



**EBA Consultation on Draft Guidelines on Loan Origination and Monitoring
BNP Paribas response**

BNP Paribas welcomes the opportunity to express its views on the EBA Draft Guidelines on loan origination and monitoring and agrees that sound credit granting practices are essential to financial stability and resilience of the EU banking system.

As general remarks, we would like to emphasize the following points:

1. **The proposed guidelines are very prescriptive, imposing a very significant number of actions** that banks “should” undertake “at least” or “as a minimum”, **without allowing sufficient flexibility and proportionality**. If applied in their current wording, the guidelines would severely alter the nature of banks’ intermediation business by encouraging mechanical application of standardized, “one-size-fits-all” norms, thus restraining excessively in-house credit risk expertise. Such standardized credit granting principles would be detrimental to borrowers and therefore to the entire EU economy. We insist on the fact that guidelines must maintain the situation where two different lenders have two different answers to the same demand from the same borrower: one refusing it, the other one granting it. The general framework should aim at avoiding excessive non-performing exposures while maintaining access to credit to higher risk borrowers based on different risk appetite’s and portfolio diversification. In addition, the **concept of “materiality” at portfolio level, essential in the Risk Appetite Framework to ensure risk diversification and prevent excessive concentration for an institution, is missing and should be introduced** (please refer to Question 5. For details).
2. **The guidelines go further than detailing existing EU Regulations. They cover areas for which underlying regulations are at different stages and with different dates:**
 - a. existing regulations that will soon be reviewed (Consumer Credit Directive, Mortgage Credit Directive)
 - b. new regulations which are not finalized (EU Action Plan on Sustainable Finance)
 - c. finalized regulations that provide mandates to EBA (CRR2-CRD5 regulation mandates EBA to publicly consult in 2020 and perform report in 2021 on ESG considerations)
 - d. no existing EU regulation sometimes, but legal prohibitions in some jurisdictions (‘single customer view’ is impossible to implement regarding the GDPR principles and the prohibition of positive credit register in France).
3. That’s why **the proposed 30 June 2020 deadline cannot be realistically met**. The final implementation date should be **postponed and adapted to the underlying regulatory framework**.
4. These guidelines are generally consistent, at least in their spirit and objectives, with our established practices. However, due to their **numerous prescriptions, banks will have to engage in significant investments in internal systems** in order to justify, document, track and explain those practices.



1. What are the respondents' views on the scope of application of the draft guidelines?

First of all, we consider that **only new loans should be covered by these guidelines**. The volume of existing loans where terms are renegotiated after the application date can be very material and thus not easily adaptable as regards the new guidelines; for instance, in the current context of low interest rates, the amount of mortgage loans which are renegotiated by the customers is significant.

In order to avoid this risk, we would suggest rephrasing the following paragraphs:

Background and rationale

- 4. *The objective of the guidelines is to improve institutions' practices and associated governance arrangements, processes and mechanisms in relation to credit granting in order to ensure that institutions have robust and prudent approaches to credit risk taking, management and monitoring, ~~and newly originated loans are of high credit quality~~, whilst respecting and protecting the interests of consumers. Through achieving these objectives, the EBA aims at improving the financial stability and resilience of the EU financial system.*

Subject matter, scope and definitions

- 10. *Section 5 and Annex 2 applies to loans and advances that are originated after the application date of these guidelines. ~~Section 5 and Annex 2 also applies to loan agreements where terms are renegotiated or which require specific actions triggered by the regular credit review of the borrower after the application date, even if they have been originated before the application date.~~*

Secondly, concerning the **principle of proportionality** to be applied to sections 5 (Loan origination procedures), 6 (Pricing), 7 (Valuation of immovable and movable property) and 8 (Monitoring framework), we note that it is described differently in various sections of the guidelines. In addition, this principle of proportionality at credit facility level is not making any reference to **the borrower risk profile** (in particular its size, financial standing and risk rating, new or existing client with track record with the lender etc.), which should in our opinion be **an important consideration** to factor in when applying the principle of proportionality at facility level. To avoid any misinterpretation on this **key principle**, we would suggest rephrasing the following paragraphs:

Executive Summary

- *For the implementation of these guidelines, the proportionality principle is interpreted and applied differently in relation to various sections of the guidelines. First, for the implementation of the requirements related to the internal governance, risk management and control, institutions and competent authorities should consider a proportionality principle that is based on the size, nature and complexity of the institutions. Second, when implementing the requirements for the creditworthiness assessment, loan pricing, collateral valuation and credit risk monitoring, competent authorities and institutions should consider the type, size, *nature, and complexity and risk profile* of the credit facilities being granted or monitored, *in conjunction with the risk profile of the borrower*.*

Background and rationale

- 13. *Second, when implementing the requirements for the creditworthiness assessment, loan pricing, collateral valuation and credit risk monitoring, competent authorities and institutions instead of size and complexity of institutions, should consider the type, size, *nature, and complexity and risk profile* of the credit facilities being originated or monitored, *in conjunction with the risk profile of the borrower*, because this is the main driver that could give rise to disproportionate application of the guidelines.*



- 14. The above differentiation in the application of proportionality aims to ensure that while even smaller and less complex institutions have a robust and effective credit granting process, loan origination and monitoring criteria are proportionate to the type, size, *nature*, ~~and~~ complexity of the loans that the institutions are originating or credit facilities they are monitoring, *in conjunction with the risk profile of the borrower*.

Scope of application

- 14. Institutions should apply section 4 of these guidelines in line with the proportionality principle described in Title I of EBA Guidelines on internal governance. Institutions should apply sections 5, 6, 7 and 8 *and related Annexes 1, 2 and 3* of these guidelines in a manner that is ~~comprehensive and~~ proportionate [NB: if proportionate, then cannot be *comprehensive*] to the *type, size, nature, and complexity and risk profile* of the credit facility.

Loan origination procedures

- 86. Information and data should be accurate, timely and relevant to the asset class and specific product, and proportionate given the purpose, *type, size, complexity, and potential risk* associated with the loan *in conjunction with the risk profile of the borrower*.

Sensitivity analysis in creditworthiness assessment

- 144. Such sensitivity analysis should account for all general and asset class and product type - specific aspects that may have an impact on the creditworthiness of the borrower. Sensitivity analysis should be proportionate given the purposes, *type, size, complexity, term and potential risk* associated with the loan *in conjunction with the risk profile of the borrower*.

Credit review of professionals

- 245. The review process and frequency should be specific and proportionate to the type *and risk profile* of borrower and the type, size, and complexity *and risk profile* of the credit facility, and should be specified in relevant policies and procedures. Institutions should carry out more frequent reviews if they identify a deterioration in the credit and asset quality. The overall credit risk monitoring framework and data infrastructure should allow institutions to verify that the regular credit reviews have been performed in accordance with the credit risk policies and procedures, and for the identification of any outliers/exceptions to be flagged for follow up.

Thirdly, with regards to **annexes 1, 2 and 3**, the guidelines should make it clearer that the lists they contain should be taken as a reference to be complied with proportionally to the type, size, nature, complexity and risk profile of the credit facility in conjunction with the risk profile of the borrower and **not a prescriptive list** to be complied with at all times for all types of lending. Consequently we would suggest the following amendment:

Background and rationale

- 6. The guidelines are supported by three annexes presenting a set of considerations for credit granting criteria (Annex 1), for the types of documents to be collected by the institutions for the purposes of creditworthiness assessment (Annex 2), and metrics that can be used in credit granting and monitoring (Annex 3). *This set of considerations does not constitute prescriptive lists to be complied with for all types of lending, but should be considered and complied with proportionally to the type, size, nature, complexity and risk profile of the credit facility. Conversely, this set of considerations is not exhaustive and should be complemented with additional considerations where appropriate.*



Finally, it should also be made clear that derivatives and Securities Financing Transactions (SFT) are out of scope. We would suggest the following amendment:

Subject matter, scope and definitions

- *7. Debt securities, derivatives and Securities Financing Transactions (SFT) are excluded from the scope of application of these guidelines.*

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

In our view, the June 30, 2020 application date is not realistic and should be postponed and adapted to the underlying regulatory evolutions, especially the upcoming Consumer Credit Directive review and the Mortgage Credit Directive review, the on-going legislative process related to the EU Taxonomy and the future EBA reports on ESG considerations stemming from CRR2-CRD5, among others.

