

## **Response to the EBA discussion paper on the review of the NPL transaction data templates**

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### **Position Paper**

Intesa Sanpaolo during the past years had a leading role in the development of deep, efficient and sustainable NPL markets. From the start, Intesa Sanpaolo has been at the forefront of multiple industry-led initiatives on NPL data transparency and has actively contributed to the discussions among co-legislators on the Directive on Credit servicers and credit purchasers, bringing to the debate the best practices from the Italian NPL market. Most recently, the Bank has in March 2021 taken part to the EBA survey on the criticality and availability of data in NPL markets.

Since 2015, Intesa Sanpaolo has successfully performed more than 44 billion of deleverage (reducing its gross NPL stock by ca. the 70%) through more than 30 disposal processes on the market dealing with the full spectrum of investors' arena, *in border* and *cross borders*. Intesa Sanpaolo completed NPL transactions by almost any solution available on the market for asset disposals, including, but not limited to securitisations, debt funds, state guarantees, true sale, etc. All this has led the Group to the remarkable results of reducing the Gross NPL Ratio from 17.2% down to 4.4%<sup>1</sup>.

Nonetheless, measures that help improving the size and liquidity of secondary markets for NPLs across EU Member States, and that help address current market failures, are welcomed. In this sense, one important piece for completing the development of NPL secondary markets is certainly data quality and data transparency. The existing data templates introduced by the EBA Guidelines in 2017 failed to improve information asymmetry and did not establish themselves as a valuable market standard.

Intesa Sanpaolo therefore welcomes the publication by the EBA of the public consultation on the review of the NPL transaction data templates, in collaboration with the industry and on the basis of the practical experience gained from past NPL transactions. For a detailed and comprehensive response to the consultation we refer to the document elaborated by the Italian Banking Association (ABI) which we fully support.

Here we would like to take the opportunity to emphasize few crucial points that we believe should be at the centre of the reviewed NPL data templates.

- **Each NPL asset class requires specific data:** the features of NPL portfolios can hardly be standardized and differences exist both in country and in loan/asset class specificities. In many cases data quality can depend on many factors affecting legacy portfolios, which therefore pose an additional hurdle to standardization. The result often is that very similar clusters of NPLs end up having very different prices attached in the market. Therefore, each portfolio has a its own set of information depending on the legal

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<sup>1</sup> Data reported in this paragraph are at IQ2021, excluding UBI Banca integration

process behind it. A very clear example of the hurdles related to data standardization is the experience which have so far accompanied the adoption of the templates for securitized performing loans required by the European Central Bank.

- **Investors need only critical information:** the set of data as proposed by the EBA's Discussion Paper needs still some fine-tuning to be in line with the best market practices. It is of course always in the interest of the seller to provide the most complete information to the buyer, in order to increase the value of the asset, but banks' information systems do not have the same degree of information for all legacy portfolios. This is why it is important to focus the harmonization efforts on a minimum and critical set of data points and to retain for banks the possibility to consider some of them as "not applicable" depending on the data availability of legacy portfolios. In any case, required data fields should only be those considered critical/essential by investors according to the specific asset class of the NPL portfolio. Many data fields are not usually exchanged by market players and should therefore be excluded. For a detailed analysis of the fields which we deem non-critical please refer to the abovementioned ABI response.

On the contrary, some fields which are excluded by the Discussion Paper are important data points for NPL transactions in Italy: it is the case, for example, of the fields "mortgage amount" and "mortgage registration date" (Cfr. Para 42 of the Discussion Paper) which should be considered as critical for the Italian NPL market.

For all other data fields not considered as "critical", banks should always retain the option of considering them as "not applicable", especially given the fact that, as said, the Directive on Credit servicers and credit purchasers captures some legacy NPL (i.e. pre-dating the entry into force of the Directive) for which some information may not be fully at the disposal of banks.

- **Proportionality is key:** this concept needs to be clearly defined in order to avoid uncertainty and a disharmonious application in different jurisdictions. In order to maintain a certain degree of level playing field, the minimum critical data fields should remain the same for all transactions regardless of the size of the exposures. Proportionality thresholds should distinguish single name transactions (for which data templates are not a market practice) from portfolio-based transactions and should be calibrated in line with the size of the local NPL market.
- **Double reporting should be avoided:** finally, the review of the NPL data templates should be accompanied by a rationalisation of the reporting requirements already in place as regards NPLs. As also recognized by the Directive on Credit servicers and credit purchasers, the EBA should be particularly mindful of any duplication with the existing templates such as, inter alia, the European Securities and Markets Authority templates required for securitized transactions.

Intesa Sanpaolo hopes to continue the dialogue with Regulators on the many proposals surrounding NPL markets and remains at the EBA's disposal for any follow up to this public consultation.