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# Final Draft Implementing Technical Standards from EBA for NPL Transaction Data Templates

## Overview

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On December 16, 2022, EBA published the final draft Implementing Technical Standards (ITS) regarding the data templates for non-performing loan transactions. Once adopted by the European Commission, the revised templates will become mandatory for credit institutions in the course of 2023 for the provision of information to investors under the directive on credit servicers and credit purchasers (Directive (EU) 2021/2167, **EBA 2022a**).

EBA has designed the loan-level templates for sellers to provide standardised information to potential buyers of NPLs for the purposes of financial due diligence and valuation with the objective to increase efficiency in the market for NPLs and to reduce information asymmetries between the sellers and buyers of NPLs. The ITS templates are complemented by a data glossary and instructions for filling in the templates.

EBA collected feedback on the templates from market participants as part of a public hearing and consultation that closed in September 2022 (**EBA 2022b**). NPL Markets together with 30 other stakeholders commented on the consultation paper. In this note, we summarise the main changes made by EBA in the final draft. We welcome the final draft and believe that EBA found a reasonable compromise between buyers and sellers in defining a core data set. The new ITS do not create regulatory reporting obligations and non-delivery of mandatory fields will not result in sanctions other than through market discipline. Nevertheless, we remain concerned that the introduction of mandatory fields may deter some banks from selling NPLs if they cannot approach investors with a full list of all applicable mandatory fields. We expect credit institutions to adjust their internal IT system to the new data demands. Transaction data being governed by market discipline means that transactions that were feasible in 2022 will remain feasible in 2023 while any data gaps are being addressed.

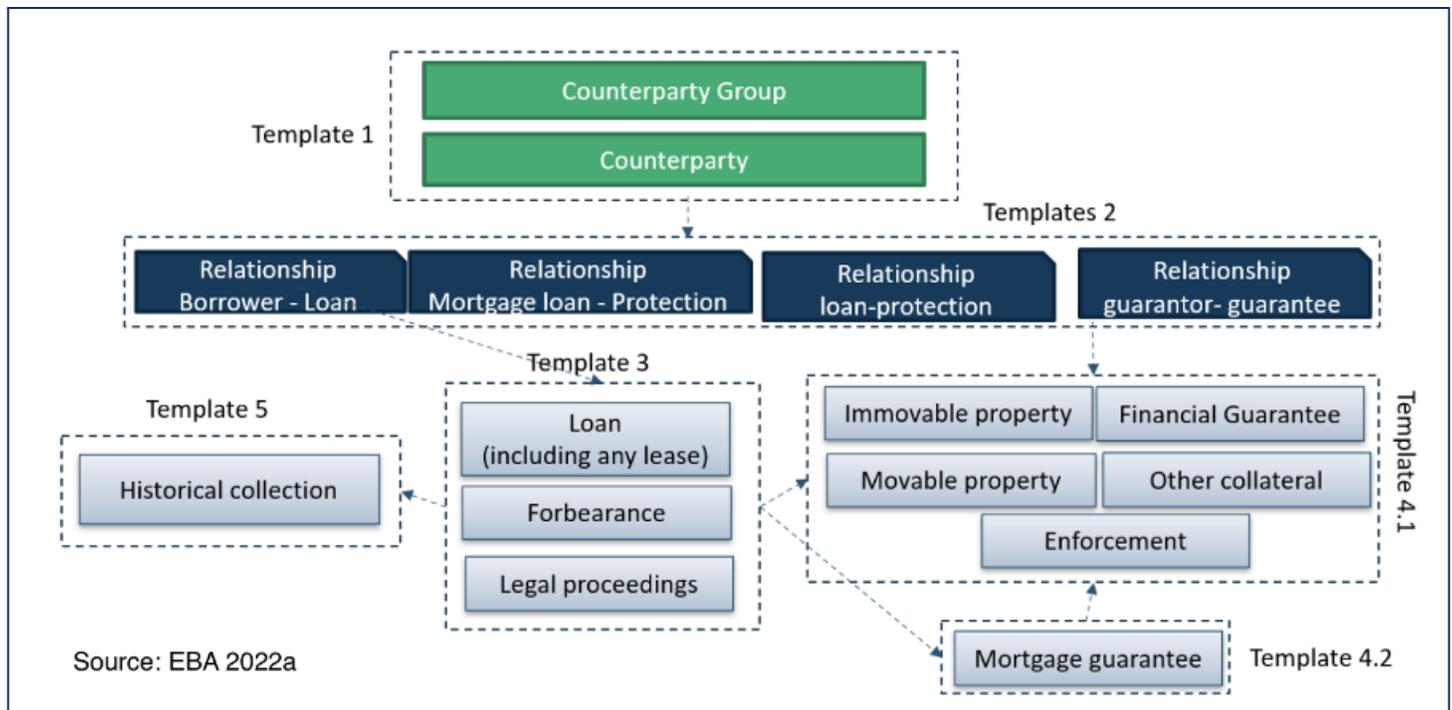


Figure 1: NPL transaction data template structure as of the final draft ITS (EBA 2022a).

