Template for comments

Public consultation on the draft addendum to the ECB guidance to banks on non-performing loans

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General comments

Accountancy Europe understands that the purpose of the addendum is to foster a more timely provisioning practice for new NPLs from 2018 onwards in order to avoid an increase of NPLs in the future. It provides the ECB‘s supervisory prudential expectations for regulatory capital calculation. We also understand that the Addendum‘s aim is not to substitute accounting requirements and to be consistent with IFRS rules. We suggest to review the Addendum to ensure that it clearly refers to supervisory expectations regarding regulatory capital calculations only.

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Please enter all your feedback in this list.
When entering feedback, please make sure that:
- **each comment deals with a single issue only;**
- **you indicate the relevant article/chapter/paragraph, where appropriate;**
- **you indicate whether your comment is a proposed amendment, clarification or deletion.**

Deadline:	8 December 2017

ID	Chapter	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be taken on board	Name of commenter	Personal data
1	2 - General Concept	2.3.6	5	Deletion	"Booking the maximum level of provisions possible" : This requirement is non compliant with IFRS 9 which has as a sole criterion for recognising ECL the worst case scenario. On a more general note, the figures proposed under prudential framework - such as the 72.5% of the risk weighted asset output floor- appear to be non sustainable even from the supervisors' perspective.	Expected to influence interpretation of accounting rules	Accountancy, Europe	Publish
2	3 - Definitions	3.1.3	7	Amendment	Separation of NPEs pre and post 2018 is not line with IFRS rules.	Non compliant with accounting requirements	Accountancy, Europe	Publish
3	3 - Definitions	3.2.1	7	Clarification	"has to deviate if the accounting treatment is not considered prudent from a supervisory perspective": which specific case is considered here to say that the accounting treatment might not be prudent enough? More elements need to be provided.	Need for clarity	Accountancy, Europe	Publish
4	3 - Definitions	3.3.5	8	Clarification	"Collateral values corrected": potentially disconnected from the amount considered from an acccounting perspective which will add complexity for banks (i.e. tracking separate inputs and following separately calculations for regulatory and accounting purposes).	Going beyond accounting rules	Accountancy, Europe	Publish
5	4 - Prudential provisioning backstop	4.1.2	10	Amendment	"If collateral has not been realised after a period of several years from the date when the underlying exposure was classified as non-performing, the colateral is deemed ineffective": IFRS 9 is not rules-based. E.g. It takes into account collaterals as long as they bear economic value. In addition, IFRS9 is grounded on internal credit risk management systems and forward looking expectation. Any pre-determined provisioning schedule would be in contrast with the IFRS 9 principle. It looks highly unlikely, if not impossible, that all banks have internal credit risk management system that provide totally aligned outcomes and also have the same	Going beyond accounting rules	Accountancy, Europe	Publish

					view of future scenarios. As a matter of fact, a calendar based provisioning would replace the IFRS9 approach for stage 3/NPE			
6	4 - Prudential provisioning backstop	4.2.1	10	Amendment	100% after 2 years or 7 years of vintage: this would drive the accounting treatment and would prove not compliant with IFRS 9. A haircut approach would work better than the linear provisioning.	Going beyond accounting rules	Accountancy, Europe	Publish
7	4 - Prudential provisioning backstop	4.2.2	10-11	Clarification	Secured part after 7 years: Due to legal constraints, in some countries the liquidation of collateral, may take more than 7 years. However, this does not mean that the collateral is not legally enforceable. 7 years is not a substantial number for all countries. We need a level playing field from a prudential aspect but we cannot ignore the existing legal aspects.	Taking into account national specifics	Accountancy, Europe	Publish
8	4 - Prudential provisioning backstop	4.2.2	10-11	Amendment	Banks may have NPL secured where they collect a small amount continuously. However, exposure remains a non performing one for a long period. As a result cash collection is ignored in mechanical prudential backstops.	Technical clarification	Accountancy, Europe	Publish
9	4 - Prudential provisioning backstop	4.2.2	10-11	Clarification	linear path : the expected linear profile is not consistent with the assumption that the last recovery flow is resulting from the collateral sale which might represent a significant part of the overall recovery.	Going beyond accounting rules	Accountancy, Europe	Publish
10	2 - General Concept	2.3.8	6	Amendment	Notwithstanding the fact that the Addendum allows for a "comply or explain" approach, rebutting the requests for the addendum even if well explained, would probably favour a misinterpretation of numbers in the financial statement, thus reducing transparency and comparability as this would require additional work for market analysis to assess the drivers and reasons for non-compliance with the calendar based provisioning.	Provision favouring a misinterpretation of numbers in the financial statement	Accountancy, Europe	Publish
11	5 - Related supervisory reporting	5.1	12	Amendment	As provisions would not reflect the actual expectations banks have about the outcome of the recovery process, the Addendum would depart from the original intention of IFRS9 to favour a convergence of accounting/disclosed numbers to internal estimates of recovery risk, thus forcing banks to maintain separate flows of information and recovery numbers for the different purposes (financial statements, internal risk reporting, prudential regulation). This would imply an additional effort with no significant benefits neither for the banks (especially in terms of awareness of the true risk from BoD and top management) nor for the market.	Reporting burden without concrete beneftis	Accountancy, Europe	Publish