

NPL Trading Platforms

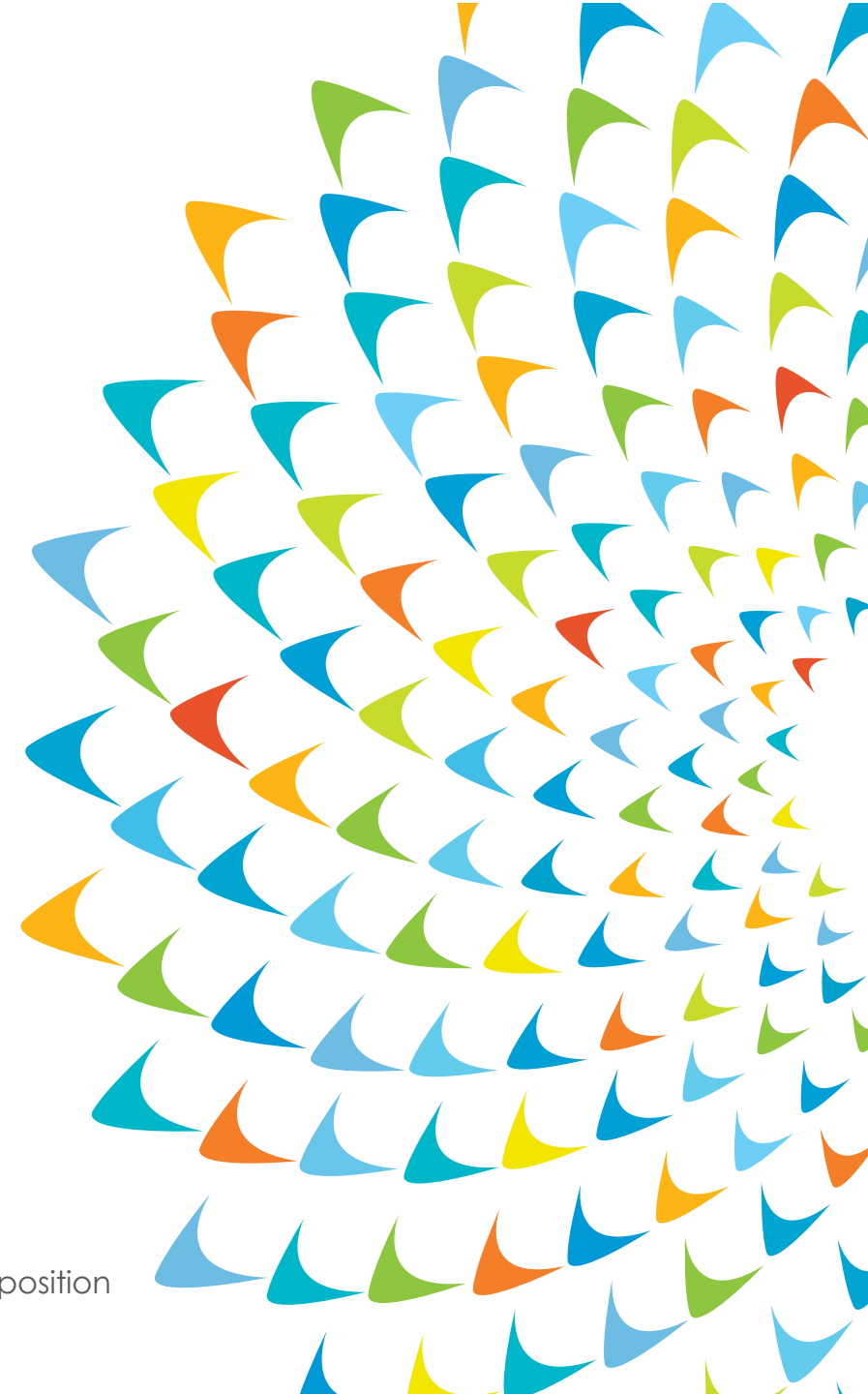
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ADB Virtual Training Course on NPL Resolution

4 June 2021

The views expressed here are exclusively those of the presenters and do not necessarily reflect the position of the JVI or the ADB.

