

# NPL Trading Platforms

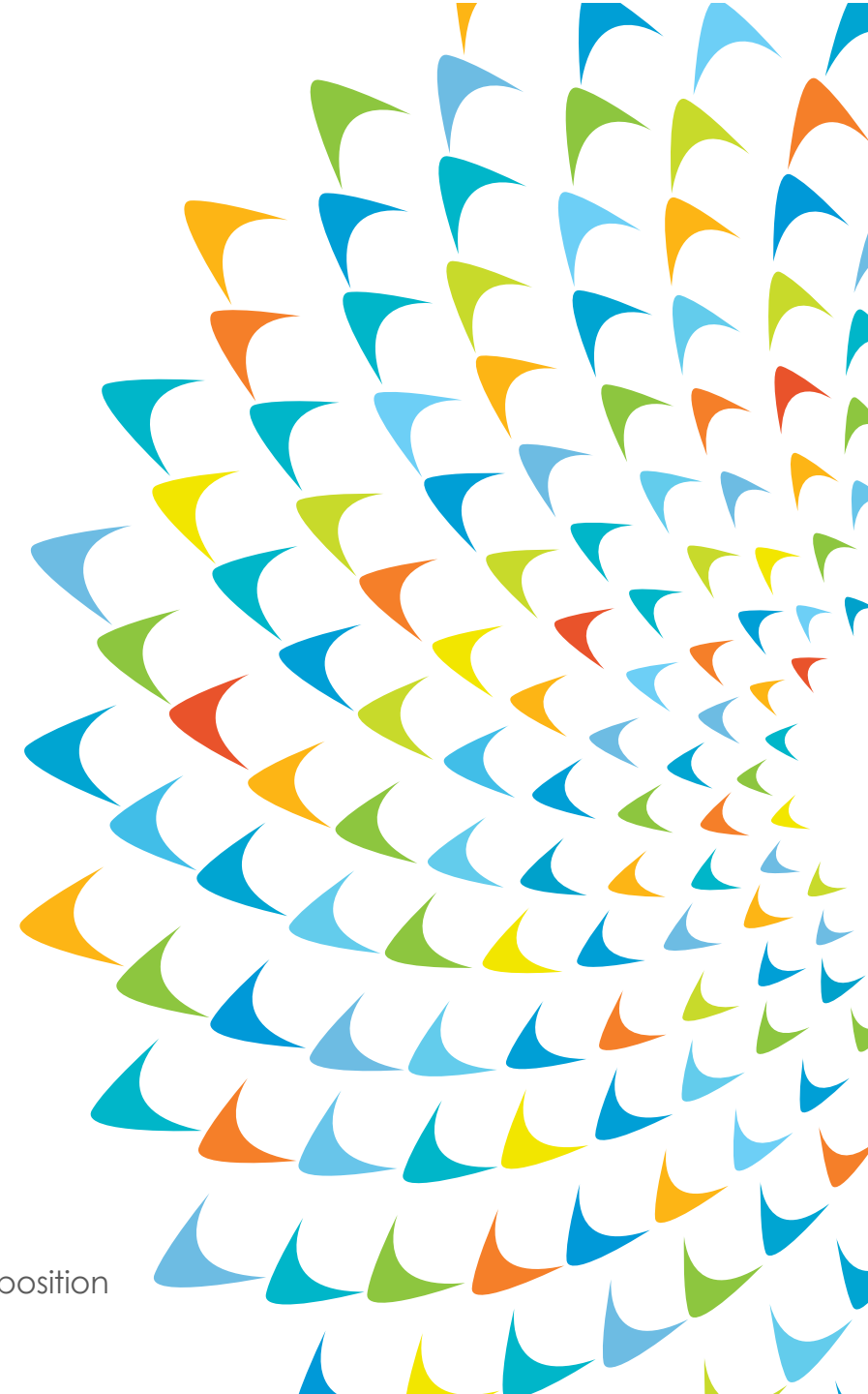
