

**Position Paper
On Basel Committee's**

**"Consultative Document
Standardised Measurement Approach for operational risk"**

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Impact on automobile captives and the real economy

The German Association of the Automotive Industry (VDA) and German Association of Auto banks and Leasing Companies (AKA) represent the leading companies of the automotive industry and their finance captive companies in Germany.

The Finance Captive Companies are an indispensable partner to the vehicle manufacturers in the marketing of passenger and commercial vehicles. As two thirds of all vehicles sold in Europe are financed with credit or leasing, the leasing business is an important segment of the captive companies with great importance for the real economy.

For this reason, we have closely followed the Basel Committee's proposals on the revisions to the standardised approaches for calculating operational risk capital. We have submitted our position paper to the last consultative document on 19 December 2014.

Our main concern was the calculation methodology of the Business Indicator (BI). In the consultative document of October 2014, the Basel Committee proposed the addition of leasing expenses and leasing income in the Business Indicator. This would have led to a tremendous increase of capital requirements that would have severely impaired the business models of leasing companies that belong to supervised groups. However, the leasing business is by its nature not exposed to higher operational risks than the lending business.

We therefore are very grateful that our arguments have been taken into consideration and explicitly welcome the new proposal for the net calculation of the BI for the leasing business.

As regards the new consultative document, we have two comments on issues that are of significance for leasing companies of supervised groups that belong to a car manufacturer:

1. Financial and operating lease incomes are defined, among others, as "interest income from operating leases" and "interest income from financial leases" in the Business Indicator definitions in Annex 1. However, with regard to operating and financial leasing contracts, there is no such accounting position. Therefore, the definition should be "income from financial and operating leases" or "income from financial leases" and „income from operating leases“. Likewise, for financial and operating lease expenses, the definition should be "expenses from financial and operating leases" or "expenses from financial leases" and "expenses from operating leases" .
2. Furthermore, it seems that incomes and expenses from service and maintenance contracts ancillary to leasing contracts are not meant to be allocated to "financial and operating lease income" and "financial and operating lease expenses" respectively.
These contracts enable the lessee to benefit from certain services in conjunction with his lease contract. This includes for example maintenance services like vehicle inspection or tyre change that are provided by authorised contract workshops. Yet it also includes services like collection of vehicle taxes or collection of radio licence fees mandatory in many jurisdictions. These services are neither banking or bank-related businesses nor financial services

nor banking-related auxiliary services. If the above-mentioned leasing related services were to be provided by a simple service company, this service company would not be included in the group of consolidated companies for regulatory purposes and would thus not be subject to capital requirements.

We therefore argue that these leasing related services should be excluded from the calculation of the Business Indicator. The exemption list in point 46 should be supplemented by the following:

- *Income and expenses from services that are rendered in connection with leasing contracts or alone e.g. maintenance services or the collection of taxes for the leased assets that are neither banking nor near-banking activities or financial services nor services that are necessary to render banking activities.*

For reasons of practicality it would also be conceivable to include expenses and incomes from leasing related services in the calculation of the Business Indicator on a net basis which is already common practice for leasing business. A valid argument for this approach is that the expenses and incomes of these services are already included in the net income from leasing businesses so the calculation of the Business Indicators would be quite simple.

We would once again like to stress that the proposed new net calculation of the Business Indicator for the leasing business is indeed very proportionate and will assure that leasing businesses are able to continue their business models.

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