In addition, a more realistic deadline for implementation would be several years taking into account IT system considerations. Indeed the guidelines detail a significant list of elements that are not available on demand in our IT systems that we will have to be able to justify and document. A complete revision of our practices and huge IT investments would be necessary. Moreover, such implementation will be done in the context of application of IRB repair for which implementation date was postponed to end of 2021 given the heavy workload. This will be coupled with preparation for Basel IV, as well as carrying the implementation of other NPL-related regulations. **A multiyear implementation could therefore be considered.**

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 4.3.2) and environmental factors and green lending (Section 4.3.3)?

Environmental factors and green lending (Section 4.3.3)

We recommend that the guidelines are more closely **articulated with existing regulations** and customers **information availability**, an allow **flexibility**.

Proportionality is also needed at counterparty type level. Guidelines are very useful for corporate counterparts, on a flexible and improving manner. However, we would like to stress that, in any case, **retail banking activities should deserve a long phase-in period**, as it premature to assess in 2020 or 2021 on an automatic basis the ESG risks for retail loans. For instance, banks have sometimes the information of the energy efficiency of a house when they provide some mortgage loans, this information may be included in paper documents provided by the borrower. However, this information is not, at the stage, collected and available in the IT. EU banks are at the preliminary stage of defining a common template to gather and report on the Energy Efficiency Certificates for mortgages, as the Energy efficiency Data Protocol and Portal (EeDaPP) initiative (set up with EU funds) is still ongoing.

Finally, regarding **definitions**, we also propose replacing in paragraphs 49 and 50 “green lending” by “**environmentally sustainable lending**” in the guidelines; “green lending” does not have any precise meaning while “environmentally sustainable” means contributing to one of the six environmental objectives defined in the EU Taxonomy.



To take into account the above, we would propose the following amendments:

- 48. Institutions should include, *on a best effort basis and according to the proportionality principle, until the final EBA Guidelines (CRD5 (Article 98 (7 c)) based on June 2021 EBA report,* environmental, social and governance (ESG) factors as well as risks and opportunities related to ESG in their risk management policies, credit risk policies and procedures. Institutions should adopt a holistic approach, and incorporate ESG considerations in their credit risk policies and procedures.
- 49. As part of their credit policies and procedures, institutions that originate or plan to originate ~~green~~ environmentally sustainable credit facilities should develop *specific green environmentally sustainable* lending policies and procedures covering granting and monitoring of such credit facilities. These policies and procedures should, in particular, *as a matter of example: [...]*
- 51. Institutions should in particular take into account, *on a best effort basis and according to the proportionality principle,* risks associated with environmental factors and climate change in their credit risk policies and procedures. The risks of climate change for the financial performance of borrowers can be classified as physical risks, ~~or~~ transition *and/or liability* risks. *Disclosure should be aligned with Article 449 a CRR2 (June 2022).*
- 130. *Going forward when borrowers disclose adequate information on their climate-related risks and other ESG risks,* Institutions should assess each borrower's exposure to climate-related and environments risks as well as other ESG risks, e.g. the borrower's risk return profile vis-à-vis transition risks and appropriateness of the mitigating strategies should be analysed.

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

We consider that the requirement for credit risk policies and procedures are too standardized and too prescriptive and as such not applicable in all cases. Explicit reference to the principle of proportionality and the principle of materiality at portfolio level (please refer to Question 5. For details on the principle of materiality) should be made.

To take into account the above, we would propose the following amendments:

- 35. *Within the credit risk policies and procedures, institutions should specify where appropriate in relation to proportionality and materiality of portfolios ~~at least~~ the following*
 - *b. credit granting criteria; while specifying these criteria, institutions should ~~at least~~ consider items referred to in Annex 1;*
 - *d. requirements for the creditworthiness assessment, including where appropriate sensitivity analysis as referred to in Section 5.2;*

**5. What are the respondents' views on the requirements for governance for credit granting and monitoring (Section 4)?****Credit risk appetite, strategy and credit risk limits (section 4.2)**

It is important to introduce in Section 4 of these guidelines (Governance requirements for credit granting and monitoring) or in the section Background and rationale the **concept of "materiality" at portfolio level for a Bank.**

Individual credit files decisions ensure individual credit file quality and compliance with risk strategy and credit policies.