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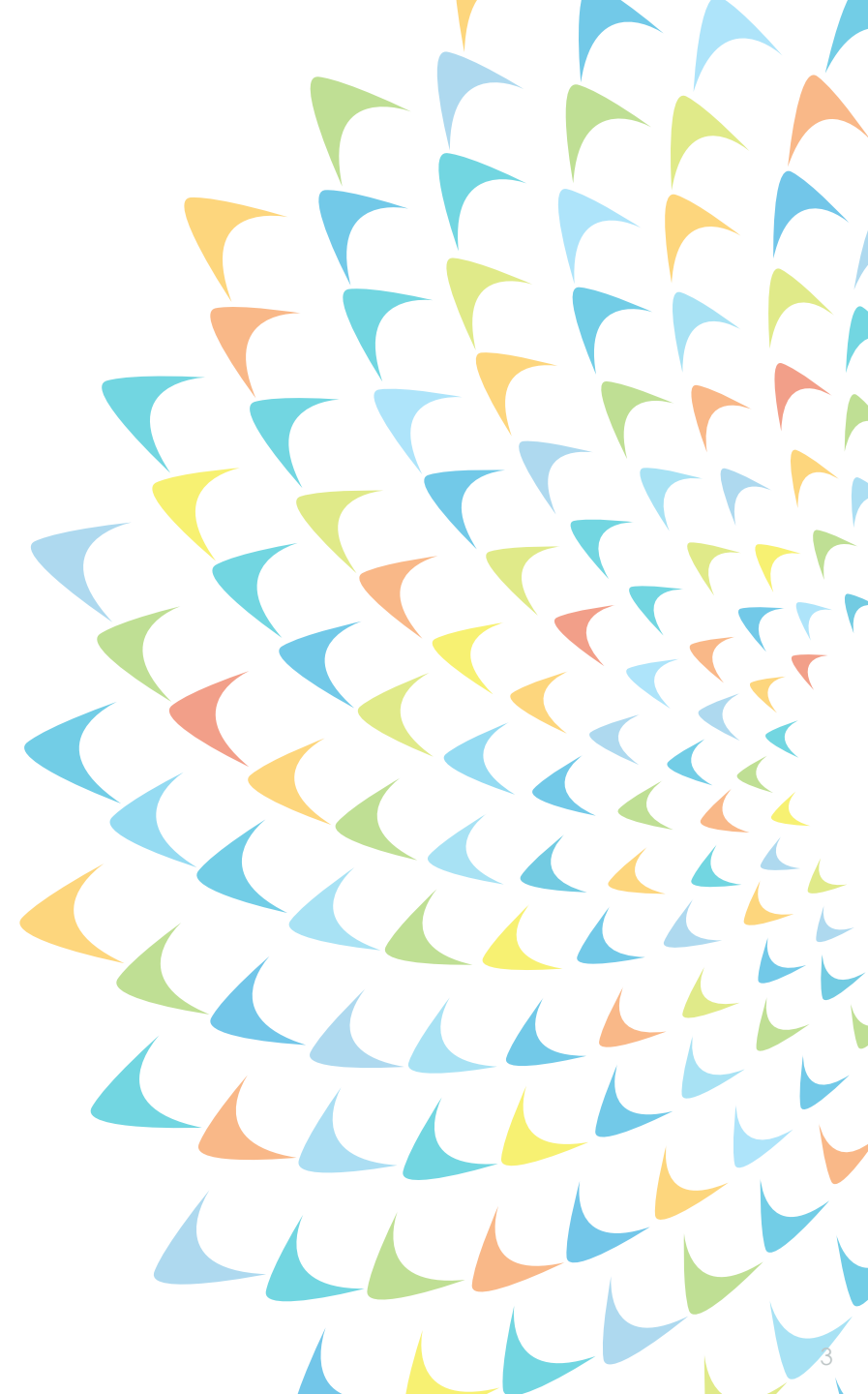


