

**Report of the Working group for the NPL Resolution Strategy  
Q3 of 2015**

AREAS	Issues	Actions	Responsible body	Deadline	Outcome/Indicator	Degree of realization(*)	Status
<b>I ENHANCING BANKS CAPACITY FOR DEALING WITH NPLs</b>							
<b>1. Collateral valuation</b>	1.1. Improve regulation of real estate appraisers, with the aim to strengthen the expertise, experience, credibility and integrity of the profession	Draft law on regulating real estate valuation and relevant by-laws regulating appraisers' profession	MoF	Q4 2015	Bill on real estate valuation sent to Parliament for adoption; if adopted, relevant by-laws published	★	Draft Law on Regulating the profession of Real Estate Valuers entered the procedure of public debate, which will last until 29/10/2015. It is expected that the Bill enters the Parliament procedure and gets adopted within the prescribed deadline
	1.2. Improve accuracy of real estate valuation, in line with international good practices	Develop minimum standards for collateral valuation with transparent valuation criteria	MoF	Q4 2015	Minimum standards for collateral valuation adopted	★	National standards for real estate valuation are prepared. It is necessary that the Law on Regulating the profession of Real Estate Valuers gets adopted so that the Standards could also be adopted
<b>II ENABLING CONDITIONS FOR NPL MARKET DEVELOPMENT</b>							
<b>1. Tax incentives</b>	1.1. Undertake all necessary activities in order to allow for recognition of banks' corporate loan write offs as expenditure for tax purposes without the need to start legal proceedings for loans past due for more than two years	If decided, amend Corporate Income Tax Law to allow for such recognitions; issue univocal interpretive guidance on the implication of new tax legislation	MoF	Q4 2015	Bill on amendments to Corporate Income Tax Law sent to Parliament; if adopted, univocal interpretive guidance on the implication of new tax legislation issued	★	Working version of the Law is being prepared. Bill will enter the Parliament procedure together with the Law on the Budget of the Republic of Serbia

	1.2. Undertake all necessary activities in order to abolish the requirement for banks to pay on withholding basis the personal income tax for debt forgiveness to private individuals	If decided, amend Personal Income Tax Law to exclude such obligation; issue univocal interpretive guidance on the implication of new tax legislation	MoF	Q4 2015	Bill on amendments to Personal Income Tax Law sent to Parliament; if adopted, univocal interpretive guidance on the implication of new tax legislation issued	★	Working version of the Law is being prepared. Bill will enter the Parliament procedure together with the Law on the Budget of the Republic of Serbia
	1.3. Conduct comprehensive review of tax legislation with the aim to identify other (potential) obstacles, including tax implications that may materialize in the context of NPL sales	Identify and prepare, if needed and having in mind fiscal sustainability, other amendments of tax legislation and/or binding instructions for Tax Administration staff	MoF	Q4 2015	Bill on amendments to identified tax- related law(s) sent to Parliament; if adopted, univocal interpretive guidance on the implication of new tax legislation issued	★	Review of relevant regulation, supported by TA from EBRD, is currently under way. Draft review report expected on beginning of November
<b>2. Resolve existing problem of sale of NPLs in the course of litigation procedure</b>	2.1. Undertake all necessary activities in order to allow for change of plaintiff due to NPL sale in the course of the litigation proceedings or alternatively clarify existing rules on the finalization of pending litigation	Amend Civil Procedure Law	Governing court, MoJ	Q2 2016	Bill on changes to Civil Procedure Law sent to Parliament	✘	Assessment of the need for amending the Civil Procedure Law related to the impediments to sale of NPLs is being awaited to be done by the consultants engaged on the EBRD Project
<b>3. More efficient resolution of DIA-managed NPL portfolios</b>	3.1. Develop a draft Strategic Plan for Asset Management, to include: (i) multi-year cash-flows from recovered proceeds of bad assets that have been restructured, bad assets linked to privatisation and other forms of recovery and (ii) expenses related to the management of the bad assets portfolio	Develop and draft strategic plan	DIA	Q4 2015	DIA's draft strategic plan preliminary adopted by DIA Management Board	★	In cooperation with the Consultant (see point 3.5), the preparation of the Strategic Plan for Asset Management is currently under way. BoD of DIA considered the Strategy for the Collection of Receivables of RoS on the BoD session dated 30/09/2015, which was then forwarded to the MoF with the aim of adopting a governmental Decree, so that strategic guidelines for the collection of receivables of RoS could be defined

