Ταμείο Χρηματοπιστωτικής Σταθερότητας

Hellenic Financial Stability Fund

"Updated Analysis of Non - Regulatory Constraints & Impediments for the development of an NPL market in Greece"

September 2016

Contents

1. Introduction 3

2. Methodology 4

3. Executive Summary 4

4. Identification of Non – Regulatory Impediments 11

A. Legal & Judicial 11

B. Tax & Accounting 29

C. Administrative 33

D. Other Issues 36

1. Introduction

The succeeding analysis constitutes an update of the initial effort to identify major non-regulatory constraints and impediments to the development of a dynamic NPL market in Greece, as per the requirements of the Supplemental Memorandum of Understanding (MoU) signed on 16/06/2016. As laid out in the supplemental MoU; by end of June 2016, the HFSF, in cooperation with BoG, will propose concrete actions regarding all remaining non-regulatory impediments to the development of a dynamic NPL market, based on an update of the study delivered in October 2015. The Authorities will assess and address the findings of the updated study and the concrete actions proposed by HFSF by end of 2016.

As a background note, this update, is a follow up, of the study delivered as per the provisions of the MoU signed on 19/8/2015, between the European Commission (acting on behalf of the ESM), the Hellenic Republic and the Bank of Greece, according to which, under section 3 "Safeguarding financial stability"; the Hellenic Financial Stability Fund (HFSF) in cooperation with the Bank of Greece (BoG), would provide an analysis to identify non-regulatory constraints and impediments (e.g. administrative, economic, legal) to the development of a dynamic NPL market and for NPL resolution. This study was effectively completed and presented to the Authorities, in October 2015.

Therefore, the purpose of this report is to provide an update of the remaining impediments that should be addressed in order to foster the development of a dynamic NPL market and the debt overhang problem, both from the demand and supply sides of the market; with a view to establish a level playing field for all NPLs, irrespective of current ownership status. This analysis has benefited from comments and proposals received by the market participants (see section 2).

Any impediments that have been identified in the following analysis represent, to the best of HFSF knowledge, the current framework and specifically what has been legislated up to 30/6/2016, without taken into consideration any initiatives that are currently under way. Since HFSF's and BoG have not participated in all relevant discussions and the legislative process regarding the agreed judicial and legal reforms, it is our understanding that potentially a number of matters raised herein may already have been addressed and agreed by the Greek Government and the Institutions at the time of the analysis' publication.

This report is organised as follows:, **Section 2** describes the methodology used for the identitification of the obstacles to the development of a dynamic NPL market, **Section 3** summarises the major non-regulatory impediments in an executive summary and **Section 4** provides a detailed description of the non-regulatory obstacles to the development of the specific market and proposals, where applicable, to deal with specific issues.

2. Methodology

In order to deliver this updated study, HFSF has:

(a) leveraged on the initial study of HFSF (October 2015); engaged in more than 25 meetings with numerous market participants during September to mid October 2015 (including independent specialist advisors for NPL management, collection companies, institutional investors, private equity funds, servicer companies, credit workout specialists, credit risk service providers, legal firms, Bank of Greece, Hellenic Banking Association and the four systemic banks. Feedback had been provided by diverse entities, with the aim to encompass different views from both the "demand" and "supply" sides of the market and form a comprehensive view, to the extent possible, on the non-regulatory limitations that are restrictive to the development of a dynamic NPL market.

(b) utilised interviews' outcome and insights shared during the implementation of HFSF's study on Large Corporates' NPL resolution action plan, which was also an MoU requirement.

(c) collaborated closely with BoG

(d) employed as an advisor, Potamitis Vekris Law Firm.

3. Executive Summary

The following analysis, attempts to identify constraints for the development of a dynamic NPL market which would, to some extent, relieve the Banks' debt collection burden and collateral foreclosure, by boosting the recovery values of bad loans and leveraging external financing and expertise. Facilitating debt restructuring and equity conversion could also inject significant capital into the corporate sector and promote economic growth. Ultimately, such a market could generate a virtuous circle, where progress in cleaning banks' balance sheets and restructuring distressed borrowers strengthens confidence, improves bank profitability, and frees up resources to support new lending, fostering economic recovery. The NPL issue is a multi-faceted, multi-disciplinary problem, involving among others a number of legal, judicial, cultural and other non-regulatory impediments (tax, administrative etc.) that need to be addressed. Deficiencies in the legal framework and underdeveloped market are the most severe obstacles.

A. Even though the Greek authorities have already legislated or initiated a number of **legal and judicial** reforms within 2015 and 2016, the Greek institutional framework still faces some structural difficulties. The most important ones could be summarized as follows:

1. The lack of specialized and experienced judges to deal with NPLs.
2. The weaknesses in the legal framework have led to long backlog and delays. The volume of cases (new or accumulated) contribute to major delays in the hearing process, while procedural rules delay the enforcement process; insolvency advisors usually have limited

experience in debt restructuring. The provision of L.4336/14.08.2015, to increase the number of Peace Court judges is a step in the right direction.

3. Moreover, the weak and inflexible insolvency regime, the inadequate institutional legal framework, as well as the inefficient auction structure, result in substantial delays in enforcement and/or merely no enforcement action. More specifically:

    a. **Law 3869/2010:** The recent amendments (L.4346/2015) appear to have set the basis for much improved efficiency in the enforcement process. The following though, remain impediments that need to be revisited, so that law may provide a safety net to vulnerable debtors who are in need of a debt relief, whilst reducing opportunities to strategic defaulters, to delay and/or avoid the fulfillment of their obligations:
        1. The Law provides for automatic suspension of all enforcement actions, by the mere filling of an application; such a suspension remains in effect until the hearing of a provisional order application, which may take place even a year after the original filing (which is usually the case).
        2. Stand still orders are issued liberally.
        3. Exemptions from liquidation occasionally include assets beyond protected prime residence.
        4. It is costly and time-consuming to declare a debtor in default of its obligations under the legal protection scheme (it requires a new decision by the competent court).
        5. The law provides that secured creditors' rights on the primary residence up to a certain value can be overridden by the judge at the time of the hearing on the substance and otherwise the debt liability can be reduced (no floor is provided for such reductions). Decisions occasionally exempt from liquidation assets of the debtor that are not protected under the statute (such as secondary homes, or primary residences that are of a value greater than that protected under the statute).
    b. **Law 4307/2014:** enacted on 15/11/2014, introduced a new set of extraordinary temporary measures for the relief of debts owned by business undertakings and professional to finance providers, the Greek state and social security funds. The first part of the statute introduced an out-of-court workout procedure that has not been implemented. Accordingly, debtors and creditors still lack a practical out-of-court mechanism for the efficient resolution of outstanding debt. Such a scheme would require incentives (tax related among others), a global approach to debt settlement (including both private and public debt) and a streamlined negotiation process led by the creditor that has the best knowledge of the debtor. Court involvement, if any, must be kept to a minimum and only for cases of flagrant violation of legal

requirements. We have been made aware of a policy document produced by the Ministry of Economy, Infrastructure and Tourism that outlines proposed legislation to address the needs of debt relief of small and micro enterprises and professionals. The proposed procedure has many similarities with the pre-insolvency expedited procedure of law 4307/2014 (itself a streamlined rehabilitation proceeding having many similarities to the article 106b proceeding under the Bankruptcy Code). It purports to facilitate negotiations by the intervention of a certified mediator, the standardization of valuation and viability tests and involve the ratification of a plan approved by a qualified majority of all creditors following a court hearing. Given the generality of the proposal (currently only in draft form) it is difficult to assess whether it would qualify as an efficient OCW procedure.