1. NPL Transaction Platforms: Experience from Europe
2. Roadmap for the Development of an NPL Trading Platform to Strengthen Asia's NPL Markets amid COVID-19
3. Selected Examples of Existing NPL Transaction Platforms

# NPL TRANSACTION PLATFORMS: EXPERIENCE FROM EUROPE



Joint Vienna Institute





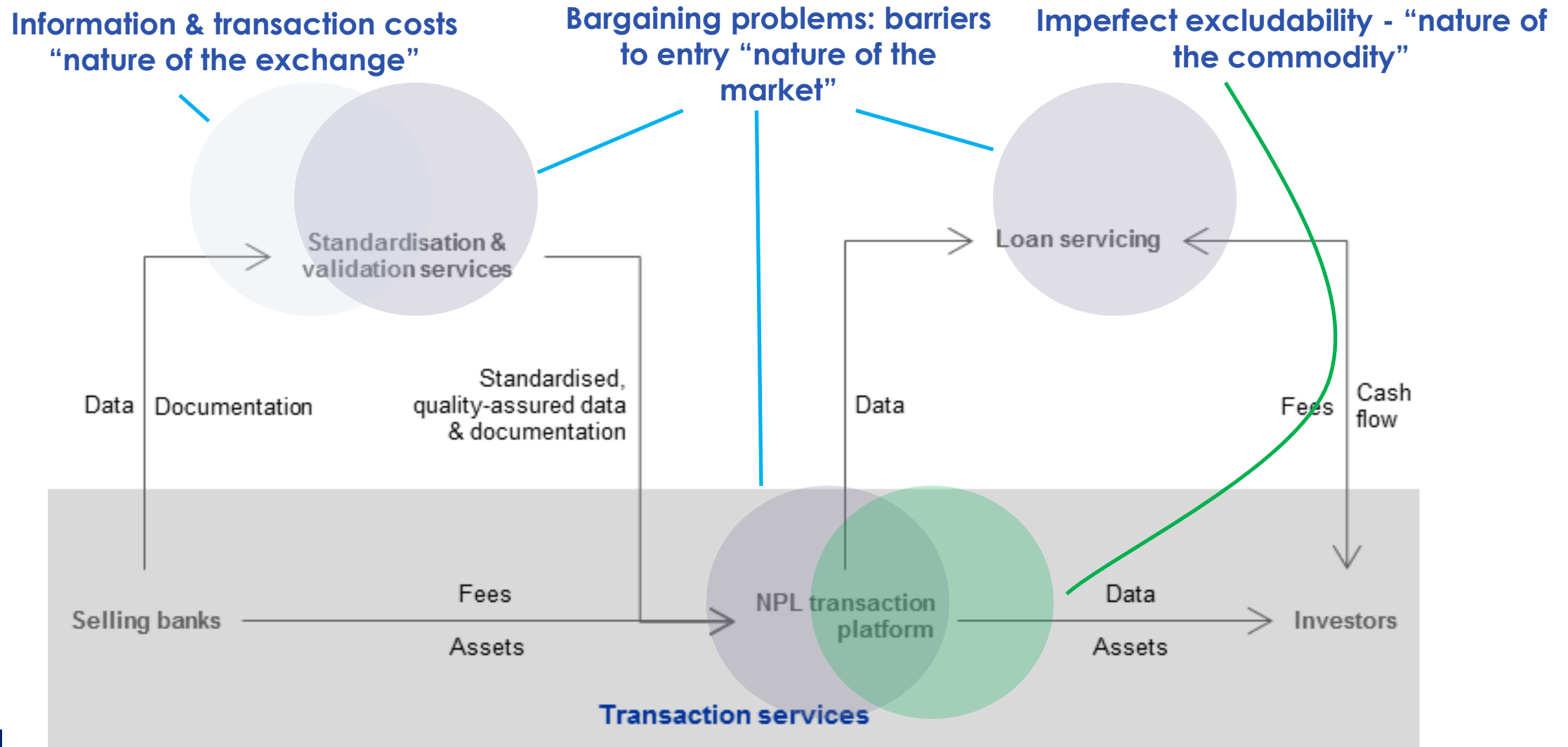
# Background – Failures of the EU NPL Market

<ul style="list-style-type: none"><li>• A market for ‘lemons’; intransparency</li><li>• High costs of overcoming intransparency (investors)</li></ul>	<b>Market failure 1)</b> <i>Information &amp; transaction costs</i>
<ul style="list-style-type: none"><li>• Few investors can absorb costs; barriers to entry</li></ul>	<b>Market failure 2)</b> <i>Bargaining problems</i>
<ul style="list-style-type: none"><li>• Even when they can, cannot be sure of exclusive rights to debtors</li></ul>	<b>Market failure 3)</b> <i>Insufficient control</i>
<ul style="list-style-type: none"><li>• Creates oligopsony, eliminates price competition and crystallises low prices associated with ‘lemons’ market</li><li>• Market failure<ul style="list-style-type: none"><li>• banks generally can’t afford to sell</li><li>• many investors excluded from the marketplace</li><li>• wide bid-ask spreads; low market liquidity</li></ul></li></ul>	

