

Press Release

BY THE COMMUNICATIONS DIRECTORATE

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The ECB launches a public consultation on supervisory coverage expectations for non-performing exposures held by less significant institutions

The European Central Bank (ECB) has launched a public consultation on a draft Guideline addressed to national competent authorities (NCAs) for a harmonized supervisory approach to the coverage of non-performing exposures (NPEs) held by less significant institutions (LSIs) for the exposures that were originated before 26 April 2019.¹

While NPE stocks held by euro-area LSIs have significantly declined over the past few years, there continue to be some aggregate differences with significant institutions (SIs) in terms of their NPL ratio and coverage of these assets. This initiative can help reduce NPE-related risks, especially those arising from legacy NPEs, thereby making LSIs more resilient to potential adverse developments in the macroeconomic environment.

Developed in close collaboration with NCAs, the ECB's draft Guideline sets out supervisory expectations for LSIs that broadly follow those that have been applied to NPEs at SIs since 2018,² while allowing for some flexibility. In fact, as specified in the Frequently Asked Questions (FAQs) document,³ the draft Guideline will allow NCAs to annually determine which LSIs fall within its scope based on specific risk criteria and on other circumstances deemed relevant. The NCAs will then assess the degree to which the expectations have been met on a case-by-case basis, considering the specificities of each individual LSI and the information submitted as part of the supervisory dialogue.

The supervisory expectations will have no direct accounting implications for the banks concerned; any differences with respect to the banks' actual NPE coverage ratios will be assessed by the NCAs as part of the process for setting the Pillar 2 requirements, avoiding any overlaps with other measures.

The new approach will be phased-in gradually, based on the situation as at 31 December 2025, allowing NCAs to disregard any deviation from the expectations in the first year and to apply the supervisory approach in full from 31 December 2028.

Banca d'Italia will initiate a dialogue with the supervised LSIs with regard to the implementation of the draft Guideline; in this respect, any specific circumstances that are relevant for the application of the supervisory expectations will be taken into due account to avoid unwarranted distortive effects and undue burden.

¹ https://www.bankingsupervision.europa.eu/framework/legal-framework/public-consultations/html/npe_lsis.en.html

² <https://www.bankingsupervision.europa.eu/press/pr/date/2018/html/ssm.pr180711.en.html>

³ https://www.bankingsupervision.europa.eu/press/other-publications/publications/html/ssm.faq_lsi_npe_coverage~329f18210f.en.html

For more details, see the ECB's Supervision Blog.⁴

⁴ <https://www.bankingsupervision.europa.eu/press/blog/2025/html/ssm.blog20250915~0e6c685736.en.html>