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EBA Consultation on Draft ITS on Supervisory Reporting on Forbearance and Non-Performing Exposures

Ladies, Gentlemen,

The European Association of Co-operative Banks (EACB) welcomes the opportunity to comment on the EBA Consultation on Draft ITS on Supervisory Reporting on Forbearance and Non-Performing Exposures.

Please find our general remarks and responses to specific questions in the following pages.

We will remain at your disposal for any requests for information or clarification.

Yours sincerely,

[signed]

Volker Heegemann
Head of Legal Department

[signed]

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EACB Position Paper on EBA Draft ITS on Supervisory Reporting on
Forbearance and Non-Performing Exposures

The voice of 3.800 local and retail banks, 55 million members, 216 million customers

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A. GENERAL REMARKS

EACB appreciates the opportunity to comment on this EBA consultation paper. The suggested definition of forbearance and non-performing exposures raise significant concerns among our members.

In particular, the new definitions lead to an increase of the number of concepts. Apparently, EBA does not rely on the credit risk measurement under CRR/CRD 4 (concept of non-performing vs. concept of default). In general, it would be best if the definition of non-performing exposures will be the same as the definition of default used under CRR requirements.

Moreover, the suggested definitions diverge from those established under IFRS. Thereby, the comparability between the reported figures is reduced while the implementation, preparation and reconciliation costs are increased.

The RTS requirements are to be included in the FINREP framework shortly before its completion. The new definitions raise important operational issues (IT) that will require time to implement (at least 1.5 years after the publication of the final standard). Therefore, the 01.01.2014 date of application is not feasible

Moreover, in the case of institutions that offer a variety of the financial services, i.e. financial conglomerates, it is unclear what will be the scope of requirements. To our understanding the forbearance reporting is planned to follow FINREP. At the same time, the paper mentions that the definitions have to be applied on the accounting scope of consolidation. However, the accounting scope of consolidation contains insurance companies which are not legally obliged to produce a FINREP-reporting. If in this way banking regulation would be extended on to also include insurance companies, supervision on insurance companies would be inefficiently doubled: insurance companies would be within the scope of both banking supervision (FINREP) and supervision on insurance companies (VAG/Solvency). Furthermore, insurance companies would face extraordinary efforts and costs, that would not reflect in significant regulatory benefits, as insurance companies are not generally concerned by the forbearance and non-performing exposures.

In addition, the inclusion of the trading book in the scope of the definitions for the forbearance and non-performing exposures is not relevant as securities are valued at fair market value (mark-to-market). The fair value already captures of all negative financial signals regarding the debtor. Therefore, it is not necessary to report forbearance measures and non-performance for these instruments.



B. ANSWERS TO SPECIFIC QUESTIONS

Questions on the definitions

Question 1:

Do you agree that building definitions of forbearance and non-performing by taking into consideration existing credit risk related concepts enables to mitigate the implementation costs? If not, please state why.

Any common definition for forbearance and non-performing exposures should follow already existing definition of default under CRR. Reporting requirements which rely on a credit risk related concept and which are already connected to collected information, will limit implementation costs in many institutions. If new definitions are introduced they should be rather principle based without adding new requirements, as suggested by EBA. The definition should be convergent with other concepts in IFRS and CRR. Harmonised definitions would reduce implementation costs.

Question 2:

Do you agree with the proposed definitions? Especially, do you agree with the inclusion of trading book exposures under the scope of the non-performing and forbearance definitions? If you believe alternative definitions could lead to similar results in terms of identification and assessment of asset quality issues, please explain them.

➤ Definition of forbearance

The definition of forbearance is too broad. In principle, we do not agree with the following situations being treated as forbearance measures:

- a modified contract includes more favorable terms than those that the debtor could have obtained in the market;
- a modified contract was classified as non-performing or totally or partially past-due more than 30 days (without being non-performing) at least once during the three months prior to its modification;
- a modified contract would without its modifications be classified as non-performing or totally or partially past-due more than 30 days (without being non-performing);
- the modification made to a contract implies a total or partial cancellation by write-offs of the debt, or repayments made by taking possession of collateral.

