

In response to the EBA Discussion Paper titled “Review of the NPL transaction data templates”, dated 5 May 2021, Axactor Group would like to make the following comments:

Introduction

Axactor Group is a next-generation multinational debt management company operating in Norway, Sweden, Finland, Germany, Spain and Italy with an ambitious growth strategy. Axactor acquires and collects on own portfolios of non-performing loans and provides debt collection and accounts receivable management for third parties. After only five years in business, external analyses show that Axactor already has an industry leading cost-to-collect ratio on NPL. The company has approximately 1,150 employees. Axactor’s portfolios consist primarily of unsecured loans (94%).

We note that almost half the respondents in the EBA survey are banks / financial institutions, i.e. sellers of NPL, and very few are investors, assumed to be active in debt collection as well as debt purchasing. As a purchaser of debt, Axactor would like to present their view, to ensure that also the voice of the debt purchasers is being considered when drafting the NPL data templates, especially considering that these templates may be mandatory in the future. In view of the current proposal, it may appear as if the debt sellers’ view has been dominating, and in the following we will try to offer some balanced viewpoints and comments to support these.

While NPL would normally constitute a very minor part of a bank’s balance sheet, it is often a significant part of the balance sheet of a debt collector. The largest banks are significantly larger than the largest debt collectors. In respect of NPL transactions, however, the banks and debt collectors are equally important to secure a well-functioning market. Needless to say, the debt purchasers serve an important function in a macroeconomic perspective, helping banks recover more of their defaulted balances, thus limiting their credit losses and contributing to an efficient borrowing market.

Regarding valuation of NPL portfolios, we argue that the more information being provided, the more accurate the pricing will be, which implies a more efficient market. Lack of information will lead to more uncertainty for the debt purchaser, and lower prices. Some of the important factors for evaluating NPL portfolios are age of debt, time since default, age of debtor, debtor's nationality and country of residence, availability of contact information, size of claims, type of claims, judicial status of the claims, seller's scoring policy, seller's post default collection efforts, quality and availability of legal documentation, and seller's post sale support. However, where it is in the purchaser’s interest to receive as much data as possible, it is in the seller’s interest to limit the amount of data, as the administrative burden increases exponentially with the amount of data. Some sellers may want to maintain the information asymmetry to obtain a higher price for their assets, but this would not be common among experienced sellers.

Currently, as has been pointed out in the Executive Summary of the Discussion Paper, the existing data templates are not commonly used. We do not know to which extent they are serving as guidelines for the data tapes the sellers prepare for their NPL transaction processes. The formats of the data tapes vary significantly between sellers, although we normally receive what we consider necessary to evaluate a portfolio. If needed, we will request more information from the seller to support our view before we can commit to a binding offer. When we know the seller well, we may require less information up front. Similarly, we may require more information from a seller we have no experience buying from, or alternatively submit a risk adjusted offer.

Axactor supports the objective to try and limit the required data fields as much as possible and the initiative to create a commonly recognized standard, as this would surely be in the interest of all the market actors by ensuring a more efficient and harmonized process. With the recently enacted backstop-rules within the EU it is also expected that there will be an increase in NPL portfolios available on the market going forward,

which further accentuates the importance of the work currently in preparation. Having said this, if the current proposal was to be approved as-is, reluctance from debt management companies to use the templates should be expected, as the templates, as currently suggested, omit some of the data fields critical for the purchaser, and generally strikes us as unbalanced in disfavor of the purchaser.

Some of the data fields which have been suggested to be deleted are critical to our valuation of a portfolio, e.g., deceased status, age of debtor, financial instrument information and collateral valuations. It is possible to use covenants in the agreements for critical data fields that have not been included in the templates, but we strongly urge EBA to reconsider the suggested deletion of these data fields, as the template due to its nature should include all required information and not rely on some of the information to be covered elsewhere.

On a general note, it should also be taken into careful consideration that since the quality of the various public registries vary greatly within the Member States, the final template should aim to be relevant also in the Member States with the lowest quality public registries. Otherwise, the result may be that the templates cannot be used across all Member States as intended, which in turn may lead to even greater uncertainty and deviating practices. As such, and in the event data fields are deleted from the templates under the presumption that the data may commonly be available through public registries, it needs to be investigated by EBA that this is indeed the case for all the relevant Member States, to ensure data fields are not deleted that in certain Member States may only be made available to the purchaser by the seller.

Upon this background, we will proceed to reply to the specific questions as presented in the discussion paper.

