POSITION PAPER

# ESBG response to the EBA consultation on the review of the standardised NPLs data templates

**ESBG (European Savings and Retail Banking Group)**

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ESBG Transparency Register ID: 8765978796-80

August 2021

ESBG

Dear Sir/Madam,

Thank you for the opportunity to comment on the EBA consultation on the review of the standardised NPL data templates. We would like to share with you the following reflections that we hope will be considered by the EBA.

## A. Scope and structure:

**Question 1: Do you agree with the proposed data structure and the relationship between templates? If not, please provide explanation.**

Overall, ESBG believes that proposed data structure is too wide, including a lot of non-essential data. Whereas we agree with the proposal regarding the relationship between templates.

**Question 2: Do you agree with the deletion of data categories 'NPL portfolio' and 'Swap'? If not, please provide explanation.**

We agree with the deletion of data categories 'NPL portfolio' and 'Swap'.

## B. Data templates:

***Template 1: Counterparty***

**Question 3: Do you think the suggested list of data fields capture all the relevant information on the counterparty needed for NPL valuation and financial due diligence? If not, please indicate which other data fields should be included and provide explanation for this.**

In our view, the revised data templates still contain far too much information.

**Question 4: Do you think any specific data fields should be excluded from the template? If yes, please specify the data fields and give explanation to your answer.**

We believe that some data fields go beyond what is relevant for portfolio valuation. In other words, data templates are still considered too detailed, requiring information that are not deemed critical for purposes of loan valuations or not currently or readily available (this is particularly the case for most of non-critical data). For many of them, reasons and explanations are given in points below (In template 1 for instance: counterparty bulk of data regarding residence/registered location – address, city, geographical region, and postcode; data regarding rating/scoring; all data derived from Fin.reports)

**Question 5: Do you agree that data fields on current external and internal credit scores and current external and internal credit scores at origination should be included in the template (for both private individual and corporate counterparties)?**

These fields are not relevant, in our view, especially for the internal/external rating grades in the moment of loan origination (and all related fields, including the internal methodology used to decide the rating). The initial rating at the moment of loan origination has no predictability power for estimating the future repayment probability, once the client reaches default and the soft and/or hard collection strategies are defined.

Current ratings (both internal and external) neither are deemed relevant. Namely, at the time of a NPL sale, the client has already spent a certain amount of time within the WO unit due to the gone concern strategy and rated default grade (clients with going concern WO strategy, where this info can have some significance, are not seen as part of the portfolio for NPL sales).

There is also an unnecessary duplication of data, such as the set of data regarding rating (fields 1,13 – 1,15 and 1,18-1,20) in T1 Counterparty are as well part of the T3 Fin.instruments (fields 3,50 – 3,55).

**Question 6: Do you agree that data fields on corporate's latest available financial statement amounts should be included in the template?**

We do not agree, based partially on the same argument given under the response to question 5. Namely, clients who are going to be eligible for a NPL sale are clients with gone concern WO strategy where financial standing of the client is not relevant. The last available financial statements for these clients are in general older (from 2 or 3 years before) and it neither has an added value for the successful NPL sale nor on the future collection rate by any potential investors.

**Question 7: Do you agree that data fields related to corporate counterparties' assets and liabilities, market capitalization should be included in the template?**

Please refer to our answer to question 5.

***Template 2: Relationship***

**Question 8: Do you agree with the proposed Template 2 of Annex I? If not, please provide explanation to your answer.**

Please refer to our general comment in the response to question 28.

***Template 3: Financial instrument***

**Question 9: Do you agree with the inclusion of the data fields related to interest rates and other information as per contractual agreement for the valuation and financial due diligence of NPLs, especially when they are not more than 90 days past due? Please provide data field-specific explanation to your answer.**

We do neither see necessary nor the relevance of including any information regarding interest rates for a NPL sale (3,17 – 3,30 fields). Even though these fields are marked as non-critical, we believe they should not be included in the template.

