

## **Review of the Capital Requirements Directive/Regulation (CRDV/CRR II)**

Eurofinas, the voice of consumer credit providers at European level welcomes the work of the European institutions to strengthen the stability of the European financial system. In the context of the review of the Capital Requirements Directive/Regulation, the Federation would like to draw your attention to the application of the principle of proportionality.

As recommended by the European Commission, we believe smaller organisations should not be treated the same way as large systemically important financial institutions. However, we think that the criteria with which to define proportionality thresholds are currently too conservative and fail to consider key business model characteristics. Balance sheet should not be an exclusive criterion to assess whether or not a firm may qualify for a simplified or lighter regime.

**Why is it relevant for Eurofinas members?** In Europe, consumer credit firms either can be banks, bank-owned subsidiaries, independent firms or the financing arms of manufacturing companies (known as captive companies). When they are banks or belong to a banking group, consumer credit companies are required to apply EU prudential regulation, either directly at legal entity level or through the inclusion of their activities in the requirements that are applied to the group at consolidated level. Also, depending on the Member State, EU prudential regulation may be applied to financial institutions.

Consumer credit providers have specialist expertise, perform prudent collateral valuation and have in-depth knowledge of their customers with which they manage the risks that are part of their business. It is worth stressing that the specialised nature of consumer credit firms means that they have a unique understanding of their clients and asset markets and are able to track the level of risk they are exposed to very carefully.

In the wake of the global financial crisis, the EU introduced many reforms to restore public trust in the banking sector, and, most importantly, to prevent a similar disaster from unfolding in the future. Most of these post-crisis reforms rightly target systemic issues and therefore focused on large systemically important institutions. A key underlying reason is that failure of these institutions involved a great deal of public money.



**Low-risk criteria.** Firms that are involved in low-risk activities, such as consumer and motor finance, should not be subject to the same rules as larger institutions which, due to their very nature, can impact the sector in its entirety. Specialised lending institutions, typically focus on a selected number of products. They have small trading and derivatives books.

We think the burden of European prudential requirements on these specialised and smaller firms, including potential subsidiaries, is significantly higher than for other institutions. We therefore support the reduction of reporting, disclosure, and remuneration requirements. Against this background, we think the following technical criteria should be taken into account:

- Size of the activity based on existing thresholds as defined by the ECB/SSM and or the EBA for non-Eurozone institutions
- Size of the trading and derivatives books (for which we would advocate to define a relevant threshold at level 2)

In addition to these technical criteria, we think there is space to develop a more qualitative assessment which can use the Supervisory Review and Evaluation Process (SREP) as a benchmark. SREP well-established indicators which are already used throughout the EU by supervisory authorities are valid criteria in this respect. These include for example:

- Business model, profitability
- Internal governance and control
- Risk to capital
- Risk to liquidity and funding
- NPL ratio

We take the view that a fair and transparent application of the proportionality principle requires a contextual analysis. A unique criterion related to the size of a balance sheet seems to go against the current European supervisory methodology which precisely aims at a risk-based approach.

**Waivers.** We also think that waivers at solo level should be automatic and not discretionary. We believe that for LCR and NSFR purposes, liquidity subgroup status should be automatically granted for subsidiaries within the same Member State or different Member States. The double requirement both at solo and consolidated level does not reflect the way liquidity is managed in a centralised banking group. This is all the more relevant within the Eurozone where there are no restrictions on the movement of capital and payments.

**Remuneration.** Application of the principle of proportionality is extremely important with regard to rules and requirements on remuneration of staff. The remuneration principles in the CRD have been designed for large systemically important financial institutions, especially investment banks. Firms that are only involved in low-risk activities should not be subject to the same rules. In our opinion, an increase of the current threshold from 5 to 10 billion total asset value would reflect this objective.



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