German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Comments

Supplementary comments to the GBIC's comments on the European Commission's proposals on the minimum coverage level for NPLs (backstop)

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent more than 1,700 banks.

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The European Commission (COM) published a proposal for a Regulation of the European Parliament and of the Council on amending Regulation (EU) No 575/2013 as regards minimum loss coverage for non-performing exposures (CRR draft) on 14 March 2018. The German Banking Industry Committee (GBIC) issued comments on this proposal on 25 May 2018. Further positions are presented and explained in the following to supplement the original comments.

Functioning of the backstop

The Commission's proposal means that banks will have to maintain additional capital for the uncovered part of non-performing loans (NPLs) (deduction from own funds) – capital was already reduced for the covered part:

- unsecured exposures have to be fully covered by own funds after only two years and
- secured exposures must be fully covered by own funds after only eight years.

In both cases, proportionate (percentage) capital deduction consequences arise starting on the first day of the second year following its classification as non-performing.

Consequences

a) In order to avoid a deduction from own funds, the bank sells its NPLs and must dispense with joint recovery activities with the client, as recovery generally takes longer than the periods proposed by the Commission. This mainly concerns corporate exposures, where recovery usually takes three to five years; in crisis situations, however, it also affects consumers (e.g. in strained real estate markets). As a rule, a promising recovery is ultimately successful and the company recovers. The debt purchaser's awareness of the own funds deduction obligation also places the bank, as the seller, in an unfavourable negotiating position. This leads both to a higher loss for the bank compared with recovery and potentially also to a loss of economic power on the part of companies that have not been restructured, including corresponding effects on the employment market.

b) As buyers of NPLs, banks are also effectively excluded by the functioning of the Commission's proposal, as the acquired NPLs would also fall under the disadvantageous proposed NPL rules. This leaves only the non- or less regulated sector (usually hedge funds) as a potential buyer of NPLs (see also the statistics, e.g. for Italy, see among others *Börsen-Zeitung*, 22 November 2017 issue, p. 4). These investors' business model is specifically designed to generate corresponding debtor repayments in the shortest possible time. There is no medium-term amicable joint recovery, as is usually the case in Germany between banks and borrowers. Such investors will no doubt adopt tougher measures than banks do. In principle, we do not understand why a transfer of NPLs to the unregulated sector is to be preferred. Investors there are correspondingly less protected against mismanagement and constitute only a relocated source of new risks to financial stability. It is unclear here why such a variant should be preferred, and it is evident that stipulating a blanket capital deduction of up to 100% will lead to unequal treatment.

Overall, the Commission's proposal thus encourages considerably stricter and profit-driven practices.

c) With regard to new loan extensions, banks will

- either extend no more loans at all to certain clients (e.g. medium-sized corporate customers without a rating and with a generally higher risk profile) or

- will only lend with correspondingly high interest spreads, which in turn will make the business unattractive for clients, leading in the aggregate to a weakening of the investment and innovation capability of the German economy (above all German SMEs), especially in light of the fact that the majority of financing in this context uses bank loans and there are only isolated opportunities to switch to the capital markets.

We are very sceptical in this respect about the revival in lending expected to happen due to the release of resources from the sale of NPLs. In particular, the capital base, which is a condition for extending loans, will be weakened.

Requests

We continue to believe that the need for a backstop rule arises primarily from the deficits at selected Member States or banks. Accordingly, it is logical to apply the rules only to selected banks. For this reason, we consider it appropriate that only banks with a correspondingly high NPL ratio (> 5%) should have to apply the rules.

As a minimum, some points of the Commission's proposal should be modified. In this respect, we are currently working on concrete proposals for amendments, which we will submit at a later date due to still ongoing coordination activities. However, the proposed amendments are also based in particular on the comments made here.

As the Commission's proposal – by requiring the unsecured part of the NPLs to be fully covered after only two years – has a negative impact, particularly for corporate clients and thus for the German economy, the two-year period should be extended to a period of three to five years. This period would be appropriate for covering the usual recovery period.

