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Leaseurope comments to the EBA Discussion Paper on Environmental, Social and Governance (ESG) risks management and supervision

Leaseurope, the voice of leasing and automotive rental at European level, welcomes the opportunity to comment on the EBA discussion paper on Environmental, Social and Governance (ESG) risks management and supervision. We fully support the EBA'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 we 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, with a long-term approach in risk management, and this long-term approach includes climate change risks. 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 we believe it could:

- a) enable more frequent upgrading to greener, more efficient technologies;
- b) provide better control over manufacturers and manufactured products being disposed of / recycled, so that it is done more effectively;
- c) help to differentiate the leasing industry and the leasing product even more, compared to other financial services products;
- d) offer a long-term vision of investments to allow the product completing its life cycle in an efficient manner.

General Observations on the EBA Discussion Paper

- 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 Discussion Paper should remain subject to the principle of proportionality. Although this is recognised in section 149, it is contradicted in section 150, as it is stated that small institutions may be even more exposed to ESG risks due to their less diversified portfolios.
- 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.
- We agree with the concept of including physical, transitory and reputational risks in the risk management process, however we should be careful in deciding how to integrate ESG risks in the remuneration strategy (sections 158/323).
- It is important to note the potential impact of the proposed requirements, especially as there is no common understanding amongst the Member States with regards to what constitutes a

sustainable activity, how to 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 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. Therefore, it is instrumental to discuss sustainable topics not only at European level but also at national level with national supervisory authorities in order to better recognise national specificities.

- It is crucial that reporting requirements allow the assessment of ESG risks from SMEs and credit institutions without increasing compliance cost. This assessment may be more efficient if assessed at national level.
- The introduction of ESG risks considerations in the assessment of risks to capital, liquidity and funding is inherent in the regulation. This assessment would require an impact assessment undertaken by the competent authority in order to understand the spill-over effects on the financial system. We have to take into consideration that in the initial stage of the integration of ESG factors new risks may appear, and therefore it may reduce the available capital for credit institutions that need to increase their expertise in managing those risks. After 2030, it is likely that enterprises and households will be less risky for ESG factors and creditors will be able to hedge themselves from the ESG risks. Therefore to achieve financial stability in the long term we need a gradual and proportionate incorporation of ESG in our business models, controls and prudential regulation.
- The ESG risks transmission channels may be:
 - misalignment between requirements and available data on ESG risks,
 - creditors' IT systems,
 - low financial literacy, as sustainable finance may not be yet widely understood among clients

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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