

Comments

Targeted consultation of the European Commission on improving transparency and efficiency in secondary markets for non-performing loans

Our ref

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent almost all German banks.

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1. Establishing an NPL data hub at European level

1.1. Overarching principle and added value of an EU data hub

Question 1: Do you agree that increased market transparency would render NPL secondary markets more efficient?

Answer:

- **No**

Please explain your answer to question 1:

5000 character(s) maximum

Market transparency wouldn't help to increase the efficiency in that market, as the value added is limited for other market participants.

There is already a high level of market transparency. NPL secondary markets are working in an efficient way and their standards have been developed over years. Market participants know each other, their standards and particular expertise. If NPL are not sold, price expectations are the reasons for that, not missing transparency. We therefore oppose the introduction of a data hub.

Question 2. What other policy measures should be considered to enhance market transparency?

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Policy should focus on large NPL exposures and on countries with a high NPL-rate (e.g. three percentage points above the European average). Foremost the legal structures for land charges, enforcements and compulsory auctions should be aligned in the EU. We do not believe there is any impact on the market by just increasing market transparency. Due diligence cost is in our view more of a relevant factor and we are concerned that these costs might increase by additional requirement with respect to providing data to external parties.

Question 3. Do you agree that market transparency could be improved by establishing a centralised NPL data hub at EU level?

Answer:

- **No**

Please explain your answer to question 3:

5000 character(s) maximum

Although there are many international investors, NPL markets are predominantly local markets because of different legal situations and different market situations in the member states (especially at real estate collaterals). For different reasons (e.g. reputation) sellers are not offering NPL portfolios in public offerings but invite certain market participants for a due diligence.

Question 4. What would in your view be the biggest added value of the NPL EU data hub for the overall market?

At least, there would be no big or large added value – just more information on prices paid for NPL.As already mentioned we do not see any value added at least for banks and seller in that market.

Question 5. In your opinion, how important are each of the potential benefits (listed below) of the NPL EU data hub for your organisation?

(Please rate each from 1 to 5, 1 standing for "fully disagree" and 5 for "fully agree".)

	1	2	3	4	5	No opinion
Diminishing information asymmetries	GBIC					
Supporting market liquidity	GBIC					
Fostering wider investor participation, including more medium and small investors	GBIC					
Helping price discovery for NPL salestransactions	GBIC					
Enabling new investors to get familiar withthe NPL asset classes across different jurisdictions	GBIC					
Addressing coordination issues	GBIC					
More efficient NPL transactions	GBIC					
Lenders and servicers to make more efficientrecovery and disposal decisions	GBIC					
Other: ...						

1.2. Scope of the data hub

Question 6. On what information should the data hub focus?

	Solely information on transactions that have taken place (e.g. transaction price, asset class, legal jurisdiction and structure of the agreement)
	Information on transactions and on post-trade performance (i.e. data on the recovery)
	The data hub should go beyond the two options above
GBIC	Don't know / no opinion / not applicable

We have no opinion on this because - as already stated - we reject the introduction of a data hub.

Question 7. Would you see that the transaction data for the data hub should cover:

(Please rate each from 1 to 5, 1 standing for "fully disagree" and 5 for "fully agree".)

	1	2	3	4	5	Don't know
all data fields in the revised EBA NPL templates	GBIC					
critical fields in the revised EBA NPL templates	GBIC					
a subset of (critical) data fields in the revised EBA NPL templates	GBIC					
Other						

Please explain your answer to question 7:

5000 character(s) maximum

As already mentioned, we reject the introduction of a data hub.

Question 8. Would you agree that the data on NPL transactions should be provided on portfolio level, as well as on individual exposure level, when appropriate?

Answer:

- **No**

Please explain your answer to question 8:

5000 character(s) maximum

As already mentioned, we reject the introduction of a data hub.

Question 9. Which of the following data categories should be covered by the data hub?

(Please rate each from 1 to 5, 1 standing for "fully disagree" and 5 for "fully agree".)

	1	2	3	4	5	Don't know
Country (where loan was originated)	GBIC					
Trading category	GBIC					
Overall gross book value sold	GBIC					
Transaction price	GBIC					
Average ticket	GBIC					
Days overdue	GBIC					
Asset type	GBIC					
Number of borrowers	GBIC					
Borrower category (enterprise, private individual, public, other)	GBIC					
Insolvency rate	GBIC					
Maturity	GBIC					
Loan-to-value (where applicable)	GBIC					

Please explain your answer to question 9:

5000 character(s) maximum

As already mentioned, we reject the introduction of a data hub.

