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NPL Trading Platforms: Experience from Europe

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Background – Failures of the EU NPL Market

• A market for 'lemons'; intransparency • High costs of overcoming intransparency (investors)	**Market failure 1)** *Information & transaction costs*
• Few investors can absorb costs; barriers to entry	**Market failure 2)** *Bargaining problems*
• Even when they can, cannot be sure of exclusive rights to debtors	**Market failure 3)** *Insufficient control*

• Creates oligopsony, eliminates price competition and crystallises low prices associated with 'lemons' market
• Market failure
  • banks generally can't afford to sell
  • many investors excluded from the marketplace
  • wide bid-ask spreads; low market liquidity	

Source: Fell, J., M. Grodzicki, D. Krusec, R. Martin and E. O'Brian (2017)

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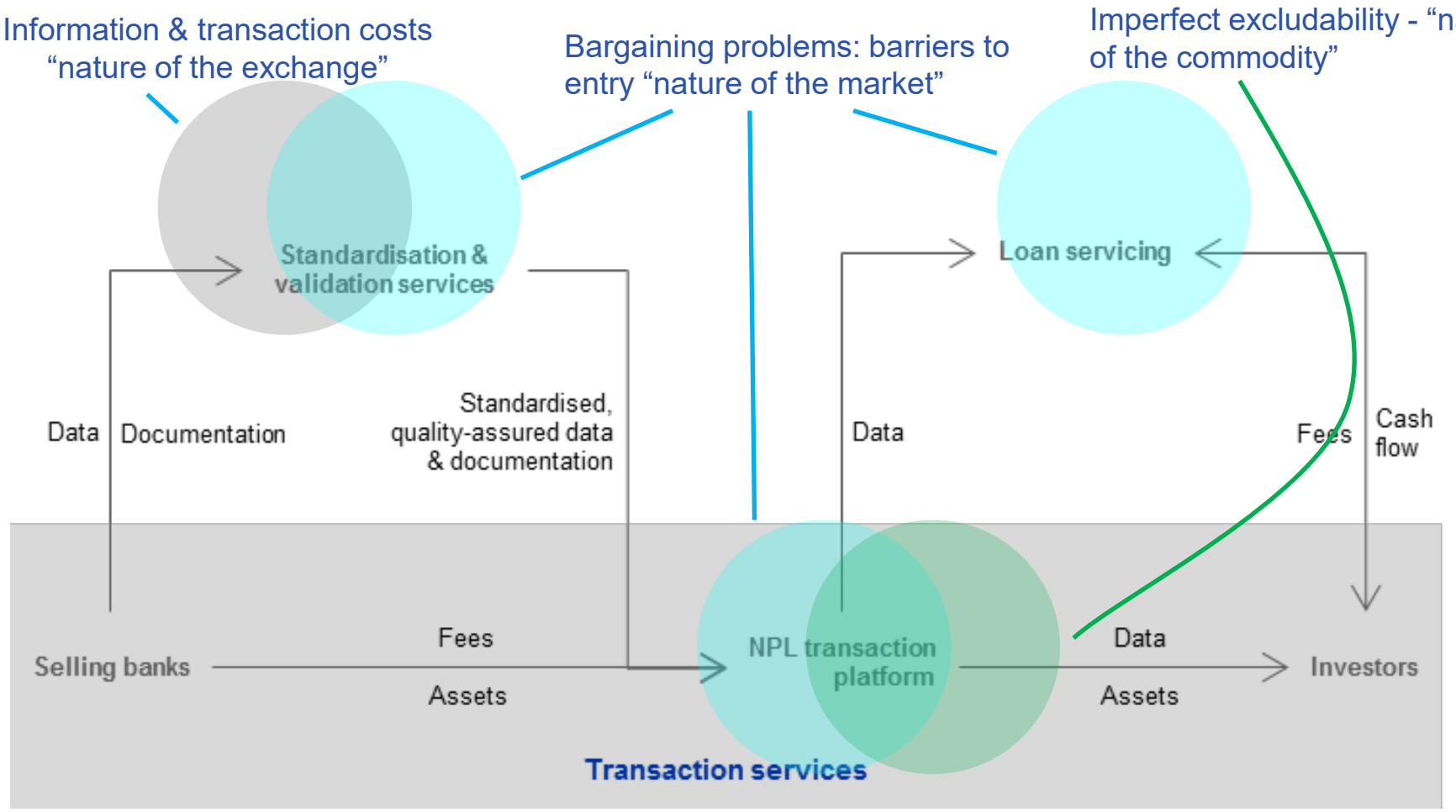
Background – addressing market failures



Source: Fell, J., M. Grodzicki, D. Krusec, R. Martin and E. O'Brian (2017)

