

## **Basel Committee on Banking Supervision**

Brussels, 15 March 2016

Re: *Second Consultative Document on Revisions to the Standardised Approach for credit risk*

Dear Sir/Madam,

Eurofinas, the voice of consumer credit providers at European level, welcomes the opportunity to respond to the Basel Committee on Banking Supervision's (BCBS) second consultative document on revisions to the Standardised Approach for credit risk.

Eurofinas brings together associations throughout Europe that represent consumer credit providers. In 2014, the 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, reaching 861 billion EUR of outstandings at the end of the year<sup>1</sup>. Consumer lending is procyclical and is highly positively correlated with households' disposable income<sup>2</sup>. By providing access to finance to individuals and households, consumer credit supports the social and economic well-being of millions of consumers across Europe.

The Federation supports the objective of the review to ensure that the standardised approach is appropriately calibrated to reflect the riskiness of credit exposures. Basel requirements are primarily designed for internationally active institutions. As mentioned in the past, these requirements may not all fit smaller-sized institutions or specialised business models. Consumer credit providers/asset financiers across the European Union (EU)/European

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<sup>1</sup> Eurofinas 2014 Annual Statistical Enquiry

<sup>2</sup> Eurofinas, *Consumer Credit, Helping European Households Finance their Tomorrow*, 2015

Economic Area (EEA) encompass a diversity of organisations of different legal nature (i.e. specialised banks, finance houses) 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 jurisdictions, such as in the EU/EEA where Basel standards apply to a wide range of firms, the impact of the review will be much more significant for specialised institutions.

In line with the BCBS's principle for the review of the standardised approach, we believe the **various requirements should be simple and suitable for a wide range of institutions**. Against this backdrop, we are grateful to the Committee for having adjusted its proposed framework. In particular, we welcome the re-introduction of the use of external credit ratings for exposures to banks and corporates.

We would like to draw your attention to the following key observations for the Eurofinas constituency:

**Regulatory retail exposures** – We welcome the Committee's proposal to maintain a flat 75% risk weight for retail exposures as well as the withdrawal of the various risk drivers such as the maturity of the exposure or the existence of an already established relationship between the borrower and the banks. We believe such drivers would have benefitted larger institutions to the detriment of smaller specialised players.

We welcome the recognition that the extent to which a **lending facility is secured by durable goods** has the potential of enhancing the risk sensitivity of the exposure class. However, we regret that no specific treatment has been proposed on this by the Committee. As mentioned at the BCBS 17 February 2016 industry hearing on the review of the standardised approach for credit risk, we believe there is a strong case for allocating a preferential risk weight (for example a 50% risk weight) for secured lending facilities.

We would also like to renew our call for the introduction of a specific favorable treatment for **loans secured on salaries and pensions**. Such lending facilities currently exist in Italy. They are strictly regulated and provide a valuable set of guarantees such as the direct assignment of one-fifth of the pensions or the salary to cover the payment of the loan instalments, mandatory insurance policies as well as restriction on the availability of retirement indemnities and the possible foreclosure of salaries/pensions<sup>3</sup>. A recent industry survey confirms that default and loss rates for such a product are significantly low<sup>4</sup>. For example, the probability of default (PD) within 12 months is 3.0%, the effective loss rate (weighted-average LGD rate) is 5.8% and the expected loss (EL) is 0.16%. Accordingly, the theoretical risk weighting (RW) factor, calculated on the retail curve, is 8.4%. We would welcome the BCBS's views on the possible differentiated treatment of this product.

As regards the **granularity criterion**, we understand the Committee's objective to ensure the diversification of the retail portfolio. However, we believe that the proposal that no exposure to one counterpart should exceed 0.2% of the overall regulatory retail portfolio is too low and should be set at a higher level. This limit could make it harder for smaller credit institutions to

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<sup>3</sup> *Cessione del quinto dello stipendio/pensione* as regulated by the Presidential Decrees 180/50, 895/50 under supervision/instruction of the Ministry of Economy and Finance and the Bank of Italy.

<sup>4</sup> Survey by the Italian Banking Association (ABI). Participating financial institutions (11) provided over 80% of the product in 2013.

compete with larger players. We recommend introducing a higher limit of at least 0.5% of the overall regulatory portfolio.

**Exposures to banks** – We understand that exposures to banks with an original maturity of three months or less can be assigned a preferential risk weight. We believe that the remaining time to maturity is the appropriate risk figure, not the original maturity.

**Exposures to financial institutions** – We agree that exposures to securities firms and other financial institutions should be treated, as currently is, as bank exposures as long as these firms are subject to prudential standards and the level of supervision equivalent to those applied to banks.

It is however important to consider that these firms may be subject to different standards to take into account the specificities of their activities. It would not make sense to treat exposures to these entities as exposures to corporates simply because they present a lower systemic risk and, as a consequence, are subject to an adjusted set of rules (for example concerning liquidity requirements). Annex 1, Section 5, paragraph 30 should be amended accordingly. It would also be helpful to clarify that, in the case of banking groups, compliance with prudential and supervisory standards on a consolidated basis is sufficient.

**Off-balance sheet items** – A 10 to 20% Credit Conversion Factor (CCF) should apply for unconditionally cancellable retail commitments. We understand that a CCF of 50 to 75% will apply to unconditionally cancellable corporate commitments. We would recommend the introduction of lower risk weight for corporates, preferably the same as for retail and no more than 10% (currently 0% applies to both types of commitments). Failing to do so would make corporate commitments more expensive or would have to be significantly shortened. We think this would have an important impact on the financing of the real economy.

**Credit risk mitigation** – We would recommend the introduction of a specific reduced supervisory haircut for Simple Transparent and Comparable (STC) securitisation exposures. This would be consistent with the BCBS's objectives to promote STC transactions

We would also advocate for a general recognition of physical collateral for credit risk mitigation purposes.

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,



Leon Dhaene  
Director General