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



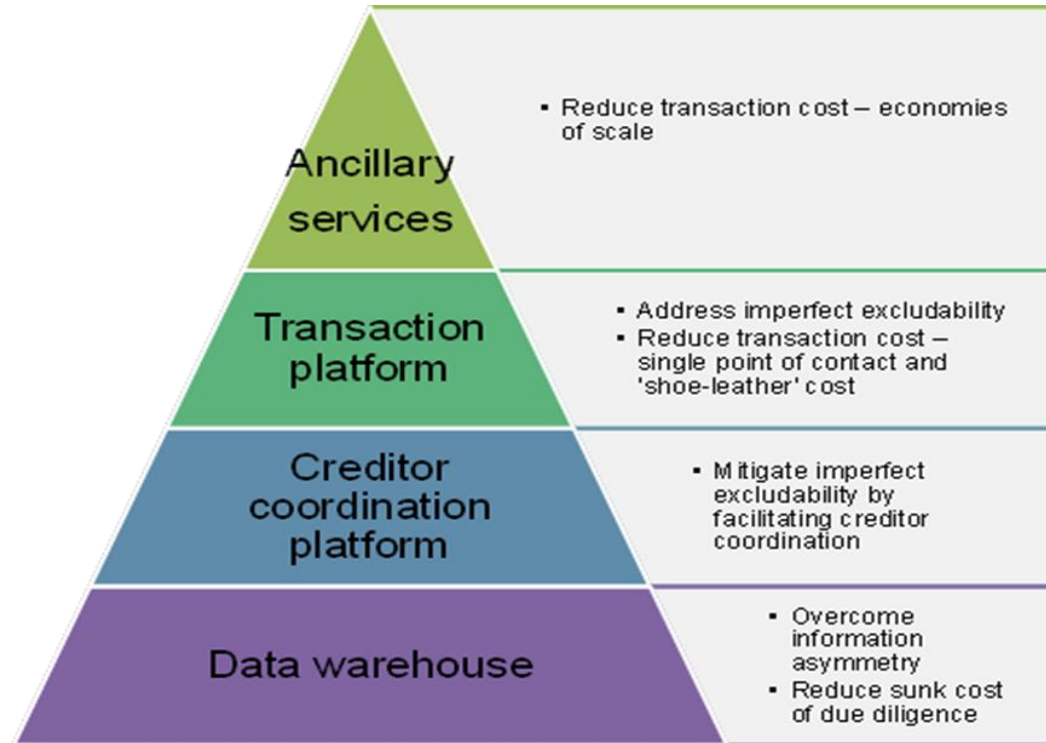
# Background – Addressing Market Failures



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?



