ABI Associazione Bancaria Italiana

ABI response to EBA consultation on draft guidelines on loan origination and monitoring

25 September 2019

1 - What are the respondent views on the scope of application of the draft guidelines?

(1) The EBA guidelines lay down a set of best practices related to the process of credits granting and monitoring, which even if they sound fine in theory, institutions could face difficulties when applying them.

In this respect, it could be appropriate to clarify all the circumstances (e.g. specific type of clients, sectors, products, banking business model etc.) in relation to which the proposed guidelines should be considered mandatory for the Supervisor Authorities or supervised entities.

(2) According to the guidelines, the proportionality principle is based on the size, nature and complexity of the banks with regard to internal governance requirements (section 4), and on the type, size and complexity of the individual credit facilities, for the requirements on the creditworthiness assessment, pricing, valuation of immovable and movable property collaterals and credit risk monitoring, contained in the following sections (5, 6, 7, 8).

However, the EBA document doesn't define any further elements in order to enforce the proportionality principle, leaving banks with a wide margin of discretion in its application. Moreover, in several instances, the guidelines state the criteria listed are to be applied on a "at least" basis. The expression "at least" could imply that the information has always to be collected and does not allow for the application of the proportionality principle. This could generate uncertainty in the banking activity, with the risk that competent Supervisor Authorities could consider entities to be non-compliant.

In relation to above, it would, therefore, be appropriate to clarify the real nature of the EBA guidelines: (i) they are indications of good practices, with aim to improve over the time the credit granting and managing process, which means that a partial application (or non-application) of guidelines is not considered as a breach; (ii) these provisions are effectively imposed on banks with mandatory effects. In this case, further disposals on the application of the proportionality principle are needed, in particular as regards the businesses credit granting and monitoring process.

(3) For the purpose of the second point, the guidelines are appropriate in relation to significant-amount transactions, which justify the additional costs connected with further detailed creditworthiness analysis and wider information collection required. On the other hand, some of the required information may not be available at all for small and medium enterprises. Therefore, it could be appropriate to 1) explicitly explain in the text which provisions should be considered a "must" or a "nice to have" practices for small and not complex banks (or LSI); 2) introduce

specific thresholds in terms of loan amount below which the EBA requirements are not applied “tout court”.

(4) On the latter point, it could be envisaged a set of thresholds on the size of loans, with the aim to apply the EBA requirements on the basis of loans’ characteristics and/or a more granular differentiation of the type of customers (i.e. individual firms, small corporate, large firms); over the mention thresholds, it applies the proportionality principle.

Defining a set of thresholds, embodying the loan risk relevance, might help avoid a disproportionate implementation of the requirements and keep costs under control for those customer segments where margins are tight.

This issue is particularly relevant in countries where the business environment is mainly characterized by SMEs. Consequently, the guidelines implementation could have negative effects on credit granting, if they are not properly calibrated to the business portfolio of banks.

(5) Moreover, leasing is mentioned in paragraph 123, but no specific principles are provided as long as leased assets should not be simply considered as collaterals, but as lenders property.

A specific reference to leasing should be introduced, including the lease asset valuation in the credit risk assessment.

(6) The EBA requirements (e.g. monitoring rules, valuation criteria on movable/immovable properties) should apply only to facilities originated after the implementation date of the guidelines.

The guidelines create uncertainty on this point: section 2 provides rightly that section 5 applies to loans and advances originated or renegotiated after the application date of the guidelines, while the cost - benefit analysis (“Option 1.b” - pag.77, Accompanying documents) requires banks to apply new guidelines to credit facilities granted before 30 June 2020.

(7) Furthermore, regarding the scope of application of the Guidelines, paragraph 10 states that Section 5 also applies to loan agreements where the terms are renegotiated or which require specific actions triggered by the regulator credit review of the borrower after the application date, even if they have been originated before the application date. As the word “renegotiated” might imply a conceptual connection with the definition of Forborne exposures, we underline that EBA guidelines have only an indirect effect on the current FBE practice, mainly as part of a change in the underlying credit management process rather than a direct application of the prescription to the FBE exposures

(for which regulatory point of reference is the “EBA Guidance on NPLs management and FBE”).

