

USER GUIDE FOR THE *EXPLANATION FORM FOR RMBS AND SME ABS TRANSACTIONS NOT ACHIEVING THE A1 COMPLIANCE SCORE*

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1. Introduction

1.1 What is the purpose of this form?

As of 16 October 2013, the Eurosystem may temporarily accept non-compliant RMBSs and SME ABSs as eligible collateral on a case-by-case basis, subject to the provision of adequate explanations for the failure to achieve the mandatory score. The purpose of this form is to provide a structured format for these adequate explanations and the action plan for achieving full compliance.

1.2 Who must submit this form and when should it be submitted?

All currently issued RMBS and SME ABS transactions that will not achieve the A1 compliance score for the latest loan-level data submissions to the European DataWarehouse as at 15 October 2013 (the “snapshot date”) are required to submit this form in order to remain eligible as Eurosystem collateral.

All newly-issued RMBS and SME ABS transactions issued as of 16 October 2013 that do not achieve the A1 compliance score must also submit the form to become eligible as Eurosystem collateral.

The form should be sent to the relevant national central bank (NCB) assessing eligibility. The information provided in the explanation form should correspond exactly to the status of the most recent loan-level data report submitted to the European DataWarehouse.

RMBS and SME ABS transactions that have achieved an A1 compliance score for the latest loan-level data submissions to the European DataWarehouse as at 15 October 2013 are not required to submit this form.

1.3 How will the Eurosystem use the contents of this form?

As announced by the ECB on 9 September 2013, all RMBS and SME ABS transactions for which this form is required that are not submitted to the relevant NCB by 15 October 2013 will be ineligible as collateral for Eurosystem operations as of 16 October 2013.

On 15 October 2013 the Eurosystem will take a snapshot of the latest loan-level data submissions to the European DataWarehouse. The Eurosystem will check the most recent loan-level data submissions and the information provided in the explanation form for consistency.

The assessment of whether an ABS transaction is within the tolerance range will be carried out based on the latest loan-level data submitted to the European DataWarehouse on the snapshot date.

Once the explanatory form has been submitted, no additional loans can be deemed “legacy assets” in an existing ABS transaction, and no additional missing mandatory fields can be deemed to be the result of “legacy IT system” issues. The Eurosystem will use the explanation form as a point of reference to confirm compliance with this guideline.

2. Definitions

2.1 General terms

Active loans

An active loan is a loan with a current balance that is not equal to zero.

Inactive loans

An inactive loan is a loan with a current balance equal to zero. For instance, inactive loans are loans that have been redeemed, prepaid, cancelled or repurchased, or have been defaulted on (with no further future recoveries expected).

2.2 Legacy assets

Legacy assets (see Figure 1) are those loans where some required mandatory fields cannot be reported, mainly because:

- a. data are not in the system, because they were only collected using non-electronic methods and were not converted into electronic form (but for other originated loans, these data are collected, stored in bank systems and reported in accordance with the ABS template); or
- b. data are not in the system, because they were not collected at the time the loans were originated (but for other originated loans, these data are collected, stored in bank systems and reported in accordance with the ABS template).

In other words, *a small percentage of active loans have missing data for a limited number of mandatory fields, but the remaining active loans have data for all mandatory fields.*

For the purpose of completing this explanation form, legacy assets are defined from an ***IT perspective*** (i.e. some mandatory fields are missing for less than 10% of active loans), rather than from a ***business perspective*** (loan origination date, origination channel, etc.).

2.3 Legacy IT systems

The legacy IT system issue (see Figure 2) can be summarised in the following manner: *a limited number of mandatory fields have missing data for almost all active loans, but other mandatory fields contain data for all active loans.* This data issue corresponds to a situation where the IT systems of the originator do not collect and do not store some mandatory data.

For the purpose of completing the explanation form, legacy IT systems are defined from an ***IT perspective***: some mandatory fields are missing for more than 10% of active loans. (If some mandatory fields are missing for less than 10% of active loans, this is considered a legacy asset issue.)

2.4 Not integrated IT systems following recent banking merger

This situation concerns originators that have recently merged, previously used different IT platforms and have not had the time to fully integrate their IT systems.

This data availability issue is similar to the legacy IT system issue and can be summarised in the following manner: *a limited number of mandatory fields have missing data for all active loans, but other mandatory fields have data for all active loans*. However, the main reason for not reporting the mandatory data is the lack of integration of IT systems (which store these mandatory data) following a recent merger. If the mandatory data were missing in the IT systems before the recent merger, the issue should be classified as a legacy IT system issue.

