of non-performing, often non-transferable portfolios on their balance sheets purchased at a price that did not take into account the prudential provisioning requirements.</p> <p>The national competent authorities (NCAs) and reporting templates should help to correctly identify this scope.</p> <p>We suggest that you exclude from the scope of the Guideline loans purchased before it entered into force.</p> <p>This suggestion to amend the definition of non-performing exposures is to avoid retroactive effects and capital bias for LSIs that acquired non-performing loans before the Guideline entered into force.</p>	
<b>Article 2(3)</b>	German Banking Industry Committee (GBIC)	<p>We assume that the term "technical guarantee" serves to distinguish it from guarantees as techniques to mitigate credit risk. If not, we would ask for further clarification.</p> <p>This would clarify the intention of this regulation and making it more comprehensible.</p>	<p>"Technical guarantees" are those that guarantee the ability of the bank's client to comply with contractual non-economic obligations towards a third party (such as the supply of goods or execution of works) not having the character of credit substitutes. Examples include "performance bonds" and other guarantees listed under 4(a)(i) of Annex I of the CRR not having the character of credit substitutes. Guarantees with contractual economic obligations (e.g. financial guarantees) cannot be considered as "technical guarantees".</p> <p>The definition of "technical guarantee" in Article 2(1)(3) of the Guideline has been amended for additional clarification.</p>
<b>Article 3</b>	Austrian Federal Economic Chamber/Division Bank and Insurance	The wording should not be formulated as a discretionary provision. Rather, it should apply that in certain circumstances (including an NPL ratio < 5%), no additional approach is required in principle and national authorities may not impose any further requirements.	It is important to ensure NCAs retain an appropriate degree of supervisory discretion in deciding which entities may be excluded from the framework for a given iteration. This enables supervisors to ensure outcomes are appropriately risk-based. The automatic action described here would unduly limit this discretion.
<b>Article 3(2)</b>	German Banking Industry Committee (GBIC)	We assume that the ratio referred to is the EBA's FinRep ratio, excluding loans and advances classified as held for sale, balances with central banks and demand deposits. We request clarification if an additional ratio needs to be calculated. This serves to clarify the identification of potentially affected institutions.	Indeed, the ratio referred to is the gross NPL ratio excluding loans and advances classified as held for sale, cash balances at central banks and other demand deposits. No additional ratio needs to be calculated for this purpose – Article 3(2)(a) has been amended to make this clearer.
<b>Article 3(2)</b>	ABI – Italian Banking Association	Paragraph 2 of Article 3 outlines the conditions under which the National Competent Authority (NCA) may decide not to apply the proposed supervisory approach to a less significant supervised entity. The condition under point a) regards institutions where total gross carrying amount of non-performing loans and advances represents less than 5% of the total gross carrying amount of loans and advances (so called NPL ratio). In ABI's opinion, reference should be made to the amount of non-performing loans and advances net of related provisions (so called "net NPL ratio") instead of gross amount. The net NPL ratio is a more accurate indicator of the actual risk borne by the bank.	<p>The use of NPLs gross of provisions in the ratio referred to here is deliberate, as the provision element is precisely the focus of the common supervisory approach set out in this Guideline. Assessing coverage at exposure level, as foreseen by the Guideline, cannot be forestalled on the basis of the aggregated provision level of the supervised entity, as would be the case when using a net NPL ratio. The use of a gross NPL ratio in this criterion is also consistent with its use for other prudential purposes, such as the requirement to submit NPL reduction plans.</p> <p>The ECB acknowledges that coverage levels might be a relevant factor for NCAs to consider when evaluating the application of exemptions based on a gross NPLs threshold.</p>
<b>Article 3(2)</b>	BFF Banking Group	It is proposed to exclude from the 5% threshold NPE exposures classified as past due whose only sign of potential deterioration is payment delays.	Using a simple gross NPL ratio, without adjustments for specific NPL types, as a criterion for exempting supervised entities from the Guideline's scope aligns with its use in other prudential practices, such as submitting

