EBA/GL/2020/06

29 May 2020

Summary of the responses received to the consultation and the EBA's analysis

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
General comments			
Proportionality and the level of prescriptiveness	Most stakeholders criticised the proposed guidelines, stating that they are overly prescriptive and that they do not allow the application of the proportionality principle. They commented that, although the principle of proportionality is recognised at the beginning of the guidelines, the way that the requirements are structured means that it is not possible to apply the principles in practice. Stakeholders requested a more granular breakdown of the requirements by the size and type of the borrowers. The stakeholders' arguments focus on a set of issues: • The term 'professionals' (defined as non-consumers) is too broad, as it covers all borrowers, from sole traders to large multinational corporations.	The EBA acknowledges the comments received. It addressed each of the points as follows: • The guidelines split the requirements for loan origination procedures for 'professionals' into two sections: first, lending to micro and small enterprises and, second, lending to medium-sized and large enterprises. The EBA applies the European Commission's SME definition for the purposes of these guidelines. The requirements have been amended according to the type and size of the borrower. • In order to recognise, in the guidelines, current market practices and to differentiate between different methods that institutions may be using for loan origination, the guidelines clarified that institutions can use automatic models (e.g. scorecards or behavioural models) for small loans as long as	The EBA amended the text accordingly.

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	• The requirements set for the creditworthiness assessment, especially the requirements on the sensitivity analysis, are appropriate for large corporates only and not for small borrowers. Some of the information requested for the creditworthiness assessment is not available at all for SMEs. • Most of the requirements proposed in Section 5 (loan origination procedures) are not adequate for a large amount of small-ticket and short-term credit granted to consumers (e.g. consumer credit in general and, in particular, consumer credit originated at the point of sale or online) and for a large number of small enterprises. Those types of products/business models heavily rely on automatic and, increasingly, technology-based tools, which currently are duly supervised through an existing and already constraining regulatory framework. • A borrower's risk profile should be included in the application of proportionality in relation to the creditworthiness assessment and monitoring (i.e. the requirements for the creditworthiness assessment should be	these models are in line with certain prudential governance requirements. • The risk profile of the borrower is not incorporated in the proportionality considerations for the purposes of the creditworthiness assessment because institutions are expected to perform the creditworthiness assessment before assuming a specific risk profile for a borrower. The guidelines, however, recognise that banks' monitoring activities may depend on the risk profile of the borrower, so the text has been amended accordingly. • For the data collection for the creditworthiness assessment, the wording of the guidelines was amended so that, in cases of existing customers/borrowers, institutions can use the available data for the new loan applications of these existing customers/borrowers as long as the data are accurate. • From the legal point of view, the EBA's guidelines are ranked lower than a directive; therefore, the guidelines cannot expand the scope of the CCD beyond (or lower than) the lower threshold of EUR 200 set in the directive. These loans are outside the scope of the guidelines.	

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	proportionate to the risk profile of the borrower). • For unsecured loans to consumers, the guidelines should respect the lower threshold of EUR 200 set by the CCD. • The use of metrics in the creditworthiness assessment (e.g. paragraph 99 of the Consultation Paper (CP)). • The reference to the annexes and the use of the words 'at least'.	• The EBA understands that some of the metrics set out in the main text of the guidelines are neither exhaustive nor appropriate for all loans. To avoid any confusion and to avoid over-prescriptiveness in the wording, the guidelines no longer include the metrics. • The EBA clarifies that the annexes are not mandatory. They are reference points for the institutions to consider. The EBA clarified this in the guidelines and removed the words 'at least' to avoid any confusion that this wording may create.	
Responses to questions in the Consultation Paper			
Question 1. What are the respondents' views on the scope of application of the guidelines?			
Loans originated after the application date and the stock of loans	Most stakeholders requested that the scope of the guidelines be limited to new loans only (i.e. loans that are originated after the application date of the guidelines). It was argued that loan decisions made under the previous regulatory context did not take into account all the aspects set out in these guidelines and, as such, should not be subject to them. In particular, the regular credit review of a loan agreement should not trigger any of the new requirements and this should be made explicitly clear within the guidelines.	The EBA acknowledges this comment and the legal or practical difficulties that institutions may have when complying with these guidelines in relation to renegotiated loans. The EBA therefore clarified in the guidelines that the scope of application cover new loans but also loans that were originated before the application date but whose terms and conditions changed after the application date, as long as they meet the following conditions: • the changes require specific credit decision approval;	The EBA amended the text accordingly.

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	Some stakeholders also highlighted legal restrictions in some countries to collect additional information from the borrower without signing a new credit agreement.	• for their implementation, the borrower is required to sign a new loan agreement or an addendum to the existing agreement. In relation to monitoring, the guidelines will cover all loans regardless of the date of origination. It was clarified that a regular credit review of a loan (e.g. an annual review without any kind of modification to the loan structure and/or amendments) does not trigger any of the new requirements. The guidelines introduced a transitional period of 3 years, so that institutions have sufficient time to close any data gaps that they identify through the monitoring process.	
Renegotiated loans and forborne exposures	Some stakeholders argued that the word 'renegotiated' might imply a conceptual connection with the definition of forborne exposures and the treatment of loans as regulated under the EBA Guidelines on management of non-performing and forborne exposures. This might be the case especially as, later on, the guidelines refer to 'throughout the life cycle' and to 'monitoring of performing exposures'.	Forborne exposures are outside the scope of these guidelines. The EBA amended the text and clarified the scope of application. The word 'renegotiated' is no longer in the text.	The EBA amended the text accordingly.
Promotional loans	Some stakeholders said that, according to paragraph 9 *et seq.*, promotional loans granted to SMEs by credit institutions are not within the scope of the draft guidelines. Particularly in the case of promotional loans, there are specific characteristics of the collateral that	The EBA is not in favour of excluding promotional loans outright. The guidelines recognise the specificities of promotional loans (e.g. in pricing), without introducing requirements for the specificities of such lending activities. However, institutions should comply with	The EBA amended the text accordingly.

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	are not taken into account by the draft guidelines. These supporting collaterals imply specific requirements, concerning the constitution of securities and the pricing. Since the guidelines do not adequately cover this issue, the stakeholders suggest that promotional loans – especially those granted to SMEs – be explicitly excluded from the scope of the guidelines.	the fundamentals of these guidelines for their promotional loan activities.	
Wealth lending, private lending and other fully collateralised lending	One stakeholder suggested that the scope of application be limited to originated loans and advances for retail and SME lending in the EU, and that wealth lending, private lending and other fully collateralised lending for retail and SMEs be excluded from the scope of application. They also suggested that the final guidelines should exclude wealth and private banking lending and other fully collateralised lending (e.g. cash backed) in retail and SMEs altogether for two reasons. First, the guidelines do not cover 'financial collateral' and they focus instead on immovable and movable property collaterals. Wealth and private banking lending commonly involve financial collateral such as equities, bonds, mutual funds or life insurance contracts. Second, the heavily collateralised nature of those businesses means that most of the proposed requirements will not be relevant.	The EBA is not in favour of excluding these lending activities from the scope of application outright. Institutions should comply with the fundamentals of these guidelines for their lending activities, even though further requirements specific to these activities are not included in the guidelines.	No action taken.
Definition – professionals	The definition of a professional is too broad and captures every entity from a small owner-operated shop to a large international enterprise. Therefore, stakeholders proposed that an explicit	The EBA acknowledges these arguments. The guidelines now introduce the European Commission's	The EBA amended the text accordingly.

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	reference to the principle of proportionality be added to this definition to avoid a 'one size fits all' approach. One stakeholder argued that the classification of professionals and consumers is not in line with banks' practices or regulatory definitions. One stakeholder suggested replacing the term 'professionals' with 'non-consumers'.	definition for SMEs and both the language and the requirements for this definition were changed.	
Definition – CRE	The CRE loan definition is not in line with market standards. The definition of commercial real estate is seen as misleading and partially in contradiction with other requirements set out in this guideline (i.e. in Section 5.2.5, paragraph 125, 'institutions should put emphasis on the borrower's realistic and sustainable future income and future cash flow, and not on available collateral'). The phrase 'real estate used by the owners of the property for conducting their business' would mean that the financing of production sites for a corporate client will lead to classification as a CRE loan. In addition, the phrase 'and secured by a CRE property' eventually might lead to undesired practices that do not strengthen risk management standards in banking (e.g. not collateralising a loan to avoid certain undesired regulatory obligations). Moreover, the proposed definition includes social housing, whereas market practice includes social	The EBA understands these concerns. The following were removed from the CRE definition in the guidelines: - real estate used by the owners of the property for conducting their business; - social housing. The EBA also deleted the definitions of a CRE loan, residential real estate (RRE) and an RRE loan. For RRE and RRE loans, the guidelines are in line with the definitions and the scope of application of the CRR and the MCD.	The EBA amended the text accordingly.

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	housing in the residential real estate segment (purpose driven), as social housing might be not income producing.		
Definition – RRE	The definition of a residential real estate loan is connected only to 'a natural person', which indicates that every residential real estate loan taken by professionals is to be included in CRE. One stakeholder proposed that the definition of a residential real estate loan included in paragraph 17 be amended as follows: 'means a loan to a natural person secured by extended for acquiring a residential real estate property'. Similarly, one stakeholder commented that the definition of a residential real estate loan contained in paragraph 17 restricts the broader definition in Directive 2014/17/EU to a loan secured by residential real estate property. This means that loans to buy a property that are not secured by real estate would not be covered by the guidelines (in contrast with the MCD). The EBA should clarify whether loans to buy a property that are not secured by real estate are excluded from the scope of application and, if so, why.	The EBA acknowledges these comments. The EBA removed the definitions of RRE and an RRE loan from the guidelines. The relevant definitions and the scope of application in the CRR and MCD in relation to RRE lending are directly referred to.	The EBA amended the text accordingly.
Definition – social banking	A definition of social banking should be added as follows: 'Social banking: providing financial services (including lending) to financially excluded and vulnerable client segments (people at risk of poverty or social exclusion) and social organisations (non-profit sector, non-	The EBA does not agree that a definition of social banking should be introduced for the purpose and the implementation of these guidelines. The EBA, however, recognises the specificities of social banking, where relevant.	No action taken.

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	governmental organisations and social enterprises).'		
Leasing	Leasing is mentioned in paragraph 123, but no specific principles are provided. Leased assets should be considered not simply as collaterals, but as lenders' property. A specific reference to leasing should be introduced, including the lease asset valuation in the credit risk assessment. One stakeholder commented that small-amount leases cannot possibly refer to the same provisions as those concerning large amount credits in project finance. Exclusions simply based on the amount of each originated credit should be set out. Similarly, one stakeholder suggested that a clarification be inserted that leasing companies do not fall within the scope of the guidelines.	The EBA changed the wording to not mention leasing specifically. The coverage of leasing is defined within the definition of loans and advances, which refers to Annex V of Implementing Technical Standards (ITS) No 618/2014. Financial leases are treated as loans from the lessor to the lessee enabling the lessee to purchase the durable good. These are included in the scope of the guidelines. The assets (durable goods) that have been lent to the lessee are, however, outside the scope of the guidelines. From the addressees' point of view, the guidelines address credit institutions. To this end, the guidelines are not applicable to non-bank leasing companies.	The EBA amended the text accordingly.
Factoring	It should be explicitly confirmed that the guidelines do not include credit analysis of debtors in factoring operations. In factoring activity, the factoring company purchases receivables from a client and there is no contractual relationship between the factoring company and the debtors of the client (the debtors pay the receivables to the factoring company or to the client by collection mandate). There is no loan or advance made to the benefit of these debtors. Advances are made to the clients of	The requirements in relation to credit risk taking also depend on whether there is recourse factoring or non-recourse factoring. The EBA is not in favour of excluding factoring from the scope of application outright. Where relevant and proportionate, institutions should comply with the fundamentals of these guidelines for their business activities, even though further requirements specific to these activities are not included in the guidelines.	No action taken.

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	the factoring company and the contractual link is between the clients and the factoring company. Some stakeholders suggested that, in the unexpected case where debtors would be included within the scope of application, there should at least be confirmation that the analysis and monitoring of such debtors will follow lightened guidelines or, preferably, customised requirements, especially for Sections 5 and 8.		
Group of connected clients	For the determination of the scope for exclusion from the application of these guidelines, it is not clear if the scope is defined by groups of connected clients or single clients. There might be constellations where the group of connected clients (GCC) is defined as 'financial institutions' or 'sovereigns', whereby its single group members are professionals (i.e. state-owned companies). In practice, credit decisions on, for example, financial institutions and sovereigns are taken at the GCC level and based on a different set of criteria and information, as required in these guidelines. In order to ensure efficiency and effectiveness of credit decision-making processes, some stakeholders requested a clarification on the scope for exclusion from the application of these guidelines.	If the borrower is a member of a group of connected clients, institutions should carry out the assessment at individual level and, where relevant, at group level, in accordance with the EBA Guidelines on connected clients, especially when repayment is reliant on cash flow emanating from other connected parties. If the borrower is a member of a group of connected clients linked to central banks and sovereigns, including central governments, regional and local authorities, and public sector entities, institutions should assess the individual entity.	The EBA amended the text accordingly.
Social banking	One stakeholder commented that there are some banks that serve purposes other than solely financial success (social banking). Social banking	The EBA acknowledges the point raised. Although the guidelines do not introduce any specific requirements for social banking, the EBA recognises the issue.	No action taken.

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	clients cannot be assessed based on the full scope of application of these guidelines and, because of its importance, social banking should have special treatment under these guidelines, otherwise some particularly vulnerable client segments (i.e. people at risk of poverty, socially excluded/marginalised groups, minorities, pensioners or people with disabilities) and social organisations (non-profit sector, non-governmental organisations and social enterprises) will be threatened by being further excluded from financial services. Moreover, disproportional regulatory requirements could result in higher loan costs for these vulnerable clients or in the financial exclusion of these segments.	Institutions should apply these guidelines in proportion to the nature of the credit facility.	
Derivatives and securities financing transactions (SFTs)	A few stakeholders asked for clarification on the wording for excluding debt securities, derivatives and SFTs from the scope of application of these guidelines.	The EBA agrees with the comment.	The EBA amended the text accordingly.
Level playing field – addressees	If the guidelines did not apply to unregulated non-banking financial institutions, they could serve their clients faster and under fewer requirements than regular banks. Consequently, clients would choose unregulated non-banking financial institutions over regular banks. Therefore, some stakeholders invited the EBA to ensure a level playing field by applying the requirements of the guidelines to non-banking financial institutions in the same way. In addition,	Regarding Section 5 of the guidelines (loan origination procedures), the EBA's mandate applies to credit institutions as defined in Article 4 of the CRR and to creditors (other than credit institutions) that fall under the scope of the MCD/CCD. For this purpose and given the legal basis of these guidelines, Section 5 applies to all these institutions and creditors. The EBA also invited the competent authorities to consider applying Sections 6 and 7 to creditors that fall	The EBA amended the text accordingly.

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	further tightening of regular banks' lending abilities causes rejected applicants to apply for loans at the unregulated non-banking market, which would be detrimental to consumer protection. One stakeholder strongly supported the application of the guidelines to all credit providers, regardless of the type of institution.	within the scope of MCD and CCD and are not credit institutions.	
Level of consolidation	In Section 2, on the scope of application, it is also mentioned that competent authorities should ensure that institutions apply these guidelines on individual, sub-consolidated and consolidated bases in accordance with Article 109 of Directive 2013/36/EU (CRD IV), unless competent authorities make use of the derogations as defined in Articles 21 and 109 of CRD IV. Financial entities or groups located in the EU but also operating in third countries or outside the euro area (and outside the Banking Union in particular) might face great difficulties in complying with these guidelines, especially if they will also be applied at a sub-consolidated or individual level. This would harm the level playing field with other EU banks operating only within the Banking Union.	The EBA is of the view that prudential lending is important even for the non-EU subsidiaries of EU institutions. Ultimately, it is the parent companies in the EU companies that are responsible for any deterioration in the credit quality of the borrowers. It is therefore important to establish prudential standards at all levels of consolidation.	No action taken.
CCD thresholds	Some stakeholders underlined that guidelines are Level 3 documentation that are supposed to respect the scopes defined by Level 1 and Level 2 legislative texts. This seems not to be the case in	Given the hierarchy of the legal and regulatory products, the guidelines cannot rule out any thresholds set by Level 1 text. In this case, the guidelines have also been developed under the remit of Article 8 of the CCD	No action taken.

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	the field of consumer credits, since, for instance, the current directive excludes from its scope loans under EUR 200, whereas no mention of this threshold is made in the proposed guidelines. Second, for example in France, a Level 1 law has introduced a threshold of EUR 3 000 for the collecting of documentation justifying a borrower's declarative information. The guidelines should recognise these points.	and so cannot expand the scope of this remit beyond (or below) EUR 200. In this case, this rule applies without requiring any specification in the guidelines. Similarly, the guidelines cannot overrule what national law applies. Guidelines do not and cannot make specific reference to all relevant national law.	
Interaction with other regulatory products	The EBA should stick to current Level 1 regulation and should not pre-empt upcoming legislation. To begin with, stakeholders are concerned that the proposed guidelines go beyond what is required by the relevant Level 1 legislation and that the EBA is overstepping its mandate in doing so. This is, for example, the case for the CCD and the MCD. While the EBA received a mandate from the Council to outline supervisory guidance on loan origination and monitoring, this should be done in a way that is consistent with the Level 1 legislation and that does not define an entirely new framework outside the legislative process. Many proposals go beyond the current legislation. ESG risks and considerations became an important regulatory development for regulators, supervisors and banks. These are also very complex concepts with multiple dimensions. At the EU level, the legislative framework has been under preparation for over a year and some pieces will enter into force in the coming months, while	The guidelines are fully in line with the Level 1 legislation. The requirements in Section 4 of the guidelines on ESG factors and sustainable finance provide a great opportunity for institutions to prepare for the upcoming challenges in the policy area. The wording of the requirements aims to ensure that institutions have in place high-level principles and policies that take ESG factors into consideration in their risk management and credit granting. Similarly, the guidelines require the institutions that originate or plan to originate environmentally sustainable credit facilities to develop specific lending policies. During the development of these guidelines, the EBA closely cooperated with relevant authorities to ensure that the requirements introduced in these guidelines in the areas of environmentally sustainable lending do not contradict the upcoming developments in the same area but provide a good starting point for the institutions to prepare for what is coming in the near	No action taken.

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	other parts will require some more time to be finalised. Given the importance and complexity of the matter, it is essential that the EBA refrain from defining concepts, extending scopes and pre-empting the Level 1 legislation. The EBA proposes definitions of concepts that have not been defined at Level 1 (i.e. transition risk and physical risk; the EBA even includes legal risks under the transition risk definition). If these definitions were to remain in the guidelines, it would run the risk of these definitions ending up non-aligned with future Level 1 definitions (legal uncertainty and instability); stakeholders would like to underline that the Network for Greening the Financial System report *Macroeconomic and financial stability* from July 2019 comes to the conclusion that much more research is required in order to come to a convergent assessment of the impact of climate risk on financial stability aspects. What is needed certainly goes beyond the possibilities of a single institution. The EBA's proposals are even more surprising as the Commission's consultations on the CCD, the Distance Marketing of Consumer Financial Services Directive (DMFSD) and the MCD have been or might soon be launched. We are particularly concerned that standardised rules for creditworthiness assessment would exclude some categories of consumers. Cooperative banks wish to be able to continue supporting atypical consumers that they trust. Moreover, applying	future. In this context the definition now refers to environmentally sustainable lending. Similarly, the EBA has been closely cooperating with the relevant experts working on the review of the CCD and MCD to ensure that the current requirements introduced in the guidelines do not contradict the final requirements of the revised Level 1 texts.	

