

Targeted consultation on improving transparency and efficiency in secondary markets for non-performing loans

Summary report

1. INTRODUCTION

1.1. Background

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 Action Plan on "Tackling NPLs in the aftermath of the COVID-19 pandemic".

1.2. Purpose, timing and structure of the targeted consultation

Pursuant to the Commission NPL Action Plan, a targeted consultation was launched. The consultation covered two main policy areas. First, possible alternatives for establishing a data hub at European level, this data hub being responsible to collect and store anonymised data on NPL transactions that have taken place in the EU. Second, the potential review of Pillar 3 disclosure requirements under the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

The consultation was open for 12 weeks, from 16 June 2021 to 8 September 2021 and was available in English only. It raised 49 questions in total: 39 focusing on the NPL data hub and 10 on the potential Pillar 3 disclosure review. The respondents had the opportunity to provide additional comments in an open box for almost every questions in the consultation. All contributions were submitted online and are available on the website of the targeted consultation.

1.3. Overview of respondents

In total, 35 organisations submitted a response to the targeted consultation. All but three of them were stakeholders from the EU. Responses received were largely from stakeholders representing credit purchasing or credit servicing entities (48%) and the banking sector (37%) (see chart 1). The distribution of nationalities of the respondents is shown in chart 2, revealing relatively many responses from Italy and Germany (17% each of total).

Chart 1. Field of activity

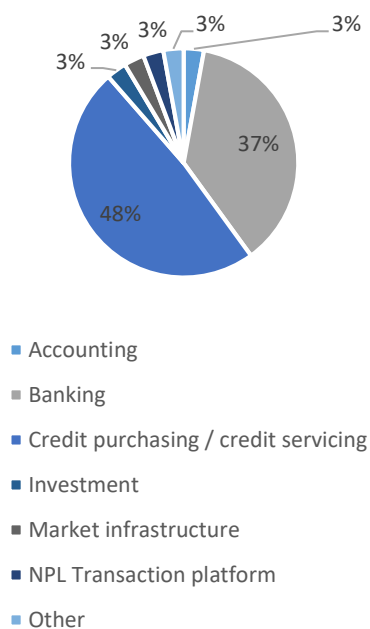
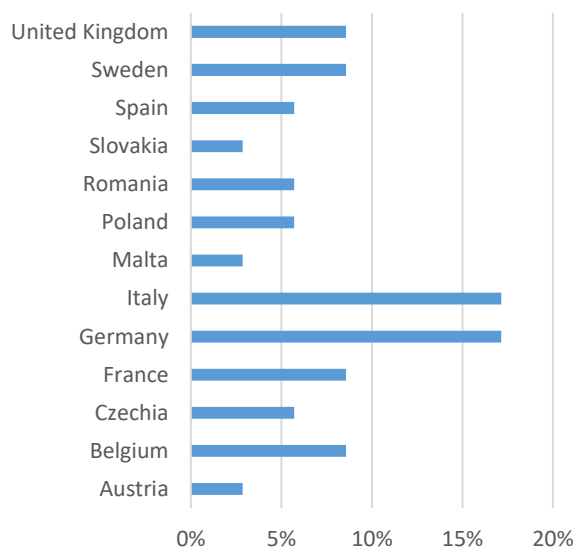


Chart 2. Country of origin



2. SUMMARY OF KEY MESSAGES

This document aims to provide a summary of the responses received for the targeted consultation. Each subsection contains a brief synopsis of responses received for a specific topic, while the analysis does not aim to give an overview of responses for each individual question.

2.1. Establishing an NPL Data hub at European level

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

Most of the respondents shared a positive opinion on the way the NPL secondary markets are currently functioning. Some of them (mostly credit purchasers or credit servicers) consider overall that the level of transparency on NPL secondary markets is adequate, and that more transparency could disturb the market.

However, they underlined that some improvements could be considered, namely the harmonisation of insolvency regimes in the EU, the reduction of the time period for cash distribution by courts and the implementation of efficient enforcement and judicial proceedings. They also stressed the importance of the revision of the EBA data templates, which is currently underway.

2.1.2. Scope of the data hub

The first point to consider when establishing a data hub is the scope of the data collected.

