

## **POSITION PAPER ON THE EBA CONSULTATION ON LOAN ORIGINATION AND MONITORING**

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This document contains the position on the EBA Consultation paper on loan origination and monitoring, drafted by the Italian Multi-stakeholder Working Group on International Regulatory Initiatives.

The following Associations take part to the above Working Group: Associazione Bancaria Italiana, Confindustria, Alleanza delle Cooperative Italiane (AGCI, Confcooperative, Legacoop), CIA Agricoltori Italiani, Confederazione Libere Associazioni Artigiane Italiane, Coldiretti, Confagricoltura, Confapi, Confedilizia, Confetra, Confimi Industria, Casartigiani, CNA - Confederazione Nazionale dell'Artigianato e della Piccola e Media Impresa, Confartigianato, Confcommercio, Confesercenti.

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The Italian Multi-stakeholder Working Group on International Regulatory Initiatives welcomes the aim of the EBA Guidelines to strengthen internal banking governance, processes, practices and mechanisms in relation to credit granting and monitoring, in order to reduce the amount of new non-performing loans.

However, we point out that these Guidelines are not supported by an ex-ante evaluation of their impact on the real economy and of the possible risk to introduce rules that could tighten up credit granting criteria (in particular for micro and small enterprises), without substantially improving the creditworthiness assessment.

Furthermore, we believe they contain provisions which, in many cases, are difficult to be applied or may create uncertainties for operators.

The application of the Guidelines is subject to the proportionality principle, that is based on the size, nature, and complexity of the institutions, with respect to internal governance requirements (section 4); and on the type, size and complexity of the credit facilities, in relation to the requirements for the creditworthiness assessment, loan pricing, collateral valuation and credit risk monitoring (contained in sections 5, 6, 7, 8).

However, the application of this principle needs to be better explained, giving further indications to Supervisory Authorities and banks on EBA expectations, concerning the provisions on the credit granting and monitoring. Clearer explanations on this point would prevent the risk of a diversified implementation of the proportionality concept within EU and possible misunderstandings.

The Guidelines seem appropriate for significant-amount transactions, for which the additional costs, associated with the more in-depth creditworthiness analysis required and with the collection of the additional information, are economically affordable. Instead, they cannot be followed for smaller transactions, especially if they refer to micro or small enterprises. Moreover, smaller enterprises could not be able at all to provide the quantitative information required and the latter should be replaced by qualitative information.

In particular, we consider as pointlessly burdensome for banks to carry out a sensitivity analysis for all operations - regardless of their amount, the type of exposure or the economic sector financed- taking into account the impact of external events (such as political and geographical risks) on the borrower repayment capacity.

Likewise, we do not support the requirement that banks have to assess companies' business model and other strategic information with reference to smaller amount transactions (referring to not structured enterprises).

The issue of information, to be collected and analysed, is also relevant with reference to the requirement of taking into account ESG factors in risk management policies, also in terms of

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"transition risks". This would require banks to develop new internal controls and to acquire additional professional skills. Furthermore, enterprises, especially those of smaller size, could not be able to produce some of the information required by the Guidelines.

In addition to the request for further clarification on the proportionality principle, we deem appropriate to introduce loan amount thresholds - differentiated according to the characteristics of the credit operation, the type of the exposure and/or the economic sector financed – below which EBA Guidelines should not be applied *tout court*.

We deem this proposal particularly relevant in countries characterized by a high presence of micro, small and medium-sized enterprises, where the application of the Guidelines - if not properly calibrated to the banks' loans portfolio composition - could have restrictive effects on the credit granting.

The Guidelines provide for requirements that have a significant impact on the process of credit granting and managing, that imply adjustments in the banks' organization in terms of information systems and staff training. The extension and the time required to finalise the mentioned adjustments will depend on banks' different starting points.

Banks, while adapting to the EBA Guidelines, should be put in the position to develop practices required seamless, without causing significant changes in credit access for companies.

On this point, we also highlight that the proposed regulation on decision-making powers in the credit granting process, where strictly interpreted, could result in the increasing of banks' internal bureaucracy and in the reduction of their efficiency.

Finally, we are concerned that companies will have to adapt their information and reporting systems to the new banks' needs, deriving from the application of EBA Guidelines on creditworthiness assessment.

We deem that this point is relevant in order to set the application date of the Guidelines and this should be also tuned to the complexity of the requirements indirectly imposed on companies. In any case, it should not be fix before 31 December 2021 or, for the business areas concerned, not before the issue of the specific regulatory provisions currently under definition at European level.

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In conclusion, we express our concern that the EBA Guidelines implementation will result in - direct or indirect – excessive additional costs for enterprises, especially for smaller ones. We deem that these costs would exceed the potential benefits resulting from the credit granting and monitoring improvement.

Moreover, the application date of 30 June 2020, set by the EBA, appears too close and unrealistic. We envisage the risk that the Guidelines will be applied unevenly across EU and among banks and that they will lead to reduce the credit access especially for micro, small and medium enterprises.

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