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European Federation of Leasing Company Associations

Fédération Européenne des Associations des Etablissements de Crédit-bail

Europäische Vereinigung der Verbände von Leasing-Gesellschaften

Danièle Nouy

Chair

Committee of European Banking Supervisors
(CEBS)

By email: nd@c-eps.org

Brussels, 19 October, 2007

LEASEUROPE'S RESPONSE TO THE CEBS QUESTIONNAIRE ON NATIONAL DISCRETIONS AND OPTIONS IN THE CRD

Dear Mrs Nouy,

Please find Leaseurope's response to CEBS' questionnaire on national discretions and options attached to this letter.

Leaseurope has chosen to comment only on those discretions or options of direct importance for the European leasing industry. This does not imply that other discretions are not relevant for European leasing institutions who are confronted with issues common to all institutions subject to the Capital Requirements Directive. Nevertheless, we feel that we can best contribute to the ongoing discussions on national discretions in areas where we have specific expertise or concerns and have therefore limited our response to these.

The discretions or options where we have provided feedback are highlighted in green in the attached spreadsheet. We have also introduced additional lines into the CEBS template when discretions or options of significance for our industry were not included in the initial document. These are indicated as "**NEW**".

While the spreadsheet provides detailed feedback, including our preferred future treatment of the discretions or options in question, the reasons for these preferences as well as suggestions for how the wording of certain provisions should be modified accordingly, we would like to draw your attention to three issues of particular importance for the European leasing industry.



Discretions Relating to Real Estate Collateral

The CRD contains a number of discretions relating to the treatment of real estate exposures. Currently, in order for these discretions to be applied, various sets of conditions have to be fulfilled. It is our opinion that, if supervisors are satisfied that these conditions are adequately met, there should no longer be any room for discretion in these areas. Moreover, if a supervisor is satisfied with regards to the relevant conditions and thus allows the favourable treatment, supervisors in other member states should recognise this and allow the same treatment. This would remove level playing field concerns for European lessors active in real estate leasing.

Recognition of Other Physical Collateral

Currently, the recognition of physical collateral other than real estate is performed on a discretionary basis. With the leased asset and its ownership being key features of leasing, it is essential that physical collateral be recognised for credit risk mitigation purposes consistently throughout Europe for lease exposures. Annex VIII of the CRD includes a series of strict conditions in order to ensure that the asset intended for use as collateral is of high quality and additional conditions apply when the asset is leased. Here again, if supervisors are satisfied that these conditions are met, the recognition of other types of physical collateral should no longer be a question of discretion but the general treatment. Furthermore, supervisors should not be able to limit the recognition of other physical collateral to certain asset types; instead they should rely on the institution fulfilling the appropriate conditions as to the quality of the asset.

LGD Levels under the IRBF Approach

The CRD contains a discretion relating to the levels of LGDs that can be applied under the IRB Foundation approach when the lease exposure is overcollateralised. This discretion, set to run until the end of 2012, was introduced in recognition of the fact that lease exposures tend to have lower LGDs than equivalent secured loans as lessors benefit from greater protection through the ownership of the asset¹. Consequently, it is very important that the discretion runs its course and that leasing firms are allowed to benefit from the more favourable LGD levels.

¹ LGD levels for leasing have been the topic of several academic studies. References to several of these have been included in the attached spreadsheet.

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Additionally, we would like to stress that the transition period was fixed so that industry would have sufficient time to gather further data on LGD levels. Prior to the end of this period, regulators **should review these LGDs levels in light of the data collected**. Indeed, if the data collected confirms the lower levels of LGDs for lease exposures, the CRD should be adapted accordingly.

Please do not hesitate to contact me or Jacqueline Mills at j.mills@leaseurope.org or +32 2 778 05 66 for any further information you may require on the above points or for queries on our detailed response attached.

Yours sincerely,

Tanguy van de Werve
LEASEUROPE DIRECTOR GENERAL

Copy to:

Patrick Pearson, Head of Unit, Banking and Financial Conglomerates, DG Markt

About Leaseurope

Leaseurope, the European Federation of Leasing Company Associations, is composed of 48 Member Associations in 34 countries. It represents as an umbrella body the European leasing and automotive rental industries. In 2006, its leasing members accounted for 92% of the European leasing market. In April 2006, the Federation integrated short and long term car and truck renters into its membership base. It now represents around 8 500 companies across Europe employing over 200 000 people. During the course of 2006, the companies represented via Leaseurope financed 297,5 billion euros of new investments in vehicles, equipment and real estate.