

EBA Handbook on valuation for resolution

EUI – Florence School of Banking and Finance – Valuation in resolution

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Handbook on valuation for resolution: nature and purpose

Published on 22 February 2019

<https://eba.europa.eu/documents/10180/2613666/Valuation+Handbook.pdf>

Drafted in accordance with EU legal and regulatory framework

Bank Recovery and Resolution Directive

Commission Regulation 2018/345 valuation before resolution

Commission Regulation 2018/344 on valuation after resolution

Commission Regulation 2016/1075 on independence of valuers

Addressed to resolution authorities

Non-exhaustive support to RAs in implementation of valuation process

Not binding, not subject to comply/explain

Strengthens convergence of practices on valuation process

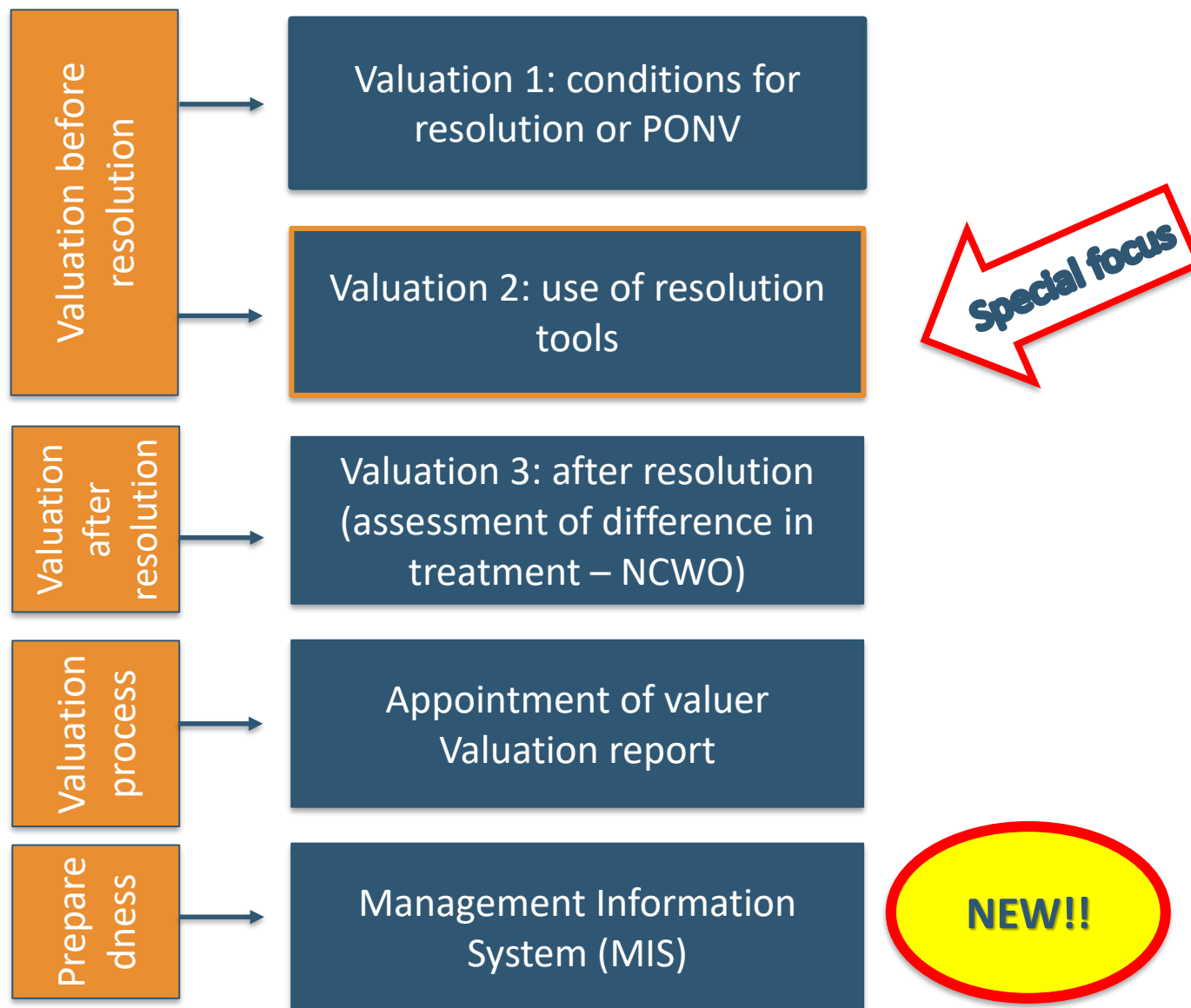
Strengthens convergence of practices on interaction with valuers

