



EUROPEAN COMMISSION

Directorate-General for Financial Stability, Financial Services and Capital Markets Union

Director General

Brussels, *10. Nov 2017*
fisma.ddg.d.l(2017)5951648

Mr. Andrea ENRIA
Chairperson European Banking
Authority
One Canada Square (Floor 46)
Canary Wharf
London E14 5AA
United Kingdom

Subject: Call for advice to the EBA for the purposes of considering statutory prudential measures to address insufficient provisioning for newly originated loans once they become non-performing

Dear Mr. Enria, *Dear Andrea,*

The Communication on completing the Banking Union¹ announced that the European Commission will prepare a report, accompanied if appropriate with the necessary legislative proposals to amend the Capital Requirement Regulation (CRR), with regard to the possible introduction of statutory prudential backstops in the form of compulsory and time-bound prudential deductions of non-performing loans (NPLs) from own funds in order to address potential under-provisioning of newly originated loans that turn non-performing and thus prevent the future build-up of NPL stocks without sufficient coverage across Member States and banks, as requested by the Council in the context of its action plan to tackle NPLs in Europe².

The European Banking Authority (EBA) has already performed extensive work on NPLs and assessed how they are captured by the current regulatory framework.

Building on this work the Commission is seeking technical advice from the EBA to assess the potential impact for EU banks from adopting such statutory prudential backstops for newly originated loans that turn non-performing and to consider possible calibration options.

¹ COM, Communication on completing the banking union (2017),
http://ec.europa.eu/finance/docs/law/171011-communication-banking-union_en.pdf.

² ECOFIN, Action Plan To Tackle Non-Performing Loans In Europe (2017),
<http://www.consilium.europa.eu/en/press/press-releases/2017/07/11-conclusions-non-performing-loans/>.

Because of the relatively short timeframe available for producing the report, my services have already contacted the EBA's staff to discuss the content of the Call for Advice. My services stand ready to support the EBA in the completion of this targeted advice as efficiently as possible. As always, the invaluable input from the EBA will be instrumental in delivering the proposals.

Thank you in advance for your cooperation and I look forward to receiving the EBA's advice.

Yours sincerely,

A handwritten signature in blue ink, consisting of a large, stylized 'O' followed by a series of loops and a final flourish.

Olivier GUERSENT