Global Credit Data
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Agenda for LGD - EAD Subcommittee Meeting 29th October 2019

Meeting Start: 1500 CET
Meeting duration: 1 hour
Location: by telephone and webex

Item No.	Start time	Item	Responsible	Info or Resolution	Material
		Standing Items:			
1.	1500	Welcome Chair	CM/ER	I	X
2.	1505	Minutes of the last Meeting, Action List and Forward Looking Calendar	CM/ER	I/R	X
3.	1515	Data Screening Private Banking	DT	I	X
4.	1530	Collateral table VR	NR	I/R	X
5.	1545	Any other business	CM/ER	I	

Anti-Trust Warning: participants are warned not to provide sensitive information about their financial institution or customers and are warned not to engage in discussions which might encourage or lead to collusive behaviour. If in doubt then please seek guidance from your own institution's policies or legal counsel.

Item 2

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Minutes LGD - EAD Subcommittee Meeting 23rd July 2019

Ref Minutes LGDSub 20190723

Attendees:

Erik Rustenburg - Chair	GCD
Robert Nebrich	M&T
Barry Griffith	HSBC
Hanif Kamis	ING
Philippe Choquette	Desjardins
Ravi Kumar	Credit Suisse
Lan Jin	Scotiabank
Elizabeth Moleda	RBC
Navin Gupta	RBC
Fabio Guacaneme	National Bank of Canada
Carona Ly	EDC
Sharmila Rao	NIBC
Dayadru Nayak	Credit Suisse

Some participants joined via phone, please reach out to Erik (erik.rustenburg@globalcreditdata.org) or Riëtte (riette.dijkstra@globalcreditdata.org) when you do not see your name in the list.

Executives: Erik Rustenburg (minutes), Nunzia Rainone, Olivier Plaetevoet
Venue: by webex and telephone

Meeting Start: 1500 CET

Item numbers are from the agenda and are presented here in the order in which they were discussed.

Anti-Trust Warning: participants were warned not to provide sensitive information about their financial institution or customers and were warned not to engage in discussions which might encourage or lead to collusive behaviour.

The quorum is reached for decision making.

Item 1: Minutes from the last meeting, action list and forward-looking calendar

The minutes of the meeting are approved. No questions or remarks on the forward looking calendar and the action list.

Item 2: How to submit restructured loans to GCD – distinguish between real and artificial cashflow

- The proposal has been made in changing the input structure on enabling to submit restructured loans. The proposal is for the loan level (Type 1 and Type 2). The borrower level change will be introduced in a later phase. In the current situation the members are required to submit their cashflows based on the original loan structure. The proposed change impacts the input structure on the History, Transaction, Collateral, Loan and Guarantor tables in the GCD LGD datamodel. In this proposal a new loan will be introduced for the restructured loan(s) and it could be many loans to 1 restructured loan.

  A few remarks were made:
  - Include the reallocation of the real additional drawings
  - Give a different name for the now used 'Artificial cash flows'

  There is a firm proposal to methcom to enable submitting the new restructured loans.

Vote: Firm proposal, unanimously approved. (with the condition that the remarks made will be followed up)

Item 3: Collateral Table discussion

In the current guidelines and for example the User Handbook we apply the general rule that there should be 1 unique collateral for 1 unique borrower. But there are business cases that a collateral is linked to multiple borrowers. However, we do not have a validation rule in place to ensure that 1 collateral is linked to 1 borrower. So currently both situations could have been submitted by the members.
Following the 2 options it needs to be investigated what is preferred and suitable for the member banks. Regarding the second option (multiple borrowers to 1 collateral) the remark was made that it impacts the submission of the collateral value and the total collateral value.

As there were no preferences shared there will be a follow up after the meeting.

Item 4: Updates on Methcom
9 April 2019
  - Approval of inclusion of Raw Industry Code
  - Approval of addition of two new Bank_Or_Financial_Code items (101 and 102)

4 June 2019
  - Addition of Entity Asset Class ECA – not added for now, further analysis of what is already available will be done by executives.
  - Give to get for sovereigns is changed: minimum number of cases is 1, for members who have a sovereign portfolio but no defaults can deliver proof for that to the executives so it can be discussed whether data can be received.
  - Compliance Project: start of Working Group is approved.

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- No buckets for financial information will be added, the expectation is that from 2022 onwards at least all European banks and the banks in countries under Basel regulation should be able to deliver this information.

