

Agenda for Methcom Meeting 27 October 2020

Members:

Stephan Jortzik (chair)	Pubudu Premawardena
Patrik Gunnarsson	Ntateko Maimane
Michael Eichhorn	Andrea Buzzigoli
Eric Lin	Rohan Surana
Elizabeth Moleda	Stuart Neilson
Abhishek Kumar	Michael Jacobs
Clemens Mesterom	

Executives:

Erik Rustenburg	Richard Crecel	Nate Royal
Nunzia Rainone (minutes)	Michaël Dhaenens	Nina Brumma
Olivier Plaetevoet	Hale Tatar	

Meeting Start: 1200 CET

Location: by telephone and webex

Item No.	Start time	Item	Responsible	Info or Resolution	Material
		Standing Items:	-		-
1.	1200	Approval Draft M128 Minutes Methcom	NR	R	X
2.	1205	Action points	NR	I	X
3.	1210	Forward looking calendar	NR	I	X
4.	1215	Calibration of statistical PD rating models. Discussion point for members	NR MJ	R	X
5.	1230	Restructured Facilities	NR	R	X
6.	1245	Introduction of Ben Galow long-term senior consultant for GCD (d-fine)	BG	I	
7.	1255	Data quality process and policies: project updates	ER BG	I	X
8.	1310	Interactive Dashboard and Specialty Dashboards	RC	I	
9.	1325	LEI and raw industry code assessment	NR	I	X
10.	1335	Relation FAC and Industry codes	NR	I	X
11.	1345	Subcommittees updates	OP ER	I	X

		Other Items	-		-
12.					

2020

October 2020, 1200 CET by Zoom

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 1

Draft Minutes of the Methcom Meeting held on 23 June 2020

Members Present: Pubudu Premawardena (chair)
Clemens Mesterom
Elizabeth Moleda
Michael Eichhorn
Michael Jacobs
Patrik Gunnarsson (left the meeting before votings were made)
Rohan Surana
Stuart Neilson

Excused: Abhishek Kumar
Andrea Buzzigoli
Eric Lin
Stephan Jortzik

External (d-fine): Benjamin Galow

Executives: Nina Brumma (at the minutes)
Daniela Thakkar
Erik Rustenburg
Hale Tatar
Michael Dhaenens
Nate Royal
Olivier Plaetevoet
Richard Crecel (only item 4)

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.

Matters are minuted in the order dealt with by the meeting with the numbering based on the agenda. Material for most of the issues to be discussed had been sent out in advance together with the agenda.

Meeting Start: 14:00 CEST

Quorum is met.

Item 4: Unresolved Defaults: Data collection and LGD calculation

LGD calculation for unresolved Defaults.

NB and BG presented the material.

The following questions/remarks were made:

Slide 5: MJ shared that in his bank PNC the unresolved defaults were not used in LGD calculations in the form presented here. He recognised, however, the benefit of it and mentions that without including the unresolved defaults the results might be biased due to the resolution bias while

including them increases statistical uncertainty. He asked if the executives had measured the error: NB replied that in the backtesting exercise to be presented later the error was measured and that it was quite small given the bimodal distribution of LGD. BG added that the here discussed parameter MRP was not very sensitive to the outcome of the LGD calculation.

Slide 7:

- CM asked how the avg LGD unresolved was no model calculated? BG explained that it was based on the cash flow received so far (provided in the transaction table) following the standard LGD
- CM asked which data set was used for the development: BG answered that the H2 2019 data set was used.
- RS asked about the exact function of the MRP. BG answered that the unresolved defaults exceeding the MRP were included in the development sample, but because their number of cases was small compared to the overall data set it did not have a big impact on the outcome of the parametrization.
- PP asked if there was a look-up table presented for LC for all segments. BG confirmed.
- PP asked if the executives had looked at other drivers than TTR and RR or tried different methods multiple regression or like machine learning. NB answered that in this development phase there were no other methods explored. Based on the feedback of the Methcom members provided either in the last Methcom meeting or in bilateral communications the extrapolation approach with the bucketing was identified as very commonly used in the banks (together with the provision based method which was not possible for the GCD data due to too few data points including information on provisions. More drivers or other methods as challenger models could be explored in a second phase if time and budget permitted.
- MJ added that modelling LGD and TTR jointly could be another option but recognised that with more statistical approaches more model risk was added.
- The Methcom concluded that the provided methodology was a simple but powerful model which in the backtesting showed a very good performance.

The Methcom **unanimously approved** the implementation of the unresolved LGD as proposed in the resolution.

BG left the meeting at this point.

Voluntary collection of volumetrics for unresolved defaults.

NB presented the material. Members asked to clarify that this data collection is for members who do not participate in detailed data collection.

The Methcom **unanimously approved** the voluntary collection of unresolved defaults as proposed in the resolution.

Item 1: Approval Draft 126 minutes Methcom June 2nd 2020

The minutes were **unanimously approved**.

Item 5: Proposed changes in the Data pool regulations

DT presented the material and highlighted the proposed changes. She also reminded the Methcom that the final decision on the changes would lie with the GMM.

Questions were asked about the changed in 6.3 Intellectual Property Rights as well as 4.12/4.13 (GDC does not collect personal data). The Methcom suggested the to clarify the following points

- Provide examples how member banks are allowed to use the member data return under the (adjusted) data pool regulations

- Clarify 4.12/4.13 for the High-net-worth individual segment as part of the Private Banking asset class , where "names"(e.g. Paul Smith) are part of a company name ("Paul Smith Corp") and collected by the Benchmarking platform

Subject to clarifying these two points Methcom supported the proposed changes in the Data Pool Regulations.

Item 8: Outcome Subcommittees LGD

Methcom was asked by ER to vote on addition of GCD Industry code lookup. The request was made by a Nordic member to flag homeowner associations because a significant part of its portfolio (specific model for that) is assigned to it. ER and OP explained the proposed change.

Members noted that one NAICS code would have to be split into two different industry codes and asked for more guidance. PP asked about the volumetrics which had not been included in the presented material. ER answered that in the LGD/EAD database currently <50 defaults were recorded with Primary Industry Code 950. PD Platform volumetrics had not been explored.

Because the meeting was at this point already over time Methcom postponed the vote on this item.

Item 6: Update on collection of Definition of Default Policies

There was no time to discuss this item. Members were asked to provide any feedback they might have on the provided material to any of the executives after the meeting.

Item 2, 3, 7 were not discussed as there was no time left.

Before closing the call it was announced that this was Daniela Thakkar's last meeting as an executive. Methcom thanked Daniela for her excellent work in GCD up to now and wished her continued success and all the best for her future.

PP closed the call at 16:05.

Item 2



Action points from Methodology Committee Meetings

February 2020

AP No.	Content	Holder	Due Date	Closed	Prio	Status
MC201908	Restructured Loans proposal	NR/ER	H2 2020		H	

Item 3

Forward looking calendar 2020 - gray items have been changed from last FLC - blu items have been added since last FLC

Standing Items			Implementation	Feb	April	Jun	Sep	Oct	Dec
ER	LGD	Outcome of LGD Subcommittee meeting		X	X	X	✕	X	X
OP	PD & Rating	Outcome of PD & Rating Subcommittee meeting			X				
HT	BP	Outcome of BP Subcommittee meeting			X				
NR	General	Review Subcommittee Charters	H2 2020						X
DT	General	Review Data Pool Regulations	H1 2021		X	X			
Items									
NR/ER	LGD	Restructured Facilities	H2 2020	X	✕		✕	X	
DT	All Platforms	Definition of Default survey	H1 2020	X	X	X			
ER	LGD	Major project: Documentation update	Ongoing		✕			X	
NR	All Platforms	Assessment of Raw Industry Code and LEI implementation	Ongoing	X		✕	✕	X	
NB	LGD	2020 Analytics and Report overview	2020	X	X		✕	X	
Executives	All Platforms	Review of Country groupings/hierarchy table/Critical mass rule for region	H2 2020			✕			X
Executives	All Platforms	<i>For all platforms: FAC 3 - Industry code 600 as example for discussion on relation between FAC and Industry codes</i>	H1 2020 -H2 2020			✕		X	
NB/ER	General	Data Quality Report - part 2	2020			✕		X	
ER	General	Provide Methcom with a new overview of the number of members who received data back for a certain Data Pool in the last 12 months, including: <ul style="list-style-type: none"> • Overview of complete years • Years before 2016 • Data replaced since start full submissions • Overview for PD & Rating and BP 	H1 2020		X				
Executives	All Platforms	Calendar Methcom 2021	H2 2020						X
Executives	All Platforms	Forward looking calendar Methcom 2021	H2 2020						X

