



Basel Committee on Banking Supervision  
Bank for International Settlements  
CH-4002 Basel  
Switzerland

Brussels, 04 February 2016

**Re: Consultation document on capital treatment for “simple, transparent and comparable” securitisations**

Dear Sir/Madam,

Leaseurope and Eurofinas welcome the opportunity to respond to this consultation.

Leaseurope brings together 44 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 and real estate). It also includes the short term rental of cars, vans and trucks. It is estimated that Leaseurope represents approximately 92% of the European leasing market and in 2014, total new leasing volumes worth €274.2 billion were granted by the firms represented through Leaseurope's members.

Eurofinas is the voice of consumer credit providers in the EU. As a Federation, Eurofinas brings together associations throughout Europe that represent finance houses, universal banks, specialised banks and captive finance companies of car, and equipment manufacturers. The scope of products covered by Eurofinas members includes all forms of consumer credit products such as personal loans, linked credit, credit cards and store cards. Consumer credit facilitates access to assets and services as diverse as cars, furniture, electronic appliances, education etc. It is estimated that together Eurofinas members granted over €356.3 billion Euros worth of new loans during 2014.

## **Why are our positions on securitisation relevant and important?**

Leaseurope and Eurofinas, the voices of leasing and consumer credit at European level, represent specialised credit institutions and other lenders that lend to households and businesses in ways that support job creation and a return to sustainable growth in Europe. Our Federations represent more than 2000 companies across Europe.

The specialised business leasing and consumer credit providers represented through Leaseurope and Eurofinas:

- Support growth by helping individuals and households to invest directly in more than €350 billion in goods and services each year; and
- Help ensure European businesses can meet European and global demand for goods and services by helping firms - particularly growing SMEs - to invest directly in over €275 billion of business equipment each year. Leasing is used by more European SMEs than any individual category of traditional bank lending taken altogether.

Only the Specialised Financial Services Providers (SFSPs) that our associations represent can demonstrate such a direct link between the provision of credit and sustainable growth.

The ability of SFSPs 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 providers, including bank-owned, independent firms and captives (provide financing to customers buying the parent company's product), this relies on their ability to use securitisation.

## **What is our sectors' role in the securitisation market today?**

In 2015, around 80 per cent of new Asset-Backed Security (ABS)<sup>1</sup> in Europe were backed by Auto, Consumer loans and Leases for which SFSP are key providers. This represented around 30 per cent of total new securitisation issuance. SFSP ABS are backed by assets that demonstrate positive contributions to the real economy as they all point towards increased investment in capital.

There is a strong view in the market that use of securitisation will increase. For example, a soon-to-be published survey of European consumer credit firms will report that 49% expected the use of securitisation to increase<sup>2</sup>. Meanwhile a growing number of asset finance providers are using securitisation for the first time since the financial crisis.

---

<sup>1</sup> <http://www.sifma.org/research/statistics.aspx>

<sup>2</sup> Future of European Consumer Finance, Eurofinas & Roland Berger

## **It is essential that the framework takes account of the specific nature and role of consumer credit, asset finance and leasing**

The economic roles played by the consumer credit, asset finance and leasing industries (supporting private consumption, business investment, and the manufacturing and distribution of goods) must not be hampered by any ill-suited regulatory initiative. These activities are key in supporting the real economy.

Consumer credit, asset finance and leasing providers have specialist expertise, perform prudent asset and collateral valuation, maintain established re-marketing channels 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 and lessors 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.

For instance, depending on the level of risk they are willing to take on, lessors will seek to enter into various guarantee and buyback arrangements (often with the manufacturers of goods) or purchase additional insurance for this risk. Robust and prudent risk management practices with regard to the recognition of physical collateral forms an integral part of the requirements for credit risk mitigation within the Capital Requirements framework as well as within equivalent national supervisory frameworks and ensures that lessors and consumer credit providers (where applicable) adopt a conservative approach to asset and collateral valuation.