## Main changes in the final draft and key takeaways

- The draft ITS have been submitted to the European Commission and once adopted will become mandatory for credit institutions in the course of 2023.
- **In scope time window:** The scope of use of the templates has not changed. The templates shall be used for loans that were originated on or after 1 July 2018 and that became non-performing after 28 December 2021. For loans outside this time window, EBA encourages credit institutions to fill in the templates on the 'best-efforts' basis with information that is available to them.
- **In scope transactions:** The templates shall be used by credit institutions for the provision of information to credit purchasers on exposures in the banking book when selling rights under a non-performing credit agreement or the non-performing credit agreement itself<sup>1</sup>. Performing loan sales, NPL securitisations, trading book assets, debt securities and derivatives fall outside the scope of the draft ITS.
- **Core data and additions:** EBA has clarified that the templates represent the minimum content of the actual data tape to be filled in, recognising that this core dataset can be supplemented by additional information depending on the specific transactions. When providing additional

<sup>1</sup> Loans that have been classified as non-performing in accordance with Article 47a of Regulation (EU) 575/2013.

information beyond the requirements of the draft ITS, EBA encourages credit institutions to refer to the data fields and their related definitions as provided in the 2018 EBA NPL transaction data templates.

- **Mortgages:** The structure of the templates has not changed from the consultation with one important exception regarding mortgages. The templates cover information regarding counterparties related to the loan (Template 1), relational links (Template 2), contractual characteristics of loan itself (Template 3), any collateral and guarantee provided including any legal and enforcement procedures in place (Template 4.1), and the historical collection of loan repayment (Template 5, see chart above). Based on our and other stakeholder's feedback, the information on mortgages has been reinstated as a Template 4.2. We welcome this necessary change to better reflect the details of real estate secured loans.
- **Proportionality:** The draft ITS are based on the principle of proportionality and set different information requirements depending on the nature of the borrowers and of the loans included in the portfolios to be sold. The proportionality principle allows all data fields to be treated as not mandatory for certain types of transactions (e.g., for intra-group transactions, when selling or transferring single loans or borrowers, syndicated loans or loans to borrowers domiciled outside the EU). The principle of proportionality also applies to selling or transferring NPL linked to natural persons with small unsecured loans that are outside the scope of Directive 2008/48/EC e.g., for claims smaller than EUR 200.
- **Mandatory data fields and no data options:** The mandatory data fields are identified in the data glossary and must be provided by credit institutions, except for limited 'not applicable' circumstances specified in the instructions. Altogether the templates include 129 data fields out of which 69 data fields are mandatory. Credit institutions should make reasonable efforts to provide information for the data fields that are not marked as mandatory. The no data options approach was deleted in the final draft.
- **Enforcement of the templates:** EBA notes that there is no supervisory or other enforcement mechanism for the standards and the enforcement will be done through market discipline. In case of non-delivery of mandatory fields, no supervisory sanctions or measures are applicable. The EU competent authorities may, however, assess the availability of information and use of the template as part of their supervisory activities in the area of NPL management or credit risk management by the credit institutions.
- **Best practice guidelines and confidentiality:** The draft ITS include requirements for the treatment of confidential information and highlight the importance of adequate internal governance procedures by credit institutions to ensure that the data provided is complete and accurate. However, there are no specific internal governance requirements set out within the draft ITS. Instead, EBA references the European Commission Guidelines for a best execution process for sales of non-performing loans on secondary markets (**EC 2022, NPLM 2022**) to ensure confidentiality and an adequate treatment of personal data. The draft ITS provide a possibility for sellers and prospective buyers to agree not to share personal data at the early stage of the transaction process.
- **Legal process information:** An important and complex problem in the valuation of NPL is related to legal process information which is country and asset class specific. Legal process information may

be required at loan, counterparty or collateral level and the final draft decided to split the data fields relating to legal processes across the three templates with minimal duplication.

- **Transaction platforms:** EBA expects the extended use of the NPL data templates to widen the investor base and facilitate the work of transaction platforms. The EBA templates apply to any transfer whether a transaction platform is used or not. Where transaction platforms are used to organise the sale or transfer process of NPL, further requirements for the electronic and machine-readable format may be set out by such platforms.

