



Commission de Surveillance  
du Secteur Financier

## Circular CSSF 20/751

CIRCULAR 20/751 ON THE  
ADOPTION OF THE  
GUIDELINES OF THE  
EUROPEAN BANKING  
AUTHORITY ON MANAGEMENT  
OF NON-PERFORMING AND  
FORBORNE EXPOSURES  
(EBA/GL/2018/06),  
DISCLOSURE OF NON-  
PERFORMING AND FORBORNE  
EXPOSURES  
(EBA/GL/2018/10)

## Circular 20/751

**Re:** Application of the Guidelines of the European Banking Authority on management of non-performing and forborne exposures (EBA/GL/2018/06) and on disclosure of non-performing and forborne exposures (EBA/GL/2018/10).

Luxembourg, 25 September  
2020

Ladies and Gentlemen,

**To all credit institutions  
and to Luxembourg  
branches of credit  
institutions having their  
registered office in a third  
country**

The purpose of this circular is to draw your attention to the following two guidelines of the European Banking Authority (EBA), namely EBA/GL/2018/06 on the management of non-performing and forborne exposures and EBA/GL/2018/10 on the disclosure of non-performing and forborne exposures. The CSSF, as competent authority, has integrated those guidelines into its administrative practice and regulatory approach with a view to promote supervisory convergence in this field at European level and hence expects supervised entities<sup>1</sup> to duly comply with the Guidelines as explained below.

Over the past decades, the level of non-performing loans (NPL) and forborne exposures remained very contained in Luxembourg, notwithstanding a higher level in the European Union, especially in some jurisdictions. In the context of the COVID-19 pandemic that may have a structural effect on the economic activity of borrowers, the CSSF expects credit institutions to endorse and apply the sound and robust credit risk management and consumer protection standards laid down in the said EBA guidelines in a manner proportionate with their exposure towards non-performing and forborne exposures. These guidelines complement the provisions of article 9(3) of CSSF Regulation 15-02 that requires credit institutions to use effective systems for identifying and managing problematic credits and for making adequate value adjustments and provisions.

<sup>1</sup> "Significant supervised entities" as defined in Article 2, point 16 of Regulation (EU) No 468/2014 of the European Central Bank (ECB) of 16 April 2014 (SSM Framework Regulation) shall refer to the relevant ECB rules.

## **1. Scope of application and proportionality**

1. The Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06) apply to credit institutions on an individual, sub-consolidated and consolidated basis as well as Luxembourg branches of credit institutions having their registered office in a third country.

2. The risk management strategies, internal governance and operational arrangements with respect to the management of non-performing and forborne exposures shall be appropriate as regards the size and the internal organisation of the credit institution and the nature, scope and complexity of its problematic assets.

3. For the Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10), a set of templates (1, 3, 4 and 9) is applicable to credit institutions that are already subject to all or some of the disclosure requirements specified in Part Eight of the CRR in accordance with Articles 6, 10 and 13 of the CRR<sup>2</sup>. Credit institutions designated as systemically important pursuant to Article 59-3(5) of the Law of 5 April 1993 on the financial sector and having a gross NPL ratio of 5%<sup>3</sup> or above are required to apply the additional templates (2, 5, 6, 7, 8 and 10).

## **2. General content and objectives of the Guidelines**

4. The Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06) outline a wide range of sound governance and operational arrangements which are expected to be implemented in a proportionate and effective way, especially in order to:

- Detect and manage the deterioration of credit quality:

Policies and processes should allow to assess borrowers' financial difficulties and identify, in a timely fashion, non performing exposures, as being past due in accordance with Commission Delegated Regulation (EU) 2018/171 in conjunction with articles 13 and 14 of CSSF Regulation No 18-03 and section 4 of the Guidelines on the application of the definition of default (EBA/GL/2016/07), or unlikely to pay in accordance with section 5 of the Guidelines on the application of the definition of default (EBA/GL/2016/07).

<sup>2</sup> Regulation (EU) No 575/2013 of the European Parliament and of the council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

<sup>3</sup> For the purpose of this calculation, loans and advances classified as held for sale, cash balances at central banks and other demand deposits are to be excluded both from the denominator and from the numerator.

It is also the expectation of the CSSF that credit institutions monitor all the triggers set out in CRR Article 47a in order to determine the entry to and exit from the non-performing status.

- Identify, grant and monitor forborne<sup>4</sup> loans, with a focus on the viability of forbearance measures:

For the purpose of implementing forbearance measures, signs of possible future financial difficulties should be identified at an early stage. Any forbearance measures should be granted after an assessment of the borrower's repayment capacity and only when they aim to restore sustainable repayment by the borrower. The efficiency and effectiveness of forbearance measures should also be closely monitored.

- Apply sufficient and timely impairment and write-offs:

Sound policies, procedures and controls should enable to assess and measure loss allowances and write-off on non performing exposures for expected credit losses in accordance with the circular CSSF 17/675 and applicable accounting standards.

- Assess and review the valuation of collateral:

Governance arrangements, procedures (including on methodology and frequency), and controls on the valuation of the property collateral are expected to be aligned with the risk appetite. The update of the valuation of immovable property collateral at the time the exposure is classified as non-performing, and the annual update required when the exposure continues to be classified as such, should be performed by an independent and qualified appraiser, internal or external, who possesses the necessary qualifications, ability and experience to execute a valuation. However, indexed valuations may be used to update the valuation of immovable property used as collateral for non-performing loans of less than EUR 300,000 in gross value.

<sup>4</sup> as stated in Annex V to Commission Implementing Regulation (EU) No 680/2014

5. Credit institutions with material exposure to NPL shall apply chapters 4 (“NPE strategy”) and 5 (“NPE governance and operations”) of EBA/GL/2018/06. This applies at least to credit institutions where the gross NPL ratio is at 5%<sup>5</sup> or above. Such institutions shall establish an **NPL strategy** that sets realistic and ambitious targets with the objective to manage and reduce NPLs, implement governance arrangements and an operational framework to achieve their NPL strategy.

6. The Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10) specify uniform disclosure formats to provide key information to stakeholders on the quality of credit institutions’ assets, on their risk profiles, on the distribution and the criteria of the problematic assets and on the features of the collateral backing those assets, with the aim of fostering transparency and comparability.

### **3. Date of application**

The circular is of direct application.

The Guidelines are available on the EBA website under:

<https://eba.europa.eu/regulation-and-policy/credit-risk/guidelines-on-management-of-non-performing-and-forborne-exposures>

<https://eba.europa.eu/-/eba-publishes-final-guidelines-on-disclosure-of-non-performing-and-forborne-exposures>

Yours faithfully,

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**Jean-Pierre FABER**

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**Françoise KAUTHEN**

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Director General

<sup>5</sup> For the purpose of this calculation, loans and advances classified as held for sale, cash balances at central banks and other demand deposits are to be excluded both from the denominator and from the numerator.



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