

Opening Statement

I thank the Chairman and members of the Committee for the invitation to attend today. Today I am joined by my colleagues Brian Corr, Brian Fee, Timmy Hennessy and Eric Gargan.

As the Committee will be aware the EU Commission published a package of proposals in March to address Non-Performing Loans, or NPLs. This followed on the agreement by Ecofin Ministers in July 2017 of an Action Plan to tackle NPLs in Europe. This plan called on various actors, including the Commission, to take appropriate measures to address the challenge of high NPL ratios in Europe.

As with any complex proposal, detailed analysis is required to understand the implications for Ireland and to inform our advice on Ireland's approach to these proposals. Work is under way within the Department and the Central Bank on this. The proposals are likely to change shape during the months of negotiation that are ahead. We will engage constructively with that process, as we always do.

Briefly in terms of the proposals under consideration by the Committee today, the Commission has now put forward a package to accelerate the resolution of NPLs and prevent their renewed build-up in future including a proposal for a regulation amending the capital requirements regulation and a proposal for a directive on credit servicers, credit purchasers and the recovery of collateral.

The proposals follow from the Council conclusions the legislative processes are at an early stage with only one working group meeting so far. The proposals are being prioritised with the European Commission seeking completion before the end of the current Commission in 2019 if possible, particularly in relation to the regulation on minimum loss coverage. The proposals also interact with other proposals in relation to risk reduction as part of the completion of Banking Union which were agreed by the Ecofin Council on Friday last week.

I will summarise the proposals and briefly outline our preliminary views on each of three aspects in the two legislative proposals briefly.

Firstly the proposal for a regulation amending the capital requirements regulation would introduce common minimum coverage levels and require banks to put aside sufficient funds when new loans become non-performing. The proposals are designed to ensure that in future there isn't an excessive build-up of NPLs without sufficient loss coverage on banks' balance sheets.

Existing accounting rules and supervisory powers currently ensure that bank supervisors have several tools at their disposal to address NPLs in individual banks. The existing regulations currently require banks to set aside capital to address NPLs. This new regulation aims to complement this existing prudential framework and ensure consistency across the EU by introducing a common definition for NPLs and introducing a common minimum backstop coverage level for newly originated loans that become non-performing.

The proposal will apply to new lending only and is designed to ensure that banks set aside sufficient resources when new loans become non-performing.

It is likely that in the course of negotiation that there will be debate about a number of elements of the proposal. For example, this regulation as drafted would require banks to provision NPLs for loans issued after mid March 2018 up to 100% of a secured exposure after eight years and an unsecured exposure (including the unsecured element of a secured exposure) after two years – though there are some allowances against this.

It is the Commission's assessment that banks will move to address NPLs more efficiently, subject to appropriate safeguards for borrowers. This is because, should the regulation be implemented in the manner proposed, it could increase the cost of holding NPLs over an eight year time horizon and could entail banks amending their NPL reduction strategies, possibly by way of restructuring, implementing collateral enforcement and/or earlier loan sales.

This in turn leads us to the directive on credit servicing, credit purchasers and recovery of collateral which can be broken down in to two core elements, credit servicing and recovery of collateral.

The Directive is intended to contribute to the development of secondary markets for NPLs by removing undue impediments to loan servicing by third parties and to the transfer of loans to loan purchasers, while fully respecting existing civil law and Member States' consumer protection rules.

The proposal sets common standards to ensure proper conduct by and supervision of credit servicers, while allowing more competition by harmonising market access rules. The Directive provides that credit servicers authorised in a Member State can provide their services across the EU provided they are in compliance with the Directive.

The proposal has limited rules for credit purchasers including that they have to employ an EU regulated credit servicer, have an EU based representative (if non-EU) and notify regulators of enforcement action. The proposal, if

implemented, would not allow any Member States to impose additional rules on credit purchasers.

The proposal in relation to Recovery of Collateral is intended to increase the efficiency of debt recovery procedures through the availability of a distinct common voluntary accelerated extrajudicial collateral enforcement procedure (AECE), a tool to recover money from secured loans to business borrowers, out of court. This extra-judicial procedure would be accessible only when agreed upon in advance by both lender and borrower. It will not be applicable for consumer loans or in respect of secured credit agreements concluded between creditors and business borrowers which are secured by the primary residence of a business borrower. The proposal is designed so as to not affect preventive restructuring or insolvency proceedings and not to change the hierarchy of creditors in insolvency. We understand that the Irish legislative framework in this area is well functioning and as a result our priority is to ensure that the current framework isn't negatively impacted.

Taken together these legislative proposals comprise the core actions for the European Commission from the Council Conclusions of July 2017. The proposals will have limited impact in the short-term and in relation to the current stock of NPLs but are intended to positively impact the resolution of NPLs in the future.

We would be happy to take questions on the two legislative proposals.