Item 5: Any other business
The chair position for the LGD subcommittee is vacant and interested candidates should contact GCD.

The chair closed the meeting at 16:12h CET

New items will be included in *Italic* letters and closed items will be marked in light grey

Responsible	Item	Description	Comments	Methcom item yes/no	Priority	October	November	December	January
Items in progress									
ER	Documentation Improvements	Documentation improvements: Entity Asset Class	Discussed in methcom with result that ECA will not be a value of the Entity Asset Class. Use guarantors instead.						
Executives	Industry Codes	Investigate results of H1 2019, H2 2019 Raw Industry Code submissions	Executives in progess		Medium				
Executives	Legal Entity Identifier	Investigate results of H1 2019, H2 2019 submissions for LEI in LGD database	Executives in progess		Medium				
NR	Reconsideration of Collateral table	Based on the feedback from a bank, we should reconsider collateral table rules (we do have general rules without having a formal VR to ensure that those rules are applied.) we can leverage this to check the table itself. What is required to be disucssed with methcom is the business rule. Do we need one collateral per one borrower or instead we can have a collateral linked to different borrower?	Methcom item November 2019, then Subcommittee item November 2019 on VR.	Yes	Medium		X		
NR	*VR review/ Data Quality Improvement*	*New Validation Rule are required for 1. Collateral table. 2.cross/table VR (transaction and Loan table e.g.)*		*No, only for Subcommittee*	*Medium*	X			
RD	How to submit restructured loans to GCD – distinguish between real and artificial cashflow	Restructured Facilities - Further analysis and proposal on how to input restructured facilities	Subcommittee item November 2019	Yes	High		X		
Items to be planned									
ER/NR/DT	Definition of Default	Working Group Compliance are working on this. GCD will send out a survey. The WG will probably results in changes in the data model.	WG and Executives in progess	Yes	Medium				
ER/NR	Asset Class assignment guidance	Asset Class assignment guidance for members, improve the documentation on this.		No	Low				
HT/NB	Treatment of Costs	Request from NA banks on how to deal with costs that are repaid or not repaid - new Transaction Types		Maybe - Depending on outcome	Medium				
NB	Recurring defaults	Recurrent defaults: e.g. Shipping analysis: recurring defaults is common in last years, but because these are submitted as new defaults it is difficult to recognize recurrent defaults and analyse these	Executives in progess. Methcom item November 2019	Yes	Medium		X		
RD	Negative Pledge as a field in the GCD LGD database	From the EBA benchmarking for Low Default Portfolio it is shown that LGD with or without Negative Pledge is requested separately, indicating that the model segmentation is also used by other banks (column 300 and 310 Annex IV of Final Draft RTS and ITS on Benchmarking Exercise)		Maybe - Depending on outcome	High				
NB	SME: comparison of LGDs	Compare SME LGDs regard to seniority - subordinated vs supersenior		No	High				
RD	HVCRE Indicator	Request from NA banks to add an HVCRE indicator for Real Estate Collateral		Yes	Low				
ER	Borrower_Internal_PD	Question: do we want to include one or more of the fields available for guarantors: Guarantor_Rating_Fitch/Guarantor_Rating_Moodys/Guarantor_Rating_SaP/Guarantor_Rating_Internal		Maybe - Depending on outcome	Low				
RD	Escape clauses	Review fields with escape clauses - eg Guarantor Financials.	Do we want more mandatory fields?	Maybe - Depending on outcome	Medium				
NB	CCF as calculated fields								
NB	LGD calculation unresolved cases								

| ER | Data Quality Improvement/ Reduction of Errors in VR | Some VR that are triggered because data was not updated after VR changend form Warning to Error, but can be solved easily by following current escape clause rules. Examples are:
- HIST095
- LOAN081
- FIN024
- COLL018
- COLL063
- COLL099
- COLL121
- COLL122
- COLL142 | | No | Medium | | | | |

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Action List LGD – EAD Subcommittee
October 2019

AP No.	Content	Holder	Due Date	Closed
LGDSC20170502-03	Create proposal for Restructuring After Default	ER/NR	2019	
LGDSC20170905-03	Analyse different Rank_Of_Security values per collateral on H2 2017 data	NB/NR	2019	
LGDSC20190430-01	Discuss the Lender Limit setting to 0 at resolution. Verify if we can set HIST077 to warning instead of error.	ER	2019	
LGDSC20181023-01	Report status of availability of Collateral Type 810 – can this type be removed?	ER	After H1 2019 submission	

Item 3

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GCD data screening for
"Private Banking"

In case of any questions, please don't hesitate to contact:

Daniela Thakkar

Methodology & Membership Executive

Daniela.Thakkar@globalcreditdata.org

Disclaimer

❑ The following numbers provide an overview of the **Private Banking Data** in GCD's LGD/EAD platform, collecting the cost & recovery cashflows of defaulted borrowers.