## Comments and Conclusions

We welcome the publication of the draft ITS and the revised transaction data templates by EBA. The templates are fit for purposes defining a common core data set and we welcome the clarification that specific transactions may require additional data. We also welcome that EBA dropped the requirements for specific no data options which we consider unnecessary.

In our experience in working with the voluntary EBA NPL templates version 1.1 since 2018, we can confirm that not all the originally published 440 or so data fields are part of the common core. Nevertheless, to capture investor data requirements across 27 jurisdictions and many asset classes we have since increased the data template of our transaction platform to above 800 data fields as many NPL portfolios received by us report data fields that are not part of the templates.

While we respect the decision to keep the templates lean, it will mean that data providers will likely need to significantly transform their historical collection and legal process information to fit the templates. Also, the provision of legal process information has changed from the earlier 2018 templates to the final draft. For example, the field 1.30 *Name of Insolvency/Restructuring Proceedings* has been kept in the Counterparty template, whereas 3.26 *Stage reached in legal proceedings* was moved to the Loan template which in our view is not current market practice. In addition, the field 3.26 is now an alphanumeric field whereas it used to be a choice field with specific choices representing early, intermediate and late stages of the process better facilitating an algorithmic treatment of the process stage. We expect that data providers will need to transform their source data and use additional non-standard data fields to provide a more complete picture of legal processes. For example, while the templates provide for *Jurisdiction of court* as a country field, investors generally want to know the exact name and location of the court in the respective city or province.

EBA emphasises the principle of proportionality which means that for some transactions none of the defined data fields are mandatory. Unfortunately, it is not clear whether in circumstances where none of the defined data fields are mandatory the use of the template is also not mandatory. The draft text of the Commission Implementing Regulation specifies in paragraph (8):

*In those circumstances, the provision of information specified in the mandatory data fields and the use of templates set out in this Regulation may be disproportionate and credit institutions should consider all data fields as not mandatory.*

Hence, the regulation acknowledges that the use of the templates may be disproportionate but does not state that the use of the template is then also not mandatory. Important examples where no fields are mandatory include single loan/borrower transactions, syndicated loans or portfolios of small unsecured claims to private individuals.

In the recent consultation paper, EBA discussed a potential loan threshold of EUR 25,000 to implement the proportionality principle with fewer mandatory data fields required for loans below this size threshold. This threshold has been dropped in the final draft and instead EBA introduced the reference to Directive 2008/48/EC which is applicable to consumer loans above EUR 200. In practice this means that nearly all unsecured retail portfolios will need to provide the templates and the mandatory data fields at least for some of the included exposures.

We agree that data standardisation helps to make due diligence and valuation processes more efficient in line with the stated objectives of the draft ITS. However, we remain concerned that the introduction of mandatory data fields will create a barrier for banks to sell their NPLs. Section 4.13 of the draft Regulation states:

*For mandatory data fields as marked in the data glossary, a value shall be provided, except where the information is not applicable in relation to the underwriting criteria specified in the description of the data field or in relation to the borrower type or the loan type.*

We think this language is not sufficiently clear in defining the circumstances in which mandatory fields may not be provided. An example is the mandatory field for secured loans 4.10 Higher Ranking Loan which is certainly price relevant and in our view applicable under any underwriting criteria but may not be available without significant effort and expense to the data provider. EBA states clearly that the templates are not considered a regulatory reporting requirement and that in case of non-delivery of mandatory fields, no supervisory sanctions or measures are applicable while market discipline shall ensure the enforcement. We hope this clarification is sufficient not to create a barrier for banks to sell NPL where not all mandatory fields can be provided.

## References

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## About NPL Markets

NPL Markets is an innovative marketplace for illiquid loan trading operating in 27 countries throughout Europe and the Americas that is based on the four pillars: Data preparation, Marketplace execution and investor reach, Valuation, and Reporting. NPL Markets helps sellers to prepare and standardise transaction data and select the optimal transaction portfolio based on balance sheet impact, supports investors with deal screening and initial valuation and provides online revaluation and reporting tools.

With the help of its proprietary Data Mapping software NPL Markets helps financial institutions to map their data to a variety of data formats including the new transaction templates defined by EBA for NPL transactions. Other templates include securitisation disclosures based on templates published by ESMA or the FCA. Once standardised and validated the loan-level data can be uploaded to the NPL Markets valuation tool to conduct a detailed discounted cash flow analysis using pre-populated pricing parameters in different macroeconomic scenarios across all major asset classes.

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