Practical usefulness of the two definitions within banks' Pillar 3 disclosures

The use of harmonized definitions of 'non-performing exposures' and 'forbearance' would certainly be practical and useful, as regulators would have some form of uniformity in defining key terms within the Pillar 3 disclosures. The harmonized definitions will enable supervisors as well as other market participants (external auditors, for e.g.) to more accurately quantify credit risks and to better understand asset quality issues that banks face (i.e. inadequacies in the *identification & collection of problem assets and deficiencies in loan & investment policies and procedures)*. This could allow for more standardized external auditor reports across countries and enable supervisors to take appropriate supervisory actions in a timely manner. The definitions should also make it easier for banks to properly assess the level of credit risk in their business, enabling them to detect early any possible deterioration in asset quality and to take the appropriate steps to rectify any issues as soon as possible. Moreover, this harmonization would promote and ensure consistency in reporting banks' disclosures which in turn will increase the usefulness of the data for comparability and analysis purposes for the public at large, aiding in market discipline.

In this regard, it would be useful for the Basel Committee to specify a date (Jan 1 2017, for e.g.) to apply the definitions as banks will be required to provide qualitative disclosures related to the credit quality of assets under the revised Pillar 3 framework by year-end 2016. This requirement is outlined on page 21 of the Basel Committee's "Standards: Revised Pillar 3 Disclosure Requirements" dated January 2015."

Comments

We recognize that the element of supervisory discretion is very important in categorizing credits, as both quantitative and qualitative factors must be considered. This is most likely the reason for leaving the reclassification period for non-performing loans undefined and the indicators of solved financial difficulties for forborne exposures unspecified. However, without defining these timeframes and defining clearly what constitutes the resolution of financial difficulty, there may be wide dispersion in how they are defined across supervisors, undermining the harmonization objective. As such, please see the below for your consideration:-

Headings		Ref.	Considerations
Reclassification of non-performing exposures as performing.	Repayments have been made when due over a continuous repayment period specified by the supervisor.	Pg. 11 (para 32(ii)	In an effort to avoid wide divergence in the timeframe set by supervisors and to promote consistency among jurisdictions, the Basel Committee may consider defining the term "continuous repayment period" by stipulating the timeframe (e.g. 3 months, 6 months, 12 months etc.). Or, at least, stipulate a minimum timeframe (e.g. 90 days) and it will be up to the supervisor to use their discretion to lengthen, given the history of the non-performing exposure.
Criteria for exit from the forborne exposures category.	The counterparty has solved its financial difficulties.	Pg. 14 (para 41.(ii)	We note that the Committee defines what a financial difficulty is at pages 12 and 13. However, in order to promote harmonization between jurisdictions, the Basel Committee may consider providing examples as to what items/evidence satisfies that the counterparty has solved its financial difficulties. Or, at least, indicate that the counterparty has solved its financial difficulties *that gave rise to the forborne status and there is no longer a need for additional concessions.*

In addition to the above, the following may also be considered:-

Heading		Ref.	Considerations
Criteria for exit from the forborne exposures category.	When repayments as per the revised terms have been made in a timely manner (principal and interest payments) over a continuous repayment period of not less than one year (minimum probation period of reporting).	Pg. 14 (para 41(i)	As a distinction can be made between forborne exposures that are performing or non-performing, the minimum probation period of reporting may be varied. For example, the minimum probationary period may be reduced to 90 days for performing forborne exposures, which may be a suitable timeframe to establish repayment capacity. Further, minimum probationary period for non-performing forborne exposures may be reduced to six months, as one year in probation may be excessive when establishing a trend. This timeframe may be permissible even though it may be longer than 90 days, because the asset is both nonperforming and forborne.