



## EU initiatives on NPLs and the role of the EBA

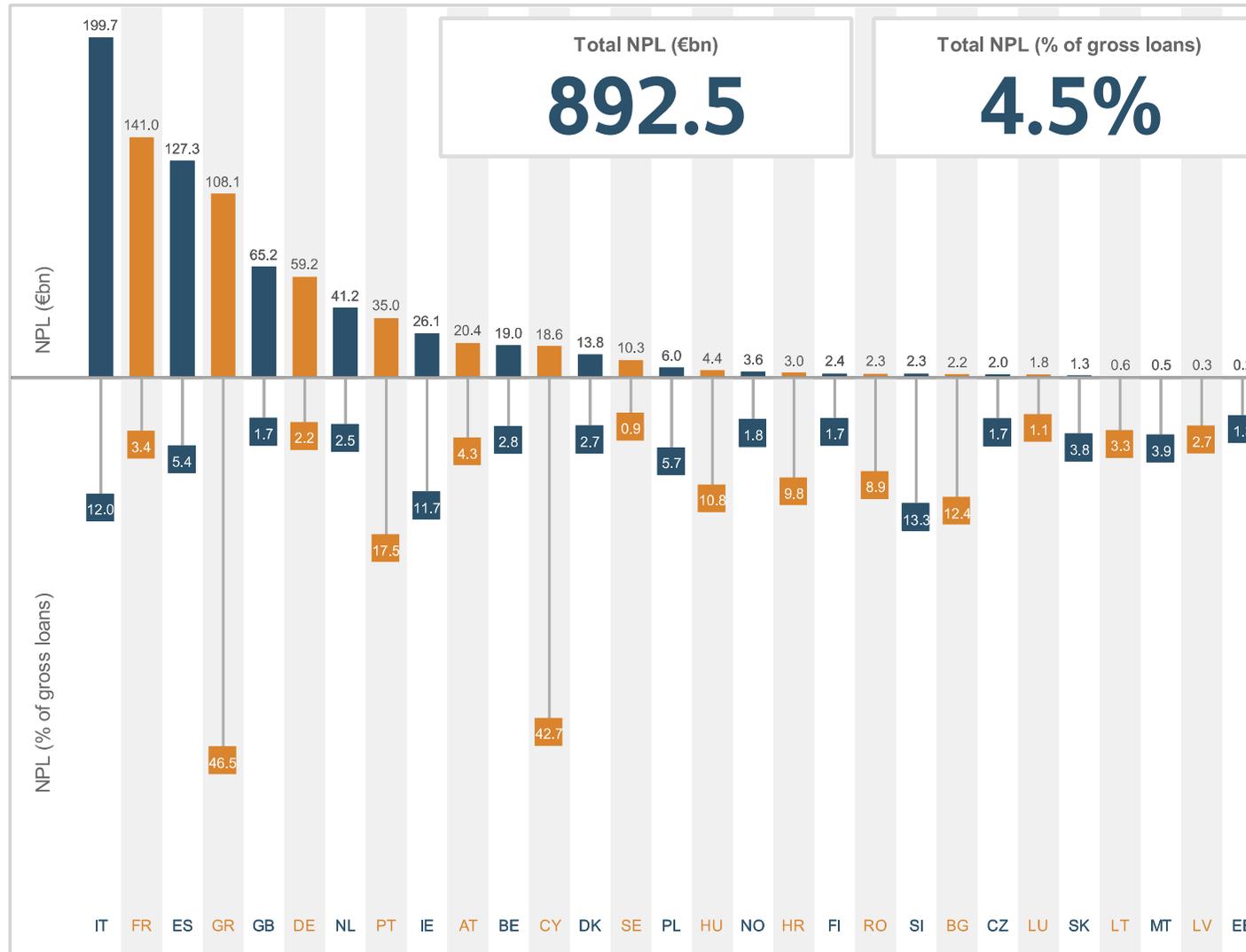
Mario Quagliariello – Head of Risk Analysis

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# NPLs in the EU

(June 2017 data - preliminary)



- Significant reduction in the last three quarters (from more than 1 trillion in 2016-Q3)
- Reduction is a mix of general trend and idiosyncratic events
- No complacency, especially in case interest rates increase

## The EBA identified three areas requiring action



### 1) Supervision: a precondition for any NPL action

- Banks to develop strategy to tackle NPLs :
  - Improve arrears management with **independent work out units**
  - improve risk management with **quantitative and qualitative targets**.
  - **increase provisioning and assess collateral valuation**.
  - Foster higher levels of **NPL resolution**, which may require additional capital in some banks.

### 2) Structural changes: indispensable but beneficial in the medium term

- Medium term strengthening of **judicial systems and insolvency regimes are key**.
- Improve recovery processes in the near term by ensuring sufficient resources available
  - Support the use of **out-of-court restructuring if needed**
- **Accounting and tax incentives adjusted**

### 3) Secondary markets' efficiency: necessary for dealing with the legacy assets, following up supervisory actions

- Improvements needed in respect of
  - **Transparency**
  - **Price discovery**
  - Effective demand and the inter-temporal pricing problem
    - ▶ Supporting an establishment of **AMC solutions** (internally or externally).

# July Council conclusions: an action plan to tackle NPLs in Europe (1/2)



## The EBA mandates

- Issue **general Guidance on NPL Management**, to apply to all EU banks
- Issue **Guidelines on banks' loan origination**, monitoring and internal governance
- Implement, together with ESMA and CAs, **enhanced disclosure requirements** on asset quality and NPLs
- Issue **Guidance on loan tapes monitoring**, specifying information required on banks' credit exposures / data templates

## The EBA to work with the ECB and the Commission

- Propose initiatives to **strengthen the data infrastructure** with uniform and standardised data for NPLs and consider setting-up platforms

## Mandates where the EBA is not in the lead

- **Blueprint of AMCs**
- **Structural reforms of insolvency** and debt recovery frameworks
- Fostering **restructuring of the banking system**

Supervision

Secondary markets

## Council conclusions: an action plan to tackle NPLs in Europe (2/2)



Further actions:

### The ESRB to

- Develop **macro-prudential approaches** to prevent emergence of system-wide NPL problems;

### The Commission to

- Consider **prudential backstops** addressing potential under provisioning which would apply to newly originated loans;
- Publish the results of **benchmarking exercise** on the efficiency of national loan enforcement regimes;

### The SSM to

- Extend relevant **guidance to banks on Non-Performing Loans to Less Significant Institutions**;

### Member states to

- Carry out dedicated **peer-reviews on insolvency regimes** across the EU.

## Entry criteria and setting-up an AMC

- Stress test in a precautionary recap
- Mandatory NPL sales threshold?
- State aid implication & dealing with the initial capitalisation needs
- Data requirements and due diligence
- Pricing – market values / real economic value / transfer value / book value
- Mechanism for transferring the NPLs – against equity, bonds or cash

## Operating and financing aspects

- Governance structure – internal and external
- Financing the AMC and its capital structure– equity, subordinated or senior bonds / Asset Liability Management
- Servicing and Management – Data management, disposal, marketing
- Supervision

## Exit criteria

- Timeline for completing transactions
- Extent of claw back on banks, if at all
- Dissolution



## **EUROPEAN BANKING AUTHORITY**

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Floor 46, One Canada Square, London E14 5AA

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Tel: +44 207 382 1776

Fax: +44 207 382 1771

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E-mail: [info@eba.europa.eu](mailto:info@eba.europa.eu)

<http://www.eba.europa.eu>