(8) In the background, there is the issue of the relation between the internal rating system – that now banks use for the counterparties evaluation – and the creditworthiness assessment process outlined by the guidelines. We believe that the latter should be useful to challenge the banking rating systems and not to replace or deeply change them.

(9) Finally, we notice that the guidelines consider assets used by the owners for conducting their business within the scope of Commercial Real Estate (CRE) and not in Real Estate business. Although criteria for evaluating RE professionals (pure CRE counterparties) are very different from the ones to be used for evaluating the granting of credit lines collateralized by RE assets to companies operating in other businesses. We suggest including only professionals specialized in RE activities in the CRE. Moreover, with respect to the definition of CRE in paragraph 17, we highlight that rental housing and social housing (which are properly residential real estate) are included in this asset class. We propose closer coordination between definitions given in these guidelines and those in the art. 4 of CRR.”

2 - Do you see any significant obstacles to the implementation of the guidelines by the application date and if so, what are they?

(10) Without prejudice to response to question 1, the EBA requirements significantly impact on the credit granting and managing process, which imply huge investments in all banking organisational procedures. In particular, the IT structure will need, in some cases, to be newly designed and, in other cases, adequate to the new requirements introduced by the guidelines. In general, a deep staff training will be needed.

Banks will need sufficient time to align their investment and operational structure to the new standards, which depends on their starting point and the context in which they operate (for example, the context could be more or less favourable in terms of collection of the required information).

(11) Furthermore, it should be considered the impact of the new credit risk assessment framework on banking rating systems and, at what extent, they will need to be reviewed. In latter case, it will imply a great amount of time for the collection of supporting statistics and the acquirement of the necessary authorisations.

(12) Considering the complexity of the EBA requirements implementation, it is fundamental to modulate over time their entry into force, especially if they are mandatory. In any case, they should not be applied before 31 December 2021.

3 - What are the respondents' views on whether the requirements set in the draft guidelines are future proof, in particular in relation to technology enabled innovation (Section 4.3.3) and environmental factors and green lending (Section 4.3.4)?

(13) EBA sets requirements for the banks to consider environmental factors, climate change, green lending and associated risks in their credit policies and procedures.

We deem that these requirements should be aligned with the Commission's Action Plan and regulatory initiatives that decided not to include credit provision activities in the scope of the taxonomy & disclosure regulations. Furthermore, the EBA was tasked in the CRR with a mandate to incorporate ESG factors in risk management via revised technical standards. Thus, these considerations will be already embedded into the loan origination process under the new technical standards.

(14) Requirements included in paragraph 49 are very burdensome, implying a relevant responsibility for lenders regarding the use/destination of loans.

In addition, the guidelines require the acquisition of a large amount of data and specific industrial competencies to evaluate risks, like "legal risk" or "technology risk", that can be very difficult for banks to gather and assess on a large number of clients (small and fragmented in different industries).

It is necessary to clarify the content and depth of the risk assessment as referred in paragraphs from 51 to 53, which require professional skills not typically present in banks. It would be more appropriate identifying possible priority criteria to define a more limited and focalized scope of application.

In any case, banks will need an adequate time frame within implement the requirements proposed by the guidelines on this topic, as policies and rules related to green can be changed accordingly just after the official taxonomy on green approval.

(15) When using technology-enabled innovation for credit granting purposes, paragraph 47 sentences the requirement to explain the

outcome, understand the underlying model used and ensure its traceability, auditability, robustness and resilience.

It is possible to consider that this set of characteristics (traceability, auditability, robustness and resilience) should be considered coherent with some of the main principles identified by the European Commission High Level Expert Group on Artificial Intelligence, as described in the Ethics Guidelines for Trustworthy AI, published on April 2019.

