Public consultation on the draft addendum to the ECB Guidance on non-performing loans. Response from the Ministry of Finance of the Netherlands.

The Netherlands supports the fact that the ECB is taking a proactive approach to NPLs. First and foremost, banks themselves are responsible for (re)structuring their business models, preventing the build-up of NPLs and resolving them where necessary. Nevertheless, supervisors can influence banks' policy for prudential purposes. We therefore welcome the fact that addressing asset quality issues is one of the key priorities of ECB banking supervision.

The FSC Subgroup Report took note of the fact that the ECB's guidance addresses the main aspects regarding strategy, governance and operations. These elements are important for banks to successfully resolve NPLs. To this end, the guidance provides recommendations and best practices that constitute supervisory expectations going forward. And even though guidance is a non-binding instrument, banks should explain and substantiate any deviations. As was also stated in the FSC Subgroup Report, the ECB's next step in relation to its guidance was to gradually put a stronger focus on the timeliness of provisions and write-offs. The Report also found that international experience showed that strict limits to NPL provisioning and more explicit provisions on NPL write-offs can be a strong tool to avoid NPL build-up and extend-and-pretend strategies.[1]

The Netherlands supports the fact that the ECB stresses the need for timely provisioning and write-off practices for NPLs. We welcome quantitative supervisory expectations concerning the minimum levels of prudential provisions. The addendum itself is non-binding, but if provisions are insufficient, it makes sense that banks should at least be able to explain why. In any case, the ECB can apply specific capital adjustments when necessary. The fact that you have communicated clear expectations towards banks is very welcome. The European Commission still has to put forward similar backstops within the ongoing review of the capital requirements framework. This could further solidify timely provisioning and write-off practices. Going forward, it will in any case be beneficial to apply strict timelines, in line with international practices.

[1] http://data.consilium.europa.eu/doc/document/ST-9854-2017-INIT/en/pdf