

## European Banking Authority

Brussels, 5 May 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) Discussion Paper on the future of 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.

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 essential and very much welcome the quality of its work as well as its constant dialogue with the industry. We expect many banking organisations to provide the EBA with fairly converging views on the future of the IRB approach. Our contribution to this discussion paper is therefore intentionally brief and is restricted to general concerns. The Federations are however looking forward to contributing in more details to actual technical discussions within the various phases of the EBA's work programme.

We support the proposed prioritisation as well as the sequential adoption of identified regulatory products. However, we think there will be some overlap between the various work phases. For example, changes to the definition of default will necessarily impact the calibration of risk estimates. We think this needs to be taken into account, not only in the elaboration of standards by the EBA, but also in the assessment of overall costs and resources required to implement changes by institutions. The current forecast is very ambitious and it is important that institutions are provided with two to three full years to implement the changes. Additionally, flexibility could also be provided to National Competent Authorities, for example, where institutions show difficulties to reconstitute historical data for specific portfolios.

We see the EBA's ongoing work on default as critical. Concerning quantitative indications, as previously stressed by the Federations, we see the EBA original proposal to introduce an absolute ceiling or threshold of 200 EUR for retail exposures and 500 EUR for all other exposures as extremely conservative. We do not think that this proposal sufficiently takes into account the diversity of credit obligations and, in particular the specific features of leasing and consumer finance. We also think that default should be recognised after both absolute and relative thresholds are breached. This will ensure that there is no artificial increase in the number of defaults due to IT failures or misunderstandings with clients.

Qualitative indications are also key such as, for example, specifications to the concept of technical default, the definition of return to non-defaulted status and the ability to extend to 180 days the past due criteria for real estate exposures. We are currently consulting member firms on these issues and are hoping to present them to the EBA in due course.

We agree with the EBA that the proposed work agenda will reduce the divergences across models. Though we share the view that further consistency is indeed desirable, it should not compromise the risk sensitivity of IRB models. Against this backdrop, special attention should be provided to the characteristics of various types of credit activities (for example leasing, consumer credit and factoring). We also take the view that harmonisation of exposure classes for the purpose of the IRB and the Standardised Approach would be appropriate.

Anecdotal data from the EBA has suggested that Economic Capital models used for pricing purposes appear to more accurately reflect risk, having remained relatively stable through the cycle versus regulatory capital-driven requirements which have fallen. It would be interesting to further explore the use by an institution of its own Economic Capital Modelling as a way of addressing the perceived disparity between actual margins and the modelled risk.

We support the partial use of the Standardised Approach (PPU) as not all portfolios should be given the same treatment. The conditions for PPU should include portfolio size and age. The conditions should also include guidance for IRB firms who have portfolios which are less suitable for inclusion under IRB and better represented under the standardised approach, such a low default portfolios.

We have great reservations concerning the proposals to use the “through-the-cycle” (TTC) approach (compared to the “point-in-time” (PIT) approach) as well as the possible removal from the Capital Requirements Regulation (CRR) of the possibility to grant permission from the data waiver. We think the existing approaches/standards provide operational benefits and we would welcome the possibility to further discuss this in due course.

As a final remark, we wish to reiterate our observation concerning the impact of the review on firms’ organisation structure and allocation of responsibilities. In particular, the required independence of the validation function would be ill-suited for specialised subsidiary entities. We therefore welcome the EBA’s recognition that such level of independence should be based on the proportionality principle and that, for smaller institutions, the staff performing the validation function should be separate (instead of independent) from the staff responsible for the model design or development.

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](mailto: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.*