(16) In those Guidelines, that has the aim to promote a framework to achieve trustworthy AI, it has been identified a list of seven (7) key requirements:

1. **Human agency and oversight,** *including fundamental rights, human agency and human oversight*

2. **Technical robustness and safety,** *including resilience to attack and security, fall back plan and general safety, accuracy, reliability and reproducibility*

3. **Privacy and data governance,** *including respect for privacy, quality and integrity of data, and access to data*

4. **Transparency,** including traceability, explainability and communication

5. **Diversity, non-discrimination and fairness**, *including the avoidance of unfair bias, accessibility and universal design, and stakeholder participation*

6. **Societal and environmental wellbeing**, *including sustainability and environmental friendliness, social impact, society and democracy*

7. **Accountability,** *including auditability, minimisation and reporting of negative impact, trade-offs and redress.*

(17) As mentioned before, it is possible to consider that these requirements are basically in line with the characteristics of explainability, traceability, auditability, robustness and resilience. However, it's paramount to underline the need of a common understanding and a common language to define those characteristics.

(18) Here below we report some key aspects in the definitions, as suggested in the European Commission Guidelines:

(i) **Explainability:** it concerns the ability to explain both the technical processes of an AI system and the related human decisions (e.g.

application areas of an AI system). Technical explainability requires that the decisions made by an AI system can be understood and traced by human beings. Whenever an AI system has a significant impact on people's lives, it should be possible to demand a suitable explanation of the AI system's decision-making process.

Analysing this definition, it is important to stress out the following key point: the focus should not be on the need to explain in every detail the decision itself, but rather, to document and understand the decision process.

(ii) **Traceability**: the data sets and the processes that yield the AI system's decision, including those of data gathering and data labelling as well as the algorithms used, should be documented to the best possible standard to allow for traceability and an increase in transparency. This also applies to the decisions made by the AI system. This enables identification of the reasons why an AI-decision was erroneous which, in turn, could help prevent future mistakes. Traceability hence facilitates auditability and explainability.

(iii) **Auditability**: Auditability entails the enablement of the assessment of algorithms, data and design processes. This does not necessarily imply that information about business models and intellectual property related to the AI system must always be openly available. Evaluation by internal and external auditors and the availability of such evaluation reports can contribute to the trustworthiness of the technology. In applications affecting fundamental rights, including safety-critical applications, AI systems should be able to be independently audited.

(iv) **Robustness:** a crucial component of achieving Trustworthy AI is technical robustness, which is closely linked to the principle of prevention of harm. Technical robustness requires that AI systems be developed with a preventative approach to risks and in a manner such that they reliably behave as intended while minimising unintentional and unexpected harm, and preventing unacceptable harm. This should also apply to potential changes in their operating environment or the presence of other agents (human and artificial) that may interact with the system in an adversarial manner. In addition, the physical and mental integrity of humans should be ensured.

(v) **Resilience:** AI systems, like all software systems, should be protected against vulnerabilities that can allow them to be exploited by adversaries, e.g. hacking. Attacks may target the data (data poisoning), the model (model leakage) or the underlying infrastructure, both software and hardware. If an AI system is

attacked, e.g. in adversarial attacks, the data as well as system behaviour can be changed, leading the system to make different decisions, or causing it to shut down altogether. Systems and data can also become corrupted by malicious intention or by exposure to unexpected situations. Insufficient security processes can also result in erroneous decisions or even physical harm.

(19) New technical standards and regulations should promote the introduction of enabling technologies according to European Commission strategy on artificial intelligence (AI) and its coordinated plan presented in December 2018.

(20) Many of the requirements proposed in the guidelines are not compatible with small ticket loans e.g. small lease tickets originated via vendor leasing programmes. Those types of business models rely on automatized and more and more on technology-based organisations and tools, currently duly supervised in respect of existing and already constraining regulation framework.

