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EUROPEAN COMMISSION

Ursula von der Leyen
The President

Brussels, 01 FEV. 2021
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Honourable Member,

Thank you very much for your valuable contribution, which I read attentively.

The crisis we are facing will undoubtedly necessitate close cooperation among EU and national authorities. We need to ensure that, throughout the crisis, EU banks remain sound and able to finance the real economy.

In this regard, the Commission pays particular attention to the evolving situation of non-performing loans. Over the coming years, the impact of the Covid-19 crisis might generate a sizeable amount of new non-performing loans. High levels of non-performing loans tend to depress credit growth and, hence, the pace of economic recovery. We should therefore anticipate such a possible rise of non-performing loans and address it as early and decisively as possible.

In order to mitigate the effects of the COVID-19 induced crisis on banks, the Commission has been working with EU supervisory authorities to provide flexibility in the prudential framework. This includes the rules on how banks assess the risk that a borrower will not repay a loan in a sudden economic crisis, such as the fallout caused by the COVID-19 pandemic, and the effect this has on the amount of provisions the bank needs to make for any possible losses. Flexibility also applies to the prudential rules on the classification of non-performing loans when relief measures, such as moratoria or public guarantee schemes, apply to these loans. Furthermore, the accounting treatment of delays in the repayment of loans should not automatically lead to a harsher accounting treatment of the respective loans, if they are affected by public relief measures such as moratoria.

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At the same time, it is crucial that banks continue to measure risks in an accurate and transparent manner. Hence, banks must apply the common definition of non-performing loans, which was introduced after the last financial crisis, and banks must comply with the provisioning requirements as amended by Regulation (EU) 2020/873 of 24 June 2020. The sound management and adequate coverage of non-performing exposures is a necessity to ensure banks' resilience in this troubled period.

Co-legislators agreed to better account for the impact of public guarantees in the context of the applicable minimum loss coverage requirements for non-performing exposures (the so-called 'prudential backstop'). Accordingly, for most non-performing loans guaranteed by a public entity, the prudential backstop will apply only seven years after the respective loans having been classified as non-performing. For all other non-performing loans, full loss coverage is required after three to nine years. This leaves ample time for banks to carry out viable restructuring of troubled loans or to dispose of them.

Sufficient loss coverage is the first line of defence against rising non-performing loans. While granting flexibility for government-guaranteed loans, it is necessary that financial institutions perform adequate loss provisioning in line with their risk assessments.

Going beyond, in order to address a renewed build-up of non-performing loans on banks' balance sheets, we need an effective strategy that should foster the further development of secondary markets for distressed assets and consider reforming certain aspects of insolvency and debt recovery frameworks. The Commission has adopted such strategy on 16 December 2020. History shows us that it is best to tackle non-performing loans early and decisively, if we are to maintain the banking sector's role in supporting the overall economy.

I welcome your proposition relating to the clarification of Article 127 of Regulation (EU) 575/2013. The asymmetric prudential treatment of purchased distressed assets under the standardised approach is an impediment to transactions between banks on the secondary markets of which the Commission is aware. It is therefore our intention to look into this matter in further detail and develop an appropriate adjustment.

Yours faithfully,

Ursula von der Leyen