c. **Code of Civil Procedure (CCP):** The recent amendment of the **Code of Civil Procedure** appears to have set the basis for much improved efficiency in the enforcement of security rights. Some impediments though still exist and could be summarized to the following:
    1. CCP still permits the filing of an application to vacate after the asset has been attached or foreclosed for the purpose of being put on forced sale (an article 933 application), raising potential issues to the executory title.
    2. CCP lacks incentives for out-of-court settlement. Homogenization and cost reduction with regards to the enforcement procedures is needed.
    3. Given the distressed state of the local markets and the large volume of NPLs, it may be questioned whether in the immediate future asset auctions are likely to provide secured creditors with adequate returns.

d. **Bankruptcy Code:** There have been recently positive steps in rendering the pre-bankruptcy proceedings more efficient, but there is still room for improvement. More specifically:
    1. Creditors cannot verify whether the property disclosed by a bankrupt debtor, applying under the provisions of Law 3869/2010 or under the Bankruptcy Code, represents the total property that the bankrupt debtor possesses. The inability to verify the bankrupt debtors' property is a legal obstacle which encourages strategic defaulters.
    2. While there have been attempts recently to facilitate discharge, proceedings need to be further streamlined to ensure discharge within the 3 year deadline recommended by the European Commission.
    3. The duration of the liquidation procedure may last up to ten years (and often longer), resulting in a number of adverse

consequences, such as the dissipation of estate assets, low recovery by the creditors and excessive burdens on the judicial system.

4. Although the Bankruptcy Code regulates commercial insolvency and Law 3869/2010 consumer insolvency, there are common underlying principles and objectives (both for restructuring and for liquidation procedures) which should be aligned and preferably integrated.

e. <u>Other Legal impediments</u>

1. Whenever the participation in a distressed company's share capital (in case of a non-ratified restructuring), is the result of a debt-to-equity swap, the third party's obligation to proceed to a public offering should not apply.
2. Conversion of debt into equity can be imposed on unwilling shareholders only if they demure and upon application by a party that has a lawful interest in the outcome, the court finds that such failure to vote in favor is abusive. The court is enabled by article 106c of the Bankruptcy Code to appoint a special representative of the uncooperative shareholder to vote in its stead. While this provision is in line with other recent attempts in Europe to facilitate debt equity conversions and address the shareholder hold-out problem, there is no reported application of the provision and it would appear to be unwieldy in practice.
3. Codification of laws. There are various laws and regulations for the protection of the debtors, such as Law 3869/2010, Law 3758/2007, Law 2251/1994, Law 4307/2014 and BoG's Code of Conduct, which are neither codified, nor aligned creating various implementation issues. This alignment/codification will potentially enhance regulatory /legal consistency, reduce compliance cost and limit opportunities to strategic defaulters to exploit the system.

B. NPL transfer and servicing is now regulated on the basis of new enactments:

1. Law 4354 was adopted at the end of November 2015 and included provisions (in articles 1, 2 and 3) relating to the transfer and servicing of NPLs. (as amended, the "NPL Law"). The provisions have since been amended by law 4389/2016 (Government Gazette Issue No. A 94/27.05.2016).
2. The NPL Law provides for the kind of entities that may acquire loan portfolios from credit institutions, the tax treatment of such transfers and certain provisions to facilitate such transfers (ability to bypass contractual restrictions to transfer and provision that notice may be provided by any suitable means). Such loan portfolios may include both performing and non-performing loans. Transferees are also required, as a condition of being permitted to receive the transferred portfolios, to

have entered into an agreement with a licensed servicing entity (more analysis on the topic, is provided below). Moreover, the NPL Law expressly disclaims any limitation of the scope of law 3156/2003 (the "Securitisation Law").

3. The NPL Law also addresses issues relating to the servicing of NPLs. Servicers must hold a license issued by the Bank of Greece. Prospective servicers must be either a Greek joint stock company or a European Economic Space entity, of a legal type that is acceptable for credit institutions or investment intermediaries (this lacks clarity, the relevant European enactments do not specify any such legal type), which also have an establishment in Greece, for the purpose of servicing loans. They are required to have a minimum share capital and to satisfy certain minimum organizational requirements.

B1. Regarding the **transfer and assignment of loans,** the following obstacles must be considered:

1. The Securitisation Law provided for an efficient system for loan portfolio transfers for the purpose of securitisation. Under that statute, loan portfolios being transferred could include both performing and non-performing loans. The Securitisation Law would therefore appear to provide an efficient and expeditious means for transferring NPLs.
2. However, a later statute, Law 3758/2009 (the "Notification Company Law") included a provision that generally prohibits the assignment of overdue debts for collection to debtor notification companies or any third parties. The latest relevant enactment, the NPL Law, permits such transfers to the extent that they are in accordance with its provisions. The NPL Law also specifies that it does not affect the force and effect of the Securitisation Law which provides for certainty and efficiency to the transfer of loan receivables. The combined effect of the above provisions appears to be that the transfer of pools including NPLs may only be done pursuant to the NPL Law and not the Securitisation Law (even though the Securitisation Law still applies as to the transfer of other loan pools for the purpose of securitizing those receivables). Accordingly, it would be appropriate to compare the provisions of the two laws and identify differences and the policy underpinning for same.
3. The NPL Law, similarly to the Securitisation Law, provides for an override of contractual prohibitions to transfer, as well as for the registration of the transfer in a public book. Unlike the Securitisation Law which deems such registration as notice to the debtor, the NPL Law still requires notice by any suitable means.
4. Moreover, the Securitisation Law exempts the transfer from all taxes. By contrast the NPL Law subjects the transfer to the VAT Code. It is arguable, but far from certain, that such transfers may be subject to a VAT exemption. Given the significance of the economics of the transfer of the imposition or not of VAT taxation (or any kind of tax, as for example stamp duty), it would appear best to opt for the express exemption of the transaction for any form of taxation, as per the Securitisation Law.

5. Moreover, the Securitisation Law provides that the transferee entity enjoys all enforcement privileges of the transferor. This provision is not repeated in the NPL Law.

B2. There are also constraints identified in the area of NPLs' servicing:

The NPL Law has created a regulatory framework for the licensing of NPL servicers. This reflects progress as it addresses a previous regulatory gap. However, the current provisions are far from perfect. The following comments address areas that may still require further consideration.

1. Unlike the Securitisation Law there is no express exemption from data privacy rules for the transfer of files to servicers; there is, however, an override of secrecy obligations as between the transferor and the servicer. In conjunction, this may be seen as requiring the transferor to maintain control of the transferred files as to confidential client information.
2. The NPL Law requires the servicer to collect for the account of the transferee the law 128/1975 levy on the balance of the loan portfolio acquired by such transferee. In practice, credit institutions are not subject to such levy for NPL balances; however, that exemption is not expressly provided for transferees under the NPL Law (and, as a matter of interpretation, there may be some uncertainty as to the application of such exemption in the absence of an express exempting provision). As the payment of the levy in the case of NPLs is unlikely to be recovered from the debtor, at least in its entirety, it would seem essential to have an express exemption from such levy for NPL balances in order to avoid burdening the NPL buyers with additional tax burdens.
3. Servicers are deemed by the NPL Law to be suppliers of the debtors, for the purpose of application of consumer protection laws, and are required to comply with the Code of Conduct and with rules applicable to institutional lenders, as well as to take special care of socially sensitive groups. The definition of servicers as suppliers for the purposes of application of consumer protection laws seems awkward and is likely to create uncertainty as to their obligations and constraints (e.g. in certain cases of disputes between servicers and debtors there may be a reversal of the burden of proof in favor of the debtors). Similarly, the requirement that servicers take special care of socially sensitive groups (apparently over and above what is required in the Code of Conduct, compliance with which is a separate obligation) may create significant legal uncertainty as to the scope and extent of such obligations. It is therefore recommended that both the socially sensitive groups and the required actions be clearly defined and specified.
4. The NPL Law specifically subjects NPL servicers to the provisions of the Notification Company Law. A recent amendment makes specific reference to provisions 4, 5, 6a and 6b, 8 and 10 of the Notification Company Law. That cross referencing may be seen as creating legal uncertainty or as inappropriate, given the very different scope of servicers and notification call-centers (and as to whether all of the provisions of that law or just the enumerated ones are to apply, in the absence of inconsistencies with the NPL Law provisions). In particular, article 4 of the Notification Company Law