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	similar mortgage credit assessment rules to consumer credits is not justified, as the size, type, risk and complexity of the credit are not the same.		
Question 2. Do you see any significant obstacles to the implementation of the guidelines by the application date and, if so, what are they?			
Preliminary studies and analyses for the implementation	A comprehensive impact assessment is needed on primary business processes, sound decision-making on the required changes throughout multiple business lines and the subsequent implementation in internal policies. As per the draft guidelines, many criteria will need to be included in entities' concession models. This is particularly relevant if the scope of the guidelines is applicable not only to newly originated loans, but also to the existing stock.	In taking the stakeholder's feedback into account, the EBA has changed the application date of the guidelines from 30 June 2020 to 30 June 2021. This will give the institutions a year after the publication of the guidelines to make the necessary preparations to apply the guidelines. The EBA has also clarified the scope of application in relation to the 'existing stock', which is also expected to lower the workload for the preparations. In addition to this, the EBA also introduced a transition period of 3 years for institutions to close data gaps identified in their monitoring processes.	The EBA amended the text accordingly.
Other regulatory commitments	Although the guidelines include many common-sense requirements for loan origination and monitoring processes, changes can still be material and complex to implement in terms of practical application, with a knock-on effect on internal ratings-based (IRB) modelling. It will also require the involvement of key personnel who are already heavily relied upon in other change projects related to the IRB repair work and the Basel III implementation process.		
IT investment and training	Most stakeholders stated that the new requirements involve significant changes to the organisational processes related to credit granting		

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	and monitoring. In many cases, this means that the IT system needs to be adapted and staff need to be thoroughly trained. Delaying the implementation would allow banks sufficient time to align their investment and operational structure to the new standards.		
IT, data infrastructure and organisational procedure	Significantly impact on the credit granting and managing process, which imply huge investments in all banking organisational procedures (as well as data and IT infrastructure requirements under section 4.3.5). Banks will need sufficient time to align their investment and operational structure to the new standards, which depends on their starting point and the context in which they operate (e.g. the context could be more or less favourable in terms of collection of the required information). This is especially the case for banks using the standardised approach for credit risk, which are less familiar with the proposed framework. The additional delay aims to also cover pedagogical aspects, with a strong change of practice. In addition, IT teams are already busy with the current regulatory schedules, digital transformation and the new challenges that come with FinTech. Some stakeholders stated that, for entrepreneurs and retail small businesses, the proposed rules for financing are not in line with the current practice (heavily automated procedures based on		

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	alternative income verification, etc.), which is more digitalised (big data incorporation), and it is not possible to implement these rules until 30 June 2020 because this would require a complete redesign of the current methodology, procedures and IT systems.		
Gap analysis and implementation period	It should also be noted that gap analysis can commence only once the final guidelines are published. Banks that operate globally will also have to take account of local transposition, especially with regard to the use of data. The timeline should therefore include time for both the gap analysis and the implementation to take place. One consideration could be a phased implementation, focusing on the least challenging aspects, such as governance and non-retail, and allowing more time for applications for retail loans and IT infrastructure, which will take longer. It will nonetheless be different depending on the business model of the bank and it is difficult to be more precise at this stage.		
Current review of other regulatory products (MCD and CCD)	The current evaluation processes of the CCD (dated 2008) and the MCD would lead to legislative initiatives that would not be expected before the end of 2020 at best. The guidelines should wait for the finalisation of these initiatives.	The EBA received a request from the Council to finalise these guidelines within a specific timeframe; therefore, it is not an option for the EBA to await the finalisation of other products. However, the EBA understands these concerns. Therefore, during the development of the guidelines, the EBA worked closely with experts in the European Commission working on the review of the MCD and	No action taken.

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		CCD to avoid any mismatch that could occur after the finalisation of the products.	
ESG factors and green lending (EU taxonomy and further developments)	For green lending, the final version of the taxonomy (and other definitions related to green lending) is expected to be issued by the end of 2019 and is to become applicable by 1 January 2022 in order to give the market actors sufficient time to perform the requested IT developments. The Benchmarking Regulation, which was to become fully applicable by 1 January 2020, has been revised in order to postpone the application date to 1 January 2022, in line with the taxonomy. The guidelines should be postponed accordingly.	The requirements on incorporation of the ESG factors and for environmentally sustainable lending are not prescriptive, do not introduce strict criteria and provide a link with the future EU taxonomy. In particular, the definition of environmentally sustainable lending now refers to sustainable economic activities. In this context, the provisions of these guidelines provide a good starting point for the institutions to prepare for the upcoming policies in the near future. The definition of green lending in the guidelines has been amended.	The EBA amended the text accordingly.
Question 3. What are the respondents' views on whether the requirements set out 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)?			
Scope of technology-enabled innovation	Members are not clear what exactly 'technology-enabled innovation' includes – for instance, does it cover all models, artificial intelligence (AI), systems, data sources, algorithms and optimisations, and how does this relate to 'traditional methods'? In fact, currently, technology is present in any credit-granting activity.	For the purposes of these guidelines, the EBA is not introducing a specific definition of technology-enabled innovation. However, the guidelines apply the Financial Stability Board definition: 'FinTech: Technologically-enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on the provision of financial services.' The scope of this section is also limited to the coverage of the *EBA report on big data and advanced analytics* (EBA/REP/2020/01).	No action taken.

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Explainability	Uncertainty is introduced around what is expected in regard to justifying the outcome of technology-enabled regulation, which could be interpreted differently by supervisors. More clarity is needed on how to explain the outcome of technology-enabled innovation. One stakeholder stated that paragraph 47(c) is too prescriptive and would preclude the use of AI. The focus should be on 'sufficient interpretability'; however, the proposed rules here appear to go further.	The level of explainability will depend on the direct impact on customers and on institutions' critical functions. It relates to the ability to generate explanations that allow an understanding to be gained on how a result is reached or on what grounds the result is based (similar to a justification), for example explaining the importance/impact of each input variable in contributing to the result, which can be done via feature importance analysis. Moreover, in order to enable the oversight of the model, all steps and choices made throughout the process are expected to be clear, transparent and traceable. A model is **explainable** when it is possible to generate explanations that allow humans to understand (1) how a result is reached, or (2) on which grounds the result is based (similar to a justification). In the first case (1), the model is **interpretable**, since the internal behaviour (representing how the result is reached) can be directly understood by a human. In order to be directly understandable, the algorithm should therefore have a low level of complexity and the model behind it should be relatively simple. In the second case (2), techniques exist to provide explanations (justifications) to understand the main factors that led to the output. For example, one of the simplest explanations consists in identifying the importance of each input variable (feature) in	No action taken.

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		contributing to the result, which can be done through a feature-ranking report (feature importance analysis).	
Comparability	More clarity would be welcomed on whether the comparison should be high level with the common benchmarks (e.g. Gini coefficient of the model compared to standard models) or if standard models need to be implemented as well (and, if so, for how long). In this respect, the existing constraints to the model risk management framework are already considered exhaustive. Stakeholders therefore suggest avoiding additional layers of constraint at this stage, which could limit or bias further development in such areas.	The deployment of the model into production should be integrated into the standard change management process of the institution. Integration tests are performed in order to validate the interaction of the model with the other parts of the system, verifying that the end-to-end process will work appropriately once in production. The model may be deployed in production only after a parallel testing period, where the new candidate model (also called the 'challenger model') is running in parallel with the old system in order to compare results. It is important to monitor the model and keep it updated in order to ensure prompt detection of worsening performance or deviation from the expected behaviour (e.g. unintentional discrimination) and take appropriate remediation measures. This can be done by comparing the outcomes of the 'new' model with those of the previous system running in parallel. Please also note that the new wording of the guidelines does not make explicit reference to the 'comparability' of the models.	The EBA amended the text accordingly.

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Comparability – traditional methods	Some stakeholders stated that paragraph 47 should be deleted because it is not relevant. If not, the requirement under letter d should be changed at least, because of the lack of meaning of 'traditional methods/tools'. The requirement should be replaced with a new one, concerning the need to compare – when a significant innovation change occurs – the performance of outputs of the possible new methods/tools with those previously used. This requirement is disproportionate due to the unduly increased cost of maintaining two methods, and it potentially inhibits banks from taking the generally high investment costs to establish 'enabled innovation for credit granting' and will hinder the application of innovative technology to credit granting. The main benefits, such as resource efficiency and valuable outputs, would be diminished. Furthermore, the requirement would lead to an additional burden for credit institutions, which would hinder them in keeping pace in terms of technology advancement with the growing competition of, for example, FinTech. The stakeholders stated that they understand the rationale of back testing and comparing the outputs and performance of 'technology enabled innovation', but noted that these should be limited to the implementation and transition phase and should not be a constant requirement during regular operations.	The EBA acknowledges the point raised by the stakeholders and has reviewed the requirements for technology-enabled innovation for credit granting. More precisely, the requirement to compare with tradition models has been removed. The new wording refers to monitoring and back testing of the models and the robustness of the results.	The EBA amended the text accordingly.

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ESG factors and green lending	It is noted that, under Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending CRD IV as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers, and capital conservation measures (CRD V), the EBA is due to report to the Commission, the European Parliament and the Council by 28 June 2021 on its assessment of the potential inclusion of ESG risks in the review and evaluation of institutions performed by competent authorities. The EBA's assessment is required to comprise at least the following: (i) the development of a uniform definition of ESG risks, including physical risks and transition risks, (ii) the development of appropriate qualitative and quantitative criteria for the assessment of the impact of ESG risks on the financial stability of institutions in the short, medium and long term, (iii) assessment of the arrangements, processes, mechanisms and strategies to be implemented by institutions to identify, assess and manage ESG risks, and (iv) the analysis methods and tools to be used to assess the impact of ESG risks on lending and financial intermediation activities of institutions (together being the 'ESG criteria'). CRD V also provides that the EBA may, if appropriate, issue guidelines, in accordance with Article 16 of Regulation (EU) No 1093/2010, regarding the uniform inclusion of ESG	The EBA believes that principle-based guidelines at the point of origination are an excellent opportunity for banks to prepare for upcoming challenges in the area of sustainable finance, including incorporation of ESG factors into credit granting, risk management and defining policies when institutions offer environmentally sustainable lending. In these guidelines, the EBA asks banks to develop their policies and procedures in line with their credit risk management and granting activities in this area. This also applies to data collection. The EBA expects banks, where applicable, to collect the necessary data. This would facilitate improvements in data availability and quality, and in the exchange of information.	No action taken.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	risks in the supervisory review and evaluation process performed by competent authorities. Some stakeholders commented that they understand that the rationale for seeking to introduce ESG factors into risk management policies, credit risk policies and procedures is to ensure that institutions take ESG risks adequately into account and, thereby, avoid or mitigate financial losses, reputational risks, and social and environmental harm. It is noted that certain national regulatory bodies are already asking banks to consider the financial risks posed by climate change through their existing risk management frameworks. However, further guidance is needed in a number of areas, particularly around the ESG criteria, to ensure that consistent national standards are developed in this area. In addition, there are currently issues with the reliability and availability of data and associated methodologies relating to ESG risks, which may hinder or prevent banks from carrying out a complete assessment of ESG risk factors. Accordingly, some stakeholders recommend that paragraph 48 of the EBA guidelines may be better addressed when, and if, the EBA decides to issue guidelines following its assessment under CRD V. By issuing this more detailed guidance, the EBA will better ensure the development of consistent and harmonised national supervisory regimes relating to the incorporation of ESG risks into		

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	institutions' risk management policies, credit risk policies and procedures. Furthermore, paragraph 48 of the EBA guidelines should be expressed as applying only 'where appropriate' and it should be clearly stated that this paragraph should be applied in a manner that takes into consideration the evolving understanding of what best practice looks like in relation to the assessment of ESG risks.		
ESG factors and green lending	Efforts to drive green and sustainable finance need to be clearly coordinated on an international level to ensure that a harmonised framework develops across different jurisdictions. If regulation in this area is developed in an ad hoc manner, some stakeholders are concerned that this could stifle the development of green and sustainable finance products and create barriers to entry for new entrants to this market. In relation to paragraph 49(a), the EBA guidelines should recognise that there is still much uncertainty as to what constitutes a 'green project' within the green loan market. While the EU Technical Expert Group on Sustainable Finance's recent publication of the *Taxonomy Technical Report* (the 'EU taxonomy') will hopefully assist banks in setting criteria for those green projects eligible for funding, the EBA guidelines should expressly recognise that this is an area where best practice is still developing, and	As explained above, the guidelines do not set prescriptive standards for banks to apply, but require banks to set up policies and procedures to manage risks associated within the framework of sustainable finance. Banks are expected to detail these policies and procedures according to the level of transactions they carry out in this policy field. Accordingly, in terms of quantitative and qualitative indicators, they should define the framework as appropriate, in line with these policies and procedures that they design. Institutions should take into account the current developments in the field of sustainable finance (e.g. the EU taxonomy on sustainable finance).	No action taken.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	any such list of projects is likely to be subject to change over time. In relation to paragraph 50 of the EBA guidelines, some stakeholders understand that most, if not all, institutions that offer green lending products will already have overarching objectives, strategies and policies related to sustainable finance. However, further guidance is needed on which qualitative or quantitative targets should be used to support the development and the integrity of green lending activity. As noted above, further guidance on the development of appropriate qualitative and quantitative criteria for the assessment of the impact of ESG risks will be included in the EBA's report under CRD V. Given this, stakeholders recommend that this guidance may be more appropriately addressed as part of the guidance released following the EBA's complete CRD V assessment. Furthermore, paragraph 50 of the EBA guidelines should be expressed as applying only 'where appropriate' and it should be clearly stated that these guidelines should be applied in a manner that takes into consideration the evolving understanding of what best practice looks like in relation to the assessment of ESG risks.		
ESG and green lending (terminology)	Regarding definitions, stakeholders proposed that, in paragraphs 49 and 50, 'green lending' be replaced with 'environmentally sustainable lending' in the guidelines; 'green lending' does not	The EBA agrees with the comment.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	have any precise meaning, while 'environmentally sustainable' means contributing to one of the six environmental objectives defined in the EU taxonomy.		
Transitional and physical risks	The interaction between the 'holistic ESG approach' described in paragraph 48 and the pressing need to consider risks associated with climate change required by paragraph 51 is not clear. Because no industry standard has yet emerged from a methodological perspective, the only possible analysis of ESG risks is a qualitative one. Further developments at the European level should be awaited in this context. Some stakeholders assumed, in this respect, that the requirement to consider physical or transition risks in credit risk policies and procedures does not extend, at the present time, to the measurable inclusion of those risks. These stakeholders also assumed that physical and transition risks can be considered at the level of portfolios or client groups (geographical location, industry, etc.) in the context of credit processes. The individual assessment of these risks at the level of individual borrowers is neither sensible nor possible with regard to most of the characteristics given. These stakeholders asked the EBA to clarify this.	The EBA acknowledges the current policy developments in the field of sustainable finance, yet is of the view that this should not prevent institutions from setting out their policies and procedures in relation to their credit risk management and lending activities. The text in the creditworthiness assessment clarifies that the institutions should carry out portfolio-level analyses where applicable.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
Question 4. What are the respondents' views on the requirements for credit risk policies and procedures (Section 4.3)?			
Level of detail	Generally, the requirements for governance and for credit granting are too standardised and prescriptive and yet, in places, they are unclear. A better approach to these topics may be principles-based guidance focused on what the EBA considers the best outcome. The EBA should also reflect on the existing well-functioning framework that has already been implemented or is in the process of being implemented. Some stakeholders remarked that the requirements do not provide for due consideration of the type of the loan in question (i.e. the amount, duration, counterparty, distribution channel, risk and/or complexity). Moreover, stakeholders commented that the criteria listed, for example, in Annex 1 may not apply in certain situations. Given this, the expression 'at least' is not appropriate. Some stakeholders gave the example of paragraph 35(b), where the binding nature of the wording could be restrictive. For example, in certain situations, methods such as a score-based creditworthiness assessment in lending to professionals simply cannot be executed.	The EBA made the necessary amendments to make the text less prescriptive and clearer where necessary. The EBA also recognises in these guidelines different characteristics of the business, credit facility and borrower. The text has now been clarified, making it clear that the parameters listed in the annexes are not mandatory and are simply reference points for banks to consider. The EBA removed the words 'at least' in most places, including when referring to the annexes, to convey the message that the annexes are not mandatory and that they are not a checklist for the institutions to go through. The guidelines also explicitly recognise automated models for institutions' decision-making and creditworthiness assessment for small consumer and SME lending.	The EBA amended the text accordingly.
Annexes (at least)	It is important to clearly specify that the criteria listed in the annexes are not compulsory. In fact, in the annexes, the current draft guidelines state	The annexes are not compulsory and the addressees should use them as reference points or examples.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	that the criteria listed are to be applied on an 'at least' basis, which seems to imply that they are binding. However, the criteria listed, for example, in Annex 1 may not apply in certain situations. The credit-granting criteria described in Annex 1, containing limit ratios, cannot always be imposed in their entirety. In particular, acceptable loan-to-income and debt-to-income ratio limits may sometimes reduce the effectiveness of risk systems compared with using net income. Moreover, the expression 'at least' adopted by the EBA is not appropriate and may be misunderstood by supervisors; given this, the wording adopted in paragraph 132(d) – 'at least considering which metrics [in Annex 3] would be applicable ...' – is, in the stakeholders' view, more appropriate.	In order to better convey this message, the EBA removed the words 'at least' from the text, especially when referring to the annexes.	
Annex 1– CRE point 7	As regards point 7 of the credit-granting criteria for commercial real estate lending from Annex 1, stakeholders asked the EBA for some more detailed information on what is meant by the 'minimum standard' regarding the implementation of this requirement.	Annex 1 provides a set of criteria to be considered in the design and documentation of credit-granting criteria in accordance with the requirements of these guidelines. To this end, institutions should reflect any standards regarding CRE that are acceptable for consideration in loan applications in their credit-granting criteria. The nature of the annexes has been clarified in the guidelines.	The EBA amended the text accordingly.
AML/CFT	Banks have an AML/CFT procedure for use during onboarding and for use on an ongoing basis for monitoring. However, these policies are procedures that are not specific to credit risk and	The EBA is of the view that AML/CFT is a crucial issue in the banking sector and it should be tackled at the point of origination. Indeed, data collection, information exchange and verification at the point of origination	No action taken.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	there would be no clear benefit of embedding them into a credit process or monitoring framework. Given that the specifications are, in any case, fairly minimal, it might be useful to include more detailed specifications in AML-specific EBA guidelines (such as the EBA risk factor guidelines from 2017). One stakeholder stated that anti-money laundering policies and procedures, being a cross-cutting issue, should be separated and should not necessarily be integrated into the loan policies and procedures, especially in relation to the monitoring framework. Lending operations and processes are, in fact, only a part of all the banking activities covered by the AML framework.	are key steps to investigate and address any fraudulent activities in lending. The EBA therefore retained the section in the final report on the guidelines.	
AML/CFT	The controls should cover only the search for a potential third party and never the source of funds, other than in exceptional cases (e.g. politically exposed persons in the event of high risk defined in a risk classification). A risk classification should be defined with the aim of having a thorough knowledge of the borrower in the event of high risk (creditworthiness, analysis of the investment's profitability, the use of funds if possible, etc.) and detecting unusual transactions (particularly complex transactions, unusually large transactions or transactions that have no apparent economic or visible lawful purpose).	The EBA agrees with the comment. Appropriate language was introduced to highlight this point and to introduce proportionality.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	The vigilance measures should not apply if, during the relationship, which cannot be limited to the credit, there is no payment incident, no new application for credit, no change of International Bank Account Number (IBAN) or no material change. The specificity of non-purpose loans and of specialised providers of consumer credit, which are not account holders, should be taken into account. A risk-based approach and the implementation of risk-proportionate measures are necessary.		
Supervisory expectations on data	Some stakeholders requested that the EBA clarify the supervisory expectations, especially with respect to monitoring throughout the life cycle of credit facilities, and for specific portfolios for which the information is not available. Clarity on the proportional application of the data collection requirements would also be welcome.	Appropriate data infrastructure and up-to-date accurate data are key for risk management. This starts at the point of origination and continues in the monitoring stage of credit facilities. Supervisors expect institutions to have an accurate and up-to-date record of originated loans and to regularly monitor these loans. The data and IT infrastructure should allow quick and easy extraction of the information for analyses. Institutions should have accurate and up-to-date information available at the point of origination in line with the requirements set out in these guidelines. This is for new loans originated after the application date of the guidelines. The EBA acknowledges that there may be data gaps when these requirements are applied to the stock of loans (i.e. loans that were originated before the	No action taken.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
		application date). In this case, institutions should review and update the relevant information on loans when these loans, after the application date: - require specific credit decision approval; - to be implemented, require a loan agreement to be signed with the customer, as an addendum to the existing contract. The monitoring of these loans mentioned above (and covered in the scope of the guidelines) should have accurate and up-to-date data in the systems for monitoring and reporting purposes. The level of information needed for these loans is framed within the remit of these guidelines. Institutions may, if they wish, use the EBA NPL templates as a reference point to design their internal data management framework. Finally, to close data gaps, the EBA allowed the institutions a 3-year transitionary period, during which the requirements apply to the stock of existing loans.	
Data infrastructure	The data infrastructure requirements of the guidelines should cover data storage, availability and quality expectations aligned with the Basel Committee on Banking Supervision standard 239 (BCBS 239) principles to ensure better monitoring of the granting process.	The EBA SREP guidelines refer to criteria set out in BCBS239 and supervisors assess the performance of all banks in Europe against these standards. In the guidelines on loan origination, the EBA did not take any drafting action on this point.	No action taken.
Leveraged transactions	One stakeholder asked the EBA to clarify that, if an institution ascertains that no leveraged	The guidelines require institutions to set out their own credit risk policies and procedures on leveraged	No action taken.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	transactions are generated or acquired, more far-reaching internal rules are unnecessary.	finance in line with their leveraged finance activities. Institutions that do not carry out leveraged finance activities are not expected to set out detailed policies and procedures for this purpose.	
Leveraged transactions	In the view of some stakeholders, the requirement to use fixed (quantitative) definitions of 'acceptable' leverage levels as a risk-reducing general requirement can set inappropriate management triggers, especially in structured business and in specialised lending business. The same applies to traditional corporate finance. This is particularly the case because, as a rule, leverage is only one of several credit quality indicators and their overall assessment, including the economic environment, will always determine borrower creditworthiness. In addition, the transaction risks must always be seen in the context of the collateral/guarantee structure. These stakeholders therefore advocated not requiring the credit institution to define acceptable leverage levels. Acceptable levels should be based on the rating note and the associated probability of default and level of collateralisation, and not on a single metric for the leverage level.	The EBA agrees with the comment and has amended the wording accordingly.	The EBA amended the text accordingly.
Breaches and exceptions	Regarding paragraph 35(h), stakeholders noted that this requirement would mean that any exception, even one that does not result in an elevated risk, has to undergo a special process with a different approval authority.	It is for the institutions to decide the risk level at which exceptions can be applied and to go through a special process with a different approval authority. Institutions may decide not to allow any exceptions or deviations. The language has been further clarified on	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	This requirement can be applied in the consumer business (mass business), where borrowers form a homogeneous portfolio. The top segment of professionals (international large corporates) is looking for tailor-made lending solutions that meet their individual requirements and therefore cannot be restricted by strict rules, but must instead be supported by a set of guidelines applied in a modular system. Therefore, the requirement in this paragraph is not deemed meaningful for professionals, as not every exception to general (group-wide) risk policies immediately results in elevated risk (especially if policies with lending standards cover diverse portfolios, which require the application of the 'one size fits all' rule in order to achieve some degree of harmonisation). The strict application of this requirement would result in some form of disproportionality, impairing the efficiency of the underwriting process that is viewed as not necessary for the achievement of the risk and regulatory objectives and may therefore compromise the competitive advantage of the banks. In addition, it could also result in a practice of setting limits and rules by banks that can rarely be breached or overridden, which the stakeholders view as contradictory to making sure that the bank's portfolio becomes less risky and safer, which is perceived to be the overall aim of all regulatory initiatives.	the acceptance of credit, the rejection of credit, and breaches and deviations.	