❑ The presented numbers are the result of a **data screening exercise**, checking the availability and consistency of data. To avoid any doubts, the presented numbers
  - are explicitly <u>not</u> a calibration exercise for a private banking portfolio
  - do <u>not</u> represent GCD's view nor proposition for a calibration
  - **should be regarded as a starting point for further analysis for any member providing / receiving GCD data**

  → Each member is **strongly encouraged** to build its own Reference Data Set (RDS), a subset of the observations (borrowers, loans, collaterals, etc.) taking into account representativeness and data quality considerations, see detailed guidance provided by GCD

❑ Definition Private Banking in GCD:

Private Banking	A class of exposures on high net-worth individuals or related companies, which generally benefit of specialized service by the banks	Exposures on High Net Worth Individuals or individually controlled legal entities, assimilated to corporate Not specifically addressed by the Basel Accord; generally a specific business line out of retail

Global Credit Data

Data overview

- GCD has a globally significant collection, with in total 19 banks contributing to the Private Banking data pool

- Not all banks have populated the data in the earlier years → we recommend to focus on the year post 2007

	Number of Borrowers	Number of Facilities
Reference Data Set (RDS)	4,122	6,557
whereas unsecured		3,591
EAD	6,8 bn EUR	
Number of Lenders	19	

Data source: LGD/EAD Platform, Private Banking, H1/2019

 # Facilities / Loans per year of default

Less populated pre-financial crisis

Financial crisis recognizable in the data

■ Total number of defaulted loans   ▨ Thereof Unsecured

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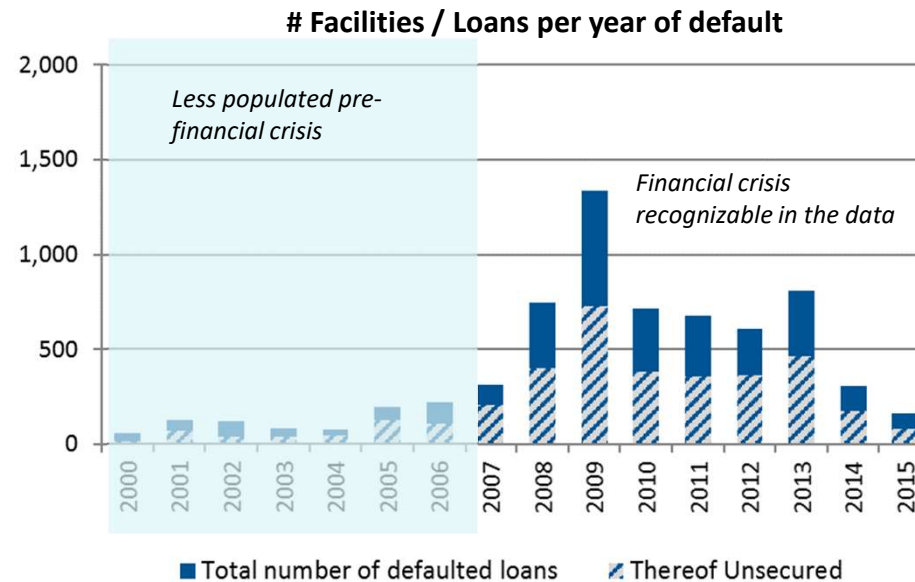
Observed LGD distribution and levels