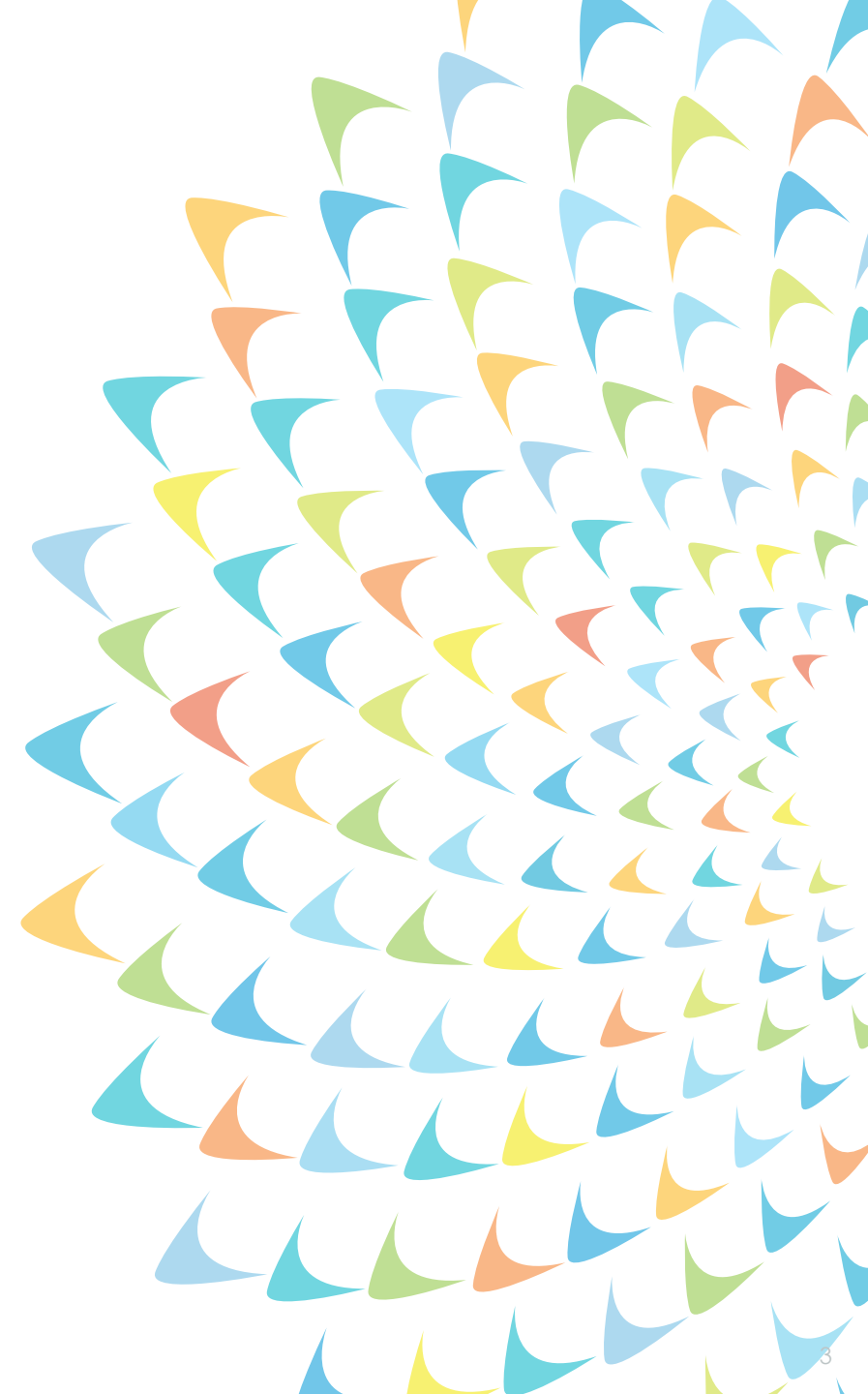


1. NPL Transaction Platforms: Experience from Europe
2. Roadmap for the Development of an NPL Trading Platform to Strengthen Asia's NPL Markets amid COVID-19
3. Selected Examples of Existing NPL Transaction Platforms