Additionally, when the client is a private individual, these firms are subject to a comprehensive European regulatory framework and are required to perform a thorough creditworthiness assessment of their customers.<sup>3</sup>

### **The risk profile of leasing in Europe**

According to an extensive research<sup>4</sup> carried out by Deloitte Paris in 2013, default and loss rates for leases are significantly lower than for traditional SME lending. Based on a portfolio of 3.3 million lease contracts across 15 European countries, the study shows that one-year defaults on leasing Retail SME exposures were 2.7% compared to 4.5% for all Retail SME lending in 2010. Similarly loss rates for leasing were 19.6% compared to 33% for all Retail SME lending. In regard of corporate lending the study indicated that one-year defaults on leasing corporate exposures were 2.3% compared to around 3% for all corporate lending in 2010. Similarly loss rates for leasing were 11.1% compared to over 30% for all corporate lending.

<sup>3</sup> Directive 2008/48 on credit agreements for consumers

<sup>4</sup> See "Implicit risk weights for SME leasing in Europe", September 2013 and "The risk profile of leasing in Europe: the role of the leased asset", October 2013. Research available upon simple request

**Q1. Do respondents agree with the rationale for introducing STC criteria into the capital framework? Are there any other aspects that the Committee should consider before introducing STC criteria into the capital framework that are not already reflected in the rationale above?**

We appreciate the BCBS approach to focus on the development of a simple, transparent, and comparable securitisation framework to build a sustainable international market for securitisation. We commend the introduction of the STC criteria into the capital framework.

We also welcome the intention of the BCBS to consider an STC criteria for asset-backed commercial paper (ABCP) programmes as they are a very important source of finance for our member companies. These types of programmes constitute an important source of finance for our members. The use of ABCP by our members contributes to the financing of SMEs and corporates through leasing, as well as, individuals through consumer credit, auto and equipment loans.

Against this background, we are particularly concerned that the regulation may lead to the exclusion of a wide range of well-established and marketable ABS from the definition of STC.

Although concerns over unnecessary new barriers may impact many other types of securitisation, they appear to have particular impact on the use of securitisation by SFSPSs. We therefore recommend that the framework includes criteria which are simple, clear and self-explanatory as far as possible.

**Q2. Do respondents agree that, for the purpose of alternative capital treatment, additional criteria are required? What are respondents' views regarding the additional criteria presented in Annex 1?**

We agree that, for the purpose of alternative capital treatment, additional criteria are required. However, several of the criteria for eligibility for STC seem likely to exclude the most well-established arrangements for securitisation by SFSPSs. The underlying principals may be reasonable but the 'one size fits all' rules seem unnecessarily restrictive.

**A. Asset risk**

**A1. Nature of assets**

The requirement that an asset pool must comprise underlying **exposures that are homogenous** is understandable. However, we believe that the following, in particular, needs to be addressed:

- We agree that the securitisation has to be backed by a pool of underlying exposures that are homogeneous in terms of asset type. However **it is important that the regulation allows pools of residential loans, pools of corporate loans, leases**

**and credit facilities to undertakings of the same category to finance capital expenditures or business operations, pools of auto loans and leases to borrowers or lessees and pools of credit facilities to individuals for personal, family or household consumption purposes.**

- It is imperative that SME receivables are included as part of commercial loan pools to ensure that a wide range of funding to the smallest businesses can be achieved within the STC framework.

### **A2. Asset performance history**

**The requirements to provide access to default and loss performance data for 5 and 7 years for retail and non-retail exposures** would exclude new entrants or the development of new products and is also onerous for established originators. **We would propose that it be set at 3 years or less for both.**

### **A3. Payment status**

Excluding exposures in default or to credit-impaired debtors or guarantors will be problematic, for example, for credit card receivables, where portfolios often include assets overdue if these have not been charged off. Similarly for a number of asset classes, obligors who may not have a perfect credit history may be regarded as an acceptable credit risk for a secured auto loan. We would therefore urge for a review of these criteria to reflect market realities.