Item 4

Request to Methcom

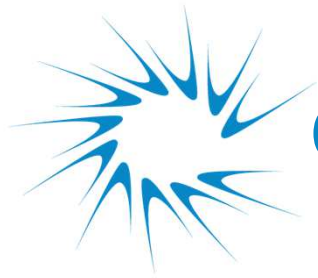
Action Requested

- Methcom to discuss and decide the activation of a short Working Group on PD Calibration

Background

- In October 2020 it came from a member the request to activate with GCD members a discussion around PD Calibration
- GCD is willing to offer a space for a peer discussion around the topic

Item 5



Global Credit Data

by banks for banks

How to submit restructured loans to GCD

distinguish between real and artificial cashflow

LGD Subcommittee 23 July 2019

Methcom 6 of August 2019

Methcom 17 of September 2019

LGD Subcommittee 12 November 2019

LGD Subcommittee 11 February 2020

Methcom 27th October 2020

Request to Methcon

Action Requested

- Methcom to **vote** on a data model change for
 - submitting restructured facilities and
 - tracing a connection between original and new facilities

Background / Key facts

- Some member banks have asked to GCD to modify the data model for submitting and recognising in the pooled data restructured facilities
- In July 2019 TRIM Guidelines require that banks should be able to make or trace a connection between the restructured facility and the facility (or facilities) previously advanced and which it is restructuring
- On the 23rd of July 2019 the proposal has been discussed in the LGD Subcommittee. This is the subcommittee firm proposal
- On the 6th of August 2019 the proposal has been discussed in the Methcom. This is the second draft of the proposal
- On the 17th of September 2019 the proposal has been discussed for the second time in the Methcom. Methcom agreed to re-discuss the proposal in the Subcommittee.
- On the 6th of February 2019 the proposal has been discussed in the LGD Subcommittee. This is the subcommittee firm proposal
- GCD Executives present here the proposal and the assessment of the workload required for the implementation of it.

Definition of restructured Loans

The word restructured can indicate different things in the banking environment. In scope of this proposal will be the **Accounting type of restructuring**, Loan level restructuring for single counterparty:

1. The most common case, where Banks reorganize facilities internally, after the default to simplify accounting.
2. There is usually a **post default** loan (Restructuring Loan) where the original debt is transferred and the payment is taking place

Possible cases of restructured loans

□ Type 1.

- Facility reorganization under a restructuring agreement for a new repayment plan, including deferred payments, changes to the loan parameters etc. Original Loan closed. New Loan generated in default.

□ Type 2.

- New Loan generated under a new repayment plan, not flagged as default, with additional drawings to repay the original.

Some clarifications

- ❑ Case A:

Original Loan with EAD = 100 EUR

New Loan issued in March of 2019 to pay back original with Principal Advance TT400= 100 EUR

After carefully watch Banks decides client is back to performing

- ❑ Original Loan default: EAD = 100 EUR, Transaction T100 = 100 EUR, Loan_Status = Back to performing, LGD = 0 , resolution date: 2019

- ❑ Case B

Original Loan with EAD = 100 EUR

New Loan issued in March of 2019 to pay back original with Principal Advance TT400= 100 EUR

Bank is not closing the case, Borrower is not yet resolved, Banks keep watching, situation is not improving, in 2022: complete write-off

Possible scenarios

❑ New proposal:

EAD = 100 EUR

Transfer of the debt from original Loan to new loan = 100 EUR

Write-off in new loan = 100 EUR

Reallocation of the write off in the original loan

LGD 100% under the original loan , Resolution date: 2022

(**Advantage:** GCD will do the reallocation based on data submitted by banks, more info to track and to recognize Restructured loan.

Disadvantage: difficulties to combine new info with the usual way to use GCD data → detailed Guideline required)

❑ Existing guidance: EAD = 100 EUR, Write-off = 100 EUR , LGD 100% , Resolution date: 2022

(**Advantage:** No changes. **Disadvantage:** Banks to do the reallocation. Not info on restructuring process)

❑ What most banks are doing if they don't trace restructuring:

■ EAD original Loan = 100 EUR, Transaction T100 = 100 EUR, LGD = 0%

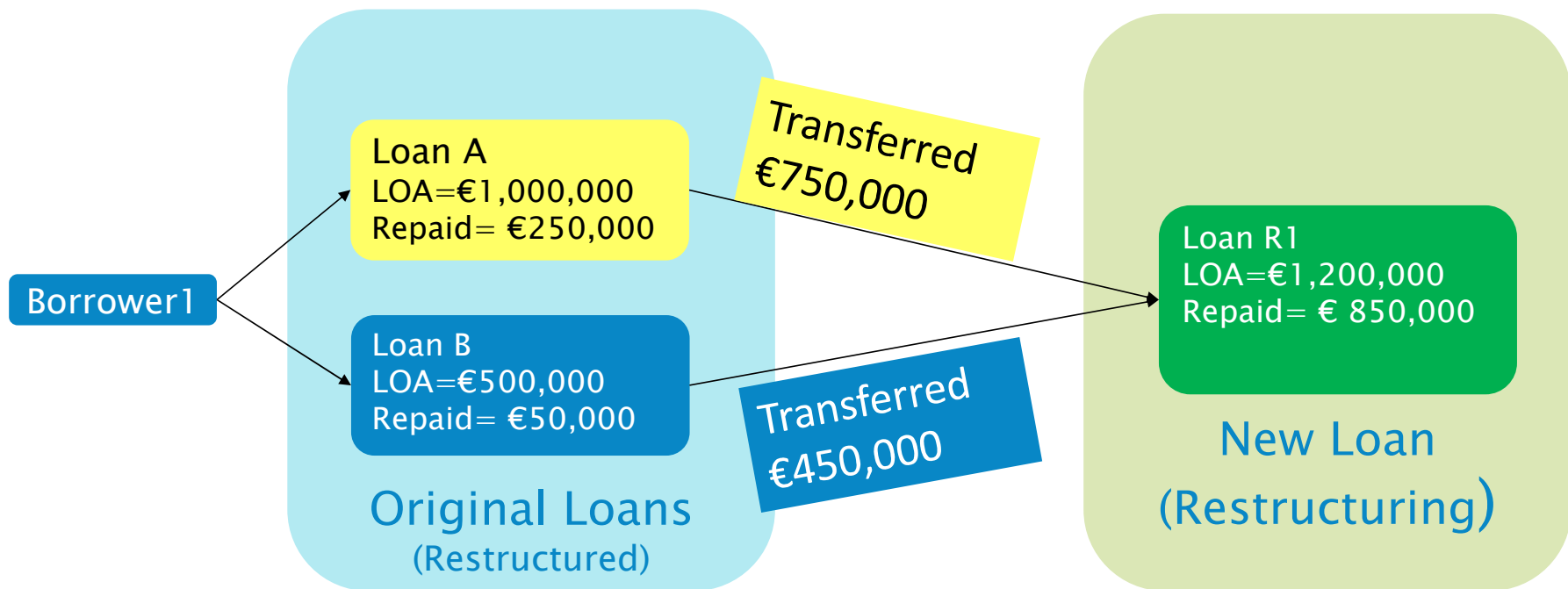
■ EAD new loan = 0 EUR, Transaction T400 = 100 EUR, Write-off = 100 EUR, LGD = 100%

Assessment of workload

Task	Man days
Capgemini to implement the proposal in the database	15 days
Executives to test the implementation	10 days
Executives to produce exhaustive guidelines	5 days
Executives to support members in submission and use of the data	6 days
Total	36 days

What is the risk without a proper connection between the Original and new Loan? (2 Original Loans in 1 Restructuring)

- Track the connection will avoid bias in LGD Calculation at Loan Level (see following example). (this example is displayed in details in excel file (exhibit 1))



LGD without connection

- Case 1: the amount transferred is recorded as Write off. This will lead to an **overestimation of LGD**.

