EACB Comments

EBA draft Guidelines on disclosure of non-performing and forborne exposures (EBA/CP/2018/06)

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Contact:

For further information or questions on this paper, please contact:
- Mr. Volker Heegemann, Head of Department (v.heegemann@eacb.coop)
- Mr. Marco Mancino, Deputy head of Department, Banking Regulation (m.mancino@eacb.coop)

General comments

The members of the EACB welcome the opportunity to comment on the EBA draft Guidelines on disclosure of non-performing and forborne exposures.

The tables contained in the draft Guidelines are based in part on the information already required in the EBA Guidelines (EBA/GL/2016/11). In the present draft issued for consultation, however, they are much more extensive, more detailed, more itemised and allow little room for institution-specific information due to their fixed format requirements.

We believe that such tremendously detailed and complex prudential requirements for disclosing NPLs are not the right instrument for achieving the actual goal of reducing the still excessive levels of NPLs in some EU Member States and of avoiding further risk accumulation.

Overall, we take a critical view of this approach:

- First, we have serious doubts regarding the benefits of disclosing NPL information in the context of Pillar 3 reports. At present, Pillar 3 reports are very rarely downloaded from the institutions' websites. There are also hardly any inquiries about the content of reports, which indicates a general lack of interest – this applies to both small and large capital publicly traded institutions. Rather, the relevant stakeholders are likely to make use of other sources (e.g. annual financial statements, regulatory reports). There are no potential users whatsoever for disclosures by institutions that are not active on the capital markets. However, disclosure requirements represent a significant administrative burden particularly for those institutions that are of no significance for financial stability.
- We also do not see that such expanded disclosures will help companies that purchase NPLs. Those companies will rather approach the bank directly and rely on Pillar 3 disclosures. Other market participants do not need this sort of information. However, since Pillar 3 reports are intended for market participants in order to achieve greater transparency, the disclosure requirements should also be oriented on their needs. If the supervisors need this information, they already have the ability today to obtain the desired information.
- The proposed disclosures in the individual templates are very comprehensive in substance. Article 442 of the CRR requires institutions to disclose information on credit risk adjustments, which also includes information on impaired and past due loans (Article 442(g) and (h) of the CRR). In addition, EBA Guidelines EBA/GL/2016/11 require information to be disclosed on non-performing and forborne exposures. We believe that redundancies with regard to the disclosure of non-performing exposures should be avoided. In addition, some templates (e.g. Template 10) are used to collect sensitive data.

- Moreover, there is a general discrepancy in that more must now be disclosed than reported. This contradicts the fundamental principle that Pillar 3 follows Pillar 1. As a result, we advocate limiting the EBA Guidelines in their entirety (10 templates) to institutions with an NPL ratio greater than 5%. For institutions with a lower NPL ratio, compliance with existing requirements from EBA/GL/2016/11 should be sufficient (i.e. no additional requirements).

With respect to this assessment, we would like to add that we do not see a sufficient legal basis: in fact, the legal basis for disclosure is Part 8 of the CRR but this does not set out any powers/delegation to the EBA on the basis of which the EBA can require extensive disclosure of NPEs in this respect. It is our understanding that new disclosure requirements can only be introduced by amending the CRR within the framework of the EU legislative procedure. In our opinion, the EBA's current approach with regard to formulating new disclosure requirements for NPEs is therefore not covered by the EBA's area of responsibility.

Answers to specific questions

Q.1 Could you provide your views on whether adding an "of which" column to column 'f' of template 1 - "Credit quality of forborne exposures", including the information on non-performing forborne exposures that are impaired (i.e. "of which impaired") would be useful?

Further information on impairments does not seem necessary for the purpose of public disclosure. The disclosure of forborne exposures seem sufficient.

Q.2 Could you provide your views on whether adding the columns with the breakdown of provisions for non-performing exposures by buckets of the number of days that the exposure has been past due to template 3 - "Credit quality of performing and non-performing exposures by aging of past due days" would be useful?

We already consider the level of granularity to be too high for a Pillar 3 report, so a further breakdown would not make sense in this respect. It is hard to see how further breakdown information would be useful to external stakeholders. In particular, once provisions are allocated it does not seem relevant to see the number of days past due for the exposures.

Q.3 Could you provide your views on whether the breakdown between "on balance sheet exposures" and "off balance sheet exposures" included in template 5 – "Quality of Non-performing exposures by geography" is useful?

In general, total amounts by geographical breakdown seems to be in line with other disclosures. However, this would indeed be relevant only for institutions with a high level of NPEs.

Q.4 Could you provide your views on whether the information on loans and advances secured with immovable property with a loan-to-value higher than 60% and lower than 80% included in row 3 of template 7 – "Collateral valuation - Loans and advances at cost or amortised cost" is useful?

This bucket seems unnecessary as exposures for such low LTVs are unlikely to generate any losses, or would be of negligible magnitude.

Q.5 Do you agree with the overall content of these guidelines and with the templates proposed? In case of disagreement, please outline alternatives that would help to achieve the purpose of the guidelines.

We believe that the principle of proportionality is not sufficiently reflected in the paper. From this perspective, we would see a need to reflect the following aspects:

- We do not see a need for detailed disclosure requirements for NPLs, where such exposures are limited: we therefore strongly recommend limiting the EBA Guidelines in their entirety to institutions with an NPL ratio greater than 5%, because, in our view, these tremendously detailed and complex prudential requirements for disclosing NPLs only make sense for banks with a high NPL ratio.

- Moreover, we would like to recall that as part of the CRR 2 revision, the European Commission, together with the European Parliament and the European Council, recognised the need for relief for medium-sized and smaller institutions, in particular in the area of reporting and disclosure. It therefore seems inconsistent that on one side disclosures for smaller/medium-sized institutions are reduced considerably, while these draft guidelines introduce extensive new disclosure requirements, even for banks where NPLs are insignificant. The suggested approach would result in non-performing loans (NPLs) dominating the Pillar 3 report in the context of disclosures of smaller institutions, even where NPLs are not a material issue for the individual bank. Also from this perspective we strongly recommend to limit disclosures (beyond the requirements of EBA/GL/2016/11) to institutions where the NPL ratio exceeds 5%.