



Supervisory reporting on forbearance and non-performing exposures under article 95 of the draft Capital Requirements Regulation

Public hearing

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Introduction – why this consultation paper?

Forbearance has been a source of concerns for supervisors in recent years

"Bad forbearance" vs "good forbearance"

No specific reporting tool or disclosure requirement to identify exposures to which forbearance measures have been extended

No EU-wide supervisory definition of non-performing exposures

Notion of non-performing extensively used by banks in their disclosures but different meanings fueling uncertainty on credit quality/asset valuation

As forbearance can be a tool to manage non-performing exposures, agreeing simultaneously on common definitions and data collection for these issues is the first step for addressing asset quality uncertainty

Forbearance

New definition built after mapping of existing national and international regulatory and accounting definitions

The definition has nevertheless some specificities to achieve a harmonised and comprehensive coverage of forbearance measures (modifications of terms and conditions and refinancing due to financial difficulties of the debtor)

Applies to all banking and trading book loans and debt securities (except derivatives) and loan commitments
Application following an accounting scope of consolidation for lenders and debtors
Situations are always identified as forbearance and specific provisions for exposures with embedded forbearance measures (guidance and ensures a minimum level of consistency in the reported figures)
Specific exit criteria (qualitative and quantitative requirement + a probation period)

The definition is independent from the concept of default and impairment

All forbearance measures according to the definition are covered

The definition should allow for clear identification of forbearance measures and their differentiation from commercial renegotiations

Availability of data (cf Question 3 in the CP)?

Non-performing exposures

The non-performing exposures definition has also been built after mapping of existing national and international regulatory and accounting definitions

Asset quality indicator only: harmonisation elements compared to the current default and impairment definition will not impact profitability or solvency of institutions

Broader category than impairment and default due to

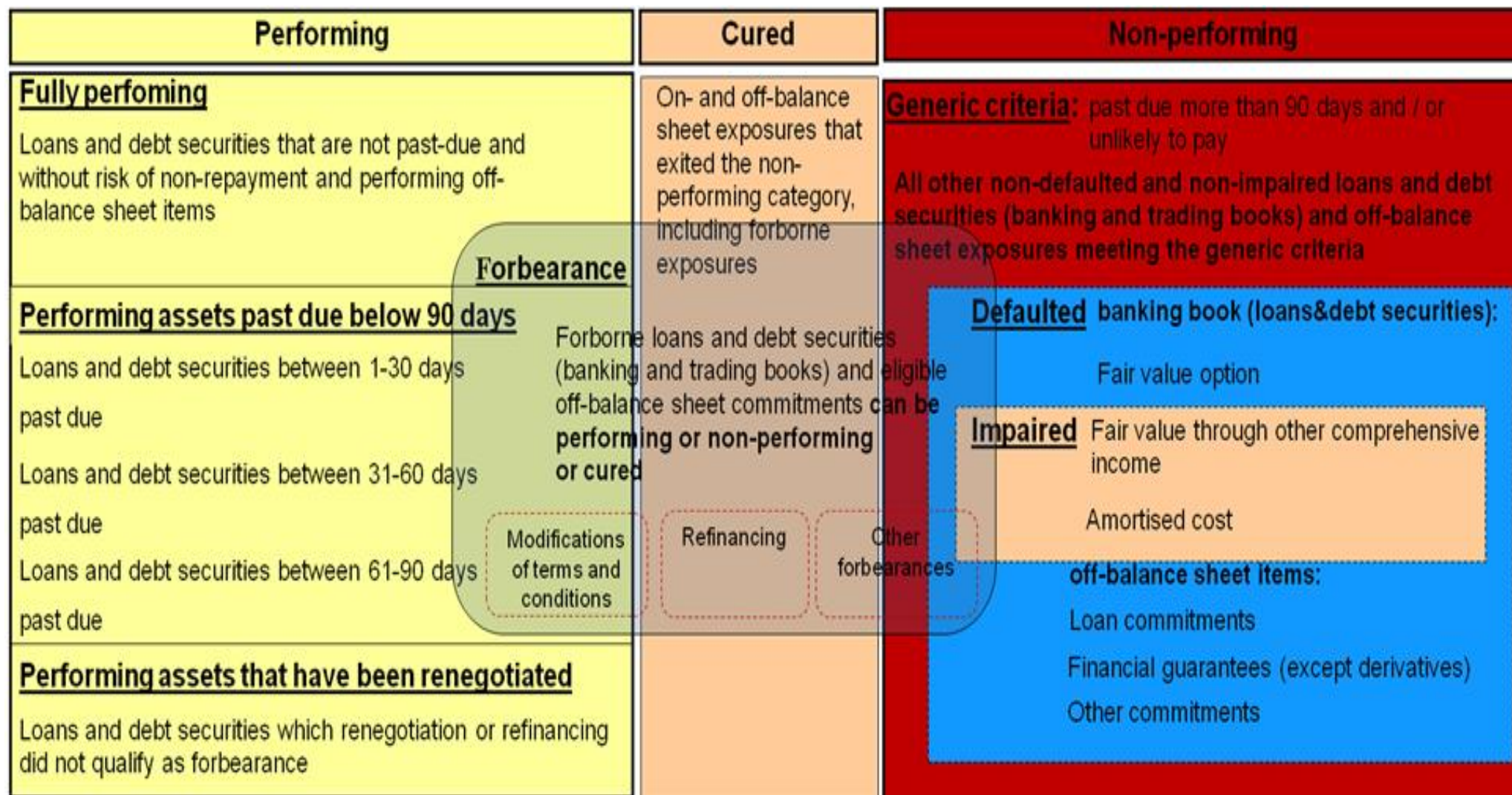
- > Coverage of both banking and trading book exposures (except derivatives) and off-balance sheet exposures (loan commitments and financial guarantees)
- > Harmonised entry and exit criteria that apply in addition to criteria used for default and impairment classification (an exposure can be non-performing even though it is not defaulted or impaired)
- > Pulling effect
- > No collateral consideration