**Question 10: Do you agree with the inclusion of the data fields related to forbearance measures for the valuation and financial due diligence of NPLs?**

We are of the opinion that there are too many requested data (3,68 – 3,77) regarding forbearance that have no added value to the NPL sales process. A simple field "forbearance in the past Y/N" should replace proposed 10 fields. Furthermore, forbearance clients are those with going concern WO strategy which, as explained above, are not likely to be part of a NPL sale. For gone concern clients, the existence of forbearance measures in the past is a piece of information that for a moment in time the client had a chance to repay its debt via the business activity. Since the client ended up in gone concern, the added value of including this information is not very clear.

**<u>Question 11:</u> Do you think the suggested list of data fields capture all relevant information on financial instrument needed for NPL valuation and financial due diligence? If not, please indicate which other data fields should be included and provide explanation for this.**

No comments.

**<u>Question 12:</u> Do you think any specific data fields should be excluded from the template? If yes, please specify the data fields and give explanation to your answer.**

Yes, specifically fields 11 ad 12 should be excluded. Please refer to our answer to questions 9 and 10 as well as duplicated data from T1 regarding the rating.

**<u>Question 13:</u> Do you agree with the data fields related to lease? Please provide data field-specific explanation to your answer.**

No comments.

***Template 4: Collateral and enforcement***

**<u>Question 14:</u> Do you think the suggested list of data fields capture all relevant information on collateral needed for NPL valuation and financial due diligence? If not, please indicate which other data fields should be included and provide explanation for this.**

Please refer to our general comment in the response to question 28.

**<u>Question 15:</u> Do you think any specific data fields should be excluded from the template? If yes, please specify the data fields and give explanation to your answer.**

Four fields marked as critical from T4 collateral and enforcement should not be considered mandatory. Banks should not be penalized if they do not have them. These four fields are the following ones: Court Auction Reserve Price for Last Auction, Court Auction Reserve Price for Next Auction, Jurisdiction of Court, Percentage complete.

**<u>Question 16:</u> Do you agree with the data fields on the characteristics of non-property collateral? Please provide data field-specific explanation to your answer.**

No comments.

**<u>Question 17</u>: Do you agree with the data fields related to the enforcement of collateral? Please provide data field-specific explanation to your answer.**

No comments.

***Template 5: Collection and repayment***

**<u>Question 18:</u> Do you agree with the proposed Template 5 of Annex I for NPL valuation and financial due diligence? Please provide data field-specific explanation to your answer.**

Please refer to our general comment in the response to question 28.

## C. Data dictionary:

**Question 19: Do you agree with description of data fields presented in data dictionary?**

No comments.

**Question 20: Do you agree with criticality (and non-criticality) of data fields presented in data dictionary? If not, please provide suggestions and explanations related to specific data fields.**

Please refer to our general comment in the response to question 28.

**Question 21: Do you agree with confidentiality aspects of data fields? If not, please provide explanation.**

Please refer to our general comment in the response to question 28.

**Question 22: Do you agree with excluding no data options for data fields? If not, please provide suggestions and explanations related to specific data fields.**

No data option should be kept as explained for example for T4 fields given in our answer to question 15.

## D. Other considerations:

**Question 23: Please provide your views on how proportionality considerations regarding the size of the exposures or portfolios being sold should be incorporated in the implementation of NPL data templates.**

From our perspective, proportionality considerations are not relevant when it comes to a portfolio sale, but only rather for the exposures being sold.

**Question 24: Should there be a threshold (e.g. in monetary terms) for the application of the proportionality principle? If yes, then how should this be defined?**

Please refer to our general comment in the response to question 28.

**Question 25: Do you agree that the proposed approach takes into account, in an adequate way, the proportionality principle? If not, which additional elements should be considered?**

Please refer to our general comment in the response to question 28.

