



The Voice of Leasing and Automotive Rental in Europe

16 April 2010

## **Leaseurope response to the European Commission's Consultation on Possible Further Changes to the Capital Requirements Directive (CRD IV).**

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### **Leasing in Europe**

In 2008, European leasing companies represented through the member associations of Leaseurope granted new leasing volumes worth in excess of EUR 330 billion. These leases were used to finance equipment, vehicles and real estate throughout Europe and Leaseurope estimates that in 2008, the European leasing industry financed around 24% of all new European investments (excluding real estate)<sup>1</sup>.

These figures demonstrate the considerable contribution leasing makes to the European economy by providing businesses with a means to finance their investment needs. In particular, a significant share of Europe's SMEs, the backbone of the European economy, use leasing as a source of external funds. It has been estimated that 51% of European SMEs have made use of some form of leasing<sup>2</sup>.

### **Single Rule Book: Proposals relating to the recognition of physical collateral**

In the context of the present consultation, Leaseurope wishes to comment on issues raised in Section VII of the consultation document (Single Rule Book) and its Annex XII (summary of responses to public consultation on options and national discretions) relating to the recognition of physical collateral.

#### **1) Non-real estate collateral**

Leaseurope has in the past very much welcomed proposals<sup>3</sup> from the European Commission to transform the existing national discretion in the CRD Annex VIII, Part 1, Point 21, relating to the recognition of other (i.e. non real estate) physical collateral into a general rule provided that relevant conditions relating to the quality of the collateral are fulfilled. We note that recognition of other physical collateral is clearly integrated into the Basel framework and should therefore be included in the CRD as a non-discretionary provision.

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<sup>1</sup> Leaseurope leasing penetration ratio estimate based on total new leasing volumes divided by total investment, excluding real estate, for the 23 countries and 30 members for which this data was available in 2008

<sup>2</sup> SME Access to Finance, Flash Eurobarometer 174, TNS Sofres/EOS Gallup for the European Commission, October 2005

<sup>3</sup> Commission CRD 4 consultation of 24 July 2009 - Annex 3 Point 22 (c)

We have pointed out previously<sup>4</sup> that supervisory practice as regards the recognition of other physical collateral is currently not harmonised throughout the EU (for instance, certain national supervisors restrict the recognition of collateral to certain, limited asset classes while others do not) and is not transparent (for instance, supervisors are not required to disclose their criteria for allowing or refusing the recognition of certain collateral).

We have therefore welcomed past suggestions for clarifying and fostering the convergence of practice in this area and are supportive of the Commission's suggestion in the present consultation (Annex XII) that the new European Banking Authority (EBA) develop a technical standard to further specify the criteria provided in the context of CEBS's second technical advice on options and national discretions.

While Leaseurope was extensively involved in the consultation process related to CEBS's (first) technical advice (e.g. through participation in the CEBS industry working group on options and national discretions), it is unfortunate that CEBS's proposals to specify the criteria for the recognition of other physical collateral in its second advice were based on a "quick stock take of the transposition of this discretion" as this exercise and its conclusions were neither shared nor discussed with the industry prior to publication. Leaseurope would therefore be keen to contribute to any future work in this area that would be undertaken by the EBA.

Leaseurope wishes to stress that the recognition of other physical collateral under the CRD is of particular relevance to European lessors. This is because leasing is a form of asset-based finance where the lessor, contrary to other providers of (secured) finance, maintains the ownership of the leased asset throughout the contract term. The lessor thus benefits from additional security through ownership of the asset and should be allowed to recognise the unique benefits of this protection, provided that it can adequately demonstrate its quality. Non-lease products will tend not to be secured on *physical assets* as the providers of such products do not benefit from the same expertise and skills as lessors when it comes to evaluating and managing such collateral. This specific asset-related expertise underscores the need for the European leasing industry to be intrinsically involved in any future discussions on the recognition of other physical collateral.

## **2) Real estate collateral**

With respect to real estate collateral, we wish to reiterate our support for the proposed removal of discretions in these areas<sup>5</sup> subject to the relevant conditions being met<sup>6</sup>. Moreover, we welcome the Commission's decision to reconsider its previously suggested amendments relating to the preferential treatment of exposures secured by real estate property.

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<sup>4</sup> For instance in [our response to the CEBS consultation on options and national discretions \(CP18\)](#) and [our response to the CRD 4 consultation of 24 July 2009](#)

<sup>5</sup> CRD Annex VIII, Part 1, Points 15 – 19 and Annex VI, Part 1, Points 45 – 60

<sup>6</sup> See page 4 of [our response to the CRD 4 consultation of 24 July 2009](#)

This being said, *any new proposals* to tighten the relevant loan-to-value and hard tests would need to be considered very carefully as the CRD already contains provisions to ensure that real estate collateral is prudently and frequently valued. In this respect, we have previously indicated that we share CEBS's view in its second advice on options and national discretions that, as long as property values are appropriately revalued, even if higher losses occur on real estate markets during weaker economic conditions, there would not be an increase in losses for the parts of exposures that are recognised as fully and completely secured by collateral. With respect to unsecured portions of exposures, where there is no collateral to take into account, amendments to credit risk mitigation requirements are irrelevant.

Leaseurope remains at the disposal of the Commission services for any further information they may require on the issues raised in this response. Please feel free to contact Jacqueline Mills( [j.mills@leaseurope.org](mailto:j.mills@leaseurope.org); +32 2 778 05 66) for additional queries.

A handwritten signature in black ink, appearing to read "Tanguy van de Werve", with a long horizontal stroke extending to the right.

Tanguy van de Werve  
LEASEUROPE DIRECTOR GENERAL

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### **About Leaseurope**

As a Federation, Leaseurope brings together 46 associations throughout Europe representing either the leasing, long term and/or short term automotive rental industries. The scope of products covered by Leaseurope's members ranges from hire purchase and finance leases to operating leases of all asset types (automotive, equipment and real estate) and also includes the rental of cars, vans and trucks. It is estimated that Leaseurope represents approximately 96% of the European leasing market in 2008.