



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB's contribution to resolution of NPLs in the euro area

Asian Development
Bank – ECB Workshop
on NPL resolution

10/02/2020

ECB-RESTRICTED

This is not an ADB material. The views expressed in this document are the views of the author/s and/or their organizations and do not necessarily reflect the views or policies of the Asian Development Bank, or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy and/or completeness of the material's contents, and accepts no responsibility for any direct or indirect consequence of their use or reliance, whether wholly or partially. Please feel free to contact the authors directly should you have queries.

Maciej Grodzicki
DG Macroprudential Policy and Financial Stability

ECB in the institutional architecture of the euro area

Monetary policy

- Euro launched in 1999 and now used by 19 countries
- ECB mandated by Treaty on the Functioning of the European Union to maintain price stability
- Mandate to **contribute** to smooth conduct of policies relating to **financial stability**

Banking supervision

- Supervisory mandate conferred on the ECB in 2014
- **Direct supervision** of about 120 largest euro area banks (“Significant institutions”)
- **Macroprudential powers**
 - Decisions on macroprudential instruments taken by national authorities
 - ECB reviews and may top up

A few other key players in financial sector issues

Legislators

- European Parliament (elected via popular vote in all EU countries)
- European Council (governments of all EU countries)

Regulator

- European Banking Authority
- European Commission

Supervisor

- European Central Bank
- Other national authorities participating in the Single Supervisory Mechanism

Macroprudential oversight

- European Systemic Risk Board (members from central banks and supervisors of 27 EU countries)

Before 2014: providing advice to euro area countries

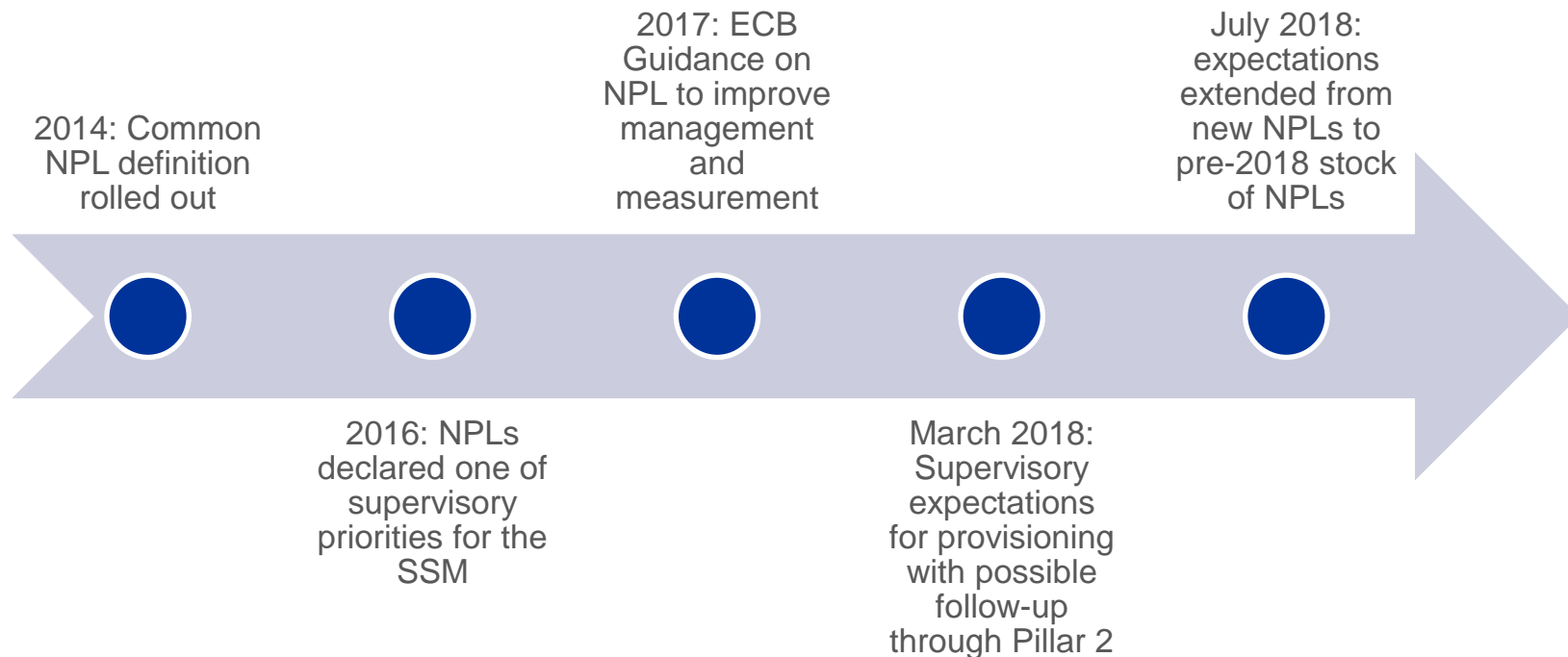
Context: financial assistance to governments

- Banking issues at the core of the euro area sovereign debt crisis
- “In liaison” with the European Commission when negotiating and assessing EU/IMF financial assistance programmes on behalf of Member States
- Link to monetary policy: ECB can only lend to solvent banks

Areas of ECB interest

- Health of the financial sector: AQRs and stress tests
- Preserving financial stability: recapitalising and restructuring banking systems
- Dealing with NPLs a key issue
 - Provisioning rules
 - Removing NPLs (NAMA, SAREB, DUTB/BAMC)
 - Resolving NPLs: bank practices, insolvency procedures, markets for distressed debt

After 2014: microprudential supervisory role



After 2014: financial stability role

Contributions to improving markets for distressed debt

- Co-authored a blueprint on Asset Management Companies
- Developed a concept of NPL transation platforms
- Contributions to public debate on market failures

Support ECB Banking Supervision

- Assess impact of microprudential provisioning expectations

Work on prevention of future NPL problems

- Assess macroprudential policies improving resilience of banks and borrowers
- Lead contribution to ESRB report on preventing NPL problems

EU action plan (July 2017)

Supervision

- Clarify **supervisory powers** as regards bank provisioning policies (**completed**)
- Consider **prudential provisioning backstops** for new NPLs (**completed – CRR amendment in April 2019**)
- Implement **guidance on NPLs for LSIs** and for non-SSM member states (**final EBA GL published in Oct 2018**)
- EBA Guidelines on **loan origination and monitoring** (**expected in Q2 2020**)

Macroprudential solutions

- Develop approaches to **prevent the future emergence of system-wide NPL problems** (**ESRB report in January 2019**)
- Develop a **blueprint for national AMCs**, consistent with EU legal framework (State aid rules, BRRD) (**published in March 2018**)

Secondary markets

- Issue **disclosure requirements** on asset quality (**EBA proposal**)
- **Strengthen the data infrastructure** with uniform and standardised data templates for NPLs (**published in Dec 2017**)
- Consider the setting-up of **NPL transaction platforms** (**COM SWD published on 28 Nov 2018**)
- **Remove impediments to the transfer of NPLs** by banks to non-banks and simplify the licensing requirements for third-party loan servicers (**new directive in trilogue stage**)

Insolvency frameworks

- Publish the results of the **benchmarking** exercise on the efficiency of **national loan enforcement regimes**
- Consider to carry out dedicated **peer reviews of national insolvency regimes**
- Analyse the possibility of **enhancing the protection of secured creditors** (**COM proposal**)