Question 10. Would you see any specific confidentiality concerns or other impediments in sharing this information with the data hub?

Answer:

- **Yes**

Please explain your answer to question 10:

5000 character(s) maximum

Specifically, we see problems with data protection. In any case, country-specific requirements must be observed and recognised accordingly.

Especially the data of smaller portfolios could enable third parties to draw conclusions on the identity of the borrowers (e.g. large exposure in small region).

Question 11. Would it be valuable for the data hub to collect other transaction-related information?

Answer:

- **No**

Please explain your answer to question 11:

5000 character(s) maximum

As already mentioned, we reject the introduction of a data hub.

Question 12. What would be the most important benefits of gaining insights into information on recovery rates via the data hub?

Due to different types of portfolios, collaterals and sellers, we cannot see any benefits.

Question 13. Would you consider provision of data on recovery rates at loan level to be feasible?

Answer:

- **No**

Question 13.1: If you think it would not be feasible, would you consider that provision of such data at an aggregate level would still deliver benefits?

Answer:

- **No**

Please explain your answer to question 13.1:

As already mentioned, we reject the introduction of a data hub.

Question 14. What specific information on recovery efficiency would you consider valuable and/or feasible to be provided to the data hub at an aggregate level?

	Valuable	Feasible
Progressive value of assets, aggregated by:		
• asset class		
• country/jurisdiction		
• industry/sector		
• borrower characteristics		
• legal process		
Recovery rates, aggregated by:		
• asset class		
• country/jurisdiction		
• industry/sector		
• borrower characteristics		
• legal process		
Recovery time, aggregated by:		
• asset class		
• country/jurisdiction		
• industry/sector		
• borrower characteristics		
• legal process		
Information about workout and recovery in the relevant legal reviews		
Other: ...		

Question 15. For the kind of information that you would consider valuable and feasible to be provided to the data hub, what reporting timeframe would be most appropriate, and why?

Question 16. In case you would not be in favour of providing information on recovery efficiency to the data hub, what would be the main reasons for this? Bearing in mind your answer to the previous question, how could these reasons against providing information to the hub be overcome?

Question 17. Would you agree that data on recovery efficiency should be specifically requested for loans benefiting from any form of public support?

Answer:

- **No**

Please explain your answer to question 17, specifying which loans would in your view fall within the scope:

As already mentioned, we reject the introduction of a data hub.

Question 18. Would you agree that ESMA securitisation disclosures for private or public structured transactions, where relevant, could be provided to the data hub?

Answer:

- **No**

Please explain your answer to question 18:

As already mentioned, we reject the introduction of a data hub.

1.3. Asset perimeter: types of transactions to be distinguished

Question 19. For which categories of transactions should data be provided to the data hub (i.e. after a specific cut-off date)?

(Please rate each from 1 to 5, 1 standing for "fully disagree" and 5 for "fully agree".)

	1	2	3	4	5	Don't know
Segments that may be better prepared to comply with the data requests, such as securitisations	GBIC					
Any sale involving an asset with a direct government subsidy	GBIC					
Transaction types that are more frequent across the EU (such as loans secured by commercial real estate)	GBIC					
Segments where most market activity /stress is likely in the context of the COVID-19 crisis	GBIC					
Other: ...						

Please explain your answer to question 19:

5000 character(s) maximum

As already mentioned, we reject the introduction of a data hub.

Question 20. For which categories and under what conditions would you consider it feasible to also provide historical data (at least for 1-3 years)?

Question 21. Would you agree with the following criteria for transactions to be provided to the data hub?

(Please rate each from 1 to 5, 1 standing for "fully disagree" and 5 for "fully agree".)

	1	2	3	4	5	Don't know
Sales with a purchase price exceeding a minimum threshold	GBIC					
Notional size of a portfolio exceeding a minimum threshold	GBIC					
Portfolios consisting of a minimum number of borrowers	GBIC					
Other: ...						

Please explain your answer to question 21:

As already mentioned, we reject the introduction of a data hub.