## E. Asset classes:

**Question 26: Please provide your views on the asset classes covered and whether any specific data fields, other than already foreseen, should be included in the templates for ensure full coverage of certain asset classes.**

Please refer to our general comment in the response to question 28.

**<u>Question 27:</u> In your view, is the structure and coverage of the templates adequate for both portfolio transactions and transactions where an individual exposure is traded? Please explain your answer.**

Please refer to our general comment in the response to question 28.

**<u>Question 28:</u> Please add any additional comments, remarks or observations you may wish to include in your feedback to the discussion paper.**

We would like to clearly indicate that we do not support the proposal to require that the preparation of these templates shall be mandatory for low NPL banks (that have a NPL ratio lower than 5%), as this would be neither necessary (low NPL banks have no or little need to sell NPLs) nor would it be make economic sense (costs will surpass the benefits), nor would it materially support the build-up of a NPL trading market (as low NPL banks would not contribute to it). It would be also against any proportionality consideration.

ESBG strongly believes that the potential mandatory implementation of NPL data templates does not consider the role of all involved market participants and thus may have a negative impact for some of them.

Namely, we believe that the proposed data templates have a few downsides:

- Despite a significant decrease of the data fields compared to the original templates from 2017, the remaining number is still seen as high, and it contains significantly more information than the current market standard. In other words, it has still to be seen how to elaborate and require very granular information that is not deemed critical for the purposes of loan valuations. Some of the fields even surpass the information that is relevant for portfolio valuations. This is particularly the case for most of the non-critical data like internal/external rating grades at the moment of loan origination (and all related fields, including the internal methodology used to decide the rating). The initial rating at the moment of loan origination has no correlation or influence on the fact how successful the workout strategy with the client is and the overall collection capacity. Regarding current ratings (both internal and external) it is also deemed not relevant. Namely, in the time of a NPL sale, the client has already spent certain amount of time within WO unit with gone concern strategy with default grade (clients with going concern WO strategy, where this info can have some significance, are not seen as part of portfolio for NPL sale). Also, what is not clear is why this set is duplicated in two templates (precisely in T1 Counterparty and T3 Fin.instruments), when there are defined identifiers used to link the templates?

- An additional difficulty is related to the availability of information. Considering that information may not be promptly available in a digital form (i.e. information may only be available in a paper form) or it may not be available at all (this is the case for even some of critical data – e.g. four fields in T4 Collateral and enforcement should not be considered mandatory and banks should not be penalized if they do not have them: Court Auction Reserve Price for Last Auction, Court Auction Reserve Price for Next Auction, Jurisdiction of Court, Percentage complete).

- Existing barriers that prevent disclosing information to third parties without breaching data confidentiality rules.

All these findings, if made obligatory, will put additional pressure on costs which is unbalanced comparing to expected benefits from the bank´s side due to the need for increased engagement of all related resources.

It is also worth considering whether the revised templates (which are still too detailed and granular) will actually make it more time consuming for investors, particularly those which are new to the market, to conduct the valuation process, and whether this might have a detrimental rather than stimulating impact on the NPLs market. This would further lead to prolongation of the entire process, making it time- and money- consuming to all involved parties. Furthermore, more than the form of presenting data, as a main impediment from the investor´s side is raised by the problem of data quality within NPL sales process. This is caused by the availability and consistency of the data as well. Internal methodologies within banks, even though based on same regulation, can use different calculation and logic leading to incomparable portfolios.

Also, since the main driver of this change from the regulatory perspective is expected post-Covid 19 NPL build-up in some markets, it must be pointed out that not all markets will be equally affected with it, because the starting point in pre-Covid world was not the same for all EU countries. This is also something to consider before reaching any decision on mandatory application. The effective costs of such implementation outbalance any meaningful benefit for the overall EU market.

