

VALDIS DOMBROVSKIS

*Vice-President of the European Commission*

Brussels

**29 MARS 2017**

Mr Andrea Enria  
Chairperson  
European Banking Authority  
Floor 46  
One Canada Square  
Canary Warf  
London E14 5AA  
United Kingdom

Dear Chairman,

As you are aware, several factors hinder the further development of a functioning secondary market for NPLs in the EU. One of the most important ones, in our view, comes from informational asymmetries between potential buyers and sellers of NPLs. These are capable of driving a substantial wedge between book values and market values of NPLs are a key factor in explaining the reality of wide bid-ask spreads in secondary distressed debt markets in Europe. In other words, an improved quality, scope, transparency and availability of relevant financial information on distressed assets could greatly contribute to functioning secondary markets for distressed assets, as buyers would face less uncertainty, and this should lead to narrower bid-ask spreads.

Moreover NPLs are, as described in the interim report of the FSC subgroup, a problem with consequences for the EU as a whole. In light of this, a European public policy response might help addressing these information asymmetries. In this respect, we should aim at providing a framework to achieve a certain level of standardisation of loan information. This could greatly help in facilitating loan sales. In particular, I would invite EBA to further investigate the possibility of issuing guidelines on data standardisation, specifying the set of information required from banks.

More specifically I would ask the EBA to:

1. advise on the information necessary for improving the granularity, quality and comparability of the data on NPLs in banks' portfolios, with a view to facilitate the transfer of these assets off banks' balance sheets;
2. advise on the feasibility and scope of standardisation of data on NPLs [and specifically on the data needs for an initial screening of banks' positions versus a full due diligence of banks' assets];

3. building on the analysis under point 2, design common templates that could be used by banks for providing comparable and standardised data on NPLs to competent authorities, investors and other stakeholders, including on collateral valuation and borrowers' and loan characteristics;
4. advise on the possible scope for disclosure, at aggregate level, under Pillar 3 and as part of the EU-wide transparency exercise of the above-mentioned data.

In this respect, EBA can build upon the valuable work that it has already carried out in terms of requiring larger banks to disclose more information on their performing and non-performing exposures, as well as on their performing forborne and non-performing forborne exposures using standardised templates.

I and my services are happy to discuss this, in my view, important issue further, such as to allow for a timely progress in these matters.

Yours sincerely,

A handwritten signature in black ink, consisting of a stylized 'V' followed by a circle and a long horizontal line.

Valdis Dombrovskis