

The European Central Bank Consults on Guidelines for Managing Legacy Non-Performing Exposures

October 2, 2025



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The European Central Bank (**ECB**) has issued a consultation on draft [guidelines on the supervisory approach by national competent authorities to coverage of non-performing exposures held by less significant supervised entities](#), along with associated [FAQs](#) (together, the **Guidelines**).

The non-performing exposures (**NPEs**) involved are largely legacy NPEs held by less significant supervised entities (**LSIs**) (ie, banks not subject to direct supervision by the ECB itself), originated prior to 26 April 2019 and falling outside the deduction requirement applicable to NPEs under the Capital Requirements Regulation (**CRR**) that came into force for NPEs originated after that date. These legacy NPEs clearly represent long-term sources of potential future losses as well as restrictions on lending bandwidth. The Guidelines are therefore intended to introduce an additional element of resilience to shore-up against potentially adverse macroeconomic events and associated credit deterioration by aligning deductions for in-scope legacy NPEs with Pillar I requirements. However, unlike CRR requirements (which apply automatically), European regulators will assess this coverage on a case-by-case, individualised basis and repeat this exercise annually.

In order to conduct this assessment, the Guidelines specify the approach individual European regulators should take to obtain detailed data on the coverage of these exposures – this data is to be provided in a standardised template format. Important exceptions to exposures in scope of this exercise include the underlying exposures of traditional or synthetic securitisations, provided that the LSI has achieved either significant risk transfer or followed the full deduction approach.

While comments on the Guidelines are due by 27 October 2025, the resulting common approach to managing LSI NPEs will be phased in between 31 December 2025 and 31 December 2028.