3.2. Establish internal procedures and the required capacity to regularly perform asset valuations and assess the recoverable value of the associated collateral and its legal status	Establish internal procedures and capacity	Q2 2016	Regular asset valuations and assessment of recoverable value of the associated collateral and its legal status	★	In cooperation with the Consultant (see point 3.5), activities regarding the preparation of internal procedures are currently under way. Regular activities of the DIA as the bankruptcy manager of bankrupt banks and the body responsible for collection of receivables in the name of and on the account of RoS comprise of collecting receivables in the amount that depends on collateral valuation and debtor's legal status evaluation
3.3. Draft Strategic Plan to be operationalised in an Annual Operational Plan to monitor performance of the Management and employees in this area	Develop Annual operational plan	Q2 2016	Defined measures for monitoring performance of the Managements and employees in this area are set in the Annual operational plan	★	In cooperation with the Consultant (see point 3.5), activities regarding the preparation of the Annual operational plan are currently under way
3.4 Adoption of the Strategic Plan and Annual Operational Plan by the DIA BoD	Strategic Plan and Annual Operational Plan	Q4 2016	Resolution of DIA-managed NPL portfolio fully enabled; Adoption of the final Strategic Plan and the Annual Operational Plan by the DIA BoD and by the Government;	★	Apart from the activities regarding the preparation of the Strategy for the Collection of Receivables of RoS (listed in point 3.1 above), activities regarding the timely adoption of listed documents are currently under way
3.3. Strengthen DIA's capacity for resolution of its state-owned and bankruptcy NPL portfolios	Engage outside consultant	Q3 2015	Outside consultant engaged	✓	Engagement contract signed on 24/08/2015 with PricewaterhouseCoopers Consulting doo
	Develop training curriculum	Q3 2016	Training curriculum developed	✗	There were no significant activities in this period
	Create DIAs consolidated NPL team	Q1 2016	DIAs consolidated NPL team created	✗	There were no significant activities in this period

		Undertake training and staffing of DIAs consolidated NPL team		Q4 2016	DIAs consolidated NPL team properly staffed and trained	✘	There were no significant activities in this period
<b>4. Assess all obstacles to the sale of NPL (whether legal, regulatory, accounting, data including in various public registries, or fiscal) to ensure that reform is comprehensive</b>	4.1. Conduct a detailed assessment of all obstacles to the sale of NPLs and establishment and operations of asset management companies or other special purpose vehicles used for such purposes. Explore the need, implications and necessary safeguards for the potential liberalization of NPL sale to investors and entities established outside of Serbia.	Engage outside consultants to work with banks, investors, experts and IFIs to conduct the assessment	MoF	Q4 2015	Assessment produced and presented to the Working Group, in order to be considered for potential revisions of the Strategy	★	Preparation of draft assessment report is currently under way, delivery of draft to the Working Group expected on beginning of November
<b>III IMPROVING AND PROMOTING OUT-OF-COURT DEBT RESTRUCTURING</b>							
<b>1. Enhancing the CFR legal framework</b>	1.1. Streamline and simplify the existing CFR procedure, allow for entrepreneurs to apply for the CFR procedure and improve the framework for mediators' participation	Amend Law on Consensual Financial Restructuring; Amend by-laws related to CFR Law in relation to mediators	MoE, Serbian Chamber of Commerce	Q3 2015	Bill on new CFR Law sent to Parliament; if adopted, relevant bylaws published	★	Amendments to the CFR Law adopted in the Parliament on 23/10/2015
<b>2. Promoting out-of-court debt restructuring</b>	2.1. Promote awareness of the out-of-court financial restructuring framework for market participants	Organize and hold workshops and seminars for market participants	MoE, Serbian Chamber of Commerce	Q2 2016	A series of workshops and seminars organized and held	✘	There were no significant activities in this period