- Loan A: LOA €1,000,000
Repaid €250,000
Write-off €750,000
LGD= approx. 75%

- Loan B: LOA € 500,000
Repaid €50,000
Write-off €450,000
LGD= approx. 90%

- Case 2: the amount transferred is recorded as Cashflow in. Despite it is an Artificial Repayment, the amount is classified as Principal Payment. This will lead to an **underestimation of LGD**.

- Loan A: LOA €1,000,000
Repaid €1,000,000
LGD= 0%

- Loan B: LOA € 500,000
Repaid €500,000
LGD= 0%

LGD with correct connection

- The amount repaid under the Restructuring Loan is reallocated to the Original Loan (Reallocation Percentage is Outstanding weighted). This will lead to the **correct and unbiased LGD**.

Loan A: LOA €1,000,000

Repaid €250,000

Amount Reallocated : € 781,250

LGD= approx. 22%

Loan B: LOA € 500,000

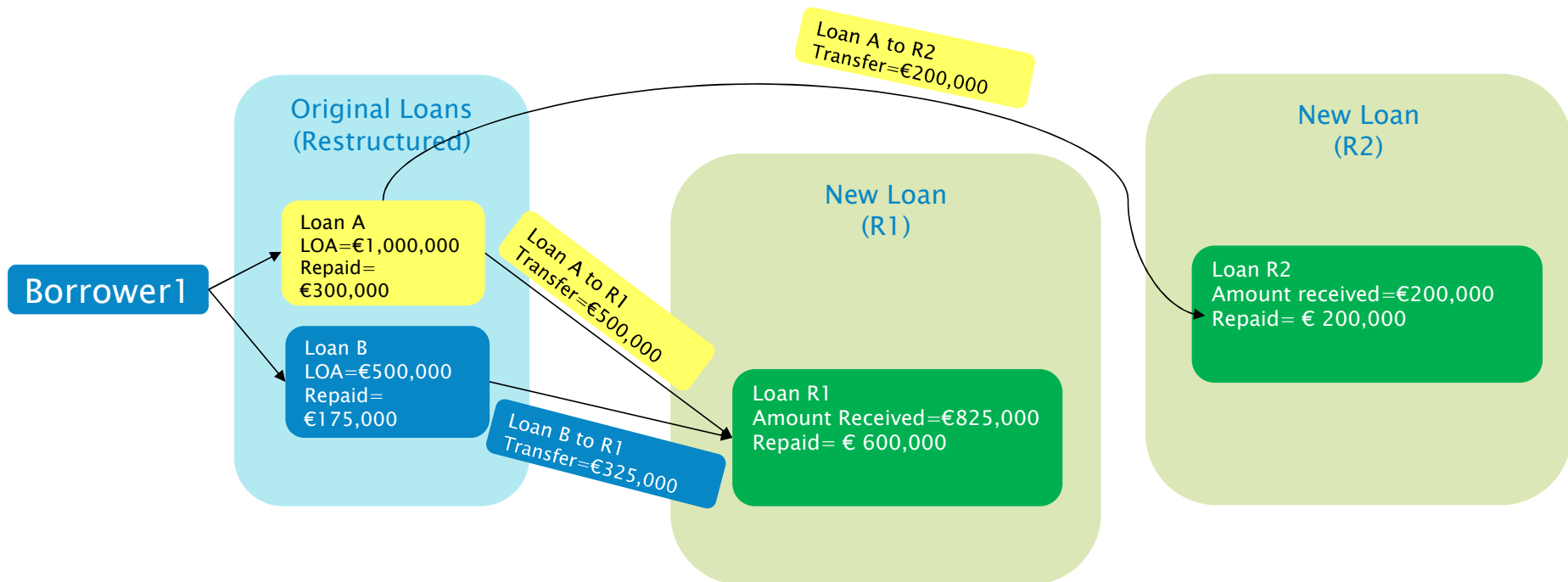
Repaid €50,000

Amount Reallocated : € 368.750

LGD= approx. 26.3%

What is the risk without a proper connection between the Original and new Loan? (2 Original Loans in 2 Restructuring Loans)

□ (this example is displayed in details in excel file (exhibit 2))



LGD without connection

- Case 1: the amount transferred is recorded as Write off. This will lead to an **overestimation of LGD**.

- Loan A: LOA €1,000,000
Repaid €300,000
Write-off €700,000
LGD= approx. 70%

- Loan B: LOA € 500,000
Repaid €175,000
Write-off €325,000
LGD= approx. 65%

- Case 2: the amount transferred is recorded as Cashflow in. Despite it is an Artificial Repayment, the amount is classified as Principal Payment. This will lead to an **underestimation of LGD**.

- Loan A: LOA €1,000,000
Repaid €1,000,000
LGD= 0%

- Loan B: LOA € 500,000
Repaid €500,000
LGD= 0%

LGD with correct connection

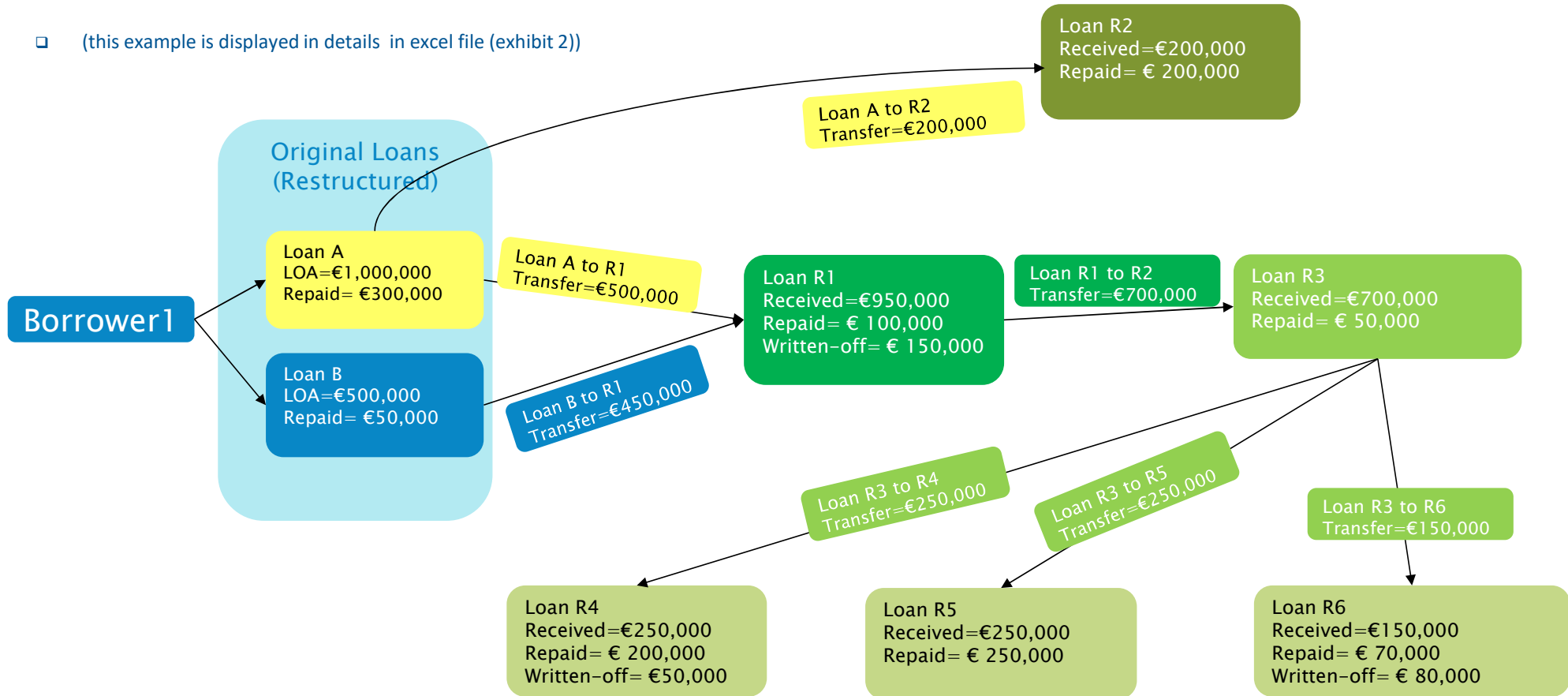
- The amount repaid under the Restructuring Loan is reallocated to the Original Loan (Reallocation Percentage is Outstanding weighted). This will lead to the **correct and unbiased LGD**.