Question 22. Bearing in mind your answer(s) to question 21, what should be:

	in €	Please explain
The minimum threshold in terms of purchase price		not applicable
The minimum threshold in terms of notional portfolio size		not applicable
The minimum number of borrowers in a portfolio		not applicable

Please explain your answer to question 22 a) to c):

As already mentioned, we reject the introduction of a data hub.

1.4. Data protection

Question 23. Provided that relevant confidential information (sellers, buyers and borrowers) would be anonymised and aggregated, would you have any concerns with respect to data protection?**Answer:**

- **Yes**

Please explain your answer to question 23:

5000 character(s) maximum

Risks of leaks of personal and/or commercially sensitive information largely outweigh the potential benefit of increased transparency. There are not that many NPL transactions taken place in the secondary markets, especially with significant volumes: even if data is anonymized, it is probable that names of distressed companies could be identified.

Also due to the traceability of the credit market in the limited regions of small institutions, data protection can no longer be complied with; the transmitted data would be traceable to the respective customer.

Question 24. Would you agree that it would be possible to deliver insights at the level of postcode or NUTS3 geographic region of buyers, sellers and borrowers?

Answer:

- **No**

Please explain your answer to question 24:

5000 character(s) maximum

As already mentioned, we reject the introduction of a data hub.

Question 25. Taking into account that GDPR requirements would be respected, would you agree that data anonymisation and protected access would be sufficient to prevent any potential misuse of the data (e.g. for M&A purposes)?

Answer:

- **No**

Please explain your answer to question 25:

5000 character(s) maximum

As already mentioned, we reject the introduction of a data hub.

1.5. Responsible organisation

Question 26. Who should be responsible for the establishment and management of the data hub?

Existing market infrastructure, possibly in cooperation with existing industry-led initiatives	
A public entity (existing or newly established) should take up this responsibility	
A new private entity should take up this responsibility	

Please elaborate on your preferred approach for the establishment and management of the data hub: what entity should be responsible and why?

As already mentioned, we reject the introduction of a data hub.

Question 27. Bearing in mind your answer to the previous question, would you consider a public tender appropriate to determine the most suitable candidate?

Please explain your answer to question 27:

5000 character(s) maximum

1.6. Sharing data with the hub

Question 28. In order for the data hub to reach critical mass, would you consider an obligation to report relevant data to the data hub necessary/useful?

Yes, there should be an obligation for all relevant market participants to provide data	
Yes, there should be an obligation for relevant market participants to provide data, but only for a specific sub-set of critical data.	
No, provision of data to the data hub should remain voluntary and the prospect of gaining access to the European-wide data pool of the hub should be sufficient.	GBIC

Question 29. Under what conditions would you consider such an obligation to share specific data acceptable?

As already mentioned, we reject the introduction of a data hub.

Question 29.1 Would regulatory action be necessary in your view?

Answer:

- **No**

Please explain your answer to question 29.1:

5000 character(s) maximum

As already mentioned, we reject the introduction of a data hub.

1.7. Data hub governance and services

Question 30. What would be an appropriate data governance structure for the hub?

5000 character(s) maximum

Question 30.1 Are you aware of best-practice examples in related areas, national or EU-wide, that the hub should strive to emulate?

Answer:

- **No**

Please explain your answer to question 30.1:

5000 character(s) maximum

As already mentioned, we reject the introduction of a data hub.

Question 31. What would you consider the most effective way to stimulate stakeholders to provide data?

A scheme of layered access, whereby stakeholders could gain access to different levels of detailed data only if one shares one's own data	
A 'credit point system', whereby a certain number of deliveries would grant the right to receive the same number of queries	
Other: ...	
Don't know	

Please specify to what other way(s) you refer in your answer to question 31:

5000 character(s) maximum

Question 32. If access to the hub's data is restricted in this manner, how could new participation in the NPL market be encouraged?

5000 character(s) maximum

Question 32.1 Bearing in mind your response to question 32, would you consider that special treatment would be appropriate for market entrants to gain partial access to the data hub?

Question 33. What specific analyses could the hub perform on its data pool that would be conducive to market transparency and data comparability? What specific market benchmarks would you consider most useful?

Question 34. Would you consider it useful if the data hub would provide information on NPL investors (preferences and general profiles) and/or general information on judicial processes?

Question 35. Should the hub be able to charge fees to cover administrative costs?

