CONSULTATION DOCUMENT

TARGETED CONSULTATION ON IMPROVING TRANSPARENCY AND EFFICIENCY IN SECONDARY MARKETS FOR NON-PERFORMING LOANS

Disclaimer

This document is a working document of the Commission services for consultation and does not prejudge the final decision that the Commission may take.

The views reflected on this consultation paper provide an indication on the approach the Commission services may take but do not constitute a final policy position or a formal proposal by the European Commission.

The responses to this consultation paper will provide important guidance to the Commission when preparing, if considered appropriate, a formal Commission proposal.

You are invited to reply **by 8 September 2021** at the latest to the **online questionnaire** available on the following webpage: https://ec.europa.eu/info/publications/finance-consultations-2021-non-performing-loans_en

Please note that in order to ensure a fair and transparent consultation process **only responses received through the online questionnaire will be taken into account and included in the report summarising the responses**.

Views are welcome, in particular, from a wide range of stakeholders, in particular those participating directly or indirectly in NPL secondary markets, including NPL sellers, NPL purchasers, credit institutions, asset management companies and intermediaries specialised in relevant services (e.g. advisers, transaction platforms, data warehouses, specialised NPL servicers, etc.). Views are equally welcome from organisations representing the interest of consumers (and their protection), Member States' authorities, EU institutions and authorities as well as academics. All citizens and organisations are also welcome to contribute to this consultation.

We invite you to add any documents that you would deem useful to your replies on this website. Please always use this questionnaire even if you would like to submit additional documents.

Please explain your responses and, as far as possible, illustrate them with concrete examples and substantiate them with supporting data. Where appropriate, provide specific operational suggestions to questions raised. Replies limited to "yes" or "no" will not be sufficient for further analytical elaboration. Furthermore, views are also welcome on of the pros and cons of the relative desirability of the concept as described in this Consultation Paper.

Do not feel obliged to answer the complete questionnaire. Please select those questions that you deem relevant to answer.

This consultation follows the normal rules of the European Commission for public consultations. Responses will be published in accordance with the privacy options respondents will have opted for in the online questionnaire.

Responses authorised for publication will be published on the following webpage: https://ec.europa.eu/info/publications/finance-consultations-2021-non-performing-loans_en

Any question on this consultation or issue encountered with the online questionnaire can be raised via email at fisma-non-performing-loans@ec.europa.eu.

INTRODUCTION AND GENERAL CONTEXT

Background of this targeted consultation

The COVID-19 pandemic has led to a sharp economic downturn in the EU and worldwide. Despite vast support schemes implemented by governments, banks are exposed to companies and individuals that have become financially more vulnerable, in particular small and medium-sized enterprises (SMEs). Addressing a renewed build-up of NPLs on banks' balance sheets as early as possible is a key lesson from the last economic crisis. In this context, further structural measures are needed to prevent the accumulation of NPLs on banks' balance sheets as a result of the ongoing recession.

One of the key policy areas in this regard is the development of secondary markets for distressed debt. A deep and liquid secondary market for distressed assets would better allow banks to reduce their NPLs by selling them to third-party investors. If banks are better able to off-load non-performing assets from their balance sheet via secondary markets, this would help banks focus on their core activities, free up space in their balance sheets for new lending and hence enable them to fund the economic recovery.

Before the outbreak of the pandemic, secondary markets for NPLs in EU Member States were generally small and fragmented compared to other countries. Trading activity has only gained traction in some Member States, mostly to offload outstanding legacy assets from the financial and euro area crises. As the economic repercussions of the COVID-19 pandemic have set in, NPL trading activity has declined markedly.

In order to provide banks with a further tool to face challenges to credit risk due to the COVID-19 pandemic, the Commission has outlined targeted action to improve secondary markets for NPLs in its [December 2020 action plan on "Tackling NPLs in the aftermath of the COVID-19 pandemic"](#).

Improving market transparency and efficiency

One of the key actions in fostering secondary markets for NPLs is to improve the quantity, quality and comparability of NPL data. Secondary markets can be broader and more efficient if market participants have more and better data.