The backstop period for the secured part of the NPLs should be increased by at least one year to nine years, as liquidation of the collateral usually only begins after a failed recovery attempt. Even in well-functioning systems, such as in Germany, enforcement normally takes some time. As a rule, it normally takes six months to a year until the first date and the often necessary second date (in about 70% of cases). There is also a special aspect in cases where the workout or enforcement also depends on third parties who are involved. This is the case with promotional loans, for example, i.e. experience shows that the process will already be delayed by about a year for technical administrative reasons. Secured NPLs should thus be benefit from a permitted waiting period. In addition, greater consideration overall should be given to the fact that the deadlines should also "work properly" in a crisis, i.e. deadlines that appear adequate under normal conditions should not lead to further escalation and hence procyclical effects in times of crisis.

Accordingly, the date on which the backstop will first apply to collateralised loans should start after the backstop period granted for unsecured NPLs, i.e. after three to five years. Additionally, the increasing backstop ratios should rise more progressively over the period, so that these minimum ratios correspond more closely to the actual recovery rates.

Moreover, the 100% coverage required by the Commission, even for unsecured loans, is not appropriate because practical experience in Germany shows that banks generally always receive proceeds. To our knowledge, the recovery rates for both unsecured and secured exposures are relatively high, so the backstop should be limited to a factor of a maximum of 0.8 (80%) for secured exposures and a maximum of 0.9 (90%) for unsecured exposures. The data available from special-purpose institutions on the proceeds from collateral (for example, loss data from the vdp) shows that a recovery ratio is always to be expected when real estate collateral is liquidated. This no doubt varies from jurisdiction to jurisdiction, as does the duration of the proceedings to be pursued, but the historical data does not contain any indication that the claim or collateral can be expected to be worthless after a period of seven or eight years.

We would also like to point out once again that the approach adopted by the Commission does not reflect the accounting viewpoint, and its arguments further contradict other conservative valuation methods, such as the concept of the mortgage lending value. We note that the Commission considers the issue of risk coverage to be an element of the backstop, but the lack of quantitative evidence of the worthlessness of collateral after a certain period has expired undermines other value estimates.

Banks that buy NPLs and NPLs purchased at the market price should be excluded from the backstop. This could be resolved in the text of the regulation, for example, so that, for the purposes of Article 36(1)(m) of CRR draft, the "exposure" should generally not include purchased loans that had the status of "non-performing at the seller. It is not clear why only unregulated market participants or (equally unregulated) specialised AMCs (Asset Management Companies within the meaning of the Blueprint), but not banks specialising in NPL workouts, should be recognised as purchasers of NPLs.

Besides the purchased NPLs, NPLs that are accounted for at fair value through profit or loss or for which part of the original receivable was written off through modification within the meaning of IFRS 9 should also be excluded from the backstop. In the case of loans measured at fair value, a deterioration in credit quality or classification as an NPL leads to a direct write-down of the carrying amount with a corresponding reduction in regulatory capital, and no risk provision is recognised. In accordance with the current EBA regulatory technical standard (RTS), changes in the fair value of exposures measured at fair value through profit or loss are not classified as specific credit risk adjustments (see Delegated Regulation (EU) No. 183/2014 of 20 December 2013). This would lead to doubling the burden on the institutions, which in our opinion cannot be intended. In addition, for exposures recognised at fair value through profit or loss, additional valuation adjustments must be charged in accordance with Article 34 CRR, which also negatively impact regulatory capital.

From our perspective, the Commission's proposal is an expression of an existing misunderstanding or an overly general understanding of the NPL problem. The faster reduction of existing or future NPLs in banks' balance sheets does not address the real problem, but merely tackles a symptom of existing risks and risk management deficits. In addition to being "exposures with increased risks" and an indication of potentially inadequate risk management, NPLs are ultimately risks that have already occurred and have already been provisioned. The assessment of the appropriate amount is the responsibility of the auditor. A reduction of NPLs in banks' balance sheets as an end in itself thus bypasses the actual core problem and only prevents the risk of new defaults to a very limited extent. What is more important, also in terms of the way forward, is the improvement in the institutions' risk management practices, internal control systems and risk cultures that are assessed in the supervisory review and evaluation process (SREP). In our view, the backstop is not a suitable, sustainable solution for these purposes due to the "side effects" already mentioned several times. Especially in stress situations, the threat of capital withdrawal – which can be expected to be more pronounced and affect a higher number of banks because of the crisis – will lead to precipitous decisions. Furthermore, it should be noted that experience shows that, in retrospect, "sitting tight" in a crisis often led to the least disruptive effects for both the bank and the client. By contrast, this rule encourages what experience tells us is the worst or most unprofitable solution, since selling at the "lowest price" is more frequently necessary. As a result of the ultimately higher losses, financial difficulties at banks can actually even be exacerbated.