NPL TRANSACTION PLATFORMS: EXPERIENCE FROM EUROPE



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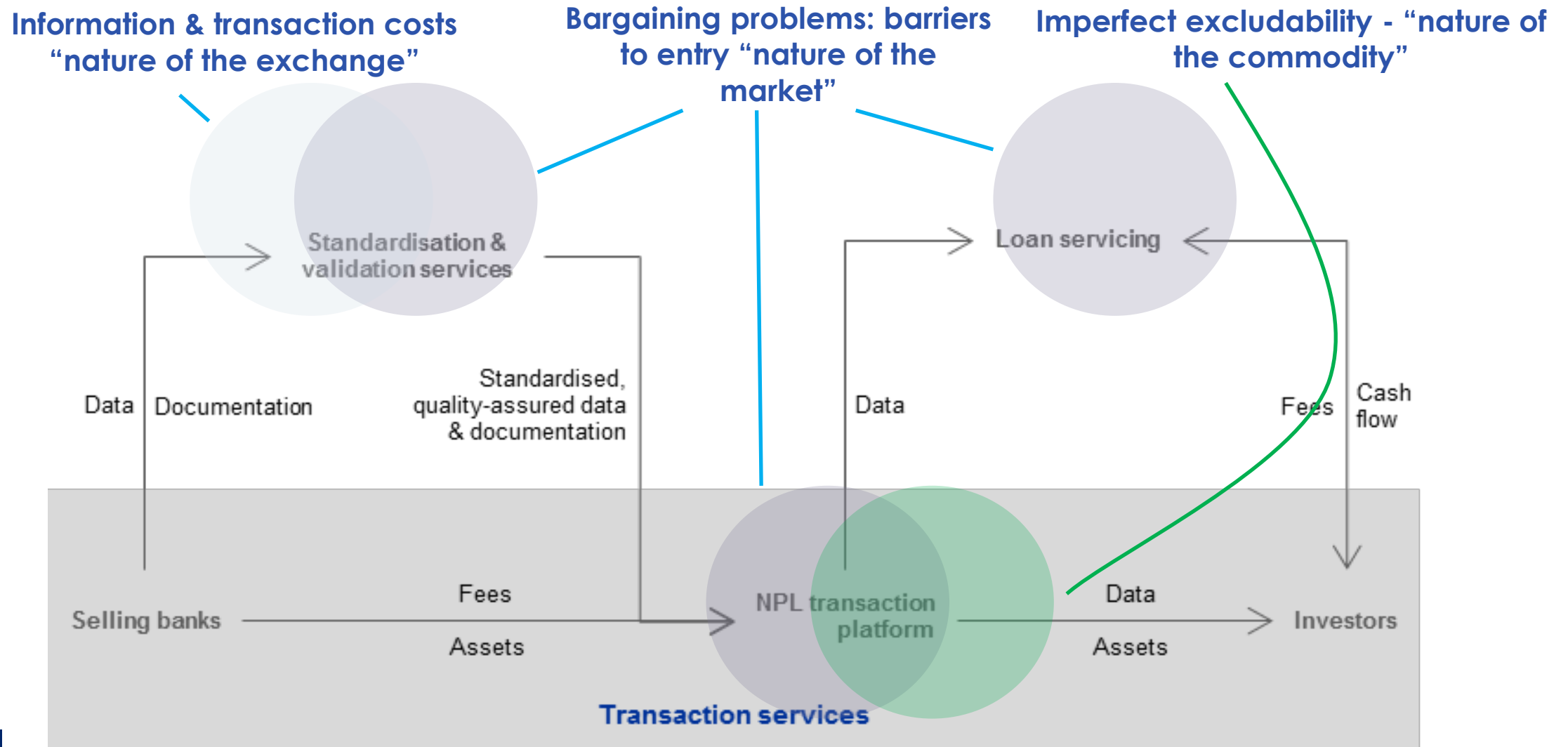
Background – Failures of the EU NPL Market