Respects valuers independence

Handbook bridges resolution regulation with valuation methodologies

Valuers free to choose most suitable valuation methodology

Handbook on valuation: content



Valuation 2: main legal and regulatory features

Handbook gives practical perspective on concepts set out in the Regulation on valuation before resolution

Overarching principle: economic valuation

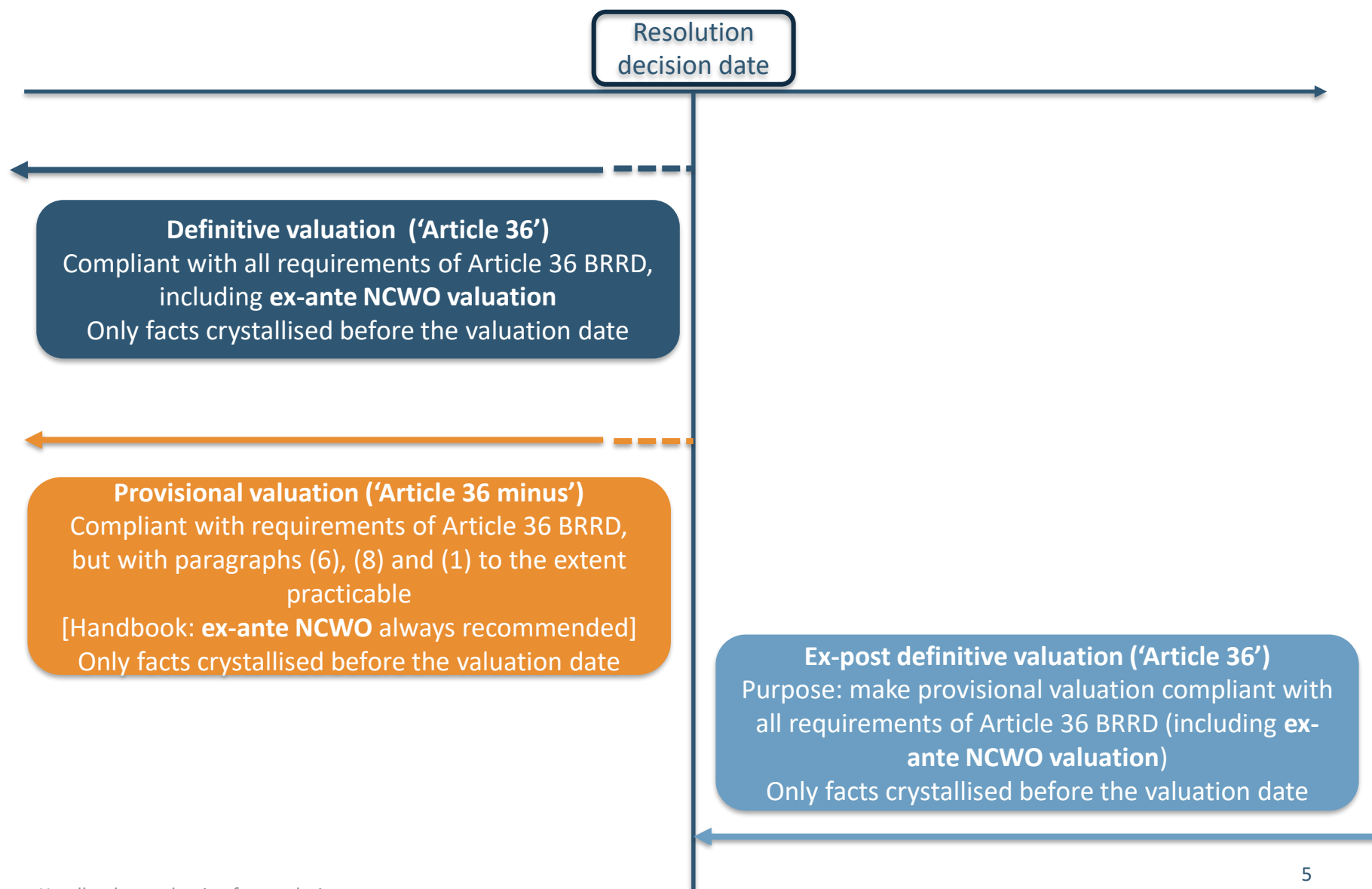
Based on **fair, prudent and realistic assumptions**. Not defined in the BRRD, should be balanced to ensure the **full recognition of losses**, and their **internalisation** through write down and conversion, in order to **protect public finances** and the **business viability** as the case may be, and **at the same time to respect the right of property of shareholders and creditors**, having regard to the principle of NCWO.

