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Credit risk

## SOURCE

European Central Bank

## ECB Consults on Managing Legacy NPEs in Less Significant Institutions

- On 15 September 2025, the ECB launched a public consultation on a **draft Guideline aimed at harmonising the supervisory approach to non-performing exposures (NPEs) held by less significant institutions (LSIs)** across the euro area. **The consultation period runs until 27 October 2025**, after which the ECB will publish received feedback alongside the finalised Guideline and a feedback statement. The ECB anticipates that **the approach's impact on LSIs will be manageable**, based on a detailed impact assessment.
- LSIs**, which are smaller banks supervised by national competent authorities (NCAs), **continue to experience elevated NPE levels** compared to their larger counterparts — significant institutions (SIs) — despite overall reductions in NPE ratios across the banking sector. Legacy NPEs, particularly those originated before 26 April 2019 and not subject to Capital Requirements Regulation (CRR) deductions, pose a risk to financial stability and constrain lending capacity.
- The draft Guideline**, developed in collaboration with NCAs, **establishes supervisory expectations for the coverage of legacy NPEs**. While setting a harmonised framework, it allows NCAs to retain supervisory discretion within the Pillar 2 framework, tailoring implementation to the specific risks and contexts of each LSI. Importantly, NCAs will annually determine the scope of application, adopting a risk-based, non-distortive approach.
- This framework draws from the ECB's successful 2018 approach applied to SIs**, adapting it for the LSI context. It includes phased implementation from 31 December 2025 to 31 December 2028, aiming to minimise adverse impacts. A concise reporting template, aligned with existing COREP requirements, will support supervisory monitoring without imposing excessive burdens.

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