LGD Distribution (2000 to 2015)
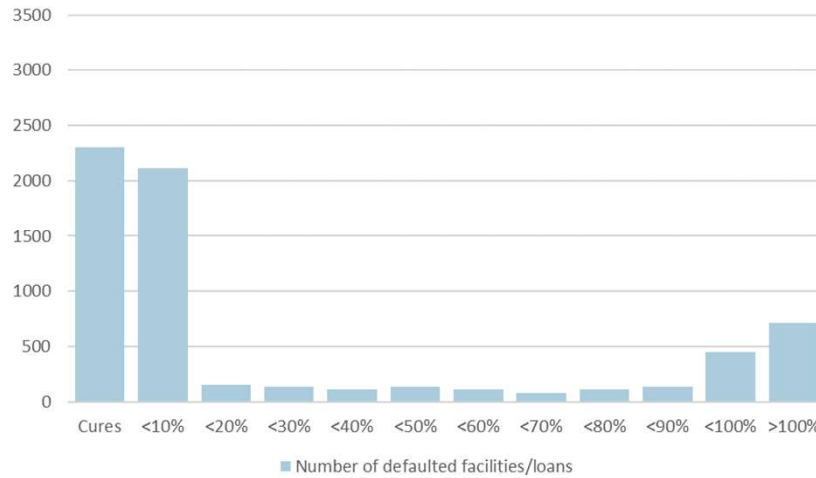
LGD Distribution (2007 to 2015)
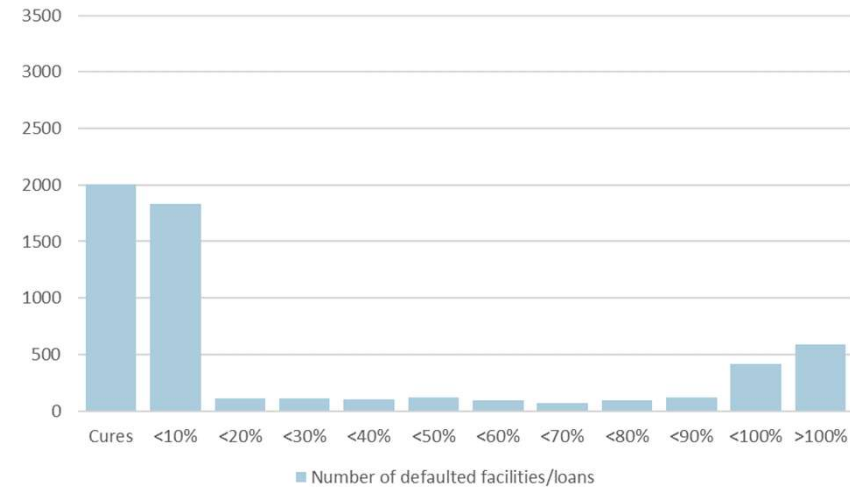
	2000-2015		2007-2015	
	Number of facilities	LGD	Number of facilities	LGD
Total Secured	2,895	18%	2,453	18%
Total Unsecured	3,662	31%	3,229	31%
thereof Senior	3,437	31%	3,060	31%
thereof Subordinated	80	51%	47	50%
thereof Other/Unknown*	145	22%	122	22%
Total	6,557	25%	5,682	25%

❑ Typical bimodular shape

❑ Collateralization and seniority confirmed as key drivers for LGD

❑ Average LGD of 25% over dataset from 2000 onwards and 2007 (=more contributing banks) onwards

❑ LGD calculation method: Cap_LGD_2 (see Appendix for more details)

Global Credit Data

Macro-economic effects
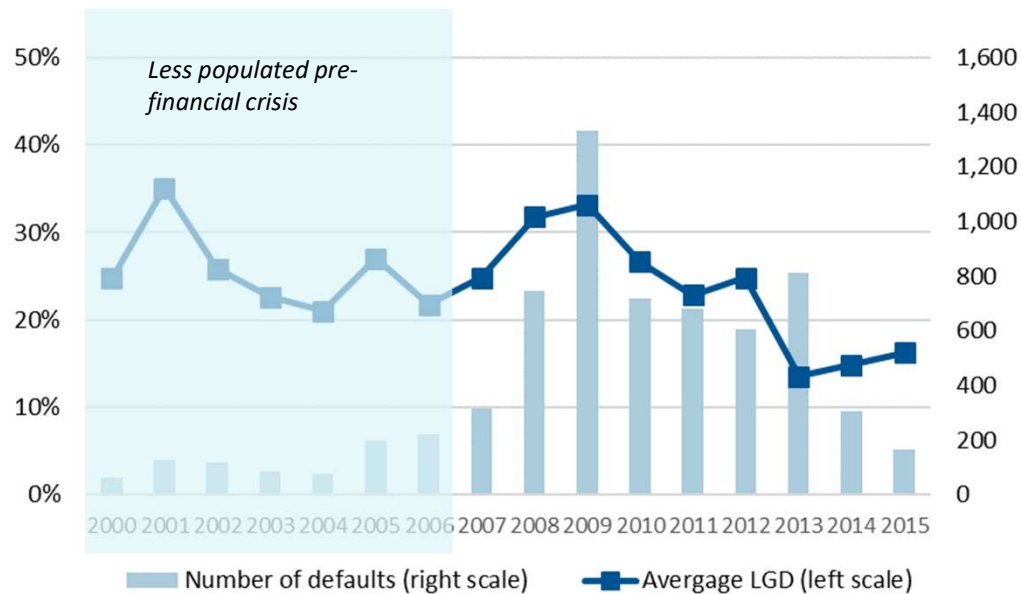
- ❑ Macro-economic impact confirmed as well