These complements to the general definition require substantial system development specific to supervisory reporting purposes provide very limited benefits for other purposes. Classification of contracts as forborne will always include some degree of judgement despite of how sophisticated the systems in place would be, It would be especially difficult to determine whether the renegotiation is due to commercial reasons or intended as forbearance.



In addition, the identification of financial capacity of a debtor is an individual assessment process, primarily dependent on the expected future cash flow from the debtor and independent from the days past due.

The assessment of 'could have obtained in the market' is based on an expert judgment which might be reasonably different in the various European countries due to different regional market standards and conditions. It should be prevented that the rules lead to punishing of situations where granting credit occurs in a more prudent way. Moreover, if the debtor is not financed by other institutions, it is very difficult to establish the terms that it could have obtained the market.

The part of the definition "debts with forbearance measures are contracts the terms of which the debtor is considered unable to comply with" is unclear and difficult to interpret. We see two cases:

- Either the renegotiation has not yet taken place, then there are no forbearance measures yet with respect to the (original) contract
- Or the terms have already been renegotiated, then at least at the beginning it is expected that the debtor will be able to comply with the new terms.

We refer to the requirement to consider as forbearance the refinancing measures in case of occurrence of a 30 days past due event during the preceding three months . This could create problems when the modification was agreed well before the overdue event but loan documentation or the registration of collateral leads to delays. In order to avoid that technical delays lead to forbearance (or even NPL), we propose to use 60 days past due instead of 30.

We suggest to exclude from the definition the partial refinancing - partial substitution of the obligations of the original contract. If the substituted part of the original contract is not material, the concession given to the borrower are immaterial as well. Moreover, when only a part of the new loan is used for repaying the previous exposure, the other part could be aimed at financing a new activity of the borrower and the loan may be repaid from the borrower's additional cash flow.

In our view, forbearance should be restricted to the cases of distressed restructuring with a material refinancing.

➤ Definition of non-performing exposure

EACB only partly agrees with the definition of non-performing exposures. We think that the definition should be the same as the definition of default under CRR requirements which only includes the reference to material exposures that are more than 90 days due and allows national discretion to use longer payment practices where there is no evidence of default (ex: for public administrations and central governments). We find that a separate definition of non-performing is unnecessary and burdensome. Therefore, we do not support the additional reference to the exposures that present a risk of not being paid back in full without collateral realization, regardless of the existence of any past-due amount or of the number of days past due.

This definition contradicts the incurred loss concept currently implemented in the IFRS. Moreover, the suggested definitions exceed the existing, as well as the anticipated future



requirements regarding modifications for accounting purposes. In ED/2013/3 Financial Instruments: Expected Credit Losses, the IASB suggests prospective disclosures including the gross carrying amount of all assets for which the contractual terms have been modified within the reporting period as well as the gross carrying amount of all assets with contractual modification in the past for which the credit risk has reduced significantly within the reporting period. In addition, a re-default rate of the modified assets is suggested to be disclosed. Requirements beyond IFRS are not appropriate.

The meaning of the additional requirements included in the definition (e.g. reference to the exposures that present a risk of not being paid back in full without collateral realization, regardless of the existence of any past-due amount or of the number of days past due) is not clear and is not likely to lead to a comparable overall result. However, it widens the commonly used definition of non-performing loans and leads to increased implementation costs.

To avoid these problems, the definition should rather stick to the definition of default used under the CRR for credit risk measurement. This approach could increase reliability and comparability as the related credit risk processes are subject to periodic audits.

➤ Exposures ceasing to be forborne or non-performing

Since the evaluation of the risk of a debtor is always based on an expert judgment taking into account expected future cash-flows, we see small value for management information purposes in having a fixed and obligatory probation period as proposed by EBA. A fixed probation period also deviates substantially from market practice for the majority of the debtors. In line with this, a limited value is attributed to monitoring and reporting on cured debtors from the forboren or non-performing category.

