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SPECIALISED CONSUMER CREDIT PROVIDERS IN EUROPE

Leaseurope
The Voice of Leasing and Automotive Rental in Europe

Financial Stability Board

Brussels, 29 May 2015

Re: Consultation on "Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions"

Dear Sir/Madam,

Eurofinas and Leaseurope, the voices of consumer credit and leasing at European level, welcome the opportunity to respond to the Financial Stability Board's consultation on "Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions".

Non-Bank Non-Insurer Global Systemically Important Financial Institutions encompass a wide range of financial entities and activities. We welcome the Financial Stability Board's proposal to introduce sector-specific methodologies that are best suited to capture the characteristics of business segments.

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 2014, consumer credit providers that are members of Eurofinas helped support European consumption by making more than 356.3 billion EUR goods, services, home improvements and private vehicles available to individuals[1]. By providing access to finance to individuals and households, consumer credit supports the social and economic well-being of millions of consumers across Europe.

[1] Eurofinas 2014 Annual Statistical Enquiry

In 2014, the leasing firms represented through Leaseurope's membership helped European businesses invest in assets worth more than 274.2 billion EUR[2]. Leasing is used by more European SMEs than any individual category of traditional bank lending taken altogether[3] and is also extremely popular amongst larger corporates[4].

The economic roles played by the consumer credit, asset finance and leasing industries (supporting private consumption, business investment, and the manufacturing and distribution of goods) must therefore not be hampered by any ill-suited regulatory initiative. In particular, any regulatory framework must be designed and applied proportionately to avoid disrupting the supply of consumer credit and leasing products and should not negatively affect competition within the sector.

Against this background, we welcome the proposal to adopt a specific approach for finance companies that will take into account both the types of activities/financing provided by these entities as well as potential risk indicators. We take the view that any potential intervention can only be based on the assessment of a company's systemic importance and risk characteristics.

Regarding risk indicators, we would like to reiterate the following points:

1. In the EU/EEA jurisdiction, the major share of the leasing and consumer credit industry is owned by banking groups. Leasing and consumer credit entities themselves are not deposit taking institutions[5]. **As these firms do not receive repayable funds from the public they do not pose a threat to depositors**. Added to which, unlike other finance products, for loans and leases to consumers and businesses, the risk lies with the finance company rather than the consumer. We also think that consumer credit, asset finance and leasing clients would not be affected in the event of bankruptcy of their provider. It would not affect a client's rights on outstanding contracts and access to an asset.

2. Whether bank-owned, captive or independent, European consumer credit, asset finance and leasing organisations rely heavily on the banking sector to fund their operations. With all European credit institutions required to apply European prudential regulations, **the exposures that banks are able to take on in relation to consumer credit, asset finance and leasing providers are limited in size and closely monitored**. Article 395 of EU Regulation on Capital Requirements provide that "an institution shall not incur an exposure […], to a client or group of connected clients the value of which exceeds 25% of its eligible capital"[6]. In this context, the European Banking Authority (EBA) is already developing guidelines to set aggregate limits or tighter individual limits on exposures to shadow banking entities. Any risk of contagion due to the failure of a specialised provider is therefore already contained in existing EU prudential regulation.

[2] Leaseurope 2014 Annual Statistical Enquiry
[3] Leaseurope; Eurostat; "The Use of Leasing Amongst European SMEs" by Oxford Economics, Nov 2011
[4] Access to Finance of SMEs, ECB survey
[5] Unless they have made the decision to opt for a banking license precisely in order to be able to take deposits, in which case they are subject to Basel standards through the EU legislation as any other bank. However, deposit taking providers remain the exception in most EU countries.
[6] EU Regulation 575/2013 on prudential requirements for credit institutions and investment firms, OJEU L 176/1.

3. We disagree with the FSB that finance companies' reliance on wholesale funding would make them particularly susceptible to funding problems. Reliance on short-term financing is not a significant feature of leasing and consumer credit funding models. Instead, **European lessors and consumer credit providers typically match the terms of their funding with those of their contracts**. This specific point would therefore need to be addressed carefully within each competent jurisdiction.

We do not agree that European finance company distress or failure would ever lead to the disruption of key wholesale funding markets as described in the consultative document. Again, the main funders of European finance companies, banks, are subject to large exposure and concentration risk limits to protect them from such losses.

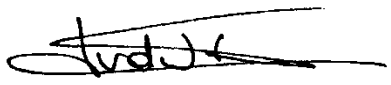
4. Regarding the substitutability criterion, we think a qualitative assessment by relevant authorities is the best approach. Such assessment should take into account a firm's market share, sufficiently broken down by type of finance and assets. In this context, all types of finance providers of a given funding type should be considered.

It is worth highlighting that while the activities of finance companies are economically important in terms of supporting businesses and consumers, this does not mean that they are not substitutable. European markets are sufficiently competitive for another firm, be it a bank, a bank-owned, independent or captive finance company to step in and take the place of any failed firm. **Specialisation in itself is not an obstacle.**

We take note of the FSB's work forecast and would be happy to further contribute to its work. In particular, we would welcome the possibility to comment the incremental policy measures needed to address the systemic and moral hazard risks posed by Non-Bank Non-Insurer Global Systemically Important Financial Institutions.

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,



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Director General