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|---|--|
| <ul style="list-style-type: none">• A market for 'lemons'; intransparency• High costs of overcoming intransparency (investors) | Market failure 1) <i>Information & transaction costs</i> |
| <ul style="list-style-type: none">• Few investors can absorb costs; barriers to entry | Market failure 2) <i>Bargaining problems</i> |
| <ul style="list-style-type: none">• Even when they can, cannot be sure of exclusive rights to debtors | Market failure 3) <i>Insufficient control</i> |
| <ul style="list-style-type: none">• Creates oligopsony, eliminates price competition and crystallises low prices associated with 'lemons' market• Market failure<ul style="list-style-type: none">• 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'Brien (2017)



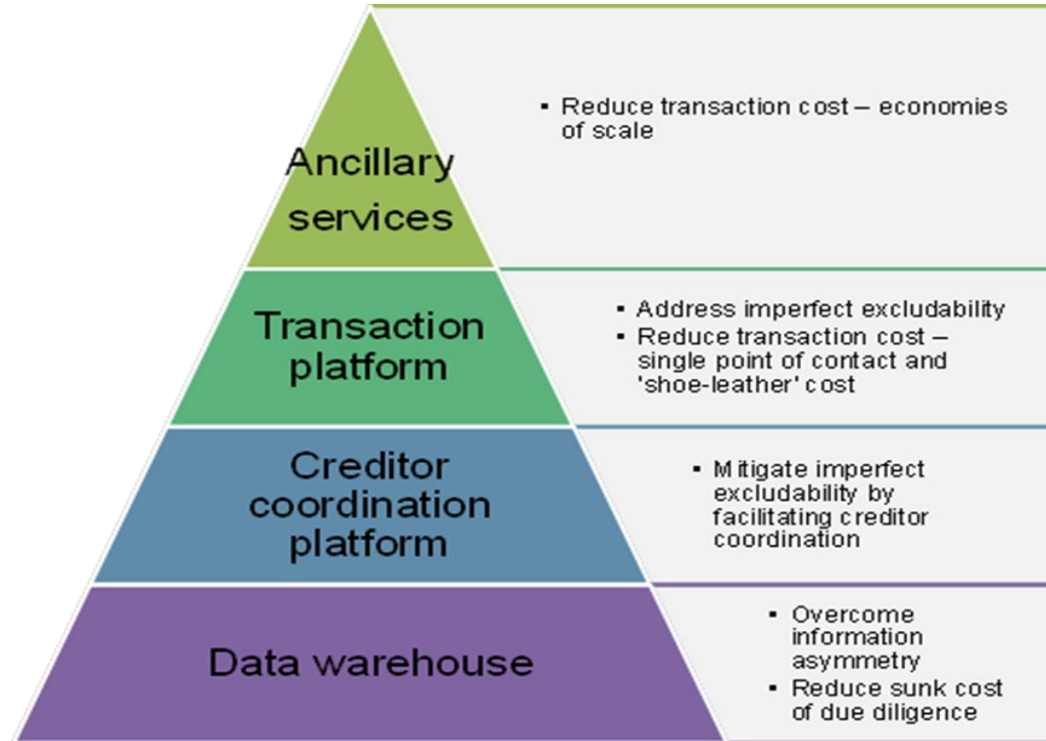
Background – Addressing Market Failures



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



Background – Platforms Can Be Multifaceted



...but NPL platforms are no silver bullet.

Only one element of encompassing NPL resolution strategies, including, e.g.,

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



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)



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 (!)



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?