(21) For those concerned institutions that have demonstrated an accurate control of risks, a strict application of the proposed guidelines requirements would represent not only a regression in risk management but also significant investments in HR and information systems disproportionate to any potential benefits in the cost of risk. Changing these models, which have demonstrated their reliability, to strictly respect the proposed guidelines would represent high costs in terms of IT developments and business / HR organisations.

4 - What are the respondents' views on the requirements for credit risk policies and procedures (Section 4.3)?

(22) Without prejudice to response to question 1, the requirements regarding credit risk policies and procedures appear to be too prescriptive, formal and standardised whatever the type of loan (amount, duration, counterparty, complexity, distribution channel, etc). In the leasing sector, as an example, a "business to business" approach is often adopted where the leasing company (which may be a bank or a supervised financial intermediary) signs commercial agreements directly with the dealer, after a proper evaluation of the financial and economic situation of the lessee.

(23) Moreover, the criteria listed for example in Annex 1 may not apply in certain situations. As such, the expression "at least" is in any case not appropriate.

(24) We warmly suggest harmonizing these guidelines with the "Reporting instructions on Credit Underwriting data collection" recently issued by ECB (April 2019), to avoid possible overlaps / mismatches on these topics, also better detailing the main definitions (for example, it would be very useful to include the definition of "new business volume origination").

(25) Regarding the implementation of automatic process of decision making, it is necessary to better specify which kind of analysis are required to perform the comparison between automatic and manual processes.

(26) In our opinion, the anti-money laundering policies and procedures being a cross cutting issue, should be separated and not necessarily be integrated in the loan policies and procedures, especially in relation to the monitoring framework. Lending operation and processes are in fact only a part of the all the banking activities covered by AML Framework.

(27) With respect to data infrastructure, it would be particularly relevant to have a clarification on the supervisory expectations, especially with respect to the monitoring throughout the life cycle of credit facilities in particular on specific portfolios for which the information is not available.

5 - What are the respondents' views on the requirements for governance for credit granting and monitoring (Section 4)?

(28) As a general comment, we suggest review the part of the requirements introduced in the section regarding the Credit decision making, in order not to limit the lending activity well-functioning lending activity. In particular:

(i) We deem extremely relevant to avoid the request of a limitation in the Credit decision making in terms of time and number. In fact, if interpreted in the tighter way, it can represent a relevant obstacle for bank operations. In particular, we deem that the number of delegated credit decision is not correlated to an increase in terms of risks undertaken by the bank.

(ii) The Paragraph 63, that would allow individual Approval Authorities just for small and non-complex transactions, would significantly increase the complexity of the lending process and decrease the level of efficiency of banks.

In more detail, within the frame of the independence in credit decision-making (4.4.1), the guidelines establish that "[…] any

individual involved in credit decision-making such as members of staff and members of management body should only have limited sole delegated credit authority for credit decisions for small and non-complex credit facilities […]", as defined in paragraph 63, point a.

We propose to eliminate this provision for all the banks that can ensure a credit process that includes an independent opinion released by the risk management function (that ensures the independency of the overall judgment, limiting the discretion of the delegated role).

(iii) We deem that should be better clarified what does EBA intends with a "well-defined framework to control the process, establish minimum applicability and professional suitability for such delegated authority. Individual delegated authority holders should be adequately trained and hold relevant expertise and seniority in relation to the specific authority level delegated to them".

(iv) Current remuneration policies in banks already cover the independence measures which forbid the link between remuneration schemes associated with the growth of new business. The performance targets of the staff involved in credit granting and their variable remuneration are based on many factors and they are aimed at creating long-term value and rewarding the achievement of results on the basis of prudent, responsible risk bearing. The sector already applies the "MIFiD" rules of conduct relating to the variable remuneration of its staff. The principles derived from this regulation require institutions to respect the interests of consumers, to adopt compensation policies that eradicate conflicts of interest and to provide fair and equitable remuneration not based solely on file acceptance quotas. The current legal provisions are intended to prevent the remuneration of the staff of the lender from being solely dependent on the number or proportion of accepted credit applications and therefore appear sufficient.