No assumption of provision of State aid

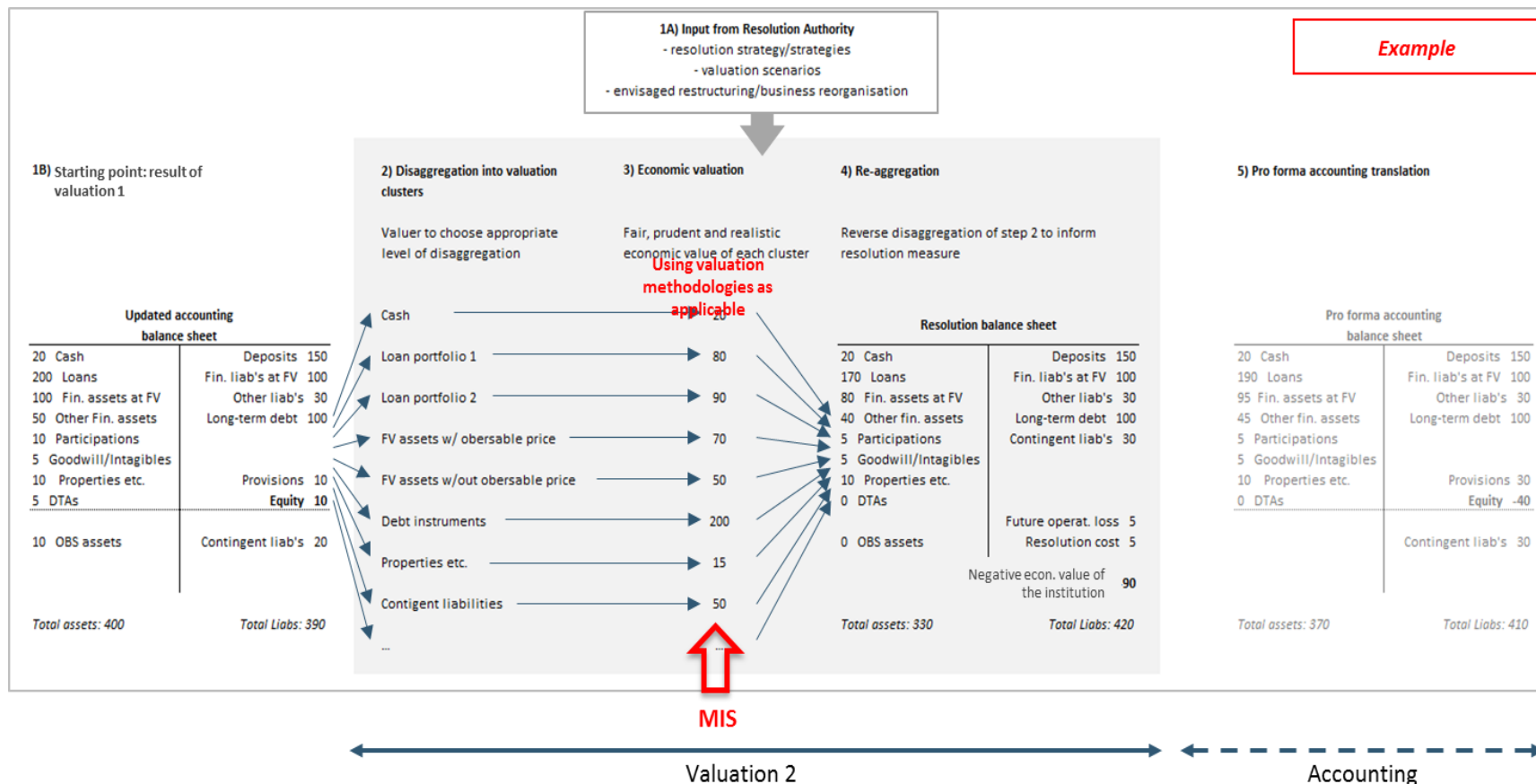
Prevalence of DCF methodology, but other methodologies (eg. market approach, adjusted book value) not excluded depending on the asset classes and overall circumstances, provided they can deliver an economic value