imposes restrictions on communications between the call-center and the debtor but also prohibits any actions in enforcement of the serviced claims and limits the scope of communications to the provision of information on the debtor's obligations under the serviced claims. It would seem appropriate for applicable requirements to be expressly stated in the NPL Law, in lieu of the current cross-referencing.

C. From a **Tax and Accounting** perspective, the most important constraints could be summarized to the following:

1. A series of revisions of the Greek tax framework have created an environment of uncertainty.
2. Real property taxation that is based on "objective" values that may exceed the current market value, may discourage potential buyers both under a voluntary and forced sale.

3. Active NPL management and advanced forbearance measures (i.e. loan forgiveness, portfolio disposals, etc.) given the current tax framework may have a significant adverse impact on the banks' P&Ls and regulatory capitals, which could act as a real impediment in the NPL resolution process.
   Both the write-offs and NPL disposals accelerate the recognition of credit losses for tax purposes, which has a dual negative effect:
   a) It increases banks' already substantial tax losses. Such tax losses can be carried forward (to be offset against taxable income) for only up to 5 years. This essentially means that, if a bank proceeds with significant write-offs or disposals in the short to medium term, the tax benefit for the already accumulated provisions will be probably lost with a direct P&L impact (i.e. impairment of the respective DTA), and

   b) even if the expected taxable income for the next 5 years was enough to absorb the tax losses from such write-offs or disposals, the bank that would proceed with such actions would essentially "replace" eligible DTA (i.e. DTC on credit losses) with non-eligible DTA (on tax losses) which has a significantly reduced regulatory capital value.

   To mitigate the above, it is proposed that the loss triggered from loan write-offs (accounting and contractual) and disposals is treated similarly to the loss incurred from PSI+, i.e. by being gradually amortized in the tax books over a period of say, [30] years, instead of being immediately crystallized as a tax loss in the year of the write-off/disposal. This can be facilitated through a minor amendment of article 27 of L.4172/2013 (i.e. Tax Losses Carried Forward).

D. Finally**, some administrative & other obstacles have been identified,** as follows:

1. Real estate is extensively used as collateral for lending purposes. However, the ineffective property registration contributes in delay of the sales process in foreclosures. Also, the lack of transparency in the market renders it very difficult to objectively value the real estate.
2. From the banks' perspective, the lack of records of creditworthiness or information registers to assess tax or social security obligations of borrowers increases the effect of asymmetric information between borrowers and lenders and the effect of adverse

selection and moral hazard. On the other hand, the completeness and/or the accuracy of loan and borrower information is still a major obstacle as it creates uncertainty regarding valuations and widens bid–ask spreads rendering potential NPL transactions difficult to materialize.

Identification of Non – Regulatory Impediments

A. Legal & Judicial

A1. Judicial

No	Description of Issue	Proposed Resolution Action
1.	▪ There is a lack of specialized and experienced judges in dealing with NPLs, leading to long backlogs and delays.	▪ Enhancing the education process of judges with the purpose of enhancing their knowledge and familiarity with insolvency matters.
2.	The volume of cases contributes to major delays in the hearing process, while procedural rules delay the enforcement process, especially as per Law 3869/2010. The recent amendments of L.4346/2015) appear to have set the basis for much improved efficiency in the enforcement process, however their implementation still remain a challenge.	▪ In order to accelerate the trial of pending cases under the provisions of Law 3869/2010 the following could be examined: • Categorize & group pending cases. • Establish special Chambers in Peace Court. ▪ Provisions of L. 4346/2015, to hire Peace Court judges are a step in the right direction.. ▪ Another possible intervention could be to appoint Independent Administrator by court to accelerate the process (e.g., pre-approval of solutions to then follow a “fast-track” court process) by resolving conflicts between stakeholders (e.g., between private and other creditors) and ensuring “fairness” of imposed solution (e.g., pre-approval of creditors’ plan in case of no shareholder consent) with remuneration incentives related to the speed and quality of the restructuring of assessed cases.

No	Description of Issue	Proposed Resolution Action
3.	▪ The insolvency implementation regime is inflexible and lacks an out-of-court mechanism for restructuring.	▪ Increasing incentives for out-of-court settlements, in order to avoid costly and time-consuming recourse to the judicial system. ▪ Examine potential benefits as provided by the INSOL[1] Principles.

A2. Legal

No	Description of Issue	Proposed Resolution Action
<u>Weakness in the Legal Framework</u>		
1.	**<u>Law 3869/2010 (further modified by law No. 3996/2011, Law No. 4019/2011, Law No. 4161/2013 and Law No 4346/2015,)</u>**, which provides for relief to over-indebted individuals has produced material unintended consequences in respect to the ability of creditors, including secured creditors, to enforce their rights. The recent amendments of law (4336/2015) appear to have set the basis for much improved efficiency in the enforcement process. The following though, remain impediments:	
1.1	▪ The law provides for an automatic suspension of all enforcements actions by the mere filing of an application. Such automatic suspension remains in effect until the hearing of a provisional order application that frequently takes place nearly one year after the original filing, even after the recent law modification. ▪ Stand still orders are issued liberally In addition, courts provide generous provisional terms for the service of debt liabilities at a fraction of the agreed terms. ▪ The hearing on the substance is set at a long interval from the hearing of the provisional order, even as late as 15 years later. Courts also tend to be liberal in adjourning hearings to a	▪ It is evident that the creation of a market in NPLs (as well as the preservation of a payment culture and the tackling of strategic defaulters) depends on addressing the effects of Law 3869/2010. That would seem to require two different initiatives, (a) to address the backlog of cases, and (b) to amend the Law so as to avoid such issues arising in the future. ▪ Addressing the backlog of cases via an amendment of the current law presents difficult procedural and constitutional challenges. Provisions recently adopted may improve the situation. Such provisions require, in particular, resubmission of up-to-date information in support of pending application, the rescheduling of hearings set more than 3 years after

[1] International Association of Restructuring, Insolvency & Bankruptcy Professionals is a world-wide federation of national associations of accountants and lawyers who specialize in turnaround and insolvency.