➤ Inclusion of trading book exposures under the scope of the non-performing and forbearance

EACB members do not agree with the inclusion of the trading book under the scope of requirements for forbearance and non-performing exposures. Generally, the securities portfolio of the trading book is valued at fair market value (mark to market) since these securities are tradable in the market and position holders i.e. 'lenders' are rarely in a position to renegotiate the debt. This means that all negative financial signals (including financial stress) regarding the debtor are rapidly reflected in the price paid by the investors on the stock exchange, so the forbearance measures/default are already captured by the assets' fair value. Therefore, it is not necessary to report forbearance measures and non-performance for these instruments. Furthermore, fair valued items are also subject to prudent valuation adjustments that further take into account valuation risks and reflect potential additional negative moves in the value of the assets.

Additionally, by including "trading book exposures" in the scope of the definitions of forbearance and non-performing exposures, the requirements of EBA draft standards largely exceed the scope of the impairment model under IAS 39/IFRS 9. This substantially increases the implementation costs by requiring additional data, consolidation procedures and further development of the IT systems without reflecting a significant increase in the added value of such efforts.



The definitions of forbearance and non-performing to exposures should be applied only to items that are not measured at fair value through profit or loss.

Unless the inclusion of “trading book exposures” is abandoned in the final document, we would additionally like to stress the need for a precise formulation of which financial instruments the consultation paper is referring to. The EBA needs to clarify whether “trading book exposures” are supposed to encompass all regulatory trading book positions except derivatives, or if “trading book exposures” are used as a synonym for all non-derivative financial instruments that are measured at fair value through profit or loss in the financial statements.

Question 3:

How long will it take you to implement, and collect data on, the definitions of forbearance and non-performing?

Ready to use data, in particular for the forbearance definition, are not available in the IT systems of institutions. Some banks also do not have a group policy with respect to forbearance. Granting of a modified contract to the different debtors implies a judgemental approach done by experts rather than following a rule-based requirement. This would make it hard to define the concepts.

The introduction of a forbearance policy and collecting data will have a major impact on working processes and ICT environment and new applications should be built to meet the EBA reporting obligations. This process will take at least one and a half years after the publication of the final standard.

The time needed to implement the definitions of forbearance and non-performing and the implementation costs will also depend on the final wording of the definitions. Unclear and too broad definitions as well as the observed inconsistency to existing regulations and reporting practices (IAS 39 / IFRS 9; Basel III etc.) increase the implementation time and costs significantly.

Institutions will need time to study the regulations, incorporate the new concepts into internal procedures, processes and IT systems. This will have to be done across all consolidated members of the financial group. Therefore, a minimum period of 1,5 years from the publication of the Standard is needed for appropriate implementation.

Question 4:

What definitions of forbearance and non-performing are you currently using respectively for accounting and prudential purposes?

The formerly existing disclosure requirements in IFRS 7.36 (d) regarding modifications have been deleted in 2011. Forbearance and non-performing aspects are, therefore, only used in the context of the assessment of the impairment amount subject to IAS 39.59.



➤ Definition of forbearance

For prudential purposes, forbearance has been irrelevant until now, though there are some countries where supervisors recently have been requiring regular reports on restructured exposures.

Some banks use an internal classification system to monitor modifications to terms and conditions of the contracts. Those modifications that are made due to financial difficulties of the lender are seen as forbearance.

➤ Definition of non-performing Exposure

In some banks the current definition of non-performing is 90 days past due but the RTS should rather stick to the definition of default under the CRR requirements and allows longer period in some specific cases (ex: public authorities, central governments).

Specific questions on some aspects of the forbearance definition

Question 5:

Do you agree with the types of forbearance measures covered by the forbearance definition? If not, what other measure(s) would you like to be considered as forbearance?

We do not fully agree with the definition of forbearance on page 11 of EBA consultation paper. Typically, for loans there is no active market with complete market transparency or other benchmarks regarding current terms and conditions for particular debtors. Therefore, we believe that criteria 1 (modified contracts with more favourable terms than those that the debtor could have obtained in the market) and 3 (modified contract would without its modifications be classified as non-performing or totally or partially past-due more than 30 days) are difficult to assess and do not lead to a comparable overall result.

We think that the definition of forbearance is too broad and the information required is difficult to capture. Generally, we agree with the types of forbearance listed on page 15 of the CP as long as they are applicable only to contracts that are first regarded as "troubled".