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		<p>Specifically, it is requested to consider automatically excluded (without discretion by the National Competent Authorities) from the threshold at least those past due exposures to counterparties with no further signs of deterioration other than payment delays to public administration counterparties (central governments or central banks under Article 114 of the CRR, regional governments or local authorities under Article 115 of the CRR, public sector entities under Article 116 of the CRR).</p> <p>Indeed, in this context, in addition to the past due objective classification mechanism, a second automatic mechanism is added — in the event of default persisting for a certain period — that does not allow banks to accurately assess risk (as required by accounting principles), consisting of deductions from CET 1 for calendar provisioning on credit exposures, even in case of limited credit risk.</p> <p>It is proposed to exclude from the 5% threshold counterparties classified as past due with no further signs of deterioration in credit risk.</p>	<p>NPE strategies.</p> <p>Since the guideline already provides NCAs with flexibility, allowing them to apply exemptions if robust reasons exist, the requested adjustment would introduce undue complexity and ambiguity into the assessment of this criterion.</p>
<b>Article 3(2)</b>	Banca Ifis S.p.A., Guber Banca S.p.A., Banca CF+ S.p.A., Banca Credito Attivo S.p.A., Banca Sistema S.p.A., Banca AideXa S.p.A. and Bonelli Erede Lombardi Pappalardo4	<p>In view of the business model used by servicers specialising in purchasing, managing and valuing non-performing loans and their high level of professional expertise (see comment on point 2), we would like to clarify the following: For the purposes of calculating the 5% threshold referred to under Article 3(2), NCAs may, upon request, allow LSIs to exclude, from both the denominator and the numerator, loans and advances classified as "POCI" in accordance with the applicable accounting standards (i.e. any purchased or originated credit-impaired financial assets – POCI that are already credit-impaired at initial recognition in accordance with International Accounting Standard (IFRS 9)).</p> <p>We suggest you clarify that, for the purposes of calculating the NPE ratio, NCAs will be able to consider, based on a specific assessment of the applicant LSI's business model, only those exposures initially originated as performing exposures, excluding, on the other hand, all exposures classified as POCI (purchased or originated in stage 3). This is because, from a credit risk perspective, the carrying amount at fair value is recovered through a purchase and thus negotiation process, or, in the case of loans, an estimated value that takes into account the characteristics and specificities of the debtor from the outset, as well as the timing and values of the recovery flows (features that significantly distinguish this type of loan from the loan origination services of a "traditional" bank).</p> <p>This approach would better reflect the actual credit risk of LSIs with business models specialising in purchasing, managing and valuing non-performing exposures.</p> <p>We suggest clarifying the right of NCAs to exclude from the calculation of the 5% threshold referred to under Article 3(2)(a) the following: any purchased or originated credit-impaired financial assets that are already impaired at initial recognition.</p> <p>The reason for this amendment is to accurately reflect the credit risk of LSIs specialising in purchasing, managing and valuing non-performing exposures.</p>	<p>Please refer to the response to the previous comment.</p> <p>More specific aspects can be assessed in the context of Article 3(2)(f) and Article 4(4).</p>
<b>Article</b>	German Banking	We assume that the term "insignificant share"	The Guideline does not set a fixed threshold

<sup>4</sup> Version of the comment translated in English. Comment originally received in Italian.