No	Description of Issue	Proposed Resolution Action
	later date. The upshot of this is an effective rescheduling of the debt without any review of the substance or the evidence. ▪ The law provides that secured creditors' rights on the primary residence up to a certain value can be overridden by the judge at the time of the hearing on the substance and otherwise the debt liability can be reduced (no floor is provided for such reductions). Decisions occasionally exempt from liquidation assets of the debtor that are not protected under the statute (such as secondary homes, or primary residences that are of a value greater than that protected under the statute). ▪ The pendency of an application is also accepted by courts as cause for the adjournment of hearings on applications to vacate ex parte executory titles; often such hearings are adjourned to a date later than the Law's hearing. This results in effect in the inability of the creditor to enforce its claim. ▪ The Law does not include a clear Framework regarding Asset Liquidation, but does provide for the appointment of a liquidator where assets are to be liquidated and the analogous application of the relevant provisions of the Bankruptcy Code.	the recent amendment . However, what is needed in the medium-term, is to increase the capacity of courts (indeed as per provisions of L. 4336/2015, number of Peace Court judges will increase) and to provide judges with detailed guidance as to how to handle such cases, both procedurally and on the factual aspects. Some guidance is already provided in the recent amendment (e.g. on living expenses) and further assistance to judges on how to balance the interests of debtors and creditors in reducing the debt burden or in rescheduling obligations would be very helpful. ▪ It may also be appropriate to amend the provision providing automatic relief and require the issuance of an order providing the applicant with temporary standstill protection. ▪ Moreover, it is not at all clear that a court hearing is the appropriate procedure to address the volume of potential applications. ▪ One possible solution, at least regarding new applications, could be to require all debtors that seek relief to submit to mediation, organized under a specific platform; the mediator would be responsible either to document a settlement reached or to present the position of the two parties in the event of a failed settlement (including information of the financial condition, property and liabilities of the debtor). That file would then be submitted to a court of competent jurisdiction and the judge, on the basis of the documents submitted, could issue a decision on discounts, rescheduling of payments and/or other measures. This is not intended as a reinstatement of the mediation stage, the statute originally anticipated, but

No	Description of Issue	Proposed Resolution Action
		an organized mediation process that will elicit the positions of the parties and either lead to an agreement or allow the judge to easily assess the respective positions and come to a quick resolution. The mediation is therefore a facilitator of the judicial process even if the negotiations at the mediation stage fail to reach an agreement. ▪ A longer term solution would be to broaden the scope of the Bankruptcy Code to cover all insolvent entities, including individuals who are not merchants, as well as other non- profit entities which are currently excluded. This combined with an improvement of insolvency liquidation under that Code and the emergence of an insolvency profession may provide better and less disruptive means of protection of over-indebted households than Law 3869/2010.
1.2	It is costly and time-consuming to declare a debtor in default of its obligations under a court imposed scheme (it requires a new decision by the competent court) and therefore, there are inadequate incentives for compliance with the law.	Provide for debtor's disqualification from the protection, without a relevant court decision, in case the debtor has not complied with the aforementioned decision for a period exceeding three months; the debtor would not be deprived of judicial projections as he would still be entitled to challenge the disqualification before a court of competent jurisdiction.

No	Description of Issue	Proposed Resolution Action
1.3	▪ The law also provides that an applicant whose request was dismissed may re-apply after an interval of one year. Given the slow pace of enforcement proceedings (and the ability of debtors to move, to suspend, or vacate executor titles), the interval seems inadequate and may lead to a vicious circle of repeated applications leaving little to no room to creditors to enforce their rights. ▪ In addition, a common procedural abuse is the waiving of an application and the submission of a new one, for the purpose of extending the automatic protection from enforcement.	A debtor who voluntarily waives an application or whose application was dismissed should be precluded from a submitting a new one, even after the one year interval, unless he can invoke a significant change in circumstances; cases of errors in the application should be addressed through a motion to correct that allows the proceeding to continue as opposed to a waiver and the submission of a new application.
1.4	▪ Debtor's application suspends the accrual of interest for the non-secured obligations which seems inappropriate given that the trigger is the unilateral action of the debtor; it is also unfair given the length of the proceeding and the cost incurred by the creditor	Interest should continue to be accrued on all loans. However, it may be appropriate to set a low interest rate for such cases, so as to avoid the imposition of excessive burdens on debtors.
1.5	The debtor is not obliged to prove his compliance with the terms of the temporary order at the hearing of his application.	Compliance with the temporary order must be proved by the applicant as a pre-requisite for acceptance of his application.
2.	**Law 4307/2014** enacted on 15/11/2014 introduced a new set of extraordinary temporary measures for the relief of debts owned by business undertakings and professional to finance providers, the Greek state and social security funds. However, the part that introduces an out-of court workout has not been applied in practice. We have been made aware of a policy document produced by the Ministry of Economy, Infrastructure and Tourism that outlines proposed legislation to address the needs of debt relief of small and micro enterprises and professionals. The proposed procedure has many similarities with the pre-insolvency expedited procedure of law 4307/2014 (itself a streamlined rehabilitation proceeding having many similarities to the article 106b proceeding under the Bankruptcy Code). It purports to facilitate negotiations by the intervention of a certified mediator, the standardization of valuation and viability tests and involve the ratification of a plan	

No	Description of Issue	Proposed Resolution Action
	approved by a qualified majority of all creditors following a court hearing. Given the generality of the proposal (currently only in draft form) it is difficult to assess whether it would qualify as an efficient OCW procedure.	
2.1	Given the volume of NPLs owed by micro and small enterprises, an efficient out-of-court workout (OCW) procedure is of critical importance for the resolution of the NPL problem.	Legislation is needed to introduce incentives for OCW; to facilitate a global settlement of debt (including both private, especially bank, and public – tax and social security – debt and to limit court intervention to the review of manifest violation of legal requirements. One critical element could be to identify significant creditors (secured creditors, tax or social security organization) whose write-off of debt would automatically cause proportional write-off of other creditors. The universe of creditors to be affected by such write-offs would also need to be identified.
2.2	The proposed amendments regarding the procedures for breaches of settlements, the possibility for a credit institution to reject a settlement or a write-off, the calculation of the State's obligations when acting as a guarantor haven't been adopted yet.	Consider the adoption of the amendments proposed by the Hellenic Bank Association in the Articles 61(4), 61(6), 64(7) and 68 (1) of the Law, either as part of an amendment of the existing law or within a new enactment.
2.3	Creditors that have not co-signed the settlement agreement, but whose claims have been limited by it, can seek redress before the courts against the debtor (and consenting creditors) within two months following publication of the decision that sanctioned the settlement, to the extent that they have recovered less that would have done under the liquidation. This right is awarded to non-consenting creditors, if their claims have been limited more than what they expected to reclaim in the cases listed in detail in that same article.	▪ The law must be amended to provide the consenting creditors and the debtor applying for the ratification of an agreement to elect between: a. Ratification without the application of the "no creditor worse off test", in which case the dissenting creditors will have the right to sue for the deficiencies by comparison to their recovery in a bankruptcy liquidation or b. Non – ratification in the event that at least one dissenting creditor proves that the "no creditors worse off test" is not satisfied as to its claims.

No	Description of Issue	Proposed Resolution Action
		▪ This could also be addressed through an alignment of the prerequisites and incentives under the special liquidation proceeding of the Bankruptcy Code and the special administration proceeding under law 4307/2014.
2.4	The placement of an enterprise in special administration may not be used as a reason for the termination of pending contracts. These creditors who have outstanding credit lines available to the debtor at a disadvantage vis-à-vis other creditors who are able to terminate the agreements and verify their claims.	▪ The phrase "pending contracts" should be defined in terms of contract categories and time limits. ▪ Distinguish pending contracts that may not be terminated (i.e. those with essential suppliers) and all other agreements to which the prohibition does not apply.
2.5	The debtor's "general and permanent inability to meet his obligations", as a precondition for the debtor's placement in special administration is not clear.	The specific clause should be defined in detail or deleted. Creditors carry the burden of proof as regarding the debtor's inability to meet his/her obligations and the Law's vague phrasing makes it very difficult for the creditor to meet such burden of proof. It would be helpful to provide the courts with a general quantificational test, introducing a balance sheet in addition to the cash flow test, and consider that the precondition is satisfied if either of those tests is satisfied. Another possible improvement would be to introduce a minimum percentage of unsatisfied liabilities and/or a minimum duration for failure to meet due and payable obligations at least as to that minimum percentage.