Questions

We have elected to answer the questions below in chronological order, following the logic drawn up in the discussion paper:

Scope and structure

1. *Do you agree with the proposed data structure and the relationship between templates? If not, please provide explanation.*
 - a. We have no objections to the proposed data structure
2. *Do you agree with the deletion of data categories 'NPL portfolio' and 'Swap'? If not, please provide explanation.*
 - a. If a transaction consists of multiple portfolios or segments that will be priced separately and may or may not be subject to separate bid assessments and sold separately, it would be necessary to identify which portfolio or segment each of the loans is part of. We rarely see swap agreements on unsecured loans. On the other hand, if a swap agreement is in place, we would assume this information is relevant. Such relevant information could for instance be included as part of the Financial instrument template.

Data templates

Template 1: Counterparty

3. *Do you think the suggested list of data fields capture all the relevant information on the counterparty needed for NPL valuation and financial due diligence? If not, please indicate which other data fields should be included and provide explanation for this.*
- a. All relevant information is not captured. In general, counterparty information is very important for the buy-side. Poor quality on counterparty information will significantly lessen the value of the claims, as the claims will be more difficult to recover, and consequently the value of the portfolio for the purchaser. It would also be important for the buy-side to know whether the institution is selling all their claims against an individual, or only specific liabilities. For secured portfolios, it is critical to receive information related to any cross collateralization, as this would limit the scope for recovery if such were to exist.
- i. **Name of Counterparty:** This is critical in some countries, as it is used to properly identify the counterparty when this cannot be done through the Personal Identity Number. In some jurisdictions, we need the name (in combination with Date of Birth) to obtain a credit rating on the debtor, which will reduce uncertainty and normally increases the value for the purchaser.
 - ii. **Number of Joint Counterparties:** It is useful to know whether there is more than one counterparty, as this impacts our ability to recover the claim.
 - iii. **Date of Birth:** This information is critical to understand where in the lifecycle the debtor is, and to evaluate the long-term possibility for settlement. If the debtor is a domestic citizen, and we have the personal ID number, we would get the age in most jurisdictions. In some jurisdictions, this is required to obtain a credit rating on the debtor.
 - iv. **Personal Identity Number:** With an ID number we can check our own database whether we know the debtor, and whether the debtor is paying or not, which reduces the uncertainty on part of the purchaser. The preferred ID would be the National Insurance Number.
 - v. **Type of Personal Identity Number:** To use the personal ID number, we would need to know what type of ID number it is (although we would prefer National Insurance Number as a standard).
 - vi. **Nationality of Counterparty:** This is needed to identify the debtor, and it has an impact on the value of the claim if the debtor is not a domestic citizen.
 - vii. **Address of Residence:** This is an important data field in jurisdictions where it is challenging to obtain contact information through national registries, as it will give us an indication of the quality of debtor data in the portfolio. In some jurisdictions, this is required to obtain a credit rating on the debtor.
 - viii. **City of Residence:** Required to properly identify the Address of Residence, if provided. In some jurisdictions, this is required to obtain a credit rating on the debtor.

- ix. **Geographic Region of Residence:** Useful to properly identify the City of Residence, if provided.
 - x. **Registration number:** We need to identify the debtor. In most jurisdictions, this information will enable us to obtain additional information on the corporate borrower.
 - xi. **Date of Last Contact:** This is useful as an indication of how aggressive the seller has been in attempting to recover the claim, which has an impact on the value of the claim.
 - xii. **Counterparty deceased:** This is very important as there is a put back clause in most contracts and it has a major impact on the value of the claim. The value of claims from deceased individuals are normally zero (0). If we can identify the debtor through ID, we would be able to determine whether the individual is deceased, and this field would not be necessary.
 - xiii. **Number of Current Judgements:** This is useful as it has an impact on our ability to recover the claim and thus the value of the claim.
4. *Do you think any specific data fields should be excluded from the template? If yes, please specify the data fields and give explanation to your answer.*
- a. General information on employment status etc. for private individuals is not critical as this would normally be out of date information. For SME's, we need to know the key information related to the corporate but not general information about the business.
5. *Do you agree that data fields on current external and internal credit scores and current external and internal credit scores at origination should be included in the template (for both private individual and corporate counterparties)?*
- a. Yes.
6. *Do you agree that data fields on corporate's latest available financial statement amounts should be included in the template?*
- a. Only the key information. We do not need to know general information about the business. Also, we would expect that a corporate defaulting on its debt will be in some sort of distress, at which point the latest financial statements will often be outdated or in any circumstances provide less reliance.
7. *Do you agree that data fields related to corporate counterparties' assets and liabilities, market capitalization should be included in the template?*
- a. Our response primarily takes into consideration unsecured portfolios, and when we evaluate SME portfolios it will most likely be as part of a mixed portfolio in which a part of the SME claims will be backed by personal guarantees and evaluated based on the guarantor individuals. It is unlikely that the corporate information will be of high significance to our evaluation of an SME portfolio, especially since we will be hesitant to fully rely on the presumably outdated figures in the latest financial statements. Still, it is useful to obtain some sort of an understanding of the size of the businesses in an SME portfolio, which could be accomplished through assets and liabilities.

