Leaseurope
The Voice of Leasing and Automotive Rental in Europe

eurofinas
SPECIALISED CONSUMER CREDIT PROVIDERS IN EUROPE

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Leaseurope & Eurofinas response to the EBA consultation paper on its on draft Regulatory Technical Standards (RTS) specifying the different methods of prudential consolidation

Eurofinas and Leaseurope, the voices of consumer credit and leasing providers at European level, welcome the opportunity to respond to the European Banking Authority consultation on specifying the different methods of prudential consolidation.

Responses to the EBA Questions:

Q2. Do you consider SSPEs financial institutions? When SSPEs are consolidated for accounting purposes, do you also consolidate them for prudential purposes? Please differentiate in your answer between the situation when SRT is met and when it is not met (the institution originates the securitisation); and when the institution acts as an investor on the securitisation vehicle (whether this is a SSPEs or a special purpose entity used to set up securitisations) or sponsors the securitisation transaction.

We consider that securitisation special purpose entities ("SSPEs") and single purpose vehicles ("SPV-Sec") should not be classified as "financial institutions" as defined by Article 4 (1) (26) of the CRR, nor as "ancillary services undertakings" as defined by article 4 (1) (18) of the CRR.

An SSPE is structured with the sole purpose to isolate the securitised obligations from the originator. The holders of the beneficial interests (in the SSPE) have the right to pledge or exchange those interests without restriction. In addition, the new regulation for simple, transparent and standardised (STS) securitisations defines the special status of securitisation special purpose entities, distinguishing them from financial institutions (Article 2 (2) of the STS Regulation).

The activities of SSPEs and SPV-Secs are limited to purchasing receivables and refinancing the purchase price by issuing asset-backed securities or other financial instruments. Their legal status prevents them from engaging in other activities. This ensures that the purchased receivables and related collateral are always available as collateral cover to creditors.

A potentially required consolidation of the SSPEs under IFRS 10, should not lead to a required consolidation for prudential purposes. Therefore, we think that these entities should be deconsolidated for prudential purposes.

In the case of ABCP programmes, IFRS 10 may require the sponsor to consolidate as from an accounting perspective the sponsor may exerts significant influence over the ABCP programme. In addition, as stated in Article 25 (2) of the new STS Regulation, the sponsor is obliged to act as the liquidity facility provider.

If the regulation is amended to require that the special-purpose entity should be consolidated for prudential purposes, the application of the Internal Assessment Approach at group level would no longer be possible. As a consequence it would require sponsors to apply regulatory capital to all the receivables purchased by the SPV. This is not possible form an operational point of view as the sponsor bank does not usually have access to the specific information which is necessary to calculate the required risk weights of the purchased receivables.

In addition, deconsolidation is a pre-requisite for equity relief, following effective risk transfer from the institution (in its capacity as originator) to the securitisation SSPE. In the absence of prudential deconsolidation, the institution would be forced to maintain capital for the receivables transferred to the securitisation SSPE with legal effect, thus preventing any capital relief for the institution.

Therefore, in order to allow business and households to continue obtaining funding through ABCP programmes in Europe, we call upon the EBA to oppose the prudential consolidation of SSPEs and SPVs-Sec.

Q7. Do you have any comment on the application of proportional consolidation according to Article18(4) of Regulation (EU) No 575/2013 ?

The conditions are too narrow, so the application of the proportional consolidation is restricted to a few exceptions. Hence, due to the partial fulfilment of the required conditions and for simplification purposes, institutions should consider the potential risk to which they are exposed towards those undertakings only as counterparty risks.

For instance, in the leasing business, joint arrangements are funded by the parent institutions on a mix of equity and credit financing on a non-recourse basis. The liability is therefore not limited to the share of the capital they hold.

In line with IFRS 11 the approach for joint arrangements should be also within the scope of prudential consolidation, but the equity method should be used independently of whether a joint arrangement is classified as a joint operation (if structured through a separate vehicle) or as a joint venture.

In addition, the requirement of proportional consolidation should be removed in cases where financial institutions are managed with one or more undertakings not included and the liability of the parent undertaking is limited to the share of the capital they hold (according Article 18 (4)).

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About us

The membership of our two Federations covers institutions specialised in one or more of the following activities:

- Lending to consumers, for instance via personal loans, credit cards or lease/hire purchase agreements
- Leasing to businesses of all asset types, including machinery and industrial equipment, ICT and others assets
- Motor finance, granted to individuals or businesses, either in the form of loans or leases

The consumer credit, asset finance and leasing markets have developed to respond to business investment and consumption needs as well as to accompany the development of local industrial production and distribution. The types of institutions represented by the Federations include specialised banks, bank-owned subsidiaries, the financing arms of manufacturers as well as other, independently-owned institutions.

Specialised financial services providers across the European Union (EU)/European Economic Area (EEA) encompass a diversity of organisations of different legal nature (i.e. credit institutions, financial institutions) 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 2016, the leasing firms represented through **Leaseurope's membership helped European businesses invest in assets worth more than 334 billion EUR**, reaching 779 billion EUR of outstandings at the end of the year[1]. Leasing is used by more European SMEs than any individual category of traditional bank lending taken altogether (around 40% of all European SMEs make us of leasing which is more than any other individual form of lending)[2] and is also extremely popular amongst larger corporates[3]. It is also extremely useful to support the public sector (e.g. leasing to schools, hospitals, etc.).

[1] Leaseurope 2016 Annual Statistical Enquiry
[2] Oxford Economics, *The Use of Leasing Amongst European SMEs,* 2015; Eurostat, *Access to Finance Statistics,* 2011; International Finance Corporation *Leasing in Development: Guidelines for Emerging Economies,* 2009; European Investment Fund *The importance of leasing for SME finance, 2012*; and UEAPME, *UEAPME Newsflash,* 2012
[3] European Central Bank, *Survey on the Access to Finance of Small and Medium-Sized Enterprises in the Euro Area* , April 2013

In 2016, consumer credit providers that are members of **Eurofinas helped support European consumption by making more than 457 billion EUR goods, services, home improvements and private vehicles available to individuals**, reaching 1.024 trillion EUR of outstandings at the end of the year[4]. Consumer lending is procyclical and is highly positively correlated with households' disposable income[5]. By providing access to finance to individuals and households, consumer credit supports the social and economic well-being of millions of consumers across Europe.

Eurofinas and Leaseurope are entered into the European Transparency Register of Interest Representatives with ID n° 83211441580-56 and 430010622057-05

[4] Eurofinas 2016 Annual Statistical Enquiry

[5] Eurofinas, *Consumer Credit, Helping European Households Finance their Tomorrow,* 2015