Most respondents took the view that the data collection should not cover all data fields of the upcoming revised EBA NPL templates. Although the templates will implement a standardised data format, respondents underlined that transactions reported throughout these templates are very heterogeneous and could therefore not be easily compared when put together in the data hub. Respondents shared also concerns about the potential unreasonable costs, in case of an excessive granularity of the data points transmitted to the data hub.

A key concern emerging from responses received is about data confidentiality. Respondents pointed out that there might be issues regarding contract information covered by confidentiality clauses, business information and borrower information and privacy issues.

2.1.3. Asset perimeter: types of transaction to be distinguished

Respondents recommend to limit the asset perimeter of the data hub to segments of the secondary markets that may be better prepared to comply with new data requests (in particular securitisations). Additionally, a large majority of respondents does not support the provision of historical data to the data hub, raising concerns relating to the unavailability of the data and the potential breach of non-disclosure agreements conclude at the time of the transaction.

2.1.4. Data protection

As stated before, a large majority of respondents shared their concerns regarding the potential issue as regards data protection. Respondents consider in particular that because of the need to provide information on collateral the full anonymization of debtor-related data would be difficult, especially for markets with few jurisdictions or because of possible geographical identification. Another possible issue is the potential identification of the seller, depending on the specification of the loan portfolio to be sold.

2.1.5. Responsible organisation

Overall, respondents tends to agree that the data hub should not be managed by a private company, because of the risk of potential conflict of interest, and would rather support the taking up of this responsibility by a public entity.

2.1.6. Sharing data with the hub

Almost three quarters of respondents advocated for a voluntary provision of data to the hub, at least as a starting point. The respondents indicated several preconditions that they consider necessary before considering a mandatory reporting of information: First and foremost a complete assessment of the costs and benefits involved by such obligation. They also stressed that the data hub should be able to ensure the full anonymization of the data disclosed. They finally provided some specificities regarding the disclosure itself (periodicity, minimal threshold, aggregated disclosure, reciprocity to access the data).

2.1.7. Data hub governance and services

The views expressed under this section are principally linked to the question of the right to access the data shared with the data hub. Respondents suggested first to restrict access to the hub to market participants with a track record of relevant experience and/or an authorisation. Respondents proposed also to authorise a free access for a period of time to high-level and aggregated data, in order to encourage new participants to join, with the obligation to provide data afterward in order to obtain the full access. A last proposal was to link the volume and quality of information reported by an institution to the level of accreditation granted to that institution to access the data: it could be based on the volume of optional information reported to the hub (in case of a combination of compulsory and optional data provision) or on the total volume of information provided.

2.1.8. Mobilising existing data sources

Respondents shared their potential interest in having the possibility of a centralised access through the data hub to other databases, such as the AnaCredit database, the data collected in the GACS reporting template, or data related to insolvency and judicial proceedings.

2.2. Tailoring Pillar 3 disclosure requirements

2.2.1. Pillar 3 disclosure and market efficiency

According to the views expressed by respondents, the level of granularity of Pillar 3 disclosure is satisfactory at the time and provides enough information to the market. Should additional Pillar 3 disclosure be considered, the additional advantages of such reporting should be thoroughly assessed.

2.2.2. Targeted areas for more detailed disclosures

Some respondents explained that, in order to increase market transparency, disclosures on workout of NPLs (recovery rates, time to recovery etc.), performance data and further breakdowns (by asset class, country, collateralization level, etc.) could be helpful.

2.2.3. Extension of the scope of disclosures

A majority of respondents do not see a clear benefit in extending the scope of disclosures beyond credit institutions, although other respondents indicated that extending the scope of such disclosures to all market participants would help to improve transparency, especially if this reporting focuses on recovery. It might be useful to challenge this result with a larger panel of respondents.

2.2.4. Keeping reporting burdens manageable and avoiding regulatory overlap

Respondents stressed that keeping reporting burdens manageable and avoiding regulatory overlap with existing reporting was a key element in their view. Some of them raised concerns about expected rising costs due to additional Pillar 3 disclosures (IT investments, operational implementation, compliance costs etc.).

3. CONCLUSIONS AND DISCLAIMER

The general and targeted public consultations have facilitated the collection of views from a wide range of stakeholders, which will be duly considered in the following steps of the European Commission. However, a number of issues remains opened and would deserve deeper analysis.

Disclaimer:

The contributions received to the general and targeted public consultations that were open for feedback mid-2021 for 12 weeks, cannot be viewed as the official position of the Commission on the topics covered.