Disposal value, hold value are the measurement bases set out in the Regulation on valuation before resolution to be applied according to the resolution strategy

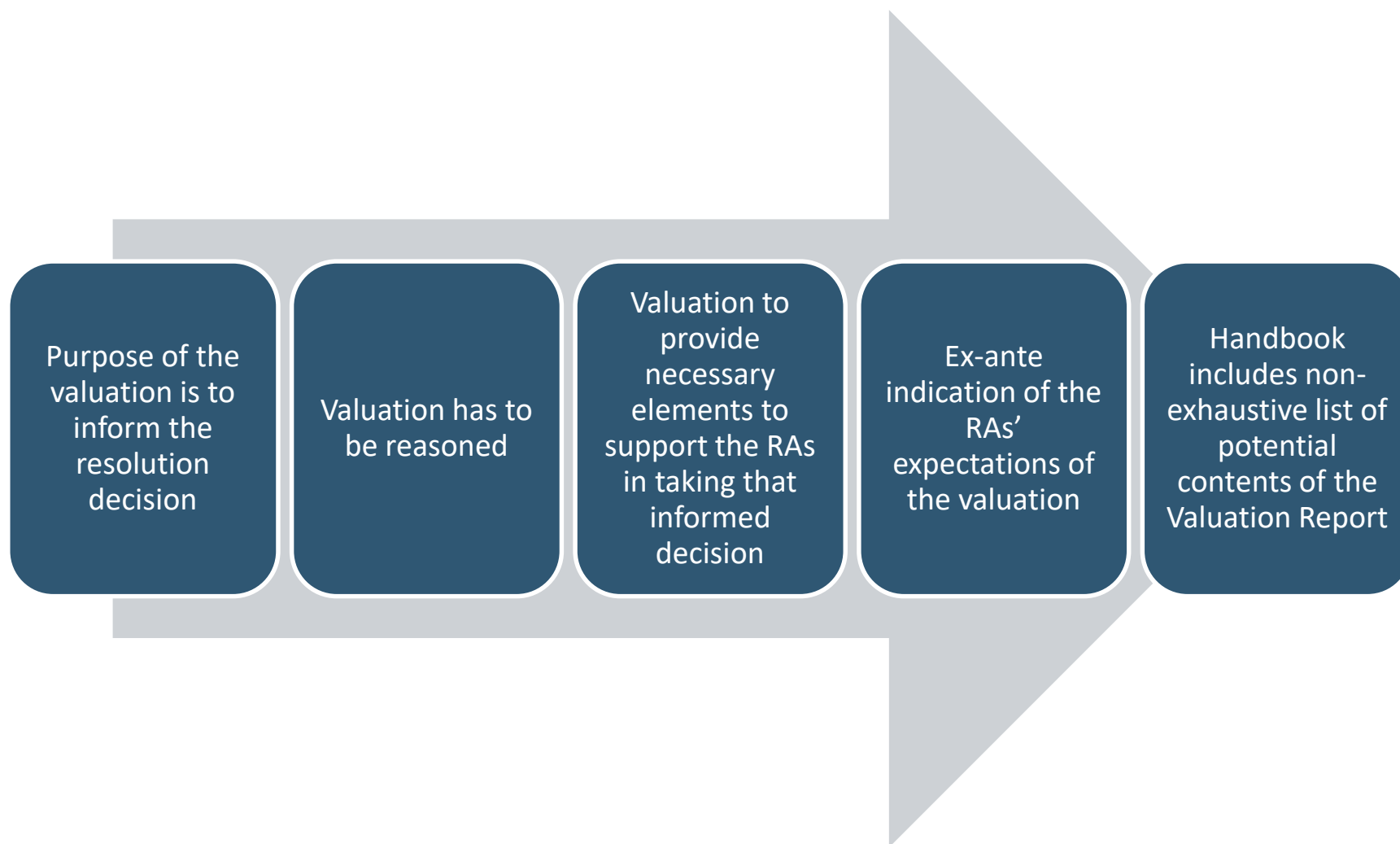
Provisional, definitive and ex-post definitive valuation



Single assets and liabilities valuation: process



Valuation 2: valuation report



After resolution: valuation 3

Object

Comparison of the **actual treatment** of shareholders and creditors **in resolution** and **in normal insolvency** proceedings

Aim

Protection of right of property: difference is the measure of the NCWO to be paid to shareholders and creditors by the **resolution fund**

