Andrea ENRIA
Chair of the Supervisory Board

COURTESY TRANSLATION

Mr Georgios Kyrtsos
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 14 April 2020

Re: Your letter (QZ-010)

Honourable Member of the European Parliament, dear Mr Kyrtsos,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 13 March 2020.

The ECB fully agrees that the current situation requires decisive action to ensure that banks can continue to fulfil their role in financing the real economy as the economic effects of the coronavirus (COVID-19) become apparent. On 12 March 2020[1], ECB Banking Supervision announced a number of temporary capital, liquidity and operational relief measures to ensure that significant institutions are able to continue to support the real economy. In our press release[2] and FAQ document[3] published on 20 March 2020, we provided further details on the implementation of the capital and operational relief measures and announced further flexibility granted to banks in reaction to the coronavirus crisis.

To complement the case-by-case flexibility embedded in the ECB Guidance on non-performing loans (NPLs)[4] and in the corresponding Addendum[5], the ECB has introduced additional elements of supervisory flexibility for the treatment of NPLs. First, within their remit, supervisors will exercise flexibility regarding the classification of debtors as unlikely-to-pay when banks call on public guarantees. The ECB has also extended flexibility to include the unlikely-to-pay classification of exposures covered by legally imposed payment moratoria related to COVID-19, with regard to the timing and scope of the assessment, taking into account all available support measures. Second, loans which become non-performing and are covered by

[1] https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200312~43351ac3ac.en.html

[2] https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200320~4cdbbcf466.en.html

[3] https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200320_FAQs~a4ac38e3ef.en.html

[4] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/guidance_on_npl.en.pdf

[5] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.npl_addendum_201803.en.pdf

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public guarantees will benefit from preferential prudential treatment, in terms of supervisory expectations regarding loss provisioning. Lastly, supervisors will deploy full flexibility when discussing with banks the implementation of NPL reduction strategies on a case-by-case basis, taking into account the extraordinary nature of current market conditions.

In exercising this flexibility, it is important for the ECB, in its role as prudential supervisor, to find the right balance between helping banks absorb the impact of the current downturn and maintaining the correct risk identification practices and risk management incentives. It remains crucial in times of distress to continue identifying and reporting any deterioration in asset quality and the build-up of NPLs, in accordance with the existing rules. This is necessary to maintain a clear and accurate picture of risks in the banking sector.

As regards capital relief, banks will benefit from relief in terms of the composition of capital for Pillar 2 requirements. Furthermore, banks are allowed to operate temporarily below the level of capital defined by the Pillar 2 guidance and the capital conservation buffer. Banks are expected to use the positive effects resulting from these measures to support the economy. In this regard, on 27 March 2020 ECB Banking Supervision published a recommendation to banks to postpone dividend payments for the 2019 and 2020 financial years until at least 1 October 2020.[6] Banks should also refrain from share buy-backs aimed at remunerating shareholders.

We will continue to closely monitor developments and their implications for the banking sector in close contact with national, European and international authorities, as well as with the banks we supervise. As this is a rapidly evolving situation, we stand ready to use the flexibility available within our supervisory toolkit to take further action. This means that we may reassess our course of action, taking into account potential second-round effects.

Yours sincerely,

[signed]

Andrea Enria

[6] https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200327~d4d8f81a53.en.html