

**Basel Committee on Banking Supervision
International Organization of Securities Commissions**

Brussels, 5 October 2017

Re: Consultations on criteria for identifying simple, transparent and comparable short-term securitisations; and Capital treatment for simple, transparent and comparable short-term securitisations

Dear Sir/Madam,

Eurofinas and Leaseurope, the voices of consumer credit and leasing providers at European level, welcome the opportunity to respond to the Basel Committee on banking Supervision's (BCBS) and the International Organization of Securities Commissions (IOSCO) consultative documents on criteria for identifying simple, transparent and comparable (STC) short-term securitisations and capital treatment for STC short-term securitisations.

Leaseurope and Eurofinas commend and support the work and commitment of the Basel Committee and IOSCO to develop and strengthen high quality securitisation markets across the globe. We welcome the BCBS and IOSCO proposal to implement STC criteria for ABCPs and to ensure preferential capital treatment for those ABCPs that comply with the STC criteria.

We would like to highlight the importance of ABCP transactions for the funding of the real economy in Europe. In this regard, we believe it is instrumental that the proposed requirements allow companies that support the real economy to originate STC compliant transactions.

Research in Europe shows the positive development of the market which reflects the growing demand by the real economy to use the product as originator of trade and lease receivables (the predominant asset classes) as well as the increasing demand of investors to buy ABCP¹.

The research shows:

¹ For example, see True Sale International: Auswertung zu Entwicklung und Bedeutung des ABCP Marktes, Frankfurt am Main, September 2017. This shows no losses since 2010. This also shows 108% growth for trade and 172% growth for lease receivables since 2010.

- No, or almost no, losses since 2010
- Stable ratings of ABCP transactions
- Significant growth of the ABCP volume since 2010

Leaseurope and Eurofinas response to the questions on capital treatment for identifying STC short-term securitisations

Question 1: Do respondents agree with the insertion of the additional guidance and requirements in Annex 1, which enables the short-term STC criteria to be adapted for regulatory capital purposes? Are there any other guidance and requirements for regulatory capital purposes which respondents would consider necessary to support the development of STC short-term securitisations?

A. Asset Risk

1. Nature of Assets

Regarding programme level requirements, we suggest that the framework should allow for the inclusion of a reasonable percentage of non-STC transactions in the STC programme. As not all assets of ABCP programmes may fulfil STC transaction level requirements, It is important to ensure a degree of flexibility at the programme level.

Regarding the transaction level requirements, we propose to delete the reference to jurisdiction and currency. ABCP transactions may be used by companies operating worldwide. For this reason, the receivables may be governed by different jurisdictions and denominated in different currencies.

2. Asset performance history

At the programme level direct access to data and detailed information of the originators should not be required to be shared with investors. On a transaction level the company allows the sponsor bank access to the underlying data. This type of data is confidential and should not be disclosed. For instance, a leasing company should not be obliged to disclose publicly their interest rates or the number of debtors. Given that the sponsor bank provides full support, this information is not relevant for the investors. Furthermore, the requirements of five and seven years of performance for retail and non-retail exposures are too high. A more suitable standard would be three and five years, which would be consistent with the proposed EU STS criteria.

3. Payment status

At the transaction level the requirement has to reflect the nature of the selling company. Non-financial sector companies may not undertake formal credit assessments. Therefore, the criteria should be replaced by a evidence of a more market-based credit process.

6. Initial and ongoing data

At the program level it is important to reflect the nature of the assets and originators. Cash flow data may not be available for short-term receivables. Therefore, it is not relevant for ABCP investors but should be available to the sponsor bank which has to ensure that the cash flow is

adequately reflected. Furthermore, detailed information on recoveries are only necessary where the enforcement of the underlying asset is part of the financing analysis.

B. Structural risk

9. Currency and interest rate asset and liability mismatches

We agree with your proposed criteria. However, the fact that currency and interest rate risks can be mitigated shows clearly that a transaction which covers different jurisdictions and currencies should qualify as STC.

10. Payment priorities and observability

We propose that extension options, if exercisable by the investor only, should be eligible.

14. Cap on maturity transformation

There should be no cap on the residual term of underlying assets. In an ABCP program there is no maturity transformation given that the sponsor ensures that the term of the liquidity facilities matches the term of the underlying receivables. The term of the ABCP creates no risk as long as the term of the liquidity facility is sufficient to cover all outstanding assets.

D. Additional criteria for capital purposes

18. Credit risk of underlying exposures

This criteria is problematic because it requires the selling companies to obtain and monitor the standard risk weight of their receivables according to bank regulation (i.e. CRR). This would require the sellers to establish bank like measures to calculate the standardised risk weights, including the costs for staffing, systems, rating research and monitoring (as time of origination and asset sale may diverge). These regulations may also change over time and thus, companies would have to adopt new and perhaps more complex rules for calculating the standard risk weights. We think that this is not practical for non-bank sellers. Therefore, we suggest that this criteria should be applied on a portfolio-weighted average basis and on the best knowledge of the sellers (which means that no additional research has to be obtained by the sellers). Such confinement would also be consistent with the STS EU rules.

19. Granularity of the pool

We believe that there should be a more flexible granularity requirement of at least 5%. In light of data protection requirements the sponsor and the conduit have no clear data available on all debtors and cannot aggregate this information at a program level. A 1% requirement would unnecessarily restrict the market.