Template 2: Relationship

8. *Do you agree with the proposed Template 2 of Annex I? If not, please provide explanation to your answer.*

a. Yes.

Template 3: Financial instrument

9. *Do you agree with the inclusion of the data fields related to interest rates and other information as per contractual agreement for the valuation and financial due diligence of NPLs, especially when they are not more than 90 days past due? Please provide data field-specific explanation to your answer.*

a. Yes. Rules for interest rates vary between jurisdictions, loan types, etc. so it makes more sense to include the information for all claims rather than applying a number of different requirements.

10. *Do you agree with the inclusion of the data fields related to forbearance measures for the valuation and financial due diligence of NPLs?*

a. Yes.

11. *Do you think the suggested list of data fields capture all relevant information on financial instrument needed for NPL valuation and financial due diligence? If not, please indicate which other data fields should be included and provide explanation for this.*

a. All relevant information is not captured. Some of the deleted fields are directly impacting the valuation and others are required by regulation.

- i. **Country of Origination:** This is important if it is not the home country.
- ii. **Product Type:** Needed to identify the correct benchmark data internally, different product types may have different likelihood of recovery, which will impact valuation. Some jurisdictions have different laws for e.g. interest rates for different loan types.
- iii. **Original Maturity Date:** Loan history gives valuable indications of the likelihood of recovery of a claim.
- iv. **Origination amount:** Loan history gives valuable indications of the likelihood of recovery of a claim.
- v. **Accrued Interest Balance (On book):** Critical to know how much of the total balance that is accrued interest and how much is other as different rules may apply for interest and fees.
- vi. **Other Balances:** Critical to know how much of the total balance that is accrued interest, and how much is other, as different rules may apply for interest and fees.
- vii. **Original Interest Rate:** Critical in some jurisdictions because we can use either agreed interest or delayed payment interest. We need to understand what is used on the claim before the acquisition. It is also required for legal proceedings in some jurisdictions.

- viii. **Original Interest Rate Type:** We need to know the type of interest rate agreed on the claim. It is also required for legal proceedings in some jurisdictions.
 - ix. **Original Interest Base Rate:** This is required for legal proceedings in some jurisdictions.
 - x. **Original Interest Margin:** This is required for legal proceedings in some jurisdictions.
 - xi. **Past-Due Principal Amount:** Critical in some jurisdictions.
 - xii. **Past-Due Interest Amount:** Critical in some jurisdictions.
 - xiii. **Other Past-Due Amounts:** Critical in some jurisdictions.
 - xiv. **Capitalised Past-Due Amount:** Critical in some jurisdictions.
12. *Do you think any specific data fields should be excluded from the template? If yes, please specify the data fields and give explanation to your answer.*
- a. Yes, it is unlikely that we will need the subsidy fields.
 - i. **Subsidy:** It is unlikely that we will need this field.
 - ii. **Subsidy Provider:** It is unlikely that we will need this field.
 - iii. **Subsidy Amount:** It is unlikely that we will need this field.
13. *Do you agree with the data fields related to lease? Please provide data field-specific explanation to your answer.*
- a. We have no objections as this is not something we would normally be looking at.

Template 4: Collateral and enforcement

14. *Do you think the suggested list of data fields capture all relevant information on collateral needed for NPL valuation and financial due diligence? If not, please indicate which other data fields should be included and provide explanation for this.*
- a. Although our response primarily concerns the unsecured asset class as this is where we have our main expertise, we will also comment on the collateral template for secured portfolios. In general, the less information that is provided, the lower the price offered, and even more so for secured portfolios. If we are going to be involved in processes for secured portfolios, we will expect to do very extensive DD processes. It is critical that we receive as much information on existing valuations as possible. Fields on latest valuation should not be reclassified as non-critical.
 - i. **Currency of Property:** Required to assess the portfolio.
 - ii. **Initial Valuation Amount:** Required to assess the portfolio.