Loan A: LOA €1,000,000
Repaid €300,000
Amount Reallocated : € 563,636
LGD= approx. 14%

Loan B: LOA € 500,000
Repaid €175,000
Amount Reallocated : € 236,364
LGD= approx. 18%

What is the risk without a proper connection between the Original and new Loan? (2 Original Loans in 2 Restructuring Loans)

□ (this example is displayed in details in excel file (exhibit 2))



LGD without connection

- Case 1: the amount transferred is recorded as Write off. This will lead to an **overestimation of LGD**.

- Loan A: LOA €1,000,000
Repaid €300,000
Write-off €700,000
LGD= approx. 70%

- Loan B: LOA € 500,000
Repaid €50,000
Write-off €450,000
LGD= approx. 65%

- Case 2: the amount transferred is recorded as Cashflow in. Despite it is an Artificial Repayment, the amount is classified as Principal Payment. This will lead to an **underestimation of LGD**.

- Loan A: LOA €1,000,000
Repaid €1,000,000
LGD= 0%

- Loan B: LOA € 500,000
Repaid €500,000
LGD= 0%

LGD with correct connection

- The amount repaid under the Restructuring Loan is reallocated to the Original Loan (Reallocation Percentage is Outstanding weighted). This will lead to the **correct and unbiased LGD**.

Loan A: LOA €1,000,000

Repaid €300,000

Amount Reallocated : € 552,632

LGD= approx. 15%

Loan B: LOA € 500,000

Repaid €50,000

Amount Reallocated : € 317,368

LGD= approx. 27%

Key principles of this proposal

- ❑ Banks submit raw data, GCD will give back raw data. All the information received will be given back in the data set.
- ❑ Banks will submit transactions under the New loan and **GCD will do the reallocation to the original Loan**
- ❑ **Only Loan Level** Restructured processes will be in scope, no Entity reorganization are ins cope for this proposal

Tables in scope

- ❑ Transactions
- ❑ History
- ❑ Loan
- ❑ Collateral
- ❑ Guarantor

Financial and Entity table are at borrower level. We assume that Restructured information will be submitted at loan level

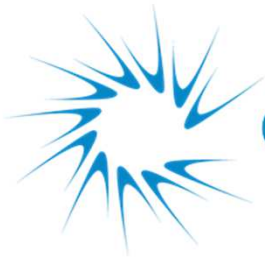
Focus: Post default restructuring process. Trace the workout process across New and Original loans.
Workout will be re-allocated by GCD in the original loans where LGD will be calculated.

Main changes to the tables

- ❑ Two new transaction types (to differentiate the artificial cashflow from the real one)
- ❑ One Flag to clearly mark Original Loan (O) and Restructuring Loan (R).
- ❑ One Restr_Loan_id field only in the transaction table to connect the Original Loan to the Restructuring.
- ❑ One new Event_type=7 to identify the moment of the transfer and the amount transferred) which will be submitted only for the restructuring Loan.
 - This change, despite will bring more complexity , will ensure data quality, allowing cross check between transaction table and history table. See excel provided for more details.

Item 6

Item 7



Global Credit Data

by banks for banks

Data Quality Project Deliverables and Progress

Request to Methcom

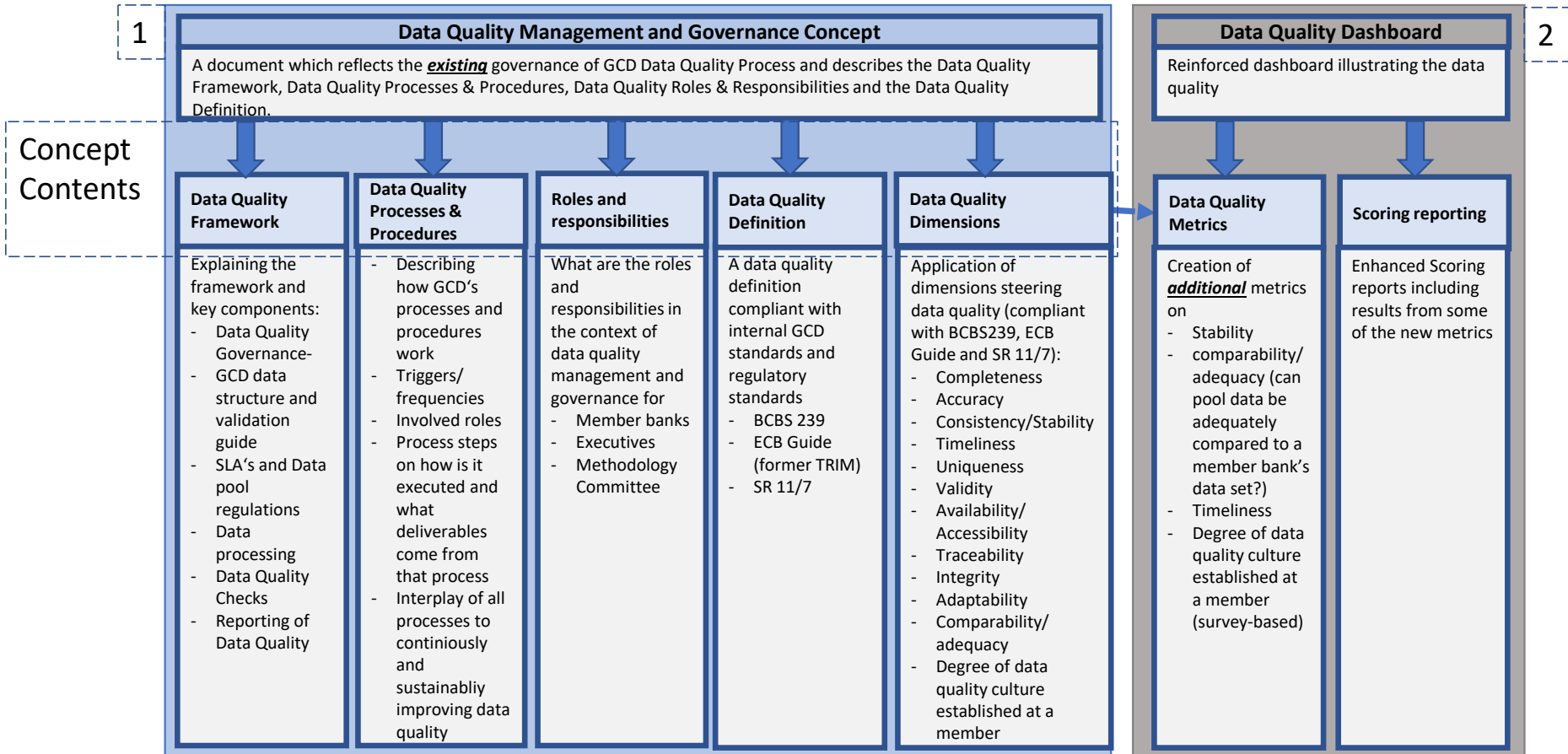
Action Requested

MethCom **to be informed** about the progress in the Data Quality Project.