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	Stakeholders proposed that this requirement be amended to clarify that only exceptions or breaches that result in elevated risk need to be approved in a special process with different approval authorities. It is well understood that each bank must explicitly set criteria that may lead to elevated risk and define an approval process for those. A bank can also decide to not allow exceptions and breaches of its policies.		
EBA NPL templates	Some stakeholders argued that data requirements for NPLs are extended to performing loans, which seems excessive and burdensome. They suggested that paragraph 56 be deleted or that it be specified that the templates should remain optional, as was originally the case.	See the answer above related to the supervisory expectations on data and IT infrastructure. To this end, the reference to the EBA NPL templates is an example and a suggestion for institutions to compare their own data management framework against. This is not a mandatory requirement.	No action taken.
Question 5. What are the respondents' views on the requirements for governance for credit granting and monitoring (Section 4)?			
Interaction with other EBA regulatory products	Several respondents suggested that the EBA should not duplicate requirements that are already covered under other legal acts, such as the guidelines on internal governance or AML. Therefore, governance aspects should not be repeated or included separately in these guidelines; instead, reference could be made to the existing relevant legal provisions. Repetition and supplements may lead to a misinterpretation of roles and responsibilities in the area of credit granting. If, from the credit risk perspective, some further clarification is needed in the EBA's opinion, then the wording in the guideline text (Section 4.5)	The intention of the internal governance section is to operationalise general internal governance requirements as set out in the relevant topic-specific EBA regulatory products, and to provide additional requirements that are relevant for the credit-granting process. These details and additional requirements on the application of general requirements are important to ensure a comprehensive approach is taken in these guidelines, which is also in line with the Council Action Plan mandate to include aspects of internal governance in these guidelines.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	regarding the credit risk management function ought to be clarified in such a way that it could not be misinterpreted as a function to be uniquely performed by the specific risk office. This function could be fulfilled by other areas/functions that have the required functional competencies, provided that segregation/independence with the commercial area is ensured (e.g. credit management).	The EBA has reviewed the text of the internal governance section of the guidelines to ensure that there is consistency with other EBA regulatory products.	
Risk culture	Some respondents expressed concerns regarding paragraph 23 in its current wording, noting that it seems to imply that only low-risk transactions should be booked. For good financing of the economy, banks should maintain the possibility of financing different levels of risk (low in the event that rating and loss given default (LGD) reflect this level of risk) or higher risk. As long as these risks are adequately priced, the expected losses (which are covered by the margins generated by the loans) of the portfolios will cover the observed losses on those portfolios. In addition, the regulator's willingness for banks to take only low-risk assets, together with the finalised Basel III framework with foundation-IRB reclassification of some low-risk portfolio or LGD input floors, would imply that banks' lending activity would be very much reduced, as low-risk transactions will be difficult to finance. Their low margins will not be sufficient to support overestimated levels of regulatory capital. Although financing the economy implies being selective, it also involves	The guidelines do not prescribe any specific risk appetite, and it is for the institutions to set out for themselves what their credit risk appetite is within the overall risk appetite framework. The text on the risk culture does not specify any risk appetite, but requires institutions to have an appropriate culture and 'tone from the top' ensuring that there is an assessment of the borrower's creditworthiness, and that the culture prevents institutions from granting loans to a borrowers who, *ex ante*, cannot afford their servicing, as this will not be responsible lending or can even be considered fraud.	No action taken.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	taking different levels of risk, pricing them adequately and maintaining a good diversification of risks. Therefore, stakeholders asked for clarifications from the EBA on the targeted objectives of paragraph 23.		
Credit risk appetite	Some respondents noted that 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, etc.) are not always meaningful (e.g. sector for individuals) or overlapping (e.g. 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 which represent only a small fraction of the credit risk of the bank or, in some cases, no credit risk at all because of their activities.	In the EBA's view, the requirements for the credit risk appetite as part of the overall risk appetite framework are in line with the requirements of the EBA Guidelines on internal governance. The text of the guidelines has been reviewed to ensure consistency with the requirements of the EBA Guidelines on internal governance.	The EBA amended the text accordingly.
Credit risk appetite	With regard to Section 4.2, stakeholders also propose that the concept of materiality in relation to the financial institution's overall credit portfolio be introduced. Individual credit file 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 portfolios with shared risk characteristics. Credit risk limits are meaningful only for material credit risk portfolios, when	In the EBA's view, the requirements for the credit risk appetite as part of the overall risk appetite framework are in line with the requirements of the EBA Guidelines on internal governance. The text of the guidelines has been reviewed to ensure consistency with the requirements of the EBA Guidelines on internal governance.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	smaller, non-material, diversified portfolios should not require specific RAF limits. Applied to a large diversified generalist bank, 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) as follows: (i) with common risk drivers affecting the clients of these sectors, (ii) above a certain materiality threshold and (iii) with specific risk-sensitive indicators, such as the watch list concentration or doubtful concentration.		
Management body	Regarding management body responsibilities, the guidelines – while they must not refer to a specific governance structure – should clearly state whether the term 'management body' refers to its supervisory function or its executive function. In addition, 'management body' should be redefined as 'management body and relevant delegated decision-making bodies'.	The term 'management body' is used in the same way as and as defined in the EBA Guidelines on internal governance. A reference to the EBA Guidelines on internal governance has been inserted.	The EBA amended the text accordingly.
Credit risk policies	Some stakeholder suggested reinforcing consumer protection aspects in the institutions' credit risk policies requirement to document the situation of end-users in the paragraph 31 (so as to have an indicator of consumers at risk of over-indebtedness).	The EBA agrees with the need to ensure that, in credit risk policies and procedures and when building on credit risk strategy, institutions should also take into account the principles of responsible lending that are applicable primarily to lending to consumers. To this end, the final text of the guidelines was amended to include the requirement for institutions to take into account the responsible lending dimension in their credit risk policies and procedures.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
Credit decision-making	This section of the guidelines should recognise and include the fact that robust credit decision-making frameworks can also consist of a robust framework of delegated credit responsibilities to duly authorised individuals, and that not all institutions will necessarily use 'credit committees' or 'credit decision-making bodies'. Among other aspects, stakeholders welcomed the fact that the EBA guidelines recognised the use of sole delegated credit authorities. However, banks' actual practices in this respect do not seem to be reflected in references in Section 4.4 to 'credit committees' and 'credit decision-making bodies'. Specifically, the guidelines are not clear about individual credit decision-making; for instance, in paragraph 62, it states the following: 'Where members of staff are delegated with a relevant authority level for credit decision purposes, there should be a well-defined framework to control the process, establish minimum applicability and professional suitability for such delegated authority. Individual delegated authority holders should be adequately trained and hold relevant expertise and seniority in relation to the specific authority level delegated to them.' The stakeholders' view was that credit decision-making does not strictly need to be through credit committees and delegated credit decision-making bodies, as implied in the guidelines. Credit decision-making through an individual delegated authority, where governed by an appropriate set	The EBA acknowledges these comments, and has clarified that the requirements of these guidelines apply to the credit decision-making process and to credit decision-makers that have been defined and that can include credit committees or committees and individual staff with delegated credit decision-making powers as set out within the credit decision-making framework specified in the institutions' policies and procedures. Furthermore, in the guidelines, the EBA has clarified the possibility of using automated models in the decision-making process and provided specific requirements for model governance.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	of standards, should be equally effective. Often, banks apply the 'four eyes' principle or have a hierarchy of decision-making, which will go through various individuals for approval. In these instances, the responsibility for making material credit decisions is not the sole responsibility of one individual, even if there is no committee structure to approve it. Similarly, Section 4.4.1 states the following: 'More specifically, for the purposes of these guidelines, institutions should ensure that any individual involved in credit decision-making, such as members of staff and members of the management body: a. should only have limited sole delegated credit authority for credit decisions for small and non-complex credit facilities. The specific criteria, exposure levels and associated aspects should be defined in the relevant delegation policy and be approved by the management body'. Contrary to what this suggests, the use of a sole delegated credit authority should not be dependent on the type of credit facility (e.g. 'non-complex') but instead should be for the bank to determine, otherwise the requirement of credit decision-making may limit proven and well-functioning lending activity.		
Credit decision-making	Some respondents pointed out that the requirements in paragraph 57 on credit committees should be better clarified. It should be sufficient, in fact, that only loans of a particularly high value and/or that deviate from the overall credit strategy or risk appetite of the institution	The allocation of responsibilities and decision limits between credit decision-makers is the responsibility of the institutions and should be defined in the risk policies and procedures and be in line with credit risk appetite.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	would need to be approved at the board level or at a directors' committee meeting.		
Credit decision-making	The establishment of a credit committee is not required by the governance guidelines. Lending decisions by the executive board, the credit committee or a body delegated by one of them are necessary only for large-volume or high-risk loans, or specific cases where a loan departs from a strategic determination. In other cases, loans can be decided by individual staff in the delegated decision-making framework (see paragraph 62) or also by automated processes. The qualification 'where applicable' should be added to this paragraph.	The guidelines do not require specific credit committees to be set up. The allocation of responsibilities and decision limits between credit decision-makers, including credit committees and individual members of staff with delegated responsibilities, is the responsibility of the institutions and should be defined in the risk policies and procedures and be in line with credit risk appetite.	The EBA amended the text accordingly.
Credit decision-making	For handling corporate clients, setting limits on the number of credit decisions made under the delegated approval authority is not deemed as a meaningful instrument for controlling and managing risks. Credit approvals have a direct relation to the business volume processed within the institution, where credit turnaround times play a key role in providing a meaningful and timely service to customers. Thus, setting limits on the number of credit approvals decided by the delegated authority would significantly impair the capability of the institution to process the requests from clients in a timely manner and, instead of reflecting the quality/qualification of the staff that have been given approval by the delegated authority, it supports decision-making that	The EBA acknowledges these comments and shares the views that setting decision limits based on the number of approvals may not be feasible, and that decision-making powers should be specified with respect to credit limits and maximum exposures, but also considering the time limits for the delegated powers or the size of delegated approvals.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	strongly relies on the organisational hierarchy. It also interferes with the goals of implementing a risk culture where all employees are expected to take the right decisions for the bank to mitigate risks, and is deemed to contradict the meaningful regulatory expectation that the staff involved in the credit decision processes should be adequately skilled, resourced and experienced (see Section 4.1.1, paragraph 21(f)). Stakeholders propose that this requirement in paragraph 59 be amended by excluding the quantitative limits on decisions made in delegated approval authorities and keeping only the limitation of the time period for delegated powers, which means in practice that the delegation should be periodically reviewed (i.e. on an annual basis) and confirmed, as follows: '… on the time period for the delegated powers and the number of delegated approvals'.		
Credit decision-making	In paragraph 59, it is not clear what the rationale is behind using borrowers' geographical location in the credit decision-making framework. This could also lead to discrimination based on a postcode lottery of currently better-off areas.	Institutions should consider cascading down their risk appetite and credit limits into the specific requirements for credit decision-making and should consider defining the powers and limitations of relevant credit decision-makers' characteristics of the credit portfolio, including its concentration and diversification objectives in relation to business lines, geographies, economic sectors and products, as well as credit limits and maximum exposures.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
Credit decision-making	Stakeholders suggest that what the EBA means by a 'well-defined framework to control the process, establish minimum applicability and professional suitability for such delegated authority. Individual delegated authority holders should be adequately trained and hold relevant expertise and seniority in relation to the specific authority level delegated to them' should be better clarified.	The guidelines set out, in Section 4.6, that all members of staff involved in credit granting, including credit decision-making, should have an appropriate level of experience, skills and competence and should frequently receive adequate training. As the requirements of Section 4.6 also apply to credit decision-makers, there is no need to paraphrase such requirements individually for credit decision-makers.	The EBA amended the text accordingly.
Independence in credit decision-making	In paragraph 63(b), it is set out that persons involved in lending decisions should not have any economic, political or other interest associated with the borrower at the time of the lending decision. In practice, potential interests are almost impossible to rule out because they require knowledge of future developments. A theoretical interest can be construed for almost any lending decision. These requirements cannot be implemented in this form. The institution can ensure that any and all direct or indirect conflicts of interest are entirely ruled out only if it obtains knowledge of all the relationships and interests of the workforce and the applicants. This would be neither expedient nor allowed. In this context, stakeholders pointed out that, in their view, the requirements of the governance guidelines are also too far-reaching, especially paragraphs 107 to 109. These requirements have been inserted in the final governance guidelines without giving the banking industry the	The EBA acknowledges the concerns raised and has reviewed the section of the guidelines focusing on ensuring objectivity and impartiality in credit decision-making to ensure consistency with the requirements of the EBA Guidelines on internal governance. In the context of these guidelines, the EBA cannot address the comments on the EBA Guidelines on internal governance that have been subject to their own public consultation process.	The EBA amended the text accordingly.

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	opportunity to provide feedback during the consultation. The exclusion under point b could also be an obstacle to the requirement under paragraph 68. In addition, it would run counter to the statutory decision-making obligations in Germany of the executive board for large exposures under Section 13 of the German Banking Act (*Kreditwesengesetz* – KWG) and of the executive and supervisory boards for loans to connected persons and undertakings under Section 15 of the KWG. For loans to a parent undertaking, for example, Section 15 of the KWG requires the approval of the supervisory board, of which employees or managers of the parent undertaking are normally members. With regard to point c, stakeholders also pointed out that the administration and disbursement of approved loans was partly or completely automated, in particular in the small-scale lending business. Stakeholders therefore suggested deleting this requirement. In accordance with paragraph 63(c), individuals involved in lending decisions who have a personal or professional relationship with the borrower and are subject to a remuneration scheme associated with the growth of new business should be separated from functions dealing with loan administration, including disbursement, and from		

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	credit risk management. Ultimately, this also affects the level of the management body and would hence be impossible to implement. Stakeholders suggested deleting this or at least clarifying what is to be understood by this 'separation'. In their opinion, a separation of functions cannot be meant because this would call the institution's organisational rules into question for individual lending decisions. In addition, the specific influence of the remuneration system in such cases compared with other lending decisions was not evident to these stakeholders.		
Independence in credit decision-making	Stakeholders stated that the potential conflicts of interest in paragraph 63 are too far-reaching. Finding the correct way to prevent or mitigate such conflicts must still be at the discretion of the institutions. The principles for conflicts of interest are deemed to be sufficient within the EBA Guidelines on internal governance (EBA/GL/2017/11). Furthermore, according to paragraph 63 of the guidelines, institutions should ensure that the principle of independence and the minimisation of conflict of interest are implemented in the framework for credit decision-making. Paragraph 63(b) contains a list of specific situations, such as the presence of a personal or professional relationship with the borrower, in which an individual should not take part in credit decisions. Since small regional banks provide their	The EBA acknowledges the concerns raised and has reviewed the section in the guidelines focusing on ensuring objectivity and impartiality in credit decision-making to ensure consistency with the requirements of the EBA Guidelines on internal governance.	The EBA amended the text accordingly.

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	services in rural areas, where people are usually familiar with each other, those specific sets of situations, in which an individual cannot take part in a credit decision, particularly restrict banks' business activities. Therefore, stakeholders suggest that the principle of independence be generally described in the guidelines, rather than listing specific situations in which an individual is biased.		
Independence in credit decision-making	The wording of paragraph 63(b)(i), is rather unfortunate, as each account manager has a professional relationship with the borrower. This would mean that they cannot participate in the credit decision-making process, which would contradict the requirement set out in paragraph 60, where a good balance between risk management and business is emphasised. Stakeholders recommended that paragraph 63(b)(ii), be focused on, where such conflicts of interest in the credit decision-making process exist only if the decision-maker has an economic or political interest with the borrower, and that paragraph 63(b)(i) be deleted.	The EBA acknowledges the concerns raised and has reviewed the section of the guidelines focusing on ensuring objectivity and impartiality in credit decision-making to ensure consistency with the requirements of the EBA Guidelines on internal governance.	The EBA amended the text accordingly.
Lending to affiliated parties	Regarding Section 4.4.3, 'Lending to affiliated parties', it is worth noting that transactions with related parties are already covered by paragraph 113(d) of the EBA Guidelines on internal governance; therefore, stakeholders suggest paragraphs 67, 68 and 69 should be	The EBA acknowledges the comment and agrees that affiliated parties need to be sufficiently addressed in the CRD V and the EBA Guidelines on internal governance.	The EBA amended the text accordingly.

