

Communication dated 29 March 2016 on new bad loan reporting

The market conditions in which banks presently operate have made better management of non-performing loans a priority. It is accordingly more important than ever to have detailed information on non-performing exposures (particularly bad loans), the guarantees that back them, and the status of credit recovery procedures. These data are also key to supervisory activities, given the need to encourage intermediaries to improve the management of non-performing loans and to verify progress.

On the other hand, there is a shortage of electronically processed data, particularly on the exposures managed by legal offices. This is one of the factors hindering the rapid development of a non-performing loan market in Italy. Indeed, the difficulties involved in providing potential buyers with adequate and reliable information imply lengthy negotiations, which in turn can determine significant discounts on the sale price of these assets.

To meet these needs and fill this information gap, the Bank of Italy has introduced a specific statistical survey on bad loans, in order to gather detailed information on these exposures, the collateral backing them or other guarantees mitigating their credit risk and the status of credit recovery procedures.

As shown in the attached reporting scheme, the survey contains 3 sets of information:

- Individual credit facility: this includes all the relevant information at the individual credit facility level, such as the vintage, duration, number and type of guarantees securing the credit line.
- Type of collateral: this includes all the relevant information on each type of collateral securing each credit facility, such as its classification, location, last appraisal, methodology (i.e. reference to comparable market transactions or appraisal models), date of last appraisal, grade of privilege (i.e. first lien or higher), and the status of credit recovery procedures;
- Personal guarantees: this includes all the relevant information on each guarantee securing the credit facility, such as the type of guarantor (i.e. bank, credit consortia, natural person), its rating, classification (non-performing or performing) and the guaranteed amount.

To encourage synergies and to reduce reporting burdens for intermediaries, the reporting has been structured in a way that takes account of the options agreed so far in the AnaCredit project, which is being designed by the European Central Bank. Once in place, the survey could either be eliminated or merged with AnaCredit.

Again, in keeping with the objective of reducing reporting burdens for intermediaries, reporting is restricted to gross bad loans (including partial write-offs), for amounts greater than €100,000 at the reporting date and with counterparties resident in Italy.

Initially the information will be submitted on an annual basis, referring to data at 31 December 2015 and 31 December 2016; starting from June 2017, the reporting frequency will be half-yearly. Reporting entities will be parent companies of banking groups based in Italy, comprising all banking and financial institutions belonging to the same group, as well as stand-alone banks.

Considering that the new reporting will be very detailed, the first submission, which will refer to data at 31 December 2015, only includes bad loans towards non-financial institutions¹ and should be sent according to the following timeframe:

- 25 September 2016: deadline for transmission of the data on debt positions for at least 50% of the gross book value (GBV), or on the largest 500 debt positions, towards non-financial institutions.
- 25 December 2016: deadline for transmission of the data on debt positions for at least 70% of the GBV, or the largest 5,000 debt positions, in both cases towards non-financial institutions.

Starting with the reporting referring to 31 December 2016, all the data on gross bad loans towards counterparties resident in Italy for amounts exceeding €100,000 (at the reporting date) shall be transmitted. Data at 31 December shall be transmitted by the following 25 April; those referring to 30 June, by 25 October.

The information requested shall be transmitted according to the instructions in the present document and in the attachment. Information shall be transmitted to the Bank of Italy through the INFOSTAT platform, in accordance with the attached operational-technical manual (templates and code system).

¹ Both non-financial companies, (including sub-groups 430, 432, 450, from 475 to 477, from 480 to 482, and from 490 to 492) and private producers (sub-groups 614 and 615), as per Bank of Italy Circular No. 140 of 11 February 1991, containing instructions for client classification in sectors and economic activities (only in Italian).