European Parliament

Committee on Economic and Monetary Affairs
The Chair

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Ms Danièle Nouy
Chair of the Supervisory Board
European Central Bank
Sonnemannstraße 20
D-60314 Frankfurt am Main

Subject: Addendum to the ECB Guidance to banks on non-performing loans: Prudential provisioning backstop for non-performing exposures

Dear Ms Nouy,

As you know, the reduction of the high levels of non-performing loans is a major policy goal of the ECON Committee[1]. ECON follows therefore closely the various initiatives launched at different levels in order to address this problem. These initiatives include the additional measures listed in the Action Plan adopted by the ECOFIN in July 2017[2], and in the recent Commission Communication on the Completion of the Banking Union published on 11 October 2017.[3]

The SSM has a crucial role in the joint effort which is required by all relevant actors in order to address the problem of the high-level of non-performing loans in a quick and efficient manner and without undermining financial stability. In this context, the ECB published in March 2017 a qualitative *Guidance to banks on non-performing loans*,[4] and on 4 October 2017 has put to consultation a draft addendum to this guidance.

As stated in my opening remarks for the second ordinary public hearing in 2017 with you on 9 November 2017, the ECON Committee intends to contribute positively and constructively to this joint effort and welcomes the additional measures listed in the ECOFIN Action Plan.

In line with the Commission clarification in the Banking Union Communication, we fully recognise the SSM's competences "*to influence a bank's provisioning policy with regard to Non-Performing Loans within the limits of the applicable accounting framework and to apply specific adjustments where necessary for prudential purposes*".

[1] See for example European Parliament resolution of 15 February 2017 on Banking Union – Annual Report 2016; Texts adopted, P8_TA(2017)0041.
[2] https://www.consilium.europa.eu/en/press/press-releases/2017/07/11/conclusions-non-performing-loans/pdf.
[3] COM(2017)0592.
[4] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/guidance_on_npl.en.pdf.

As you know, the Parliament legal service has considered that the addendum might go beyond these prerogatives if adopted in its current form, as they "*depend[s] on the specific situation of each supervised bank and only allow[s] the adoption of measures addressed to the individual bank concerned*"[5].

In this regard, the ECON Committee noted the remarks you made to address the concerns brought forward during the public hearing in ECON on 9 November 2017. In particular, we positively noted your commitment to "modify" the text of the draft Addendum in order to clarify it and to avoid confusion between general rules under Pillar 1 and bank specific measures under Pillar 2. In more concrete terms, we note your affirmation that

- the final addendum shall only address bank specific measures, i.e. appropriate supervisory measures will be institution specific and based on a case by case assessment;
- there will be no automatic application of a general rule;
- the period between the end of the consultation deadline and the date for publication of the Addendum will be extended in order to allow the contributions to the consultations to be taken into account;
- the additional measures defined in the addendum shall not address the stock.

We are looking forward to a consistent implementation of the commitments you announced and to a continued dialogue and cooperation on this important matter and on our common goal to substantially and sustainably reduce the level of NPLs in the EU.

Yours sincerely,

Roberto Gualtieri

[5] "*60 (a) If adopted in its current form, the ECB's 'Addendum [...]' will have legally binding character inasmuch as it sets out quantitative supervisory expectations concerning the minimum levels of prudential provisions expected for non-performing exposures.*
(b) The ECB has no competence to adopt the Addendum inasmuch as it lays down legally binding rules of general scope applicable to all banks directly supervised by the ECB [...]."