	2.2. Strengthen support provided by the Serbian Chamber of Commerce to SMEs (and private entrepreneurs if they are allowed to participate in the out-of-court restructuring) in the preparation of viable restructuring plans and further negotiation with their financial creditors	Develop a template of key financial and business data to be provided by the debtor to its financial creditors at the starting point of the CFR proposal	MoE, Serbian Chamber of Commerce, Association of Serbian Banks	Q2 2016	Template of key financial and business data that the debtor must provide to its financial creditors at the starting point of the CFR proposal developed and published on Serbian Chamber of Commerce website	x	There were no significant activities in this period
<b>3. Improve efficiency of state creditors in restructurings</b>	3.1. Conduct feasibility analysis and propose relevant changes in regulations and/or instructions and develop key terms for internal restructuring policies related to the performance of the Tax Office, Development Fund and Export Credit Agency in relation to their participation in out-of-court restructurings	Conduct feasibility analyses and develop amendments to existing regulations and key terms for internal policies	MoE, MoF	Q2 2016	Feasibility analyses conducted; amendments to existing regulations adopted and published; key terms for internal state creditor policies developed	x	There were no significant activities in this period
	3.2. Ensure more efficient and constructive participation of state creditors (Development Fund and Export Credit Agency) in the out-of-court financial restructuring (including in CFR procedure), with clear deadlines and framework terms publicly announced for all cases (or categories of cases)	Develop formal internal policies re CFR and out-of-court financial restructuring participation for Development Fund and Export Credit Agency	MoE, Development Fund, Export Credit Agency	Q1 2016	Internal policies for Development Fund and Export Credit Agency adopted and published	x	There were no significant activities in this period

	3.3. Undertake all necessary activities in order to enable for new procedural rules for Tax Office in order to act efficiently and constructively in the out-of-court financial restructuring (including in CFR procedure), with clear deadlines and framework terms publicly announced for all cases (or categories of cases)	If decided, amend Tax Procedure Law; issue formal instructions to Tax Office; develop detailed procedural rules	MoF, Tax Office	Q1 2016	If decided, Bill on changes to Tax Procedure Law sent to Parliament; if adopted, formal instructions to Tax Office issued and published by the MoF on implementation of the law; detailed procedural rules adopted and published by the Tax Office	x	There were no significant activities in this period
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**IV IMPROVING IN-COURT DEBT RESOLUTION AND MORTGAGE FRAMEWORK**

<b>1. Enhancing insolvency regulatory framework</b>	1.1. Enhance safeguards for secured creditors in both reorganizations and winding-up (bankrot) by providing for strict time limits for reorganisation and other important decisions on the course of the proceedings; provide for a swift disposal of all assets not strictly necessary for reorganization; provide specific conditions for lifting of moratorium in bankruptcy; allow secured creditors to actively participate in certain creditors' decision making on lease and sale of secured assets as well as on course of bankruptcy procedure; provide them with	Amend Bankruptcy Law, Law on BSA and relevant by-laws	MoE	Q4 2015	Bill on the Amendments to the Bankruptcy Law sent to the Parliament; if adopted, relevant by-laws adopted and published	★	Guidelines for the Amendments to the Bankruptcy Law, along with the assessment of the effects of suggested amendments on the execution of the bankruptcy procedure, delivered to the representatives of the IMF and IFC on 13/10/2015. After aligning the goals together with IMF and IFC, legal provisions will be defined and the Bankruptcy Law will be sent to the Parliament
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efficient tools and legal remedies in relation to secured assets valuation in various situations (sale process and creditors' classes formation in reorganisations)

1.2. Undertake all necessary activities in order to adopt additional rules for bankruptcy proceedings for distressed group entities in order to provide for more time-efficient and procedure-efficient handling of multiple bankruptcy or reorganisation cases for such entities, with peer countries review

1.3. Undertake all necessary activities in order to strengthen protection of new financing in reorganisation, but with safeguards for secured creditors and avoidance of abuses, with peer country review

