
Press release

AFME: Commission's revised action plan for non-performing loans from Covid-19 disappoints

16th December 2020

Following today's publication of the European Commission's renewed action plan for non-performing loans (NPLs) in the aftermath of Covid 19, Michael Lever, AFME's Managing Director, Prudential, said:

"The Commission's NPL action plan launched today is an unambitious review of its 2017 proposals. It doesn't take into consideration that today we are facing a NPL crisis caused by an exceptional economic downturn resulting from the Covid-19 pandemic.

"While we welcome a renewed commitment to finalising the secondary markets directive and agree on the benefits from a more harmonised insolvency framework, neither of these things will be sufficient to address the post Covid-19 build-up of NPLs.

"We have also noted the Commission's proposals on asset management companies as a means to facilitate a reduction in NPLs. While asset management companies may have a role to play in managing homogeneous portfolios of non-performing loans, we believe that in most cases banks are more likely to maximise returns from their NPLs by retaining management control of these assets, while at the same time remaining connected to their impacted clients.

"Only specific measures to help banks better manage NPLs, such as an improved NPL securitisation framework, will be able to move the needle in this area. Although the changes in the securitisation capital markets recovery package agreed earlier this month provide some improvements on the current treatment of NPL securitisation, they fall short on delivering a framework that fully caters for European needs and specificities.

"We are also calling on the Commission to re-examine the Pillar 1 backstop that came into force last year to ensure is fit for purpose. Elsewhere, restructuring by dedicated internal bank workout units can provide a particularly effective tool for NPL management, especially for more heterogeneous portfolios. The Commission should also revisit the adjustment of LGDs for massive disposals of NPLs which only runs until June 2022 – clearly the length of this derogation needs to reflect the impact arising from the current circumstances."

– Ends –

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Notes:

1. Link to AFME position paper on [NPLs in the aftermath of Covid-19](#).
2. AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu.
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