

## Press Release

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### Publication EBI Working Paper Series No. 74

EBI is pleased to announce the contribution of *Ioannis Linaritis*, PhD, in the **EBI Working Paper Series No. 74**. His paper entitled "**Asset Protection-State Guarantee Schemes in Systemic European Non-Performing Loans Securitisations: Contractual Structure, State Aid and Bank Corporate Law Issues**" was published on 2<sup>nd</sup> November 2020.

The author states that in the prolonged battle against European non-performing loans (NPLs) and systemic risk, Authorities have ultimately devised - and made available to the affected credit institutions - an additional resolution tool. Securitisation schemes, backed by a limited State guarantee, only for the senior tranche part under detailed conditions, have been legislated almost identically in Italy and Greece. Those "Asset Protection Schemes" are viewed as laboratory cases for a model co-investment (private-public) strategy, with the ambition to transform the EU banking environment and correct national NPL markets failures. The Article, originating from the distinctive implications of impaired loan portfolios' securitisations, focuses on the contractual architecture of the Schemes and the roles of major contracting parties. Funding of the portfolio acquisition is discussed from both legal and financial perspectives, revealing the important differences of securities tranches, their economic function and appeal to investors. Designated State involvement is depicted with emphasis on the legal nature and conditions of the offered "first-demand" guarantee, including its relevant remuneration. From the EU state-aid perspective, Schemes are assessed as aid-free measures, consistent with potential private operators' commercial activity under normal market conditions. Such a conclusion is drawn after appraisal of model securitisation's voluntary nature, risk allocation structure, a model-based approach for the calculation of State guarantee fee, and additional mechanisms to control and mitigate State's risk.

Further, implementation of Schemes is advocated, on the condition that bank executives and board members comply with detailed organizational and procedural requirements of EU banking regulation, to ensure prudent risk management and financial stability. Competence of the Board and pursuit of corporate best interests are being challenged in cases of largest NPL securitisations, involving substantial bank assets which may provoke ample one-off accounting losses or even risk-weighted capital depletion. Sound business judgment is associated with an objective evaluation of existing NPL resolution alternative options, careful measurement of medium-to-long-term benefits of the cornerstone securitisation transaction along with its imminent consequences, risks, and inherently limited accessibility of the State guarantee regime. Due fulfilment of bank directors and executives' obligations extends to the application of a coherent methodology in the preparation, structuring and execution of securitisations. They should apply a transparent and efficient investor-selection procedure and employ internal resources and specialist financial and legal advisors to obtain expert advice on best calibration of securitisation particulars, fair and reasonable terms of the transaction, and to maximize total divestment proceeds. Legal agreements and related capital implications should be carefully and timely consulted with the Authorities, to ensure securitisation significant risk transfer recognition and avoid its potential adverse unwinding. Overall, transaction losses must prove proportionate to the deleverage benefits for the credit institution itself and the enhancement of financial stability. In those respects, the Article contributes to the evaluation of such newly established EU public policy measure for NPL resolution, particularly from the involved bank corporate and market participants' perspective, along with its technical roadmap for due implementation.

Read the entire paper here: <https://ssrn.com/abstract=3723606> or <http://dx.doi.org/10.2139/ssrn.3723606>.

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