In addition to decisions on individual credit files, credit risk limits ensure **risk diversification and prevent concentration** on portfolio with shared risk characteristics. **Credit risk limits are only meaningful for material credit risk portfolios, when smaller, non-material, diversified portfolios should not require specific Risk Appetite Framework ("RAF") limits.**

Applied to a large diversified generalist Bank like BNP Paribas, the RAF does not cover every single credit portfolio of the bank with dedicated limits. Limits are set-up for material portfolios with shared risk characteristics, i.e. sectors (i) with common risk drivers affecting the clients of these sectors (ii) above a certain materiality threshold (iii) with specific risk sensitive indicators or that may have to face challenges in the future.

We believe that this section 4.2 is **too prescriptive and lacks clarity**. In particular:

- paragraph 28 would require clarification and flexibility as the quoted dimensions (geography, business line...) are not always meaningful (such as sector for individuals) or overlapping (such as asset class with product for mortgages)
- paragraph 29 would require flexibility as Banks group entities and business lines can easily be in the thousands, some of them representing only a small fraction of the credit risk of the bank, or in some case no credit risk at all because of their activities
- paragraph 36 would require clarification or illustration. To note in addition that single credit decisions will often have a totally marginal impact on the institution risk profile

In order to take into account the above, we would propose the following amendments:

*Background and rationale**Proportionality, materiality, and implementation*

- 14 bis. *Third, when implementing the requirements for Credit risk appetite and credit risk limits, competent authorities and institutions should consider the materiality of specific credit portfolios in relation to the total credit risk of the institution. Credit risk limits ensure risk diversification and prevent concentration on specific credit portfolio, and as such should be implemented for material portfolios with shared risk characteristics.*
- 26. *The credit risk appetite, credit risk strategy and the overall credit risk policy should be aligned to the institution's overall RAF. Institution's credit risk appetite should specify the scope and focus of the ~~total~~ credit risk of the institution, the desired composition of the credit portfolio, including the desired diversification and concentration, and where appropriate for credit portfolios that are material in relation to the total credit risk of the institution, geographical location of the borrower, types and geographic locations of collateral, economic sectors and the type of credit facilities, ~~as well as the desired diversification and concentration.~~*



- 28. *The credit risk appetite and strategy should include, where appropriate ~~applicable for credit portfolios that are material in relation to the total credit risk of the institution, appropriate~~-specific credit risk metrics and limits, which should be a combination of backward-looking and forward-looking indicators. Such indicators should include for the material portfolios key aspects of the credit facilities including where relevant their geographical coverage, business lines, asset classes, sectors, client segments, currency, credit risk mitigation instruments and products. These indicators should be tailored to the business model, the materiality of the portfolios, and the complexity of the institution.*
- 29. *Institutions should ensure that credit risk appetite and associated metrics and limits are adequately cascaded down within the organisation, including all material group entities and business lines bearing credit risk.*
- 30. *For the purposes of managing concentration risk, institutions should set quantitative internal credit risk limits for their aggregate credit risk, as well as for material portfolios with shared credit risk characteristics, sub-portfolios and individual borrowers. In the case of group entities and connected clients, the limits should account also for the consolidated and sub-consolidated position and the position of the individual entities of the consolidated and sub-consolidated levels.*
- 35 b. *credit granting criteria; while specifying these criteria, institutions should at least consider where appropriate items referred to in Annex 1 (list non exhaustive)*
- ~~○ 36. *The credit granting criteria referred to in paragraph 35(b) should enable institutions to operationalise the credit risk appetite in consistence with the credit risk strategy and should provide input for evaluating the impact of the credit facility in request on the institution's credit risk profile and credit risk capacity.*~~

Remuneration (section 4.7)

From our perspective, it is not relevant to set a direct and formal link between performance management, remuneration and the quality of credits: link between the variable remuneration of the staff involved in credit granting and the long-term quality of credit exposures (82. a.), inclusion in the performance objectives/targets of the credit quality metrics (82.b).

First, the risks taken by the banks when granting a credit are evaluated through a specific assessment and validation process involving both front-office functions but also risk functions and management lines. It is not the responsibility of a single person to grant the credit.