- ❑ The long timespan of GCD database and the detailed cashflow allow for dedicated LGD analysis
→ all underlying data is shared with contributing banks

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Comparison observed and predicted LGD

Less populated pre-financial crisis
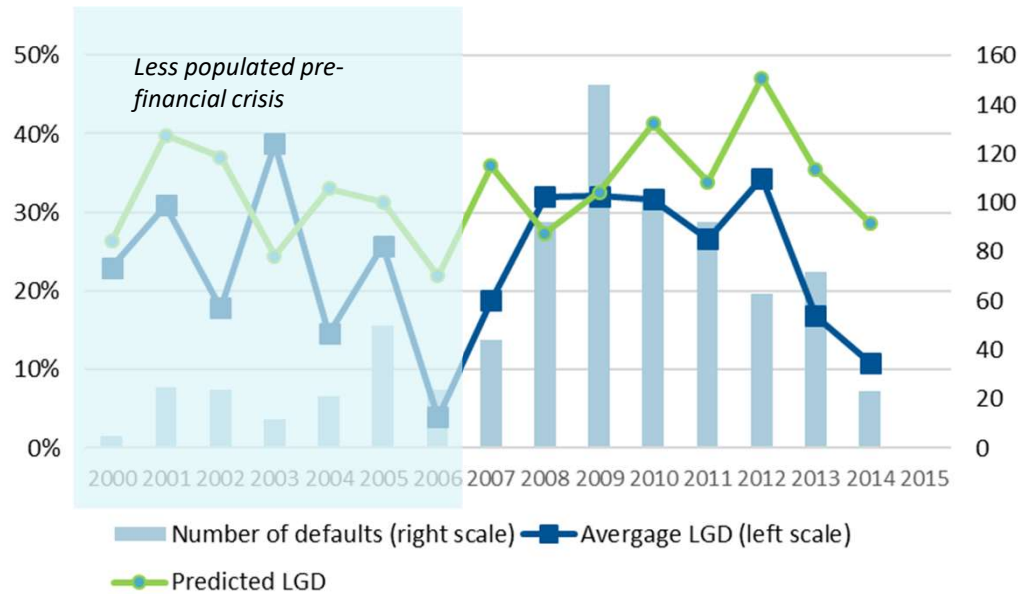
	Number of facilities	Observed LGD	Predicted LGD
Facilities with predicted LGD available	795	27%	35%
whereas unsecured	327	38%	48%

- ❑ Based on the observed losses, banks estimate a "Basel II compliant LGD" (=predicted LGD), including a downturn component and usually a "margin of conservatism"

- ❑ The "margin of conservatism" is similar between all banks (with some exceptions) and higher in recent years

- ❑ Only a few banks have unsecured exposure to Private Banking clients

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Next steps

- Detailed discussion with contributing banks needed
  - Definition of Private Banking clear and applied consistently?
  - Need for further specification by GCD?
  - Additional data quality checks?

- Incorporation of the discussion in a GCD guidance for a Private Banking Reference Data

- Detailed analysis of collateralization needed:
  - What exactly drives the LGD?
    - Workout scenarios (refinance, sales of collateral, ...)
    - What collateral types are relevant for Private Banking?
  - Additional dedicated Private Banking fields needed?

