

# Single Rulebook Q&A

<b>Question ID</b>	2020_5170
<b>Status</b>	Final Q&A
<b>Legal act</b>	Regulation (EU) No 575/2013 (CRR)
<b>Topic</b>	Credit Risk - Non performing exposures / loan origination
<b>Article</b>	430
<b>Paragraph</b>	-
<b>Subparagraph</b>	-
<b>COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations</b>	Regulation (EU) 2021/451 - ITS on supervisory reporting of institutions
<b>Article/Paragraph</b>	n.a.
<b>Date of submission</b>	11/03/2020
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<b>Disclose name of institution / entity</b>	Yes
<b>Name of institution / submitter</b>	European Banking Federation
<b>Country of incorporation / residence</b>	Belgium
<b>Type of submitter</b>	Industry association
<b>Subject matter</b>	Application of the NPL ratio
<b>Question</b>	Should the calculation of the NPL ratio, as set out in Article 11, paragraph 2 (g)(ii) of the Regulation (EU) 2021/451 only be applicable for the purposes of additional disclosure requirements under Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10) and additional reporting requirements of NPLs under FINREP, and not for the management of NPLs according to the EBA Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06)?
<b>Background on the question</b>	The question is relevant, because the current Regulation (EU) 2021/451 with regard to FINREP is not sufficiently clear. Article 11, paragraph 2 (g)(ii) of the Regulation (EU) 2021/451 with regard to the reporting of financial information (FINREP) - from now on referred to as "the ITS" - introduces a change to the way how institutions have to calculate their gross total ratio of non-performing loans (NPLs). The modification introduced in this article

excludes “loans and advances classified as held for sale, cash balances at central banks and other demand deposits” from the calculation of the NPL ratio. According to the original implementing technical standards amending Regulation (EU) 680/2014 where the modification of the NPL ratio was introduced, the modification was made for supervisory purposes, which would “strengthen the ability of competent authorities to assess and monitor non-performing portfolios by way of collecting more granular information” (recital 5). The accompanying final report confirms that the modification was made for reporting and disclosure purposes. However, the EBA “Final Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06)” make explicit reference to the EBA Risk dashboard which defines the gross NPL ratio by referring to FINREP templates (F 18.00), which are modified with the ITS. In paragraph 9 to 12 of the “EBA Guidelines on management of non-performing and forborne exposures”, it is clearly mentioned that the definitions of the Commission Implementing Regulation (EU) No 680/2014 (which is now replaced by the Regulation (EU) 2021/451) apply and that institutions with an NPL ratio of 5% or higher have to implement an NPE strategy. Due to those cross-references, it could be interpreted that banks should implement an NPE strategy if their NPL ratio, excluding cash balances held at central banks and other demand deposits, is 5% or higher. Moreover, additional uncertainty with regard to the enforcement of NPE strategies is introduced by the EBA’s modification of validation rules under the reporting framework 2.9. This regulatory uncertainty is best illustrated in how the validation rules define row 0180 (debt instruments at cost or amortised cost) of the FINREP. In the validation rules of v2.9, the EBA changed the formula in v4217\_h and v4219\_h for the calculation of row 180 of the FINREP template, which refers to “debt instruments at cost or amortised cost”. In the new formula the item “cash balances at central banks and other demand deposits” (row 0005) is included alongside item “loans and advances” (row 0070). However, this formula demonstrates that “cash balances at central banks and other demand deposits” is not included in row 0070, because if it that was the case, the reporting framework would double count “cash balances at central banks and other demand deposits”. Because the NPE definition according to footnote 4 of the “Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06)” is not adjusted, this in turn would mean that there is an impact of the requirements for supervisory reporting and disclosure on the management of NPEs and that “cash balances at central banks and other demand deposits” are no longer relevant for the implementation of NPE strategies, which is most likely unintended. This would mean that the impact of the new calculation of the NPL ratio would not be limited to supervisory reporting and disclosure but would force banks to implement an NPE strategy based on this new definition. A discontinuity in the definition of the NPL ratio would have significant impact on the banking industry. Furthermore, the NPL ratio is of a cross-cutting nature to many EU regulations and such a change would have an impact on the EBA’s

	regulatory products and work in the area of risk analysis.
<b>Final answer</b>	<p>As stated in the EBA Report on Peer Review on Supervision of NPE Management (EBA/REP/2022/12), the EBA is committed to revising the definition of NPL ratio used in a threshold to determine the need for institutions to develop NPE strategies within the meaning of the EBA Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06). The aim of this revision will be to align the ratio and the threshold with the approach used in supervisory reporting and Pillar 3 disclosures and in practices by a number of the competent authorities.</p> <p>Until the EBA Guidelines on management of non-performing and forborne exposures have been revised, the competent authorities and credit institutions are advised to use for the purposes of determining the threshold of 5% gross NPL ration as provided in paragraph 11 of the Guidelines, the same definition of the NPL ratio as provided in Article 8 (4) of the Commission Implementing Regulation (EU) 2021/637 and in paragraph 13 of the Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10).</p> <p>For the purpose of this calculation, loans and advances classified as held for sale, cash balances at central banks and other demand deposits are to be excluded both from the denominator and from the numerator of the NPL ratio.</p>
<b>Link</b>	<a href="https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5170">https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5170</a>

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