Second, the quality of a client and of a credit can evolve throughout time, depending on the financial health of the client which can be deteriorated due to external factors impossible to anticipate years in advance (economic downturn, emergence of new competitors...). It would not be fair to impact the variable remuneration of a staff member years after the granting of a credit for events which are totally independent from the way he/she performed his/her job.

Third, banks have teams dedicated to higher risk segments, such as small SMEs, mass market in regions that may face high unemployment, emerging markets, consumer finance etc... This staff will, by definition, originate high risk assets and should not be penalized for that.

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

We find the requirements in respect of 4.4 Credit-decision making too prescriptive and not always relevant. In particular:

Paragraph 59: we suggest to remove reference to time period limits for the delegated powers and reference to limits of number of delegated approvals as such limits will not contribute to improving the soundness of the delegated credit decision making bodies structure.

We would accordingly propose the following amendments:

- 59 [...]. These powers and limitations should account for the asset class, product type, type and quality of the borrower, geographic location of the borrower, economic sector and industry and credit limits/maximum exposures. ~~For the purpose of delegated credit decision making bodies, institutions should set limits on the time period for the delegated powers and the number of delegated approvals.~~
- 60. The credit-decision making framework should also account for the involvement of credit risk function in the decision making and represent a good balance between the business and risk functions. The framework should also specify the working modalities of the committees and roles of its members, including **as the case may be** such aspects as the voting procedures (unanimity or simple majority of votes)."

Paragraph 63 lacks clarity and would require in our opinion significant rewording to be clearly interpreted. In particular,

- A definition of "professional relationship" should be provided. Should front office staff, dealing with the borrower and taking part in credit committees, be considered as having a professional relationship with the borrower? If that is the case, then this article is not applicable as front office staff takes part in credit committees together with the credit risk management function.
- 63.b.i seems to forbid staff with "professional relationship with the borrower" to take part in credit decision when 63.c seems to allow it under certain circumstances
- 63.c seems particularly unclear in its grammar (eg. "any individual, who have"), and lack of precise definitions (loan administration, management body level, remuneration schemes associated with the growth of the business)

7. What are the respondents' views on the requirements for collection of information and documentation for the purposes of creditworthiness assessment (Section 5.1)?

Compliance with the collection of information and data as set out in **Annex 2 should be proportionate to the type, size, nature, complexity and risk profile of the credit facility and of the client. Business plans (93.e) or financial projections (93.f) for instance are not available for all 'professional firms' and their analysis not always relevant in case of short terms facilities (e.g. Trade Finance or Export Finance).** It should be made clearer that Annex 2 is not to be understood as a prescriptive list to be complied with at all times for all types of lending. Wording "at least" in paragraph 92 to 94 introduces ambiguity in the applicability of Annex 2 and could be understood as directly contradicting the principle of proportionality.

Considering the above we would suggest following amendments



Collection of information and documentation – specific requirements for lending to consumers

- 92. For the purposes of the collection and verification of information, institutions and creditors should ~~at least~~ consider collecting *where appropriate* the information and data as set out in Annex 2. *This list is not prescriptive and should be complied with proportionally to the type, size, nature, complexity and risk profile of the credit facility. It should also be completed where relevant with additional information.*
- 93. For the purposes of the creditworthiness assessment of professionals, institutions should collect *where available* and verify information in relation to ~~at least~~ the following:
- 94. For the purposes of the collection and verification of information, institutions and creditors should ~~at least~~ consider collecting *where appropriate* the information and data as set out in Annex 2. *This list is not prescriptive and should be complied with proportionally to the type, size, nature, complexity and risk profile of the credit facility and size of the professional client. It should also be completed where relevant with additional information.*

With regards to paragraph 85 on ‘single customer view’, the GDPR and other legal constraints limit the possibility to have massive credit databases. Therefore, borrowers’ own declarations are key to have a comprehensive view of their credit commitments of which some elements may be verified by the lender and some may not. The IT systems of the different entities of a banking group might not be connected to each other. In addition, in some Member States, such as France, there does not exist any positive credit register.

Concerning paragraph 88, it should be reminded that bank secrecy limits the possibility to conduct enquiries among third parties to verify the information and data collected. Inconsistencies are an alert to further investigate within the allowed legal framework.

