ABI Associazione Bancaria Italiana

ABI comments on the EBA "Consultation Paper on Draft Regulatory Technical Standards on the specification of the calculation of specific credit risk adjustments" (EBA/CP/2021/25)

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The Italian Banking Association (ABI) welcomes the opportunity to comment on the EBA "Consultation Paper on Draft Regulatory Technical Standards on the specification of the calculation of specific credit risk adjustments" (EBA/CP/2021/25).

Against the background of the EU Commission 2020 NPL Action Plan and the initiatives aimed at fostering NPLs secondary markets, EBA proposal tackles the issue of the prudential treatment of purchased NPLs under the standardised approach for credit risk (Article 127 CRR).

ABI strongly supports EBA initiative. Indeed, ABI has raised on several occasions its concerns as to the application of Article 127 CRR to purchased NPLs and believes that an intervention in this regard is needed and appropriate.

Also, ABI agrees on the regulatory approach chosen, i.e., intervening by means of an amendment to the Delegated Regulation (EU) No 183/2014 (the "RTS"). This would, on one hand, provide clarity and legal certainty, while, on other hand, allows to achieve such result faster than to amend the CRR. Given the importance of the issue, it is essential that the solution be implemented quickly. ABI would therefore encourage the EBA to finalize the draft amendment as soon as possible, and the EU Commission to endorse swiftly, in order for the modified RTS to be possibly published on the EU Official Journal in time for application to banks' end-2021 figures.

Nonetheless, ABI shares the EBA recommendation to the EU Commission to consider including clarification in this regard in Article 127 CRR, as part of the CRR3 legislative proposal, which is expected later this year.

Last but not least, ABI takes the occasion of this consultation to recall that there is also another piece of prudential legislation that is penalising for purchased NPLs, within the context of the minimum loss coverage requirement as per Article 47c CRR. The latter accounts to a certain extent for the specificities of purchased NPLs, by recognizing the difference between the purchase price and the amount owed by the debtor as eligible coverage, but nonetheless results in penalising purchased NPLs since the calculation of the vintage of the exposure starts from the date of first classification as defaulted (by the originating bank). In ABI's view, for purchased NPLs the calendar for the purposes of the minimum loss coverage for the buyer should start from the date of acquisition, in order to account for possible new recovery strategies and push to the recovery procedure.