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Appendix
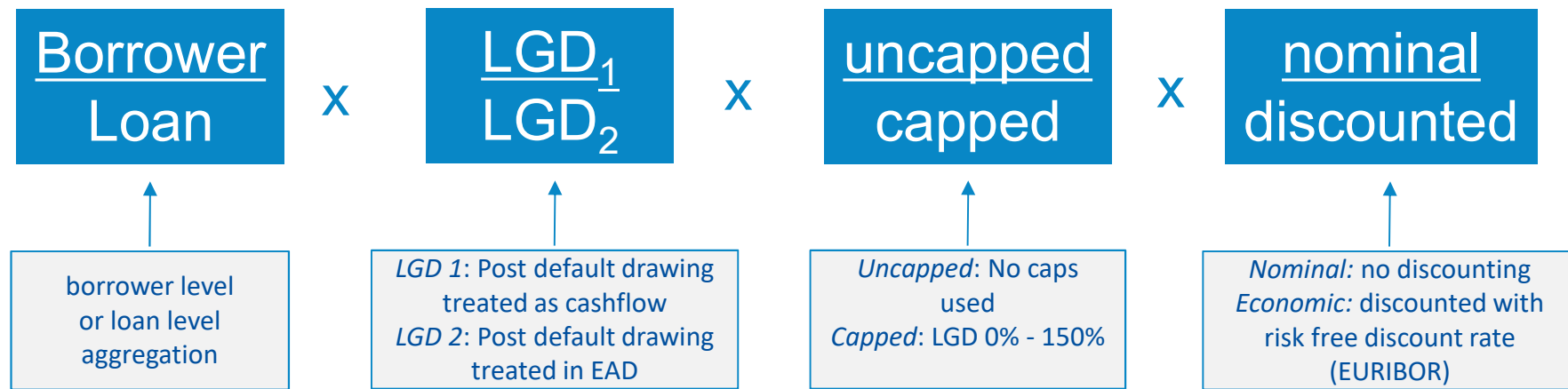
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GCD data model as industry standard

LGD & EAD Platform
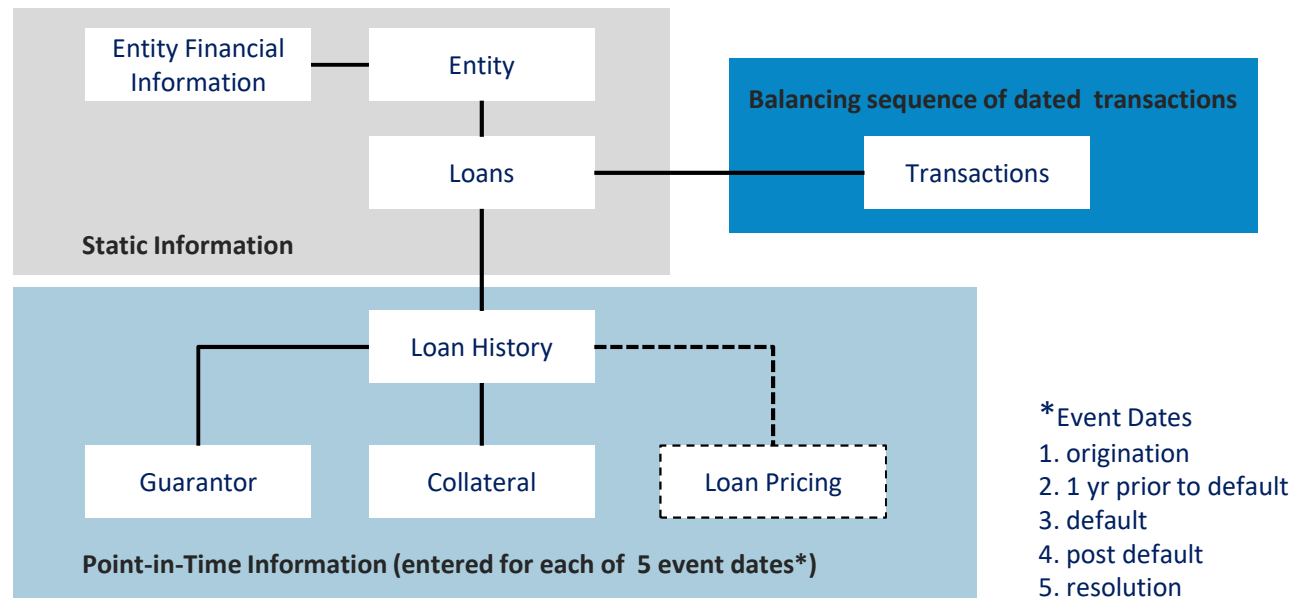
- Many members use our data models for their own internal data collection.
- Regulators acknowledge these models as the industry standard.