The following simplified example is intended to concretise the discussion of the proposed rules, which we continue to view critically for the fundamental concerns outlined above, as well as to illustrate the high level of complexity, which is also associated with a high implementation effort.

Example of the backstop calculation methodology

Initial scenario: The bank uses SA, it currently has two non-performing loans in its portfolio, reference date 31 December 2018[1]

NPL 1:

- Residential mortgage loan of 100
- Value of real estate collateral: 100 as at 31 December 2018

NPL classification following default (90 days) on 1 December 2012; a four-year phase of recovery measures/efforts was followed by an application for foreclosure on the property at the end of 2015, a date for the foreclosure has still not been fixed after more than two years.

Specific loan loss provision (SLLP) recognised in the amount of 20

NPL 2:

- Corporate loan of 100
- secured by transfer of title to machinery for security purposes with a CRR carrying amount of 0

NPL classification following default (90 days) on 1 December 2017

SLLP recognised in the amount of 60

Calculation methodology for the amount of insufficient coverage (capital deduction) in accordance with Article 47c of CRR draft

The calculation steps are described in the following:

1. <u>Calculation of collateralised/uncollateralised parts of non-performing exposures</u>

NPL 1:

Possible variants of the interpretation of Article 47c of CRR draft to derive the "secured part" in the treat-ment of (residential) mortgage loans, as the wording does not appear sufficiently clear with regard to the scope and amount of eligible collateral.

Variant 1: Use the collateral value to determine the collateralised part

- Secured part 100 / Unsecured part 0

[1] The following dates do not refer to the concrete application date of the Commission's proposal: Article 469a of CRR draft, according to which the new requirements refer to loans that became non-performing on or after 14 March 2018, is disregarded in the example. The example is merely illustrative. For reasons of simplification, discounting effects were not considered in the calculation of the risk provisions.

Variant 2: Limited to the collateral value in accordance with SA requirements for "non-genuine real property credit splitting" in accordance with Article 125 of the CRR

- Secured part 80 / Unsecured part 20

Use of the factor of 80% serves exclusively to determine the risk weighting in the standardised approach to credit risk (CRSA) for real estate loans. This becomes particularly clear if we look at the future regime in the "final Basel III standard". After a very heated debate and lengthy negotiations, a political compromise was reached that the part up to a loan-to-value of 55% will be treated in future with a 20% risk weighting. In our opinion, this shows very well that this factor is completely unsuitable for distinguishing whether or not an NPL is secured.

Variant 1 is used in the further calculation. The assessment of the collateral value could be derived from legal opinions commissioned by a court or expert opinions prepared in accordance with market standards.

NPL 2:

Transfer of title to the machinery for security purposes does not correspond to the collateral recognised under the CRR.

- Secured part 0 / Unsecured part 100

2. <u>Calculation of the applicable factor according to Article 47c(2) and (3) of CRR draft</u>

NPL 1: (in this case on the basis of variant 1, as variant 2 would require a separate calculation for secured and unsecured)

Reference date: 31 December 2018

Date of classification as NPL: 1 January 2012, reason: 90 days in default

Vintage: 6 years, 1 month

- leads to a factor of 0.55 according to Article 47c(3)(k) of CRR draft

NPL 2:

Reference date: 31 December 2018

Date of classification as NPL: 1 December 2012, reason: 90 days in default

Vintage: 1 year, 1 month

- leads to a factor of 0.35 according to Article 47c(2)(a) of CRR draft

3. Calculation of the sum of the non-performing exposures multiplied by the applicable factor according to Article 47c(1)(a) of CRR draft (minimum coverage)

NPL 1: 100 x 0.55 =	55
NPL 2: 100 x 0.35 =	35
Total	**90**

4. Calculation of the existing items according to Article 47c(1)(b) of CRR draft

Existing specific credit risk adjustments that "relate to a specific non-performing exposure":