We also note that it would be operationally problematic to make the difference between contract modifications following commercial renegotiations and contract modifications that are due to forbearance measures. The distinction between forbearance and commercial renegotiation depending on the criteria introduced on pages 15/16 of EBA consultation paper is difficult to make since the criteria are not easily accessible.

The requirements should rather be in line with the definition of impairment under IAS 39.59 and based on existing credit risk processes, which are subject to periodical audits.



Question 6:

Do you agree with the following elements of the forbearance definition:

- a) the criteria used to distinguish between forbearance and commercial renegotiation?
- b) the criteria used to qualify refinancing as forbearance measures?
- c) a 30 days past-due threshold met at least once in the three months prior to modification or refinancing, as a safety net criterion to always consider modification or refinancing as forbearance measures?
- d) the proposed treatment for exposures with embedded forbearance clauses?

In case you disagree with the EBA proposals on the above-mentioned issues, please explain and provide an alternative to them.

➤ 6.a.

It is important to distinguish forbearance from commercial renegotiation, however it might be operationally difficult.

We do not agree with the second bullet point of the listed situations on page 15-16 as it automatically results in forbearance of troubled debt.

Some banks have numerous contracts that include, right from the beginning, a high flexibility regarding the arrangement of the repayment modalities. They include alternative cash flow arrangements that are negotiated in the original contract. Switching from one alternative to another should not imply that the loan is treated as forborne or as a non-performing exposure. In fact, this would result in a severe overstatement of the risks as it is not a result of lender's difficulties in case of repayment.

Renegotiations are commonly used and modifications of contractual terms might also be applied for only a short period in time. Therefore, a threshold regarding the duration of the modification and/or regarding the resulting percentage change in the NPV should be also considered.

➤ 6.b.

We agree with the general definition. However the additional specific rules on page 17 pose particular challenges. It will be very difficult to track refinancing operations in the systems according to these specific rules as this kind of information is not currently collected.

In our view, only those cases where the total original debt is substituted with a new one should be included in forbearance.

➤ 6.c.

In our opinion, the definitions should rather be principle-based taking into consideration qualitative criteria. The 30 days past-due threshold would result in too many non-critical contracts being included in the reporting on forbearance measures. There should not be additional specific rules in addition to general principle.



➤ 6.d.

We do not agree with embedded forbearance clauses and we suggest deleting it. It cannot be assumed that embedded options in the contracts are only enforced at the discretion of the debtor when experiencing financial difficulties. The original contract may offer an option to the debtor for the modification of the contractual terms. This may have many reasons including keeping the customer with the bank when the forecast for the future market prices indicate lower prices than the one in the contract - the contract may offer a change if market prices would be lower for the same type of customer.

Question 7:

Do you agree with the proposed scope of on- and off-balance sheet exposures to be covered by the definition of forbearance?

Off-balance sheet items that are defined and measured in accordance with IFRS 9 Expected Credit Losses ED and/or prudential purposes could be included in the scope of the definition of forbearance. We fully agree that derivative contracts and guarantees would be out of the scope of forbearance. Their general contractual features are such that there is no room for forbearance activities.

Also any exposures treated as at fair value through profit or loss should be excluded from the definition. In case of securities traded in different markets the investor is unlikely to get into a position to renegotiate the terms of the contract (except in the case of bankruptcy). Therefore, we suggest that the definition of forbearance would leave out completely all fair valued securities.

Undrawn facilities should not be covered by forbearance definitions either.

Question 8:

Do you agree not all forbearance transactions should be considered as defaulted or impaired?

Question 9:

What types of forbearance transactions are likely, according to you, not to lead to the recognition of default or impairment?

➤ Answer to questions 8-9

In general some payment discontinuities for principal repayments for a relatively short period of time do not lead to default or impairment. Moreover, when a debtor is assessed as able to repay by an expert but the market circumstances are still uncertain this would lead to a debtor facing forbearance measures. However, the debtor is still likely to pay the total debt obligations. The number of this type of clients may be significant they are currently still considered as performing.

