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Maria Elisabetta ALBERTI CASELLATI
President of the
Senato della Repubblica
Piazza Madama, 1
IT – 00186 ROMA

Dear President,

The Commission would like to thank the Senato della Repubblica for its Opinion on the Proposal for a Regulation of the European Parliament and of the Council on amending Regulation (EU) No 575/2013 as regards minimum loss coverage for non-performing exposures {COM(2018) 134 final}.

This proposal forms part of a broader package aimed at addressing the risks related to high levels of non-performing exposures (NPEs) in the EU. With this package, the Commission delivered on the Council's Action Plan to tackle non-performing loans in Europe[1]. The Commission's Communication on completing the Banking Union of 11 October 2017[2] also called for a comprehensive package of measures to address NPEs.

The proposal aims at creating appropriate incentives for banks to address NPEs at an early stage and therefore prevent their accumulation on banks' balance sheets in the future. This, in turn, would reduce financial stability risks and would ensure that stable, less pro-cyclical financing is available to households and businesses.

The Commission takes note of the observations of the Senato della Repubblica on the proposal. Most of them have already been addressed in the final text agreed by the co-legislators which is currently in the process of formal adoption (please see the attached annex for more details).

The Commission fully supports the efforts of the Italian authorities and banks to tackle the risks associated with non-performing exposures and believes that the agreed text will underpin these efforts and help reinforce the Italian and European banking sectors.

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[1] https://www.consilium.europa.eu/en/press/press-releases/2017/07/11/banking-action-plan-non-performing-loans/

[2] COM(2017)592 final, http://ec.europa.eu/transparency/regdoc/rep/1/2017/EN/COM-2017-592-F1-EN-MAIN-PART-1.PDF

The Commission looks forward to continuing the political dialogue in the future.

Yours faithfully,

Frans Timmermans *First Vice-President*	*Valdis Dombrovskis* *Vice-President*

<u>Annex</u>

The Commission has carefully considered the observations raised by the Senato della Repubblica in its Resolution and would like to make the following comments, in light of the text agreed by the co-legislators.

The agreed text fully addresses the observations related to the following topics:

- *the moment after which new exposures should be subject to the coverage requirement;*
- *the treatment of uncommitted and undrawn credit facilities;*
- *the reference to "the deterioration of the financial situation" in the context of forbearance measures;*
- *the extension of the timeline for unsecured non-performing exposures (NPEs);*
- *the treatment of the amounts written-off by the institution; and*
- *the separate calculation of insufficient coverage for each NPE.*

As far as the issue of NPEs acquired by a bank is concerned, the final text agreed by the co-legislators provides for a special regime that would equate the coverage requirement for the seller and for the buyer of NPEs. This aims at avoiding unintended negative impacts on the secondary market for NPEs. Furthermore, given that the agreed text amends Regulation (EU) No 575/2013 and that this Regulation only applies to institutions (i.e. credit institutions and investment firms), NPEs purchased by a specialised entity that is not an institution would not be subject to the coverage requirement.

As regards the interactions between the agreed coverage requirement and the supervisory measures that may be adopted by competent authorities, including the European Central Bank (ECB), under the so-called "Pillar 2" of the prudential framework, they are complementary to one another. The agreed text provides for a harmonised minimum requirement applicable to all institutions in the EU, thus increasing consistency and harmonisation of own funds requirements in the internal market. Compared to the Commission's proposal, the agreed text increases the number of years in which only accounting provisions are required, in line with the ECB's guidance.

As regards the maximum coverage requirement for secured NPEs, the agreed text requires full coverage at the end of a set period. The reason is that if an NPE has not been successfully addressed after that period, the credit protection should not be seen as effective anymore. Compared to the Commission's proposal, the agreed text extends the time period after which full coverage is required for NPEs secured by immovable property, in order to ensure that institutions have sufficient time to enforce the collateral, if needed.