Answer:

- **No**

Please explain your answer to question 30.1:

5000 character(s) maximum

As already mentioned, we reject the introduction of a data hub.

1.8. Mobilising existing data sources

Question 36. Are you aware of existing (market-driven) initiatives that pool and process data to gain better insights into credit risks and the management thereof?

Answer:

- **No**

Please explain your answer to question 36:

5000 character(s) maximum

As already mentioned, we reject the introduction of a data hub.

Question 37. Would you consider that there could be valuable synergies between the data hub and such existing data pooling initiatives?

Answer:

- **No**

Please explain your answer to question 37:

As already mentioned, we reject the introduction of a data hub.

Question 38. Would you consider it valuable if the data hub would provide insights into the following data in an aggregated manner?

(please rate each from 1 to 5, 1 standing for "not valuable" and 5 for "very valuable")

	1	2	3	4	5	No opinion
Supervisory reporting on credit risk, non-performing exposures and forbearance						
• COREP supervisory reporting	GBIC					
• FINREP supervisory reporting	GBIC					
• Credit risk benchmarking exercise	GBIC					

	1	2	3	4	5	No opinion
Judicial information:						
• efficiency data	GBIC					
• detailed timing of different in-court bankruptcy and foreclosure processes	GBIC					

• judicial auction outcomes (number of auctions required by property type and region)	GBIC					
• sales haircut vis-à-vis initial bank or court valuation (CTU)	GBIC					
• relative frequency of main insolvency procedures and court driven restructuring measures	GBIC					

	1	2	3	4	5	No opinion
Securitisations						
• ECB ABS loan level initiative	GBIC					
• ESMA reporting for securitisations	GBIC					
• Data collected in the GACS reporting template (Italy only)	GBIC					

	1	2	3	4	5	No opinion
Data pools of existing industry initiatives (to be explored in cooperation with these initiatives and their members):						
• Existing data pooling initiatives	GBIC					

	1	2	3	4	5	No opinion
Bank risk parameters on forbearance, loss given default (LGD), realised loss, time to recovery, and cure rate data by regulatory asset class and country, as aggregated from:						
• the AnaCredit database	GBIC					
• bank Pillar 3 disclosures	GBIC					

2. Tailoring pillar 3 disclosure requirements

2.1. General

2.2. Pillar 3 disclosure and market efficiency

Question 39. Do you agree that additional Pillar 3 disclosures could help to improve functioning of NPL secondary markets and increase their efficiency?

Answer:

- **No**

Please explain your answer to question 39:

5000 character(s) maximum

Efficiency of NPL secondary markets in EU doesn't fail because of a lack of information / disclosure but because of different expectations about NPL portfolio-prices.

According to Basel Committee on Banking Supervision Pillar 3 "aims to promote market discipline through regulatory disclosure requirements. These requirements enable market participants to access key information relating to a bank's regulatory capital and risk exposures in order to increase transparency and confidence about a bank's exposure to risk and the overall adequacy of its regulatory capital" (https://www.bis.org/basel_framework/standard/DIS.htm). The report should strengthen the financial market stability as a whole. It is written and disclosed from the perspective of the entire bank or group, not a single potential transaction. It has not a character of a loan tape and seems to be not appropriate for preparing individual market transactions with loans.

We don't see any additional value for the addressees of a pillar 3 report as the interests of the reader of these reports are more driven by the specific current risk situation on the balance sheet of the bank.

2.3. Targeted areas for more detailed disclosures

Question 40. Which types of information, in general, could additional Pillar 3 disclosure requirements target to maximise efficiency of NPL markets?

No more information needed.

Question 41. More specifically, in your opinion, which of the following types of information should be introduced in the Pillar 3 disclosure framework?*(please rate each from 1 to 5, 1 standing for "not important factor" and 5 for "very important factor")*

	1	2	3	4	5	No opinion
Recovery rate (average)	GBIC					
Recovery rates (by asset class)	GBIC					
Recovery rates (by past due days)	GBIC					
Recovery rates (by country)	GBIC					
Time to recovery (average)	GBIC					
Time to recovery (by asset class)	GBIC					
Time to recovery (by country)	GBIC					
Judicial costs (average)	GBIC					
Judicial costs (by asset class)	GBIC					
Judicial costs (by country)	GBIC					
Others: ...						