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3(2)	Industry Committee (GBIC)	will be defined and communicated by the NCAs.  This serves as guidance for the relevant institutions to take the necessary precautions to ensure their reporting capability.	for when an institution's NPEs in scope of the Guideline can be considered insignificant. This is a way of ensuring flexibility to account for idiosyncratic features and proportionality.
Article 3(2)(b)	European Association of Co-operative Banks (EACB)	We would appreciate a clearer definition or an indicative threshold for what would constitute an "insignificant share of the less significant supervised entity's total amount of non-performing exposures."  The term "insignificant" is subjective and could lead to inconsistent application across different NCAs. A more precise definition would ensure the consistent application of high supervisory standards and a level playing field for all institutions.	Please refer to the response to the previous comment.
Article 3(2)	German Banking Industry Committee (GBIC)	We assume that the LSI must already be in an orderly resolution process and not that the orderly resolution is planned for the institution by the supervisory authority. We request further clarification. This serves to clarify the identification of institutions that may be affected.	Yes, Article 3(2)(c) refers to an orderly wind-down process that is ongoing as at the relevant reporting reference date. The Article has been amended to clarify this.
Article 3(2)	German Banking Industry Committee (GBIC)	We request clarification as to what "make the application of this Guideline inappropriate" means. This serves as guidance for the relevant institutions to take the necessary precautions to ensure their reporting capability.	This aspect remains subject to supervisory assessment on a case-by-case basis and is aimed at ensuring flexibility and proportionality.
Article 3(2)	Banca Ifis S.p.A., Guber Banca S.p.A., Banca CF+ S.p.A., Banca Credito Attivo S.p.A., Banca Sistema S.p.A., Banca AideXa S.p.A. and Bonelli Erede Lombardi Pappalardo <sup>5</sup>	This paragraph enables NCAs to decide not to apply the Guideline's rules if the supervised entity is involved in an ongoing merger with, or acquisition by, another supervised entity.  Since we agree on the type and purpose of the exemption under review, we would ask you to clarify that the exemption in question also applies to the acquiring or incorporating LSI. This would assist banking sector consolidation processes and help to determine the length of time of the exemption given the time needed following an acquisition or merger to take strategic and management decisions, including decisions on non-performing portfolios.  We would like you to clarify this in order to ensure that the servicers involved in mergers and acquisitions (not only at the target level, but also at the bidder level) are given equal treatment and the parties involved are exempted for enough time to complete their activities.	This paragraph deliberately refrains from referring to the acquiring entities. The circumstance of their acquiring another entity is not considered to provide a risk-based justification for exemption from the framework set out in the Guideline.  Article 3(2)(d) has been amended to make this clearer.
Article 3(2)	ABI – Italian Banking Association	Paragraph 2 of Article 3 outlines the conditions under which the National Competent Authority (NCA) may decide not to apply the proposed supervisory approach to a less significant supervised entity. In ABI's opinion, institutions meeting the condition under letter a) i.e. NPL ratio below 5% (as amended per the above proposal), should be automatically excluded instead of being subject to case by case authorisation.  Case by case authorisation would imply an operational burden for both supervisors and banks, that is deemed not necessary in light of the low amount of non-performing exposures of the bank. Simplification by means of an automatic exemption would reduce the administrative burden.	It is important to ensure NCAs retain room for supervisory judgment in deciding which entities may be excluded from the framework for a given iteration in view of their specific circumstances. This enables supervisors to ensure outcomes are appropriately risk-based. The automatic action described here would unduly limit this flexibility and would not allow to properly account for specific circumstances.
Article 3(2)	European Association of Co-operative Banks (EACB)	Add a para (g). In terms of group recovery plan within an IPS, institutions may be instructed to implement several measures in the credit risk management area. In such	Measures in the area of credit risk management, whether taken by individual supervised entities or coordinated across several of them, should be conducive to

<sup>5</sup> Version of the comment translated in English. Comment originally received in Italian.