For the purpose of completing this explanation form, this issue is defined from an *IT perspective*: some mandatory fields are missing for more than 10% of active loans. (If some mandatory fields are missing for less than 10% of active loans, this is considered a legacy asset issue.)

In the explanation form, the data quality issues *legacy IT systems* and *not integrated IT systems following recent banking merger* are exclusive and cannot both be selected.

2.5 Data are available in the IT systems, but not yet reported

This issue concerns situations where the required data are stored in different systems and data providers need to consolidate these data from multiple systems before reporting them. This category also includes data availability issues related to the mapping of internal bank data with the template data (mapping geographical region, industry NACE code, etc.).

2.6 Human error

Human errors are defined on the basis of reporting errors in the latest loan-level data submissions to the European DataWarehouse as at 15 October 2013. They relate mainly to data errors, lack of compliance with the taxonomy for active loans, misreporting of inactive loans, inaccurate use of “ND,5”, lack of consistency between linked fields (e.g. primary income field is not completed, but primary income verification field is completed), information missing for a very small percentage of loans (which could be retrieved manually), etc.

3. Structure of the explanation form

The explanation form has four main sections. Only blue cells must be filled in by the data provider.

Please note that the form is interactive and macros should be enabled when opening the form.

3.1 NCB information section

The data provider is required to indicate the NCB to which the explanation form will be sent.

To which national central bank (NCB) will the explanation form be sent?

Please select the NCB:	<input type="text" value=""/>	<input type="button" value="Check consistency"/>
	<ul style="list-style-type: none"> Germany: Deutsche Bundesbank Greece: Bank of Greece Ireland: Central Bank of Ireland Italy: Banca d'Italia Luxembourg: Banque centrale du Luxembourg Malta: Central Bank of Malta Netherlands: De Nederlandsche Bank Portugal: Banco de Portugal 	
ABS transaction information		
ABS ID (ED Code)	<input type="text" value="RMBS12345678912345689"/>	

3.2 ABS transaction information section

The data provider is required to provide the registration ID for the ABS transaction in the European DataWarehouse (ED Code), the ABS transaction name, and the data provider's name.

The key item in this section is the **ABS ID**, which should not be misreported. The eligibility of ABS transactions required to submit a form will be assessed on the basis of the **ABS ID** submitted in the form.

ABS transaction information

ABS ID (ED Code)	<input type="text" value="RMBS12345678912345689"/>
ABS name	<input type="text" value="RMBS name here"/>
Data provider's name	<input type="text" value="Data provider's name here"/>

3.3 Adequate explanations for why the ABS transaction cannot achieve an A1 score

This section contains all the explanations that are deemed adequate by the Eurosystem in order to explain why the ABS transaction cannot achieve the A1 compliance score. Data providers are required to provide the relevant explanations for the ABS transaction by ticking the relevant boxes and completing the relevant sections (legacy assets, legacy IT systems, human error, etc.).

The section contains two subsections: data availability issues and human error.

Adequate explanations as to why the ABS transaction cannot achieve the A1 compliance score

<p>Does the ABS loan-level data submission have any data availability issues?</p> <p><input type="checkbox"/> Legacy assets</p> <p><input type="checkbox"/> Legacy IT systems</p> <p><input type="checkbox"/> Not integrated IT systems following recent banking merger</p> <p><input type="checkbox"/> Data are available in the IT systems, but not yet reported</p>
<p>Does the ABS loan-level data submission contain any human errors? e.g. data errors, lack of compliance with the taxonomy for active loans, misreporting of inactive loans, inaccurate use of "ND,5", etc.</p> <p><input type="checkbox"/> Human error</p>

3.3.1 Data availability issues

The subsection on data availability issues contains only four adequate explanation options:

- legacy assets;
- legacy IT systems;
- not integrated IT systems following recent banking merger;
- data are available in the IT systems, but not yet reported.

The options in this subsection are **cumulative**: the **data provider can indicate multiple explanations**, meaning that one ABS transaction can, for example, have three data availability issues (*legacy assets*, *legacy IT systems* and *data are available in the IT systems, but not yet reported*).

The data quality issues *legacy IT systems* and *not integrated IT systems following recent banking merger* are exclusive and cannot both be selected.

Legacy assets

If the ABS transaction has a legacy asset issue (*i.e. some mandatory fields are missing for less than 10% of active loans*), the data provider should tick the box marked “**Legacy assets**”.