As part of its strategy to leverage data sources, the Commission is considering targeted changes of Pillar 3 disclosure requirements under [Regulation (EU) 575/2013 (CRR)](#). Therefore, a central data hub could be set up at EU level to act as a data repository underpinning the NPL market. Such a hub could store anonymised data on NPL transactions and provide post-trade transaction details. Such disclosures could raise the transparency, and thereby the functioning, of secondary markets of NPLs.

The Commission is determined to ensure that such possible measures would not entail disproportional reporting burdens or overlap, for instance with NPL transaction templates being developed by the [European Banking Authority (EBA)](#) for the purposes of financial due diligence and valuation of portfolios for sale. Similarly, the release of any additional NPL information, either on the hub or as part of Pillar 3 disclosures, should not pose any disadvantages to banks or buyers in terms of trading positions or balance sheet quality, nor should their publication challenge the business model of private platform providers. For all such possible measures, consumers, and especially vulnerable borrowers, must be properly protected.

The Commission's main objective is to increase the flow of available information that is conducive for liquid NPL markets in the most efficient way possible, while being mindful of the above-mentioned constraints. To this end, the data hub and additional disclosures under Pillar 3 rules could help maximise the potential of NPL data. As a result, the proposed changes should limit market failures in terms of information asymmetries, lead to increasing liquidity, lower bid/ask spreads and hence more efficient NPL markets. Ultimately, NPL markets in the EU should be transparent and liquid, so that they allow for informed trades of banks and investors that are beneficial for all stakeholders, including borrowers.

Responding to this consultation and follow-up to the consultation

In this context and in line with better regulation principles, the Commission has decided to launch a targeted consultation designed to gather evidence on improving transparency and efficiency in secondary markets for NPLs.

The targeted consultation is available in English only and will be open for 12 weeks.

It is split into two main sections, focused on (1) *establishing a data hub at European level* and (2) *reviewing Pillar 3 disclosures*. The first section aims to capture views from stakeholders on the potential establishment of a data hub at European level. The replies will help the Commission determine the priorities for policy actions (including regulatory ones). The second section will allow the Commission to assess the impact of possible changes to EU legislation in the context of banks' Pillar 3 disclosures.

Stakeholders are also invited to draw the attention of the Commission to any further regulatory impediments that would not be mentioned in this second part and that could be tackled through this initiative. The results should provide a basis for concrete and coherent action, by way of legislative action if required.

CONSULTATION QUESTIONS

1.   ESTABLISHING AN NPL DATA HUB AT EUROPEAN LEVEL

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

Policymakers in the EU have recently made renewed efforts to address the NPL problem. In this context, experts and policymakers agree is that there is a lack of transparency, and details of NPL reporting are rather inconsistent across Member States. Firstly, transparency is a prerequisite for the provision of sufficient information to potential buyers to close the bid-ask gap. Second, while comprehensive asset quality reviews have been performed for many banks, enhanced transparency is still needed for efficient policy making and supervision in order to gain better insights into the risks and severity of the NPL issue, both within particular institutions and the banking system as a whole.

The current data situation presents a real obstacle to the further development of NPL secondary markets, and thereby to a speedy response to the challenge of potentially rising NPLs at large. Part of the solution is therefore to improve the transparency of NPL portfolios in order to reduce asymmetric information and hence establish more efficient secondary markets for NPLs. When it comes to exploring the possible avenues to establish an EU framework for NPL data in view of fostering the development of secondary markets for distressed debt in Europe, the EU seems to be best placed to ensure the coordination of all relevant stakeholders.

To increase market transparency at granular level, a central data hub could be established at EU level. Such a hub would act as a data repository underpinning the NPL market. It would operate a comprehensive electronic database (updated regularly), assess the information and provide access to market participants. On the basis of the information delivered to the data hub, the latter could also perform specific analyses and provide analytical products.