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		<p>cases, to maintain a level playing field within such affiliation and the robustness of group recovery plan, NCAs should have the option not to apply the supervisory approach set out in this Guideline to relevant institutions. Moreover, institutions that are part of IPS may be granted aid funds to overcome any shortages of capital.</p> <p>This treatment could be relevant for certain less significant institutions affiliated in an IPS and subject to Group Recovery Plan according to Article 4 BRRD.</p>	<p>prudent NPL coverage, but do not pre-empt supervisory assessments of it. Membership of an institutional protection scheme (IPS) does not diminish the relevance of those supervisory assessments either. Accordingly, we see no basis for establishing specific criteria based on the type of measures or membership that would justify exempting institutions from the framework set out in the Guideline. This is notwithstanding the discretion of NCAs in implementing supervisory measures in line with the supervisory approach stipulated in the Guideline.</p>
<b>Article 3(2)</b>	<p>Banca Ifis S.p.A., Guber Banca S.p.A., Banca CF+ S.p.A., Banca Credito Attivo S.p.A., Banca Sistema S.p.A., Banca AideXa S.p.A. and Bonelli Erede Lombardi Pappalardo6</p>	<p>LSIs specialising in the purchase, management and valuation of non-performing loans have reached levels of professionalism and excellence and provide concrete and tangible support to:</p> <p>(i) SIs and LSIs and other market participants, enabling a significant reduction in the stock of non-performing loans of traditional servicers; and (ii) the real economy, supporting the financial reinclusion of distressed households and SMEs that can benefit from sustainable recovery paths.</p> <p>Applying the Guideline indiscriminately to these servicers does not ensure a level playing field with respect to traditional LSIs (where NPL stocks are a less common feature of their operations), as well as to investment funds, mainly non-EU funds and what we call the shadow banking sector.</p> <p>The current exemption provided for under Article 36 (5) of the CRR and Article 3 of the Guideline is not suitable for:</p> <p>(i) assessing the business model of specialised servicers who, at the same time, play a role in financing the real economy (in particular households, SMEs and core regions); (ii) ensuring a level playing field and safeguarding the proper functioning of the secondary market for non-performing loans; (iii) enabling LSIs to continue implementing sustainable recovery policies, which are different from the speculative and short-term approach typically taken by shadow banking sector servicers.</p> <p>We therefore request that Article 3 of the Guideline be supplemented by excluding from its scope those LSIs specialised in purchasing, managing and valuing such loans which, although not covered by the aforementioned exemption, comply at the highest level of consolidation with the requirements of Article 36(5)(a) of the CRR [main activity of the institution] and (e) [130% as a net stable funding ratio on an ongoing basis], as indicated below. For the purposes of the requirement referred to in (a), in particular, this requirement shall be deemed to have been complied with if, in the preceding financial year:</p> <p>— the net interest income generated by the purchase, management and valuation of loans purchased by banks and/or other national intermediaries with a supervisory framework comparable to that of banks was at least equal – reflecting the main activity of the sector – to 40% of the total on a consolidated basis; and</p> <p>— the total gross profit generated by institutions and intermediaries involved in purchasing, managing and valuing loans was at least 30% of the total on a consolidated basis.</p>	<p>Please refer to the response to the comment from the same respondents submitted in relation to Article 2(1).</p> <p>As regards the scope of supervised entities subject to the framework set out in the Guideline, Article 3 provides clear and risk-based criteria to ensure a level playing field across jurisdictions and supervised entities while maintaining sufficient flexibility for NCAs to take into consideration specific and factual circumstances.</p>

<sup>6</sup> Version of the comment translated in English. Comment originally received in Italian.