<p>Does the ABS loan-level data submission have any data availability issues?</p> <p><input checked="" type="checkbox"/> Legacy assets</p> <p><input type="checkbox"/> Legacy IT systems</p> <p><input type="checkbox"/> Not integrated IT systems following recent banking merger</p> <p><input type="checkbox"/> Data are available in the IT systems, but not yet reported</p>
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Once the box marked “**Legacy assets**” has been selected, a new section entitled “**Legacy assets**” will become visible. The data provider is required to provide several explanations relating to this issue:

- legacy assets as a percentage of the total number of active loans;
- the number of mandatory fields that are not filled with data;
- a list of the mandatory fields that cannot be filled with data.

Legacy assets

Legacy assets as a percentage of total number of active loans:	<input type="text" value="4%"/>
Number of mandatory fields not filled with data:	<input type="text" value="3"/>
Please provide the list of mandatory fields that cannot be filled with data	
Field 1	<input type="text" value="PrimaryIncome"/> AR26
Field 2	<input type="text" value="PrimaryIncomeVerification"/> AR27
Field 3	<input type="text" value="PropertyPostcode"/> AR129

Legacy assets as a percentage of active loans must be **rounded to zero decimal places** (e.g. 4% instead of 3.578%).

Legacy IT systems

If the ABS transaction has a legacy IT system issue (*i.e. some mandatory fields are missing for more than 10% of active loans*), the data provider should tick the box marked “**Legacy IT systems**”.

Does the ABS loan-level data submission have any data availability issues?

<input type="checkbox"/> Legacy assets
<input checked="" type="checkbox"/> Legacy IT systems
<input type="checkbox"/> Not integrated IT systems following recent banking merger
<input type="checkbox"/> Data are available in the IT systems, but not yet reported

Once the box marked “**Legacy IT systems**” has been selected, a new section entitled “**Legacy IT systems**” will become visible. The data provider is required to provide several explanations relating to this issue:

- the date that this data availability issue is expected to be resolved;
- the number of mandatory fields that are not filled with data;
- a list of the mandatory fields that cannot be filled with data.

Legacy IT systems

By when do you expect to resolve this IT system issue?	December 2014
Number of mandatory fields not filled with data:	3
Please provide the list of mandatory fields that cannot be filled with data	
Field 1	PrimaryIncome AR26
Field 2	PrimaryIncomeVerification AR27
Field 3	EmploymentStatus AR21

Not integrated IT systems following recent banking merger

If the ABS transaction has an issue relating to not integrated IT systems following a recent banking merger, the data provider should tick the box marked “**Not integrated IT systems following recent banking merger**”.

Does the ABS loan-level data submission have any data availability issues?

<input type="checkbox"/> Legacy assets
<input type="checkbox"/> Legacy IT systems
<input checked="" type="checkbox"/> Not integrated IT systems following recent banking merger
<input type="checkbox"/> Data are available in the IT systems, but not yet reported

Once the box marked “**Not integrated IT systems following recent banking merger**” has been selected, a new section entitled “**Not integrated IT systems following recent banking merger**” will become visible. The data provider is required to provide several explanations relating to this issue:

- the date that this data availability issue is expected to be resolved;
- the number of mandatory fields that are not filled with data;
- a list of the mandatory fields that cannot be filled with data.

Not integrated IT systems following recent banking merger

By when do you expect to resolve this IT system issue?	December 2013
Number of mandatory fields not filled with data:	2
Please provide the list of mandatory fields that cannot be filled with data	
Field 1	BorrowerBasel3Segment AS22
Field 2	NACEIndustryCode AS42

Data are available in the IT systems, but not yet reported

If the ABS transaction has an issue relating to data that are available in the IT systems, but not yet reported, the data provider should tick the box marked **“Data are available in the IT systems, but not yet reported”**.

Once the box marked **“Data are available in the IT systems, but not yet reported”** has been selected, a new subsection entitled **“Data are available in the IT systems, but not yet reported”** will become visible. The data provider is required to provide several explanations relating to this issue:

- the date that this data availability issue is expected to be resolved;
- a description of the data availability issue, the impact on data quality (i.e. the number of loans and the number of mandatory fields) and the action plan for reporting all available mandatory data. This information should be included in the comment box.

Does the ABS loan-level data submission have any data availability issues?

Legacy assets

Legacy IT systems

Not integrated IT systems following recent banking merger

Data are available in the IT systems, but not yet reported

By when do you expect to report the data? November 2013

Please describe this data availability issue, the impact on data quality (number of loans and number of mandatory fields) and the action plan to report all the available mandatory data

Mapping of the internal data to NACEIndustryCode will be finalized by end-November 2013. The data will be reported for all active loans.

