

Circulaire

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European Banking Authority (EBA) guidelines of 31 October 2018 on management of non-performing and forborne exposures (EBA/GL/2018/06)

Scope

Credit institutions governed by Belgian law and branches of credit institutions from third countries.

Summary/Objectives

The purpose of this circular is to implement the guidelines of the European Banking Authority (EBA) of 31 October 2018 on management of non-performing and forborne exposures (EBA/GL/2018/06).

Dear Sir or Madam,

This circular aims to implement the guidelines of the European Banking Authority (hereinafter referred to as “the EBA”) of 31 October 2018 on management of non-performing and forborne exposures. The English version of the EBA’s text is attached to this circular. It can be consulted on the National Bank of Belgium’s website.

Motivation and overview of the guidelines

Following the action plan developed by the European Council in July 2017 to address non-performing exposures (hereinafter “NPEs”) in Europe, the EBA took the initiative to draw up guidelines on management of non-performing and forborne exposures (hereinafter the “EBA guidelines”).

One of the objectives of the EBA guidelines is to specify sound risk management practices for credit institutions for managing NPEs, forborne exposures and foreclosed assets. The guidelines also provide competent authorities with guidance on assessing credit institutions’ risk management practices, policies, processes and procedures for managing NPEs and forborne exposures as part of the supervisory review and evaluation process (SREP).

The EBA Guidelines present a series of key elements on:

- a) development and implementation of an NPE strategy;
- b) governance and operations for the NPE restructuring framework;
- c) governance and operations with respect to forborne exposures;
- d) governance and operations in relation to NPE accounting;
- e) governance and operations in relation to NPE impairment measurement and write-offs;
- f) valuation of immovable and movable property given as collateral for NPEs.

In addition to its guidance on management of non-performing and forborne exposures, the EBA has published guidelines on disclosure of such exposures (Circular NBB_2019_11).

Implementation of the guidelines

For credit institutions supervised by the ECB, the EBA guidelines are aligned with the ECB's guidance on non-performing loans (NPLs),¹ although they are sometimes not as detailed as the latter (in particular as regards aspects relating to provisioning and restructuring of NPEs). In view of this alignment and given that the ECB already uses its guidance on NPLs as starting point for its discussions with banks, the implementation of the EBA guidelines should not pose any major difficulties for the institutions concerned.

For less significant credit institutions under direct supervision by the NBB, the EBA guidelines should be applied in a proportionate manner and, in particular, the organisational aspects related to managing NPEs and forborne exposures should be applied taking into account the institution's size and complexity. Thus smaller and less complex institutions can in a simplified manner implement governance mechanisms, policies and procedures that allow them to assess borrowers' financial difficulties and to identify NPEs, in accordance with the EBA guidelines on internal governance.

The EBA guidelines foresee that competent authorities should define a common threshold for the individual valuation and revaluation of the collateral used for NPEs by an independent and qualified appraiser, internal or external. This threshold should be applicable to all credit institutions in the authority's jurisdiction and should be publicly disclosed. In this regard, the threshold chosen by the NBB for less significant institutions is 300,000 EUR. This threshold applies to the gross value of NPLs and corresponds to that chosen by the ECB for significant credit institutions in its guidance on NPLs.

The purpose of this circular is to integrate the EBA guidelines into the national regulatory framework for credit institutions governed by Belgian law. The institutions concerned are expected to comply with the EBA guidelines.

The EBA guidelines shall apply as from 30 June 2019. For the first application of these guidelines, credit institutions should calculate their NPL ratios using 31 December 2018 as reference date.

A copy of this circular is addressed to your undertaking's accredited auditor(s).

Yours faithfully,

Pierre Wunsch
Governor

Annex 1 – only available via www.nbb.be : Final Report – Guidelines on management of non-performing and forborne exposures

¹ https://www.bankingsupervision.europa.eu/ecb/pub/pdf/guidance_on_npl.en.pdf