

Basel Committee on Banking Supervision

Brussels, 6 January 2015

Re: *Consultative Document – Operational Risk – revisions to the simpler approaches*

Dear Sir/Madam,

Leaseurope and Eurofinas, the voices of leasing and consumer credit at European level, welcome the opportunity to respond to the Basel Committee on Banking Supervision's (BCBS) consultative document on operational risk.

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 2013, total new leasing volumes worth **251.9 billion Euros** were granted by the firms represented through Leaseurope's members. More information at www.leaseurope.org

Eurofinas brings together associations throughout Europe that represent consumer credit providers. 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. By providing access to finance to individuals and households, consumer credit supports the social and economic well-being of millions of consumers across Europe. It also benefits manufacturers, motor dealers and retailers as a key tool for their sales. It is estimated that together Eurofinas members financed over **321.7 billion Euros worth of new loans** during 2013 with outstandings reaching 827.9 billion Euros at the end of the year.

Depending on their activities, market location and structure, local prudential regulatory treatment of leasing and consumer credit firms may vary.

We acknowledge the BCBS's review of the adequacy of the capital framework for credit institutions and, in particular, the assessment of the existing set of simple approaches for

operational risk. We support, in principle, a review of the existing indicators to prevent system failures.

We are however strongly concerned by the BCBS's *Business Indicator* (BI) proposal and wish to draw attention to the following observations:

1. Basel requirements are primarily designed for internationally active institutions. These requirements may not all fit smaller-sized institutions or specialised business models.

Consumer credit providers/asset financiers across the European Union (EU)/European Economic Area (EEA) encompass a diversity of organisations of different legal nature (i.e. specialised banks, finance houses) 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 jurisdictions, such as in the EU/EEA where Basel standards apply to a wide range of firms, the impact of the review will be much more significant for specialised institutions which will be affected disproportionately by the structure of the proposed new indicator.

2. We are concerned by the data collection requirements which will be particularly burdensome for smaller and medium-sized obliged entities. We are also concerned by a decreasing lack of comparability between data collected for accounting and prudential purposes. We believe this is not efficient in the long-run.

The proposed review also does not sufficiently take into account the existing risk control processes (established in accordance with the Committee's guidance and applicable regulatory standards) as well as those institutions having a mixed-approach in place. We draw the Committee's attention to the administrative impact of the redevelopment and recalibration of models on smaller-sized institutions. As a more general observation, we believe that, following this review, the balance between Pillar 1 and Pillar 2 requirements should be clarified.

3. Following the proposed segmentation of an institution's income statement, financial and operating leasing shall be part of the "services component". Within the "services component", the new BI requires adding all fee/other operating incomes to all fee/other operating expenses. This contrasts with the current *Gross Income* (GI) indicator under which fee expenses shall be netted against all fee/other operating incomes.

This proposal is not realistic for leasing transactions for which both incomes and expenses must be taken into account and which will artificially and disproportionately increase the risk value associated to these transactions. A rapid testing of the proposed model with several member institutions has confirmed this outcome.

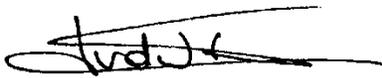
Asset financiers'/Lessors' unique understanding of asset markets (resale values, technological evolution, asset obsolescence, asset market liquidity, the ability to release assets in various geographical locations, etc.) as well as their ability to enter into various guarantee and buyback arrangements ensures expert and robust risk management in leasing. The proposed BI is therefore inconsistent with the objectives of the BCBS to

reduce the weight of the component of the financial statement that is associated with activities traditionally less exposed to operational risk.

Leasing and loan facilities share similar financing functions as well as economic features. We therefore believe that financial and operating leasing should fall under a component of a bank income statement. As an alternative, the BI should better reflect the main features of leasing for which a specific treatment should be provided.

I remain at your disposal, should you be interested in discussing any specific issue. Alternatively feel free to contact my colleague Alexandre Giraud (a.giraud@eurofinas.org - tel: + 32 2 778 05 64).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'TvdW', with a long horizontal flourish extending to the right.

Tanguy van de Werve
Director General