NPL 1: SLLP of	20
NPL 2: SLLP of	60
Total	**80**

5. Calculation of the amount of insufficient coverage

Sum of non-performing exposures, multiplied by the applicable factor

Minimum coverage in accordance with Article 47c(1)(a) of CRR draft	90
– Calculation of the existing items according to Article 47c(1)(b) of CRR draft	80
Amount of insufficient coverage (capital deduction)	**10**

This calculation assumes that the calculation formulated in Article 47c(1) of CRR draft for the inclusion of credit risk adjustments in item (b) does not require consideration of the individual exposure, i.e. the recognised risk provision can be compared overall with the calculated total minimum coverage. However, if the amount of insufficient coverage has to be calculated per NPL risk exposure, the result would be different (capital deduction of 35 instead of 10).

NPL 1:	55 – 20 =	35	→ Capital deduction	35
NPL 2:	35 – 60 =	–25	→ Capital reduction	0
Total		**10**		**35**

Requests regarding the above example

Based on the wording of Article 47c of CRR draft, we assume that the negative value from NPL 2 ("hidden reserve") may be included in the overall total NPLs and hence the capital deduction per exposure does not have to be added up. There are significant differences in the result due to the offsetting effects. This also corresponds to the explanatory memorandum to the draft Regulation, where it reads: "The following items would be eligible for compliance with the minimum coverage requirements: a) provisions recognised under the applicable accounting framework ('credit risk adjustments'), i.e. the amount of specific and general loan loss provision for credit risks that has been recognised in the financial statements of the institution;..."

A single exposure-based assessment also has to be rejected as it would mean exposure-related deviations from the one-size-fits-all backstop always leading to capital deductions. This also happened if sufficient reserves or excess reserves were established in other exposures in the sense of backstop calibration.

In contrast to the more general wording in Article 47c of CRR draft, Article 111 of the CRR could therefore have the unjustified intention of the rejected single exposure consideration described above being applied, or there being no compensatory effects. There should therefore be a corresponding clarification that no single exposure consideration is applied.

6. <u>Calculation of the proportionate deduction amount per exposure</u>

In line with a calculation that offsets existing reserves, the remaining deduction amount must be distributed proportionally to the exposures with insufficient coverage. A direct deduction of the single exposure-related deduction items in accordance with Article 36(1)(m) of CRR draft would lead in the aggregate to an excessive reduction of the exposure value (as the offsetting effects would be ignored; in the above example 35 would be deducted, although the total deduction is only 10). Only the actual capital amount (10) actually deducted by the backstop may therefore be taken into account when determining the exposure amount in accordance with Article 111 of the CRR.

Eligibility of physical collateral using the example of vehicles

There is a need for clarification in Article 199(8) of the CRR by the addition of a sentence 2 to the effect that, for selected physical collateral such as vehicle collateral, the requirements of Article 199(6)(a) of the CRR – with regard to a liquid market – and Article 199(6)(b) of the CRR – with regard to well-established, publicly available market prices – are deemed to be fulfilled.

Under Article 199(6) of the CRR, the competent authorities must permit the use of physical collateral for credit risk mitigation in the IRB approach if the conditions of that paragraph are fulfilled. However, compliance with the conditions of Article 199(6)(a) and (b) of the CRR is beyond the control of the institution. Article 199(8) of the CRR therefore sets out that EBA will disclose a list of types of physical collateral for which institutions can assume that the conditions referred to in points (a) and (b) are fulfilled. There is a functioning used car market in the EU countries on which vehicles can be sold quickly. Furthermore, agencies such as DAT determine used car prices that are publicly available. Nevertheless, in the past, the EBA has refrained from disclosing a list.

This leads to regulatory uncertainty, which may have a serious impact on the level of the backstop provisioning requirement. There is therefore an urgent need for legal clarification. It should also be taken into consideration that there are no comparable requirements for recognising leased vehicles as a credit risk mitigation technique. However, there is practically no difference between leasing and secured financing from the perspective of the collateralisation effect and marketability.

A more detailed explanation can be found in the Annex.

Eligibility of cash collateral

The part of the NPL secured by cash collateral should not be included in the calculation of the backstop; alternatively, the recognised cash collateral should reduce the deduction from own funds. In contrast to financial collateral in the form of securities, the value of cash collateral does not change. Any currency fluctuations are already taken into account through extensive haircuts.