No	Description of Issue	Proposed Resolution Action
2.6	It is not clear whether debts guaranteed by the Hellenic Fund for Entrepreneurship & Development (HFED-ETEAN) are eligible for inclusion under the scope of the Law.	The Law could be amended to incorporate ETEAN guarantees as eligible.
Inadequate Enforcement of Legal Framework		
The recent amendment of the **Code of Civil Procedure (CCP)** appears to have set the basis for much improved efficiency in the enforcement of security rights. The new Law has imposed limits on statutory preferences and has provided greater visibility on the percentage of recovery of secured creditors (65% of the proceeds for a secured creditor holding a first ranking security). Another critical improvement is the facilitation of credit bidding through the combination of : (a) requiring that creditors announce their claims at least 5 days prior to auction and (b) that payment of the bid amount may be effectively set off against receipt of the proceeds to which the bidder will be entitled to. The new Law also leaves little room to the debtor to dispute the enforcement. Some impediments though still exist and could be summarized to the following:		
1.	▪ The amended law still permits the filing of an application to vacate after the asset has been attached or foreclosed for the purpose of being put on forced sale raising issues related to the executory title.	It seems advisable to restrict (article 933) application to matters relating to the foreclosure and not the executory title; it would also seem highly advisable to exclude arguments based on abusive exercise of the creditor's rights as forming part of the challenge to the title and not the process of foreclosure, except perhaps on the basis of lack of proportionality (an asset of very material value being put into a forced sale for a de minimis claim) and only if the statute (or subordinate legislation) were to provide specific guidelines for the application of that rule (e.g. the value of the claim being less than 5% of the "objective" value of the asset, or, where such values are not available, the fair market value as assessed by an independent expert).

No	Description of Issue	Proposed Resolution Action
2.	The statute still lacks incentives for out-of-court settlement.	Possible improvement in that respect would be for the court to grant a suspension of the forced sale for a period of time permitting negotiations between the parties (e.g. 3-6 months) against the payment by the debtor to the creditor of a percentage (e.g. 15%) of the claim. However, that option should not be made available to a debtor if has previously received a similar suspension against partial payment of payment order.
3.	Given the distressed state of the local markets and the large volume of NPLs, it may be questioned whether in the immediate future asset auctions are likely to provide secured creditors with adequate returns.	▪ The CCP now includes the possibility of credit bidding; given the limited available liquidity, this may facilitate creditor participation in auctions; ways to further facilitate credit bidding by banks should be considered (especially as to the satisfaction of higher ranking general preferences – e.g. payment by the bank by means other than cash) and appropriate provisions should be adopted. ▪ It may also be appropriate to consider alternative ways for realization of security. Since the auction system currently in place lacks sufficient transparency, the implementation of a new system for forced sales (in particular e-auctions which are now permitted under the revised CCP) appears necessary in the medium term. It is noted that the Code of Civil Procedures anticipates the introduction of e-auctions, but they have not yet been implemented.

No	Description of Issue	Proposed Resolution Action
4.	The Law needs homogenization and cost reduction with regards to the enforcement procedures.	▪ Transparent and simple determination of the fees given to individuals engaged in the enforcement procedure (notaries, bailiffs, land registrar), such as: discontinuation of charges which are of a subjective nature (e.g. according to the number of sheets or copies), homogenization across the country and reduction of registration costs in the land registries (e.g. foreclosures, mortgages); we understand that such changes are currently under consideration by the competent Ministry. ▪ Amendment of the Law provisions so as, during the enforcement proceedings, to replace the service of documents with their publication in an appropriate website (in the same website to which the auctions will be published).
5.	Enhancement of the legal framework in terms of effectiveness and time frame.	▪ Simplification of the adjudication procedure following a lawsuit against a person with unknown residence, with a reduction of the number and the minimum amount of time between notifications, in order to achieve time and cost reduction (e.g. reduction of procedural requirement, publication via electronic means). ▪ Ensuring legitimacy in the process of parallel foreclosure proceedings, in order to avoid legal conflicts after the performance of auctions. ▪ Amendment of the relevant provisions, in order to ensure that trials of pending cases relating to past auctions will be finalized within one year from the date that the law entered into force (cancelation of or

No	Description of Issue	Proposed Resolution Action
		fast forward adjudication of pending opposition proceedings as regards to the ranking of creditors' claims). ▪ Provide a transparent procedure for the performance of auctions electronically. ▪ Reduce taxation on property acquisitions through auctions, so as to strengthen the effectiveness of auctions by enhancing bidding interest.
Transfer of Loan Portfolios		
1.	The NPL Law, as amended and currently in effect, provides a framework for the transfer of loan portfolios, including NPLs. The use of the Securitisation Law seems to be excluded where the transfer involves NPLs.	The procedural and tax treatment of the two laws is not fully aligned; however, there does not appear to be any policy basis for such differentiation. Accordingly, where more favorable, Securitisation Law's provisions should be substituted for the respective provisions of the NPL Law; alternatively, the prohibition of NPL assignment in the Debtor Notification Law should be abolished (at least it should not apply to transfers under the Securitisation Law).
2.	The transfer of loan requires notice to the individual debtor which is both costly and time consuming and may be prohibited under the terms of the loan agreement without the debtor's consent.	The NPL Law provides that notice may be provided by any suitable means; this is less efficient than the comparable provision of the Securitisation Law which deems the registration of the transfer as notice. It is recommended that the same be adopted for the purposes of the NPL Law. However, if additional notice means are needed, they should be specified in the law so as to ensure legal certainty and ability to estimate additional costs.
3.	While the NPL Law clarifies that the transfer is subject to VAT, it does not specify that it exempt from VAT under the relevant rules and does not specify that it is not also subject to stamp duty (which is assessed on assignment of claims).	Explore the possibility of exemption of the transfer from all tax, similarly to the provisions of the Securitisation Law.

No	Description of Issue	Proposed Resolution Action
4.	A transfer of NPLs: ▪ may expose the transferor's management or competent committee to liability for breach of fiduciary duty if consideration is deemed inadequate, ▪ the transfer of the benefit of certain securities may not be automatic, e.g. further assignment of state subsidies that may depend on consent by the competent state authority.	▪ The law needs to provide protection for transferor management, which could be some type of authorized valuation for the transfer price. ▪ It should also expressly provide that all related security, guarantee and other similar agreements for the benefit of the lender operate for the benefit of the transferee, subject only to any registration requirements as may apply for such security or other arrangements.
5.	It is unclear whether the transferee shall be liable for law 128/1975 levy on the NPL balance held by it.	Given the significant potential economic impact of this levy, an express exemption should be introduced into the NPL Law.
Servicing of Transferred Loans Portfolios		
1.	There is no express exemption from data privacy rules for the transfer of files to servicers.	Adopt the general exemption from data privacy rules as per the Securitisation Law.
2.	The definition of servicers as suppliers for the purposes of application of consumer protection laws seems awkward and likely to create uncertainty as to their obligations and constraints (e.g. in certain cases of disputes between services and debtors there may be a reversal of the burden of proof in favor of the debtors).	Either expressly exempt services from the application of consumer protection laws or provide specifically which obligations for the protection of debtors (other than as provided in the Code of Conduct) are imposed on servicers.
3.	Servicers are required to take special care of socially sensitive groups; this creates significant uncertainty as to who is protected and what protections are required and the possibility of abusive reliance on the part of debtors in order to avoid performance of their obligations.	The statute needs to identity the protected groups and the special treatment to which they are entitled; such protection may not frustrate the reasonable expectations of the claim holders without adversely impacting the prospects for an NPL market.
4.	The NPL Law specifically subjects NPL servicers to the provisions of the Notification Company Law, more specifically provisions 4, 5, 6a and 6b, 8 and 10 of the Notification Company Law. That cross referencing may be	Replace the general cross-referencing with specific reference to the obligations (similar to those that call-centres have) when contacting debtors.