<p>Question 2: What are respondents' views on the baseline and alternative approaches being considered by the Committee?</p>

We agree with alternative approach 2 and reject the baseline approach and the alternative approach 1.

Transaction and program level can and should be separated. The quality of an individual transaction can be high, fulfilling all STC criteria, whereas the program can fail to meet some criteria on a program level. This does not impact on the quality of the individual transaction. As the capital treatment should reflect the good quality, it should be determined on a transaction by transaction basis as well as separately on a program basis whether the individual securitization position qualifies as STC.

Question 3: What are respondents' views regarding the requirement that the support required by Criterion B7 has to be provided by a single entity and the consequences of a subsequent replacement of this entity?

For most ABCP programs the full support is provided only by one bank.

Question 4: What are respondents' views on the options being considered by the Committee for determining STC compliance?

We recommend alternative 1 which is in line with the current requirements for investors investing in ABS according to the CRR. At program level, we believe that an investor shall be allowed to rely on representations and information disclosed by the sponsor. However, we suggest that it has to self-assess whether the criteria are met. At transaction level only the sponsor can assess compliance, while the originator is neither required nor expected to have detailed knowledge of the STC criteria.

Question 5: Do respondents have any comments on or concerns over the proposed capital treatment?

ABCP programmes in Europe have shown in the past years hardly any losses. Even during the crises they performed well². Therefore, we believe it is not justified to increase the risk weights for STC compliant transactions above the current level. The calibration of the risk weight tables under the Internal Assessment Approach (which currently corresponds with the SEC-ERBA) should be reconsidered – at least for those exposures of which the rating is obtained by IAA (subject to such IAA methodology being approved by the competent authorities).

The liquidity problems that a sponsor bank might face are already covered by the adjusted liquidity coverage for securitisations.

Leaseurope and Eurofinas response to the questions on criteria for identifying STC short-term securitisations

Question 1: Do respondents agree with the short-term STC criteria set out in the Annex? In particular, are the criteria clear enough to allow for the development of STC short-term securitisations by the financial industry?

Please refer to our response to question 1 of the consultation on capital treatment (pages 2-3).

Question 2: Which additional criteria would respondents consider necessary, if any, and what additional provisions would be useful or necessary to support the use of the short-term STC

² see also True Sale International: Auswertung zu Entwicklung und Bedeutung des ABCP Marktes, Frankfurt am Main, September 2017

criteria? Are there particular criteria that could hinder the development of sustainable securitisation markets due, for example, to the cost of their implementation?

In order to allow sponsor banks, investors or originators to assess and apply a high standard of care, there should be no penalties or sanctions, unless a breach of criteria is done under wilful misconduct or gross negligence. Especially as there will always remain a need for interpretation of criteria (given the broad nature of ABCP transactions and assets in light of the broad range of companies acting as originators) it should be clear that only those parties acting with wilful misconduct or gross negligence should be punished.

Question 3: Do respondents find the split of short-term STC criteria between conduit level and transaction level appropriate? And if not, which criterion does not appear appropriate?

We strongly believe that a separate criteria on transaction and program level should be applicable with the possibly to revise them on case-by-case basis (as it was emphasised in our answer to question 2 to the consultation on the capital requirement- page 3).

Question 4: Do respondents agree that the right balance has been achieved in the short-term STC criteria between the level of transparency needed by investors exposed to commercial paper issued by STC ABCP conduits and the need to protect the “private” nature of the underlying transactions financed by such STC ABCP conduits?

We believe that an ABCP programme’s investors should rely on the full support of the sponsor bank. Therefore detailed information on the underlying assets or documentation does not increase their comfort level. Increasing the number of requirements needed to be fulfilled may potentially reduce the number of regulated investors, which would have a negative impact on the market. Furthermore, the need to maintain data confidentiality and business secrecy in many situations is not adequately reflected in the proposals and this may harm the interest of originators.

Question 9: Do respondents agree that the proposed methodology to calculate the average maturity of the transactions funded by the ABCP conduit is appropriate? Do respondents agree that the limit on maturity transformation should be set at a value between one and three years?

We consider that much more flexibility is required on any limits on average maturity. For instance, the average duration of equipment leases in Europe is 4.3 years. A lease or consumer credit agreement normally has a low degree of maturity transformation, thus the risk is low and generally covered by a sponsor bank. Investors are protected from the liquidity risk stemming from the need to refinance the longer term assets at expiry date as the ABCP programme is generally fully supported. Liquidity or credit risks therefore are covered by the liquidity facility provided by the sponsor.

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 – tel: +32 2 778 05 69) and Alexandre Giraud (a.giraud@eurofinas.org - tel: + 32 2 778 05 64)

Yours sincerely,

Leon Dhaene
Director General

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 year³. 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)⁴ and is also extremely popular amongst larger corporates⁵. It is also extremely useful to support the public sector (e.g. leasing to schools, hospitals, etc.).

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 year⁶. Consumer lending is procyclical and is highly positively correlated with households' disposable income⁷. By providing access to finance to individuals and households, consumer credit supports the social and economic well-being of millions of consumers across Europe.

³ Leaseurope 2016 Annual Statistical Enquiry

⁴ 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

⁵ European Central Bank, *Survey on the Access to Finance of Small and Medium-Sized Enterprises in the Euro Area*, April 2013

⁶ Eurofinas 2015 Annual Statistical Enquiry

⁷ Eurofinas, *Consumer Credit, Helping European Households Finance their Tomorrow*, 2015