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		<p>We suggest excluding from the scope of this Guideline servicers specialising in the management of non-performing loans, subject to certain quantitative requirements.</p> <p>The purpose of this suggested amendment is to recognise the specificities of such LSIs, ensuring a level playing field and safeguarding the smooth functioning of the secondary market, enabling them to continue to develop responsible and sustainable recovery strategies.</p>	
<b>Article 3(2)</b>	Banca Ifis S.p.A., Guber Banca S.p.A., Banca CF+ S.p.A., Banca Credito Attivo S.p.A., Banca Sistema S.p.A., Banca AideXa S.p.A. and Bonelli Erede Lombardi Pappalardo7	<p>If the proposed amendments under paragraph 2 are accepted, we request that the Guideline be supplemented to take into account the activities of LSIs specialising in purchasing, managing and valuing NPEs and belonging to traditional banking groups which, at the highest level of consolidation, do not meet the requirements under paragraph 2 (i.e. exemption applicable to LSIs belonging to groups that meet the quantitative requirements in terms of overall net income and profit on a consolidated basis).</p> <p>We therefore request that NCAs be allowed to exclude from the scope of this Guideline those LSIs belonging to traditional banking groups which, at the highest level of consolidation, do not comply with the requirements under paragraph 2, provided that they:</p> <p>(i) contribute more than 50% of the calculated NPE ratio on a consolidated basis, as referred to under Article 2(1) of the Guideline; (ii) meet, on an individual basis, the requirements under paragraph 2 in terms of net interest income and overall profit.</p> <p>We suggest excluding from the scope of this Guideline servicers specialising in the management of non-performing loans, which belong to a banking group, subject to certain quantitative requirements.</p>	<p>The supervisory approach set out in the Guideline is to be applied to supervised entities at the highest level of consolidation within participating Member States. Concerning the other aspects mentioned, please refer to the responses to the comments from the same respondents above.</p>
<b>Article 3(5)</b>	German Banking Industry Committee (GBIC)	<p>We request the addition that institutions that are considered specialised debt restructuring entities pursuant to Article 36(5) CRR do not fall within the scope of the guideline.</p> <p>Since the NCAs are required to take into account NPL backstop rules when determining the appropriateness of value adjustments/provisions, it follows that there should also be no reporting requirements for these institutions.</p>	<p>Article 3(2)(e) already stipulates that a less significant supervised entity being a "specialised debt restructuring" as defined in Article 36(5) of the CRR is an explicit criterion on the basis of which an NCA may decide to exclude the entity from the scope of the Guideline for a given reference date.</p>
<b>Article 4</b>	Austrian Federal Economic Chamber/Division Bank and Insurance	<p>The proposed application requirement is excessively bureaucratic. A pragmatic solution should be provided for (e.g. initially a supervisory dialogue and exchange so that it can be clarified within this framework whether special circumstances exist).</p>	<p>To be able to assess whether the specific circumstances referred to in Article 4(4) can be deemed to apply, supervisors need to be provided with specific evidence in relation to the portfolio or exposure concerned. If a bank finds it overly challenging to gather and report such evidence, this underscores the appropriateness of applying the general assessment approach outlined in the Guideline, including the applicable coverage factors, to the portfolio/exposure in question. It should be noted that the impact study conducted in the run-up to the Guideline confirmed the ability of even very small banks to provide such information.</p>
<b>Article 4(1)</b>	ABI – Italian Banking Association	<p>ABI deems appropriate including, among the circumstances which can justify a request for exemption, the case of exposures where the condition of ongoing payments of capital and interests cannot be verified but, based on the assessment of the exposure and the outcome of internal models, banks have concrete expectations of full repayment.</p>	<p>The set of circumstances which may justify the exemption of individual exposures as described in the Guideline is deemed sufficiently broad to ensure the approach produces meaningful, risk-based outcomes.</p>

<sup>7</sup> Version of the comment translated in English. Comment originally received in Italian.