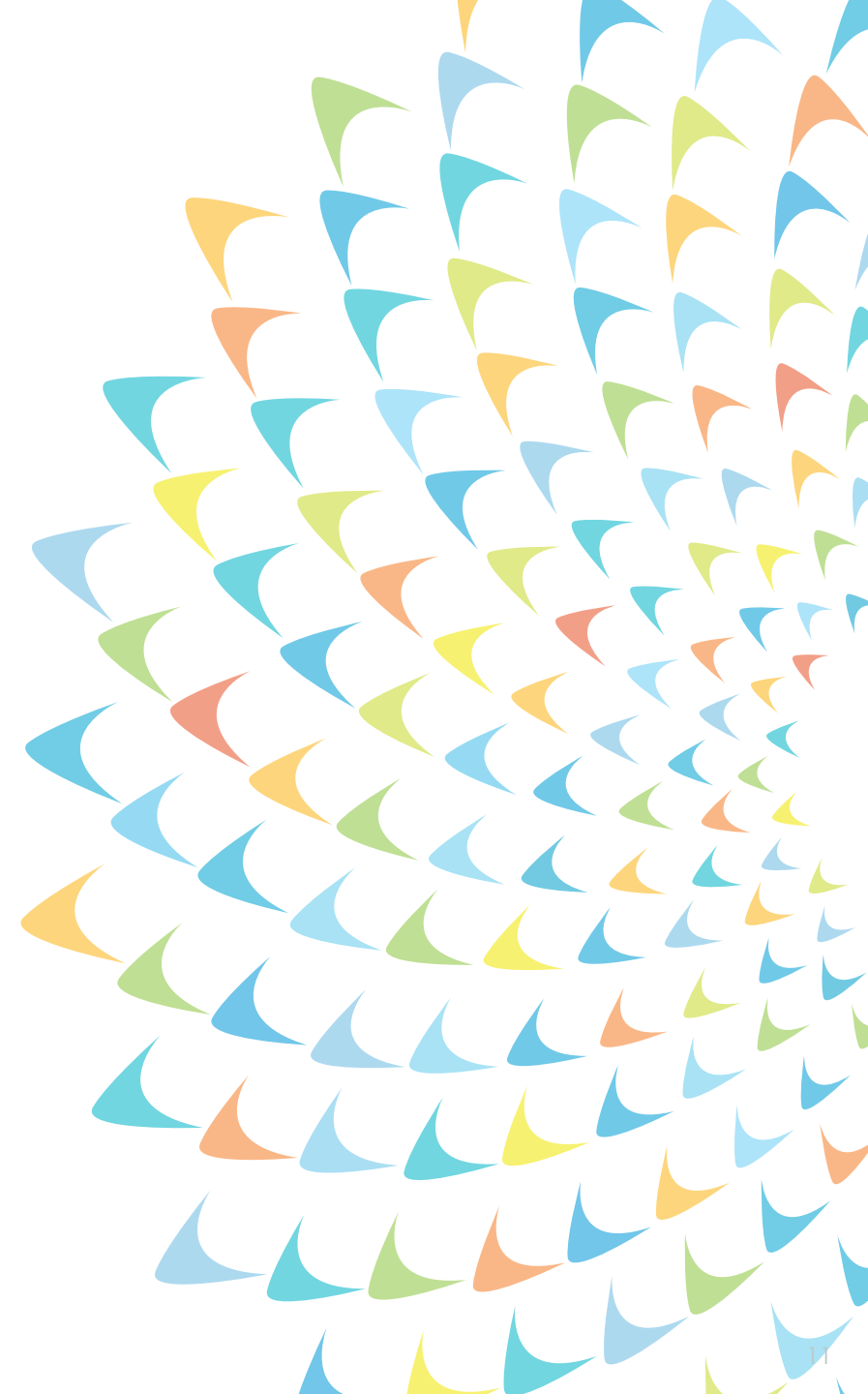
NPL Platforms in Europe – Open Issues

- 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

ROADMAP FOR THE DEVELOPMENT OF AN NPL TRADING PLATFORM TO STRENGTHEN ASIA'S NPL MARKETS AMID COVID-19



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Background: Roadmap for the Development of an Electronic NPL Trading platform

- **Objective:** to help design NPL resolution strategies to strengthen NPL resolution mechanisms through the development of secondary NPL markets, also against the backdrop of COVID-19
- **Knowledge project:** a feasibility study assessing country-specific circumstances, opportunities, and challenges in the development of NPL markets (domestically and regionally) and a roadmap of the building blocks of an NPL trading platform including:
 1. A review of the NPL market ecosystems in benchmark and target countries
 2. An assessment of the feasibility of establishing an online NPL trading platform
- **External partners:** Deloitte and selected public asset management companies in the region