In addition, the variable remuneration of the staff involved in credit granting should be consistent with and promote sound and effective risk management and should not encourage risk-taking that could exceed the level of tolerated risk of the institution.

Apart from the above, it should be in line with the business strategy, objectives, values and long- term interests of the institution, and should incorporate measures to avoid conflicts of interest.

The EBA should also consider defining staff members involved in credit granting, credit risk management and control so that entities can assess which staff members would have to comply with such independence requirements.

(v) As to the remuneration schemes - as in the paragraph 63 – it is extremely important to highlight that they are associated to a large number of parameters - not only the volume, but also the level of lending quality. We deem that excluding the commercial network as approval authority (within specific limits in terms of amount, policy, etc.) would significantly increase the complexity of the lending process. Variable remuneration of the staff involved in credit granting that is linked to performance objectives/targets should include credit quality metrics and be in line with credit risk appetite: it would be important to exemplify some measures of credit quality metrics that cannot be based on the quality of credit exposures which are independent and disconnected from the employee him/herself, his/her individual performance and the way he or she conducts his/her activity. The link of variable remuneration of the staff involved in credit granting to the long-term quality of credit exposures appears more as a theoretical concept rather than a practical one, since the credit cycle in some products can be very long and dependent on the economic cycle (for instance, over a 30 year period for a mortgage credit variable remuneration). Also, the scope of population seems too large and not sufficiently precise. It should be coherent with provisions of CRD 4/CRD 5 on material risk takers. Moreover, it would be necessary to clarify if the regulation refers to business functions, to lending functions or both of them.

(vi) We consider really complex to define the organizational control and monitoring structures, policies and procedures on conflicts of interest with the detailed requirements that appear to be set in the guidelines and we would suggest to introduce some clarification on the supervisory expectation with respect to this issue.

(29) Regarding the section 4.3.1 on the Anti-money laundering and counter-terrorist financing policies and procedures, we deem useful adding the following to the end of paragraph 41: "Conversely, also information collected for anti-money laundering purposes may be used for creditworthiness assessment. For example, institutions may take into consideration also credit risks referred to beneficial owners". It might be worth emphasizing the principle of the usability of the information acquired for AML-CTF purposes also for granting and monitoring credit procedures and vice versa.

6 - What are the respondent's views on how the guidelines capture the role of the risk management function in credit granting process?

(30) The requirement set out in the Guidelines for the Credit risk management and internal controls framework to provide an "independent risk opinion to the credit decision takers" (par 76c) and an "independent/second opinion to the creditworthiness assessment" (par. 76g) seems to require an ex-ante supervision of the risk management function within the credit process.

This approach, implying an active role performed by the risk control function during the lending phase, might be hardly applicable for a two-fold reasons:

(i) the prior involvement of the risk control function appears not fully coherent with the separation of responsibilities between the ex-ante first line of defense (lending functions) vs the ex-post second line of controls (risk management) and, ultimately, with the regulatory principle of segregation of duty;

(ii) the need to have second opinion to the creditworthiness assessment might trigger process inefficiencies related to the duplication of activities and skills in charge of different functions, entailing inter alia also additional staff costs.

(31) More generally, the role of the risk management cannot be strictly defined, regardless the size of the organisation nor the nature of the financial activity. In this perspective, the requirements set out in paragraph 82 could be perceived as very intrusive as regards the human resource policies of institutions, in requiring precise criteria for variable remuneration policies of the staff in charge of credit granting.

(32) In addition, detailed provisions should be introduced for specific products, as in the case of vendor leasing, where the second level check on the credit risk assessment would be in any case granted according to the principle established by the guidelines. As an example, in small ticket leasing, vendor programmes often exist where a "four eyes" principle is applied to grant an independent judgment of credit risk. The risk management function evaluates the risk assessment and the commercial function takes the final decision on the basis on both client creditworthiness and business evaluations.

