

## European Banking Authority

Brussels, 12 March 2015

*Re: EBA Consultation Paper on the requirements to use the IRB Approach*

Dear Sir/Madam,

Leaseurope and Eurofinas, the voices of leasing and consumer credit at European level, welcome the opportunity to respond to the European Banking Authority's (EBA) Consultation Paper on the draft Regulatory Technical Standards (RTS) on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB Approach.

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.

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.

Our contribution is limited to questions 1, 2, 4, 5 and 7.

Eurofinas and Leaseurope support the work of the EBA in developing technical standards and promoting convergence of supervisory practices across Europe. We see the mission of the EBA as critical and very much welcome the quality of its work as well as its constant dialogue with the industry. As a preliminary observation, we believe there should be more clarity regarding the context of the EBA's work and its consistence with international initiatives. This is particularly important for smaller entities as they are not represented in official consultative/advisory bodies and do not necessarily have a complete overview of the ongoing work.

We understand that obliged entities will likely be asked to benchmark their IRB risk evaluation processes with the revised standard approach currently being developed by the Basel Committee on Banking Supervision (BCBS). The BCBS also informed of its intention to work on the IRB approach in 2015. Given the potential costs involved with the management and potential reviews of internal ratings systems, it would be helpful to better understand the connections between the EBA's work and new international standard proposals.

*Q1. What views do you have on the nature and appropriateness of the proportionality principle in Article 1(2)?*

We think the proportionality principle lacks precision. The flexibility provided to competent authorities to adjust their supervisory assessment should be clarified. As defined in article 1(2), the proportionality principle is a one-way principle through which National Competent Authorities (NCAs) are allowed to strengthen the assessment methodology. We think the EBA should consider the ability for NCAs to set a lighter framework for smaller and simpler financial institutions (for instance monoline product bank subsidiaries).

Though we appreciate that the IRB approach is principally used by larger scale institutions, smaller entities can also be concerned by the EBA's assessment methodology. For example, this can be the case when several smaller organisations mutualise risk assessment functions or when specialised subsidiary firms apply the IRB approach as part of a group policy. This can be the case of specialised consumer credit and leasing firms.

It is therefore critical to ensure that the methodology is indeed consistent with firms' technical abilities and resources. It should obviously take into account the various processes in place and build on firms' experiences. Against this background, we think that the supervisory assessment should mainly be undertaken at consolidated level. Work at entity level should be restricted to what is necessary i.e. to those functions for which subsidiaries may have a margin of discretion.

*Q2. Do you agree with the required independence of the validation function in Article 4(3) and Article 10? How would these requirements influence your validation function and your governance in general?*

We think this requirement is ill-suited for specialised subsidiary entities. Validation functions are typically piloted by mother companies. Requiring that independent validation functions be implemented at subsidiary entity level would be, for many companies, a major shift in the application of the IRB approach. We strongly believe that this requirement should be reassessed taking into account the various business models making use of the IRB approach. We believe it is worth stressing that the costs involved in the implementation of completely independent validation and credit risk control units that are appropriately staffed and trained would be disproportionate for smaller entities. We would therefore support the introduction of a "comply or explain" procedure for governance related requirements which would allow obliged entities to showcase their internal systems to their national supervisors.

*Q.4 Do you agree with the required number of default weighted average LGD calculation method introduced in Article 51(1)(b) and supportive arguments? How will this requirement influence your current LGD calculation method? More generally, what are your views as to balance of arguments for identifying the most appropriate method?*

The underlying reasoning for the introduction of default-weighted Loss Given Default (LGD) is valid. In particular, we think this is particularly relevant for low default portfolios (cf. item (v)). However, we strongly believe that the use of exposure-weighted LGD should remain allowed for retail portfolios. We think the use of default-weighted LGD would not be workable and indeed counter-productive for pool of loans showing very low Exposure At Default (EAD) and LGD. Here again, it is worth highlighting the potential major implications this new rule would have on smaller organisations. For those firms using exposure-weighted LGD, this would imply redesigning all their LGD models and segmentations. Should the EBA nevertheless confirm the introduction of default-weighted LGD, obliged entities should remain allowed, for the purpose of the calculation of default weights, to assess the average LGD after withdrawal of the non-material exposure defaults.

*Q5. Are the provisions introduced in Article 52 on the treatment of multiple defaults sufficiently clear? Are there aspects which need to be elaborated further?*

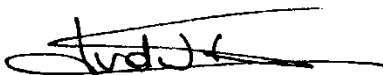
We do not have any specific comments on this. However, Eurofinas and Leaseurope wish to draw the attention of the EBA to the increasing number of definitions and references to defaults (i.e. draft RTS on the materiality thresholds of credit obligation past due, further EBA work under Article 178 of the Capital Requirements Regulation, BCBS standards, etc.). As mentioned at the EBA 9 February 2015 Public Hearing, we would support a general clarification by the EBA on this topic.

*Q7. Do you support the view that costs for institutions arising from the implementation of these draft RTS are expected to be negligible or small? If not, could you please indicate the main sources of costs?*

We strongly disagree that costs for all institutions will be negligible. As previously mentioned, specialised subsidiary entities will be directly concerned by this initiative. We believe that the proposed assessment methodology will have important operational, organisational and cost implications for these organisations. Fairness commands that the specificities of specialised business models be recognised in the RTS, in particular concerning the explicit ability of national authorities to adjust this assessment to subsidiary and smaller entities.

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,



Tanguy van de Werve  
Director General

*Eurofinas and Leaseurope are entered into the European Transparency Register of Interest Representatives with ID n° 83211441580-56 and 16013361508-12.*