Eligibility of other collateral

Other forms of financial and liquid collateral should also be mentioned, as they should be considered in principle. Examples include the assignment of life insurance policies.

Overall, the same treatment should apply for all banks with regard to the recognition of collateral. This is not provided for in the current proposed Regulation, which states that different credit risk mitigation techniques would be recognised for banks using the SA and IRBA. Appropriate recognition of collateral could reasonably be derived from internal collateral valuation processes used for internal management and ICAAP purposes or reviewed in the SREP.

Discrimination in the sense of a level playing field

In addition to our lack of understanding already mentioned as to why banks should be excluded or disadvantaged from managing NPLs in their business activities, and are thus effectively excluded, there are other aspects that lead to a critical assessment. In the first instance, it should be noted that the capital deduction rule, which only applies to banks, constitutes a disadvantage for banks compared with other market participants that is a restriction on competition.

In addition, there is a further disadvantage for European banks in the international, non-European context, for example because there are no corresponding deduction rules in the framework of the BCBS standards, which were actually created internationally for the purpose of establishing uniform capital rules.

We also have concerns in the national context in light of the discussions held with the German tax authorities regarding the recognition of specific loan loss provisions. The recognition and amount of specific loan loss provisions and risk provisions are regularly called into question here. As a result, this commonly leads to the taxation of specific loan loss provisions or often to voluntary taxation in practice to steer clear of these discussions. Taxation is effectively an additional provisioning component, but it is not taken into account as a risk provision even though it is reimbursed as soon as the loss is realised. This is a blatant contradiction in light of the regulatory requirements. As a result, these tax burdens lead to further disadvantages for German banks in the European context.

Ultimately, the sum of the aspects presented above contributes to the critical attitude of the German Banking Industry Committee towards the proposed Regulation.

Summary of the need for modification / clarification

Derived in part from the simple example shown above, our proposals for modifying the European Commission's proposal for a Regulation are presented in the following.

Core positions:

1. The Commission's proposal should only apply to banks with a high NPL ratio. In the case of banks and jurisdictions with low NPL ratios, the unwanted effects on the economy and on customer relations (incentive for "ruthless liquidation" instead of recovery efforts culminating in recovery), as well

as the effort needed to implement and apply the complex rules and the risk of potential management errors, are too large or unjustified.

2. GBIC fall-back positions: The backstop should at least

   a. be calibrated to extend the periods until the maximum minimum coverage is reached and to reduce the maximum minimum coverage from 100% to 80% (for secured exposures) or 90% (for unsecured exposures)

   and

   b. create an acceptable arrangement for banks as buyers of NPLs (to reduce the migration of NPLs to the shadow banking sector) and for NPLs accounted for at fair value.

Specific proposals for amending the draft Regulation will be made in a separate delivery.

Annex: Eligibility of physical collateral using the example of vehicles

Physical collateral should be allowed. Among other things, this also applies to vehicle collateral that meets the conditions of Article 199(6) points (a) and (b) of the CRR with regard to requirements for liquid markets and well-established, publicly available market prices.

At least in the countries of the European Economic Area, but also in many other countries, there are functioning used car markets on which motor vehicles can be sold quickly. In our opinion, this meets the requirement for liquid markets for physical collateral. Generally accepted, publicly available market prices are provided by services such as DAT, as well as numerous portals such as AutoScout24. We believe that the requirements set out in Article 199(6) points (a) and (b) of the CRR are fulfilled in this respect.

Since meeting the conditions of Article 199(6) point (a) of the CRR with regard to a liquid market and of point (b) with regard to generally accepted, publicly available market prices is beyond the control of the institution, and the competent authority can question the assessment of the institution and thus create considerable legal uncertainty, Article 199(8) of the CRR stipulates that the EBA will disclose a list of types of physical collateral for which institutions can presume that the conditions of Article 199(6) points (a) and (b) of the CRR are considered to be fulfilled. Unfortunately, the EBA has not seen fit to publish such a list in the past. Instead, it should now be up to the competent authority to assess whether, on the basis of the credit institution's documentation, the conditions of Article 199(6) points (a) and (b) of the CRR are to be regarded as fulfilled. Against the background of the associated uncertainty, there is an urgent need for clarification by the lawmakers by adding a sentence in Article 199(8) of the CRR that the conditions of paragraph (6) points (a) and (b) of the CRR are to be regarded as fulfilled for vehicle collateral. This would also be necessary because there are no comparable requirements for the recognition of leased vehicles (see Article 199(7) in conjunction with Article 211 of the CRR) as a credit risk mitigation technique. However, there is practically no difference between leasing and secured financing from the perspective of the collateralisation effect and marketability.