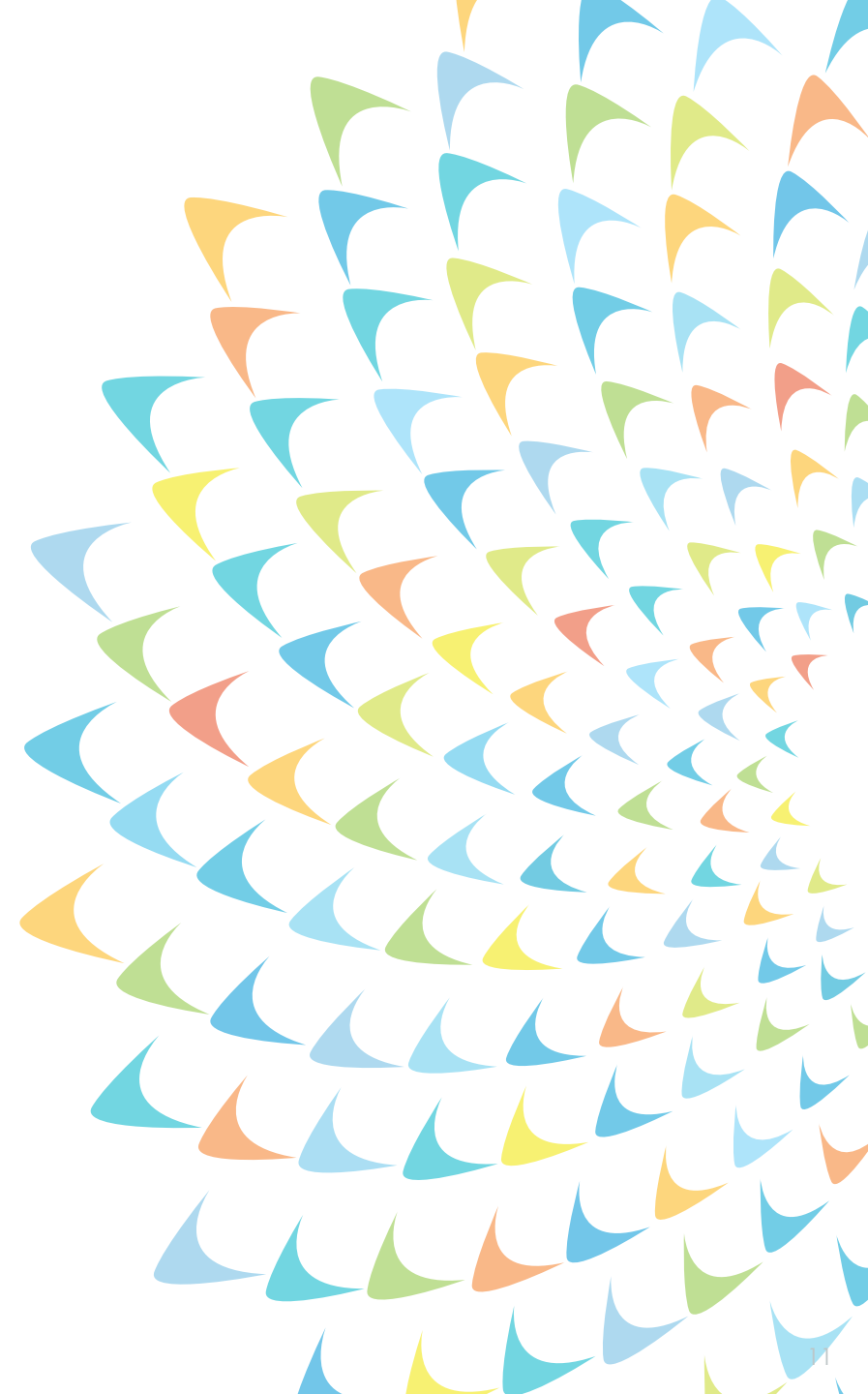
# NPL Platforms in Europe – Open Issues

- 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



Joint  Vienna Institute





# 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

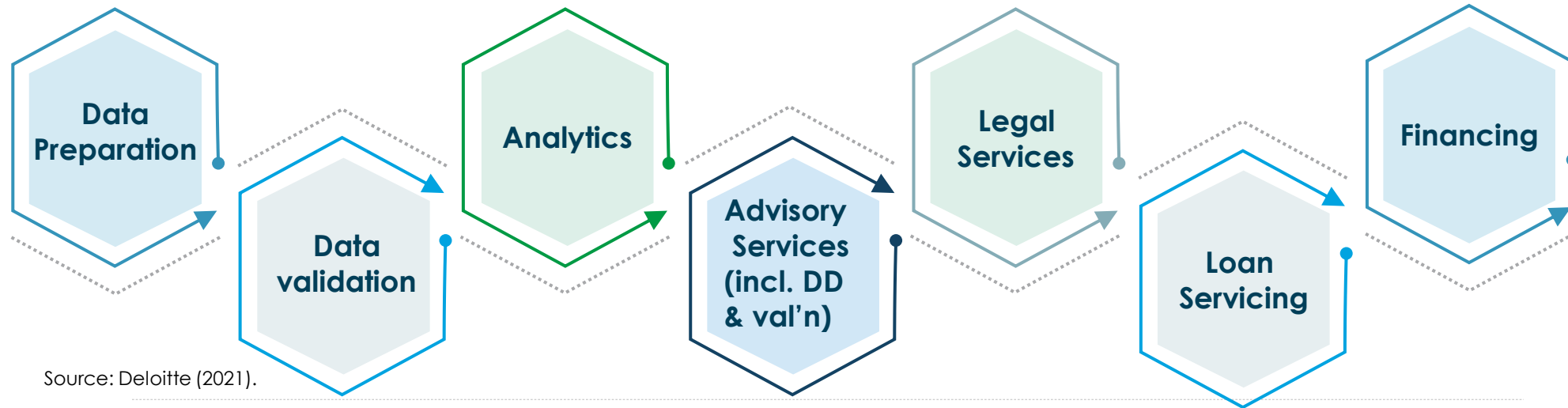
## Key benefits and considerations:

- 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).



