



BANKING & FINANCE

NEW DUTIES IN RESPECT OF RESTRUCTURED DEBT

BANK OF PORTUGAL INSTRUCTION 32/2013

Bank of Portugal
Instruction 32/2013
on the identification
and classification
of restructured debt
resulting from the
financial difficulties of
the client ("Instruction")
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30 December 2013
and came into force
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Bank of Portugal Instruction 32/2013 on the identification and classification of restructured debt resulting from the financial difficulties of the client ("Instruction") was published on 30 December 2013 and came into force on the following day.

The Instruction - available for consultation [here](#) on the Bank of Portugal site (in Portuguese) - makes it clear what is meant by "debt restructured because of the financial difficulties of the client", how such debt should be identified and classified and what indicators financial institutions should include in publications on credit quality.

The Instruction revokes Bank of Portugal Instruction 18/2012 of 15 May and, although not expressly, it also alters Instruction 16/2004 of 16 August (on publication of benchmarks – Doubtful Debts) and Annex I to Instruction 21/2008 of 15 June 2009 (on the characteristics of the liability balances appearing in communications to the Central Credit Register).

Compliance with the Instruction is intended not only to provide the institutions in question (credit institutions and financial companies that grant credit, as well as branches in Portugal of credit institutions not based in the European Union) with an additional tool to assist in credit risk analysis and management, but also to increase the comparability and transparency of these credits. The Instruction explains the following concepts:

- (a) a client in financial difficulty;
- (b) a modification to the terms and conditions of the credit agreement;
- (c) a set of circumstances that should also be relevant for the purposes of identification and classification of the debt under the terms and for the purposes of the Instruction.

 FUNDAÇÃO
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BALTAZAR TORRES
Detail
Crying, 2003
PVC, madeira, cerâmica, estanho pintado
a esmalte, alumínio e couro
Dimensões variáveis
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In particular, and for the purposes of identification and classification of a debt as a "debt restructured because of the financial difficulties of the client", at the moment a change is made to the terms and conditions of the credit agreement, the Instruction makes it clear that the institutions in question must "include the necessary fields of information, including dates and links between operations" to make it possible to use the credits identified and classified:

- (i) in credit risk management;
- (ii) in determining impairment;
- (iii) in the credit portfolio report; and
- (iv) in complying with other prudential requirements.

The removal of the classification of a debt may only occur if at least two years have passed from the date of the modification to the terms and conditions of the credit agreement (restructuring) and as long as all the conditions appearing in the Information are met. These conditions can be summarised as follows:

- (a) payment of capital instalments must be regular;
- (b) no instalment may be more than 30 days overdue (this seems to include all the clients credits, even if not part of the restructuring);
- (c) no new credit restructuring operation may take place.

It is also important to note that, with reference to 31 December 2013, institutions must ensure the reinstatement of the classification of debts whose classification was removed under the now revoked Bank of Portugal Instruction 18/2012 of 15 May but that do not meet the criteria for removal of classification defined in the new Instruction.

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