In general, whether or not all forbearance transactions are defaulted or impaired, depends on how broad the definition of forbearance is. We believe that as presented in



EBA paper, the definition is too broad and should be more consistent with the definition of default and impairment.

Question 10:

Do you agree with the proposed definitions of debtors and lenders and the scope of application of the forbearance definition (i.e. accounting scope of consolidation)?

From our perspective, the definitions included in the consultation paper are too far-reaching and not matching with other regulatory definitions. According to the draft standards a “debtor” and “lender” refer to all the entities in the group within the accounting scope of consolidation (parent plus all subsidiaries). Using the accounting scope of consolidation for the forbearance definition is not feasible. We would like to highlight that the information to be provided in templates 10 and 14 cannot be compared if the accounting scope of consolidation differs from the regulatory scope of consolidation. The templates are generally based on the regulatory scope of consolidation. The information on FBE and NPE in table 14 refers to an original FINREP template, for which the regulatory scope of consolidation is used. The tables regarding FBE and NPE, however, refer to the accounting scope of consolidation.

We believe that the implementation of a financial reporting will cause remarkable effort due to the necessary adjustments of processes and systems in both the credit and accounting department. The 01.01.2014 date of application is not at all feasible.

Moreover, as remarked in the general comments, the accounting scope of consolidation is not appropriate for financial conglomerates. The forbearance reporting is planned to follow FINREP, but the accounting scope of consolidation contains insurance companies which are not legally obligated to produce a FINREP-reporting. Furthermore, insurance companies are generally not concerned by these issues of forbearance and non-performing exposures, so the costs would significantly exceed any benefit of taking into consideration in the scope of the definitions the insurance companies.

Question 11:

Do you agree with the proposed mixed approach (debtor and transaction approaches) for forbearance classification?

If multiple contracts are closed with one company, two cases have to be distinguished:

- At least two mezzanine investments (silent partnership, profit participation rights, shareholder’s loan, etc.) are contracted. In this case, the debtor approach is appropriate.
- At least one mezzanine investment combined with a direct shareholding is contracted. In this case, the classification of the mezzanine investment as forborne does not necessarily lead to the direct shareholding being classified as forborne. It will rather need to be evaluated separately. For instance, in case of a successful self-administered insolvency plan of the investor, the mezzanine



investment has to be classified as non-performing while the direct shareholding will be performing after the completion of the insolvency plan.

In general, the definitions of forbearance and non-performing exposures should not apply in the case of a direct shareholding as no contractual redemption claims exist.

The mixed approach of EBA is rather complex implying a large administrative burden and leading to less transparency in the reported figures.

Question 12:

Do you agree with the exit criteria for the forbearance classification? In particular:

- a. what would be your policy to assess whether the debtor has repaid more than an insignificant amount of principal or interests?
- b. do you support having a probation period mechanism?

➤ 12.a.

We do not agree with the definition of exit criteria for the forbearance classification since the definition is very abstract and also difficult to assess from a technical and process point of view.

➤ 12.b.

There should be no probation period. For temporary forbearance (where the contract terms are modified for a pre-defined period), the forbearance period would end when the contract is reverted back to the original terms. For permanent forbearance the contract should be classified as forborne until maturity or until the contract is renegotiated again to meet the original terms. Introducing a probation period would require substantial IT system development work.

Furthermore, the suggested probation period of at least 2 years would not adequately represent the credit risk of many exposures. For example, if an exposure with a property company is forborne because of the default of a tenant and subsequently another financially strong tenant is obtained for a reasonably long timespan, a probation period of at least 2 years is too long and the approach overstates the risk of the exposure.

Question 13:

Do you agree with the proposed approach regarding the inclusion of forborne exposures within the non-performing category? In particular:

- a. do you agree the generic non-performing criteria allow for proper identification for neither defaulted nor impaired non-performing forborne exposures? Would you prefer to have the stricter approach (all forborne exposures identified as non-performing) implemented instead?
- b. do you agree with the proposed consequences of forbearance measures extended to an already non-performing exposure? Especially, are the proposed exit criteria strict enough to prevent any misuse of forbearance measures or would stricter criteria be needed?



