

Brussels, 21 February 2018

Leaseurope & Eurofinas comments on the European Commission Draft Delegated Act amending the Commission Delegated Regulation on the Liquidity Coverage Ratio ('LCR')

Eurofinas and Leaseurope, the voices of consumer credit and leasing providers at European level, welcome the opportunity to comment on the European Commission Draft Delegated Act amending the Commission Delegated Regulation on the Liquidity Coverage Ratio ('LCR').

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

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. Leasing is used by more European SMEs than any individual category of traditional bank lending taken altogether (around 40% of all European SMEs make use of leasing which is more than any other individual form of lending) and is also very popular amongst larger corporates. It is also useful to support the public sector (e.g. leasing to schools, hospitals, etc.).

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. Consumer lending is procyclical and is highly positively correlated with households' disposable income. By providing access to finance to individuals and households, consumer credit supports the social and economic well-being of millions of consumers across Europe.

General Comments:

1) Specialised financial services providers across the European Union (EU) 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 on low risk activities and have a very limited mix of business.

European prudential and supervisory requirements are primarily designed for large and significant institutions. These requirements do not all fit smaller-sized institutions or specialised business models.

Therefore, to achieve the right balance between a sound prudential and supervisory framework and an efficient financing of the economy, we call on the European Commission to adjust the various regulatory standards, including the LCR in line with the proportionality principle.

2) The ability of specialised financial services providers to support job creation and sustainable growth relies on their ability to raise sufficient capital for lending at the lowest possible cost. For a growing number of specialised financial services providers, this relies on their ability to use securitisation. For this reason Leaseurope and Eurofinas welcome and support the initiatives of the European Commission to promote European high quality securitisation markets in Europe. We therefore welcome the integration in the LCR Delegated Regulation of the new simple, transparent and standardised ('STS') criteria for securitisation.

However, in order to further support the revival of high quality securitisations markets in Europe, which is a key element of the Capital Markets Union project to improve access to finance of business and households in Europe, we propose the following:

- **STS Securitisations**

The new proposal to require securitisations complying with the STS regulation to be eligible for 2B assets, adds more requirements to the list for qualifying as high-quality liquid assets (HQLA) securitisations, but do not recognise the higher quality of securitisations complying with more tighter requirements. Given that the requirements of the new STS securitisations are more restrictive than the current LCR rules for securitisations to be eligible as level 2B and we think that STS securitisations will be more liquid, we propose the European Commission to classify STS securitisations as level 2A assets.

- **ABCPs**

ABCP programmes are used by many European leasing and consumer credit companies as a financing instrument. The use of ABCPs by our members contributes to the financing of SMEs and corporates through leasing, as well as, individuals through consumer credit, auto and equipment loans.

At European level, it is estimated that ABCP programmes provide roughly € 125bn of working capital throughout Europe, many of which are SMEs, unlisted, and unrated firms. Due to both a regulated legal framework and investor's protective market practice, it has been growing for more than fifteen years in very safe conditions even during the financial crisis. Besides, the Money Market Fund (MMF) Regulation (regulation 2017/1131/EU), which imposes MMFs to invest only in liquid assets, includes ABCP programmes within the list of liquid assets. We therefore propose that fully supported ABCP programmes should qualify as level 2B assets.

Leaseurope and Eurofinas proposed amendments:

Amendment 1: Article 13

Level 2B securitisations:

1. Exposures in the form of asset-backed securities referred to in Article 12(1)(a) shall qualify as level 2B securitisations where they satisfy any of the following conditions:

(b) they are an ABCP issued by an ABCP programme which:

(i) is a 'fully- supported ABCP programme' by a regulated credit institution in accordance with Regulation (EU) 2017/42 of the European Parliament and of the Council;

(ii) is not a re-securitisation and the exposures underlying the securitisation at the level of each ABCP transaction do not include any securitisation position;

(iii) does not include a synthetic securitisation as defined in point (11) of Article 242 of Regulation (EU) No 575/2013;

14. The market value of level 2B securitisations shall be subject to the following minimum haircuts:

(c) 15% for an ABCP issued by a 'fully- supported ABCP programme'

Justification

We propose that fully supported ABCP programmes should qualify as level 2B assets. The following elements support our proposal for fully supported ABCP programme to be eligible assets for LCR:

- 1) The LCR regulation allows for new assets which are considered to be sufficiently liquid to be included in the list of HQLA.
- 2) The Money Market Fund (MMF) Regulation (regulation 2017/1131/EU) which imposes MMFs to invest only in liquid assets, includes ABCP programmes within the set of liquid assets. Fully supported ABCP programmes issuances resemble short term covered bond characteristics. As in covered bonds, investors of ABCP programmes have a dual recourse, and are secured firstly by liquidity lines from sponsor banks which cover liquidity, credit and operational risks, and secondly by the collaterals refinanced by ABCP programmes. These collaterals are usually low risk assets such as motor finance and equipment leases.
- 3) Including ABCP programmes within eligible subcategories of assets would increase diversification within the liquidity buffer and would as well send a positive signal to investors in relation to these assets, which will be positive for the financing of the real economy.

Amendment 2: Article 13 (2g) iv

[...]

~~All loans and leases in the pool shall be secured with a first-ranking charge or security over the vehicle or an appropriate guarantee in favour of the SSPE, such as a retention of title provision;~~

Justification

In some jurisdictions, particularly in Southern Europe, it is not common to have security over the vehicle or guarantees. In cases where they are granted, they are not registered and would thus not be first-ranking.

It is therefore necessary to delete this sentence to avoid an unintended discrimination of Southern European transactions.

Amendment 3: Article 13 (10)

~~The underlying exposures shall not have been originated by the credit institution holding the securitisation position in its liquidity buffer, its subsidiary, its parent undertaking, a subsidiary of its parent undertaking or any other undertaking closely linked with that credit institution.~~

Justification

Retained transactions, (i.e. transactions that a credit institution has originated itself) are classified as being eligible for central bank credit.

As we understand that ECB-eligibility means instant liquidity, we strongly suggest that the originator should be allowed to include these ECB-eligible assets in its own liquidity buffer.

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