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		The possibility to exclude, from the application of this Guideline, non-performing exposures where the bank expects full repayment should be foreseen, subject to supervisory scrutiny (also having regard to the peculiarities of portfolios of bought NPL).	
<b>Article 4(2)</b>	Banca Ifis S.p.A., Guber Banca S.p.A., Banca CF+ S.p.A., Banca Credito Attivo S.p.A., Banca Sistema S.p.A., Banca AideXa S.p.A. and Bonelli Erede Lombardi Pappalardo	<p>We would ask you to confirm that exposures underlying units in CIUs are excluded from the scope of this Guideline if these are not included in the accounting and prudential consolidation of LSIs, in line with the clarification already provided by the EBA (see EBA Q&amp;A 2020_5629).</p> <p>The purpose of this request is to clarify that exposures underlying units in CIUs are excluded from the scope of this Guideline.</p>	We confirm that the treatment of such exposures in the context of the Guideline is analogous to their treatment under Article 47a(1) of the CRR in conjunction with EBA Q&A No 2020_5629, i.e. they are excluded from the scope.
<b>Article 4(2)</b>	Banca Ifis S.p.A., Guber Banca S.p.A., Banca CF+ S.p.A., Banca Credito Attivo S.p.A., Banca Sistema S.p.A., Banca AideXa S.p.A. and Bonelli Erede Lombardi Pappalardo <sup>8</sup>	<p>We would ask that any recent purchase/acquisition, by negotiation and/or judicial and/or extrajudicial means, of collateral or financial guarantees on claims that fall within the scope of this Guideline be included under "specific circumstances". Collateral purchased later, if it protects LSIs from future losses, could indeed be considered as an appropriate case, based on the specific circumstances of the LSI, for benefiting from being exempted from the rules of the Guideline.</p> <p>The reason we ask for this amendment is to address the need to assess those cases for which credit exposures remain on the balance sheet, but for which it can be proven that recovery is likely either for the most part or in full.</p>	The framework set out in the Guideline foresees a supervisory assessment based on the situation of the supervised entity as at the given reporting reference date. Factual circumstances that have materialised subsequent to the reporting reference date (e.g. additional collateral which may affect the share of an NPE that qualifies as "secured") may be taken into account by NCAs at their own discretion when reflecting in Pillar 2 the outcomes of the assessment described in the Guideline.
<b>Article 4(3)</b>	ABI – Italian Banking Association	<p>Article 3 stipulates that in certain circumstances NCAs may decide not to apply Article 5 to individual exposures or portfolios of exposures. On top of that, in ABI's view, an automatic exemption should be provided in case of exposures arising from off-balance sheet items - that would otherwise be included pursuant to Article 47a(1)(b) CRR.</p> <p>It is deemed that this measure should not be applied to non-performing exposures arising from off-balance sheet items like commitments and guarantees, as in these cases the exposure has not actually materialised (and the recovery process might have not yet started). Applying coverage obligations, which are theoretically explained by the fact that the passing of time can reduce the recovery rate, appears not appropriate.</p>	Exposures arising from off-balance sheet items also constitute possible sources of credit losses. In view of their broader treatment in the European prudential framework, their general exclusion from the scope of the Guideline is not appropriate from a risk perspective.
<b>Article 4(3)</b>	ABI – Italian Banking Association	<p>Article 3 stipulates that in certain circumstances NCAs may decide not to apply Article 5 to individual exposures or portfolios of exposures. On top of that, in ABI's view, an automatic exemption should be provided in case of forborne exposures meeting the conditions under paragraph 4).</p> <p>Case by case authorisation would imply an operational burden for both supervisors and banks, that is deemed not necessary in light of the specific prudential regime to which these assets are subject. Simplification by means of an automatic exemption would reduce the administrative burden.</p>	Where supervised entities see a clear, risk-based rationale for exempting certain forborne exposures in line with the conditions stipulated in the Guideline, they are expected to be able to demonstrate this by submitting detailed and robust evidence, as foreseen in in Article 4(3). Automatic exemptions on supervised entities' own initiative, without supervisory review of such evidence, are not compatible with the background and objectives of the common supervisory approach.
<b>Article 4(4)</b>	German Banking Industry Committee (GBIC)	We request clarification as to what is meant by "more than 100% of the exposure being covered" and how this is calculated. This serves as guidance for the relevant institutions.	This refers to a situation where the sum of the NPE coverage and the absolute amount of the minimum capital requirement calculated for the given exposure based on the internal risk-based approach to credit risk would exceed 100% of the exposure amount. The relevant calculation is specified in the reporting

<sup>8</sup> Version of the comment translated in English. Comment originally received in Italian.

