eurofinas

SPECIALISED CONSUMER CREDIT PROVIDERS IN EUROPE

European Banking Authority

Brussels, 14 January 2015

Re: EBA Discussion Paper on simple, standard and transparent securitisations

Dear Sir/Madam,

Eurofinas, the voice of consumer credit providers at European level, welcomes the opportunity to contribute to the European Banking Authority's (EBA) Discussion Paper on simple, standard and transparent securitisations.

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.

Eurofinas sees securitisation as a key alternative funding channel to the benefit of the EU real economy and a valuable tool for risk sharing in the financial system. We support the EBA's review of the regulatory framework for securitisation. In particular, we support the creation of a framework for simple standard and transparent securitisations. We believe that an enhanced risk-based approach will both reduce costs for the industry and bring greater investor confidence. Against this background, it is vital to ensure that definitions can catch the various market features and do not inhibit new market users.

You will find below a number of key observations for the industry that Eurofinas represents:

- Definitions should be constructed to ensure that <u>all types of assets</u> are potentially eligible (i.e. not only mortgages, auto loans and credit cards but also the less common other consumer receivables, SME receivables and any other type of future receivables that may become significant in the future).

- Similarly, particular attention should be provided to the actual users of securitisation and, in particular, to the <u>smaller users</u> who may be the ones the EU economy could benefit the most from easier access to lower funding cost.

- Upfront costs of each securitisation deal may constitute an obstacle for lower value assets to qualify unless replenishment periods are allowed. This will enable <u>smaller funding situations</u> to benefit from the proposed framework.

- Not all <u>data fields</u> are commercially and economically relevant to all securitisations. Flexibility is therefore required to define which data is relevant to which type of deal.

Obstacles to the securitisation market

We agree with the EBA that a certain degree of regulatory uncertainty result from the numerous recent initiatives on capital charges, liquidity, risk retention and disclosure requirements. The political priority should be now to clarify and stabilise the framework. This is crucial for investors.

Against this background, we strongly believe that the European Commission's proposed treatment of Asset-Backed Securities (ABS) as High Quality Liquid Assets (HQLA) for the fulfillment of the Liquidity Coverage Ratio (LCR) will have a very positive impact on the use of securitisation.

The review of the EU securitisation market should also take into account the various operations conducted by National Banks/The European Central Bank (i.e. ABS purchase programmes). Eligibility standards put in place in this context may constitute an impediment to the development of the securitisation market. For example, we are concerned by potential limits that could be introduced for the use of auto loans in securitisation pools.

EU Framework for simple, standard and transparent securitization

We support the introduction of a favorable regulatory framework for simple, standard and transparent securitisation. We draw your attention to the following observations:

Pillar I

- We believe the scope to be overly restrictive. We think the review should not only concern term securitisations. A wider discussion on the treatment of Asset-Backed Commercial Paper (ABCP) should also take place. Also, we would welcome clarification concerning i) the treatment of revolving facilities and ii) the inclusion of replenishment periods.

- Buy-back of whole sections of a portfolio may be in the best interests of both investors and originators or to the commercial advantage of the borrower. We think that such situations should be taken into account and included in the scope of the framework.

- We are concerned by the proposal to only include in the framework those securitisations that are backed by exposures homogeneous in terms of asset type, currency and legal system under which they are subject. Given the high upfront costs in securitisation, scale is the key most important factor in determining whether a securitisation scheme is commercially viable or not. The proposed framework should therefore not prevent the commercially legitimate combining of receivables. We think this aspect should be further discussed.

- The requirement that at least one payment has been made by the borrower on the underlying exposure may be problematic in specific circumstances for example when there is a delayed start to the repayments ("buy now pay later" product type). The exclusion of this particular type of receivable is not really justified and its performance should be taken into account.

Pillar II

- We have no comments on the proposed standards.

Pillar III

- We would welcome clarification concerning information criteria and, in particular, whether the information provided by the existing European Data Warehouse can be considered as sufficient.

- Also, the provision of data at an individual receivable level has to be done in such a way as to preserve the anonymity of identity of individuals. In some cases, it may therefore be necessary to aggregate data to an acceptable level to preserve anonymity and protection of personal data.

Credit Risk Criteria

- We would welcome clarifications on credit risk criteria B and C

  - **Credit Risk Criteria B –** the concept of single obligor should be further defined. We think that the 1% limit may be inadequate for SME and other commercial receivables and a higher limit should be considered.

  - **Credit Risk Criteria C –** we are concerned that an excessive conservative approach may exclude some types of unsecured consumer lending.

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