7 - What are the respondent's views on the requirements for collection of information and documentation for the purposes of creditworthiness assessment (section 5.1)?

(33) Without prejudice to the answers to questions 1 and 2, we stress that for the majority of loans granted to SMEs - which represent a significant proportion of the loan portfolio for many banks - some of the required information (listed in Annex 2) determine high and disproportionated collecting costs, compared to the economic value of the financing transaction or to the added value in the creditworthiness analysis.

The guidelines should make clear that pieces of information listed in Annex 2 should be collected and verified if they are relevant for the type of product only, according to the proportionality principle excluding those situations in which the national legislation provides for specific forms of financing (i.e. in Italy salary and pension backed loans and loans guaranteed by severance indemnity).

(34) The requirements listed in Annex 1 and Annex 3 would be too strict and hardly adaptable to the internal evaluation procedures.

(35) Also, in the guidelines new credit exposures are mentioned which are different from those treated in the CRR and they are not clearly defined. As an example, it is not completely clear at what extent exposures towards consumers and professionals are to be considered different from retail exposures. Further clarifications should be provided regarding the definition of "professionals" and "consumers" introduced in the guidelines.

(36) Moreover, it is not clear what the information verification activities (as defined in paragraph 86 and 88) consist in and what are the possible consequences for banks due to an inadequate course of this activity or to the lack of relevant documentation. In general, we deem that a clarification on the principle set out in point 86 would be needed.

(37) In addition, some of the pieces of information are not available for banks at all, as they cannot be obtained by both financed companies or official sources. In other situations, although information is collected by the bank during the loan origination process, it might not be available on its main data system; therefore, it cannot be used without significant IT adjustments, which would take a long period of time for implementation.

(38) We point out in particular that asking for the mandatory availability of business plans and projections from all clients is in clear contrast with the evidence that smaller (and therefore internally not structured) counterparties do not usually have managerial ability to develop such detailed documents for supporting a trustable economic-financial

forward looking scenario. Therefore we would suggest EBA to open for the possibility, in such cases, to focus banks' assessment on most recent historical performances and few key budgeted figures (where available) with the aim to understand their future sustainability; involvement of internal specialist functions in all transactions is in fact clearly not sustainable; excluding the need for business plans and projections at least for transactions lower than Eur 1 mln could certainly be helpful.

(39) For the purposes of the creditworthiness assessment of professionals, according to the paragraph 93, banks should collect and verify at least the information listed in the same paragraph, hinting that these elements have to be collected by banks regardless of the proportionality principle. If this interpretation is correct, we highlight that some of the information required are excessively high and they don't add any value to the creditworthiness assessment if referred to smaller companies.

We underline again that the Guidelines should better state the possibility for info packages differentiated for individual firms, small corporates, mid-sized companies, large firms (for example by introducing thresholds, also driven by loans' sizing and borrowers' risk profile) and accept a certain degree of flexibility.

(40) For the purposes of the creditworthiness assessment of consumers, we welcome the requirements included in paragraph 91, a), which provide that lenders collect information on the loan purpose, "where relevant for the type of product". As a matter of fact, for some consumer credit classes (e.g revolving credit card, personal loans, overdraft, etc.) loan purpose is not required, if the granted amount is not significantly above the average.

8 - What are the respondent's views on the requirements for assessment of borrower's creditworthiness (section 5.2)?

(41) Without prejudice to the answers to questions 1 and 2, we note that the borrower's creditworthiness assessment process seems excessively complex and disproportionated compared to credit facilities size in most bank's portfolios.

(42) In general, while sharing EBA requirements for assessment creditworthiness, we reaffirm considerations previously summarized with reference to available information and documents (point 97) and needed better definition of the proportionality principle. In particular, we would propose to set at least EUR 1 million threshold for the applicability of the cash flow and sensitivity analysis on the corporate

sector, while we deem this analysis not applicable for individuals. For professionals, sensitivity analysis may result not possible, where smaller clients do not provide banks with their own forward-looking projections. In these cases, flexibility is needed.

