



CONFINDUSTRIA

**Consultation Paper on
EBA's Guidelines on
Loan origination and
monitoring**

As a matter of principle, Confindustria agree with the aim of the EBA's Guidelines to strengthen internal banking governance, practices, processes and mechanisms in relation to credit granting and monitoring, in order to face up to a range of new risks and avoid non-performing loans.

However, we believe that the initiative - if not supported by a prior assessment of the impact of these new requirements on enterprises credit access - could generate the risk of introducing rules that improve marginally creditworthiness assessment and tighten up credit granting criteria, especially for smaller companies.

It would be also important to take into account the fact that level of NPL is being reduced, thanks to a strict regulation that has already imposed stringent rules on banks that necessarily revised their credit policies.

The definition of the Guidelines, although not prescriptive, impacts again on internal banking processes, with the risk of a further reduction of credit granting.

In particular, the Guidelines include provisions that, in many cases, could create operational uncertainties for credit intermediaries.

These provisions should, in fact, be applied according to the proportionality principle that takes into account:

- the size, nature and complexity of the intermediary in relation to the internal governance requirements (section 4);
- the type, size and complexity of the individual credit line with regards to the requirements for creditworthiness assessment, loan pricing, real estate evaluation, guarantees and credit risk monitoring (sections 5, 6, 7, 8).

However, we believe that no useful elements are provided to financial institutions to put this principle in practice, leaving wide discretion to the Supervisory Authorities. This implies the risk of an excessively differentiated implementation between Member States and potential operational uncertainties for banks.

Therefore, it would be necessary that the EBA provides further recommendations about its expectations regarding the application of proportionality principle, in particular relating to the credit granting and monitoring processes.

We deem the Guidelines to be appropriate, in most cases, for large-amount exposures, for which the additional costs, associated with the more in-depth creditworthiness analysis and a collection of the additional requested information, are justifiable. However, it would not seem possible to apply the Guidelines to small-amount exposures for which the requested information may not be available, in particular with regard to micro or small enterprises.

Therefore, we believe that it seems difficult to put in practice the provisions that banks should carry out for all operations - regardless of the amount, type of financing instrument and economic activity sector – with respect to a sensitivity analysis that should take into account the impact of external events (including political and geographical risk) on the borrower's repayment capacity.

In the same way, the banks' requirement to assess the business model and strategic information should be limited to large-amount exposures.

We deem the issue of collecting and analysing information to be also very relevant in relation to the provision that require the inclusion of ESG factors in banks' risk management policies, including the complex assessment of the so-called "transition risks".

This provision requires banks to develop, on one side, internal controls and competences that are adequate to the interpretation of this type of phenomena and, on the other side, the ability to acquire an amount of information that is not always available.

Without prejudice to the request to better explain the terms of application of proportionality principle and considering the difficulties of applying the Guidelines to less structured companies, we believe that it is necessary to introduce exemption thresholds below which the requirements of the EBA's Guidelines may not be applied according to the size of enterprises, in particular excluding SMEs, the amount of exposures and the typology of loans.

We deem the issue turns out very important especially in those countries where most of the companies are micro, small and medium-sized. In this case, the application of the Guidelines - if not properly calibrated to the reality of the banks' loan portfolio - could have restrictive effects in credit granting.

It would be also important to highlight that the Guidelines contain provisions that have a significant impact on the credit granting and managing process and involve important organizational adjustments of the banks, concerning information systems and training of the sales network personnel. These adjustments will require the banks to have different compliance times and costs in relation to the different starting situations.

For this reason, we believe that it is essential to ensure that the adaptation process of financial institutions does not lead to reductions, even temporary, in the credit granting to companies or to significant changes in the credit access conditions, in particular in relation to the timing and amount of the credit granting. Regarding this last point, there are also concerns about the effects the proposed guidelines could have on decision-making processes related to credit granting. We believe that, if strictly interpreted, the requirements risk to bureaucratize banking activities and reducing their efficiency.

We deem that the EBA's Guidelines, also in relation to what it said previously, imply that the banks are required to obtain additional information from financed companies in order to make the creditworthiness assessment. This will necessarily require financed companies to adapt their information and reporting systems to the banking sector, in order to continue to have access to credit under pre-existing conditions.

It would be essential to carefully take into account this aspect and to provide the possibility to modulate the coming into force of the provisions contained in the guidelines, in relation to the complexity of the requirements imposed indirectly on the companies.

So, we believe it is necessary that the entry into force of new requirements be no earlier than December 31, 2021 or, for some specific issues, not before the relevant regulatory provisions are defined at European level (and the coordination of the Guidelines with them).