NPL Transaction Platforms: Practical Issues

Ownership of the platform & governance framework

NPL data templates

Data quality and validation checks

Asset perimeter & geography

Fee structures



Tax and currency exposures

Incentives for investors and creditors

Banking secrecy and data protection

Scope of ancillary services



NPL Transaction Platform: Data Templates

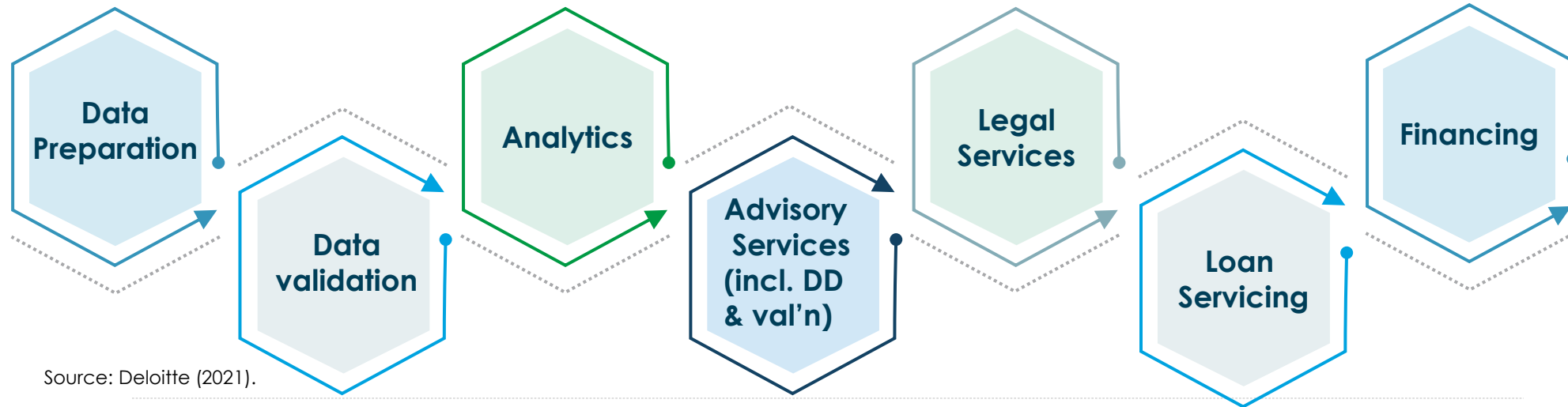
Key benefits and considerations:

- Harmonized data requirement speeds process for data preparation and due diligence and valuation process.
 - Cost savings could be achieved through more efficient and smooth transaction
- Creates a level playing field between different platforms, fostering fairer competition/sets a minimum standard
- Enhances granularity, quality, and comparability of NPL data while increasing transparency,
 - Supports the development secondary NPL markets
- Could form basis of centralized NPL (post-trade) data depository for analyzing/monitoring overall NPL lifecycle evolution
 - Useful/relevant information for central banks and regulators
- Voluntary vs. mandatory usage?
- Need to take into consideration experience from Europe/EBA NPL data template