8. What are the respondents’ views on the requirements for assessment of borrower’s creditworthiness (Section 5.2)?
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General requirements for lending to consumers (Section 5.2.1)

First, with regards to paragraphs 96, 97, 98 and 99, we consider the assessment to be too prescriptive as the CCD does not precise specific metrics to assess creditworthiness.

We reaffirm that it is not relevant to treat all credits in the same way and that the EBA must take into account the type of credit and the amount. A strict application of the listed metrics and parameters would challenge current concerned institutions scoring models, which do work well and thanks to which we are able to limit risks and indebtedness. In addition, the use of the proposed metrics would finally become factor of exclusion as they could become standards for indebtedness ratios while economic conditions of consumer could be very different within the UE. We thus suggest either to remove paragraph 99.

Second, regarding paragraph 101, we consider that the requirement to analyse potential negative scenarios in the future is not relevant regarding consumer credit, which, most of the time, is short term lending. We therefore suggest deleting this obligation concerning consumer credit as defined in the CCD. We consider that the requirement to analyse potential negative scenarios in the future should be suppressed: by definition, unexpected events cannot be anticipated. This is the role of insurance activity and not credit activity.

**Other secured lending to consumers (Section 5.2.3)**

We suggest removing paragraph 112. Indeed, with regards to item (b), we want to stress out that **banks are not qualified to assess the quality of all the stakeholders involved in the development of the property**. Item (c) appears more as a theoretical concept rather than a practical one, since the certification of the costs associated with the development is not easy to obtain and it could be very expensive for the borrower.

General requirements for lending to professionals (Section 5.2.5)

Applicability of the proportionality principle should be made clearer and wording "at least" generally replaced by "where relevant" and "list non exhaustive" to avoid confusion.

To take into account the above, we would propose the following amendments:

- 126. When carrying out the creditworthiness assessment institutions should perform **where appropriate and where information is available**~~at least~~ the following:
- 131. [...]. Institutions should make their own projections of the borrower's financial position and use them to challenge the projections provided by the borrowers **if any**.
- 132. *For the purposes of the analysis of the financial position within the creditworthiness assessment as specified above, institutions should consider ~~at least~~ where appropriate the following (list non exhaustive) :*
 - d. [...] and also ~~at least~~ considering which metrics in Annex 3 would be applicable in the specific credit proposal.
- 134. *Institutions should perform **where appropriate** an assessment of the cash conversion cycle of the borrower to measure the time duration for the business to convert the investment in inventory and other resource inputs into cash through the sale of its specific goods and services. Institutions should be able to establish the cash conversion cycle of a borrower to establish working capital needs and to establish recurring costs and assess the on-going capacity to repay credit facilities over time.*
- 149. *Institutions should assess **where appropriate to the risk profile of the credit facility** the feasibility of the business plan and associated financial projections in line with the specificities of the sector in which the borrower operates.*

Paragraph 135: Financial metrics 135.f loan to cost ratio and 135.h capitalization rate (net operating income/market value) are not commonly defined and should as a result either be clarified or not mentioned. We would propose the following amendments:

- 135. *Institutions, where relevant, use ~~at least~~ where appropriate the following financial metrics (list non exhaustive) for the purposes of the creditworthiness assessment, and, where relevant, assess them against the metrics and limits as set out in their credit risk appetite, credit risk policies, and limits in accordance with Sections 4.2 and 4.3:*
 - a. debt service coverage ratio;
 - b. EBITDA (earnings before interest, taxes, depreciation, amortisation);
 - c. interest coverage ratio;
 - d. loan to value ratio (for secured lending);
 - e. debt to equity ratio or leverage ratio;
 - ~~f. loan to cost ratio;~~
 - g. return on equity;
 - ~~h. capitalisation rate (net operating income/market value).~~



Paragraph 136 is very prescriptive and not market practice for large corporates. We would suggest the following amendments:

- 136. Institutions should assess *where relevant* working capital facility taking into account the cash flow generation ability of the borrower to turn the working capital into a cash positive position on a regular basis. If this is not the case, the institutions should assess the capacity of the borrower to convert the working capital facility into a term loan and repay the term loan on a principal and interest basis.

Paragraph 156. Common market practice allows the issuance of the guarantees / LC by one of the lenders in the banking pool. We would propose as the result the following amendment:

- 156. [...] For cross-border lending and project finance transactions, the agent or the designated entity should *preferably* be the sole issuer of any guarantees, letters of credit or similar documents issued on behalf of the supplier in the transaction.

