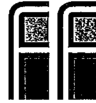

FINANSBOLAGENS FÖRENING

About The Association of Swedish Finance Houses
The Association of Swedish Finance Houses, founded in 1960, is an association for companies that carry on the business of financing with or without authorisation as credit institutions. The Association brings together 30 members and 3 associate members.

Stockholm, August 27 2012

The Association of Swedish Finance Houses response to the EBA consultation Paper Draft Implementing Technical Standards on Supervisory reporting requirements for liquidity coverage and stable funding (EBA/CP2012/05)

The Association welcomes the opportunity to comment on the EBA consultation paper Draft Implementing Technical Standards on Supervisory reporting requirements for liquidity coverage and stable funding. We summarise below our position with regard to the consultation.

Proportionality

The association has in response to various proposals for new capital and liquidity rules stressed the importance of rules to be designed proportionally and with respect to the size and activities of various institutions.

Small and specialized credit institutions such as the Swedish finance companies, which provides SMEs with credit, factoring and leasing solutions, usually have neither the types of assets nor the types of liabilities assumed under the CRD/CRR 4 and the metrics such as the LCR and NSFR. Furthermore, this type of finance companies seldom give rise to the same systemic risks as they are relatively small and also collectively represent a relatively small part of the credit market compared to the banks. Four major Swedish banks stand for about 75 % of the deposits and 75 % of the lending in Sweden.

The aim of the LCR, according to the Basel III agreement, was to ensure that global banks have sufficient liquid assets in a stressed scenario involving such sharply downgraded credit rating, loss of deposits, losses and outflows in connection with various sophisticated financial instruments, etc., that might affect global banks in a financial crisis. Despite this, the fundamental issue whether or not smaller and non bank institutions (such as finance companies) should be excluded from the LCR reporting (and the LCR requirements) or if the LCR should be adjusted for these companies, has not been analysed and discussed.

The purpose of the NSFR, according to the Basel III agreement, is to reduce the risk of banks getting too dependent on short-term deposits and short-term loans for their financing. The Commission's impact assessment SEC (2011) 949 final (p. 106 f) shows that there is uncertainty about the NSFR metric and that this can lead to unintended consequences and have negative implications for different business models and supply of financing etc. Despite this, the fundamental issue whether or not smaller and non bank credit institutions (such

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finance companies) should be excluded from NSFR reporting (and the NSFR requirements) or if the NSFR should be adjusted for these companies, has not been analysed and discussed.

Disproportionate rules for smaller and specialized credit institutions poses a significant threat to diversity and competition in the market. Smaller credit institutions (such as finance companies) will be forced either to cease or fundamentally change their business models towards "heavier" banking activities. Disproportionate rules will also prevent smaller non-systemic actors to increase their market share in relation to systemically important banks. To summarise, disproportionate rules leads to a series of additional risks, which defeats the purpose of the proposed rules, which was to reduce risks.

Pending an impact assessment and supporting evidence for the existence of both an interest to protect and sufficient reason to protect that same interest in relation to smaller and non bank credit institutions such as finance companies, these institutions should be exempt from the proposed reporting requirements or at least the reporting should be limited to only a small sample of small and medium sized institutions on a voluntary basis.

If the final CRR/CRD 4 does not allow the EBA to apply the principle of proportionality to the application of the reports this will potentially lead to very small legal entities such as finance companies having to complete the new reports. We do not believe this to be in the interest of either the EBA or the institutions and would ask the EBA and the Commission to raise this problem in the Trialogue. The Association strongly urges that reporting not be extended to all institutions such as small finance companies.

Sweden is a forerunner in "implementing" the CRD/CRR 4. The Swedish FSA has already in 2011 issued a regulation (FFFS 2011:11) according to which all Swedish credit institutions with a balance sheet exceeding 5 billion SEK has to report the LCR (= the 48 largest credit intuitions in Sweden). Currently a new regulation is proposed to enter into force from January 2013, which introduces a quantitative LCR measure for credit institutions with a balance sheet exceeding 100 billion SEK (= the 8 largest bank groups in Sweden representing 96 % of the total balance sheet for the 48 institutions exceeding 5 billion SEK). The said Swedish FSA regulations clearly demonstrate that proportionality can be achieved without jeopardizing the aim of the new rules.

Timing of the Implementation

The Association proposes 1 January 2014 as an appropriate implementation date in respect of the liquidity reporting requirements since the final technical standards are not likely to be available before January 2013. It is unreasonable to expect small credit institutions such as finance companies to design, develop and test systems solutions before the final technical standards and the final legal text of CRR/CRD 4 are available.

The Association of Swedish Finance Houses

Lars Zacharoff, CEO