The forbore exposures should be considered as non-performing only to the extent that they meet the non-performing criteria i.e. they are impaired or defaulted under CRR requirements.

In some cases debtors facing forbearance measures are still likely to pay their total debt obligations (forborne and performing). This typically occurs when a debtor is assessed able to repay by an expert of special asset management unit but the market circumstances are still uncertain. The size of the portfolio with this type of clients is significant and still considered as performing. For all the non-performing corporates an impairment assessment will be executed (complying with IFRS). The stricter approach, therefore, might lead to an unnecessary increase of impairments.

We do not support the extension of forbearance measures to an already non-performing exposure. This could cause confusion as it widens the commonly used understanding of “non-performing”. Moreover, the exit criteria are too complex and would imply significant efforts to built in to the systems.

Specific questions on some aspects of the non-performing definition

Question 14:

Do you agree with the following elements of the non-performing exposures definition:

- a. the use of 90 days past-due threshold to identify exposures as non-performing?
- b. the proposed guidance for past-due amounts?
- c. the proposed treatment of collateral and especially the proposed valuation methodology for its reporting?

In case you disagree with the EBA proposals on the above-mentioned issues, please explain and provide an alternative to them.

In our view the past due threshold should be harmonised with the threshold at the definition of default in the CRR.

We understand that when referring to “exposures where a debtor has been constantly past-due on its payments for one or more credit obligation over a 90 days period, but without any single past-due amount reaching 90 days”, EBA intends to calculate the cumulative days past due for more payments. The implementation of the proposed guidance for past-due amounts will be highly complex, especially regarding the identification of those exposures. It might be useful to introduce a materiality threshold.

The regulatory requirements implemented by the Capital Requirements Directive already define the term “default”. Introducing another definition for FINREP-reporting purposes causes unnecessary implementation and reconciliation costs. The existing definitions should, therefore, be retained.

The calculation and reporting of the exposure should take into account the collateral. In our view, to properly assess asset quality, the net exposures after considering collaterals



should be used. The fair value of the collateral is an acceptable concept to assess the net exposure. Collateral is a key element for certain transactions, e.g. leases, and included in the internal credit risk processes. Moreover, it is also accepted by auditors.

The definition of exposure used in the draft standard leads to a reported exposure amount which is not a true and fair representation of the legal and economic situation. This is still the case even if the collateral is disclosed in a separate template because a precise matching of the collateral and the respective exposure is not possible.

Question 15:

Do you agree with the coverage of the proposed definition and with the possibility to apply the generic non-performing criteria to all fair-valued non-performing exposures? Do you expect challenges when implementing them and collecting data on fair-valued non-performing exposures? Would you suggest other criteria instead?

As mentioned in our answer to question 2, fair-valued exposures should not be categorized as non-performing. Such an approach contradicts the recent requirements of IFRS 9, according to which the measurement at fair value depends upon the underlying business model as well as cash flow criteria. All negative financial signals (including financial stress) regarding the debtor are rapidly reflected in the fair value of the instruments, including forbearance measures and non-performing characteristic. Therefore, fair-valued exposures should be excluded from the definition. Moreover, the CRR requires this positions to be subject to prudent valuation adjustments that also account for valuation risks.

Question 16:

Do you agree with the proposed treatment for derivatives exposures? If not, what criteria would you suggest to enable identification of non-performing derivatives?

We agree that derivatives should be excluded from the scope non-performing exposures in all aspects

Question 17:

Do you agree with the proposed criteria to identify off-balance sheet exposures as non-performing?

Off-balance sheet items that are defined and measured in accordance with IFRS 9 Expected Credit Losses ED and/or prudential purposes could be included in scope of the definition of non-performing. No derivatives balances should be included into the scope. Also any exposures treated as at fair value through profit or loss should be excluded from the definition.



Question 18:

Do you agree not to consider exposures subject to incurred but not reported losses as non-performing?

Question 19:

Do you agree with the proposed approach regarding the materiality threshold?

➤ Answer to questions 18-19

We believe that the current 90 days due threshold should be extended to stick to default threshold under CRR and no additional materiality thresholds should be imposed at group level which should be left to the judgement of the group experts (risk management decision). Applying a materiality threshold for non-performing exposures on group level would de facto equal a group-wide assessment on a single transaction level. The required data bases as well as systems and processes are not available and are very complex to implement.

