



EUROPEAN CENTRAL BANK

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## PRESS RELEASE

### ECB LAUNCHES PUBLIC CONSULTATION ON GUIDANCE TO BANKS ON NON-PERFORMING LOANS

- ECB publishes for consultation its guidance to banks on non-performing loans (NPLs)
- Consultation period runs from today until 15 November, includes public hearing on 7 November
- ECB also publishes first stocktake of national practices concerning NPLs

The European Central Bank (ECB) today launches a public consultation on guidance to banks on how they should tackle non-performing loans (NPLs). The NPL guidance to banks is available on the ECB Banking Supervision website. The public can now submit comments until 15 November 2016.

The NPL guidance addresses the main aspects regarding strategy, governance and operations, which are key to successfully resolving NPLs. The guidance provides recommendations to banks and sets out a number of best practices that ECB Banking Supervision has identified and that will constitute the ECB's supervisory expectations going forward.

The guidance recommends that banks with a high level of NPLs establish a clear strategy aligned with their business plan and risk management framework to effectively manage and ultimately reduce their NPL stock in a credible, feasible and timely manner. The bank's strategy should include the setting of quantitative targets by portfolio and a detailed implementation plan. The guidance urges banks to put in place appropriate governance and operations structures to deliver effective NPL workouts. This should be done by closely involving the bank's management, setting up dedicated NPL workout units and establishing clear policies linked to NPL workouts.

The guidance provides short-term and long-term options on viable forbearance solutions with the aim of returning the exposure to a situation of sustainable repayment. It guides banks on how to measure impairment and write-offs in line with international recommendations. The guidance also outlines the policies, procedures and disclosures banks should adopt when valuing immovable property held as collateral for NPLs.

The guidance will serve the supervisor as a basis for evaluating banks' handling of NPLs, as part of the regular supervisory dialogue. Addressing the high level of NPLs in some banks and euro area countries has been a process that started with the 2014 comprehensive assessment. That exercise marked the first time that banks' assets were evaluated with the same yardstick,

and resulted in a more adequate level of provisions, providing supervisors with a solid basis to further address the issue. The guidance follows up on this process to reduce the level of NPLs, recognising that it will take some time until NPLs have been reduced to reasonable levels, but also gradually putting a stronger focus on the timeliness of provisions and write-offs.

The ECB, together with eight national supervisory authorities, also conducted a stocktake of national supervisory practices and legal frameworks concerning NPLs. While a number of countries have taken proactive and coordinated prudential, judicial and other measures to tackle the issue, some countries could further improve their legal and judicial framework to better facilitate the timely workout of NPLs.

The consultation on the guidance starts today and ends on 15 November. The relevant documents, comprising the guidance to banks, a presentation on the guidance and the stocktaking report are available on the ECB's Banking Supervision website.

When implemented, banks will be expected to apply the guidance proportionately and with appropriate urgency, in line with the scale and severity of the challenges they face. The guidance will be finalised following the consultation process and the final document will be published in the upcoming months.

The ECB will hold a public hearing as part of this consultation at 15.00 CET on 7 November 2016, at its premises in Frankfurt am Main. The hearing will be webcast on the ECB's Banking Supervision website. Information on registering for the public hearing and on how to submit comments can also be found on the website. Following the public consultation the ECB will publish the comments received, together with responses and an assessment of the comments.

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