

Basel Committee on Banking Supervision

Brussels, 24 June 2016

Re: *Consultative document on credit risk-weighted assets*

Dear Sir/Madam,

Eurofinas, the voice of consumer credit providers at European level, welcomes the opportunity to respond to the Basel Committee on Banking Supervision's (BCBS) consultative document on "Reducing variation in credit risk-weighted assets – constraints on the use of internal model approaches".

In 2015, consumer credit providers that are members of Eurofinas helped support European consumption by making more than 423 billion EUR goods, services, home improvements and private vehicles available to individuals, reaching 981 billion EUR of outstandings at the end of the year¹. Consumer lending is procyclical and is highly positively correlated with households' disposable income². By providing access to finance to individuals and households, consumer credit supports the social and economic well-being of millions of consumers across Europe.

The Federation supports the objective of the review to reduce complexity of the current regulatory framework, improve comparability and address excessive variability in the capital requirements for credit risk. We are however concerned by the potential detrimental impact certain recommendations could have on specialised credit institutions that Eurofinas represents.

¹ Eurofinas 2015 Annual Statistical Enquiry

² Eurofinas, *Consumer Credit, Helping European Households Finance their Tomorrow*, 2015

Basel requirements are primarily designed for internationally active institutions. These requirements may not all fit smaller-sized institutions or specialised business models. Consumer credit providers/asset financiers across the European Union (EU)/European Economic Area (EEA) encompass a diversity of organisations of different legal nature (i.e. specialised banks, finance houses) and with various operational characteristics (independent companies, subsidiaries of banks, captive finance companies of manufacturers). All share a very high degree of specialisation and have a very limited mix of business activities compared to traditional mainstream banking organisations.

In jurisdictions, such as in the EU/EEA where Basel standards apply to a wide range of firms, the impact of the review will be much more significant for specialised institutions. In particular, we are concerned that, due to a substantial increase in risk-weighted assets (RWAs) for specialised credit activities, subsidiary institutions will suffer from arbitrage decisions within their mother groups. Ultimately, this will have an impact on these firms' ability to lend to households as well as market competition.

Though we understand the reasoning behind the introduction of output floors, we think this proposal is not consistent with an internal modeling approach which is precisely designed to capture risk as accurately as possible. Output floors can also lead to less risk sensitivity. These remarks will certainly be addressed in detail by many other prominent stakeholders and we will therefore restrict our comments to key issues for the specialised firms that Eurofinas represents.

Exposures to large corporates

- The BCBS proposal to remove the IRB approaches for exposures to large corporates will lead to a major raise in RWA for these exposures. As subsidiaries of large corporates are also in the scope of this proposal, we believe many firms will therefore be disproportionately risk weighted. We believe this will have a major impact on the financing of the real economy.
- Additionally, we think credit institutions may have privileged relationships with certain manufacturers or vendors enabling them to have a very precise understanding of the risks they are exposed to. This is notably the case in the specialised consumer and asset finance sector where lending institutions are used to having very strong partnerships with producers/distributors. We believe this should be taken into account.

Parameter floors

- We think the concepts of secured and unsecured exposures are not sufficiently well defined. There should not be any room for interpretation regarding these terms.

Parameter estimation practices and fixed supervisory parameters

- *Probability of default*
 - We would support a more prescriptive approach as we think there are many concepts that could be interpreted differently.

- *Loss given default*
 - *A-IRB unsecured exposures* – We support the proposal to distinguish between a long-run average LGD and losses in downturn conditions. However, we think the concept of downturn period lacks clarity and should be further defined. In particular, it would be interesting to better understand how recovery periods should be treated (i.e. whether and how they should be associated to downturn periods).
 - *Exposure A-IRB modelled and collateral not modelled* – We take note of the treatment of unsecured exposures under the A-IRB approach and of fully or partially secured exposures under the F-IRB. This proposal is however disproportionately complex for smaller specialised institutions.
- *Exposure at default and credit conversion factors*
 - The proposed quarantine of EAD/CCF estimates where facilities are close to being fully drawn should be further clarified.
 - The restriction on EAD reference data is difficult to implement. We believe the EAD should be capped to the outstanding amount and to 100% of the unused amount of the credit facility.
 - The 12-month fixed horizon estimation approach does not seem consistent with a default in the year to come.

I remain at your disposal, should you be interested in discussing any specific issue. Alternatively feel free to contact my colleague Alexandre Giraud (a.giraud@eurofinas.org - tel: + 32 2 778 05 64).

Yours sincerely,



Leon Dhaene
Director General