Increased market transparency could help overcome a number of market failures. Standardisation and centralisation would be important principles. Centralised and standardised information in an EU-wide data hub with non-discriminatory access would help mitigate information asymmetries between banks willing to sell NPLs and potential investors. This would support more objective valuation and price setting mechanism of NPL portfolios and potentially increase the number of transactions/participants (lower market entry barriers). More confidence of investors in the data would inspire more accurate pricing that better reflects the underlying asset. This would also create lower risk premiums, as more investors enter the market.

Increased amounts of data (including post-trade information) at any level of obfuscation would aid both sellers and buyers in price discovery. The greater the granularity of the transaction information, the more informed buyers/sellers would be in the next transaction. The availability of a structured database at EU level would increase cross-border comparisons and lower entry barriers. Buyers would be attracted to markets in which transactions are happening.

From the sellers' perspective, the EU data hub could be an important data source for NPL loan market benchmark parameters, which could contribute to banks' internal decision on whether to sell or to service. This would also allow sellers to benchmark their trades and

maybe allow better visibility into the underlying causes for discrepancies (quality of portfolio, etc.).

Questions:

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

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

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

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

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 "not important factor" and 5 for "very important factor")

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

1.2. Scope of the data hub

The data hub could collect and store anonymised data on two main categories:

1. NPL transactions that have taken place; and
2. Post-trade information on the recovery of assets.

The data hub could provide such transaction details and post-trade information to market participants. This would allow these to gain insights into the actual pricing of assets and market liquidity on a systematic basis. As explained below (in sections 1.2.1 and 1.2.2), the collection and dissemination of actual workout performance data might be more delicate than that of data on NPL transactions that have taken place.

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.	

1.2.1. Data on NPL transactions

The data hub would primarily focus on and collect post-trade transaction data. Such information on completed transactions with indications in terms of pricing would enable comparisons across different regions, segments, market participants, etc. The data on NPL transactions could be provided on (1) portfolio level; and/or (2) individual exposure level, when appropriate. The level of information should be geared towards assuaging concerns over data protection and/or commercially sensitive information.

In terms of the specific data, there would be a wide range of options for the data hub to cover. Much of this information (if not all) could be derived from the revised EBA NPL transaction templates, which would provide a standardised data format for NPL transactions. If providing all of this information contained in the templates to the data hub would be too elaborate, the data hub could resort to more basic information about the NPL trades (e.g. in trade summary document).

Questions:

7. Would you see that the transaction data for the data hub should cover;
(please rate each from 1 to 5, 1 standing for "not helpful" and 5 for "very helpful")

	1	2	3	4	5	Comment
all data fields in the revised EBA NPL templates						
critical fields in the revised EBA NPL templates						
a subset of (critical) data fields in the revised EBA NPL templates						
Other						

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?

9. Which of the following data categories should be covered by the data hub?
(please rate each from 1 to 5, 1 standing for "not helpful" and 5 for "very helpful")

	1	2	3	4	5	Comment
Country (where loan was originated)						
Trading category						
Overall gross book value sold						
Transaction price						
Average ticket						
Days overdue						
Asset type						
Number of borrowers						
Borrower category (enterprise, private individual, public, other)						
Insolvency rate						
Maturity						
Loan-to-value (where applicable)						

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

11. Would it be valuable for the data hub to collect other transaction-related information? If so, what specific information should be covered?

1.2.2. *Post-trade information on recovery efficiency*

Beyond information on transactions, post-trade information provided by NPL buyers on recovery cash flow for the assets that they have purchased could deliver crucial insights into the market for NPLs. Publicly available data on recovery efficiency are key information that investors currently lack. In particular, information on recovery and expense cash flows would support the decision-making process of investors interested in similar assets and help them in determining the prices they are willing to pay, and help diminish uncertainty. The incentive for NPL buyers to submit this information *ex post* would mainly be the prospect that they would gain access on the other side, providing them with insights into recovery efficiency of comparable assets. This would provide a benchmark and would improve their estimations of fair prices/bids in future transactions.

The data hub could focus on collecting data on gross cash flows, i.e. recovery time, recovery vs. price (ideally with a breakdown by recovery strategy). Such data could be provided on (1) portfolio level; and/or (2) individual exposure level, when appropriate. However, information on actual recovery cash flows and portfolio performance could be considered a more delicate matter, and more proprietary to the companies, when compared to information on the transactions themselves.