# NPL Transaction Platforms: Ownership, Asset Perimeter, and Geography

## Ownership

- Public vs. private vs. blend
- Role of (P)AMC and international/regional bodies

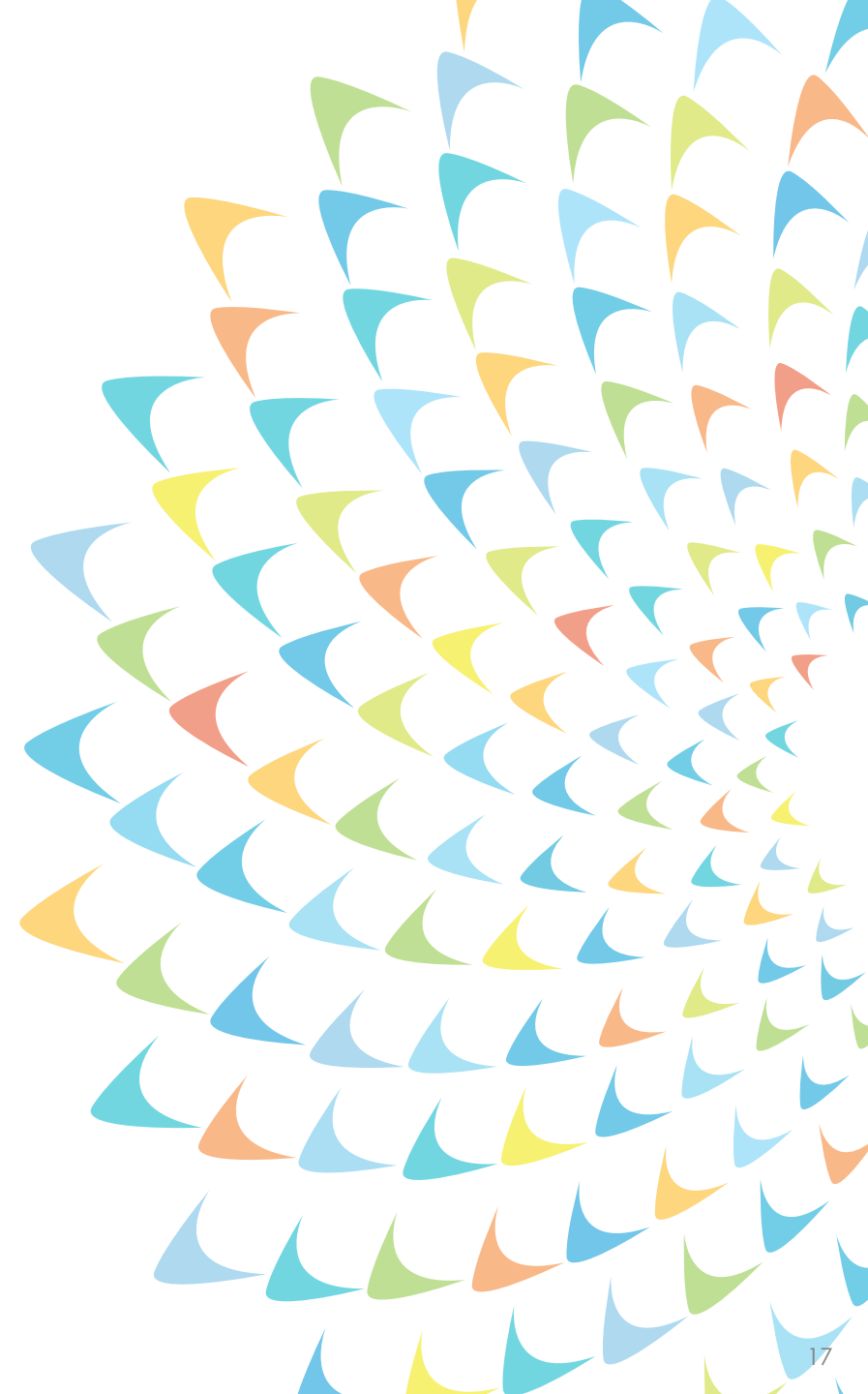
## Asset Perimeter

- Secured vs. unsecured loans
- Retail vs. corporate loans
- Economies of scale

## Geography

- Domestic vs. cross-border trades
- Mature vs. nascent markets
- Big vs. small markets

# 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 AMC's 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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