No	Description of Issue	Proposed Resolution Action
	seen as creating legal uncertainty or as inappropriate, given the very different scope of servicers and notification call-centers (and as to whether all of the provisions of that law or just the enumerated ones are to apply, in the absence of inconsistencies with the NPL Law provisions). In particular, article 4 of the Notification Company Law imposes restrictions on communications between the call-center and the debtor but also prohibits any actions in enforcement of the serviced claims and limits the scope of communications to the provision of information on the debtor's obligations under the serviced claims.	
5.	The NPL Law does not include an express statement that transferees (and those acting on their behalf) have the same privileges as to collection and enforcement as the transferring institutions.	Introduce a provision similar to paragraph 13 of article 10 of the Securitisation Law into the NPL Law.
General Bankruptcy Code (G.B.C)		
The Bankruptcy Code provides both for restructuring proceedings and for liquidation (either of the business as a going concern or of the assets of the debtor on an individual basis). There have been recently positive steps in rendering the pre-bankruptcy proceedings more efficient but it may seem that there are still inefficiencies. The situation may improve as qualified licensed insolvency professionals become engaged in the restructuring effort. Nevertheless, there is still a need to improve the competence and efficiency of courts and significant room for improvements of the pre-insolvency proceedings.		
1.	According to the original GBC rule (article 168) debt discharge is possible only after ten years from the declaration of bankruptcy. However, a recent amendment has provided a 3 year discharge period provided that the court finds that the insolvent person is excusable (is held to have acted in good faith and not to have intentionally caused the insolvency). There is no factual basis on which to evaluate how quickly the new provision will allow debt discharge in the way implemented.	The amendment noted opposite is in line with the EC Recommendation but cannot be given effect as a result of delays in the bankruptcy process; further amendments are need to enable timely discharge; e.g. discharge could follow automatically upon the 3 year deadline unless a claim has been filed alleging bad faith or intentional wrongdoing by the insolvent person or a court of competent jurisdiction has made such a finding and has not been reversed on appeal.

No	Description of Issue	Proposed Resolution Action
2.	The duration of the liquidation procedure described in the GBC may last up to ten years resulting in a number of inefficiencies such as the devaluation of the bankrupt estate, the encumbrance of the judicial systems with long lasting cases and the accrual of losses to creditors. A more speedy procedure is, therefore, necessary, in order to rectify these inefficiencies and to reduce the costs involved.	The length and inefficiency of liquidation proceedings necessitate a review both of the statutory provisions and of their implementation in practice; there is need to simplify, streamline and educate both courts and practitioners or insolvency proceedings and liquidation in particular.
3.	Although the Bankruptcy Code regulates commercial insolvency and Law 3869/2010 consumer insolvency, there are common underlying principles and objectives (both for restructuring and for liquidation procedures) that need alignment. Uniform application of such principles and objectives, subject to necessary variations, is desirable, such as a well-established and coherent legal environment to be created for insolvent persons, irrespective of their legal capacities. International legal practice favors compilation of corporate and consumer insolvency.	Consumer insolvency needs to be incorporated into the GBC as a special proceeding but following the same basic rules regarding the consequences of cessation of payments.
4.	There are many individuals involved in the different processes provided in GBC. Syndics, experts and mediators play a crucial role in the procedures, either the rehabilitation ones or the liquidation. The job of these people should be assumed by professional insolvency practitioners, who should have the expertise and training to deal with insolvency matters, especially with debt restructuring and rehabilitation.	The profession of the insolvency practitioner has already been established in Law 4336/2015 and will be in force from 1/10/2016[2]. The issuance of the relative Presidential Decree describing the typical qualifications of the profession must be issued the soonest possible.
5.	When a debtor applies under Law 3869/2010, or under the Bankruptcy Code, the debtor declares inability to pay. Under these circumstances the debtor should reveal all its property to its creditors. However, the creditors	▪ The inability to verify the bankrupt debtor's property is a legal obstacle which encourages strategic defaulters. As a provisional measure, an amendment could be adopted according to which the applicant

[2] Art. 13 of Law No 4378/2016

No	Description of Issue	Proposed Resolution Action
	cannot verify that the property revealed actually is the total property that the bankrupt debtor possesses.	either under Law 3869/2010 or the Bankruptcy Code, has to give his/her consent so that the respective creditors have access to all debtor's data maintained by all authorities, such as tax authorities, real estate registries, credit institutions (including access to the deposits' accounts data), in order to verify the debtor's net worth. ▪ An alternative solution could be the establishment of a Credit Bureau as an Independent Public Authority, as already anticipated in the updated MoU, to address the information gap between creditors and debtors in Greece. To bridge this gap, a credit scoring mechanism could be founded, allocating a credit evaluation by way of a score, to each debtor, while not revealing debtor's underlying information.
Other Legal		
1.	Harmonisation of laws. There are various laws and regulations for the protection of the debtors, such as Law 3869/2010, Law 3758/2007, Law 2251/1994, Law 4307/2014 and BoG's Code of Conduct, which are neither harmonised, nor aligned creating various implementation issues.	A characteristic example of the lack of alignment is that when a debtor is declared as "non-cooperative", under the Code of Conduct, he/she faces no actual consequences. All laws and regulations regarding debtors' protection should be aligned and harmonized, in order to achieve regulatory/legal consistency This unification/harmonisation will potentially enhance regulatory /legal consistency, reduce compliance cost and limit opportunities to strategic defaulters to exploit the system.
2.	Credit institutions cannot convert their claims into their debtor's equity, appoint members to the debtors' Board of Directors and effect a merger of companies within the same industry, without issuing a public offer, in case of a non - ratified restructuring. (Law 3461/2006)	Whenever the participation in a company's share capital is the result of a debt-to-equity swap, the obligations (<33%) regarding the submission of a public offer should not apply (as already applies if the swap is part of a court ratified restructuring plan).

