

## **Alert | Banking & Financial Services**



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### **European Banking Authority Discussion Paper for the Review of the Standardized NPL Data Templates**

On 4 May 2021, the European Banking Authority (EBA) published a discussion paper (Discussion Paper) to facilitate the review of the standardized NPL (non-performing loans) data templates.

Public comments on the Discussion Paper may be submitted from 4 May 2021 through 31 August 2021.

After receiving feedback from the NPL market participants, the EBA will prepare a revised version of the data templates, which will be published by December 2021.

The NPL templates were initially developed by the EBA in December 2017 to enhance standardization of NPL-related data, reduce information asymmetries between potential buyers and sellers of NPL portfolios, and facilitate financial due diligence and valuation of NPL. The templates also seek to enhance the granularity, quality, and comparability of NPL data and to increase transparency and certainty of the secondary markets in the European Union.

The NPL templates are not a supervisory reporting requirement; rather, they are intended to be used by banks on a voluntary basis for NPL transactions and to form the basis for NPL secondary markets initiatives.

The templates provide loan-by-loan data, including information on counterparties related to the loan and the collateral provided, taking into account different data needs for the initial data screening of an NPL portfolio and the subsequent financial due diligence (FDD) and relevant assessments.

To address the different data needs during the screening and the FDD and valuation phase of NPL transactions, two sets of templates have been developed by the EBA: the “EBA NPL transaction templates” and the “EBA NPL portfolio screening template”:

EBA NPL transaction templates:

- a. provide the most granular and extensive level of data fields, and
- b. are meant to enable potential bidders to conduct FDD and valuation of an NPL portfolio in a transaction context.

EBA NPL portfolio screening templates:

- a. the example data fields at this level are a subset of the EBA NPL transaction templates and are meant to provide information commonly required to perform a market sounding exercise, through a non-exhaustive list, and
- b. the data fields allow a stratification of the NPL portfolio to provide a high-level view thereof to investors and other third parties potentially involved in transactions, usually in the form of an investment teaser. The EBA NPL aims to enable potential bidders to perform an initial screening of the NPL portfolio during the first phase of an intended NPL transaction.

The EBA’s Discussion Paper proposes several changes to the existing templates such as restructuring data categories, designing asset classes, reducing data fields, categorizing data fields as critical and non-critical, and presents proportionality considerations.

The EBA’s publication of the Discussion Paper follows the European Commission’s action plan to tackle NPL in the aftermath of the COVID-19 pandemic published on December 2020 (on the European Commission’s action plan, see also GT Alert of 2 February 2021, [NPL: The European Commission’s Strategy to Tackle the Coronavirus Crisis](#)).

In fact, as mentioned in the Discussion Paper, the European Commission, in its communication of December 2020, stated that the NPL data templates are not yet widely used by market participants due to voluntary nature and complexity of the templates, and invited the EBA to review the templates on the basis of a consultation with market participants, both on the buyer and seller side, to take place in 2021.

In light of the foregoing, the objective of the Discussion Paper is to strengthen the dialogue with market participants in order to make the existing NPL data templates simpler, more proportionate, and more effective, so as to achieve the right balance between the cost of information provided and the ability of users of the data to effectively price the potential transaction.

In the Discussion Paper, the EBA stresses that stakeholder feedback is essential for the review and revision of the templates and would provide valuable input for potentially turning the revised templates into binding standards, which is currently being discussed in the framework of the proposed directive on credit servicers and credit purchasers.

In the EBA's view, the NPL data templates are expected to play an important role in addressing the increasing levels of NPLs in the aftermath of the COVID-19 pandemic and the resultant impact on the EU banking sector: in order to manage potential deterioration in asset quality in the foreseeable future, effective choices for NPL strategies for banks is crucial.

Secondary market transactions represent one of the tools available to banks to manage and reduce NPLs. Access to a functioning and efficient secondary market is therefore necessary for all actors in the EU banking sector, and the templates presented in the Discussion Paper are designed as a public good and rely on critical mass usage to lower costs for all market participants to achieve the desired outcomes in the NPL secondary markets.

The adoption of enhanced standards, by filling the traditional information gaps, will prove beneficial to sellers, buyers and advisors in the assessment and pricing of NPL portfolios and in the negotiation of all aspects of the transactions.

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