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5. European initiatives on NPLs

There are several ongoing European initiatives on tackling the high level of non-performing loans (NPLs) in Europe. One of them is the Council's conclusions in an action plan for NPLs, which identifies future work-streams, their deadlines and the European authorities in charge of them. Current policy options focus on three areas:

1. Enhanced supervision

The EBA has worked towards a common EU definition of NPLs, and the ECB has published a "Guidance to banks on tackling non-performing loans", which is applicable to all significant institutions under the Single Supervisory Mechanism (SSM).

The Council action plan invites the European Commission to interpret existing supervisory powers as regards banks' provisioning policies (to ensure immediate action if necessary) and to consider introducing prudential backstops to new loans in the ongoing review of the CRR/CRD IV (possibly deductions from own funds).

Additionally, the ESRB has been mandated by the Council to develop macroprudential approaches to prevent system-wide NPL problems by the end of 2018.

2. Loan enforcement

In 2016 the Commission proposed a directive on insolvency frameworks aiming to facilitate debt restructuring and to give potential buyers of NPLs better information on insolvency outcomes (average recovery values, timing and cost of proceeding, etc.). Both the Parliament and the Council have started their work on this proposal. In particular, the Council action plan invites the European Commission to publish the results of the benchmarking exercise on national loan enforcement, and Member States to consider carrying out peer-reviews on insolvency regimes in the EU.

In July 2017 the Commission launched a public consultation that considers the introduction of an 'accelerated loan security', which is a swift, out-of-court power procedure that would entitle the bank to acquire ownership of firms' encumbered assets with a view to selling them off.

3. Development of secondary markets for NPLs

Direct sales of impaired assets to an outside investor can be a quick way to reduce the NPL stock. However, currently the bid-ask spread in the market is wide and trading volume is low.

The aforementioned ongoing Commission consultation includes initiatives on this issue, aiming at fostering the transfer of loans, the functioning of third party servicers and removing other constraints.

In this regard, on January 2017, the EBA presented its proposal for an EU-wide asset management company (AMC or "bad bank"). Some of the arguments raised against this alternative are: the heterogeneity of national assets and procedures, the short-term costs for banks, and the mutualisation of risks that it would entail. More recently, the idea of a single European AMC seems to have been discarded and the Council action plan invites the European Commission to develop a blueprint for national AMCs by the end of 2017.

Transparency could foster the development of the market. In the Council action plan the EBA, ECB and European Commission are invited to propose initiatives on this issue, including the setting-up of centralised NPL data platforms to make access to such information easier, provide a single point of contact for potential investors and facilitate the packaging of assets from different banks.

NPL securitisation and sale may additionally be an appropriate tool to remove more granular SME loans or unsecured loans (credit cards, consumer loans) from bank balance sheets.

One of the main obstacles for a secondary market are the high transaction costs, which include taxes (like stamp duty) and register costs. In the short term, bringing down such costs could incentivise banks to participate in secondary markets.

In any case, the introduction of a single European regulatory framework or the homogenisation of rules among Member States (or even across regions in one country) will be crucial to eliminating regulatory uncertainty.

DISCLAIMER

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