(43) In general, we consider credit granting criteria set out in Annex 1 too much detailed. Our suggestion is to simplify, not asking for fixing ex ante limits on all parameters listed in Annex 1.

(44) It has to be clarified that the financial metrics (ratios) listed in paragraphs 135 and 99 for the purposes of the creditworthiness assessment must not be always used, regardless of the characteristics and amount of financial transaction.

(45) In any case, possible difficulties may arise from the calculation of DSCR (Debt service coverage ratio): both with reference to cash flow available for debt service (cause, as said, business plans are not always provided) and to amortization profile of third parties debt.

(46) In addition, it is necessary to specify how banks have to document the use of these metrics for credit decision purposes and, to what extent, they have to be implemented in their rating system.

(47) Finally, we understand the rationale of the proposed rules for the under-construction property loans in Section 5.2.3 and 5.2.6. Nevertheless, the requirements included in 112 b) and c), which are similar to the requirements included in paragraph 166, are quite burdensome and are difficult to fulfil. As a matter of fact, lenders have no data and cannot be responsible for assessing the quality of architects, engineers who take part in the property development. Furthermore, the certification of the costs associated with the development is not easy to obtain and it could be very expensive for the borrower. We propose to eliminate these requirements.

(48) In the context of the assessment of guarantees and collateral (paragraph 156), we are concerned that the provision according to which 'institution should perform a due diligence of the agent or the designated entity' would make the process overly complex from an operational perspective: it would indeed excessively prolong the deal set-up phase to perform the assessment of an entity which in most cases is a regulated and supervised bank/financial institution. Moreover, it might be even tricky from a customer relationship standpoint: as it is typically the borrower who engages the agent, the negative outcome of the due diligence might even end up jeopardizing the relationship between the customer and the other participating banks. In this respect we would instead recommend that a more accurate approach is adopted only when the arranger is a third party

agent which, unlike abovementioned banks and financial institutions, might not be a supervised entity.

Secondly, the same paragraph is not clear when it lays down that 'the agent or the designated entity should be the sole issuer of any guarantees, letters of credit or similar documents'. It might indeed be the case that neither the agent nor another participating bank has individually the capacity to issue the guarantees, or it might not have the rating standing required by the borrower. We agree that the designated entities should be clearly identifiable but we ask for a plurality of them to be involved. This would be particularly relevant in case of the issuance of guarantees via ancillary lines: this provision would unduly hamper borrower's business which instead currently benefits from some room of flexibility by contract.

9 - What are the respondents' views on the scope of the asset classes and products covered in loan origination procedures (Section 5)?

(49) We draw the attention on the requirements included in the paragraph 180, which seem to impose on lenders a responsibility for the possible misrepresentation of information provided by the borrower.

We propose a better coordination of this paragraph with the requirements of the art. 18, (4) of the Mortgage Credit Directive. In addition, in accordance with the aim of the CCD, the guidelines should confirm the "responsible borrowing principle" in order to avoid the risk that could exist, for the national courts, a responsibility of the lender in over indebtedness of the borrower.

(50) With respect to the definition of CRE in paragraph 17, we highlight that rental housing and social housing (which are properly residential real estate) are included in this asset class. We propose closer coordination between definitions given in these guidelines and those in the art. 4 of CRR.

(51) About the definition of "disposable income", we deem not clear the reference to the "expenses" of the borrower. Most part of these expenses is not known by lenders. We propose that the guidelines take into account only the expenses which could be known by lenders at the moment of the creditworthiness assessment.

10 - What are the respondent’s views on the requirements for loan pricing (Section 6)?