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	deleted. If those paragraphs are not deleted, the guidelines should at least clearly specify that the notion of 'affiliated party' is in line with the notion of 'related party' as defined in the CRD V.		
AML	Regarding Section 4.3.1 on anti-money laundering and counter-terrorist-financing policies and procedures, stakeholders considered it useful to add the following to the end of paragraph 41: 'Conversely, also information collected for anti-money laundering purposes may be used for creditworthiness assessment. For example, institutions may take into consideration also credit risks referred to beneficial owners.' It might be worth emphasising the principle of the usability of the information acquired for AML/CFT purposes for granting and monitoring credit procedures and vice versa.	The EBA notes that such use of customer due diligence information for other purposes, including for the purposes of the creditworthiness assessment, would not be possible under the requirements laid down in Article 41 of Directive (EU) 2015/849.	No action taken.
AML	Some respondents asked for confirmation that establishing the legitimacy of the sources of funds for the repayment of loans (as described in paragraph 40) should apply only in the case of triggered warning indicators or suspicion and that, otherwise, additional obligations are imposed on banks that are not within their competence.	These guidelines do not set out any specific AML/CFT obligations as such on the basis of Directive (EU) 2015/849, which requires credit institutions to put in place and maintain effective policies and procedures to prevent ML/TF and to detect and prevent it should it occur. Institutions should also refer to the ESAs' *Joint Risk Factors Guidelines* (JC 2017 37) for further information on these points.	No action taken.
AML	In paragraph 41, an addition should be included to ensure that only high-quality and 'non-falsifiable' information is used in the process (not	The guidelines provide a possibility for information used for the purposes of the creditworthiness assessment to also be used for AML/CFT purposes, where relevant. This covers all information used by the	No action taken.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	unstructured data found through the internet and social media).	institutions in the creditworthiness assessment that is fit for AML/CFT purposes.	
Risk control framework	Where needed, the risk control framework can be consulted in an advisory capacity in individual lending decisions, but it should, in principle, be independent of the first line of defence (see paragraph 75). The wording of paragraph 60 could be ambiguous and should therefore be reviewed.	While the EBA acknowledges the comment, the intention of the guidelines is not to prescribe any specific governance model (e.g. three lines of defence) or organisational structure, but to outline the principles, allowing institutions to organise themselves, with different models/organisational structures being possible as long as the requirements of the guidelines are met. This is also in line with the requirements of the EBA Guidelines on internal governance. The text of the guidelines has been reviewed to ensure consistency with the requirements of the EBA Guidelines on internal governance.	The EBA amended the text accordingly.
Risk control framework	Regarding Section 4.5, paragraph 71, in the context of integrating the credit risk function into the overall risk management for an institution, stakeholders asked if there was an expectation that credit risk would be involved in the design and development of a financial product. Similarly, one stakeholder argued that sales control is not a task in which the risk control function should be involved. The stakeholder recommended deleting the word 'sales'.	While the EBA acknowledges the comment, the intention of the guidelines is not to prescribe any specific governance model (e.g. three lines of defence) or organisational structure, but to outline the principles, allowing institutions to organise themselves, with different models/organisational structures being possible as long as the requirements of the guidelines are met. This is also in line with the requirements of the EBA Guidelines on internal governance. The text of the guidelines has been reviewed to ensure consistency with the requirements of the EBA Guidelines on internal governance.	The EBA amended the text accordingly.

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Risk control framework	To avoid confusing the first and second lines of control, stakeholders suggested amending paragraph 72 as follows: 'These functions should be fully integrated into the institutions' overall risk management and risk control functions.'	While the EBA acknowledges the comment, the intention of the guidelines is not to prescribe any specific governance model (e.g. three lines of defence) or organisational structure, but to outline the principles, allowing institutions to organise themselves, with different models/organisational structures being possible as long as the requirements of the guidelines are met. This is also in line with the requirements of the EBA Guidelines on internal governance. The text of the guidelines has been reviewed to ensure consistency with the requirements of the EBA Guidelines on internal governance.	The EBA amended the text accordingly.
Risk control framework	Paragraph 74 could be interpreted as stating that an institution has to be organised in all areas ('any organisational structures') using the three lines of defence model. At many institutions, the principle of separation of functions has proven itself without any explicit application of the three lines of defence model. This approach should be retained in order to preserve a reasonable degree of flexibility and avoid unnecessary modification effort. Similar to the consultations on the EBA Guidelines on internal governance, during which the original explicit requirement of the three lines of defence model was deleted in the final version, stakeholders also requested its deletion here.	While the EBA acknowledges the comment, the intention of the guidelines is not to prescribe any specific governance model (e.g. three lines of defence) or organisational structure, but to outline the principles, allowing institutions to organise themselves, with different models/organisational structures being possible as long as the requirements of the guidelines are met. This is also in line with the requirements of the EBA Guidelines on internal governance. The text of the guidelines has been reviewed to ensure consistency with the requirements of the EBA Guidelines on internal governance.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
Risk control framework	Stakeholders asked for clarification of the 'three lines of defence' model' mentioned in paragraph 75. The concept is clear, but it is not clear how it should be applied in the retail environment, where, typically, the following stakeholders take part in the lending process: branches, retail credit risk management, chief risk officers and group risk management. Stakeholders asked how the three lines of defence can be defined in such cases and if the setup can be defined differently for retail and corporate lending processes.	While the EBA acknowledges the comment, the intention of the guidelines is not to prescribe any specific governance model (e.g. three lines of defence) or organisational structure, but to outline the principles, allowing institutions to organise themselves, with different models/organisational structures being possible as long as the requirements of the guidelines are met. This is also in line with the requirements of the EBA Guidelines on internal governance. The text of the guidelines has been reviewed to ensure consistency with the requirements of the EBA Guidelines on internal governance.	The EBA amended the text accordingly.
Risk control framework	It is important to keep the level of detailed requirements down to only the most necessary. Stakeholders suggested that only selected and very important requirements become mandatory for best practice, while others serve as examples only. Paragraph 76(k) is such an example, as it requires stress tests for aggregated and relevant sub-portfolios. Rules for stress tests already exist in other EBA guidelines, so there is no need for duplication. Which data the institution should use for robust stress testing (e.g. for new products, main product lines and certain sub-groups) should be at the discretion of the institutions, as should the purpose of stress testing. Paragraph 76 should therefore be understood as only a suggestion, not as mandatory ('at least').	The guidelines provide a list of area/tasks in the credit risk-taking and management process that need to be identified by the institutions and allocated within the organisation, including within and between business lines, units and functions, including risk management. To this end, the guidelines do not specify what units/function are responsible for performing tasks from the lists, or whether those tasks are mandatory or not.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
Risk control framework	At the end of paragraph 76, the following addition is needed: 'Put in place preventative mechanisms for early detection of financial problems and set up a specific unit to explore solutions with customers in difficulty, such as putting loan reimbursement on hold, helping the customer with legal and administrative proceedings (obtaining social benefits and any benefits they may be entitled to given their difficult financial situation, such as unemployment benefits, etc.), and liaising and cooperating with not-for-profit or independent, recognised, high-quality debt-counselling and debt advice services.'	The EBA shares the concerns raised, but not the level of details of the proposed drafting. Dealing with customer arrears and loan forbearance is outside the scope of these Guidelines as this is covered in the EBA Guidelines on management of non-performing and forborne exposures. Partial drafting regarding the liaison with debt counselling has been incorporated.	The EBA amended the text accordingly.
Risk control framework – independent/second opinion	With regard to paragraph 76(g), stakeholders pointed out that an independent second opinion is not necessary for each and every creditworthiness assessment. For example, in different European countries, loans that are not risk-relevant are decided in a 'single vote procedure'. The decision on the applicable risk relevance limit is a matter for the institutions and thus enables appropriate, lean lending processes in the small-scale lending business. Furthermore, the definition of 'independent' needs to be better clarified. For instance, would credit rating agencies be considered 'independent'?	The guidelines provide a list of area/tasks in the credit risk-taking and management process that need to be identified by the institutions and allocated within the organisation, including within and between business lines, units and functions, including risk management. To this end, the guidelines do not specify what units/function are responsible for performing tasks from the lists, or whether those tasks are mandatory or not. With respect to the independent/second opinion, depending on the circumstances of a loan or of the borrowers, including size and risk profile, there may be a need to ensure the 'four eyes' principle in the credit assessment and decision process, with the need to have a second and independent opinion on the decision or the outcomes of the creditworthiness assessment. Institutions should designate, internally	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	One stakeholder suggested that, to avoid misinterpretations, paragraph 76(g), should be clarified as follows: 'providing information, in which case an independent/second opinion to the creditworthiness assessment and credit risk analysis is required'.	between functions and units, who will be providing this opinion (e.g. another analyst who is independent from the original analysts or risk engagement function).	
Staff training	The word 'frequently' should be replaced by 'on specific occasions'. There is no need for any fixed cycle for staff training.	The EBA is of the view that staff should be subject to continuous training, not only on 'specific occasions'.	No action taken.
Remuneration	Stakeholders stated that the input of risk opinion in the remuneration policies as per Section 4.3 is necessary and sufficient. However, excessive requirements as laid down, in particular, in paragraph 82 in the remuneration policies and practices could be disproportionate with real risk taking. Remuneration policies and practices should be consistent with the overall credit risk appetite and should not create a conflict of interest. Nonetheless, it is essential that performance management and the reward of employees involved in credit activities should be based on several criteria and on indicators linked to their activities and the quality of their credit risk analysis rather than being based on the quality of credit exposures, which are independent and disconnected from the employee him-/herself, his/her individual performance and the way he/she conducts his/her activity.	The EBA acknowledges the comments.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
Remuneration	As regards remuneration schemes – as outline in paragraph 63 – it is extremely important to highlight that they are associated with a large number of parameters – not only the volume, but also the level of lending quality. Stakeholders stated that excluding the commercial network from the approval authority (within specific limits in terms of amount, policy, etc.) would significantly increase the complexity of the lending process. Variable remuneration of the staff involved in credit granting that is linked to performance objectives/targets should include credit quality metrics and be in line with the credit risk appetite: it would be important to exemplify some measures of credit quality metrics that cannot be based on the quality of credit exposures that are independent and disconnected from the employee him-/herself, his/her individual performance and the way he/she conducts his/her activity. The link between the variable remuneration of the staff involved in credit granting and the long-term quality of credit exposures appears to be more of a theoretical concept than a practical one, since the credit cycle in some products can be very long and dependent on the economic cycle (e.g. over a 30-year period for mortgage credit variable remuneration). In addition, the scope of the population seems too large and is not sufficiently precise. It should be coherent with provisions of the CRD IV/V on material risk takers. Moreover, it would be	The EBA acknowledged the comment and revised the text to make it more high-level and principle-based. As far as the banks' remuneration policies and procedures are concerned, the guidelines do not have the intention to differentiate between different functions in credit granting. It is for the banks to define, in their policies and procedures and within the limitations of their risk appetite framework, necessary indicators to link staff performance with quality of credit granted. Notice that the final wording of the guidelines does not refer to the long-term quality of credit, as the EBA acknowledges the difficulties to establish such link in the long-term, e.g. over a 30-year period. Finally, it is up to the banks to identify and define in their (remuneration) policies and procedures the relevant staff for such measures that may cover the entire credit granting process including both the staff involved in the business functions and credit granting functions.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	necessary to clarify if the regulation refers to business functions, to lending functions or to both.		
Remuneration	The guidelines are valid only for (retail) staff with decision-making competence and who are receiving a relevant bonus payment. The EBA's draft guidelines currently define the scope as 'all staff engaged in the credit granting, administration and monitoring process'. However, credit institutions are actually developing and close to launching a fully digital (automated and pre-approved), end-to-end process for customers in the retail loan-granting process. Checks and decisions are generally fully automated or centrally decided and the role of the account manager in the front office is, in this context, in general limited to collecting information and documents from the customer. Therefore, stakeholders requested that the scope be limited to (retail) staff with decision-making competence and who are receiving a relevant bonus payment. Long-term quality is only influenceable in the first 12 months. The long-term quality of credit beyond 12 months is driven by macroeconomic factors and is not really influenceable by account managers. Therefore, stakeholders suggested that clarification is needed on how 'long-term quality of credit' has to be seen in the variable remuneration of the sales staff, considering that	The EBA acknowledges the comments.	The EBA amended the text accordingly.

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	whatever risk prevention role the account manager in the front office can perform relates mainly to fraudulent behaviour measured by early warning types of key performance indicators, while the long-term quality of credit is mainly influenced by economic and social developments in the country.		
Question 6. What are the respondent's views on how the guidelines capture the role of the risk management function in the credit-granting process?			
Independence and second opinion in credit risk management	The requirements set out in the guidelines for the credit risk management and internal controls framework to provide an 'independent risk opinion to the credit decision takers' (paragraph 76(c)) and an 'independent/second opinion to the creditworthiness assessment' (paragraph 76(g)) appear to require *ex ante* supervision of the risk management function within the credit process. This approach, which implies an active role performed by the risk control function during the lending phase, might be difficult to apply in practice for the following reasons: - the prior involvement of the risk control function is not fully coherent with the separation of responsibilities between the *ex-ante* first line of defence (lending functions) and the *ex post* second line of controls (risk management) and, ultimately, with the regulatory principle of segregation of duty;	An independent/second opinion on the creditworthiness assessment is introduced as one of the tasks related to the credit-granting process that need to be allocated to a specific business unit/line or function within the organisation in accordance with the requirements of paragraph 78. To this end, the institutions should define internally what function will provide this independent/second opinion considering the specificities of the credit facility, its size and the risk profile of the borrower (e.g. risk management function or another business function/unit not related to the borrower and not involved in the granting of a particular credit).	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	- the need to have a second opinion on the creditworthiness assessment might trigger inefficiencies in the process related to the duplication of activities and skills among those in charge of different functions, also entailing, *inter alia*, additional staff costs. In addition, stakeholders suggested that the EBA should clarify whether an 'independent or second opinion' or 'an independent and second opinion' is needed. Proportionality and a more risk-based approach for such requirements should be sought. For certain types of activities (e.g. retail exposures and small corporates), an independent second opinion is deemed excessive, given the materiality and the risk taking in such cases. When implementing 'an independent/second opinion to the creditworthiness assessment and credit risk analysis' is simply considered an additional pair of eyes in the credit process (in addition to the first and second lines), then it could lead to an inefficient credit process and longer lead times. In practice, the approval bodies in the Signatory Approval Process can be viewed as independent and, additionally, the third line of defence will be involved afterwards, which will provide the opportunity to flag and give direction on correcting any flaws in the credit risk analysis going forwards. The removal or rephrasing of paragraph 76(c), (g) and (n) is therefore advisable.		

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
Link between remuneration and the quality of exposures	The link between the variable remuneration of the staff involved in credit granting and the long-term quality of credit exposures is, in most cases, not practicable, since the credit cycle in some products can be very long and dependent on the economic cycle. However, this could be addressed by limiting this to a set number of years (e.g. 3 years could be viable from a practitioner's point of view).	The EBA agrees with the comment.	The EBA amended the text accordingly.
Question 7. What are the respondents' views on the requirements for collection of information and documentation for the purposes of creditworthiness assessment (Section 5.1)?			
Verification of information	The principle of responsible borrowing should also include the provision that the customer remains responsible for some of the information related to him/her or which he/she is in a better place to provide, for example a person's tax status or whether the borrower has loans with other providers. In some cases, it should not be the institution's responsibility to seek information and verify the authenticity of the information submitted by the borrower. Furthermore, it should be remembered that not all credit registers in Europe, whether held by public or commercial entities, provide such information.	The EBA agrees with the comment.	The EBA amended the text accordingly.
Annexes	As regards the collection of information and documentation for the purposes of creditworthiness assessment according to the size and complexity of the types of credit facilities covered, stakeholders asked the EBA to confirm	The EBA confirms that the elements listed in Annexes 1, 2 and 3 are examples and do not form a mandatory checklist for institutions.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	that the specific requirements for lending listed in Annex 2 are only examples and are not prescriptive.		
Paragraphs 91 and 93 of the CP	Stakeholders asked the EBA to confirm whether the elements listed in paragraphs 91 and 93 of the CP are mandatory and applicable for all loans.	Paragraph 91 outlines the requirements for consumer lending and this list constitutes the minimum set of elements that institutions are expected to include in the creditworthiness assessment. Appropriate wording is included in the text when the elements may not be necessary, depending on the product type (e.g. 'where relevant' is inserted for 'the purpose of the loan'). For example, the EBA acknowledges that the purpose of the loan may not be known in some circumstances (e.g. in the case of an overdraft or credit card limit). Similarly, paragraph 92 is a general list for lending to professionals and the appropriate language is used. The documentation needed to meet the requirements will depend on the size and complexity of the credit facility. Further differentiation has been made with the introduction of different requirements for SMEs (as explained above).	No action taken.
Annex 2 – Lending to consumers, point 16	The requirements regarding information on the enforceability of collaterals are disproportionate if applicable to any type of loan origination. Depending on the nature of the collateral (mortgage, privilege of the money lender (PPD) or guarantee given by an insurance company or a financial institution) the terms for calling the collateral into play within a Member State should	The EBA agrees with the comment and has removed the requirement.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	be sufficient, complemented by information on the collateral itself as required by point 12.		
Annex 2 – Lending to professionals, point 16	Regarding 'lending to professionals', in the case of specialised lending, substantial control of the collateral is achieved through different security packages. The power of this security package is notably that it enables lenders to put strong pressure on sponsors (who brought the equity), which makes restructuring easier. Recovery is generally best obtained through restructuring based on cash flow that is generated by the collateral on which the lenders have a substantial claim through different structures and security packages. The rating and LGDs, based notably on the efficiency of such security packages in terms of future cash flow benefit, are assessed by the internal legal teams and front officers and validated by the risk department. Therefore, regarding point 16, stakeholders suggested adding the following: 'in the case of specialised lending, a description of the structure and security package of the transaction'.	The EBA agrees with the comment and has amended the requirement.	The EBA amended the text accordingly.
No data cases	At present, the bank usually reflects a lack of information in the rating and thus in the pricing. If that approach is within the envisaged outcomes, the EBA guidelines should be clear, otherwise it is implied that no provision of information will result in no lending. Indeed, it should be clear that banks are obliged to use only information that is potentially available (for verification) at	The EBA agrees with the comment and acknowledges the different situations that banks may face (e.g. no information or different models used for different types of lending). As explained above, the guidelines recognise the use of different automated models for credit granting as long	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	origination (i.e. borrowers existing credit commitments). For business lending institutions, it should be possible to assess creditworthiness based on other criteria (e.g. behavioural criteria) than classic financials and/or financial projections (for short-term usage). As banks use various techniques to assess creditworthiness, stakeholders stated that the parameters and metrics used for assessing the borrower's ability to repay should be either high-level recommendations (not a concrete list of parameters but rather an approach such as ratios of income, and the loan or loan instalment should be used) or just a list of possible parameters.	as such models are robust and in line with prudential model governance requirements. The guidelines also acknowledge the use of proxy variables when the required variable (e.g. income) is not directly available. Finally, in terms of accepting or declining a loan application, credit institutions should introduce policies and procedures in line with the principle-based requirements set out in these guidelines.	
Innovation in credit granting and models	Another impact of the requirements in Section 5 and the criteria in Annexes 1 and 2 is that they imply a manual process and will hinder innovation in credit granting, as they are too prescriptive and do not allow companies to develop alternative procedures to determine the creditworthiness of a consumer or a professional. Specifically, the draft guidelines remove the possibility of developing alternative creditworthiness procedures that minimise the information required from borrowers and do not take into consideration specific individual pieces of information, even though such procedures could prove to be more accurate than traditional ones. Therefore, although the stakeholders understand the rationale behind this section – seeking harmonisation of credit-granting practices across	The EBA acknowledges the comment and made the necessary amendments as explained above under the proportionality considerations section.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	Europe and the accrued knowledge of the credit-granting business – one proposal the EBA should also consider including is an additional section setting out less prescriptive requirements for firms applying alternative procedures, which could improve customer access to credit or the accuracy of the creditworthiness assessment in situations that do not fall within the traditional approach of assessing creditworthiness. For some large-scale factoring, leasing or consumer credit activities, a strict application of the data requirements listed in Annex 2 would severely challenge concerned institutions' current scoring models, sometimes technology-enabled, despite their having proved their efficiency. Such a strict application would represent disproportionate costs in comparison with the benefits in terms of the reduction in the cost of risk that could be expected.		
Single customer view	Stakeholders requested a clarification on the 'single customer view', which could be understood as an argument against the necessary consideration of the joint overall financial position in the case of a plurality of borrowers. If several persons are borrowers, creditors should take into account the total financial position of all of these persons who are jointly and severally liable for the obligations under the loan agreement ('joint customer view').	The EBA agrees with the comment and has introduced a definition of the single customer view to avoid any confusion. The definition clarifies the following two points following the stakeholders' comments: i) the exclusion of the borrower's assets and liabilities held at other institutions;	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	Furthermore, stakeholders requested that the concept of the 'single or joint customer view' be used instead to avoid any confusion. In practice, financing for spouses and civil partners is the most frequent case for consumer loans with a plurality of borrowers. Often, spouses or civil partners can afford property financing only if both of them contribute capital and if they are also jointly prepared, considering their income and financial position, to assume the commitments under the loan for the property that they own or that they jointly inhabit. It is in the interests of consumers that the conclusion of a consumer loan agreement can also occur if the possibility of servicing the capital exists only by taking into account the income and financial position of all persons jointly and severally liable for the obligations under the loan agreement. In particular, if there are already joint commitments (e.g. on the basis of existing joint and several financing by the spouses or civil partners), splitting the joint expenditure for the purpose of two separate creditworthiness assessments would be impractical. For the reasons set out above, it is in keeping with both the legal specifications of the guidelines and the interests of the parties to a loan agreement if, in the case of a plurality of borrowers, the income and financial position of all persons is taken into account. This also applies where only one person is a borrower, but a further person living in the	ii) the joint treatment of joint applicants (e.g. households with more than one member).	