NPL Transaction Platform: Ancillary Services

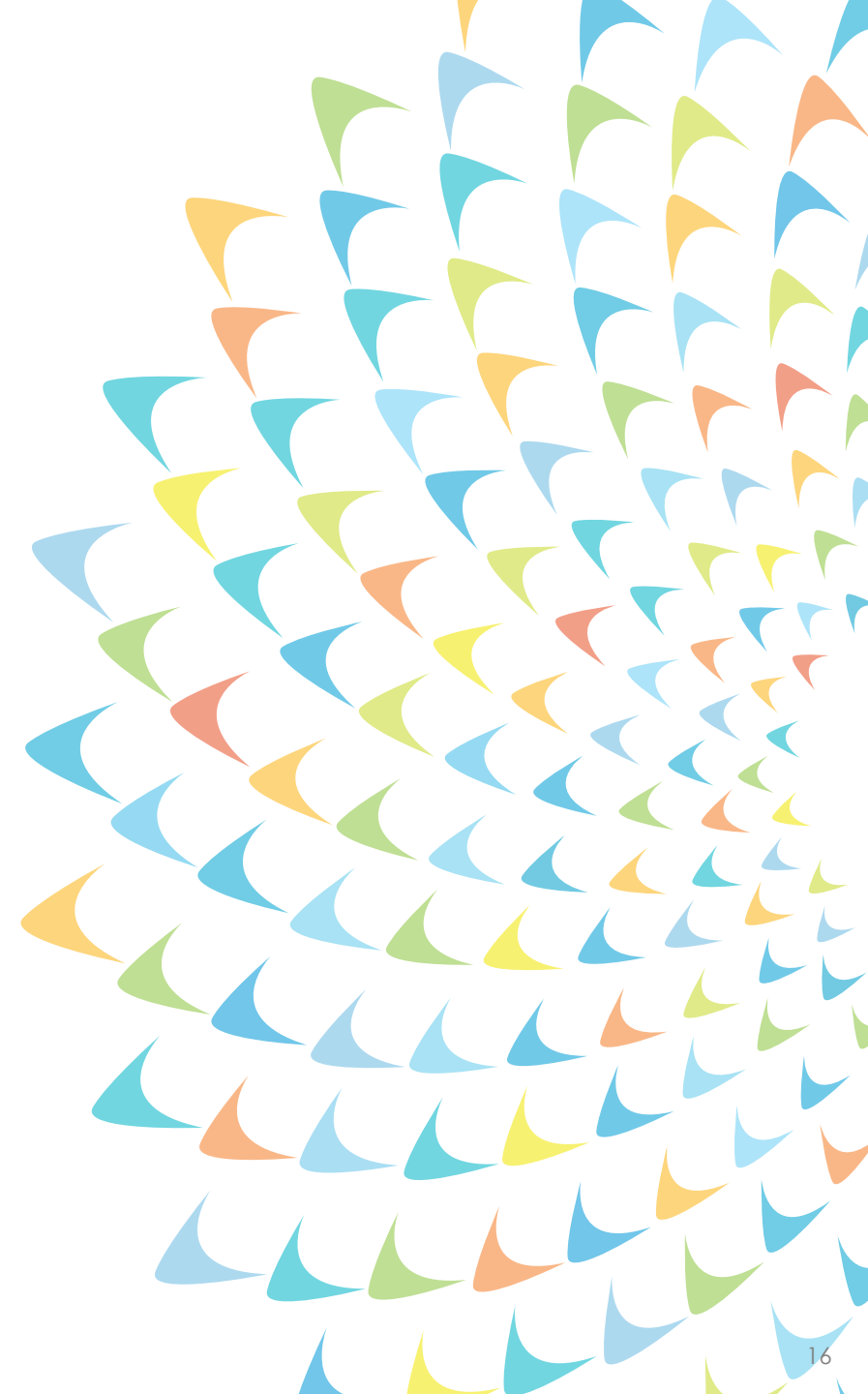


Source: Deloitte (2021).

- Some of these services already exist on trading platforms in Europe.
- Platform can automate portfolio data mapping and validation against the data template.
- Pre-populated scenario analysis and valuation model for indicative pricing of loan portfolio.
- The platform can connect investors with servicers and other due diligence service providers.

- Due diligence can become more affordable compared to directly engaging with servicers (attracting small banks and investors to participate)
- The platform can act as a touchpoint for prospective investors and debt financiers – debt raising would be dealt with off-platform.
- Lawyers can register on the platform so that investors can look up and identify suitable ones for their cases (e.g., the 360PAI trading platform in PRC).

SELECTED EXAMPLES OF EXISTING NPL TRANSACTION PLATFORMS





Selected Examples of Existing NPL Transaction Platforms

Europe

- Debitos one example of private online market for cross-border NPL transactions in Europe
- Originally catering to the German market, it now has over 1400 registered investors from 16 countries and total of over 640,000 loans transacted (as of 2021)

People's Republic of China

- 7 online platforms in PRC, including Taobao and JD
- Taobao's Ali Auction the leading online auction platform, with 3,638 auctions of NPL portfolios/single names were transacted on Taobao in 2020
- Top Banks, central, and provincial AMCs are registered at Taobao
- As of February 2021, over 3,400 courts at different levels have registered with Taobao to conduct online judicial auctions, which covers most of the courts in the PRC
- PRC has many non-performing assets trading platforms; no uniform national NPL trading platform



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Thank you for your attention!

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