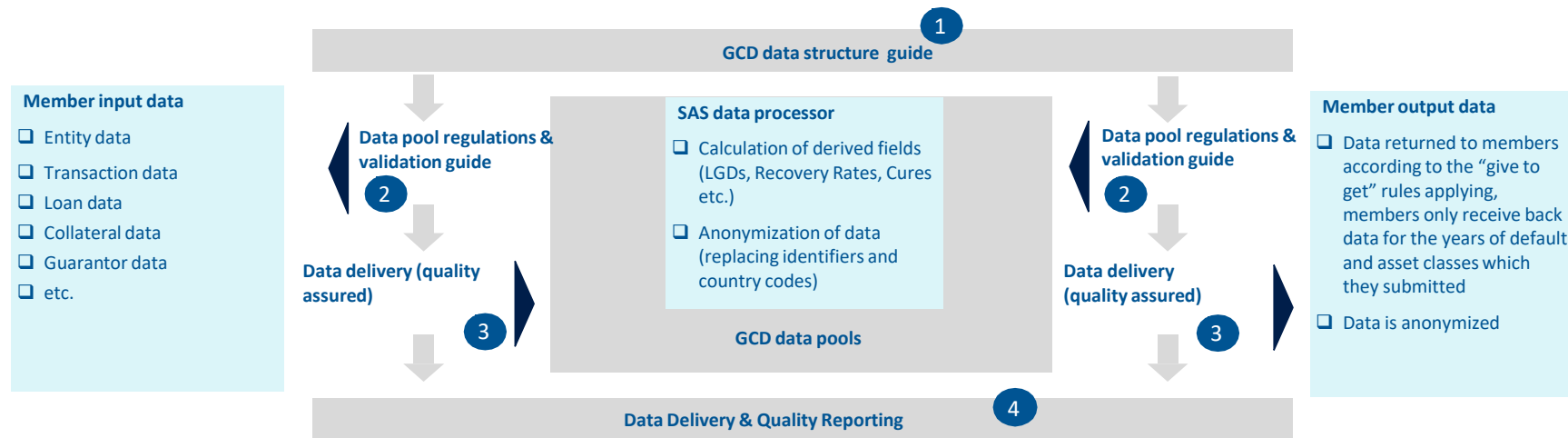
Background and Status

- The Data Quality Project is part of the Compliance Working group. Delivering to members evidences and elements of documentation to proof to members that the GCD data used is compliant with internal and external requirements, e.g., regulatory requirements for banks using the data for IRB modelling purposes
- Focus on deliverable on two main elements:
 - Data Quality Management and Governance Concept
 - Structuring work is done on the existing data quality processes
 - Draft is under review
 - Data Quality Dashboard
 - Work on Data Quality metrics
 - Finalizing concrete metrics and KPIs

Data Quality Project Deliverables 2020/2021



Data Quality Management - Framework



1

In the **GCD data structure and validation guide** the following information is defined:

- Entities (loan, transaction, etc.) and their attributes at the business level
- Metadata for entities and attributes (mandatory, classification...) and for specific information required for input and output fields

2

- Data pool regulations** are used to define requirements and responsibilities between member banks and GCD
- Requirements are related to the quality of data, delivery times, etc.
- Requirements are centrally recorded by GCD in the **validation guide** and approved by MethComm

3

- The member banks ensure the requirements according to the data pool regulations
- Appropriate **data quality checks** are defined, implemented and carried out
- Information on the data quality checks and audits is stored
- Data quality checks are clearly assigned to the requirements

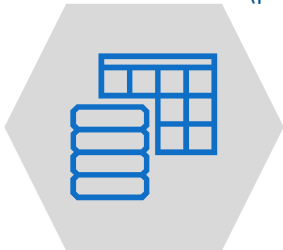
4

- Reporting** ensures the necessary transparency with regard to data deliveries and especially with regard to their quality
- Metadata and the results of data quality checks and audits are integrated for this purpose
- The reporting is distributed to all stake holders including member banks (audit letter, DQ scoring)

Data Quality Governance - Framework

Table	Validation ID	Message
Collateral	COLL001	COLL001: Collateral_ID must be given
Collateral	COLL003	COLL003: Borrower_ID must be given
Collateral	COLL004	COLL004: Borrower_ID (Borrower_ID%) must exist as
Collateral	COLL005	Borrower_ID (Loan_Type) must be given
Collateral	COLL006	COLL006: Borrower_ID (Borrower_ID%) must exist as
Collateral	COLL007	COLL007: Collateral_ID (Collateral_ID%) must only be given
Collateral	COLL008	COLL008: Error: Data must be given
Collateral	COLL010	COLL010: Error: Data (REGUL_CATEGORIES) must exist in history
Collateral	COLL011	COLL011: Collateral_Type must be given
Collateral	COLL012	COLL012: Collateral_Type (Collateral_Type%) must exist in
		Collateral_Type_Lookup

submit error-free data
(passed VR)



Member banks

- Data provider & receiver
- Support resolution of DQ issues
- Improve data quality continuously by aiming at better DQ scores

terminate membership

GCD Board

- Participants: appointed delegates by the Global Credit Data General Assembly representing the members
- Decision to terminate membership of pool participant

audit letter

dashboard/
DQ score

reconcile & resolve DQ issues

set ultimatum to
resolve DQ issues

escalate DQ issues

audit data



GCD Executives

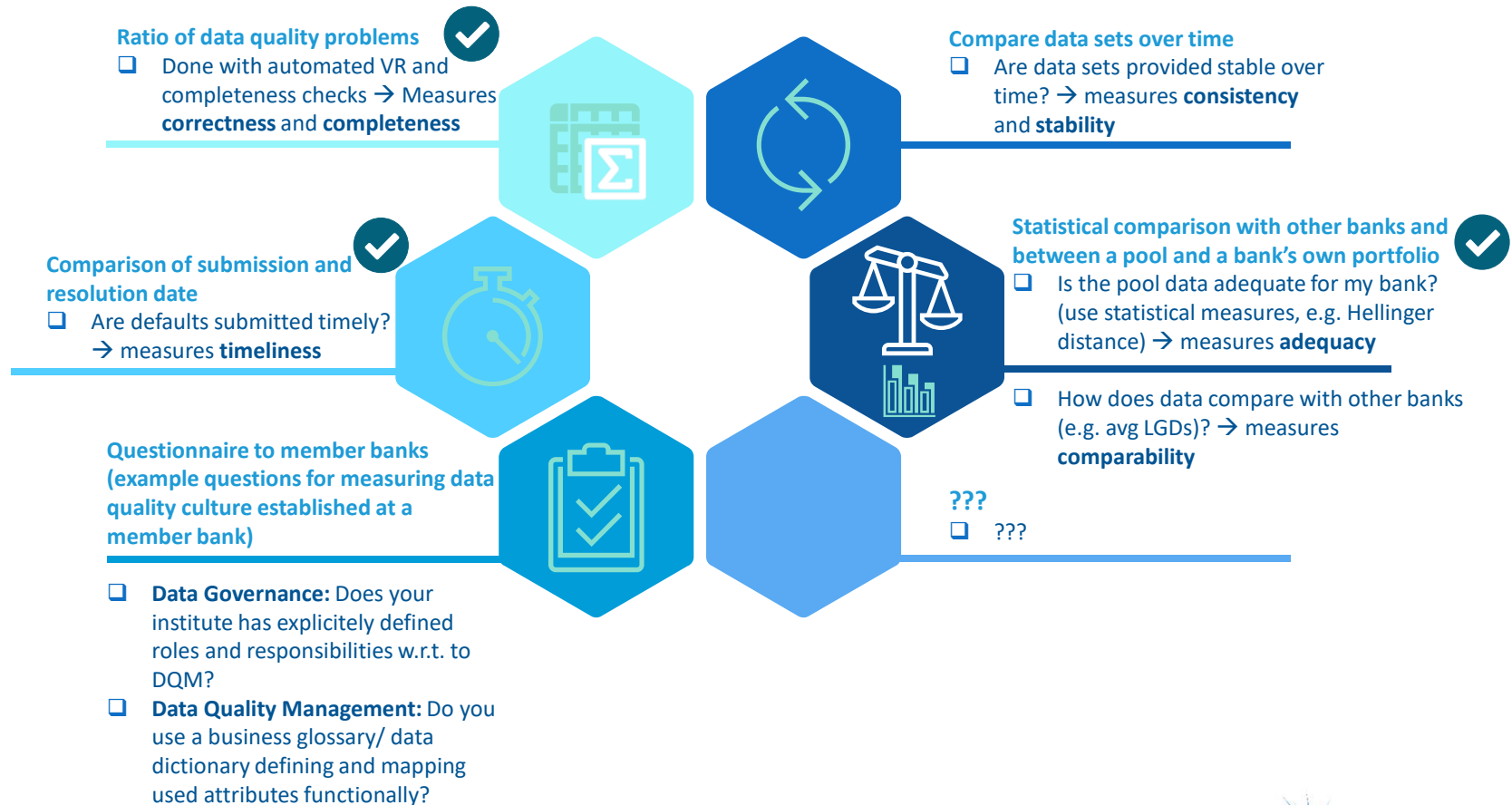
- Perform DQ audits during submission cycle (incl. audit letter)
- Support members with resolution of DQ issues
- Escalate DQ issues to Methcom
- Provide dashboard/ DQ score

forward unresolved
DQ issues

Methodology Committee

- Participants: Appointed member bank and GCD representatives
- Decisions on new data fields and validation rules
- Review DQ issues and set ultimatum to resolve
- Escalate to GCD Board