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Realised/Observed LGD calculation in GCD

❏ Different observed (realised) LGDs are calculated by GCD following different methodologies

Borrower Loan	X	$\dfrac{LGD_1}{LGD_2}$	X	uncapped capped	X	nominal discounted

borrower level or loan level aggregation

LGD 1: Post default drawing treated as cashflow
LGD 2: Post default drawing treated in EAD

Uncapped: No caps used
Capped: LGD 0% - 150%

Nominal: no discounting
Economic: discounted with risk free discount rate (EURIBOR)

❏ Banks can also calculate the LGD using their own method, based on the detailed cash flows provided.

❏ Banks can use their own discount rates to re-calculate LGD for every borrower or loan individually

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How are the LGDs calculated?

Discounting: Cash flows are discounted with 3 Month EURIBOR as of the default date

❑ LGD 1: Post default drawing treated as a negative cashflow (numerator)

$$LGD\_1 = 1 - \frac{Recoveries - (\textcolor{red}{Principal\ Advance} + Costs)}{Outstanding\ Amount\ at\ Default\ + Cash\ out\ on\ Contingent\ L. + Financial\ Claim}$$

$$NOM\_LGD\_1 = 1 - \frac{Recoveries - (\textcolor{red}{Principal\ Advance} + Costs + \textcolor{green}{Interest\ Charged + Fees\ Charged})}{Outstanding\ Amount\ at\ Default\ + Cash\ out\ on\ Contingent\ L. + Financial\ Claim}$$

❑ LGD 2: Post default drawing is part of the Default Amount (denominator)

$$LGD\_2 = 1 - \frac{Recoveries - Costs}{Outstanding\ Amount\ at\ Default\ + \textcolor{red}{Principal\ Advance} + Cash\ out\ on\ Contingent\ L. + Financial\ Claim}$$

$$NOM\_LGD\_2 = 1 - \frac{Recoveries - (Costs + \textcolor{green}{Interest\ Charged + Fees\ Charged}))}{Outstanding\ Amount\ at\ Default\ + \textcolor{red}{Principal\ Advance} + Cash\ out\ on\ Contingent\ L. + Financial\ Claim}$$

Recoveries include	Costs include	Other Transaction Types
TT100 – Principal Payments	TT500 – Legal Expenses	TT400 – Principal Advance
TT200 – Interest Payments	TT600 – Administrator/Receiver Fees	TT410 – Cash Out on Contingent Liability
TT250 – Recorded Book Value	TT700 – Liquidation Expenses	TT420 – Financial Claim
TT490 – Fees & Commissions Received	TT800 – Other External Workout Costs	TT450 – Interest Charged
Outstanding Amount at Resolution	(No indirect costs)	TT480 – Fees & Commissions Charged

Detailed description available in Global Credit Data LGD - EAD Platform Data Output Structure
➔ *Download from our Website: https://www.globalcreditdata.org/documentation-user-guides/lgd-ead-platform-documentation*

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Item 4
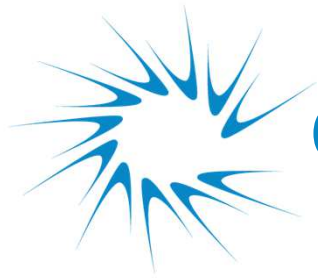
Collateral Table
New Validation Rules

LGD Subcommittee 29 October 2019

Request to LGD Subcomittee

Action Requested	• Subcommittee to **approve** Additional Validation Rules to ensure data quality in Collateral table

Background / Key facts	➢ In the current guidelines and in the LGD EAD User Handbook we advise the following general rules :
	
	    ➢ Collateral_Value: collateral value should be the same per {Collateral_ID, Borrower_ID, Event_date} combination. This means that if there multiple loans collateralized by the same collateral the value should be the same for all loans. This is the value that one would compare to the related loan (or loans) to calculate a cover percentage. (Introduce new VR)
	
	    ➢ Collateral value currency should be the same per {Collateral_ID, Borrower_ID, Event_date} combination.
	
	 ➢ GCD Executives encourage this change to improve data quality and consistency.

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