A distinction could be made between loans where a government guarantee or ownership stake is involved (e.g. the sale by a nationalised bank, asset management company under state ownership, or the assets being sold have some form of state guarantee (cf. GACS)) and other loans. One might consider that these sales have a direct economic impact on the finances of the government, higher transparency should lead to higher accountability, which would hopefully lead to higher proceeds. Hence, posting performance data might be considered a more valid idea for sales of loans with government involvement.

For transactions between private entities, a balance may need to be struck between supporting transparency and respecting private business transactions. Banks, servicers and investors could provide data on recovery rates at an aggregate level by asset class and country. Additional breakdown by industry sector, legal process or borrower characteristics could offer more value while still reducing the reporting burden significantly compared to loan level information.

Questions:

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

13. Would you consider provision of data on recovery rates at loan level to be feasible? If not, would you consider that provision of such data at an aggregate level would still deliver benefits?

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: …		

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?

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?

17. Would you agree that data on recovery efficiency should be specifically requested for loans benefiting from any form of public support? In your view, which loans would fall within the scope?

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

1.3. Asset perimeter: types of transactions to be distinguished

There could be a wide range of assets covered by the data hub. In order to support the feasibility and efficiency of the concept, there could ideally be a number of focal areas. Initially, the data hub could focus on:

- *Those segments that may be better prepared to comply with the data requests*. For instance, this would be the case for securitisations, which have a lot of mandatory disclosure and may make new detailed disclosures on the database easier.[1]

- *Any sale involving an asset benefiting from any form of public support*, which needs to be disclosed.

- *Transaction types that are more frequent across the EU*, where more data are available (e.g. loans secured by commercial real estate).

- In addition, the *segments where most market activity / stress is likely would deserve more attention*.

Conversely, small secondary market transactions might prove difficult to track, and perhaps only if less sensitive data were required for the data hub, market participants would feel comfortable providing data. Data regarding sales could be provided when the purchase price exceeds a minimum threshold (e.g. EUR 1 million or equivalent), or for portfolios with a minimum number of borrowers, to avoid undue reporting costs on small exposures.

The scope might be expanded gradually, further supported by the roll-out of the revised EBA NPL transaction templates. In terms of structuring the data, they could be split into two main categories: loan-level and aggregate information. Standardised loan-level data could be provided in the form of standardised formats, cf. EBA NPL and/or ESMA NPL securitisation data templates.[2]

Questions:

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".)

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[1] The [Securitisation Regulation (EU) 2017/2402](#) already stipulates a detailed disclosure framework for securitisations containing NPEs by leveraging the ESMA reporting templates.

[2] Existing post trade reporting obligation should be reviewed to avoid any additional burden for sellers already reporting post trade information (e.g. Bank of Italy reporting).

	1	2	3	4	5	Comments
Segments that may be better prepared to comply with the data requests, such as securitisations						
Any sale involving an asset with a direct government subsidy						
Transaction types that are more frequent across the EU (such as loans secured by commercial real estate)						
Segments where most market activity / stress is likely in the context of the COVID-19 crisis						
Other: …						

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

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	Comments
Sales with a purchase price exceeding a minimum threshold						
Notional size of a portfolio exceeding a minimum threshold						
Portfolios consisting of a minimum number of borrowers						
Other: …						

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

	Response
The minimum threshold in terms of purchase price	
The minimum threshold in terms of notional portfolio size	
The minimum number of borrowers in a portfolio	

1.4. Data protection

A crucial requirement is to fully comply with bank secrecy, general confidentiality and personal data protection requirements (cf. the General Data Protection Regulation (GDPR)).[3] This could be addressed by ensuring relevant data aggregation and anonymisation within the data hub. For post-trade transaction data, the information about

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[3] The data would need to be anonymised in the sense of the GDPR. Recital 26 of the GDPR clarifies when data can be considered anonymous.

the traded NPL portfolios (underlying exposure information, relevant documentation, etc.) can be made available in an anonymised fashion in a standardised data format via the data hub to potential investors. This would be similar to existing regulatory initiatives (e.g. the ECB ABS loan level initiative).