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	borrower's household is jointly and severally liable for the repayment commitments under the loan agreement.		
Single customer view	The requirement set out in paragraph 85 of the CP regarding a single customer view would present a significant IT challenge for member banks, given the existence of legacy systems and the fact that some member banks form part of an overall group structure. While the benefits to be gleaned from a single customer view are clear, this could not be implemented within the timeframe currently proposed for the implementation of the draft guidelines.	The stakeholders raise several issues and the EBA acknowledges them. To provide further clarity on the requirements related to the single customer view, the EBA provided a definition and amended the text. In terms of data requirements, the EBA acknowledges the data gaps that institutions may have on the borrowers; therefore, for that purpose, in relation to the stock of existing loans, the institutions will have a 3-year transitional period to close any data gaps that they may have. The EBA, as explained above, also clarified the scope of application of these guidelines in relation to the stock of loans.	The EBA amended the text accordingly.
Single customer view	Legal restrictions linked to confidentiality could prevent the possibility of consolidating information between different legal entities of an institution. The legal framework in some countries may forbid the transfer of specific information on borrowers, even between separate legal entities belonging to the same banking group within the same country (see, for instance, the corresponding requirements from the *Commission National Informatique et Libertés* (CNIL) in France). Any considerations relating to consolidated exposure	The handling of the data should be in line with the General Data Protection Regulation (GDPR) and national legislations. The guidelines do not ask institutions to seek out data from other lenders.	No action taken.

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	and creditworthiness (including questions to the employer and relatives) should then take any such legal impediments into account. The guidelines should not require the lender to have an accurate and up-to-date comprehensive view of all the borrower's credit commitments (paragraph 85) given that it relies very much on the information the borrower is able to provide, some of which is not verifiable, such as credits provided by other lenders, due to the absence of a positive credit database in France.		
Data collection and verification requirements	The wording of the guidelines should be clarified to determine more precisely what 'the documentation of information' means for the creditor. Stakeholders commented that the creditor cannot be considered obligated to systematically collect documents testifying to the borrower's declarative information. Such a requirement would not be compatible with small-amount lending business models, such as consumer credit at points of sale or online. In addition, this would overrule the CCD requirements and some Member States' Level 1 legislative texts: in France, for instance, a Level 1 law has introduced a threshold of EUR 3 000 for the collecting of documentation justifying borrowers' declarative information. From an operational point of view, this would not be compatible with small-ticket vendor leases to professionals either.	For automatic decision-making and using automated models for the creditworthiness assessment, please see the previous EBA analyses. For information verification, please see the EBA analysis above. Please also note that, from a legal point of view, the guidelines cannot overrule national legislation and EU Level 1 texts.	No action taken.

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	By the same token, one stakeholder stated that clarity is required in relation to the requirements set out in Section 5.1.1, paragraphs 88 and 90. Specifically, the stakeholder asked if the requirements on the verification and retention of supporting information related only to non-automated credit decisions. In addition, Section 5.1.3, paragraph 93, states that at least the items listed should be obtained. Not all of these requirements would be obtained for all applications. Clarity is needed to confirm if automated decisions are outside the scope of this requirement. The 'plausibility' check specified in paragraph 88 assumes a level of human intervention, which does not work for the many firms that use automated credit decisions. This check will add a layer of manual processing, and risks firms having to duplicate their efforts, which could lead to a significant drain on available resources and increased costs for consumers.		
Group of connected clients	The collection of information on group members is not plausible, especially in an industrialised credit-granting process (usually in retail), where risk is evaluated on a standalone basis for individual clients and specific transactions. Therefore, the phrase 'on all related connected clients' should be deleted. Similarly, some stakeholders proposed that the expression 'on all related connected clients' be	The EBA replaced the word 'all' with 'relevant'.	The EBA amended the text accordingly.

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	replaced with the expression 'on all relevant connected clients', as it is not always economically justified to collect and analyse information about every single entity in the group of connected clients.		
Verification of information	Paragraphs 88 and 89 of the guidelines oblige institutions to assess the plausibility of any information and to make reasonable enquiries with the borrower or third parties (e.g. the employer or public authorities). The requirement to assess the plausibility of any information is not appropriate. From stakeholders' point of view, information on the borrower should be verified only if the information is evidently false or there are serious doubts regarding whether the information is true or not. The borrower is primarily responsible for the information provided. Institutions should then be required to make reasonable enquiries only if those enquiries are necessary to obtain further information. In cases where institutions and creditors already have enough information (e.g. in the case of a long-term customer relationship), they should not be required to make reasonable enquiries.	The EBA agrees with this point and has amended the text accordingly.	The EBA amended the text accordingly.
Minimum requirements for small enterprises	The minimum requirements set out in paragraphs 93ff. for lending to 'professionals' are not necessary for smaller companies and, in part, cannot be met by such companies. The EBA should clarify that it would be compatible with the principle of proportionality highlighted in	The EBA agrees with this point and has amended the text accordingly, as outlined above. The EBA introduced a section on SME lending, which includes the application of the proportionality principle.	The EBA amended the text accordingly.

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	paragraph 12 to affirm the creditworthiness of the 'professional' even if individual information elements are not available. Without such a clarification, stakeholders are concerned that auditors will require a compilation of certain specific documents for loan application purposes.		
List of parameters	Paragraph 91 should be considered not as a minimum requirement ('at least'), but – specifically in relation to the information under points b, c, d and f – as a collection of information serving as an example. With regard to the information under points b, c, d and f, it should also be clarified that this does not apply for consumer credit pursuant to the CCD.	Institutions are expected to have the relevant information on these elements on a proportionate basis.	No action taken.
List of parameters	Stakeholders suggested clarifying (for the employment parameter in paragraph 91) that the purpose of this parameter is to ask 'whether' there is employment in order to verify the sustainability of the income.	The EBA confirms the reasoning and confirms the suggestion.	No action taken.
List of parameters	In the view of some stakeholders, the requirement in paragraph 91(a) for consumer loans to include the purpose of the loan is too far-reaching. The purpose of the loan plays no role in small-scale lending and becomes important only in the case of consumer mortgage loans. The sole decisive factor here is the outcome of the creditworthiness assessment. The stakeholders therefore suggest that only 'the purpose to acquire or retain property rights in land or in an existing or	The EBA confirms the reasoning.	No action taken.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	projected building' (see Article 3(1)(b) of the MCD) should be recorded.		
List of metrics	Some stakeholders commented that that a strict application of this requirement in paragraph 99 would be much too prescriptive and would lead to regressive results if implemented as such. The section should be supressed or the term 'where appropriate' should be clarified. A strict application of the metrics and parameters listed would severely challenge current concerned institutions' scoring models, sometimes technology-enabled, despite their having proved their efficiency. Such a strict application would represent disproportionate costs in comparison with the benefits in terms of the reduction in the cost of risk that could be expected. These requirements, which are too standardised and formal, would create a rigid creditworthiness framework that would be detrimental to more risk-sensitive existing processes. Finally, the proposed metrics and parameters would become factors of credit exclusion, as they could become 'standards' for indebtment ratios, without any reduction in the cost of risk.	The EBA agrees with the comments and, in order to avoid any unexpected consequences of such requirements, the metrics have been removed. For the recognition of models in credit granting, please see the explanations above.	The EBA amended the text accordingly.
Third-party verification	'Third-party verification' in order to document a borrower's income capacity is not always	The approach taken in the guidelines is for the institutions or creditors to obtain information needed for the creditworthiness assessment from the	The EBA amended the text accordingly.

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	available. This requirement seems to be too formal and standardised. Moreover, the requirement to make enquiries with third parties could be difficult to handle in practice from an operational and data protection point of view. The obligation to respect Regulation 2018/1725 in efforts to verify information is duly noted and goes without saying. However, the GDPR also requires the consumer to give consent to the bank in order for these enquiries to be made. If this consent is not given and the information provided cannot be verified, banks will not be able to comply with the guidelines. Stakeholders therefore stated that they understood 'reasonable' in paragraph 88 to mean that, in such a case, verification is not required.	borrower and to verify the authenticity of such information when they have concerns regarding the accuracy and reliability of the information and data. Such verification can be made through third parties and relevant databases, and the GDPR provisions would apply.	
Sensitivity analysis	Stakeholders underlined the extreme complexity of carrying out 'sensitivity analyses reflecting potential negative market and idiosyncratic scenarios in the future, including, for example, deterioration in the marketability of the immovable property, an increase in vacancy rates, a reduction in the rental prices for similar properties'.	The EBA is of the view that the factors considered in the sensitivity analysis should be relevant to the size and purpose of a loan, the risk profile of a borrower and the specific purpose of a loan and collateral. Therefore, factors such as marketability may affect future cash flows and institutions should test this, where relevant.	The EBA amended the text accordingly.
GDPR	A number of concerns are raised in relation to Section 5 from a data protection and GDPR perspective. Further clarity is required on the definition of 'professional' in the context of the	The EBA acknowledges these comments.	The EBA amended the text accordingly.

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	guidelines, as this may affect data protection rights. If the draft guidelines are adopted as currently written, clarity would be required from national competent authorities on the legal basis for data collection – member banks are permitted to collect only data that are necessary and so overreaching of this obligation would be a concern. As regards paragraph 88, the obligation to respect Regulation 2016/679 (GDPR) in efforts to verify information is duly noted and goes without saying. Stakeholders also pointed out that the GDPR outlines six legal bases for the lawfulness of processing. According to the wording used in paragraph 88, 'consent' is the only legal basis that creditors and institutions must rely on. Stakeholders suggested rephrasing the sentence as follows: 'Where, for the purposes of these guidelines, institutions and creditors make enquiries regarding a borrower's personal data, institutions and creditors need to ensure that the requirements, in particular to inform and seek permission from the borrower, of Regulation (EU) No 2016/679 are met, before making such enquiries with third parties'.		
Leasing	Stakeholders agreed that a borrower's payment capacity is a key feature of credit analysis, but the case of leasing needs to be clarified in the following context: 'Collateral should only be considered the institution's second way out in case	The EBA agrees with the comment and has reviewed the text.	The EBA amended the text accordingly.

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	of default and not as the primary source of repayment, with the exception of when the loan agreement envisages that the repayment of the loan is based on the sale of the property pledged as collateral'. Indeed, in the case of leasing, whereby the financed asset is the property of the credit institution, all contracts rely on the ability of the lessor to dispose of the asset in the event of non-payment of the loan. The ownership of the asset by the lessor is the main feature of a lease, and a central parameter for credit risk analysis and the creditworthiness assessment.		
Proportionality	The requirement to analyse political, economic and legal contexts of foreign counterparties (in paragraph 129) in cross-border lending would not be compatible with some large-scale/small-ticket lending activities such as some factoring activities.	The EBA agrees with the comment and, as explained above, introduced a separate section for micro and small enterprises and reinforced the proportionality principle for the implementation of the guidelines.	The EBA amended the text accordingly.
Sensitivity analysis	Requirements concerning sensitivity analyses are over-prescriptive, especially concerning 'financial projections' (management evolution, analysis of the strategy, market events, etc.). These types of analyses are operationally not possible to produce for each borrower in the context of large-scale, small-amount and short-term activities, such as some leasing or factoring industry activities. Proportionality measures accounting in a more precise manner for the purpose, size, complexity, term and potential risk associated with the loan	The EBA agrees with the comment and, as explained above, introduced a separate section for micro and small enterprises and reinforced the proportionality principle for the implementation of the guidelines.	The EBA amended the text accordingly.

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	would at least be necessary, with explicit wording to this effect included in the guidelines. Stakeholders considered, in particular, that the very precise requirement of paragraph 146(d) should be performed only at the institution level and not at the borrower level.		
Models in credit granting	Credit scoring and rating models have a long track record and IRB/International Financial Reporting Standard 9 (IFRS 9) requirements have forced models to pass multiple internal and external validations, thus promoting sound performance and granularity. The approval and use of IRB models should be promoted to ensure adequate performance of credit scoring and rating models (e.g. there are still some markets where the use of the standardised capital approach is high and where, thus, adequate risk capture is not promoted).	As explained above, the EBA revised the language to recognise such models in the guidelines.	The EBA amended the text accordingly.
Single customer view	The review requirement in paragraph 85 does not mean that the lender must obtain credit information from other credit institutions. In any case, the loan agreements say nothing about the current level of disbursements, because the loans may already be partially repaid. An annual account statement or similar document should be sufficient evidence. Stakeholders suggested clarifying, in paragraph 85, generally for the entire section, that the requirements for the creditworthiness	The EBA agrees with the comment.	The EBA amended the text accordingly.

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	assessment can be structured by the nature, size and risk of the relevant transaction (at the discretion of the institutions). In this context, stakeholders presumed that, for very small loans such as overdrafts or credit card limits in particular, information provided by borrowers about their income will be sufficient. Only in special cases (e.g. suspected fraud) should this have to be documented by additional evidence/documents. However, such a clarification would also be desirable for loans below a limit to be defined by the institution based on risk aspects, because the risks are manageable. Stakeholders therefore suggested deleting both occurrences of the word 'comprehensive' in this paragraph.		
Necessary checks and reasonable enquiries with the borrower and third parties	In paragraph 88, the requirement for 'any necessary checks' goes beyond the corresponding requirements in the EU directives. For example, Article 20(1), sentence 3, of Directive 2014/17/EU requires the information to be 'appropriately' verified, if necessary by inspecting independently verifiable documentation. Article 8 of Directive 2008/48/EC also does not stipulate such a far-reaching verification requirement for general consumer loans. As a consequence, the lawmakers also only expect 'appropriate' verification of the information for consumer mortgage loans. Particularly in the case of consumer loans with small amounts, verifying information using third	The EBA agrees with the comment and has amended the wording of the guidelines so that necessary checks and reasonable enquiries are required when institutions and creditors have concerns regarding the accuracy and reliability of the information and data.	The EBA amended the text accordingly.

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	parties is not necessary or reasonable from the risk and cost perspectives. In particular, it will not be in the interests of borrowers for their employer to find out every time they apply for a loan. Standard checks with credit-reporting agencies and checking the plausibility of the information provided by the borrower by comparison with standard values should normally be sufficient. Enquiries of third parties are one option for checking plausibility, but they should not be made mandatory. This paragraph should therefore be streamlined. It should be clarified overall that the borrower has a duty to cooperate in the creditworthiness assessment. The borrower is obliged to provide complete and accurate information. This also results from Article 20(3) of the MCD, which allows the lender to terminate a loan agreement if it can be demonstrated that the consumer knowingly withheld or falsified information. Plausibility checks carried out by the institution are therefore necessary only if there are reasonable doubts about the accuracy of the information or if there is a concrete suspicion of fraud.		
Question 8. What are the respondents' views on the requirements for the assessment of borrowers' creditworthiness (Section 5.2)?			
Unsecured consumer lending	Credit to consumers under the CCD should be exempted from this regulation. The current regulation does not take account of the mandatory	The guidelines differentiate between loans to consumers and loans to business customers. As the guidelines for the former are based on both the MCD and CCD legal basis, the consumer section is split into	No action taken.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	differentiation in Article 8 of the CCD and Articles 18 and 20 of the MCD.	MCD-based secured lending and CCD-based consumer finance. Following the ESAs' review, the CCD falls under the EBA's mandate from 1 January 2020.	
Proportionality	In general, while agreeing with the EBA's requirements for the assessment of creditworthiness, stakeholders reaffirmed the concerns previously summarised with reference to available information and documents (paragraph 97) and stated that a better definition of the proportionality principle was needed. In particular, stakeholders proposed setting a threshold of at least EUR 1 million for the applicability of the cash flow and sensitivity analysis on the corporate sector, and they deemed this analysis not applicable for individuals. For professionals, sensitivity analysis may not be possible if smaller clients do not provide banks with their own forward-looking projections. In these cases, flexibility is needed.	The EBA extended and clarified the definition of the proportionality principle for the application of the guidelines. The text was also amended to introduce a section on SME lending and to recognise automated models for credit granting. The EBA is, however, of the view that the introduction of a threshold for all banks and jurisdictions across the EU is not a solution. Institutions are expected to set their own risk appetite framework.	The EBA amended the text accordingly.
Proportionality	The EBA should clarify (in paragraph 130, for instance) that the requirements under Section 5.2 do not represent an exhaustive and compulsory list that needs to be applied to each credit case, but can be applied proportionally by each institution in relation to their internal credit decision-making frameworks and the relevance of those requirements to the specific credit cases.	It is indeed the EBA's intention in these guidelines for institutions to establish their own metrics and limits under the risk appetite framework.	No action taken.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	In particular, some stakeholders suggested that banks set their own thresholds for the applicability of the cash flow and sensitivity analysis on the corporate sector based on the bank's own risk appetite and profile, although such an analysis should not be applicable for individuals. Furthermore, it should be noted that the definitions and expectations set out in the guidelines will not be compatible with markets that are not as developed as the EU. In respect of the creditworthiness assessment, the requirements for mortgage credit seem to be applied to consumer credit, which is disproportionate given that these are completely different in duration and amount.		
Selection of asset classes	Section 5.2 brings into scope 'commercial real estate lending, shipping finance, and project and infrastructure finance'. It is unclear why separate requirements are proposed specifically for these industries – if these are required, then why are there not separate requirements for, for example, aviation, containers, reserve-based lending, asset-based lending and leveraged finance? Such a selection puts additional burden on these specific groups. Furthermore, project finance and infrastructure finance are grouped under one heading; however, project finance is much broader than infrastructure finance. While, typically,	The guidelines focus on some of the major asset classes for which NPLs have been an issue in recent years. Asset classes that are not explicitly covered in the guidelines also fall under the scope of application, and the lending activities in these asset classes should also comply with the fundamentals of these guidelines. In terms of project and infrastructure finance, the text has been amended accordingly.	The EBA amended the text accordingly.

