

Brussels, 20 September 2017

## **Leaseurope response to the questionnaire issued by the High Level Expert Group on sustainable finance**

Leaseurope, the voice of leasing at European level, welcomes the opportunity to comment on the High Level Expert Group on sustainable finance questionnaire.

### **DEVELOP A CLASSIFICATION SYSTEM FOR SUSTAINABLE ASSETS AND FINANCIAL PRODUCTS**

#### **Question 2. What do you think such an EU taxonomy for sustainable assets and financial products should include?**

We believe that leasing can play an important role in achieving sustainable growth in Europe by helping European businesses to access productive assets. Leasing allows businesses and other types of lessees to manage their working capital more effectively by spreading payments to use the asset over the contract period. Leasing also enables clients to upgrade their assets easily to the latest technologies so that they may remain competitive. It is often more affordable and quicker to obtain than other forms of finance and provides greater operational flexibility in comparison to the outright purchase of an asset.

Leasing is ideally placed to finance productive investment in a vast range of sectors and activities (including R&D and innovation, infrastructure, industrial technology, capital-intensive projects, healthcare, environmental technologies, etc.) as well the investment of enterprises, and throughout all stages of a firm's development (from young start-ups to companies that are far along their life cycle). It is also extremely useful to support the public sector (e.g. leasing to schools, hospitals, etc.).

Leasing is an excellent financing tool to support European long-term investment. Therefore, given the demonstrated importance of leasing for supporting investment and sustainable finance in Europe, we hereby call on the Expert Group and on the European Commission to work with Leaseurope to raise further the awareness of European companies to this form of financing.

### **ROLE OF BANKS**

#### **Question 9. What would be the best way to involve banks more strongly on sustainability, particularly through long-term lending and project finance?**

We believe that a regulatory environment that does not disincentivise banks from offering leasing is in the best interests of European business. Therefore, we propose a recognition of the low-risk nature of leasing for those entities offering leasing that are subject to capital requirements.

Moreover, liquidity, funding and leverage requirements should be more proportionate for those leasing companies not taking deposits from the public.

Credit risk weights under prudential standards (i.e. CRR) should reflect the real underlying risks. Failure in this could lead to otherwise healthy, beneficial lending being disincentivised in terms of capital allocation and cost of funding. We suggest there is a strong case to be made for differentiating lease finance (where the asset is owned by the finance company during the life of the agreement) with a specific risk weight.

Default rates within the leasing activity are low because the lessor is funding a physical asset crucial to the client's core business activities. As the asset is a key working tool for the lessee, many defaulted leases regrade back to a healthy situation with a zero loss. Additionally, the lessor can then sell or re-lease the asset in order to decrease any losses on the default, resulting in low loss rates.

We also advocate for the recognition of exposures secured by durable goods (e.g. equipment leases and motor finance) as physical collateral for credit risk mitigation purposes.

## **OTHER**

**Question 13. In your view, is there any other area that the expert group should cover in their work?**

To ensure leasing achieves its full potential to help European long term investment we suggest the Expert Group to promote awareness of the benefits of leasing. Indeed, despite its many economic benefits, leasing is still often not understood or is not fully recognised as being a crucial form of business support. The EU has a lot to gain in promoting the awareness of the leasing instrument and its advantages for clients and investors amongst the general public, policymakers and the funding/investor community. Leaseurope has produced an explanatory leaflet on leasing and its benefits that can be used for such a purpose.

It is important to improve access to funding for lessors too. European lessors may suffer from costly access to funding. For instance, helping the industry access institutional investors with long term funds that can be channelled through the leasing product to SME businesses would be extremely valuable. Reviving high quality securitisation markets in Europe would also be useful. Lastly, lessors should be allowed to benefit from financial instruments granted by the EU as well as at national level by Member States in the context of economic support programmes.

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## About us

Leaseurope brings together 46 member associations representing the leasing, long term and/or short term automotive rental industries in the 33 European countries in which they are present. The scope of products covered by Leaseurope members' ranges from hire purchase and finance leases to operating leases of all asset categories (automotive, equipment, machinery, ICT and real estate). It also includes the short term rental of cars, vans and trucks. It is estimated that Leaseurope represents approximately 94% of the European leasing market.

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 Federation 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<sup>1</sup>. 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)<sup>2</sup> and is also extremely popular amongst larger corporates<sup>3</sup>. It is also extremely useful to support the public sector (e.g. leasing to schools, hospitals, etc.).

**Leaseurope is entered into the European Transparency Register of Interest Representatives with ID n° 430010622057-05**

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<sup>1</sup> Leaseurope 2016 Annual Statistical Enquiry

<sup>2</sup> 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 Newslash*, 2012

<sup>3</sup> European Central Bank, *Survey on the Access to Finance of Small and Medium-Sized Enterprises in the Euro Area*, April 2013