

Minimum loss coverage for non performing exposures

2018/0060(COD) - 14/03/2019 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted, by 426 votes to 151 with 22 abstentions, a legislative resolution on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards minimum loss coverage on non-performing exposures.

The position of the European Parliament adopted at first reading under the ordinary legislative procedure amended the Commission proposal as follows:

Prevent the accumulation of non-performing bank exposures

The financial crisis led to the build-up of NPEs in the banking sector. Consumers were significantly affected by the subsequent recession and the drop in housing prices. The establishment of a comprehensive strategy to address non-performing exposures (NPEs) is an important goal for the Union in its attempt to make the financial system more resilient.

This proposal for the amendment of Regulation (EU) No 575/2013 on capital requirements (CRR) provides for a statutory prudential backstop against any excessive future build-up of non-performing exposures (NPEs) without sufficient loss coverage on banks' balance sheets.

A uniform calendar shall be applied irrespective of whether the exposure is non-performing because the obligor is past due more than 90 days or if it is non-performing for other triggers. The prudential backstop shall be applied on an exposure-by-exposure level.

On the basis of a common definition of non-performing exposures (NPEs), the proposed new rules establish a mechanism providing for a common minimum loss coverage for the reserves that banks must establish to cover losses on future loans that may prove to be non-performing. In the event that a bank does not comply with the applicable minimum level, deductions from its own funds would apply.

Calendar

The longer an exposure has been non-performing, the lower the probability for the recovery of its value. Therefore, the portion of the exposure that shall be covered by provisions, other adjustments or deductions shall increase with time, following a pre-defined calendar.

NPEs purchased by an institution shall thus be subject to a calendar that starts to run from the date on which the NPE has originally been classified as non-performing, and not from the date of its purchase. For that purpose, the seller should inform the buyer of the date of the classification of the exposure as non-performing.

As regards non-performing loans, the proposed Regulation provides for a gradual increase in the minimum level of loss coverage over a period of 9 years. For unsecured NPEs, the maximum coverage requirement would apply fully after 3 years.