2.4. Extension of the scope of disclosures

Question 42. Would you agree that the scope of disclosures might be extended to cover all CRR institutions?

Answer:

- **No**

Please explain your answer to question 42:

To extend the scope of disclosures to cover all CRR institutions would be against existing guidelines and the intention of proportionality.

In the past few years, all those involved (politics, supervision, etc.) have repeatedly stated that the current disclosure obligations are to be viewed as disproportionate and, in particular, as a burden for smaller institutions. The disclosure requirements cause considerable effort, especially for these smaller institutions, without any added value resulting from the information provided. In order to relieve small and non-complex institutions and other non-listed institutions of bureaucratic burdens, the CRR II has eased the disclosure requirements by requiring these institutions to disclose less frequently and in less detail. This proportionality principle is not reflected in the current considerations on the disclosure of NPLs. On the contrary, the current proposal would undo the bureaucratic simplifications that have only just been granted to smaller institutions.

Question 43. Would you agree that the scope of disclosures might be extended beyond credit institutions, for instance to credit purchasers and/or credit servicers operating in the secondary market?

Answer:

- **No**

Please explain your answer to question 43:

5000 character(s) maximum

As already mentioned, we reject further disclosure requirements.

Question 44. Would you consider it useful to assign an ID to an NPL and to track and monitor such NPL?

Answer:

- **No**

Please explain your answer to question 44:

Such an assignment would create new reporting requirements not being subject of the (actual) NPL action plan.

We believe that NPL tracking creates unnecessary bureaucracy that does not contribute to the NPL reduction goal. The resources could be better invested in processing the NPL cases.

Question 45. What could be the proportionality criteria for new disclosures?

	1	2	3	4	5	No opinion
Size and complexity of the credit purchaser (cross border activities, NPL securitisation)						GBIC
Size and nature of the portfolios (consumer loans, corporate loans)						GBIC
Simple threshold of total NPLs						GBIC
Other: ...	GBIC					

Please specify to what other proportionality criteria you refer in your answer to question 45:

The disclosure report gives a holistic picture, hence the specifications cannot be based on NPL buyer criteria. The information in the disclosure report is subject to the principle of materiality. In this respect, information relevant to the secondary market would only be relevant if, for example, an institution intends to sell a substantial part of its loan portfolio due to its NPL character. Such an intention would contradict most of the banks' business models. Consequently, we consider the proposed additional disclosure in the Pillar 3 report to be dispensable.

2.5. Keeping reporting burdens manageable and avoiding regulatory overlap

Question 46. How large do you estimate the costs and efforts for banks and other entities to adjust to additional targeted requirements as part of Pillar 3 adjustments?

5000 character(s) maximum

In addition to technical implementation costs, the institutions concerned would also incur further costs, such as for training, introduction of corresponding processes (including controls, monitoring and communication) or examination costs.

Question 46.1 Would additional disclosures add a significant cost?

Answer:

- **Yes**

Please explain your answer to question 46.1:

Additional disclosures will have to be integrated in IT- and reporting systems which will require additional staff and IT-capacity.

Currently, small and non-complex institutions as well as other non-listed institutions do not have to disclose NPLs. Accordingly, respective templates would have to be introduced for these institutions, including all associated processes, which would mean significant costs and considerable bureaucratic effort for smaller institutions in particular.

Question 47. Which of the items related to NPLs mentioned above would likely lead to small and manageable reporting increase in reporting costs, and which would be more time-consuming and costly to disclose?

The most time-consuming and cost-producing items would be Post-trade-information and NPL-tracking (as mentioned in question 44).

Any additional disclosure requirement incurs costs and contradicts the political will to provide bureaucratic relief.

Question 48. How should a balance be struck between larger data transparency and reporting costs?

5000 character(s) maximum

From our point of view, there is no need for larger data transparency.

Question 48.1 Would more data, resulting from targeted Pillar 3 changes, with a high degree of certainty add more value than costs to the market?

Answer:

- **No**

Please explain your answer to question 48.1:

5000 character(s) maximum

In Germany, the NPL-market is well known by all participants. So, more data would just bring more costs and more statistic information, but no more value (especially for calculating NPL-prices).

We do not see any added value here as the banks' disclosures are not intended for these purposes. In our opinion, the current requirements for the disclosure of NPLs are comprehensive.