3.3.2 Human error

Human error is defined in Section 2.6 above.

The data provider is required to provide several explanations relating to this issue:

- the date that this issue is expected to be resolved;
- a description of the human error and the action plan to correct it. This information should be included in the comment box.

Does the ABS loan-level data submission contain any human errors?

e.g. data errors, lack of compliance with the taxonomy for active loans, misreporting of inactive loans, inaccurate use of "ND,5", etc.

Human error

By when do you expect to correct the human error? November 2013

Please describe the human error, the action plan to correct it and prevent future cases

Inactive loans were misreported (ND,2 instead of ND,5).

Two default-related fields (Arrears1MonthAgo and Arrears2MonthsAgo) for all active performing loans were misreported (ND,2 instead of ND,5).

PropertyPostcode was missing for around 15% of the active loans.

All the issues have been identified and will be corrected by end-November 2013.

A (non-exhaustive) list of frequent human errors is presented below.

- Data errors/mistakes
 - A small percentage of active loans (in an ABS transaction containing 10,000 active loans) are missing 15 mandatory fields, and all other active loans have all mandatory fields completed.
 - 20% of active loans are missing the **property ID** (with “ND1” indicated). Property IDs (like all ID-related fields) are used to track collateral over time. An ID of some kind should be provided in this field in order to allow the tracking of collateral over time. If the collateral was sold, “ND,5” should be indicated.
 - All active performing loans are missing **cumulative recoveries** (with “ND,2” indicated). Default-related fields are not relevant for active performing loans and should be filled with “ND,5” (“not relevant”), instead of “ND,2”.
 - All active loans are missing some interest rate-related fields (“InterestCapRate” and “InterestFloorRate”), with “ND,1” indicated. These fields are relevant if there are caps/floors (in which case, they should be completed using valid numerical data) and are not relevant if there are no caps/floors (in which case, “ND,5” ‘not relevant’ and filling them with “ND,1” is an error).
- Misreporting of inactive loans
- Inaccurate use of “ND,5” – instead of “ND,1” to “ND,4” – for data that are missing
- Lack of consistency between linked fields (e.g. primary income field is not completed, but primary income verification field is filled with data)

3.4 General comments section

This section contains a text box, in which the data provider can submit any comments relating to the data quality/data availability.

Please include below any specific comments about the data quality/data availability

4. Consistency check for the explanation form

Before submitting the form to the relevant NCB, the data provider is required to check the explanation form for consistency (see the consistency check button in the first section of the form).

Explanation form for RMBS and SME ABS transactions not achieving the A1 compliance score

To which national central bank (NCB) will the explanation form be sent?

Please select the NCB:

5. ABS transactions outside the tolerance range

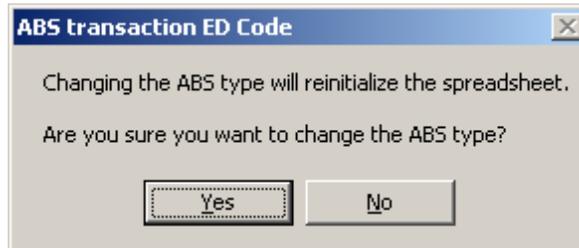
Some ABS transactions may have low data quality in terms of loan-level data submissions and may have more missing mandatory fields than can be reported in the explanation form. For example, 15 mandatory fields may be missing for all active loans, but the explanation form only allows 5 mandatory fields to be reported and explained. In this case, the data provider should prioritise, reporting and explaining the 5 mandatory fields that are the most difficult and costly to report in the loan-level data submissions, and then provide a written explanation for the remaining 10 mandatory fields in the comment box. During this self-assessment exercise, the data provider should reconsider its reporting strategy and establish a sustainable action plan in order to fully resolve its data quality issues.

6. Changing the ABS type

The explanation form contains different fields depending on the type of ABS that is being entered (RMBS, SME ABS). Users that have already begun entering information (or are working with a saved version) for one type of ABS should be aware that, upon entering an ABS ID for another ABS type will lead to the spreadsheet being reinitialized. The figure below illustrates the message that will appear for a user moving from an RMBS to an SME ABS; clicking on “Yes” will lead to the existing information being erased and the appropriate fields appearing.

ABS ID (ED Code)

RMBS12345678912345689



ABS ID (ED Code)

SMES12345678912345689

7. Questions regarding the explanation form

All questions regarding the explanation form can be addressed to:

Eligible-Assets.hotline@ecb.europa.eu