- iii. **Date of Initial Valuation:** Required to assess the portfolio.
 - iv. **Internal / External Initial Valuation:** Required to assess the portfolio.
 - v. **Type of Initial Valuation:** Required to assess the portfolio.
 - vi. **Provider of Initial Valuation:** Required to assess the portfolio.
 - vii. **Provider of Latest Valuation:** Required to assess the portfolio.
 - viii. **Current Opex and Overheads:** Required to assess the portfolio.
15. *Do you think any specific data fields should be excluded from the template? If yes, please specify the data fields and give explanation to your answer.*
- a. No.
16. *Do you agree with the data fields on the characteristics of non-property collateral? Please provide data field-specific explanation to your answer.*
- a. We do not have an opinion on these data fields. We would treat non-property collateral as very low value if anything, so it is not a focus area for us.
17. *Do you agree with the data fields related to the enforcement of collateral? Please provide data field-specific explanation to your answer.*
- a. We are of the opinion that all information on enforcement should be provided if it is available.

Template 5: Collection and repayment

18. *Do you agree with the proposed Template 5 of Annex I for NPL valuation and financial due diligence? Please provide data field-specific explanation to your answer.*
- a. Yes.

Data dictionary

19. *Do you agree with description of data fields presented in data dictionary?*
- a. Yes, except for the description of fields 3.35 and 3.36 which seems to be erroneously copied from field 3.34.
20. *Do you agree with criticality (and non-criticality) of data fields presented in data dictionary? If not, please provide suggestions and explanations related to specific data fields.*
- a. Information on current interest rate (3.17-3.22) should be upgraded to critical as this is needed to properly calculate expected collection in some jurisdictions. Register of Deeds Number should be upgraded to critical as value of properties with similar characteristics could vary significantly and it is not possible to perform a reliable valuation of a secured portfolio without being able to assess the value of the specific collaterals. The same applies to Address of Property, although this will be possible to identify if we have the Register of Deeds Number.

21. *Do you agree with confidentiality aspects of data fields? If not, please provide explanation.*
- a. We are having difficulties understanding the inclusion of the confidentiality aspect of data fields in the template, as we do not see how this inclusion adds any value or purpose to the transaction process. Confidentiality is inherent to the nature of these transactions and all information exchange is subject to strict NDAs, as well as various statutory requirements in the Member States (i.e. data protection laws, consumer laws, financial regulations, etc.). Buyers as well as sellers always need to consider confidentiality for all relevant data fields and including a distinction in the template may lead to uncertainty regarding how confidential data fields may be shared. If EBA considers this inclusion necessary, they first need to provide the buyers and sellers with clear instructions as to what the distinction implies, and how such information should be shared under the template(s). Regarding the classification of specific data fields, we do not have any comments.
22. *Do you agree with excluding no data options for data fields? If not, please provide suggestions and explanations related to specific data fields.*
- a. Yes.

Other considerations

Proportionality

23. *Please provide your views on how proportionality considerations regarding the size of the exposures or portfolios being sold should be incorporated in the implementation of NPL data templates.*
- a. Firstly, we do not see why the need for information would be much different depending on the size of the portfolio, unless the portfolio is insignificant to the buyer and the seller, in which case the price would normally be low anyway, compensating for potential lack of information. For the incorporation of proportionality considerations, we believe the former alternative is the better alternative. The templates should present a full set of data fields and the parties to a transaction should apply waivers to certain data fields only when both parties are comfortable with less information being included in the basis for the transaction. In the opposite alternative, it would be much more difficult to apply pressure on the seller to disclose all the necessary information when it can be argued that the standard process includes less information. Our opinion is that most transactions will require a full set of data fields.
24. *Should there be a threshold (e.g. in monetary terms) for the application of the proportionality principle? If yes, then how should this be defined?*
- a. There should not be a fixed threshold as the level of a reasonable threshold would depend on the size of the parties, and thus be difficult to set as a generally applicable level. A threshold would make it very difficult to argue the case for a full set of data fields for portfolios below the threshold and would reduce the negotiating power of the weaker party, which in the case of NPL transactions would normally be the buyer.
25. *Do you agree that the proposed approach takes into account, in an adequate way, the proportionality principle? If not, which additional elements should be considered?*
- a. We agree under the assumptions given in our response to questions 23-24.

Asset classes

26. *Please provide your views on the asset classes covered and whether any specific data fields, other than already foreseen, should be included in the templates for ensure full coverage of certain asset classes.*
- a. Our main area of expertise is unsecured portfolios and we have nothing to add for the other asset classes.
27. *In your view, is the structure and coverage of the templates adequate for both portfolio transactions and transactions where an individual exposure is traded? Please explain your answer.*
- a. We have not previously experienced any transactions for individual exposures and do not expect to take part in such processes in the future.
28. *Please add any additional comments, remarks or observations you may wish to include in your feedback to the discussion paper.*
- a. We have no further comments.

This concludes our remarks. We remain at your disposal should you require any clarifications.