### **A5. Asset selection and transfer**

The criteria that the securitisation should not rely on 'active portfolio management on a discretionary basis', is problematic. Originators typically manage revolving facilities to ensure ratios remain within limits agreed with funders at the onset of the transaction, primarily to avoid triggers that would necessitate a re-negotiation or amortisation of the securitisation. We would therefore suggest an exemption for securitisations with ongoing replenishment i.e. revolving transactions. STC structures should allow for revolving periods of at least 12 months such that underlying assets of a naturally short duration can be replenished by the originator/seller rather than redeeming liabilities. This enables transactions to be structured more efficiently by amortising significant transaction costs over a longer period.

## **B. Structural risk**

### **B7. Redemption cash flows**

We note that certain loan or lease products depend (including in case of debtor default) on the realisation of the financed asset. The repayment of the holders of the securitisation could therefore depend to a certain extent on the sale of the asset. Given that **the risk attached to the residual value is very low and to avoid the exclusion of these loan or lease products, on the basis of the current wording, we ask for the revision of this paragraph** to avoid the exclusion of these loan or lease products.

We also would highlight that most residual leasing values are backed by guaranteed repurchase obligations or guarantees by the manufacturer or seller at a fixed price – and are therefore not exposed to refinancing or re-sell risk (market risk). We advocate that such “guaranteed residual values” may be included as underlying assets.

**D. Additional criteria for capital purposes**

**D16. Granularity of the pool**

We believe that the 1% threshold is appropriate for retail transactions. However, the language with respect to the group of connected clients should be changed slightly so that this applies “according to the best knowledge” of the originator.

With respect to wholesale transactions such as the securitisation of receivables from car and equipment dealers, the 1% threshold is set too low and will prevent these types of securitisations from ever meeting the STC criteria as this could limit use of STC to the largest lessors. Firms may struggle to reach the scale needed to make securitisation economical if they must exclude their largest customers, even though the risk attached to a slightly higher single obligor threshold should be very low.

Therefore, if dealer floorplan is not to be completely excluded from STC, a significantly higher threshold will be needed. **In our view the threshold needs to be set at 5% to allow significant dealer groups to obtain funding through ABS** and this could be implemented as either a single threshold or in combination with other thresholds to further ensure the granularity of the overall pool of loans.

**Q3. What are respondents’ views on the compliance mechanism and the supervision of compliance presented in this consultative document?**

The operational process to set up a securitization qualifying as STC needs to be clear, practical and predictable. We have a strong preference for a third party single body certifying STC so as to eliminate inconsistencies in interpretation of the STC criteria.

**Q4. What are respondent’s views on the alternative capital requirement for STC securitisation presented in this consultative document?**

**Alternative capital treatment for STC securitisations meeting the additional criteria for capital purposes**

A reduction of the floor risk weight from 15% to 10% for qualifying securitisations in the IRB approach means an increase of the floor from 7% to 10% compared to the current situation. This sends the wrong signal and risks undermining the STC initiative. In addition, it is to note that the increase of the floor capital requirement was intended to address model risks and structural risks, yet these risks are significantly reduced in the case of STC securitisations.

An increase in the risk weighting from 7% to 10% is likely to result in increased financing costs for the industry and **may reduce interest in investment in the securitisation due to the restriction that this change may impose**, with a resultant effect on the real economy. **Thus, the 7% risk weight for qualifying securitisations should be maintained.**

I remain at your disposal, should you be interested in discussing any specific issue. Alternatively feel free to contact my colleagues Rafael Alarcón Abeti ([r.alarconabeti@leaseurope.org](mailto:r.alarconabeti@leaseurope.org) – tel: +32 2 778 05 69) and Alexandre Giraud ([a.giraud@eurofinas.org](mailto:a.giraud@eurofinas.org) - tel: + 32 2 778 05 64)

Yours sincerely,



---

Leon Dhaene  
Director General