Data Quality metrics



Item 8

Item 9

Request to Methcom

Action Requested

- Methcom to **be informed** on results of H1 2020 submissions for *LEI* and *Raw_Industry_code* in LGD and PD databases

Background

- In H1 2019 Legal Entity Identifier (LEI) has been implemented
 - After **three** submission cycles Methcom is informed on volumetrics and data submitted
- In H1 2019 *Raw_Industry_code* has been implemented
 - After **four** submissions cycles Methcom is informed on volumetrics and data submitted

Raw Industry code h1 2020

LGD Platform		
	H1 2020	H2 2019
N. of Lenders providing	22	18
N. Of Entities	33,028*	9,087
Of which		
• Borrowers	22,536	8,185
• Guarantors	10,010	902
• Both a Borrower & Guarantor	482	

PD Platform		
	H1 2020	H2 2019
N. of Lenders providing	4	3
Completion rate	93%	75%

*Out of 172,629 total entities in the LGD Platform

Legal Entity Identifier

LGD Platform		
	H1 2020	H2 2019
N. of Lenders providing	4	4
N. Of Entities	53*	52
Of which		
• Borrowers	44	44
• Guarantor	9	8

PD Platform		
	H1 2020	H2 2019
N. of Lenders providing	2	1
Completion rate	13%	12%

*Out of 172,629 total entities in the LGD Platform

Item 10

Request to Methcom

Action Requested

- Methcom to initiate the discussion on Industry type and its relationship with Facility Asset Class

Background

- Currently, there is no clear guidance on how to assign the industry type to the borrower. Do GCD members want industry type at obligor or at group level?
- Do GCD members want to differentiate the two, entity and group industry types?
- In GCD there is no mandatory association between Facility Asset Class and Industry types, except for industry type “Finance and Insurance” (*Primary_Industry_Code=600*) which is mandatory associated with FAC Banks and Financial Institution. Is this association meaningful?
- Example provided in following slide

Example n.1

A big automotive company (group level) has subsidiaries in the sector of Finance and insurance for financing the purchase of automotive products.

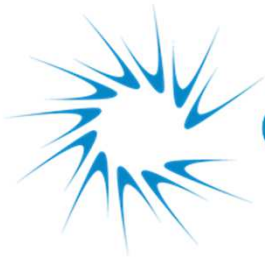
One of these subsidiaries defaults. At entity level, the borrower is identified with the Facility Asset Class Banks and Non-Banks Financial Institution (FAC=3).

What industry type should be assigned, the entity or the group industry type?

Entity level: With the current Validation Rules we force the lender to assign **industry type “Finance and Insurance”** (*Primary_Industry_code=600*).

Group level: Does it make sense to assign the group **industry type “Manufacturing - Automotive”** (*Primary_Industry_code=2501*)?

Item 11



Global Credit Data

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Covid impact H2/2020 PD & Rating Platform H2/2020

- Methcom October 27th, 2020 -

Request to Methcom

Action Requested

- Methcom to **be informed** on the special Covid19 PD&Rating run in November

Background

- Impact of Covid19 impact is already perceived on PD & Ratings.
 - Via PD & Ratings on the Benchmarking Platform.
 - Via a few early submitted cohorts (Q1,Q2/2020) during the 2019 PD run.
- Simultaneity of the PD impact with the crises.
 - Historical review of previous crises on PD platform shows that rating migrations are visible directly.
- Requests to all GCD members to participate in a PD & Rating run.
 - Only year 2020 data.
 - November run with results provided ASAP.

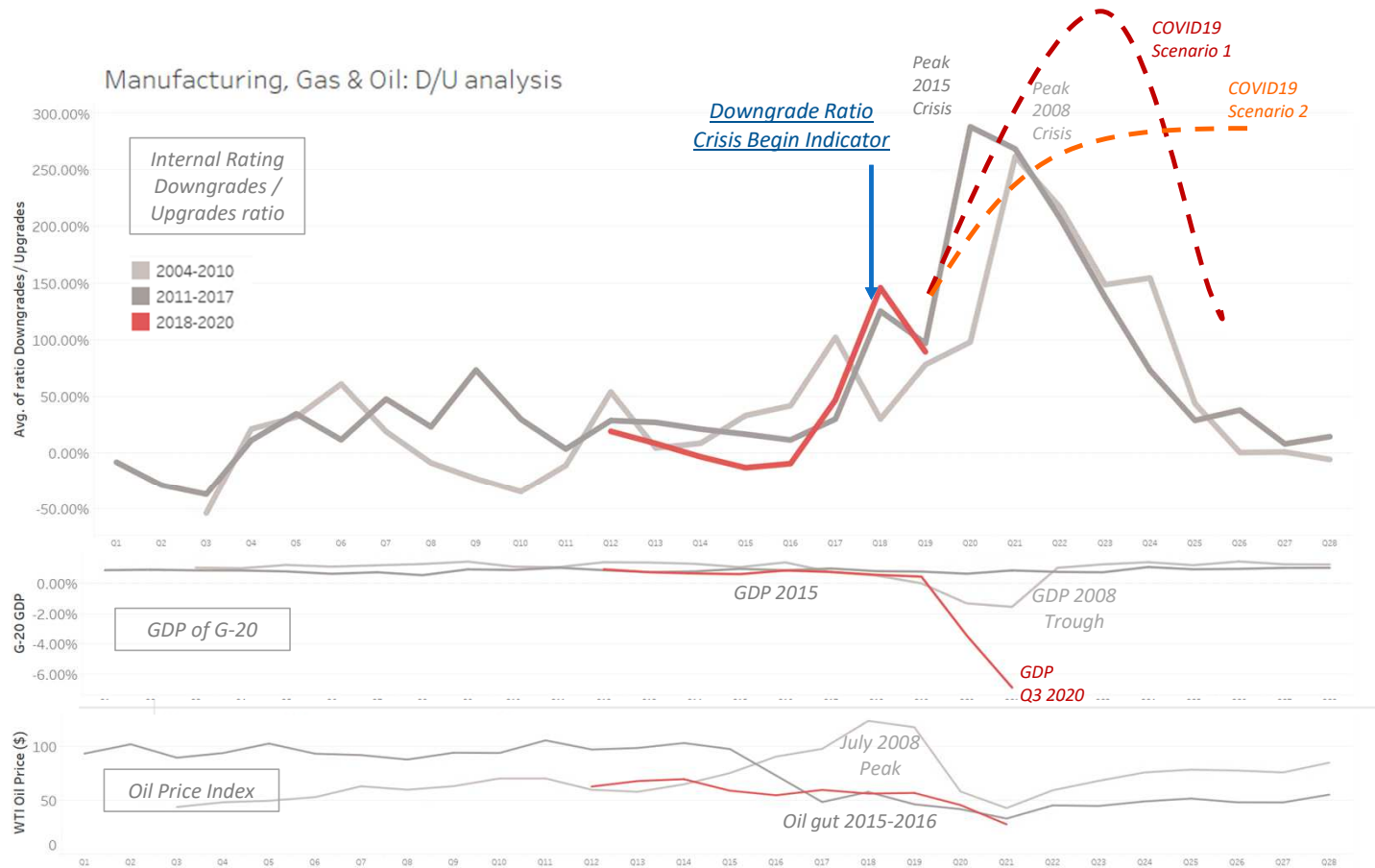
Downgrade Ratio and COVID 19 Crisis Scenarios

Downgrade/Upgrade ratio (D/U) seems to capture single-risk factor and correlates with macro-economic variable (MEV)

2008 GFC Crisis, then 2015 O&G Crisis show identical D/U profile

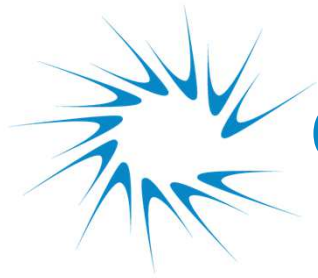
COVID19 Crisis D/U shows same initial profile

Scenarios can be proposed and modelled based on projected MEV to project COVID19 D/U profile



Special run 2020H2: rating impact of Covid19.