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<b>2. Improve performance and accountability of bankruptcy administrators</b>	2.1. Strengthening capacities of BSA through technical advice and training program, increase number of supervisors, exclude risk of collusion by randomly selecting supervisors for case files review on a monthly basis	Amend Law on BSA and relevant by-laws; amend internal BSA procedures	MoE, BSA	Q2 2016	BSA supervisory department staffed and trained; bill on changes to Law on BSA sent to Parliament; relevant internal BSA procedures amended	★	Amendments to the BSA Law adopted in the Parliament on 23/10/2015
	2.2. Revise administrator's fees to incentivize timely sale of assets or business entity, related to the success in sales and/or settlement of creditors; consider limiting and/or introducing strict conditions for advance payments of administrator's fees	Revise the Rules on the Remuneration of the Bankruptcy Administrator	MoE	Q1 2016	Rules on Remuneration of the Bankruptcy Administrator amended and published	✘	Upon adopting the Amendments to the Bankruptcy Law, a Working Group for the preparation of Rules on Remuneration will be formed
	2.3. Allow more leeway to creditors in selecting bankruptcy administrators in order to create incentives for a development of a professional services' industry	Amend Bankruptcy Law		Q4 2015	Bill on the Amendments to the Bankruptcy Law sent to the Parliament	★	Guidelines for the Amendments to the Bankruptcy Law, along with the assessment of the effects of suggested amendments on the execution of the bankruptcy procedure, delivered to the representatives of the IMF and IFC on 13/10/2015. After aligning the goals together with IMF and IFC, legal provisions will be defined and the Bankruptcy Law will be sent to the Parliament



<b>3. Strengthen capacities and improve practice of Commercial Courts in bankruptcy cases</b>	<p>3.1. Enhance bankruptcy courts' handling of bankruptcy sales, prepackaged and bankruptcy reorganization plans and related procedures and by setting up within the legal framework an efficient mechanism of tracking all bankruptcy and reorganisation cases lasting more than 6 months where (a) a decision on the reorganisation plan was not made in the first instance; and/or (b) a decision on winding-up (bankrot) was not made in the first instance, in all such cases introducing a special degree of Appellate Commercial Court scrutiny</p>	<p>Implement training of bankruptcy judges (in particular in the economic and financial aspects of reorganisation plans and bankruptcy sales); Amend legal framework for efficient tracking of Court cases and revise case management practices</p>	<p>MoJ, Appellate Commercial Court (ACC), Judicial Academy, MoE, BSA</p>	<p>Q1 2017</p>	<p>At least two bankruptcy judges formally instituted in all Commercial Courts, with no additional competences; bankruptcy judges trained in economic and financial aspects of reorganisation plans and bankruptcy sales; efficient mechanism of tracking all bankruptcy and reorganisation cases lasting more than 6 months introduced, resulting in higher ACC scrutiny; bankruptcy court case management practices revised and improved</p>	<p>★</p>	<p>The Judicial Academy organizes and realizes trainings starting from September 2015 until end of 2015 for all judges in the commercial courts in Serbia that act within bankruptcy procedures. Themes of the trainings: 1) Filing for bankruptcy, consequences of filing for bankruptcy and collateralization measures (five seminars), 2) Bodies of the bankruptcy procedure and competencies for decision making during the life of the procedure (five seminars)</p>
	<p>3.2. Undertake all necessary activities in order to increase the transparency of bankruptcy court case files by operationalising already existing rules of transparency for all bankruptcy case files contained in the Bankruptcy Law, via court docket internet site to all parties participating to the bankruptcy proceedings</p>	<p>Change legal framework for efficient tracking of Court cases; implement relevant SW and HW solutions in all commercial courts; provide assurance that commercial courts comply with legal requirement for transparency of all documents and decisions</p>	<p>MoJ, Appellate Commercial Court; Commercial Courts</p>	<p>Q2 2016</p>	<p>Legal framework for efficient tracking of Court cases changed; SW and HW solutions implemented; ACC ongoing close scrutiny of bankruptcy case files instituted and performed on a regular basis</p>	<p>★</p>	<p>Preparation of Amendments to the Court Rulebook is currently under way</p>