(52) The implementation of the pricing framework, as referred to in paragraphs 189 and 190, requires a depth revision of the bank's industrial accounting methods. That said, the application of these requirements will require an adequate timeframe which is not compatible with the aim of ensuring the guidelines compliance by 30 June 2020.

11 - What are the respondent’s views on the requirements for valuation of immovable and movable property collateral (Section 7)?

(53) The approach proposed from Paragraph 207 to 213 would completely modify the current perimeter identification applied to collaterals subject to revaluation and the frequency of the update. Many banks have just modified their evaluation processes on the basis of the recent NPEs guidance.

The EBA guidelines should take into account that new potential changes would require high IT budget allocation and a greater amount of time for their implementation, not complied with the EBA proposed deadlines (June 30th, 2020).

(54) Specifically, performing full appraisals for revaluation purposes as set out in paragraph 213 instead of the current desktop (mainly) or drive-by (negligible) ones, would significantly increase the appraisals’ annual cost, as well as delivery time could be delayed. Additionally, mainly in case of NPE, the debtor/asset owner wouldn’t permit an internal visit of the Real Estate asset. Furthermore, statistical model-based revaluation (Paragraph 209 and 216) used by banks generally update the real estate assets value every 6 months and revaluation appraisals are always performed by external valuers.

(55) Referring to the requirements for the valuation at the point of origination (par. 7.1) and for monitoring and revaluation process (par. 7.2), we observe that the guidelines should include a detailed definition of movable property collateral (e.g. It’s not clear if they include registered assets, such as ships or airplanes, or pledges on goods too).

(56) Moreover, the last period of paragraph 199 - “Valuation should be carried out (internal valuation) or ordered (external valuation) by the institution, unless it is subject to a request from the borrower under certain circumstances” – seems to allow borrowers to choice the valuers, also if the responsibility for the real estate evaluation belongs

to the lenders. This point deserves a clarification to avoid possible interest conflicts.

(57) Regarding the requirement included in the paragraph 214, we propose to clarify that the turnover of valuers is required for the valuation of the same immovable property only.

(58) A dedicated section referring specifically to leasing activity would be necessary. In the case of leasing, whereby creditors own the financed assets, all contracts rely on the ability of the lessor to dispose of the asset in case of non-payment of the loan. The property of the asset by the creditor is the main feature of a lease, and a central parameter for credit risk analysis and creditworthiness assessment.

12 - What are the respondent’s views on the requirements on monitoring framework (Section 8)?

(59) The ongoing monitoring introduced by EBA guidelines appears too complex and elaborate. This framework represents a burden that is not justified in relation to the average size of the banks' portfolio loans (see the considerations provide in question 1).

(60) In any case, the monitoring activity shouldn’t lead to additional reporting requests for entities towards the Supervisory Authorities, by determining the increase of the administrative obligations and costs for banks.

(61) While we agree with the need to continuously monitor and assess the quality of credit exposures and financial situation of borrowers so that to ensure the resulting changes in credit risk, we note that the monitoring should not be carried out with respect to the initial recognition of the lending exposure. In fact it is a principle applied for accounting purposes (as in IFRS9) but is not appropriate for the monitoring framework whose aim is to assess/monitor the exposure evolution by comparing the current exposure with the most recent information so that to allow banks to undertake the necessary actions more promptly.

(62) With respect to the key risk indicators in the paragraph 263, we deem that the list proposed by the EBA does not allow for a timely detection of increased credit risk in their aggregate portfolio. For example, a significant drop in turnover would have a lag in the temporary lag that would not ensure promptness.

(63) As a general consideration we would suggest EBA to better specify whether and in which situation the warning on monitoring should be performed at portfolio level or at loan level. In particular, we deem

important to clarify the supervisory expectations related to the watch list (paragraph 266): in our understanding, while the whole section 8 is on monitoring and reporting (therefore mainly at portfolio level), the paragraph 8.7 asks for operational actions/assessment in the context of “in the monitoring of watch list” (not in the monitoring of watch list clients).