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	infrastructure finance transactions have the character of project finance, the latter also includes transactions in, for example, oil and gas midstream, and power and utilities. It would make more sense, in this case, to remove infrastructure finance from this heading and just call it 'project finance'.		
Lombard loans	Stakeholders stated that the guidelines could also accommodate for loans and advances that are based mainly on the assessment of collateral and less on the creditworthiness of the counterparty (e.g. common collateralised lending/Lombard lending in private banking business). If such products are in the scope of application, stakeholders proposed a proportionate approach (as described in paragraph 14) that would allow the flexibility to 'opt out' of disproportionate requirements (i.e. to assess the borrower's creditworthiness by taking into account future cash flows (required by paragraph 125)).	The guidelines do not exclude such loans from the scope of application. The fundamentals of the guidelines also apply to these loans. Institutions are expected to apply these requirements proportionately.	No action taken.
Non-recourse transactions	One stakeholder asked for the EBA to confirm that some of the criteria proposed in paragraphs 125, 126 and 129 are not appropriate for non-recourse or limited-recourse transactions.	The EBA confirms the statement for non-recourse transactions.	No action taken.
Scope and definition – consumers and professionals	Further clarification on the definitions of 'consumers' and 'professionals' is needed for this section. For instance, for couples or joint accounts, it should suffice that the creditworthiness criteria are fulfilled on the consolidated level. The same	The EBA introduced a more granular definition of the proportionality principle for the purposes of the implementation of the guidelines. The EBA also	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	should apply for professionals who have a joint account. The category of 'professionals' now appears to include small businesses to multinational corporations. The requirements should respect the principle of proportionality, and the level of granularity should be consummate to the risk profile of the counterparty or class of counterparties.	introduced a new section on SME lending to separate it from lending to large corporates. The guidelines do account for joint applications and, where applicable, the requirements should be implemented on that basis. Please also see the explanations on the single customer view.	
RAF in the creditworthiness assessment	In paragraph 96, with regard to the second half of the sentence relating to the comparison of the borrower's profile with the institution's credit risk appetite, the question arises of the extent to which this should be decisive for the lending decision. Without the second half of the sentence, paragraph 96 would also be consistent with the other paragraphs (e.g. 85, 86, 97 and 98), which refer only to the borrower's ability to meet the obligations under the loan agreement; consequently, the second half of the sentence should be deleted.	The EBA agrees with the comments and has amended the text to avoid any confusion in wording.	The EBA amended the text accordingly.
Metrics	Stakeholders considered that the assessment was too prescriptive. The CCD does not outline specific metrics to assess creditworthiness. It is not appropriate to treat small credit in the same way as large credit. The CCD's scope should be applied. The EBA must take into account the type of credit and the amount. A strict application of the metrics and parameters listed would challenge current concerned institutions' scoring models. These models work well and are able to limit risks and	The EBA agrees with the comment. The EBA highlights the application of the proportionality principle throughout the text. Specific metrics have been removed from the text.	The EBA amended the text accordingly.

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	indebtedness. In addition, the use of the metrics proposed could lead to exclusion, as they could become standards for indebtedness ratios while the economic conditions of consumers could be very different. Stakeholders suggested removing paragraph 99 or at least clarifying what is meant by 'where appropriate'.		
Source of income capacity and verification requirement	A stakeholder asked for a clarification in paragraph 98, namely that 'assessment of the borrower's ... source of repayment capacity' refers not to the borrower's employer, but to the borrower's financial performance or other sources of income. Stakeholders therefore also assumed that rental and lease income is included when private real estate finance is referred to. In the case of consumers, investment income can also be included here. In this case too, however, the verification requirement is unclear. This requirement cannot apply to any external evaluation of rental and lease income or other investment income, as a sustained internal evaluation would require tremendous effort that would slow down the credit process and could potentially lead to the denial of loans, because corresponding capacities would have to be developed. This is unlikely to correspond to the interests of supervisors. Stakeholders therefore recommended that a clarification be inserted stating that the	The EBA clarifies that this requirement refers not to the assessment of the borrower's employer, but to information on where (i.e. from what source) the income comes from. The EBA amended the text on the verification requirements accordingly. Verification is necessary when there are serious doubts on the accuracy or authenticity of information. The wording 'at a minimum' is intentional. The guidelines request that institutions and creditors account for these parameters in whatever models or approaches they use for the borrower's creditworthiness assessment. These parameters are considered fundamental for assessing the repayment capacity of the borrower.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	information provided by the borrower must be plausible and that, if it is, no further verification is required.		
Single customer view	In line with the banking practice in some countries, multiple persons, such as married couples, should be included as well as natural persons. Stakeholders suggested the following wording: 'Institutions and creditors should apply metrics and parameters to have an accurate single customer view (e.g. single customer, household, couple or life partnership) that enables the assessment of the borrower's ability to service and repay all its financial commitments. Commonly estimated expenditures for living, food, traffic, etc., may be used, where appropriate.' If both of the individual borrowers were able to service the joint loan, this would have a serious impact on lending possibilities and, consequently, on the provision of financing, for example property ownership. However, stakeholders stated that, from the public hearing, they learned that this was not intended and so requested clarification on this point.	As explained above, the EBA introduced a working definition for the single customer view and clarified the point on joint applications.	The EBA amended the text accordingly.
Sensitivity analysis	The requirements on the sensitivity analysis are generally too excessive. In the case of unsecured consumer loans, individual sensitivity analysis is not necessary from a risk perspective, due to the low credit amounts. Paragraphs 101, 114 and 121 should therefore be deleted. For real estate	The EBA amended the text accordingly. The EBA also introduced a specific section on SME lending to separate it from lending to large corporates. These amendments address proportionality considerations for the purposes of these guidelines.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	consumer loans, the MCD stipulates that only retirement, changes in the borrowing rate and exchange rate risks should be taken into account in the credit assessment. The sensitivity analysis requirements for real estate consumer loans should not go beyond the MCD. For most decisions on lending to professionals, especially SMEs, freelancers and self-employed persons, the analysis required in paragraphs 143 to 145 are much too far-reaching. Market events as stated in paragraph 146 are already considered at portfolio level via stress testing and do not have to be carried out for every single borrower. It remains unclear how the institution should actually evaluate the results of the sensitivity analysis. In the current wording of paragraph 145, the analyses would almost always lead to the result that the borrower could get into problems. Should the loan application be rejected if one or more potential events might jeopardise the ability to repay the loan? If so, there would hardly be any positive decisions and a credit crunch would be triggered. If this is not the intention, the question arises again as to the meaningfulness and significance of such a detailed analysis. These requirements should be deleted or confined to sizeable lending decisions and to idiosyncratic events with a high occurrence probability.	Finally, institutions should set out in their risk appetite framework what should be rejected or accepted following their analysis of the borrower's repayment capacity.	
Sensitivity analysis	According to paragraph 101 (as well as paragraph 114 regarding other secured lending to	The EBA acknowledges the comment and has adjusted the language accordingly. The wording on the	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	consumers and paragraph 121 regarding unsecured lending to consumers), banks should carry out sensitivity analyses reflecting potential negative scenarios in the future when assessing the borrower's ability to meet obligations under the loan agreement. Generally, it is unusual to perform sensitivity analysis in the field of consumer lending. Performing sensitivity analyses should not be required for small/simple credit facilities and credit facilities of limited duration. The EBA should set up a threshold regarding the loan amount in relation to the balance sheet and duration of credit facilities, below which no sensitivity analysis should be performed. This would better reflect the second aspect of the principle of proportionality in this requirement. The CCD (Directive 2008/48/EC) does not require institutions to perform sensitivity analyses in relation to consumer loans. Against this background, stakeholders suggested that there be exemptions from the requirement to perform sensitivity analyses for smaller/less complex credit facilities and credit facilities of limited duration in relation to consumer loans (paragraphs 101, 114 and 121). The EBA could set up a threshold for credit facilities in relation to the balance sheet, below which no sensitivity analyses must be performed.	sensitivity analysis for unsecured lending is principle based and highlights product-specific events. Institutions are expected to apply the requirements proportionately. However, please note that the amount of consumer credit may vary. For example, the CCD covers amounts from EUR 200 to EUR 75 000. For high-value loans, institutions should apply sensitivity analysis. In addition, the EBA is of the view that setting an EU-wide threshold is not appropriate for the purposes of these guidelines.	
Natural hedges	The scope of the lender's obligation to take into account and assess 'any hedging strategies' for	In the application of these guidelines, if the borrower has a mismatch between the currency in which the	No action taken.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	foreign currency loans in order to mitigate foreign currency exchange risk is unclear. Any obligation of the lender to address the client actively on this issue is very wide ranging. Stakeholders therefore sought clarification on this point.	income is denominated and the currency in which the repayment of the loan is denominated, the borrower may be subject to foreign exchange risk. When granting loans on such cases, institutions and creditors should account for any hedging strategies that the borrower may have (e.g. source of income from investment denominated in the currency of loan repayment).	
Historical employment	In relation to paragraph 103, one stakeholder suggested that the EBA should clarify that this does not mean the verification of historical employment relationships or income history in the existing employment relationship. It is not evident how this is supposed to affect future ability to meet obligations.	The text has been amended to clarify the point.	The EBA amended the text accordingly.
Regular savings in the creditworthiness assessment	As regards the requirement to make reasonable enquiries and take reasonable steps to verify the borrower's ability to meet obligations (in particular related to those who are self-employed or who have seasonal or other irregular income), it is explicitly stated that this verification should include documentation of income, third-party verification and tax declaration. In line with stakeholders' comments on the proportionality principle, stakeholders asked the EBA to explicitly include considerations of the credit facilities for some client segments, such as social banking. The creditworthiness assessment of the vulnerable clients should be based on the ability to prove	The EBA clarifies that, under proportionality considerations and the given the nature of the credit facility and the type of borrower, 'regular savings' can be considered as an input for the creditworthiness assessment. The EBA recognises this point in the guidelines.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	'regular savings' as an 'income surrogate' in most cases. In order to adapt these guideline for other client segments such as social banking, stakeholders proposed that proof of 'regular savings' as an adequate 'income surrogate' be explicitly allowed within the creditworthiness assessment. Such proof over a predefined period (e.g. 1 year) can represent a very good surrogate for vulnerable client segments with irregular income. Similarly, it would be more relevant to assess consumers' saving capacity, since this reflects the income that remains after all current expenditures. It also crucially does not and should not assume that the consumer can compress one or more of their current expenditures to service a loan due to unexpected developments.		
Increase in income	According to paragraph 108 (lending to consumers relating to residential immovable property) and paragraph 120 (unsecured lending to consumers), institutions and creditors should ensure that the borrower's ability to meet obligations under the loan agreement is not based on the expected significant increase in the borrower's income unless the documentation provides sufficient evidence. The documentation requirement is problematic, as it prohibits the consideration of a borrower's probable income increase in the near future when it cannot be documented. Especially for young borrowers, whose income is likely to	Although the EBA understands the point raised, the guidelines cannot allow lending activities on the basis of hypothetical or speculative future income of the borrower. Institutions should apply the requirements on the size, type and complexity of the loan and given specific circumstances.	No action taken.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	increase in the future (but this is not documented), taking up credit is restricted. In this regard, the guidelines should allow institutions and creditors to consider the specific circumstances of the individual case.		
Other secured lending to consumers	Although stakeholders understood the rationale of the proposed rules for the under-construction property loans in Sections 5.2.3 and 5.2.6, the requirements included in paragraph 112(b) and (c), which are similar to the requirements included in paragraph 166, are quite burdensome and are difficult to fulfil. As a matter of fact, lenders have no data and cannot be responsible for assessing the quality of architects or engineers who take part in the property development. Furthermore, the certification of the costs associated with the development is not easy to obtain and it could be very expensive for the borrower. Stakeholders proposed that these requirements be eliminated. Similarly, one stakeholder stated that it is the sole responsibility of the customer to assess the building project and not the responsibility of the bank. It would be excessive to oblige institutions to assess which legal norms are applicable in relation to a certain building project in order to assess all necessary permits and certificates. Therefore, the stakeholder suggested that the EBA amend paragraph 112 of the guidelines. Rather than specifying all the items that must assessed according to points a-d, the paragraph could be	The EBA agrees with the comments and the fact that institutions cannot have sole responsibility for the quality check.	The EBA amended the text accordingly.

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	changed so that, in a more general way, institutions are required to assess the feasibility of the project.		
Debt-servicing capacity	The institution bases this sort of finance on other income or assets of the borrower. This therefore means that potential rental income is used on the income side and the borrower's living expenses are used on the other side. The sustainability of achievable rental income is one of the key criteria for the consumer's creditworthiness. It must be clear that the consumer's debt-servicing capacity is what matters. Stakeholders therefore suggested the following amendment to paragraph 113: 'For loan agreements that relate to an immovable property that explicitly state that the immovable property is not to be occupied as a place of residence by the borrower or a family member (i.e. buy-to-let agreements), institutions and creditors should assess, first of all, the debt-servicing capacity of the borrower and, second (where necessary), the relationship between the future rental income from the immovable property and the borrower's ability to meet obligations.'	The EBA acknowledges the comment.	The EBA amended the text accordingly.
Paragraph 118	Stakeholders suggested clarifying that 'interest rates' for other debt obligations actually refer to the specific or calculated interest and principal payments. It is not evident why interest rates are supposed to be relevant here.	The EBA acknowledges the comment.	The EBA amended the text as suggested.

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	Stakeholders also suggested clarifying that, depending on the credit volume, standard living expenses, including rental expenses, may also be estimated on a sound basis. In doing so, information to be obtained from the borrower always has to be measured against the estimate for plausibility.		
Paragraph 119	Stakeholders suggested deleting paragraph 119 in order to avoid any risk of ageism. Such a rule makes sense if it is limited to mortgage loans with long terms (in line with the MCD), but applying it to unsecured consumer loans is neither necessary nor reasonable. Paragraph 119 should therefore be deleted.	The EBA acknowledges the comment.	The EBA amended the text as suggested.
Consumer lending	The requirements of the MCD are being extended, in large part, to other consumer loans, although they cannot be implemented at all for overdrafts, for example (because overdrafts do not have any explicit terms and no repayment instalment is agreed). A traditional overdraft facility is granted until further notice. Stakeholders believed that it would not be in the interests of consumers if such uncomplicated liquidity reserves could no longer be used. The requirements appear to be too broad for loans with small amounts and mainly shorter terms. Stakeholders suggested applying the principle of proportionality to Section 5.2.4 in its entirety. This will give institutions the freedom to decide the extent to which the requirements can be applied to the different types of loans,	Institutions and creditors should apply the requirements on the basis of the proportionality principle. Proportionality, for the purposes of these guidelines, puts emphasis on the type, size and complexity of the credit facility.	No action taken.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	depending on the complexity and risk of the lending transactions.		
Paragraph 126	In principle, stakeholders agreed with the list of requirements that need to be considered when carrying out the creditworthiness assessment. However, some aspects listed as part of the considerations of the transaction structure in point g (i.e. leverage level, dividend distribution and capital expenditure) should be taken into account when performing the analysis of the financial position of the borrower as stipulated in point a and as defined in paragraph 132 of these guidelines. Stakeholders proposed deleting the following text: 'leverage level, dividend distribution, capital expenditure'.	The EBA agrees with the comment.	The EBA amended the text accordingly.
Paragraph 126	Institutions should continue to be able to determine the scope and depth of the creditworthiness analysis and the verification of debt-servicing capacity on a risk-driven basis. It should be possible to determine the scope and depth of the creditworthiness analysis and the verification of debt-servicing capacity freely and flexibly, depending on the scale of the available data, the risk, the size of the amount being financed, the borrower's sector and the collateral. Stakeholders therefore suggested amending the wording of paragraph 126 as follows: 'When carrying out the creditworthiness assessment, institutions should perform at least	Institutions and creditors should apply the requirements on the basis of the proportionality principle. Proportionality, for the purposes of these guidelines, puts emphasis on the type, size and complexity of the credit facility. Such thresholds, as suggested in the comment, should be defined, if necessary, in institutions' risk appetite framework, and policies and procedures. Regarding point b, the text has been amended as suggested. In relation to point c, the text has been amended as suggested.	The EBA amended the text accordingly.

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	the following, where appropriate and relevant considering the risk, type, size and complexity of the relevant credit facility: …'. In point b, the meaning of the requirement to analyse the legal capacity of non-consumers is not clear. The EBA should explain the requirement to analyse legal capacity in greater detail. It is also unclear whether, for example, legal opinions should be obtained on the capacity or on all of the company's legal resolutions, powers of attorney and specimen signatures for the lending decision. It should be possible to define minimum thresholds so that obtaining such documents would be required only, for example, above a certain credit volume. In point c, the word 'any' should be deleted. The current wording is also not used in the governance guidelines (Sections 11 and 12). Purely theoretically, it is always possible to construe conflicts of interest, but materiality aspects must also apply when addressing them. The wording of the requirements of paragraph 126(f) is ambiguous. In the stakeholders' opinion, this cannot be understood to mean that the (potential) debt facilities of a borrower in every client relationship with other credit institutions have to be considered. Stakeholders asked that this be clarified.	In point f, the objective is to ensure that the lender has a single customer view. For this purpose, the lenders should consider all financial commitments that the borrower may have with other counterparties.	

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
Paragraph 126	According to paragraph 126, banks should at least perform several specific analyses and assessments when carrying out the creditworthiness assessment. The requirement to perform at least the number of analyses and assessments stipulated is not in line with the principle of proportionality. For example, the requirement in paragraph 126(b) to analyse the integrity and reputation of the borrower is not appropriate in relation to small credit facilities. Proportionality should also be reflected in paragraph 132, according to which institutions should at least consider a set of specified aspects when analysing the financial position of the borrower. For example, the requirement to consider the capacity to meet contractual obligations under possible adverse events should be applicable only where the loan amount exceeds a certain threshold in relation to the balance sheet. Stakeholders suggested implementing exemptions in paragraphs 126 and 132 from the requirements of analyses and assessments that must be conducted in the field of lending to professionals to allow lighter requirements for smaller and less complex credit facilities.	The EBA introduced a section on SME lending to separate it from lending to large corporates. In this way, the proportionality principle is further clarified in the application of the guidelines.	The EBA amended the text accordingly.
Export finance	In cases where all of these risks are explicitly taken over by external credit assessments, the additional extensive assessment of these risks by a bank is of rather limited value added. Stakeholders proposed that the requirement be amended so	Sections 5 and 6 do not apply to loans and advances to credit institutions, investment firms, financial institutions, insurance and reinsurance undertakings, central banks, and loans and advances to sovereigns, including central governments, regional and local	No action taken.

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	that it is applicable in full only if no external credit assessment coverage is available.	authorities and public sector entities. Where there are guarantees offered by such parties, the requirements of the assessment of guarantors also do not apply.	
Paragraph 133	Proportionality clauses should be supplemented. The key figures required in the draft guidelines are also partly not available for small companies, tradesmen, self-employed persons and freelancers (since they are not obliged to draw up balance sheets). A reference to national commercial law provisions should be included. If the guidelines are to list concrete indicators (which is contrary to the principle of principle-oriented regulations), these should be referred to only as examples.	The EBA introduced a section on SME lending to separate it from lending to large corporates. In this way, the proportionality principle is further clarified in the application of the guidelines. The EBA guidelines cannot refer to all possible national law in every jurisdiction. In fact, national law has a priority over EBA guidelines in the legal order; therefore, the EBA is of the view that this applies without saying. As explained above, most of the metrics in the guidelines were removed from the main text and the role of the annexes as reference points was clarified.	The EBA amended the text accordingly.
Cash conversion factor – SMEs	In paragraph 134, the detailed analyses require senior credit analysts and a full review of the credit model. For IRB approach institutions this framework exists, but for standardised approach banks the analysis models have to be built, the teams have to be trained and the IT framework has to be created. For instance, the cash conversion cycle analysis goes beyond the net revenue analysis and the practices for determining the financial capacity to pay the loan currently for SME loans. One stakeholder stated that the analysis requirements in paragraph 134 could not be	The EBA acknowledges the comment and has removed the requirements for micro and small enterprises. Please also see the explanations above on the application of proportionality.	The EBA amended the text accordingly.