<b>4. Improve efficiency of corporate and entrepreneurial debt enforcement</b>	4.1. Undertake all necessary activities in order to change the type of auctioning in corporate and entrepreneur enforcements (including mortgages), based on other countries best practices e.g. first auction with starting price of 100% of estimated value upwards and second auction of a Dutch type with 100% starting price downwards, with determining (if any required) a minimal level of sale price and (possibly) a debtor's right-of-first refusal at the second auction and with adequate safeguards for enforcement creditor enabling a feasible right to take-over the asset if needed	Explore viable options and amend Law on Enforcement	MoJ	Q4 2015	If decided, Bill on changes to Law on Enforcement sent to Parliament	★	The Ministry of Justice initiated the formal procedure according to the Government Rulebook and delivered the draft Law on Enforcement to the competent Ministries and bodies for opinion on 5/10/2015
	4.2. Undertake all necessary activities in order to provide for Commercial Courts' jurisdiction for all court enforcement cases against companies and entrepreneurs, with analyses on possible transfer (and impact) of existing case backlog	Amend Law on Courts' Organisation	MoJ	Q4 2016	If decided, Bill on changes of Law on Courts' Organisation sent to Parliament	★	Assessment of the need for amending the Law on Courts' Organisation related to the jurisdiction of the courts is currently under way
<b>5. Remove impediments for efficient functioning of mortgage</b>	5.1 Undertake all necessary activities in order to find an efficient solution for the problem of	Amend Law on Mortgages and/or Law on Enforcement and Security	MoF, MoJ	Q4 2015	Bill on changes to the Law on Mortgages and/or Law on Enforcement and Security sent to Parliament	✓	Amendments to the Law on Mortgages adopted in the Parliament and the Law came to force

framework	competing procedures of out-of-court and in-court enforcement of mortgages						
	5.2 Create a functional second-instance decision process for land registry case files	Amend Law on Real Estate Cadaster; procure sufficient HR capacities in the Republic Geodetic Institute	MoC, Republic Geodetic Institute	Q4 2017	All new appeals resolved within 30 days deadline; appeals backlog resolved	★	Draft Law on Amendments to the Law on Real Estate Cadaster prepared and delivered to the Government
	5.3 Identify specific land registry branches (territories of Belgrade, Nis, Novi Sad and Kragujevac) with high backlog of case files and improve their efficiency	Adopt Rulebook on Internal Organisation and Systematisation of Work Places in the Real Estate Cadastre; allocate sufficient number of additional employees to land registry branches which represent bottlenecks in the process		Q3 2016	Land registry bottlenecks identified and properly staffed; case backlog from 2013 and earlier resolved; new case files resolved within 7 days	✘	The Republic Geodetic Institute will update the Rulebook on internal organization and systematization of work positions in line with its new competencies prescribed by the Law on Amendments to the Law on Real Estate Cadaster (second instance resolution) within three months when the Law comes to force
	5.4 Ensure uniform application of the rules on changes of elements of registered mortgages in case of restructured loans under out-of-court, CFR or pre-pack restructurings	Issue formal binding instructions to all Land Registries on mortgage registration procedure; procure for the uniform application thereof in all land Registries		Q4 2015 for issuing instruction; Q4 2016 for the uniform application	Formal binding instructions issued and uniform application obtained	★	The Republic Geodetic Institute distributed to certain Land Registries instructions on the procedure of mortgage registration. Instructions will be distributed to all Land Registries once the Law on Amendments to the Law on Real Estate Cadaster comes to force
	5.5 Allow the buyer of a collateral property out-of-court to purchase it free of lower ranked liens, but provide sufficient protection of lower ranked mortgage creditors in terms of proper valuation to be used for such out-of-	Amend the Law on Mortgages	MoF	Q2 2015	Bill on changes to Mortgage Law sent to Parliament	✓	Amendments to the Law on Mortgages adopted in the Parliament and the Law came to force

	court sale						
<b>6. Consider development of personal bankruptcy legal framework</b>	6.1 Conduct a study on the options for bankruptcy of private individuals, with peer countries review	Engage outside consultant to conduct a study	Working Group	Q4 2016	A study conducted and presented to the Government of Serbia and the NBS	✘	There were no significant activities in this period

**Agenda:**  
 \* ✓ - outcome achieved  
 ✘ - outcome not achieved  
 ★ - realization of outcome in progress

**Legend:**

Ministry of Finance	MoF
Ministry of Justice	MoJ
Deposit Insurance Agency	DIA
Ministry of Economy	MoE
Ministry of Construction, Traffic and Infrastructure	MoC
Serbian Export Credit and Insurance Agency	AOFI
Bankruptcy Supervision Agency	BSA
National Bank of Serbia	NBS
International Financial Institutions	IFI
Consensual Financial Restructuring	CFR
Small and Medium Enterprises	SME