To overcome concerns from stakeholders and to comply with legal requirements, the identity of the seller, buyer or borrower should not be disclosed by the data hub, nor the names, addresses or other confidential details of the buyers, sellers, borrowers or collaterals; only postcode level or small geographic region. It would also be possible to feed information to the data hub anonymously and for the hub output to be provided in aggregate form, albeit with a minimum level of granularity.

The data hub would also need to guarantee, by adequate data anonymisation and a proper data governance, that the information provided to third parties would only be used to promote the NPL secondary market and not to collect data on banks' balance sheets for other purposes (e.g. M&A processes). It would also need to be ensured that the data hub would not give way to antitrust issues.

Lastly, the data hub should take particular care when dealing with consumer NPLs. Close attention should be paid that the personal data and privacy of consumer borrowers is duly protected. Any sharing of post-transaction data in relation to consumer loans should be sufficiently high-level and anonymised to ensure that the consumer's privacy is duly protected. Personal data should not be processed as part of the EU data hub.

Questions:

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?

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?

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)? If not, what other safeguard should be considered?

1.5. Responsible organisation

Another important issue pertains to the question on who should be responsible for the establishment and management of the data hub. In this respect, a number of avenues could be explored. Existing market infrastructure could perform this task, possibly in cooperation with existing industry-led initiatives. Alternatively, a new public entity could be established to take up this responsibility. Another option would be to have a new private entity to assume the role of the European data hub.

In the first instance, as outlined in its action plan, the Commission would look at existing infrastructure and existing organisations that could take up these responsibilities. There are a number of such entities that would be able to do so. However, the establishment of a new piece of market infrastructure should not be ruled out. Based on the feedback received to this consultation, the Commission would consider the best way forward, including what policy measures would be needed. Among other elements, the Commission could consider a public tender procedure.

Questions:

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: what entity should be responsible and why?

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

1.6. Sharing data with the hub

The data hub would be a multi-party cooperation that meets a common information need in a mutually beneficial way. A range of market participants would need to provide relevant information to the data hub. As outlined above, this information could pertain to transactions that have taken place and, potentially, on the post-trade performance of assets. In return, these data providers would gain access to the pool of anonymised data and to the services offered by the data hub.

The aspect of stakeholders delivering/sharing data is crucial. many stakeholders would be induced to share data with the data hub by the inherent benefit of gaining privileged access to a valuable pool of data. Nevertheless, regulatory action might be warranted to enable the data hub to reach critical mass. In this context, an appropriate "carrot" and "stick" approach could support participation and thereby allow the hub to maximise its efficiency in delivering its financial market utility.

On the nature of participation, voluntary participation would be the least intrusive option. However, this might not guarantee sufficient degree of data provision, and mandatory approach might be necessary. Between the options of voluntary and mandatory reporting, a mixed approach could be considered, whereby a subset of critical data would need to be provided to the data hub. Disclosure of other relevant data could then still be done on a voluntary basis.

Data availability and the cost of the data collection process need to be duly considered. The cost for the collection of data for granular portfolios with small individual exposures and low expected recovery values (e.g. credit cards) needs to be balanced against the expected benefit. In order for the data hub to be an effective tool, benefits should generally outweigh the "costs".

Questions:

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.	

29. Under what conditions would you consider such an obligation to share specific data acceptable? Would regulatory action be necessary in your view?

29.1 If regulatory action would be needed, what approach should be chosen for your market segment?

1.7. Data hub governance and services

The data hub would need to ensure robust data governance, effectively managing the availability, usability, integrity and security of the data in enterprise systems. A harmonised data definition and structure would be key for the data hub. One of the main objectives for the data hub would be to establish itself as a provider of valuable harmonised data on NPL markets that many market participants use. In this respect, it would be beneficial to strive towards creating a common data taxonomy (using as much as practically possible already existing common data taxonomies). This would support efficiency and effectiveness of all sorts of data exchanges, including across different jurisdictions.

