

Brussels, 25 September 2020

Leaseurope comments to the draft ECB guide on climate-related and environmental risks

Leaseurope, the voice of leasing and automotive rental at European level, welcomes the opportunity to comment on the draft ECB guide on climate-related and environmental risks. We fully support the ECB's efforts to better understand the safe and prudent management of climate-related and environmental risks under the current prudential framework, in support of the European Commission's overall Green Deal objectives.

Sustainability in the leasing industry

The leasing and automotive rental industries are in many ways ideally placed to act as a facilitator of the green transition, and to support the Commission's stated aims as outlined in the Green Deal and Sustainable Finance Strategy. The three goals of the Strategy, to create an enabling framework with appropriate tools and structures; to increase opportunities and have a positive impact on sustainability for citizens, financial institutions, and corporates; and to ensure that climate and environmental risks are fully managed and integrated into financial institutions' and the financial system as a whole, can be (and in many cases are already) facilitated by the leasing and automotive rental industries.

In the context of making it easier for households and enterprises to act more sustainably then, the leasing and automotive rental industries currently play a major role in improving the availability of newer and greener technologies, without the prohibitive prices that would often deter companies and individuals from upgrading their assets (like factory equipment or vehicles for example) to a more sustainable model. In this way, we are in a unique position compared to most other financial service providers, since they are able to go beyond investing in green funds and actually play a role in making greener technologies both available and more widely known about by customers. By enabling consumers and companies to avoid both the large outright purchase prices and the possible additional costs associated with the maintenance and upkeep of newer, more innovative assets, our industries play an important role in making sustainable products more accessible, and this role is likely to grow significantly in the coming years as a result of the Commission's ambitious climate targets.

In addition to improving accessibility of sustainable options for citizens and companies, the Strategy also highlights the need for financial institutions to manage and integrate climate and environmental risks into financial institutions and the financial system as a whole. A core principal of our industries is to ensure assets are used until the end of their lifecycle. As a result, we are by nature circular. Additionally, the industries are constantly evolving to meet changing consumer demand, and as more and more consumers are becoming aware of their environmental impact, our industries are constantly adapting to offer new, greener technologies, and to ensure that these technologies are as widely available as possible.

Finally, we think leasing could be a very powerful behaviour aligning agent within society. By aligning leasing to the Green Deal would we believe it could drive:

- a) more frequent upgrading to more greener efficient technologies;
- b) provide better control over manufacturers and manufactured product being disposed of / recycled so that it is done more effectively;
- c) help to differentiate the leasing industry and the leasing product even more in the financial services world.

General Observations on the Proposed ECB Guide

- The leasing industry is supportive of a recognition of both physical and transition risk, with regards to their expected impact on business operations. In fact, the incorporation of these principles is already commonplace with the industries we represent, as asset life cycle management requires leasing companies to take a more holistic approach to risk management.
- The special challenges and opportunities that arise in connection with the management of sustainability risks should be recognised, communicated and expressed within each company's corporate culture. As ever, implementation thereof, as well as other proposed measures in the guidelines should remain subject to the principle of proportionality.
- Leaseurope fully supports the notion that an institution's business strategy is expected to reflect material climate-related and environmental risks, for example by setting and monitoring for internal purposes key performance indicators (KPIs) that are cascaded down to individual business lines and portfolios. Bearing in mind the significant contribution the leasing industry makes to achieve both financial and environmental targets, it would be advisable to recognise the green facilitating factor of leasing as specific KPI.
- Without casting doubt on the overall goals of the guide, it is important to note the potential impact of such a requirement, especially as there is no common understanding amongst the Member States with regards to what constitutes a sustainable activity, how qualify different categories, make them comparable as well as establish cause and effect. Failing this, there is considerable risk that reporting will be highly divergent in between Member States as well as within the same Member States, thereby fundamentally undermining the usefulness of such a report, potentially leading to unintended and adverse consequences for businesses and customers alike.
- With regards to stress testing, especially for small and medium-sized leasing companies, stress tests and scenario analyses within the scope of risk management are instruments that can only be applied meaningfully in exceptional cases. Rather qualitative analyses that can help to identify existential threat situations should be emphasized. Proportionally designed transition scenarios can be a suitable starting point.

- We recommend the ECB to include in its Statistical Datawarehouse a dedicated section for leasing to monitor its contribution for sustainable activities and to better understand the effective de-risking from a prudential perspective. This could be incorporated in the "Money, credit and banking" section with a subsection dedicated to "Sustainable information for leasing that could be divided in "Lessor": green leasing, circularity, financial risks related to climate-change.
- The guidelines also note that going forward, institutions subject to the Non-Financial Reporting Directive (NFRD), which covers predominantly large companies, will be asked to provide further transparency on the extent to which their activities can be regarded as environmentally sustainable. Where such reporting requirements are applied, albeit in simplified form, to SMEs, it would again be useful to the overall contribution of leasing services to the company's performance reflected in reporting.

Contact Persons:

Richard Knubben

Deputy Director-General
Leaseurope

+32 2 778 05 68

r.knubben@leaseurope.org

Rafael Alarcón Abeti
Chief Adviser

Prudential & Capital Markets
Leaseurope

+3227780569

r.alarconabeti@leaseurope.org

About us

Leaseurope brings together 46 member associations representing the leasing, long term and/or short term automotive rental industries in the 32 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, machinery, ICT and real estate). It also includes the short term rental of cars, vans and trucks. It is estimated that Leaseurope represents over 90% of the European leasing market.

Asset finance and leasing markets have developed to respond to business investment and consumption needs as well as to accompany the development of local industrial production and distribution. The types of institutions represented by the Federation include specialised banks, bank-owned subsidiaries, the financing arms of manufacturers as well as other, independently-owned institutions.

In 2019, the leasing firms represented through **Leaseurope's membership helped European businesses and other customers invest in assets that is estimated worth more than 407 billion EUR, reaching about 919 billion EUR** of outstandings at the end of the year¹. Leasing is used by more European SMEs than any individual category of traditional bank lending taken altogether (around 43% of all European SMEs make use of leasing which is more than any other individual form of lending)² and is also popular amongst larger corporates³. Leasing is also useful to support the public sector (e.g. leasing to schools, hospitals, etc.).

Leaseurope is entered into the European Transparency Register of Interest Representatives with ID n° 430010622057-05

¹ Leaseurope 2019 Annual Statistical Enquiry.

² Oxford Economics, *The Use of Leasing Amongst European SMEs*, 2015; European Investment Fund, *The importance of leasing for SME finance*, 2012

³ European Commission, Survey on the Access to Finance of Enterprises-Apr. – Oct. 2019