No	Description of Issue	Proposed Resolution Action
3.	There is a need to examine the compulsory conversion of debt into equity, even without shareholder consent (or by means of deemed consent where the conversion is manifestly in the debtor's interest), as in cases of Germany & France. Such an alteration could encourage out of court settlements, preserving the continuity of distressed but viable companies' operations and support employment.	In the past, in its review of compulsory conversions based on Greek law (e.g. the Pafitis Case C-441/93), the ECJ took the firm view that Article 25 of the Second Company law Directive, pursuant to which any increase in capital must be decided on by the General Shareholders' Meeting. This precludes national legislation under which the capital of a bank constituted in the form of a public limited liability company which, as a result of its debt burden, is in exceptional circumstances may be increased by an administrative measure, without a resolution of the General Meeting. Although the Directive does not preclude the taking of execution measures intended to put an end to the company's existence and, in particular, does not preclude liquidation measures placing the company under compulsory administration with a view to safeguarding the rights of creditors, it continues to apply where ordinary reorganization measures are taken in order to ensure the survival of the company, even if those measures mean that the shareholders and the normal organs of the company are temporarily divested of their powers. This seems directly to preclude a debt-equity conversion (i.e. an increase of the company's capital) other than by means of the normal corporate procedure. Recently, however, there has been new legislation in Germany and France that provides for compulsory debt-equity conversion. In particular, the recently revised German Insolvency Act *(Insolvenzordnung)* permits a forced debt-equity-swap against existing shareholders via an insolvency plan. Prior to the recent changes, debt-equity-swaps required shareholder consent. This can now be overcome by including the shareholders as one group of stakeholders in the insolvency plan. A dissenting vote from

No	Description of Issue	Proposed Resolution Action
		this group will not be taken into consideration unless, amongst other things, they are able to show that: a) were it not for the proposed plan, they would have received some proceeds; 2) they will not receive any such proceeds if the plan is implemented; and 3) creditors are due to receive more under the plan than what they would otherwise be entitled to. Similarly, France has introduced a new law (the so-called *loi Macron*) which provides for two mechanisms to force out shareholders: (i) the forced dilution of shareholders; and (ii) the forced sale of the shares and other interests in the share capital held by opposing shareholders. The procedure applies to larger companies, with economic significance either regionally or nationally, where the shareholders have rejected the swap, which, nevertheless, appears the only viable means of preserving the continuation of the business. The law provides for two mechanisms: the appointment of a court appointed agent to vote the dissenting shareholders' shares in favor of the plan, or the forced sale of the dissenting shareholders' shares. Issues of consideration may be resolved by a court appointed expert. A similar rule exists in the GBC (article 106c) but has there are no reported applications. It would seem that a bolder move based on a carve-out from the second company law directive for the reorganization of financially troubled entities will be required to make debt-equity conversion readily available.

No	Description of Issue	Proposed Resolution Action
4.	**Liability of banks' restructuring personnel** Current legislative framework could hold all employees of a company liable in the case of causing damage to the company (irrespective of intent); for banks' employees responsible for developing a proposal, assessing or approving corporate restructuring this could potentially penalize business judgment (e.g., in the case of providing new financing to make a distressed company viable)	▪ Make the provision of **insurance coverage** by the bank compulsory for all bank employees for legal expenses that could occur during or after their tenure in the specific role (for litigations relevant to the liability from processing, assessing or approving restructuring/ underwriting cases) ▪ Introduce **legal protection from liability** for people participating in a settlement negotiation or the disposition of an asset (incl. processing, assessing or developing a proposal): In the absence of manifest fraud or abuse of power, the judgment of the person performing a function under his authority is to be immune from liability ▪ Legislated basic principles and infrastructure that need to be in place to ensure common restructuring process between banks (e.g., standstill process, common viability assessment methodology, common sector assumptions, data sharing mechanisms) ▪ A single hub could be created to facilitate NPL sales. This platform should have all the characteristics so as to: - ensure transparency of the NPL bidding process - attract a critical mass of legitimate investors - act as a repository of information regarding sales for the purpose of pricing, audit and review.
5.	**Liability of Interim Management** Interim management appointed by the creditors (incl. executive members of the Board of Directors) could have liability (civil and criminal) for the failure to pay taxes, salaries and social security contributions pending during their tenure (regardless of whether the payment become due during or prior their tenure); this curtails the ability of	Shelter interim management (that has been appointed pursuant to a plan that is filed for ratification) from liability for any prior debts of the company (incl. tax, salaries, social security arrears).

No	Description of Issue	Proposed Resolution Action
	banks, and creditors more generally, to appoint CROs to monitor compliance with restructuring plans.	

B. Tax & Accounting

No	Description of Issue	Proposed Resolution Action
1.	Tax regime should not discriminate against NPL resolution.	▪ Key features of a non-discriminatory code may include close alignment of income tax treatment of provisioning, restructuring and asset sales with their treatment for regulatory and financial purposes, exemption of asset sales or transfers from VAT and provisions to ensure that debt relief in "genuine" restructuring, does not attract income tax. The Greek authorities might also examine the following: - Tax exemption to be considered for debts fully or partially cancelled due to threatened or actual insolvency. - Allowance of tax to be carried forward to offset resulting gains. - Tax exemption granted to debtors for debt equity conversion gains in pre-insolvency scenarios - Where property is used as collateral and security enforcement generates a real estate transfer tax, set and/or extend the period available for banks to utilize a reduced tax rate.
2.	A series of revisions of the Greek tax framework have created an environment of uncertainty. Indicatively, the taxation on capital gains has been reformed approximately 10 times since 2000, while	A commitment on a stable tax environment for a medium term period (e.g. 5 years) will foster stability and attract new money, both critical elements for the effective management

No	Description of Issue	Proposed Resolution Action
	VAT has been amended 4 times since 2010 and taxation on RE assets is revisited virtually every year since 2005/6.	of NPLs and the creation of an effective NPL market. The special tax treatment applicable on asset extraction through some of the court-driven restructuring processes (e.g. tax free acquisition of assets through the Special Liquidation process) could be further expanded to other court-driven processes as well.
3.	Lift any incentives to proceed to force sale of property, i.e. in case of a voluntary transfer of real estate property, the seller must deliver to the notary a certificate regarding any overdue tax indebtedness. On the other hand, in case the property is sold by public auction at force sale value, tax claims benefit from the general privilege, i.e. 25% of the auction proceeds.	Consider that the same limitation of 25% also applies in case of a voluntary sale and that the relevant amount would be paid to the tax authority through the notary out of the sale proceeds. This would both protect the interests of the tax authority and at the same time would operate as a further incentive for debtors to settle NPLs trough a voluntary sale of the mortgaged property.
4.	Real Estate taxation.	Real estate property is heavily taxed in Greece, impeding the purchase of new properties hence, pushing back the opening of the real estate market and hence the ability of banks to run foreclosure/ recovery campaigns on their NPLs secured by real estate. If a general tax cut is not available, an accommodative tax framework should be considered for entities holding significant bulk of real estate property. REIT (AEEAP) is a framework that with some amendments (e.g. making non obligatory its introduction to the stock exchange) could effectively address this issue.
5.	Real property taxation that is based on “objective” values that may exceed the current market value, may discourage potential buyers both under a voluntary and forced sale.	Tax on real estate property (ENFIA), other duties and transfer tax are currently calculated on the "objective value" of the property, which is substantially higher than the market value in many instances. “Objective values” shall be revisited and set at levels that are compatible with the market values.

No	Description of Issue	Proposed Resolution Action
6.	The Law shall not discriminate for VAT exemption for initial or subsequent creditors.	Transactions including payment transfers, debts, cheques and other negotiable instruments, except from debt collection and factoring fall within the scope of VAT but benefit from an exemption (Article 22, Greek VAT code (Law 2859/2000)). Lending (and services to the administration of the loan) is also subject to the VAT but the original loan extension also falls within the exemption. Moreover, the Ministry of Finance considers that the exemption provided for the credit administration applies only to such activity performed by the initial creditor. Subsequent acquirers of loans may not claim this exemption. Therefore, in case a credit institution transfers its loans portfolios, while withholding their administration, the fees for this activity are exempted from VAT. By contrast, a third party servicer will be subject to VAT for the fees paid for its services, leading to inequality of tax treatment for the provisions of these services between the originating credit institution and other permitted servicers.
7.	Unfavorable tax treatment can create disincentives for adequate provisioning and loan write offs.	Tax deductions for loan loss provisions are allowed in some cases but are often subject to a cap. Tax deductions for loan write offs or for loan principal reductions are not allowed. Tax deductions for collateral sales below book value are quite rare. Tax benefits from loan loss-provisions and write-downs of loans should be crystalized so as to accommodate NPL sales. Moreover, tax authorities are often substantial creditors of distressed companies but are not willing to participate in a restructuring.
8.	The Lack of accounting guidance under IFRS delays NPL write offs. Greek banks publish their financial reports under IFRS (IAS 39), where it is not specified when and how to write off	The new accounting standard (IFRS 9), which comes into effect in January 2018, will include a definition of "write-off" that is different from loan cancellation and will reinforce