In terms of utilising the data hub, the principle should be 'usage by contributors', ideally also applicable to non-financial institutions currently servicing NPLs post transaction. Access to the hub should be limited to banks/originators and NPE operators. It would be important to ensure that all stakeholders contribute to the database on equal terms, providing post-trade information that is considered essential. Only when agreeing to contribute, one could gain access.

On the other hand, an important objective for the data hub would be to stimulate new market participants to enter into the market. The data should therefore ideally find an acceptable way to make the information (at least partially) available to market entrants, even though they would not yet be in a position to contribute (a significant amount of) information to the data hub themselves.

As regards the provision of services by the data hub, it would be conceivable that certain fees would be needed to cover the hub's relevant operating costs, whilst maintaining its overall not for profit business model.

The data hub could also be an NPL digital ecosystem between professionals and regulators. The data hub could provide a section dedicated to investors, where they can register their interest and investment preferences or highlight their investment experience, professional standard and available capital.

Questions:

30. What would be an appropriate data governance structure for the hub? Are you aware of best-practice examples in related areas, national or EU-wide, that the hub should strive to emulate?

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: …	

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

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

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?

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?

35. Should the hub be able to charge fees to cover administrative costs? If yes, how should these fees be determined? Under what conditions would you be willing to pay such fees?

1.8.   Mobilising existing data sources

A clear and important objective for the data hub would be to mobilise and re-use available (regulatory) NPL data much as much as possible. In this respect, it could be explored how the data hub could access and aggregate existing supervisory reporting and disclosures related to NPLs, and benchmarks for NPE monitoring metrics[4]. For aggregate data, the data hub should seek to connect with and leverage a number of data sources (see question 38 below).

Questions:

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? If so, what are the names of these initiatives and what services do they provide?

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

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

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[4] Including, FINREP - Commission Implementing Regulation (EU) No 680/2014; EBA guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10); ITS on institutions' public disclosures of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013; EBA GL on management of non-performing and forborne exposures (EBA/GL/2018/06); ECB guidance on NPLs

(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						
• FINREP supervisory reporting						
• Credit risk benchmarking exercise						

	1	2	3	4	5	No opinion
Judicial information:						
• efficiency data[5]						
• detailed timing of different in-court bankruptcy and foreclosure processes						
• judicial auction outcomes (number of auctions required by property type and region)						
• sales haircut vis-à-vis initial bank or court valuation (CTU)						
• relative frequency of main insolvency procedures and court driven restructuring measures						

	1	2	3	4	5	No opinion
Securitisations:						
• ECB ABS loan level initiative[6]						
• ESMA reporting for securitisations						
• Data collected in the GACS reporting template (Italy only)						

	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						

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[5] Cf. the 2020 EBA benchmark study, which could become a recurrent exercise. Data could provide indications on time to resolution, cost of recovery and recovery rates by asset class, country and workout procedure.

[6] Data available via European DataWarehouse.

	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						
• bank Pillar 3 disclosures						

2. TAILORING PILLAR 3 DISCLOSURE REQUIREMENTS

2.1. General

Pillar 3 of the Basel framework, as implemented in the EU by [Regulation (EU) 575/2013 (CRR)](#) and the [Directive 2013/36/EU (CRD IV)](#), aims at promoting market discipline by requiring public, structured, consistent and comparable disclosures. These disclosures provide market participants key figures and information relating to credit institutions' risk exposures and management policies.

Credit risk is a central part of the prudential supervision of credit institutions. It therefore features importantly in disclosures requirements in the banking sector. Article 442 of Regulation (EU) 575/2013 modified on disclosure of exposures to credit risk and dilution risk sets outs a list of requirements as regards non-performing and forborne exposures. Article 434a of Regulation (EU) 575/2013 mandates the EBA to develop draft implementing technical standards to ensure access to sufficient comprehensive and comparable information by the mean of uniform and standardised disclosures formats.