- ❑ Scope: Q4/2019, Q1/2020, Q2/2020, Q3/2020, Q4/2020 if available (North American)
- ❑ Timelines:
 - October : Convene members to participate
 - November 2020 : Portal is open for submissions
 - December 2020 : Aggregation, returns & report
- ❑ Unaggregated submissions only (so that GCD analyses can be performed granularly).
- ❑ Min 3 banks in NA and 3 banks in EU (=min 6 banks).



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New Industry code 960 : tenant owner home association

Request to Methcom

Action Requested

- Methcom to **approve** LGD Subcommittee Firm Proposal on the addition of a new code to GCD's Industry Code lookup

Background

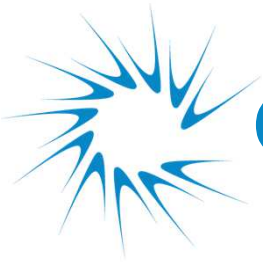
- ❑ Request by a member to flag precisely homeowner/tenant associations. (see matching NAICS industry code next slide).
- ❑ Currently linked to industry code 950 : Private Sector Services (Household) : does not fit description.
- ❑ Regular type of exposures in the Nordics (named bostadsrättsförening BRF in Swedish) and also in other countries : Netherlands (Vereniging van Eigenaren, VvE), Canada (housing co-ops), etc.
- ❑ Proposition to create industry code 960 with description "tenant-owner home association".

Firm Proposal : new industry code – homeowner/tenant association

Industry_Code	Description
5005	Transportation - Oil & Gas (Midstream)
5009	Transportation - Other
5010	Warehousing and Storage
550	Communications
600	Finance and Insurance
650	Real Estate and Rental and Leasing
700	Professional, Scientific and Technical Services
750	Public Administration and Defense
800	Education
850	Health and Social Services
900	Other Community, Social and Personal Services
950	Private Sector Services (Household)
960	Homeowner/tenant association
990	Extra-Territorial Services and Organizations
995	Individual
-1	Unknown

GCD code – NAICS code – NAICS description

GCD Industry_Code	NAICS version 2012	NAICS version 2012 INDEX ITEM DESCRIPTION
950	813990	Athletic associations, regulatory
950	813990	Athletic leagues (i.e., regulating bodies)
950	813990	Condominium corporations
950	813990	Condominium owners' associations
950	813990	Cooperative owners' associations
950	813990	Homeowners' associations
950	813990	Homeowners' associations, condominium
950	813990	Property owners' associations
950	813990	Sports governing bodies
950	813990	Sports leagues (i.e., regulating bodies)
950	813990	Tenants' associations (except advocacy)



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Data Quality

Validation Rules

For information to Methcom Only.
Approved by LGD & EAD Subcommittee during meeting 28th August 2020

For information to Methcom Only.

Approved by LGD & EAD Subcommittee during meeting 28th August 2020

Proposal - New Validation Rule H1 2021 – Liquidation of

Collateral

In GCD data model the sale of the collateral should be recorded with the Collateral_Sale_Indicator=1 in the collateral table. The sale should also be reflected in the transaction table with a *Source_of_Payment* 200 (Liquidation of Collateral).

Table	Validation ID	Data Field	Trigger	Message	Type	Correctness / Completeness	Introduced	Amended
Collateral	TRANXXX	Source_Of_Payment	Missing Source_Of_Payment=200 for {Loan_id, Liquidated_Collateral_id} combination where Collateral_Sale_Indicator = 1 for {Loan_ID, Collateral_id} combination at Event_Type 4 or 5	TRANXXX: At least one transaction with Source_Of_Payment = 200 must be provided when there is a Collateral_Sale_Indicator is 1 for (%Loan_id, %Liquidated_Collateral_ID%) for Event_Type = 4 or 5.	Error	Correctness	H1 2021	

Proposal: A transaction with Source_of_Payment 200 should exist in the Transaction table when the Collateral is sold (Collateral_Sale_Indicator=1) at Event_type 4 or 5.

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Approved by LGD & EAD Subcommittee during meeting 28th August 2020

Rule – No loss for

unresolved loans

- ❑ In GCD data model resolution can be detected at loan level (provided by members) and at borrower level (output filed, calculated by GCD as of the max Resolution date for all loans connected to the same borrower). Therefore, resolution date can be different for loans under the same borrower. There are 400 unresolved loans (with no Event_type=5) for which there is no loss associated. In case of no loss that loan must be considered as a closed case. Executives’ proposal is to ask members to provide event_type=5 (Resolution date) for those cases.
- ❑ Additional change to exclude contingent and mark to market facilities from the trigger

Table	Validation ID	Data Field	Trigger	Message	Type	Correctness / Completeness	New	Amended
HISTORY	HIST098	Lender_Outstanding_Amount	Lender_Outstanding_Amount at Event_Type 4 <= 0 and Facility_Type <> 807,810,811,812,813,820,830,860,883,884,885,886,887,888	HIST098: Lender_Outstanding_Amount (%Lender_Outstanding_Amount%) must be >0 at Event_Type 4	Warning	Correctness	H2 2020	





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Collection of Unresolved Defaults Volumetrics

Template and Validation Rules

**For information to Methcom Only.
Approved by LGD & EAD Subcommittee during meeting 28th August 2020**

Agenda

- ❑ Information on voluntary collection of volumetrics for unresolved defaults
- ❑ Validation Rules for Unresolved Defaults Volumetrics

**For information to Methcom Only.
Approved by LGD & EAD Subcommittee during meeting 28th August 2020**

Voluntary collection of volumetrics for unresolved

Action Requested
Collection and Template already approved in Methcom 23rd June 2020

Apply the voluntary collection of volumetrics for unresolved defaults starting H2 2020

Background

Lender_ID	Facility Asset Class	Year of Default	Nr of facilities	Nr of Borrowers

- Collection of separate summary table for unresolved defaults only
- Basic consistency Validation Rules will be included, e.g. Look-up for Year of default and Facility Asset Class, provide at least 1 borrower/facility per FAC, etc.
- This table will not be returned to banks until enough banks participate.
- GCD executives propose a new discussion in Methcom after 2-3 submission cycles to discuss next steps
 - Make volumetrics mandatory?
 - Have more banks joined detailed data collection?

Agenda

- ❑ Information on voluntary collection of volumetrics for unresolved defaults
- ❑ Validation Rules for Unresolved Defaults Volumetrics

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					Type	Correctness / Completeness	Introduced	Amended
Unresolved Defaults_Vol umetrics	VOL001	Facility_Asset_Class	Facility_Asset_Class is empty	VOL001: Facility_Asset_Class must be given.	Error	Completeness	H2 2020	
Unresolved Defaults_Vol umetrics	VOL002	Facility_Asset_Class	Facility_Asset_Class not in Facility_Asset_Class_Lookup	VOL002: Facility_Asset_Class (%Facility_Asset_Class%) must exist in Facility_Asset_Class_Lookup.	Error	Correctness	H2 2020	
Unresolved Defaults_Vol umetrics	VOL003	Year_Of_Default	Year_Of_Default format <> YYYY	VOL003: Year_Of_Default should be reported in the format = YYYY	Error	Correctness	H2 2020	
Unresolved Defaults_Vol umetrics	VOL004	Number_Of_Facilities_Unresolved	Number_Of_Facilities <= 0	VOL004: Number_Of_Facilities (%Number_Of_Facilities %) must be greater than 0.	Error	Completeness	H2 2020	
Unresolved Defaults_Vol umetrics	VOL005	Number_Of_Borrowers_Unresolved	Number_Of_Borrowers <= 0	VOL005: Number_Of_Borrowers(%Number_Of_Borrowers%) must be greater than 0.	Error	Completeness	H2 2020	
Unresolved Defaults_Vol umetrics	VOL006	Year_Of_Default	Count {Facility_Asset_Class,Year_Of_Default} combination > 1	VOL006: {Facility_Asset_Class,Year_Of_Default} (%Facility_Asset_Class%, %Year_Of_Default%) combination must be unique.	Error	Correctness	H2 2020	
Unresolved Defaults_Vol umetrics	VOL007	Year_Of_Default	Year_Of_Default gt year of submission	VOL007: Year_Of_Default (%Year_Of_Default %) should not be in the future.	Error	Correctness	H2 2020	