General requirements for Commercial real estate lending (Section 5.2.6)

Paragraph 166: Certification by quantity surveyor (or similar) is not always relevant. In France, for example, certification of quantity surveyors is not market practice as the legislation protects the Banks during the development phase. We would suggest the following amendments:

- 166. The assessment of the development phase should cover:
 - a. business plan, including documented rationale for the development supported by a location specific review of supply and demand in the market by a reputable estate agent with a relevant expertise;
 - b. the background information, builders, architects, engineers, contractors and sub-contractors, who take part in the development;
 - c. projection of all costs associated with the development *certified by a qualified and reputable quantity surveyor (or similar) where relevant*;
 - d. all necessary permits and certificates necessary for the development, including the ability to obtain them in the future as project progresses.

Paragraph 169: The concept of “suitably qualified person” needs to be either detailed or removed. We would suggest the following amendments:

- 169. Institutions should carry out on-site visits ~~accompanied by suitably qualified person~~ to verify the main components of the site including access and site specificities and retain a summary of the site visit on the file of the borrower.

General requirements for Commercial real estate lending (Section 5.2.8)

Project and infrastructure finance: we think that more flexibility should be given to collateral package requirements for project finance and to the parties involved in the development phase. As such, we would suggest the following amendments:

- 176. To the extent possible, institutions should ensure that all the **material** assets of the project, and present and future cash flows and/or accounts are pledged to the institution providing the lending or to the agent/underwriter in the case of a syndicated transaction/a club deal. In case where a special purpose vehicle is established for the project, the shares of that special purpose vehicle *preferably* should be pledged to the institution/agent to take the possession of the company, if needed.
- 177.b. the background information, ~~major parties builders, architects, engineers, contractors and subcontractors as applicable,~~ taking part in the project.”

**9. What are the respondents' views on the scope of the asset classes and products covered in loan origination procedures (Section 5)?****10. What are the respondents' views on the requirements for loan pricing (Section 6)?**

We understand that EBA proposal aims to provide an harmonized framework in the EU to prevent aggressive commercial policies but not to prescribe any specific pricing strategies, as these remain business decisions of the institutions. We would welcome this key clarification in the final text:

Structure of the guidelines

- *Section 6 sets out supervisory expectations for the risk-based pricing of loans listing ~~a minimum set of some~~ risk-based elements that institutions should consider and reflect when pricing newly originated loans. The draft guidelines do not prescribe any specific pricing strategies, as these remain business decisions of the institutions*

We also consider that EBA should not have the same vision for all types of credits. The systematic reference to a list of parameters list (Section 6, paragraph 187, items (a) to (e)) for each loan is disproportionate. This list should be highlighted as a list of examples.

- *187. Institutions should consider and reflect in loan pricing inter alia as a matter of example:*

Finally, **the cost allocation and the return follow up**, even if it covers all deals, is in practice, decided at **portfolio and/or business line level**.

- *189. Institutions should transparently document and review the underlying cost allocation framework. Institutions should establish a fair distribution of costs within the organisation in order to ensure that ~~individual loans and~~ business lines reflect the correct expected return corresponding to the risk assumed.*
- *190. Institutions should implement a regular monitoring linking together transaction risk, pricing and expected overall profitability at business line level. ~~All of the transactions below costs should be reported and properly justified. Monitoring process should provide input for the review of the adequacy of overall pricing from a business and risk perspective. If needed, institutions should take actions in order to ensure compliance with targets and risk appetite.~~*

11. What are the respondents' views on the requirements for valuation of immovable and movable property collateral (Section 7)?

As a preliminary remark, we would welcome a more precise definition for 'movable property'. The proportionality principle should explicitly apply to Section 7. In particular, **the systematic valuation of movable property by appraisers is deemed neither feasible nor necessary given the volume and the additional associated cost generated**, with limited benefits for most of the cases. We would accordingly propose the following amendment:

- *201. At the point of origination institutions should ensure, according to the proportionality principle, that the value of all movable property collateral, irrespective whether it is pledged against the loans to consumers or professionals, is assessed by an independent qualified valuer or*



appropriate advanced statistical models taking into account Article 229(3) of Regulation (EU) No 575/2013

- 220. [...] *Such criteria should be related, at the minimum, to the value of the movable property collateral at the origination phase, life span, condition of tangible assets, such as depreciation and maintenance, necessity of physical inspection **where relevant**, and certification.*

In addition, the guidelines should distinguish between the collaterals in the case of asset based lending (CRE/Shipping/Aviation) and the securities/liens in the case of non-asset based lending such as cash-flow based lending (Project finance/LBO/Corporate lending).