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	implemented, because such analyses are not necessary, in particular with regard to low-risk credit transactions. Stakeholders therefore requested that this paragraph be deleted.		
Paragraph 138	Stakeholders suggest rewording this paragraph as follows: '*Especially in cases where receivables have been assigned by way of collateral*, institutions should carry out, where possible, an assessment of the borrower's debtor and creditor cash cycle, and ageing profile using aged debtors' and creditors' information, in particular to understand how efficient the borrower is in collecting debtor monies owned and potential scenarios if some amount of the outstanding debtor monies may be uncollectable.'	The EBA acknowledges the comment.	The EBA amended the text accordingly.
Financial projections	Complementary to the comments raised for paragraph 131 *et seq*., stakeholders considered the requirements defined in this section to be meaningful only if the client provides the financial projections to the lender. Financial projections are not always provided by every client. As commented above, stock-listed companies are reluctant in principle to explicitly provide financial projections and budgets due to a risk that, if this information is publicly shared, any deviation triggers an ad hoc announcement to the market. Therefore, stakeholders deemed the requirements set out in paragraph 142, where	The EBA introduced a section on SME lending to separate it from lending to large corporates. In this way, the proportionality principle is further clarified in the application of the guidelines. This amendment also addresses comments related to the requirements on the sensitivity analysis.	The EBA amended the text accordingly.

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	utilised, to be meaningful. However, the requirements defined in paragraph 144, despite the proportionality principle explicitly mentioned in this paragraph, seem to contradict paragraph 142. In addition, the specification set out in paragraph 146 seems to be redundant when considering the requirements set out in paragraphs 142 and 143. Moreover, the events mentioned under paragraph 145 are a direct consequence of the events mentioned in paragraph 146 (e.g. a macroeconomic downturn (paragraph 146(a)) triggers a severe decline in borrower's revenues (which is already covered in paragraph 145(a))).		
Correlation between the collateral and the borrower	For banks using advanced IRB models, correlation can exist between the borrower and the collateral. This should not prohibit banks from taking into account such collateral as long as internal models enable them to take into account the possible correlation.	The guidelines do not put any restrictions on the acceptance of a collateral. As stated in the guidelines, when assessing the creditworthiness of the borrower, institutions should put emphasis on the borrower's realistic and sustainable future income and future cash flow and not on available collateral. Collateral by itself should be under no circumstances a criterion for approving a loan and cannot by itself justify the approval of any loan agreement. Collateral should be considered the institution's second way out in case of default and not the primary source of repayment, with the exception of when the loan agreement envisages that the repayment of the loan is based on the sale of the property pledged as collateral.	No action taken.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
Paragraph 156	Due diligence involves a very comprehensive examination, which is performed, for example, for planned mergers and acquisitions and is not normally necessary. In accordance with paragraph 156, guarantees and letters of credit should be issued only via the agent in cases of cross-border lending and project finance transactions. It is still not clear if this means that the common issuance of guarantees via ancillary lines under syndicated loans is to be prevented. Especially from the perspective of the borrower, this would significantly restrict the existing financing practice. The EBA should drop this requirement or at least expand on it in greater detail. It should also be clarified that the due diligence required by paragraph 156 applies only to agents or designated entities previously unknown to the institution.	The EBA agrees with the comment.	The EBA amended the text accordingly.
Reference to LTV	Stakeholders stated that mentioning of the LTV policy is missing, on which most loans with real estate collateral are supported. They stated that such a policy should be established with prudence, and that it should require the disposal of a rigorous valuation, which takes into account relevant market factors (liquidity, stability, etc.) that may affect the guarantee. Stakeholders also noted that this aspect is essential, especially considering that changes in the personal situation of borrowers	The EBA recognises the importance of the indictor. The guidelines emphasises the LTV dimension in Section 7 on valuation of immovable collateral, in Section 5 for CRE lending. The LTV ratio is also included in the annexes to the guidelines.	No action taken.

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	that weaken the initial risk analysis may become increasingly frequent, making the stability of the guarantee even more important. It is necessary to remember the great importance of these types of loans in the EU, which is why the CRR includes special dispositions for them, linked precisely to their LTV levels.		
Question 9. What are the respondents' views on the scope of the asset classes and products covered in loan origination procedures (Section 5)?			
Scope	Some stakeholders noted that the scope of the asset classes and products covered in the loan origination procedures outlined in the guidelines is very wide, as it includes mortgage loans (with a distinction between financing of the house of the borrower and other financing), consumer loans, professional loans, commercial real estate loans, promoter loans, shipping finance, and project and infrastructure finance. Given this, a more granular differentiation between activities is necessary. In particular, the common framework for regulating loan origination for mortgage loans and for consumer loans is not adapted to the characteristics of these loans, which are completely different in terms of amount, duration and impact on the borrower's financial situation. Therefore, the creditworthiness assessment of borrowers significantly differs from that of consumer credit (which takes an industrial approach where the human decision is often	The guidelines differentiate between loans to consumers and loans to business customers. As the guidelines for the former are based on the MCD and CCD legal basis, the consumer section is split into MCD-based secured lending and CCD-based consumer finance. The EBA has also identified, in the specific sections, loans granted to consumers and secured by immovable property collateral that are not mortgages. The creditworthiness assessment requirements differ for all three categories, recognising their specificities and industry practices. For business clients, the creditworthiness requirements are split between micro and small enterprises, and medium-sized and large other corporates. Furthermore, the guidelines provide specificities for the creditworthiness assessment in CRE, shipping, and project and leveraged finance – areas that have proven to be riskier and to contribute to higher level of NPLs based on the supervisory experience and experience from the past financial crisis.	No action taken.

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	mainly based on the result of scoring) and of mortgage credit (a tailor-made approach). One stakeholder mentioned that these types of loan do not fall under the scope of the CCD and MCD.		
Question 10. What are the respondents' views on the requirements for loan pricing (Section 6)?			
Regulatory burden	The implementation of the pricing framework, as referred to in paragraphs 189 and 190, requires an in-depth revision of banks' industrial accounting methods. Full implementation of these requirements would require banks to use relatively advanced management accounting methods in the context of internal capital and cost allocation. This could pose a huge challenge (in terms of organisation, cost and time) for many smaller banks, undermining their performance.	The EBA clarifies that the objective of the pricing section is not to set one common approach to pricing of credit or prescribe specific pricing strategies, but is to ensure that pricing of credit is risk based and reflects the riskiness of a loan and borrower. To this end, Section 6 of the guidelines sets out considerations for institutions to take into account when developing a risk-based pricing framework and pricing individual loans. Furthermore, the EBA clarifies that the application of Section 6 should be subject to the proportionality considerations, whose application has been clarified and expanded throughout the guidelines. The application timeline has been also reviewed to ensure that institutions have sufficient time to adjust, where necessary.	No action taken.
Proportionality	Overall, stakeholders welcomed the principle of proportionality as set out in paragraph 188, as a 'one size fits all' approach cannot be applied. The guidelines should likewise recognise the fact that not all institutions would necessarily use the exact profitability measures outlined in the draft	The EBA adjusted the wording to clarify that the draft guidelines do not prescribe any specific pricing strategies, as these remain business decisions of the institutions.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	guidelines. It should also be reflected that, while capital and funding costs would affect the profitability of a given loan to an institution and hence influence its initial willingness to lend, the actual pricing of the loan would be subject to wider considerations such as market competition. Finally, the guidelines should recognise and allow for the fact that institutions can and do find it expedient to put the pricing of a loan into a broader context. For example, the profitability of relationship loans would be reviewed at the client relationship level and not necessarily purely on a transactional level, whereas the profitability of acquisition financing could be viewed more on a transaction level. Stakeholders insisted on the importance of explicit rewording of the guidelines to better express the flexibility and adaptability – as long as an equivalent level of risk management efficiency is guaranteed – of the requirements listed in Section 6. As mentioned by the EBA itself during the public hearing of 20 September, it should be clearly expressed that 'The guidelines do not prescribe any specific pricing strategies, as these remain business decisions of the institutions'.		
Prescriptiveness	A requirement to consider the parameters listed systematically, for each loan, would lead to	The EBA agrees with the comment and has amended the text.	The EBA amended the text accordingly.

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	'pricing' standardisation and very formal conduct of business. This would be over-prescriptive and eventually would raise the cost of lending and lead to credit exclusion. Such a requirement would be disproportionately intrusive in the ordinary course of business, which primarily concerns institutions' management. It would be at the very limit of the prudential field, since it would impose regulation on what is currently part of a commercial judgement. Stakeholders also argued that the requirement that 'all transactions below costs should be reported and properly justified' (paragraph 190) is over-prescriptive. Paragraph 190 should be amended to read as follows: 'Material transactions and portfolios priced below costs should be reported and properly justified.'		
Regulatory capital	A particular area of concern that is not covered in the guidelines is how institutions should use regulatory capital for pricing decisions. There are institutions that only consider economic capital in their pricing models, therefore originating transactions that do not meet cost of capital requirements particularly in cases where economic capital is substantially lower than regulatory capital.	The EBA agrees with the point raised, and the guidelines have been amended to incorporate mispricing concerns.	The EBA amended the text accordingly.

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Paragraph 187(d)	The EBA specifies that institutions 'should define their approach to pricing by borrower type and credit quality and riskiness of the borrower'. However, some indicators proposed by the EBA are not risk sensitive or may not reflect the idiosyncratic risk of a counterparty. For example, how are banks supposed to determine the expected loss term mentioned in paragraph 187(d)? Should they use the regulatory expected loss? If so, the pricing could be disconnected from the risk perspective. For example, fixed LGDs are used under the foundation-IRB approach and therefore expected losses are not fully risk sensitive. It could even be worse in the future, since the upcoming implementation of the Basel reform will further reduce the risk sensitivity of the prudential framework. Alternatively, should banks use accounting or risk management expected losses? If so, the pricing could be inconsistent with the capital requirements and also the capital allocation.	The EBA acknowledges the recommendation and has addressed the proposed points in the guidelines; in particular, the text has been expanded to include the notion of portfolios and to reflect prevailing market conditions, return on risk-weighted assets and return on total assets as risk-adjusted performance measures.	The EBA amended the text accordingly.
Question 11. What are the respondents' views on the requirements for the valuation of immovable and movable property collateral (Section 7)?			
Use of advanced statistical models at the point of origination	Stakeholders were strongly opposed to banning advanced statistical models at the point of origination for the valuation of immovable	The EBA is of the view that valuation at the point of origination is a key stage in determining the value of an immovable property. For that reason, in the CP, the intention was to ensure that valuation at the point of origination is carried out with diligence and as	The EBA amended the text accordingly.

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	property collateral. Several stakeholders expressed this with various arguments. Stakeholders argued that disallowing the use of statistical models altogether would not contribute to making banks' standards more robust. Instead, it would result in additional costs, without direct benefits to the client or the bank. Strict restriction on the use of those models could hamper development in this market and the overall progress of the valuation market. Furthermore, in those cases where national legislation allows for the use of other methods for valuation (e.g. model-based valuations), this should be allowed, as national legislation supersedes the EBA guidelines. In addition, there should be an alternative option to use automated property valuation (and other forms of valuation, e.g. book value for professional lending) at the point of origination instead of an independent qualified valuer. Best practices/conditions for such an assessment should be included within the guidelines. It should be possible to revalue properties based on external data (e.g. based on indexation) without an external valuer and/or the advanced statistical models.	accurately and precisely as possible to avoid problems associated with over-valuation of property collateral. Valuation at the point of origination is one key step in the life cycle of the asset where valuation must be precise and accurate and must take into account all internal and external features of the property. The EBA, however, understands the arguments put forward by industry and amended to guidelines so that the use of advanced statistical valuation models at the point of origination is not banned altogether. In some Member States, institutions use advanced statistical models for various reasons including valuation at the point of origination. These Member States also apply prudential rules to ensure the regulation of these models and that these models are robust, transparent and accurate. Due to their statistical specifications, the use of advanced statistical valuation models is also limited to residential immovable property and cannot be used, for example, for commercial real estate with unique features (e.g. with no comparables). The EBA also understands the industry concerns on the cost implications of not using these models for large numbers of (seemingly) identical residential properties. After further analyses, the EBA is of the view that advanced statistical models can be used for the valuation of immovable property collateral at the point of origination, provided that these models are in line with the relevant prudential requirements set out in	

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
		the CRR and meet a set of standards that are introduced in the guidelines. These standards aim to ensure that the models and the valuation process are property specific, based on a representative sample, statistically accurate and precise, transparent, etc.	
Rotation of valuers	Paragraph 214 requires institutions to ensure an adequate rotation of valuers. Even though the underlying idea of ensuring the independence of valuers is understandable, this requirement seems disproportionate. The required rotation is not feasible at an acceptable expense, especially for SMEs. If other or external valuers have to be called in, the costs for drawing up the valuation would rise significantly. Ultimately, this could lead to small-scale property loans no longer being offered due to the associated costs or to the costs being transferred to the borrower. Such a development is not in the interests of either the banking supervisor or the consumer. In stakeholders' view, the regulation in paragraph 214 should therefore be deleted without replacement. If this request is not met, paragraph 214 should be amended to the effect that a rotation of valuers is not mandatory in the case of low-risk transactions. Similarly, in order to ensure high-quality valuations, it is essential that valuers obtain a deep knowledge of specific local real estate markets;	The EBA acknowledges that the requirement may have unintended consequences. The EBA amended the text so that banks can decide their own policies on rotation depending on the type of asset or risk associated with the transaction.	The EBA amended the text accordingly.

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	therefore, the same immovable property could be monitored/revalued by the same valuer over a significant period in order to maintain and enhance knowledge of the market, so the rotation requirement is not necessary.		
Scope/paragraph 191	It is a common and expedient practice in some banking markets to accept certain types of collateral for the purpose of improving the bank's negotiating position in respect of the borrower (for a potential scenario of financial difficulties of the borrower), but to waive the inclusion of the collateral value in the calculation of own funds requirements. A clarification is therefore needed that the requirements of Section 7 have to be applied only to collaterals with a positive value included in risk and capital management.	The requirements in Section 7 of the guidelines apply to collateral used for both asset-based lending and security/general lien. The guidelines do not make any differentiation between the two.	The EBA amended the text accordingly.
Portfolio assessment	Paragraph 195 suggests that 'institutions may consider using desktop or drive-by valuation approaches only in the cases of valuing or revaluing immovable property collateral (e.g. RRE and CRE) that is of similar design, specifications and characteristics to the ones already valued or revalued by a valuer, e.g. similar apartments in the same apartment block'. The stakeholders understand that, particularly in relation to larger portfolio transactions, a sample of properties may be valued, as opposed to a valuation being carried out for each and every property in the portfolio. The EBA guidelines should, therefore, be updated	The scope of guidelines is limited to the origination of loans and does not extend to portfolio purchases.	No action taken.

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	to reflect this relatively common approach to valuation.		
External panel of experts	Stakeholders suggested that a pool of external experts be available for valuation if the bank wants to use external experts. There are many small and regionally active banks that are unable to provide such pools. The quality of those experts is more important than the sheer number of experts.	The EBA agrees with the comment and indeed does not indicate a specific number of experts.	No action taken.
External panel of experts	According to paragraph 197, when institutions use external valuers, they should establish a panel of accepted valuers. In stakeholders' view, it should first be clarified that this refers merely to a list or compilation of valuers kept by the institution and not a panel in the meaning of a body. The regulation in paragraph 197 should be considered as met if only a corresponding list or compilation of accepted valuers is kept and the quality and independence of the valuers are guaranteed.	The EBA confirms that this requirement does not mean a panel of experts in the meaning of a body.	No action taken.
Indemnity insurance	Stakeholders asked for the requirement on indemnity insurance to be deleted, as they argued that this is not market practice.	The EBA agrees with the comment.	The EBA amended the text accordingly.
Sole means	Section 7.2.1, paragraph 211, states 'institutions may update the value of the immovable property collateral through a revaluation carried out by a valuer or through adequate advanced statistical	This is correct. The statement follows the EBA Q&A on the same matter.	No action taken.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	models accounting for individual characteristics of the property, where such models are not used as sole means for the revaluation'. With reference to the word 'or', it would seem that models cannot be used as the sole means of revaluation. Clarification is requested.		
Question 12. What are the respondents' views on the proposed requirements on the monitoring framework (Section 8)?			
Regulatory burden from monitoring	The requirements in this section are considered to be excessively complex and prescriptive, as they are unjustified in terms of costs and time, if the principle of proportionality does not apply. The guidelines require, among other things, regular monitoring of qualitative ('soft') information about the borrower (e.g. paragraph 238 requires monitoring of disagreements between owners and the quality of the management), the review of borrowers' sensitivity to external factors (in accordance with paragraph 248), the incorporation of the future macroeconomic outlook into customer risk assessments and regular evaluation of their access to financial resources (in accordance with paragraph 249), which will be extremely difficult because most banks' portfolios are relatively fragmented. Regarding paragraph 241, it is too burdensome (especially for small-scale lending institutions) to prescribe that the credit institution must check all borrowers on the point of granting (consumers with mortgage credits, consumer credit and all	While the EBA shares stakeholders' concerns regarding the proportionality and burden, ongoing monitoring of the credit portfolio, collateral and individual borrowers is an important feature of effective and efficient credit risk management. To address the concerns regarding application of the principle of proportionality, the EBA has clarified that the monitoring framework should be proportionate to the size, nature and complexity of the institution; the size, nature and complexity of the credit facility; and the type, size and risk profile of the borrower. The EBA also acknowledges that there might be some data gaps when it comes to the monitoring of loans originated prior to the application of these guidelines, and has introduced 3-year transitional arrangements to address such data gaps. Furthermore, the EBA has clarified that the monitoring framework should also factor in the loan repayment behaviour of borrowers. In addition, the focus of reporting has been clarified, namely that it is primarily at the level of the portfolio	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	professional creditors). For consumers, a periodic review on borrowers' payment performance should be sufficient. It is important to realise what the consequence for the borrower is if the borrower no longer fulfils the initial requirements for credit granting, but still adheres to the repayment schedule. One stakeholder mentioned that the requirement for institutions to continuously monitor the financial situation of borrowers to ensure that subsequent changes in credit risk can be identified is extremely onerous and that, if the loan is performing, the lender will have no reason to enquire into the borrower's financial situation and many borrowers might well resent any such intrusion.	and, where relevant and material, at individual exposure levels. Repayment behaviour has been incorporated into the guidelines, and additional elements of proportionality have been incorporated into the requirements for the regular credit reviews of corporate borrowers, focusing these requirements on at least medium-sized and large enterprises. The requirement regarding systematic collection of 'soft' information has also been streamlined.	
Proportionality in monitoring, especially in relation to SMEs	Many respondents stressed that the principle of proportionality should be better reflected within the monitoring section. Given this, stakeholders have proposed that the wording in certain paragraphs be changed to better reflect this principle, by replacing very prescriptive wording with expressions such as 'where applicable', 'where relevant' or 'in a manner that is proportionate with the risk taken'. To complement this, some stakeholders suggested that the principle of materiality/significance be introduced to better reflect this proportionality and to ease the administrative burden in relation to SMEs.	While the EBA shares stakeholders' concerns regarding the proportionality and burden, ongoing monitoring of the credit portfolio, collateral and individual borrowers is an important feature of effective and efficient credit risk management. To address the concerns regarding application of the principle of proportionality, the EBA has clarified that the monitoring framework should be proportionate to the size, nature and complexity of the institution; the size, nature and complexity of the credit facility; and the type, size and risk profile of the borrower. The EBA also acknowledges that there might be some data gaps when it comes to the monitoring of loans	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	One respondent explicitly requested that the requirements under Sections 8.1, 8.2 and 8.4 be made more compatible with retail and SME lending (i.e. revisions to paragraphs 231, 234, 238, 240, 241 and 252 to take into account the principle of proportionality). In the case of exposures to SMEs, it should be possible to monitor clients with the use of behavioural analysis, information retrieved from external databases, etc., without requiring clients to provide detailed information about their financial situation.	originated prior to the application of these guidelines, and has introduced 3-year transitional arrangements to address such data gaps. Additional elements of proportionality have been incorporated into the requirements for the regular credit reviews of corporate borrowers, focusing these requirements on at least medium-size and large enterprises. The text has been reviewed to introduce more proportionality and relevance considerations into the requirements. Proportionality in relation to the application of the requirements for SMEs has primarily been incorporated into the section on regular credit reviews. The use of 'at least' has been reviewed throughout the text.	
Granularity of requirements	Several respondents mentioned that monitoring requirements are often set out in a way that is too detailed and granular and with specific metrics, which should be left for the institutions to define. In particular, in relation to paragraph 243, two respondents mentioned that the level of detail of this requirement is too high. Such a differentiation is not necessary for risk management, especially for SMEs with less complex lending business. Each institution should be able to assess and define, individually, which type of concentration analysis is relevant.	The EBA acknowledges concerns that some requirements may be disproportionate and not relevant for all portfolios/types of credit exposures. To this end, the application of the principles of proportionality, materiality and relevance has been clarified throughout the guidelines. For the purposes of monitoring, the proportionality principle has also been reviewed to include considerations of the credit facility and borrower risk profile. The text of the section has been reviewed to better reflect the principle of proportionality and relevance.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	Similar concerns have been expressed in relation to paragraph 229, which was considered to be too granular.		
Materiality	Some stakeholders asked that explicit references to materiality be included. They considered the requirements very wide and granular and particularly difficult to comply with, not only for SMEs, but for all institutions, taking into account the proportionality principle, not to mention that all banks would have to face costs that are not proportionate with the loss risk of the transactions. The materiality of the risk of credit loss should be taken into account to a greater extent.	The EBA acknowledges concerns that some requirements may not be relevant for all portfolios/types of credit exposures. To this end, the application of the principles of proportionality, materiality and relevance has been clarified throughout the guidelines. For the purposes of monitoring, the proportionality principle has been also reviewed to include considerations of the credit facility and borrower risk profile. The text of the section has been reviewed to better reflect the principle of proportionality and relevance.	The EBA amended the text accordingly.
Proportionality by client segments	Some respondents considered that the CP does not differentiate between monitoring activities of different customer types. The requirements stated do not sufficiently consider the very different characteristics of the activities and the risk connected to the different client groups. It is not clear, for example, if the watch list requirements are also applicable to retail individuals' exposures. In particular, some stakeholders believe that the approach to early warning indicators does not seem suitable for adequately taking into account the different characteristics of institutions and customer groups. The requirements appear, in many sections, practical only for corporate customers, as banks establish a comprehensive	The EBA acknowledges concerns that some requirements may be disproportionate and not relevant for all portfolios/types of credit exposures. To this end, the application of the principles of proportionality, materiality and relevance has been clarified throughout the guidelines. For the purposes of monitoring, the proportionality principle has been also reviewed to include considerations of the credit facility and borrower risk profile. The guidelines already differentiate between the types of borrowers, including consumers and enterprises, which have been further split into micro and small enterprises and medium-sized and large enterprises. The EBA is not of the view that there is a need to set different monitoring requirements for various client	The EBA amended the text accordingly.