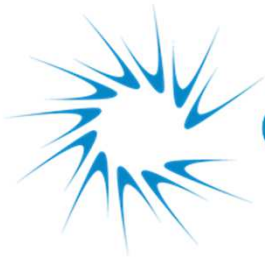
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					Type	Correctness / Completeness	Introduced	Amended
Unresolved_D efaults_Volum etrics	VOL008	Year_Of_Default	Year_Of_Default <= 1999	VOL008: Year_Of_Default must from 2000.	Error	Correctness	H2 2020	
Unresolved_D efaults_Volum etrics	VOL009	Year_Of_Default	Year_Of_Default is empty	VOL009: Year_Of_Default must be given.	Error	Completeness	H2 2020	
Unresolved_D efaults_Volum etrics	VOL010	Lender_ID	Lender_ID is empty	VOL010: Lender_ID must be given.	Error	Completeness	H2 2020	
Unresolved_D efaults_Volum etrics	VOL011	Lender_ID	Lender_ID <> User_ID	VOL011: Lender_ID must be equal to (%User_ID%).	Error	Correctness	H2 2020	
Unresolved_D efaults_Volum etrics	VOL012	Number_Of_Borrowers_Unresolved	Number_Of_Facilities_Unresolved It Number_Of_Borrowers_Unresolved	VOL012: Number_Of_Facilities_Unresolved should be >= Number_Of_Borrowers_Unresolved	Error	Correctness	H2 2020	
Unresolved_D efaults_Volum etrics	VOL013	Number_Of_Borrowers_Unresolved	Number_Of_Borrowers_Unresolved is empty	VOL013: Number_Of_Borrowers_Unresolved must be given	Error	Completeness	H2 2020	
Unresolved_D efaults_Volum etrics	VOL014	Number_Of_Facilities_Unresolved	Number_Of_Facilities_Unresolved is empty	VOL014: Number_Of_Facilities_Unresolved must be given	Error	Completeness	H2 2020	

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Documentation improvement

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Proposal Transaction Types – Lookup

Do we agree with the proposed improvements on the Transaction Types Lookup (Decision) ?

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Transaction_Type	Description	Definition	Increasing or Decreasing exposure	cash / non-cash	paid by	paid to	included in LGD 1 and LGD 2 calculation
100	Principal Payment	All payments post default applied to reducing the borrower's outstanding amount. If interest cannot be distinguished from principal then please report them both together as a principal payment. The word principal means the loan amount, excluding the fees, charges, interest. The principal payment reduces the loan amount.	Decreasing	cash	borrower/guarantor/ collateral sale	lender	yes
200	Interest Payment	All interest payments received post default, based on interest terms of the original loan contract and applied to interest by Lender.	Decreasing	cash	borrower/guarantor/ collateral sale	lender	yes
250	Recorded Book Value	The bank becomes owner (seizure) post default - the Asset has not been sold. The recorded value is legally accepted by the bank as repayment of the loan. Only applies in certain jurisdictions (e.g. US). Often occurs after repossession of a piece of real estate. Usually only applicable to loans connected to a collateral type 500 real estate.	Decreasing	non-cash	na	na	Yes
299	Post-Resolution Payment	Payments received after the perceived resolution date; Transaction Date must be > Resolution Date.	Decreasing	cash	borrower/guarantor/ collateral sale	lender	yes
300	Charge-Off	Amount of loan written off (also called charged off). This is an accounting entry in the books of the bank which reduces the outstanding amount in the loan book.	Decreasing	non-cash	na	na	No
310	Provision	Given only for unresolved loans. This is an accounting entry in the books of the bank which reduces profit to create a reserve against the likely amount of non-payment by the borrower. At date of resolution this amount is transferred to charge-off (TT300) if the loan is not repaid by the borrower. Therefore not applicable for resolved loans. This is a specific provision for each loan, not part of the portfolio provisioning done under IFRS9 or CECL.	na	non-cash	na	na	No
400	Principal Advance	Amount of new money lent by the bank to the borrower after default. The purposes is usually to help the borrower recover by allowing it to continue trading, e.g. by funding purchases of stock or paying salaries. Could also be a payment to a 3rd party on behalf of the borrower to help with trading or to safeguard the value of an asset taken by the bank as collateral. Usually applies to facility type 200, 210 or 250 (revolvers or overdrafts).	Increasing	cash	lender	borrower	yes
410	Cash Out on Contingent Liability	The word principal means the loan amount, excluding the fees, charges, interest. The principal advance increases the loan amount. Any cash paid out as a result of a claim on a contingent facility (marked as contingent in the facility type table). This is when the issued amount of a contingent facility is converted to a drawn amount. Examples include payment of a claim under an issued Performance Bond or payment to exporter's bank under an issued import letter of credit. Do not include cash drawn down by the borrower on an undrawn loan facility here. This should be a type 400 principle advance whether under limit or not.	Increasing	cash	lender	3rd party beneficiary of a guarantee, performance bond or L/C who has claimed under that instrument.	yes
420	Financial Claim	The final adjustment of the exposure at default due by the borrower in default on a mark-to-market facility (the final claim, if any, of the bank against the borrower after netting all exposures and collaterals at their market value on date of liquidation). For example, an interest rate swap defaults and is eventually closed out in the market 3 months after the date of default. The amount of the adjustment (positive or negative) to the amount booked as Outstanding At Default on date of default must be booked here	Increasing or Decreasing	non-cash	na	na	yes
450	Interest Charged	Interest that is charged to the borrower during post default needs to be added here as Interest Charged, regardless of whether it is paid or not. If it is actually paid in cash by the borrower (or by a guarantor or from sale of collateral) then it should also be separately reported as a type 200 transaction. This is the book entry made by the bank when it bills the interest to the borrower, normally monthly. It should even be added if the loan has been placed on non-accrual as the borrower is still liable for the amount. Accrued interest pre default (maximum 90 days obviously) should be added in the Lender Outstanding Amount at Default, Event Type 3.	Increasing	non-cash	na	na	No
480	Fees and Commissions Charged	Extra fees and commissions charged to the borrower post default on additional services. For example early repayment fee, fixed interest break costs, internal valuation fee. Internal workout costs of the bank not charged to the borrower are not to be shown here as they are not collected by GCD	Increasing	non-cash	na	na	No
490	Fees and Commissions Received	Any payment of the fees and commissions in 480 actually received by the bank	Decreasing	cash	borrower/guarantor/ collateral sale	lender	yes
500	Legal Expenses	Legal Expenses paid by the lender and actually charged to the borrower. They increase its debt. Often these fees are deducted from a payment sent to the bank. If this happens please show the gross payment as the appropriate transaction (eg TT 100) and the deducted fee here.	Increasing	cash	lender	lawyer, court	yes
600	Administrator/Receiver Fees	Administrator/Receiver Fees paid by the lender and actually charged to the borrower. They increase its debt. Administrators and receivers are people appointed by the lender or by a court to oversee the workout of a company in financial difficulty. Often these fees are deducted from a payment sent to the bank. If this happens please show the gross payment as the appropriate transaction and the deducted fee here.	Increasing	cash	lender	official Administrator or Receiver	yes
700	Liquidation Expenses	Liquidation Expenses paid by the lender and actually charged to the borrower. They increase its debt. Liquidators are people appointed by a court to close down a company, sell off its assets and distribute them. Often these fees are deducted from a payment sent to the bank. If this happens please show the gross payment as the appropriate transaction and the deducted fee here.	Increasing	cash	lender	Liquidator	yes
800	Other External Workout Costs	Other External Costs paid by the lender and actually charged to the borrower. They increase its debt. Sometimes these fees are deducted from a payment sent to the bank. If this happens please show the gross payment as the appropriate transaction and the deducted fee here.	Increasing	cash	lender	3rd party, e.g. valuer, broker	yes

Information Classification: RESTRICTED