Furthermore, our members have extensive know-how, experience, and expertise in the workout segment, which is recognized in historically traceable successful dealing with NPL due to internal capacities derived both, from the systematic approach (starting with EWS and monitoring activities on the portfolio side and functioning workout / collection units) and using various stages in the NPL workout process (whereof NPL sales is only one of them and not the first option). Due to all the points mentioned above, our members have high levels of operational readiness to deal with the increase in NPLs, when (and if) the need emerges. In accordance, we firmly believe that banks – or at least low level NPL banks where should be given a discretion to decide on the use of the NPL data templates even in this revised format.

Against this background, as we understand the rationality of aiming to increase the market transparency by making available the NPL secondary market data, our proposal is to require the debt collections agencies and investors to start reporting the same set of data as the banks. For this purpose, ESBG strongly recommends that the implementation solution should be done without bringing any additional complexity, investments and effort for all players, using existing regulatory and legal framework and IT infrastructure. Therefore, in case this initiative will be continued, we propose to use the already existing Credit Bureaus EU infrastructure, at least for the retail segment, as a solution which may fulfil the original objective and does not require new reporting requirements for the banks.

**** DISCLAIMER ****

Please be aware that the proposal described in the paragraph above regarding the use of Credit Bureaus EU infrastructure will not work for the corporate segment as there are deal based transactions in general.

When assessing alternatives for sharing more NPL data, one feasible solution for the retail segment can be to use already existing public and private Credit Bureaus (CB), which are well established in Europe, members of ACCIS, and might be enlarged by allowing other players (e.g. debt collection agencies) to report the repayment history once a loan is taken over in their portfolio management. The existing CB are in fact already operating for decades and respects the local and UE specific legislation (e.g. banking laws, consumer protection, GDPR) and have the proper IT infrastructure and reconciliation processes.

Shared data are used by the participants online and off-line in their Underwriting and Collection IT systems, both at individual account and client level but also aggregated anonymized statistics are provided to the CB's participants.

**Equity and reciprocity principles** are followed within CB systems - participants which are sharing data may access only the same information type shared by other participants. As an example, by allowing debt collection agencies to report the repayment history at account level, the immediate benefits will be the following:

**Client perspective:** by having all the repayment data shared by the debt collection agencies to CB, clients will have single overview and better control of their financial situation and also ability to access for future loans in better conditions.

**Debt collection agencies' perspective:** by sharing (for own portfolios) the same information as the banks, according to the standard reporting requirements of the CB operating in the EU, this will be able to access the same type of the information available in the region where they operate. Credit risk internal models can be enhanced and aggregated anonymized portfolio statistics will be available as a basis and indication for future debt selling's offer.

**Banks & financial institutions' perspective:** by having access to repayment behaviour data of its former clients, after the debt selling are performed, banks will be able to improve own credit risk internal rating models, enhance the underwriting rules and estimate better the selling price of future receivables (e.g. keep or sale models).

**Regulators' perspective:** the regulator can better control and steer the secondary NPL portfolio market, currently "hidden", not regulated as for the banking system. Portfolio performance can be fully assessed and used for defining regulatory requirements or portfolio steering indicators, via aggregated portfolio statistics provided by the Credit Bureau.

As NPL portfolios requires an extensive set of data to be shared and processes to be defined in order to comply with customer protection laws, GDPR, banking secrecy, IT security, data reconciliation etc. we find imperiously necessary to use existing infrastructures in place (e.g. CB reporting channels or current NPL regulatory data set without extension). Additionally, we strongly suggest to balance the effort vs benefit, as well as plan timeline for implementing this initiative.

If all relevant players will share the same set of information as the banks already do, at account level (without price transaction), we believe that CB platforms might assure the confidentiality of the debt selling transactions conditions, while serving the ultimate purpose of providing integrated client view data and making more transparent the portfolio quality and characteristics, in a safe IT and regulatory environment, though positively influencing the NPL secondary market.

## About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 900 banks, which together employ more than 650,000 people driven to innovate at roughly 50,000 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion in corporate loans (including to SMEs), and serve 150 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking. Our transparency ID is 8765978796-80.

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Published by ESBG. August 2021.