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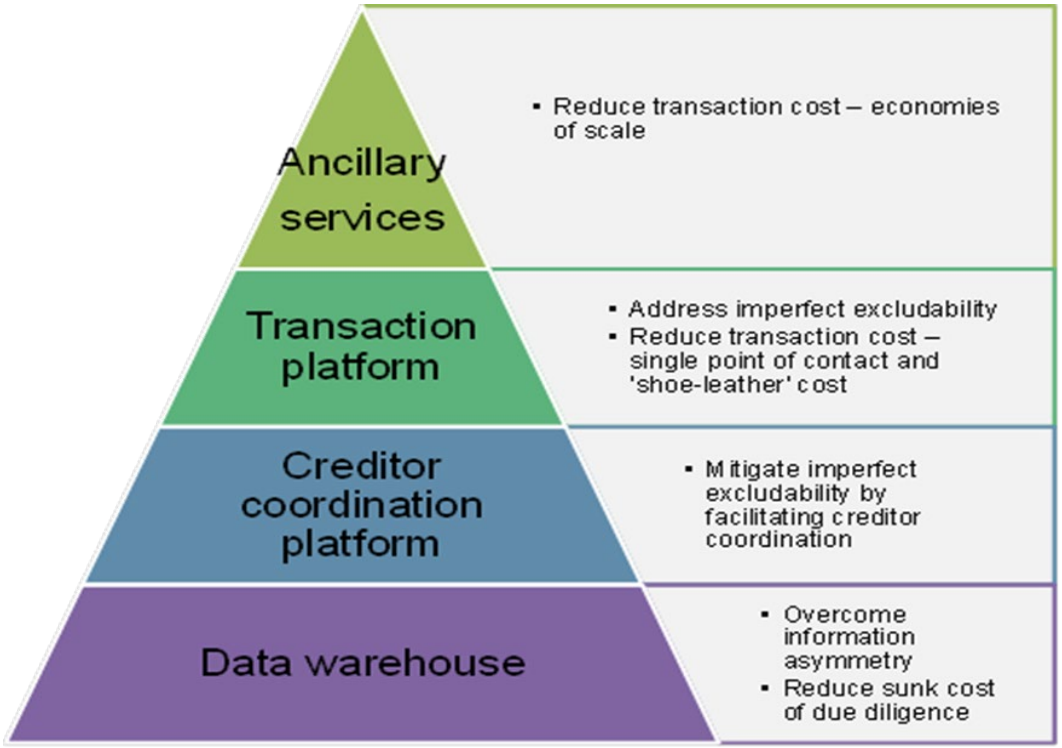
Background – Platforms can be Multi-Facetted



…but NPL platforms are no silver bullet. **Only one element of encompassing NPL resolution strategies,** including e.g.

- bank-internal workout,
- securitisation and
- AMCs,

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NPL Platforms in Europe – Progress so far

Institutional 'Genesis'

- Idea triggered by ECB in 2017
- EU NPL Action Plan (2017) included the idea of NPL Transaction Platforms
- European Commission (EC) (in collaboration with ECB and EBS) published a Staff Working Document on 'European Platforms for Non-Performing Loans' (2018)
- Roundtable of industry experts organised by EC (2019)
- Idea of a central NPL data hub at EU level stressed in EC's Communication on 'Tackling NPLs in the aftermath of the Covid-19 Pandemic' (2020)

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NPL Platforms in Europe – Progress so far

Common 'conceptual denominator' reached so far

- **Broad scope desirable**
  - all loan types should be eligible for inclusion (unlike the more selective approach for AMC's in EU's 'AMC Blueprint')
  - Open to all types of sellers and (professional) buyers
  - Wide geographical scope – ideally EU-wide – to obtain economies of scale

- **Scope of services to be provided**
  - Ensure data quality and high degree of data standardisation
  - Could conduct data quality checks and define data validation standards
  - Could offer a price discovery mechanism
  - Could intermediate between investors and 3rd party providers
  - Never own nor service any loans, do not settle NPL transactions (!)

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NPL Platforms in Europe- Open issues

- **Ownership – public versus private, national versus European**
  - EC sees no clear-cut case for public ownership and considers EU institutions mainly as 'facilitators'
  - National public ownership seen as politically sensitive
  - EC idea of a 'network' of privately-owned platforms, adhering to industry standards, enforced by an industry body (self-regulation). *Details TBD*

- **How to square 'bottom-up' approach with pan-European scope?**
  - Expansion of existing 'national' platforms into other jurisdictions?
  - Some (limited) progress:
    - *Cooperation between Debitos (DE) and doValue (IT) starting in 2020, now expanding to GR and CY)* but not yet on a large scale
    - Creditor coordination platforms in Portugal and Greece
  - Are NPL markets across EU still so diverse that a stronger top-down approach is needed?

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NPL Platforms in Europe – Open issues

- **Data to be used for the platform**
  - EBA published NPL data templates in 2017
    - Wide stakeholder involvement in their design
    - 'screening' vs. (more detailed) 'transaction' templates;
    - Identification of subset of 'critical' data fields
  - Not used in practice(!); now to be reviewed and streamlined
  - Design problem or stronger (regulatory) push needed?

- **Are the incentives sufficiently strong?**
  - Banks should have an interest in well-functioning platforms with strong economies of scale and scope!
  - But they face monetary costs (improving / adjusting NPL data, platform fees), possible reputational risks and benefits are uncertain
  - Stronger incentives needed?
    - Regulatory costs and benefits of (not) using the platform
    - Tax incentives

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Thank you for your attention!

Comments / Feedback?

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