Paragraph 198: To be deleted as indemnity insurance is not market practice.

Paragraph 199: To be simplified or deleted as too prescriptive and costly. In particular, the criteria to apply by the institution ensure that the valuers “provide an impartial, clear, transparent and objective valuation” should be detailed, or the sentence removed

Paragraph 202: “Where relevant” to be added to the paragraph as this requirement is not applicable to businesses where statistical models are not used (e.g. Shipping and Aviation)

Paragraph 214: Proposed frequency of rotation of valuers is too high. It is too difficult to implement and panel of valuers may be too restrictive.

Paragraph 219: Full visits are not market practice. We would propose the following amendment:

- 219. *Institutions should in their policies and procedures set out approaches to using a valuer or statistical models, define on the approach (e.g. desktop valuation, drive-by valuation, ~~full visit with internal and external assessment of the property~~) for the revaluations to be done by the valuers, and set out the frequency or monitoring and revaluation of movable property collateral.*

Paragraph 223: Should be removed as the bank cannot make such verification. Besides, the fee or the salary of the valuer is paid for by the borrower.

Paragraph 224: The added value of this requirement is not clear and the analysis of the concentration of valuations performed is not relevant when the panel of valuers is restricted. We would suggest the following amendment:

- 224. *Institution should assess the performance of the valuers on an ongoing basis, in particular accuracy of valuation provided. As part of such assessment **and where relevant** institutions should also look at the concentration of valuations performed and fees paid to the specific valuers.*

Paragraph 225 c: Such requirement cannot apply to shipping as valuers are also brokers

Lastly, we would comment that there could be insufficient valuation capacity in given markets (ex: Luxembourg) to fulfill requirements of paragraphs 194 & 203.

**12. What are the respondents' views on the proposed requirements on monitoring framework (Section 8)?**

Paragraph 233: We suggest removing the mention to non-investment grade rated given that this notion is irrelevant for large shares of the portfolios (such as SME for instance, which risk level is largely higher than investment grade rating equivalent). We would accordingly propose the following amendment:

- 233. *Through these key risk indicators, institutions should monitor and identify high risk in lending activities in the loan book, such as ~~the level of lending to non-investment grade rated borrowers,~~ interest only/bullet repayments, the level of covenant absent or covenant-lite loans, lending with longer maturities, and other KRIs linked to the business lending of the institution*

Section 8.5 on Stress testing should make more explicit mention of the principle of proportionality (eg. sensitivity analysis only performed for large project finance and acquisition finance exposures which are closely monitored by the quarterly covenant testing) and availability of relevant information. In addition, stress testing is typically not performed by credit risk management. We would as a result propose the following amendments:

- 255. *As part of their ongoing monitoring activities, institutions should conduct regular stress testing of their credit portfolios, and, where relevant, individual exposures. Such stress testing should be performed in accordance with the EBA Guidelines on institution's stress testing²⁴ and at least annually **and its results reviewed** by the credit risk management function as a means of anticipating potential impact a negative turn of events could have on credit exposures and institutions' ability to withstand such impact. Institutions should conduct stress tests at least on the aggregate credit portfolio and on relevant sub-portfolios, taking into account materiality and risk level, **in accordance with the principle of proportionality.***
- 257. *In addition to stress testing based on the macroeconomic scenarios, institutions should regularly perform simpler sensitivity analyses based on internal and / or external information **where relevant and available** (e.g. market overview released by external providers regarding specific sectors or areas) for the early identification of segments or exposures, which could be affected by potential adverse shocks.*
- 258. *[...] Sensitivity analyses, **in case of material adverse variations vs ~~in relation to~~ the original business plan, should also be conducted as appropriate on individual credits when monitoring large project finance and acquisition finance exposures.***