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	early warning system (EWS) compliant with IFRS 9 and the IRB approach, approved by regulators for retail portfolios. In line with the proportionality principle, it should be possible to define more different requirements for processes and data, depending on the size and complexity of the institution and the importance of the client segment for the institution. Some respondents suggested that the requirements be differentiated in line with the revised categories in Question 1 (i.e. retail and SMEs, and corporates) and that the most sophisticated requirements be reserved for material lending to corporates. Consistent with the approach adopted in other sections, the monitoring section put forward two different sets of requirements based on the 'consumer' and 'professional' categories. As mentioned, those categories are not adequate and fail to deliver the necessary proportionality. The requirements in Section 8.3 ('Credit review of professionals') will not be in line with industry practices for SME exposures managed under the retail segment, as banks commonly rely on behaviour scores. Annual credit reviews of SME borrowers are not needed with regular repayments over a fixed term (e.g. short-term business instalment loans, government guaranteed instalment loans and loans against property). The requirements under Section 8.3 should apply to 'corporate' counterparties only.	segments, as monitoring is primarily portfolio/exposure based. The EBA, however, clarified that the section on regular credit reviews applies at least to medium-sized and large enterprises. Furthermore, the EBA agrees that monitoring of consumers is primarily based on the monitoring of their repayment behaviour. Proportionality in relation to the application of the requirements for SMEs have been primarily incorporated into the section on regular credit reviews.	

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Scope of application	One respondent noted that it seemed that Section 8 applied to all exposures, whereas some exposures are excluded from Sections 5 and 6. They requested that it should be clear that the exemption from the requirements in Sections 5 and 6 would not be nullified by the requirements in Section 8.	The EBA has explained the different scope of application of each of the sections, where the requirements of Section 8 are linked with the requirements for internal governance arrangements set out in Section 4, and therefore apply to all credit exposures/credit facilities. This is to ensure that, irrespective of a narrower scope of creditworthiness assessment requirements, institutions have adequate governance and monitoring arrangements for all credit risks they take.	No action taken.
Portfolio versus loan-by-loan monitoring	In general, stakeholders found that a clearer differentiation was needed between portfolio monitoring and monitoring of individual exposures. For example, some respondents claimed that, while Section 8.6 appears to discuss EWIs for portfolio monitoring, paragraph 263 appears to imply that EWIs are to be set for individual exposures; while obviously banks need to monitor borrowers, setting and managing EWIs for individual borrowers is not practicable. Likewise, concerning Section 8.5 (stress testing), stakeholders do not consider it relevant or practical to conduct stress testing on individual exposures to assess risk. They suggest that it would be better to consider, where relevant, scenarios on concentrated exposures at portfolio level, as this is proven to be a more effective way to assess risk in a stress situation. Moreover,	The EBA acknowledges that, depending on the portfolios and customer segments, the focus of monitoring should be primarily on the portfolio level and, where relevant and material, on individual exposure levels. Whereas individual monitoring and, in particular, regular credit reviews apply to corporate borrowers, consumers and SMEs should be generally monitored on a portfolio basis. An early warning framework, however, should flag any issues for individual borrowers/exposures.	The EBA amended the text accordingly.

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	where relevant, banking groups' teams that undertake stress-testing exercises may ask subsidiaries for specific data or inputs to perform the process. Furthermore, the requirement to carry out a sensitivity analysis in relation to the plan submitted for individual major transactions, and not just the portfolio, is considered unjustified in terms of costs and resources. On the other hand, some respondents claimed that sensitivity analysis and stress testing are not commonly used in portfolio monitoring. In the case of relevant exposures, it is even less common to use macro or idiosyncratic impact analysis in credit monitoring. With regard to paragraph 241, some respondents noted that, in particular in small-scale lending business, implementation of the review requirements at the single borrower level would represent a disproportionately high effort for the institutions. As a rule, repayments are monitored automatically. In such cases, it is sufficient to prepare such reviews at the portfolio level. The requirements should be differentiated by the nature and risk of the lending transaction or an opening clause should be added.		
Monitoring of non-performing loans	One respondent suggested that the requirements in the guidelines give a false sense of security and do not fully cover the problem. As the objective is	The monitoring requirements cover both ongoing monitoring and regular reviews, with both being linked to the EWS and EWIs triggering specific actions,	No action taken.

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	to address non-performing loans, the requirements with regard to monitoring should address non-performing loans. For a lender, it is important to be approachable for borrowers running into arrears. Frequently requesting that borrowers provide information regarding their income, collateral and expenses situations will have the opposite effect. When these borrowers run into payment issues, they might not contact the lender for help, which could lead to larger issues. Stakeholders therefore advised that, when addressing the problem of non-performing loans, more focus be put on the special servicing phase for non-performing loans than on trying to manage performing loans. A borrower that is complying with the loan agreement and for which the lender has no indications that covenants or conditions have been breached does not deserve to be bothered with an extensive monitoring burden.	including customer arrears. Furthermore, the guidelines should be read in conjunction with the guidelines on non-performing and forborne exposures management, which specifically focus on monitoring of non-performing exposures.	
Monitoring of covenants	The requirements of covenant monitoring should be proportionate to the nature of loans, types of counterparties and risk taken, especially in terms of IT system considerations. While it is important to monitor covenants where applicable for specific types of loan, the practice should take into account the bank's overall credit-monitoring framework and its accuracy to monitor loan risk and prevent default. To this end, covenants provide further security and the possibility of monitoring the loan, and could be considered one	The EBA acknowledges that monitoring of covenants might not be relevant for all institutions, portfolios or credit exposures and, to this end, has clarified that these requirements apply only where relevant and applicable to specific credit agreements.	The EBA amended the text accordingly.

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	means, but not the panacea for monitoring loans. For instance, a covenant breach does not always lead to default, yet a default could occur even if no covenant is breached. Therefore, the borrower's adherence to covenants cannot be considered as an early warning tool; in particular, the delivery of a covenant compliance certificate is more an *ex post* consideration of the loan situation, rather than an early warning indicator. Stakeholders suggested that the EBA reconsiders the drafting of Section 8.4 with this in mind. In paragraph 233, the term 'covenant lite' was created and is common in the leverage finance universe. Therefore, it makes sense to limit the systematic monitoring of covenant-lite loans to the leveraged finance portfolio. Hence, this requirement should not be extended to the full loan portfolio. Stakeholders understood that the purpose of such monitoring is to track the performance of loans carrying elevated risk and, in their view, this purpose perfectly fits into the risk profile of the leveraged finance portfolio.		
Data protection/single customer view	The requirements to monitor the single customer view for 'consumers' is not feasible and will not bring material benefit to the credit-monitoring process. It is not market practice to have a single customer view for retail counterparties. There are system and infrastructure constraints, as no single system has the capacity to process and monitor	The EBA is of the view that, in order for the credit risk monitoring framework to be effective, it should be supported by an appropriate data infrastructure that allows institutions to understand borrowers' assets and liabilities and the collateral held at the institution on a consolidated level – the concept of the single customer view. The EBA acknowledges that, for monitoring purposes, such a view will be limited only	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	customer exposures across the various retail products effectively. With regard to paragraph 234, respondents raised concerns regarding the request to have a single customer view on risk data that banks have on their clients. The IT systems of different entities of a banking group might not be connected to each other. In most cases, a comprehensive view could be achieved only at a central level, not in each subsidiary of a banking group. Moreover, due to national requirements on data protection, among others, it would be extremely difficult to have this comprehensive view on retail clients. This paragraph should therefore be deleted. For example, for retail customers in the French retail market, there is a CNIL (French National Data Protection Commission) regulation that makes this provision impracticable. At the least, such a requirement would have to be challenged in the context of the GDPR. Moreover, concerning paragraph 263, some stakeholders raised the issue that data collection may not be possible due to the GDPR and/or information availability constraints. The same applied in relation to paragraph 229, as it was considered that it would also raise questions on data protection. Overall, it should also be ensured that the legal conditions exist for processing and long-term	to the information regarding exposures and collaterals in the institutions, and that this may differ from the information collected at the point of origination, where the view will also be based on information provided by the borrower regarding financial commitments in other institutions. All this information should be collected and used by the institution in accordance with all applicable legislation, including the GDPR and any national data protection legislation. The concept of the single customer view has been clarified in the definitions used for the purposes of these guidelines.	

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	storage of the extensive data. Because this information must also be collected for natural persons, stakeholders stated that it was necessary to concentrate on data that must necessarily be collected, so that institutions can demonstrate a justified interest under the EU GDPR with legal certainty. Stakeholders did not believe that this was sufficiently legally certain and transparent in the current draft guidelines.		
Data comparability	Several respondents have noted that, with the roll-out of a unique and unambiguous data model and data dictionary, institutions cannot be held accountable for the fact that their credit risk-monitoring framework allows for the use of peer group analysis. In addition, as indicated in this section, not all data can be used for comparison across other institutions: one example is the number of exceptions to credit policies, as credit policies of different institutions might be more or less strict. At the same time, some respondents have noted that the monitoring of credit risk and especially NPLs across comparable consumer segments could be a basis for defining predatory lending. If any financial service provider has an NPL ratio that negatively deviates significantly (from a statistical point of view) from its competitors (average), then their lending practices should be closely examined/investigated and considered inappropriate.	The EBA acknowledges the comment that peer group analysis across the institutions is not the objective of the institutions' monitoring framework and has amended the text accordingly.	The EBA amended the text accordingly.

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Monitoring of qualitative information	The requirements expect the use of a monitoring system that is, to a large extent, automated and works without undue delay, with little reliance on manual process. However, the guidelines state the importance of monitoring qualitative factors. Stakeholders noted that such qualitative information is inherently more difficult to automate, and its collection will give rise to data protection issues. The guidelines should therefore clarify that the ambition for automation is aimed more at the monitoring of credit and financial metrics than at qualitative information. With regard to paragraph 238, some respondents noted that, for small enterprises, these factors rarely predict risk, probably because of the large number of firms that a relationship manager and/or risk analyst would need to track. Furthermore, some respondents requested confirmation that qualitative factors in ongoing monitoring can be collected solely through documented credit review processes (e.g. through additional funding requirements or annual reviews).	The guidelines already differentiate between the types of borrowers, including consumers and enterprises, which have been further split into micro and small enterprises and medium-sized and large enterprises. The EBA is not of the view that there is a need to set different monitoring requirements for various client segments, as monitoring is primarily portfolio/exposure based. The EBA, however, clarified that the section on regular credit reviews applies at least to medium-sized and large enterprises. Furthermore, the EBA agrees that monitoring of consumers is primarily based on monitoring of their repayment behaviour.	The EBA amended the text accordingly.
Regulatory consistency	Some stakeholders noted the need for regulatory consistency, especially in defining certain concepts. For example, in paragraph 233, the term 'high risk' is misleading, as there is a notion of high-risk items in Article 128 of the CRR.	The EBA agrees with the concerns raised.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
Dealing with non-available information	Some respondents noted that the idea of a monitoring framework is very good and will help some credit institutions with putting a framework in place. The monitoring framework seems to assume that credit risk exposure can be managed in all cases. Assuming a portfolio of mortgage loans, monitoring makes sense, but managing the portfolio would not work. A borrower/loan that does not comply with, for example, the initial credit risk criteria would force the lender to take action. Mere non-compliance with the credit risk criteria is not in itself a reason to end the credit facility and force repayment (e.g. by putting the collateral to an auction). In that sense, informing the lender that certain criteria are not met also involves following up, which might not be in the best interest of the borrower. There is no consumer-friendly mechanism to force borrowers to periodically submit information. Therefore, whether or not non-compliance is a reason to end the credit facility needs to be clarified. It could give consumers a 'Big Brother is watching you' feeling.	The EBA acknowledges the concerns regarding collection and monitoring of qualitative information for consumers and SMEs and has revised the guidelines accordingly. Qualitative information should be, however, collected and analysed as part of regular credit reviews. To facilitate this, the EBA also introduced 3-year transitional arrangements to address data gaps for the stock of existing credit facilities originated before the application of the guidelines	The EBA amended the text accordingly.
Forbearance	Credit-refinancing procedures (especially with mortgages) should be considered adequately. If the same strict standards are to be applied as to any entirely new credit or higher credit amount, conditions that are too strict could cause the borrower's default instead of preventing it. This is especially true if consumers are able to repay their	The application of any forbearance measures is outside the scope of these guidelines; the topic of granting forbearance and its analysis is instead covered extensively in the EBA Guidelines on management of non-performing and forborne exposures.	No action taken.

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	previous instalments before the refinancing, despite a lower assumed creditworthiness. This would also be in line with the spirit of Article 28 of the MCD. In line with Article 28 of the MCD, lenders should exercise reasonable forbearance and try to prevent credit contacts from becoming non-performing.		
Regular credit review of borrowers for non-IRB approach institutions	Some respondents noted that, for an IRB approach institution for private property financing, the requirements on credit risk monitoring are largely already met (e.g. automatic order for payment system and automatic scoring procedure). However, according to paragraph 246, institutions should also, where appropriate, periodically update relevant financial information on the borrower and reassess creditworthiness to recognise the early warning signs of declining credit quality. In stakeholders' view, this goes far too far, as, even in the case of larger credit amounts, it is generally disproportionate to ask customers regularly (i.e. without good reason) for data that would indicate a particular risk. It is also disproportionate that, after a corresponding creditworthiness assessment (relating to the entire term of the credit), all customers should be written to, with documents requested and then evaluated (new scoring).	Regular credit review of business/corporate customers can be considered best practice in credit risk management and monitoring of corporate exposures, irrespective of whether institutions use internal models for prudential purposes or not. The EBA, however, agrees that the principle of proportionality should apply to such reviews and, to this end, has clarified that the requirements of regular credit reviews apply at least in relation to medium-sized and large enterprises. Additional elements of proportionality have been incorporated into the requirements for the regular credit reviews of corporate borrowers, focusing these requirements on at least medium-sized and large enterprises.	The EBA amended the text accordingly.

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	It is sufficient if, on the basis of the known data, ongoing behaviour scoring relating to the current commitment is undertaken. This would also be included in the risk provisioning. As long as the customer makes payments irreproachably, no consequences under contract law could be inferred from the findings in any case.		
Stress-testing requirements	One stakeholder noted that the requirements regarding stress testing in the monitoring process should be framed by the proportionality principle. Otherwise, when using a transaction-by-transaction approach, there is the risk of burdensome procedures, information and reporting requirements.	The EBA notes that the supervisory requirements for stress testing and, in particular, credit risk stress testing are already set out in the EBA Guidelines on institutions' stress testing, and there is no need to introduce overlapping requirements in these guidelines. The section on stress testing has been removed.	The EBA amended the text accordingly.
Early warning systems/indicators	In relation to the list of EWIs (paragraph 263), several of these indicators may differ depending on national/local factors (local accounting, market standards and laws, etc.), which might add an additional burden to efficient data collection and monitoring. Furthermore, several respondents pointed out that the list should not be seen as exhaustive or as a 'tick box' exercise to be performed point by point. With respect to the key risk indicators in paragraph 263, stakeholders deemed that the list proposed by the EBA does not allow timely detection of increased credit risk in their aggregate portfolio. For example, a significant drop in turnover would have a lagging effect that would not ensure promptness.	While the EBA understands the concerns raised, it is of the view that the credit risk-monitoring framework should have a sufficiently forward-looking dimension. Such a forward-looking framework should have a set of relevant early warning indicators, be linked to watch lists and incorporate appropriate follow-up actions, including additional and more intensive monitoring. The EBA has integrated the sections on early warning monitoring and watch lists, and has clarified that the list of elements in the former paragraph 263 are not actual indicators, but signals that need to be considered by the institutions in their early warning monitoring that could suggest possible deterioration of the credit quality of borrowers.	The EBA amended the text accordingly.

Comments	Summary of feedback received	EBA analysis	Amendments to the proposals
	One respondent suggested that a general disclaimer be inserted that information should be gathered if this does not involve undue cost and effort, that the information should be adapted to the local specificities and the materiality of the portfolios, and that the list of information should just be indicative, for adaption to relevant indicators. Alternatively, similarly to the requirements formulated in other parts of the guidelines, relevant proportionality considerations must be properly reflected in relation to the proposed list of EWIs and more generally within Section 8.	The sections on early warning systems and watch lists have been integrated and streamlined to identify the areas and signals that institutions should consider in their forward-looking monitoring activities.	