Interaction with forbearance

Extension of forbearance measures will not lead automatically to the classification of the forborne exposure as non-performing

Stricter exit criteria for exposures that were already non-performing prior to the forbearance measures (in order not to encourage misuse of forbearance nor to disincentive the use of forbearance)

Forbearance and non-performing - illustration



Reporting templates

5 reporting templates

2 new templates

- > Forbearance exposures: identification of performing and non-performing exposures with forbearance measures, of the associated value adjustment and collateral and financial guarantees received
- > Non-performing exposures: breakdown of performing exposures between fully performing and exposures with past-due , identification of former non-performing exposures subject to special monitoring, of value-adjustments associated with non-performing exposures, and of collateral and financial guarantees received – non-performing trading book exposures are separately identified

Amendments of existing FINREP templates (as per the interim March 2013 release)

- > Tables 14.4 and 14.5 for geographical breakdown by country of residence of the counterparty
- > Table F10 breaks down non-performing exposures by sectors and country of residence of the counterparty

In all these templates, the gross carrying amount and a capped fair-value for collateral have to be reported

Templates will be integrated in the FINREP framework but may enter into force later than the overall FINREP package from the ITS on Supervisory reporting

First remittance date will be decided based on the outcome of the consultation

Other provisions from the ITS on Supervisory reporting (frequency, proportionality...) will apply

Conclusion

Two new definitions that are needed to get a more harmonised view of the asset quality of European banks

Proper assessment of forbearance activities
Synthetic indicator on credit quality

Even with the methodology adopted by the EBA to build these definitions (leverage to the extent possible on existing definitions at the national/international level) technical choices had to be made to achieve harmonised and comprehensive definitions

Comments are sought on these choices

Contact information

Send comments to:
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Reference 'EBA/CP/2013/06' on the subject field
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