Question 20:

Do you agree with the proposed definitions of debtors and lenders and the application of the non-performing exposures definition on an accounting scope of consolidation?

We refer to the answer to question 10, in particular, relating to the accounting scope of consolidation.

Question 21:

Do you agree with the proposed approaches (debtor approach for non-retail exposures, and possibility of a transaction approach for retail exposures)? In particular, do you agree with the idea of a threshold for mandatory application of the debtor approach? If so, which ratio methodology would you favour and why?

We strongly disagree with the suggested thresholds. These artificial thresholds require substantial system development and will be relevant only for supervisory reporting.

Question 22:

Do you agree with the exit criteria from the non-performing category?

The EBA suggests reporting recovered exposures within a specific category ("cure category") for a probation period of one year before returning the exposures to the performing category. EBA should avoid introducing this additional category as it will only increase the complexity of the reporting without providing additional useful information about the credit risk of the respective exposure (consider our comments to question 12). Recovered exposures that will impair again will be reported in line with the definition of forbearance anyway.



Question 23:

Do you agree with the separate monitoring in a specific category of exposures ceasing to be non-performing? Do you think this specific category should be integrated within the performing or the non-performing category?

We do not agree with specific category for exposures under probation period. In our opinion those exposures should be integrated with the performing category

Question 24:

Would you favour specific exit or specific separate monitoring criteria for non-performing exposures to which forbearance measures are extended?

In our opinion no specific category for all former non-performing exposures should be established as it adds unnecessary complexity.

Impact assessment questions

Question 25:

Could you indicate whether all the main drivers of costs and benefits have been identified in the table above? Are there any other costs or benefits missing? If yes, could you specify which ones?

In our view, the new definitions will be the main driver of the costs. Institutions will have to modify their internal policies and procedures with respect to credit risk management and lending. These one-off costs seem not to be included among the main drivers.

Question 26:

For institutions, could you indicate which type of one-costs (A1, A2, A3) and on-going costs (B1, B2, B3) are you more likely to incur? Could you explain what exactly drives these costs and give us an indication of their expected scale?

We think that all types of costs will be incurred, in particular A1 and B1 because of the granularity of data needed to be collected for fulfilling the requirements of the definitions in the RTS and record keeping.

Question 27:



Do you agree with our analysis of the impact of the proposals in this Consultation Paper? If not, can you provide any evidence or data that would explain why you disagree or might further inform our analysis of the likely impacts of the proposals?

Appendix I questions

Question 28:

Do the instructions provide a clear description of the reporting framework? If not, which parts should be clarified?

We need additional guidance for the table "Information forborne exposures". The column 020 which is the sum of columns 030 to 050 is not completely clear in relation to the columns with the titles "of which:". These columns seem to result in double-counting.

In the table FBE and table NPE the columns for impairment for performing exposures should also follow the structure of the performing exposures, in order to be capable to assess the net exposures properly. Otherwise the net exposure after impairment cannot be assessed appropriately for the categories of performing exposures. This remark concerns both templates.

Question 29:

Are there specific aspects of forbearance and non-performing loans that are not covered or addressed properly in the templates?

No. The scope of the definitions is too broad already.

Question 30:

Do the reporting requirements include items which would be disproportionately costly to implement? If yes, how the templates could be modified to cover the necessary supervisory information? Institutions are especially encouraged to provide their views on which breakdowns are easier to fill in, or whether they believe there are redundancies with information reported in other supervisory reporting templates, or if they believe alternative definitions could achieve similar results as those in this Consultation Paper but at lesser costs.

As previously mentioned, we do not believe that the trading book should be included in the forborne and the non performing exposures. This would increase costs considerably, as those items are managed differently from the loan portfolio.

It would be less costly if the definitions would be consistent with the default concept of the CRR and the impairment concept. With the implementation of the CRR the definition



of default must be used also by the banks employing the standardised approach for assessing the regulatory capital requirement for credit risk.

Moreover, insurance companies should be excluded from the scope of this standard.