Reducing the scope of the EBA NPLs data templates

High-level position paper – Executive summary

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On 5 September 2022, ESBG responded to the EBA consultation on the draft Implementing Technical Standards (ITS) specifying the requirements for the information that sellers of non-performing loans (NPL) shall provide to prospective buyers, seeking to improve the functioning of NPL secondary markets (also known as the "EBA NPL data templates").

Our response stresses that the number of data fields in the proposed templates (especially those marked as "mandatory") is significantly higher than what has historically been proven necessary to sign and close voluntary NPL deals from a market standards perspective and it should thus be reduced. Such a high number of data fields would in fact bring a significant costs increase and may be detrimental to the development of secondary markets for NPLs rather than helping them.

In addition to the fact that most of the required information is too detailed and not relevant for the purposes of loan valuations, the data is also not always available within the banking system. This could lead to a counter-productive effect where sellers could renounce to sales they could execute due to constraining mandatory fields.

Another main impediment for this template to be useful would is also the issue of data consistency. The template would mainly be populated with management data and internal methodologies that, although are based on the same regulation, it can use different calculations and logic leading to incomparable information among portfolios. This might result in a misinterpretation of data, that would lead to undesired effects consisting of NPL transactions not being executed due to unjustifiable price adjustments.

Furthermore, it makes no sense to have common templates for single names or reduced portfolios of single names and massive portfolios of NPLs. Exposures to one single debtor or to a reduced number of corporates or SMEs have historically needed a different set of information, as their potential purchasers perform a deeper financial and legal analysis of the exposures rather than a statistical analysis, which is more adequate for massive portfolios.

Moreover, the expected impact on the cost side for the sellers of NPL should be taken into consideration. Namely, there is generally a high correlation between high data quantity, potential for error and greater validation effort.

Overall, despite a significant reduction in data fields compared to the original EBA templates from 2017, the remaining fields still contain significantly more information than the current market standard. For a well-functioning secondary market, we are convinced that it is currently possible to sell NPLs by providing mainly 20 data fields.

Against this background, we request that the EBA further streamlines the templates, aiming at simpler, more balanced and effective design in order to achieve a broader application and increase transparency in the NPL market, without having a detrimental impact on EU NPL deals.

In addition to the consultation response, ESBG also submitted a letter on this topic to the European Commission. Please find it **here**.

READ THE FULL POSITION PAPER

Your contact: Roberto Timpano– Roberto.Timpano@wsbi-esbg.org