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<b>Article 4(4)</b>	Banca Ifis S.p.A., Guber Banca S.p.A., Banca CF+ S.p.A., Banca Credito Attivo S.p.A., Banca Sistema S.p.A., Banca AideXa S.p.A. and Bonelli Erede Lombardi Pappalardo	<p>We would ask you to confirm that the value referred to in Article 47-quater(1)(b)(v) of the CRR is included in order to calculate the coverage ("difference between the purchase price and the amount owed by the debtor").</p> <p>We would like you to clarify the coverage calculation for portfolios purchased in line with the requirements under the CRR.</p>	This is confirmed.
<b>Article 4(4)</b>	BankB NV	<p>Article 4 paragraph 3 gives derogation to assess NPE coverage towards certain individual exposures or portfolios whereby paragraph 4 gives some examples. We would like to see the following loans added to the specific circumstances list: Loans where insolvency procedures (e.g. bankruptcy, collective debt settlement, judicial settlement etc.) are ongoing.</p> <p>Loans where insolvency procedures (e.g. bankruptcy, collective debt settlement, judicial settlement etc.) are ongoing is a special circumstance, as the bank cannot take any action in such cases and must await the outcome of the procedures.</p>	Loans related to ongoing insolvency procedures are not exempted from accounting requirements for impairments or from prudential rules on adequate loss coverage. For other exposures, supervised entities are expected to estimate realistic recoverable amounts on such loans and provision accordingly at any given point in time. Exempting such loans from the approach outlined in the Guideline would not be in line with its objectives and basic prudential principles. It remains understood that NCAs may consider specific exemptions at the institution level if they find robust and justified reasons, pursuant to Article 3(2)(f).
<b>Article 4(4)</b>	BFF Banking Group	<p>It is proposed to include in the specific circumstances the NPE exposures classified as past due whose only sign of potential deterioration is payment delays.</p> <p>Specifically, it is requested to consider automatically included in the specific circumstances (without discretion by the National Competent Authorities) at least those past due exposures to counterparties with no further signs of deterioration other than payment delays to public administration counterparties (central governments or central banks under Article 114 of the CRR, regional governments or local authorities under Article 115 of the CRR, public sector entities under Article 116 of the CRR).</p> <p>It is proposed to include in the specific circumstances the exposures classified as past due with no further signs of deterioration in credit risk.</p>	The set of circumstances which may justify the exemption of individual exposures as described in the Guideline is deemed sufficiently broad to ensure the approach produces meaningful, risk-based outcomes. NCAs may consider specific exemptions at the institution level if they find robust and justified reasons, pursuant to Article 3(2)(f).
<b>Article 4(4)</b>	Banca Ifis S.p.A., Guber Banca S.p.A., Banca CF+ S.p.A., Banca Credito Attivo S.p.A., Banca Sistema S.p.A., Banca AideXa S.p.A. and Bonelli Erede Lombardi Pappalardo <sup>9</sup>	<p>Exposures to regional central governments, local authorities, public sector entities and entities partially or substantially owned by public sector entities due to their unique legal nature have a very low probability of default and a repayment capacity that is structurally different from private sector counterparties, as well as the actual repayment schedules that are longer than those for private sector counterparties.</p> <p>The same considerations are also applicable to exposures guaranteed by those entities that meet the credit risk mitigation criteria laid down under Articles 213, 214 and 215 of the CRR.</p> <p>In view of this, the Guideline should therefore provide for specific exemption from the scope of materiality when determining the coverage level of NPEs and from the calculation of the 5% threshold referred to under Article 3(2)(a) of the Guideline for exposures to the aforementioned public sector entities or for exposures whose source of revenue is attributable to such entities, as well as for exposures to private sector entities which, however, provide coverage under a public</p>	The use of a simple gross NPL ratio without adjustments for specific types of NPLs as a criterion for the potential exemption of supervised entities from the scope of the approach set out in the Guideline is consistent with its use for other prudential purposes (e.g. the requirement to submit NPE strategies). In the context of Article 3(2)(f) and Article 4(4), the Guideline already provides NCAs with the flexibility to apply exemptions, if an entity is subject to specific and factual circumstances. As such, further adjustments to the Guideline could create undue complexity.

<sup>9</sup> Version of the comment translated in English. Comment originally received in Italian.

