



EUROPEAN CENTRAL BANK

EUROSYSTEM

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

Asian Development
Bank – ECB Workshop
on NPL resolution

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Maciej Grodzicki
DG Macprudential 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

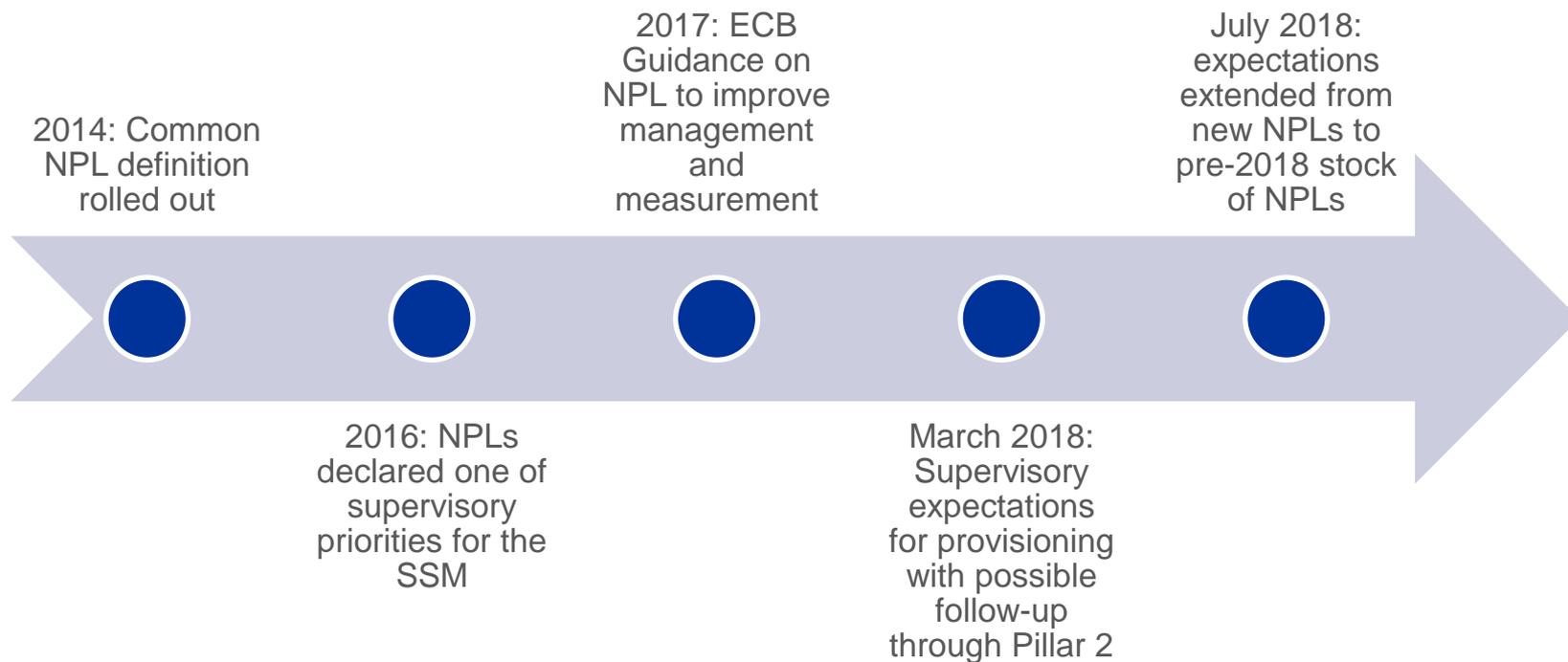
Context: financial assistance to governments

- 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**)