On this basis, the [Commission Implementing Regulation (EU) 2021/637 of 15 March 2021](#) provides for a series of new templates for disclosures on credit risk, credit quality of assets, performing and non-performing exposures and related provisions, maturity of exposures, changes in the stock of non-performing loans and advances, credit quality of forborne exposures, credit quality of performing and non-performing exposures by past due days, by geography, and by industry, collateral obtained by taking possession. In addition, large institutions having a gross NPL ratio above 5% will also have to disclose information on the net accumulated recoveries and cash flows related to all changes in the stock of non-performing loans and advances, the quality of forbearance, the collateral valuation and the valuation over time of the collateral recovered. The Commission Implementing Regulation (EU) 2021/637 is applicable from 28 June 2021[7].

2.2. Pillar 3 disclosure and market efficiency

Credit institutions are a key segment of the secondary markets. More granular information on the NPE strategies and the exposures of the credit institutions disclosed under Pillar 3 requirements could benefit the functioning of secondary markets. It would in particular enhance the transparency of credit institutions and would allow a detailed analysis by market participants of their individual situation.

Question:

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

2.3. Targeted areas for more detailed disclosures

Credit institutions are required to disclose information on their NPEs. However, as the principal players of the loan market and as original owners of the loans turning non-performing, they have a significant amount of data on NPLs, which could be leveraged.

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[7] Commission Implementing Regulation (EU) 2021/679 is largely consistent with the EBA guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10).

In this regard, we could consider the expansion of Pillar 3 disclosure requirements in some specific areas.

Taking into consideration the existing disclosures requirements and the upcoming templates provided by the Commission Implementing Regulation (EU) 2021/637, credit institutions could disclose some further information, for example, on their recovery performance. This would provide very useful insight to the market and could support the estimations of potential investor and give them a more comprehensive benchmark to value assets.

Since the operational constraints to recover value from distressed assets are essential to consider, the new areas to include into the Pillar 3 disclosure framework could focus in particular on recovery cash flows and the costs associated to the recovery process.

Questions:

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

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)						
Recovery rates (by asset class)						
Recovery rates (by past due days)						
Recovery rates (by country)						
Time to recovery (average)						
Time to recovery (by asset class)						
Time to recovery (by country)						
Judicial costs (average)						
Judicial costs (by asset class)						
Judicial costs (by country)						
Others: …						

2.4. Extension of the scope of disclosures

As of today, the Pillar 3 disclosure requirements are limited to credit institutions, and some important NPL-related disclosures requirements only apply to large institutions having significant amounts of NPLs on their balance sheets. Therefore, only a part of the market will provide an extensive and complete view of their non-performing exposures and their recovery (although the disclosure has been extended and improved for all credit institutions by the ITS on disclosures). In the context of the COVID-19 crisis, a broader scope for the NPL disclosures and more transparency for the market could help to tackle NPLs quickly and efficiently.

The extension of disclosures could also target some segments of the market where the transparency could be improved and where the market discipline is limited. Given that Pillar 3 disclosure requirements apply to credit institutions only, we could envisage the creation of new disclosure requirements for credit purchasers and/or credit servicers operating on secondary markets. Enhancing the transparency of the market participants would support the development of sound and efficient secondary markets.

Questions:

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

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?

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

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)						
Size and nature of the portfolios (consumer loans, corporate loans)						
Simple threshold of total NPLs						
Other: …						

2.5. Keeping reporting burdens manageable and avoiding regulatory overlap

The Commission is aware that providing more disclosures entails costs for the entities concerned. Therefore, the Commission is determined that reporting costs associated with such additional disclosures will stay manageable, and that the benefit of more disclosures to foster market transparency is greater than the costs and efforts that institutions have to cope with. However, it is worth to note in this regard that the costs of additional disclosures could be significantly reduced if these are consistent with existing supervisory reporting framework, under which banks report information to the competent authorities on a regular basis. Yet, it will be important to ensure that the additional data provided by institutions will not overlap with other requirements, in order to avoid unnecessary burden where the information is already available.

Questions:

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? Would additional disclosures add a significant cost?

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?

48. How should a balance be struck between larger data transparency and reporting costs? Would more data, resulting from targeted Pillar 3 changes, with a high degree of certainty add more value than costs to the market?