COMMENTS FROM THE ASSOCIATION OF SUPERVISORS OF BANKS OF THE AMERICAS (ASBA) TO THE CONSULTATIVE DOCUMENT

"Prudential Treatment of Problem Assets – Definitions of Non-Performing Exposures and Forbearance"

(ISSUED BY THE BASEL COMMITTEE ON BANKING SUPERVISION FOR COMMENTS BY 15 July 2016)

I. Background and Purpose of the Revision

The latest financial crisis revealed difficulties for supervisory authorities in identifying and comparing banks' information across jurisdictions. In particular, there were significant differences in how banks identified and reported their asset quality.

Consequences of the differences mentioned above resulted in difficulties at the time of aggregating non-comparable asset quality data from different jurisdictions; limited comparability of common indicators used to benchmark asset quality at the global level; and inconsistencies in key definitions, which are detrimental for the analysis of asset quality, among others.

To address these differences, the Basel Committee on Banking Supervision developed guidelines for the definition of two key components of the credit risk management framework, namely "non-performing exposures" and "forbearance". Both terms were defined based on commonalities found in the definitions currently applied and expect to harmonize the quantitative and qualitative criteria used for credit categorization.

The definition of non-performing exposures relies on a delinquency status (90 days past due) or the unlikeliness of repayment. The proposal also clarifies that collateral should not be considered when categorizing non-performing assets. Also, the level of application allows for retail exposures to be categorized as non-performing on a transaction basis. Finally, the proposal established clear criteria regarding a non-performing exposure being upgraded to the performing status.

About the definition of forbearance, the Basel Committee considers these to be concessions granted to a counterparty for reasons of financial difficulties. These may be categorized as performing or non-performing, according to the status of the exposure when forbearance is extended. The proposal also sets out criteria for the discontinuation of the forbearance categorization.

The following sections set forth the comments made by members of the Association of Supervisors of Banks of the Americas (ASBA).

II. General Comment

ASBA welcomes the guidelines for common definitions for "non-performing exposures" and "forbearance", as they promote consistency in supervisory reporting and disclosure for these two key categories of asset quality.

The Association considers that adding some language on the motivation behind the different treatment between retail and non-retail counterparties, in the level of application for the definition of non-performing, would be beneficial for the analysis of the current proposal. In this regard, most jurisdictions in the region do not apply a different treatment depending on the type of counterparty, but rather consider the likeliness of repayment to be the main criterion to define non-performing without any consideration of the type of counterparty.

About the relationship of this proposal with Pillar 3 of the Basel framework, the Association suggests that non-performing and forbearance exposures be disclosed under Pillar 3 requirements. Given that these guidelines are expected to provide asset quality comparisons across jurisdictions, it would be necessary for these concepts to be included in the revised Pillar 3 requirements since currently they only cover disclosure of exposures considered past due and impaired.

III. Specific Comments

- **Performing forbearance category** - Paragraph 20 states that exposures subject to forbearance can be categorized as performing or non-performing, depending on the status of the exposure when forbearance was granted and on the counterparty's payment history. On the other hand, paragraph 24 (iii) (b) states that non-performing exposures cover all other exposures where there is evidence that full repayment is unlikely, regardless of the number of days past due. The latter seems to imply that all exposures that have been granted forbearance for reasons of financial difficulties should be considered non-performing.

  Furthermore, paragraph 30 states that when forbearance is granted to a performing exposure, the new resulting exposure should be recognized as non-performing when it meets the conditions for such categorization, or when the original exposure would have been considered non-performing had the forbearance not been applied. Again, this paragraph implies that the application of forbearance results in an exposure being categorized as non-performing.

  While the proposal clearly states that forbearance does not imply an improvement from the non-performing to the performing category, the Association suggests clarifying the language in the paragraphs mentioned above, as well as providing more detail about cases where granting forbearance does not involve a performing exposure being classified as non-performing.

- **Reclassification of non-performing exposures as performing** - Paragraph 32 establishes the criteria to take into account for the reclassification of non-performing exposures as performing. Criterion 32 (ii) states that repayments have to be made for a continuous period, specified by the supervisor, for an exposure to be reclassified. In this regard, the Association suggests that the Basel Committee set a reference period, to avoid national discretion. Not specifying a period would undermine the purpose of standardizing the concept of non-performing. Experiences in the region show jurisdictions requiring a minimum of six months of continuous repayment under the new terms before considering a reclassification.

The Association also suggests the Basel Committee to consider an additional criterion to those established in paragraph 32. The proposed criterion would require a percentage of the capital to be repaid under the new terms before an exposure can be reclassified. In this case, several jurisdictions in the region set this percentage at twenty percent.