Reference	Respondents	Comment	ECB response and analysis
		<p>guarantee, as indicated above.</p> <p>The purpose of the suggested amendment is to avoid, by including exposures to regional governments, local authorities and public sector entities in the calculation of coverage, any bias that is not proportionate to the actual underlying risk or to the actual repayment schedules of these counterparties.</p>	
<b>Article 4(4)</b>	Banca Ifis S.p.A., Guber Banca S.p.A., Banca CF+ S.p.A., Banca Credito Attivo S.p.A., Banca Sistema S.p.A., Banca AideXa S.p.A. and Bonelli Erede Lombardi Pappalardo <sup>10</sup>	<p>Persisting balance sheet non-performing exposures originated prior to 26 April 2019 could be justified in terms of supporting any future possibility of recovery or could be attributable to delayed definitions of legal and judicial procedures, if there are considerations at play that support the LSI's creditworthiness. In this case, we would like to be able to extend the scope of Article 4(4) to include, for example, such cases under the "specific circumstances" to be submitted to the NCAs.</p> <p>We request this amendment to address the need to assess those cases where credit exposures remain on the balance sheet, but there is a good chance of recovery within an unlimited feasible time frame.</p>	The proposed criterion is too open and ambiguous to warrant an addition to the specific circumstances referred to under Article 4(4). Such an amendment would undermine the objectives of the Guideline by unduly broadening the scope of exposures subject to potential exemption.
<b>Article 6(2)</b>	German Banking Industry Committee (GBIC)	<p>We request clarification as to whether the supervisory authority has all measures available to it under Article 104 CRD or only certain ones.</p> <p>This serves as guidance for the relevant institutions.</p>	<p>NCAs retain the discretion to choose appropriate supervisory measures from the powers available to them under national law.</p> <p>Article 6(1) and (5)(a) and (c) of the SSM Regulation enable the ECB to issue Guidelines addressed to NCAs in respect of LSIs for the purpose of ensuring a consistent application of high supervisory standards and the consistency of supervisory outcomes across the participating Member States. Furthermore, it remains in the hands of the NCAs to decide how to take the outcome of the assessment into account in each case.</p>
<b>Article 6(2)</b>	Banca Ifis S.p.A., Guber Banca S.p.A., Banca CF+ S.p.A., Banca Credito Attivo S.p.A., Banca Sistema S.p.A., Banca AideXa S.p.A. and Bonelli Erede Lombardi Pappalardo	Please provide further clarification, including examples, of the main supervisory measures that NCAs could adopt under Article 104 of Directive 2013/36/EU in the event of insufficient coverage. The reason we request this is to clarify the possible impacts that LSIs can expect so that preparatory arrangements can be made.	Please refer to the response to the previous comment.
<b>Article 7</b>	Austrian Federal Economic Chamber/Division Bank and Insurance	The reporting obligation should be limited to a one-time annual report if the threshold value of 5% (NPL ratio) is exceeded. If the threshold value is not exceeded in the following year, no renewed reporting obligation should exist.	The reporting frequency foreseen by the Guideline is annual. This frequency also applies to the assessment of the criteria specified in Article 3 which determine the applicability of reporting obligations for a given reference date.
<b>Article 8(4)</b>	German Banking Industry Committee (GBIC)	<p>We request the inclusion of an indication by when the NCAs must inform the institutions of their reporting requirements.</p> <p>This provides the institutions with legal certainty and predictability with regard to the compiling and submitting of reports.</p>	In any given annual iteration of the framework, NCAs are expected to inform the institutions of their reporting requirement at the latest by year-end. Should this be subject to delays for unforeseen reasons, the reporting deadlines of the supervised entities concerned are expected to be adjusted accordingly.

<sup>10</sup> Version of the comment translated in English. Comment originally received in Italian.

## 2.5 Other comments

### Comments received and ECB feedback

Reference	Respondents	Comment	ECB response and analysis
General		The ECB received two unrelated comments, which we were unable to determine how they related to the Guidelines that are the subject of this public consultation.	These two comments do not relate to the Guideline that is the subject of this public consultation.

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