

POSITION PAPER

**WSBI-ESBG response to the BCBS consultation
on the prudential treatment of problem assets –
definitions of non-performing exposures and
forbearance**

**WSBI (World Savings and Retail Banking Group)
ESBG (European Savings and Retail Banking Group)**

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WSBI



ESBG



Dear Sir/Madam,

Thank you for the opportunity to comment on the BCBS consultation on the *prudential treatment of problem assets – definitions of non-performing exposures and forbearance*. We would like to share with you the following reflections that we hope will be appropriately taken into account by the BCBS.

General comments

We understood that some classification criteria in the BCBS proposal seem relatively subjective because they are based on, for instance, materiality (this is an open concept that can vary significantly between jurisdictions). There are some aspects that are left to be defined by supervisors, which opens the door for national discretions and could make it more challenging to achieve the objective of improving comparability amongst jurisdictions.

In greater detail on the definitions, WSBG-ESBG sometimes spotted some inconsistencies between the scope of the BCBS definitions, which are applied to the prudential portfolios both in the banking and trading book, and the EBA definitions, which are applied to the accounting portfolios. To mention an example, the criteria for the exit from the forbore exposure category are softer than EBA criteria (*i.e.* a minimum 2 year probation period, none of the exposures to the debtor is more than 30 days past-due at the end of the probation period, etc.).

Specific comments

- **Page 8, point 23**

In WSBI-ESBG's opinion, the current BCBS proposal could be in contradiction with the current FINREP rules, where cancellable and un-cancellable commitments are considered:

- According to Art. 56 Regulation (EU) 2015/227, Annex V, all revocable (cancellable) and irrevocable (un-cancellable) nominal amounts should be included.
- According to the BCBS, banks should report as non-performing just entire un-cancellable nominal amounts.

However, according to the default definition, banks consider the whole customer exposure as defaulted exposure (that means also the cancellable amount). In table 18 from FINREP, banks have to report both classifications: default and non-performing exposure.

To mention an example, if a defaulted customer has both cancellable and un-cancellable loan commitments with an exposure of 10 (cancellable), respectively 15 (un-cancellable), banks would report in table 18, according to the BCBS paper, 15 exposures as non-performing, but 25 as defaulted. This would violate the validation rule that impaired exposure $\leq$ defaulted exposure $\leq$ non-performing. For this example the non-performing exposure would be lower than the defaulted exposure.

- **Page 9, point 28**

Explanation of past due: WSBI-ESBG would like to ask to clarify the treatment of immaterial exposure that is more than 90 days past due. For instance, currently in table 18 of FINREP, if banks disclose the



immaterial exposure that is more than 90 days past due in the correct past due bucket, they would violate the requirements of non-performing exposures which require the necessity of materiality. In table 18 of FINREP there is no possibility to disclose performing immaterial exposure that is more than 90-days past due.

Unlikely full repayment: WSBI-ESBG would appreciate if the BCBS could clarify whether the mentioned analysis for retail segment including LTV ratio is a recommendation or whether it is binding. We consider LTV as non-relevant indicator for assessing unlikeliness for debt repayment as it is mentioned by the definition itself (“[...] without realisation of collateral”) and it is mentioned by the regulator that collateralisation has no impact on assessing NPE.

- **Page 11, point 32**

We would like to comment on the subsequent two conditions:

- The debtor does not have any material exposure more than 90 days past due;
- Repayments have been made when due over a continuous repayment period specified by the supervisor.

Regarding both conditions, WSBI-ESBG would like to ask for clarification in respect of the curing period. We suggest that it could be standardised in order to assure harmonisation among banks. The current form (as defined a continuous repayment period) gives space for different interpretations.

- **Page 11, point 33**

With regard to the partial write-off of a non-performing exposure, WSBI-ESBG suggests a defining minimum curing period for an upgrade from write off. A clarification whether partial write off is considered on single exposure level or total debtor would also be appreciated.

On the repossession of collateral on a non-performing exposure, it should, in our view, be clarified that this rule does not apply in the event that the debtor takes over the shares of a client, thus becoming the owner of the former customer. At the same time repossession of collateral triggers the default event recognition for which a curing period should be established.

- **Page 12, point 38**

Art. 169 Regulation (EU) 2015/227, Annex V, includes loans, debt securities and revocable and irrevocable loan commitments given, but it excludes exposures held for trading. In contrast to that, in the BCBS paper, financial guarantees are mentioned, which is not the case in the aforementioned regulation. WSBI-ESBG would appreciate a better alignment in this respect.

- **Page 12, point 40**

First of all, we suggest establishing a certain days past due (DPD) level. WSBI-ESBG considers that the current definition may lead to misalignment with the concept introduced by the EBA where 30 or more days in the last 3 months, without a materiality threshold is envisaged.



Furthermore, we would like to comment on the two following points:

- (h) Releasing collateral or accepting lower levels of collateralisation: in WSBI-ESBG's view, in case of releasing collateral or accepting its lower levels is supported by full debt repayment or repayment capacity analysis, this should not be treated as concession.
- (j) Deferring recovery/collection actions for extended periods of time: in our view, this should not be considered as forbearance, because this is not a contractual concession. At the same time we would like to ask for clarification of what is exactly meant by "for extended period of time". Should it be assessed in connection with a certain DPD level or duration of collection process? Debts that are under collection process for significant periods of time are addressed in the existing default definitions thus already provisioned.

- **Page 14, point 41**

From WSBI-ESBG's point of view, there is a divergence between Art. 176b Regulation (EU) 2015/227, Annex V, and the respective BCBS consultative document: the minimum probation period according to the regulation is 2 years and for BCBS 1 year.

At the same time we would suggest defining clearly "repayments to be made in a timely manner" in the current form, because it may lead to different interpretations, thus would not bring harmonisation among banks.

We suggest establishing separate conditions for exiting from NPE forbearance and from performing forbearance as it was defined in the Regulation (EU) 2015/227.



About WSBI (World Savings and Retail Banking Institute)

WSBI brings together savings and retail banks in all continents and represents the interest of circa 6,000 financial institutions with total assets of USD 14 trillion and serving some 1 billion customers in 80 countries worldwide (2013 figures). As a global institution, WSBI focuses on international regulatory issues that affect the savings and retail banking industry. It supports the aims of the G20 in achieving sustainable, inclusive and balanced growth and job creation around the world, whether in industrialised or less developed countries. WSBI favours an inclusive form of globalization that is just and fair, supporting international efforts to advance financial access and financial usage for everyone. It supports a diversified range of financial services that meet customers' transaction, savings and borrowing needs responsibly. To these ends, WBI recognizes that there are always lessons to be learned from savings and retail banks from different environments and economic circumstances. It therefore fosters the exchange of experience and best practices among its members and supports their advancement as sound, well-governed and inclusive financial institutions.



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About ESBG (European Savings and Retail Banking Group)

ESBG brings together nearly 1000 savings and retail banks in 20 European countries that believe in a common identity for European policies. ESBG members represent one of the largest European retail banking networks, comprising one-third of the retail banking market in Europe, with 190 million customers, more than 60,000 outlets, total assets of €7.1 trillion, non-bank deposits of €3.5 trillion, and non-bank loans of €3.7 trillion. ESBG members come together to agree on and promote common positions on relevant regulatory or supervisory matters.



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