No	Description of Issue	Proposed Resolution Action
	uncollectible loans. In the absence of clearly defined write-off rules under IAS 39, some banks follow the rules for loan cancellation (de-recognition), which require banks to exhaust all legal means before removing them from the balance sheet.	guidance.
9.	According to the existing law, the difference between the proceeds received and the nominal value of the assets, minus any previously written off amounts through the reserves, is the loss, which will be added to the Bank's total tax losses, which will be carried forward to be offset against future taxable profits within a 5 years period.	The existing provisions cannot be taken into account as incentive, since it cannot be expected that the said loss will be finally offset against future taxable profits Therefore, a new tax law provision could be adopted according to which: a) Tax losses arising from the sale of receivables will be divided into certain number of equal parts and every part will be carried forward to equal number of the coming subsequent years to be offset against the taxable profits of each corresponding year. Such a provision had been adopted for the PSI losses: PSI loss is split in 30 equal yearly parts and each 1/30 of the total losses can be added to the Bank's tax losses of the corresponding year. b) Tax corresponding to the loss from the sale of receivables will be DTC eligible. Such a provision had been adopted for the PSI tax loss. The above is premised on compliance with state aid provisions of EU law.

C. Administrative

No	Description of Issue	Proposed Resolution Action
1.	The capacity of banks to process and support NPL resolution needs improvement.	Improve banks' capacity to deal with NPLs through specialized personnel, policies, processes, KPIs, technical infrastructure, legal support, accurate data and reporting, etc. This will need to be calibrated in relation to the overall policies. Banks will also need to consider a broader range of restructuring tools, requiring different skill sets. Management will have to hire additional expertise or leverage third party platforms and skills. Also co-ordination and consolidation of debt positions (across banks) would enable creditor restructuring to take place more effectively. Banks tend to transfer the accounts to the NPL Unit with delays. Transfer of accounts should take place based on automated processes and standard criteria (which other than days past due, could also include several trigger events, such as number of previous loan restructured and/or other behavioral characteristics, etc.)
2.	There are limitations on data and documentation quality.	Access to timely information (regarding distressed borrowers, collateral valuations and information on debtors' personal wealth and gaps in loan/ collateral documentation particularly for legacy accounts) hinder the recovery process and is critical for the development of an active market for NPL restructuring. Tools distinguishing between strategic defaulters shall also be considered. Structured finance techniques could also be used to facilitate the removal of impaired assets from banks' balance sheets.
3.	Multi-bank credits: Corporate & Retail Cases.	NPL management is hampered among others by the lack of alignment between creditors. A road map on handling multi-banked credits should be introduced, in order to co-ordinate creditors. Specifically, an initiative could be introduced, as in the case of Italy and Spain, whereby all credit institutions, are required to provide data of all customers above some limit/threshold. For example in Italy this threshold is above €50.000 and in Spain is above €6.000. Consequently, the respective Regulatory Authorities provide each month

No	Description of Issue	Proposed Resolution Action
		feedback to all creditors per name of debtor and its total outstanding to all credit institutions. Therefore, such an initiative could be introduced in Greece, not only for large debtors (for whom the BoG does in any case receive information from banks) but also for smaller ones, (threshold to be defined) whereby information could be provided to BoG on a regular basis and in return BoG could provide feedback to all banks. Especially for corporates: **Institutionalize** banks' **coordination mechanism** for large corporate restructuring (e.g., scope of work, standardized decision making, involvement of other creditors) through: **A binding agreement** between the participants (e.g., with an MoU between the banks/HFSF) **Supervision to ensure the right process as per the MoU Agreement** through the participation of the HFSF in the procedure as an observer **Monitoring of workflow of case** (e.g., number of cases in each step) by the Bank of Greece (as part of the overall operational target monitoring)
4.	Incomplete information can impede effective resolution of distressed debt.	■ Improvement in public registers, debt counseling services and citizen awareness, quality of information reported by banks to supervisors and constraints on information sharing among creditors. ■ An alternative solution could be the establishment of a Credit Bureau, to address the information gap between creditors and debtors in Greece. To bridge this gap, a credit scoring mechanism could be founded, allocating a credit evaluation by way of a score, to each debtor, while not revealing debtor's underlying information. ■ Create and maintain a database of items such as income and property of debtors, through a direct link with the files of the Ministry of Finance ideally Land Registry,

No	Description of Issue	Proposed Resolution Action
		Courts), which can be accessed by banks to drastically reduce costs of the so often repeated controls in different documents and property surveys.
5.	The lack of information on preferential claims discourages creditors from enforcing their rights, as their recoveries could be impaired by overdue tax, state claims and wages.	Creditors must be in a position to be informed on the amount of preferential claims due by their debtors (e.g. through TIRESIAS) to be able to calculate their recoveries.
6.	Not extensive use of comprehensive Restructuring Tools.	Extensions, Split balance, interest rate reduction, grace period, were the most prevalent restructuring tools used by banks in the last two to three years. In these cases, loans were restructured by warehousing a portion of debt, thereby reducing payments. Other tools were used less often, such as debt equity swaps or performance based (partial) write offs, customized amortization plans, etc.
7.	▪ High cost of Ineffective property registration under existing system. ▪ Current system inefficient in allowing creditors to be informed about debtor's property.	Improvements to be introduced, with the aim to complete the centralized Land registry, while consider a fixed fee, in case of an asset registration rather than a fee proportional to the value of the asset.
8.	Public Auctions.	Electronic auctions should be considered as a means of encouraging participation of more bidders in an auction process and making the auction process more efficient and transparent and possibly more profitable for the seller. It is noted that the Code of Civil Procedures anticipates the introduction of e-auctions, but they have not yet been implemented.

D. Other Issues

No	Description of Issue	Proposed Resolution Action
1.	The real estate market is stagnant and there is no official market price.	Due to the country's economic situation, property appraisers believe that property value is currently defined as the price agreed between a willing (to discount price) seller and the buyer. Usually, this price is much lower than the original demanded price by the seller and it does not reflect either the "objective" market prices nor the "perceived" commercial market prices. Household and commercial real estate transaction prices as well as key property attributes should be made available on a public website to enable informed decisions. Real estate auctions should aim to attract the largest number of bidders such as through announcement via a public website and implementation of the auction itself on an electronic platform. Also, the government shall make clear as to what is its intention regarding the "subjective values".
2.	Non-existence of an active platform for the purchase/ sale and valuation of NPLs.	- A single hub could be created to facilitate NPL sales. This platform should have all the characteristics so as to: - ensure transparency of the NPL bidding process - attract a critical mass of legitimate investors - - act as a repository of information regarding sales for the purpose of pricing, audit and review.
3.	Capital constraints and short - term restructuring solutions.	Long term sustainable restructuring solutions need to be endorsed, once the economic and banking environment stabilizes. Capital controls are straining liquidity of companies. This creates among others, delays in suppliers' payments and effectively a spiral of cash flow difficulties. The quasi absence of lending markets limits the options for borrowers to invest towards solutions. The roadmap (with specific milestones) to the ultimate lifting of capital controls shall be defined.