



## Template for comments

### Consultation on the draft ECB Guidance for banks on non-performing loans

Please enter all your feedback in this list.

When entering your feedback, please make sure:

- that each comment only deals with a single issue;
- to indicate the relevant article/chapter/paragraph, where appropriate;
- to indicate whether your comment is a proposed amendment, clarification or deletion.

**Deadline:** 15 November 2016

ID	Chapter	Section	Page	Type of comment	Detailed comment	Concise statement why your comment should be taken on board
1	7 - Coll	2.3	87	amendment	We suggest to amend the title "individual versus indexed valuations" to "individual versus indexed and automated valuations"	This statement needs to be clarified and careful distinctions are necessary between different types of automated processes and the different statistical valuation methods. See next comment
2	7 - Coll	2.3	87	amendment	We suggest to amend the title "indexed valuations" to "indexed and automated valuations" and to amend "Valuations derived from indexation or any other automated processes are defined as indexed valuations and do not constitute a revaluation or an individual property valuation." to "Valuations derived from indexation or automated valuation models do not constitute a revaluation or an individual property valuation."	This statement needs to be clarified and careful distinctions are necessary between different types of automated processes and the different statistical valuation methods that can be deployed therein, since there are vast and substantial differences in terms of quality, transparency, robustness and reliability between valuations based on "indexation" on the one hand, and those based on other "automated processes" and/or "statistical methods".
3	7 - Coll	2.3	87	amendment	<p>We suggest to amend the paragraph 7.2.3 Indexed Valuation to: "Valuations derived from indexation or automated valuation models do not constitute a revaluation or an individual property valuation.</p> <p>However, indexed valuations may be used to update the valuation for non-performing loans of less than 30% LTV or 50,000 euro in gross value, which are secured by immovable property collateral provided that the collateral to be valued is susceptible to measurement by such methods.</p> <p>The minimum requirements of Article 208(3) of the CRR will continue to apply notwithstanding the existence of the stated exception threshold.</p> <p>Furthermore, the threshold for indexation does not supersede any national jurisdictional requirement specifying a more conservative threshold requirement for individual valuations.</p> <p>The indices used to carry out this indexation may be internal or external as long as they are:</p> <ul style="list-style-type: none"> <li>• Reviewed regularly and the results of this review are documented and are readily available. The review cycle and governance requirements are clearly defined in a management body approved policy document.</li> <li>• Sufficiently granular and the methodology is adequate and appropriate for the asset class in question.</li> <li>• Based on a sufficient time series of observed empirical evidence (actual property transactions).</li> </ul> <p>Automated valuation models may be used to update the valuation for non-performing loans of less than 70% LTV or 300,000 euro in gross value, which are secured by immovable property collateral provided that the collateral to be valued is susceptible to measurement by such methods and the model have proven predictive capacity"</p> <p>The minimum requirements of Article 208(3) of the CRR will continue to apply notwithstanding the existence of the stated exception threshold.</p> <p>Furthermore, the threshold for automated valuation does not supersede any national jurisdictional requirement specifying a more conservative threshold requirement for individual valuations."</p>	<p>It's fundamental to limit use of indexations since they need an original value without being able to detect wrong original valuations, so that potential errors will be carried forward.</p> <p>Automated valuation models do not need an originale value and provide a new valuation, therefore they introduce a different level of accuracy. It's is fundamental to choose the best automated valuation model available, depending on its predictive capacity.</p>
4	7 - Coll	2.3	88	amendment	We suggest to add this sentence at the end of the paragraph: "Banks should always use the best available tool in any Country at any given time."	We recommend the use of the best available statistical valuation method in any Country
5	7 - Coll	2.4	88	amendment	We suggest to amend "All valuations (including updated valuations) should be performed by independent qualified appraisers, internal or external, who possess the necessary qualifications, ability and experience to execute a valuation, as provided for in Article 208(3)(b) of Regulation (EU) No 575/2013." to "All valuations (including updated valuations) should be performed by independent qualified appraisers, internal or external, natural persons (individuals) or valuation firms, who possess the necessary qualifications, ability and experience to execute a valuation, as provided for in Article 208(3)(b) of Regulation (EU) No 575/2013.	All standards mentioned in par. 7.4.1 and footnote 52 define the appraiser as an individual valuer or a valuation firm.

6	7 - Coll	2.4	88	amendment	We suggest to amend "Banks should have a properly approved panel of independent and qualified appraisers, internal or external, based on the criteria below.They should assess appraisers' performance on an on-going basis and decide whether an appraiser may remain in the panel, or not." to "Banks should have a properly approved panel of independent and qualified appraisers, internal or external, based on the criteria below.They should assess appraisers' performance on an on-going basis and define the actions in case of non appropriate activities performed by the appraiser. The terms of engagement of the appraiser should clearly report in written form rights and obligations of the parties, expected level of service, that should be objectively measureable, and information necessary to check them."	It is necessary that the appraiser knows the requirements of his performance and the consequent actions in case of non appropriate activities performed. Also it is important to avoid the risk of adverse selection
7	7 - Coll	2.4	89	amendment	We suggest to add to qualified appraiser requirements the following bullet point: "have TEGoVA's Recognised European Valuer qualification (REV) or a ISO 17024 accredited certification on real estate valuation"	REV qualification or ISO 17024 accredited certification can demonstrate that valuer meets all the requirements and that his/her valuations are carried out in compliance with European or international valuation standards requirements.
8	7 - Coll	3	89	deletion	We suggest to delete "The only exception to this individual updated valuation requirement is that below specific exposure thresholds (see section 7.2.3) updated individual valuations may be carried out by indexation provided that the collateral to be valued is susceptible to be measured with such methods."	The first valuation at the time the loan is classified as non performing should always be an individual valuation (performed by an appraiser), including drive-by or desk-tops as far as performed by an appraiser.
9	7 - Coll	3	89	amendment	We suggest to amend "For properties with an updated individual valuation that has taken place within the past 12 months (in line with all applicable principles and requirements as set out in this chapter), the property value may be indexed up to the period of the impairment review." to "For properties with an updated individual valuation that has taken place within the past 12 months (in line with all applicable principles and requirements as set out in this chapter), the property value may be indexed up to the period of the impairment review. The updated individual valuation has to be carried out by an independent and qualified valuer as defined in this chapter and in compliance with all standards mentioned in par. 7.4.1 and footnote 52 ."	For avoidance of doubt it is important to specify that also the appraiser should be in line with the requirements of this guidance.
10	7 - Coll	4.1	90	amendment	We suggest to amend "discounted replacement cost should not be used" to "The cost approach should not be used to determine Market Value. Its use may, however, be permitted as a last resort to value properties that are seldom, if ever, let or sold on the open market and where it is therefore impossible to apply either the comparison or the income approach. This applies especially to specialised assets, such as specialised industrial properties. This means that the cost approach is generally only ever used when a lack of market activity precludes the use of the comparative method and when the properties to be valued are not suited for valuation by the income approach and when there is significant data available to enhance the accuracy of the procedure."	The actual definition is too conservative with regard to valuation methodologies applied in some Countries. The suggested definition is more compliant with standards mentioned in par. 7.4.1 and footnote 52