In accordance with the previous version of the German Solvency Regulation (see section 161 of the old version of the Solvency Regulation), which transposed the requirements of the CRD for recognition as a credit risk mitigation technique into German law at the time, BaFin acknowledged that the requirements with regard to a liquid market (see section 161 no. 1 of the old version of the Solvency Regulation) and well-established, publicly available market prices for motor vehicles (see section 161 no. 2 of the old version of the Solvency Regulation) are to be regarded as fulfilled. The requirements of the former Solvency Regulation have been replaced by the requirements of Article 199(6) points (a) and (b) of the CRR without any substantive changes with regard to the requirements for a liquid market and well-established, publicly available market prices for motor vehicles. The concretising BaFin interpretations no longer apply for formal reasons in this respect. Moreover, BaFin's administrative practice is not binding on the ECB, which supervises the significant institutions. This exposes significant institutions in particular to a considerable regulatory risk if, after the introduction of a prudential backstop, the ECB were suddenly to no longer consider the requirements of Article 199(6) points (a) and (b) of the CRR to be fulfilled, with the NPL exposures of borrowers who have, for example, been undergoing restructuring for two years, would suddenly be confronted with a need for 100% coverage under supervisory law even if they are collateralised. This would also apply to loans secured by new vehicles. Since German GAAP requires the recoverable value of collateral to be taken into account when recognising the loan loss provision, a deduction from Tier 1 capital would have to be made for the secured part of all NPL exposures for which no specific loan loss provision is and may be recognised, which would not be objectively justified.

Valid vehicle collateral values

Vehicle collateral that meets the requirements of Article 199(6) of the CRR, is valid, based on these conditions. In addition to the requirements of Article 199(6) points (a) and (b) of the CRR, the institutions must also meet the requirements of Article 199(6) points (c) and (d) of the CRR for recognition as CRR collateral. For example, according to Article 199(6) point (c) of the CRR, the institution must analyse the market prices, the costs and effort required to liquidate the collateral and the proceeds generated from the collateral and, in accordance with Article 199(6) point (d) of the CRR, demonstrate that the proceeds generated are less than 70% of the value of the collateral in no more than 10% of all liquidations. Where there is material volatility in the market prices, the institution must demonstrate to the satisfaction of the competent authorities that its valuation of the collateral is sufficiently conservative. In particular, the validity of the vehicle collateral values is ensured by the proof required under Article 199(6) point (d) of the CRR. The institutions use estimates such as those provided by DAT and experience gained from the realisation of motor vehicles to estimate vehicle collateral values. To ensure a conservative valuation of the collateral, deductions are applied to the estimated collateral value; they are validated at least once a year and ensure that the requirements of Article 199(6) point (d) of the CRR are complied with.

Recoverable vehicle collateral after 8 years

In this case, too, compliance with the requirements of Article 199(6) of the CRR ensures that eight year-old vehicles constitute recoverable collateral, even if a low valuation must be assumed. Here, too, the starting point is an estimate based on market values, e.g. DAT. To ensure that the collateral is valid, a sufficiently conservative discount is applied to the collateral based on historical liquidation proceeds, which also takes into account the period from default to liquidation of the collateral and is validated at least once a year. This ensures that the requirements of Article 199(6) point (d) of the CRR are fulfilled and that the collateral is conservatively valued and valid.

Assumption that there is a liquid market and there are publicly available market prices for vehicles

In addition to the requirements of Article 199(6) points (a) and (b) of the CRR, the requirements of points (c) and (d) must also be fulfilled. Changes in the market values of the vehicles are monitored continuously and the validity of the vehicle collateral values is validated at least once a year, as well as during the year if there are negative changes in the used vehicle market. If the validation provides information that indicates the collateral values should be reduced by adjusting the discounts on the collateral, these adjustments are made. There are therefore no risks if the requirements for a liquid market and publicly available market prices for vehicles can be considered to be fulfilled.