Type

Hypothetical gone concern valuation to be conducted in accordance with **applicable insolvency law** and practice (entity level, no future business prospects, administrative costs, entity's base costs)

Valuation MIS: overview

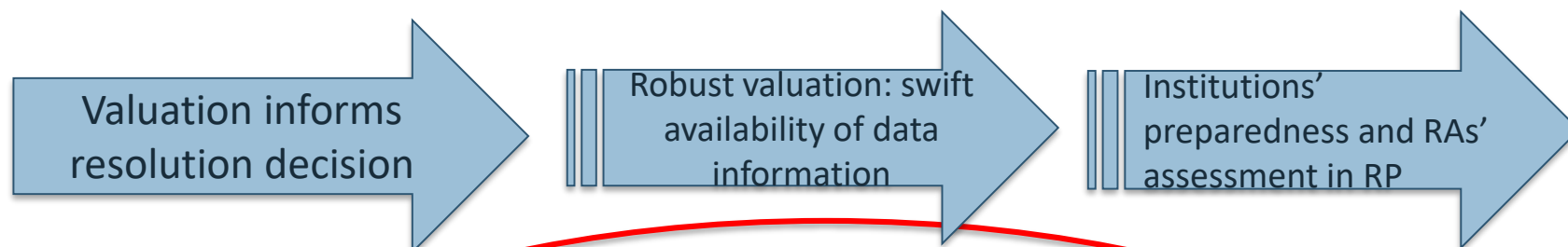
The Chapter on Management Information Systems (MIS) has been published on 10 March 2020, it is part of the of the EBA Handbook on valuation for resolution published on 22 February 2019 (<https://eba.europa.eu/eba-highlights-importance-data-and-information-preparedness-perform-valuation-resolution>)

Valuation MIS: RAs'
assessment – in resolvability
assessment - of institutions'
capabilities to support
valuation for resolution

MIS approach: attention to
proportionality, institutions'
internal capabilities, no
duplication of data

Preparedness enhancement in BAU
contributes to achievement of resolution
objectives and effectiveness of
resolution action

Valuation MIS: building blocks



Valuation MIS approach:

Internal valuation capabilities

Internal valuation models suitable for resolution valuation

Internal aggregation capabilities

Data Dictionary: EU-wide single reference for data and information

- Institutions self-assessment based on the Data Dictionary: mapping of data and information already available → dialogue with RA to calibrate the valuation MIS requirements

Proportionality: reliance on institutions' internal valuation models and data aggregation capabilities. No reporting obligation

Data Dictionary: principal data sources

Overarching principles include: the data dictionary constitutes a “benchmark”, which can be used by RAs, and not any regular reporting or similar, it makes use of existing definitions to maximum degree possible etc.

AnaCredit:

Index	Data Field	Description
1.1	Reporting agent identifier	Counterparty identifier for the reporting agent. The reporting agent identifier is the counterparty identifier of the reporting agent which reports the data.
1.2	Observed agent identifier	Counterparty identifier for the observed agent. The observed agent identifier is the counterparty identifier of the observed agent (i.e. an institutional unit of the reporting agent) whose data are reported by the reporting agent.
1.3	Contract identifier	An identifier applied by the reporting agent to uniquely identify each contract. Each contract must have one contract identifier. This value will not change over time and cannot be used as the contract identifier for any other contract.
1.4	Instrument identifier	An identifier applied by the reporting agent to uniquely identify each instrument under a single contract. Each instrument must have one instrument identifier. This value will not change over time and cannot be used as the instrument identifier for any other instrument under the same contract.
1.5	Type of instrument	Classification of the instrument according to the type of contractual terms agreed between the parties.

ESMA's ABS templates:

RESI	Loan/lease-level information section	-
RESI	Loan/lease-level information section	Data Cut-Off Date
RESI	Loan/lease-level information section	Securitisation Identifier
RESI	Loan/lease-level information section	Loan/Lease Identifier
RESI	Loan/lease-level information section	Borrower Identifier
RESI	Loan/lease-level information section	Property Identifier
RESI	Loan/lease-level information section	Borrower Type
RESI	Loan/lease-level information section	Borrower's Employment Status

EBA NPL templates:

Index	Data Categories	Borrower Type	Field
1.000	Portfolio	Applicable to all	Cut-off Date
1.001	Portfolio	Applicable to all	Portfolio Identifier
2.000	Counterparty Group	Applicable to all	Counterparty Group Identifier
2.001	Counterparty Group	Applicable to all	Name of Counterparty Group
2.002	Counterparty Group	Applicable to all	Industry Segment of Counterparty Group
2.003	Counterparty Group	Applicable to all	Name of Sponsor
2.004	Counterparty Group	Applicable to all	Type of Sponsor
2.005	Counterparty Group	Applicable to all	Description of Sponsor
2.006	Counterparty Group	Applicable to all	Cross Default in Counterparty Group
2.007	Counterparty Group	Applicable to all	Description of Cross Default
2.008	Counterparty Group	Applicable to all	Cross Collateralisation in Counterparty Group
2.009	Counterparty Group	Applicable to all	Description of Cross Collateralisation

SRB templates:

Loan book template

Counterparty modules	Facility modules	Collateral modules
Corporates	Loan type	Office buildings
SME		Land plots
Private individuals		Shipping
Central banks, public sector and credit institutions		Aircraft
		Automotive
		Retail (e.g. mobile)
		Factories/Warehouses

Other asset templates

Financial assets	Other assets
Derivatives	DTAs
Non-derivative securities	Goodwill
	Templates for assets that are not covered in

Other templates

Portfolio level info	Historic performance
Covers different splits of the loan portfolio to help the reader get an overview of the loan book.	Information on the historic performance of the facilities / sectors split by portfolio and risk differentials

Facility template

Field	Category	Data field	Data description
N_500	Portfolio information	Reporting reference date	The reporting date of the data extract
N_501	Origination information	Channel of Origination	Channel through which the Loan was originated
N_502	Origination information	Date of Origination	Date that the Loan originated as per the Loan Agreement
N_503	Origination information	Governing Law of Loan Agreement	Country in which the Loan Agreement was entered into, using ISO 3166 ALPHA-2 codes. This does not necessarily correspond to the country where the loan was originated
N_504	Origination information	Origination Amount	Loan amount advanced to the Counterparty / loan drawn by the Counterparty at the origination date on the Institution's unique internal identifier for the loan agreement. Where loan is as defined in Part 1 of Annex V to Implementing Regulation (EU) No. 6.
N_505	Identification information	Contract Identifier	Institution's unique internal identifier for the loan agreement. Where loan is as defined in Part 1 of Annex V to Implementing Regulation (EU) No. 6.

Other templates:

Index	Category	Data field	Data description
N_506	Origination information	Channel of Origination	Channel through which the Loan was originated
N_507	Origination information	Date of Origination	Date that the Loan originated as per the Loan Agreement
N_508	Origination information	Governing Law of Loan Agreement	Country in which the Loan Agreement was entered into, using ISO 3166 ALPHA-2 codes. This does not necessarily correspond to the country where the loan was originated
N_509	Origination information	Origination Amount	Loan amount advanced to the Counterparty / loan drawn by the Counterparty at the origination date on the Institution's unique internal identifier for the loan agreement. Where loan is as defined in Part 1 of Annex V to Implementing Regulation (EU) No. 6.
N_510	Identification information	Contract Identifier	Institution's unique internal identifier for the loan agreement. Where loan is as defined in Part 1 of Annex V to Implementing Regulation (EU) No. 6.

Consolidated data dictionary:

Index	Category	Data field	Data description	ESMA NPL template	ESMA ABS template	ESMA NPL template	ESMA ABS template
N_500	Portfolio information	Reporting reference date	The reporting date of the data extract				
N_501	Origination information	Channel of Origination	Channel through which the Loan was originated				
N_502	Origination information	Date of Origination	Date that the Loan originated as per the Loan Agreement				
N_503	Origination information	Governing Law of Loan Agreement	Country in which the Loan Agreement was entered into, using ISO 3166 ALPHA-2 codes. This does not necessarily correspond to the country where the loan was originated				
N_504	Origination information	Origination Amount	Loan amount advanced to the Counterparty / loan drawn by the Counterparty at the origination date on the Institution's unique internal identifier for the loan agreement. Where loan is as defined in Part 1 of Annex V to Implementing Regulation (EU) No. 6.				
N_505	Identification information	Contract Identifier	Institution's unique internal identifier for the loan agreement. Where loan is as defined in Part 1 of Annex V to Implementing Regulation (EU) No. 6.				

Both the SRB and the other templates, respectively, make heavily use of existing templates and include references to the latter, if applicable.

A consolidated version of these two sets of templates has been prepared.

Questions?

THANK YOU!



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