

Brussels, 26 October 2022

Leaseurope & Eurofinas comments to the EBA consultation on the homogeneity of the underlying exposures in STS securitisation

Leaseurope and Eurofinas, the voices of leasing and consumer credit at European level, welcome the opportunity to comment on the EBA consultation on the homogeneity of the underlying exposures in STS securitisation. We welcome the proposal to merge the homogeneity criteria for obligor categories. However, we consider the EBA proposal to differentiate homogeneity with regards to "Large Corporates" according to the CRR to be impractical.

Responses to the EBA Questions:

Question 9: Are there any important and severe unintended consequences of the application of the homogeneity criteria as specified in these RTS?

We are concerned by the new definition of the type of obligor, in particular about the impact of the new "Large Corporates" definition. The proposed separation would result in the exclusion of an important part of our portfolios from future securitisations. This may occur because many companies, despite being SMEs, would fall within the new definition of "Large Corporates".

In addition, if it is also required to adjust existing deals, this will force us to buy back credits already transferred to the SPV. These repurchases would be added to those that occur during the life of the transaction and may compromise the performance of the securitisation deal.

Corporate debtors (SMEs and others) provide different documents compared to private customers, which is why rating techniques are designed differently (e.g. separate procedures for private/corporate customers). The rating usually have in common that a PD or scoring is determined as part of a credit underwriting process. The idea of establishing a turnover based distinction category for "Large Corporates" based on the CRR III turnover definition does not seem to be expedient with the procedures of originators and credit risk characteristics of corporate debtor portfolios, especially for originators that are non-banks.

In practice, rating models and procedures are defined and calibrated differently from originator to originator and are not based on the CRR's turnover/size definitions. In addition, there is no consistent distinction based on turnover numbers in the market. In order to carry out an adjustment of the homogeneity criteria, an artificial size distinction of a corporate debtor should be avoided. Currently, there is no evidence that based on turnover size, corporate debtors portfolios and credit risk characteristics behave differently or in a way that such pools are not homogeneous and require other credit risk assessment techniques from an investor perspective.

In our opinion, the proposal to differentiate between Corporate and “Large Corporates” as defined in the CRR III as well as the requirement for “Same Approaches” is not appropriate for classifying a pool as homogenous.

Finally, regarding the "Active" portfolio selection, this may create a new risk for investors and market stability and in our opinion it will be disadvantageous. This can lead to the discrimination of market participants (e.g. for those which do not have a sufficiently large asset portfolios or belong to one turnover class or another) and creates incentives for cherry picking. We therefore propose to delete the turnover size limit for corporate obligors.

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About us

The membership of our two Federations covers institutions specialised in one or more of the following activities:

Lending to consumers, for instance via personal loans, credit cards or lease/hire purchase agreements; leasing to businesses of all asset types, including machinery and industrial equipment, ICT and others assets; motor finance, granted to individuals or businesses, either in the form of loans or leases.

The consumer credit, 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 Federations include specialised banks, bank-owned subsidiaries, the financing arms of manufacturers as well as other, independently-owned institutions.

Specialised financial services providers across the European Union (EU) / European Economic Area (EEA) encompass a diversity of organisations of different legal nature (i.e. credit institutions, financial institutions) 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 2021, the leasing firms represented through **Leaseurope's membership helped European businesses invest in assets worth more than 389 billion EUR**, reaching 663 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 47% 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. It is also useful to support the public sector (e.g. leasing to schools, hospitals, etc.).

In 2021, consumer credit providers that are members of **Eurofinas helped support European consumption by making more than 450 billion EUR goods, services, home improvements and private vehicles available to individuals**, reaching 1.2 trillion EUR of outstandings at the end of the year⁴. Consumer lending is procyclical and is highly positively correlated with households' disposable income⁵. By providing access to finance to individuals and households, consumer credit supports the social and economic well-being of millions of consumers across Europe.

Eurofinas and Leaseurope are entered into the European Transparency Register of Interest Representatives with ID n° 83211441580-56 and 430010622057-05

¹ Leaseurope 2021 Annual Statistical Enquiry

² Oxford Economics, *The Use of Leasing Amongst European SMEs*, 2015;
European Commission, Survey on the Access to Finance of Enterprises Apr. – Oct. 2021

³ European Commission, Survey on the Access to Finance of Enterprises Apr. – Oct. 2021

⁴ Eurofinas 2021 Annual Statistical Enquiry

⁵ Eurofinas, *Consumer Credit, Helping European Households Finance their Tomorrow*, 2015