Brussels, 5 March 2024

Leaseurope comments to the BCBS public consultation paper on a Pillar 3 disclosure framework for climate-related financial risks

Leaseurope, the voice of leasing and automotive rental at European level, welcomes the opportunity to comment on the BCBS public consultation paper on a Pillar 3 disclosure framework for climate-related financial risks.

We would like to stress that any prudential regulatory initiative in the area of climate-related risks should consider as a credit risk mitigation technique the role of leasing companies' expertise in lifecycle management of the assets they finance.

Sustainability in the leasing industry

The leasing industry is in many ways ideally placed to act as a facilitator of the green transition for businesses and households alike. To this aim, the leasing industry currently plays a major role in improving the availability of new, more efficient and greener technologies, without the prohibitive prices that would often deter companies and individuals from upgrading their assets (like factory equipment or vehicles for example) to a more sustainable model. In this way, leasing companies are in a better position to finance sustainable assets compared to other financial service providers.

Leasing has emerged as a key driver in the adoption of green mobility solutions and technologies, encompassing electric vehicles (EVs) and bicycles, fleet management, mobility-as-a-service solutions, and providing advisory services for clients transitioning to low-emission mobility.

Unlike other forms of finance, lessors allow lessees to invest in more sustainable assets while the former retain ownership throughout the contract. With the combination of asset security, specialised asset knowledge and sophisticated management capabilities (including managing assets at end of lease), lessors are well-positioned to promote the adoption of energy-efficient assets. By enabling consumers and companies to avoid both the large outright purchase prices and the possible additional costs associated with the maintenance and upkeep of newer, more innovative assets, businesses are more likely to be offered sustainable finance through leasing.

Leasing is also a crucial source of finance for SMEs[1] to invest in environmentally friendly and energy-efficient assets. Given the unique position of leasing as one of the main sources of finance

[1] European Commission 2022, Annual Report on European SMEs 2021/2022: SMEs and environmental sustainability Background document

for SMEs, leasing can provide access to finance to those SMEs and by doing so, support the broader green transition. In fact, leasing remains the most relevant source of external finance to SMEs, according to the latest results of the Survey on Access to Finance of Enterprises 2023[2], with 48% of SMEs stating that they have used leasing and considered using it in the future, followed closely by bank credit products.

A principal function of our industry is to ensure assets are used as a service until the end of their lifecycle permitting longer assets lifetimes as upon recovery they can be re-deployed. As a result, we are by nature circular, as required by the European sustainable product policy framework (a new circular economy action plan, 2020), with a long-term approach in risk management, and this long-term approach includes climate change risks.

The risk mitigating role of the leased asset

By ensuring an efficient turnover of assets, leasing **companies often hold the newest assets in their portfolios**, built and designed in accordance with the latest industry and type approval standards. Therefore, the underlying asset of the lease exposure is by definition less exposed to environmental risks. As such, our industry is hedged from a risk perspective against environmental risk factors as well as newly introduced environmental performance standards.

As leasing companies have developed significant expertise, not only the performance of the leased assets, but also the business activities of the respective lessees, **environmental risk factors negatively affecting business performance (e.g. droughts threatening farming activity) can be substantially mitigated.** Moreover, the financing of assets through leasing mitigates the risk of greenwashing, as lessors have a detailed overview of the underlying assets' characteristics.

Leasing companies are well placed to reallocate assets depending on clients' needs

As asset management specialists, leasing companies integrate lifecycle management into their risk management processes, which is a relevant aspect of our business model. This special characteristic allows lessors to **re-deploy assets to other customers, taking into account changing client' profiles and needs, which reduces the risk of potential losses on a leased asset even further.**

General Observations on the BCBS Consultative Paper

1. It is important to consider the principle of proportionality in the disclosure of climate-related risks. SMEs in Europe should not be forced to report more than required under the Corporate Sustainability Reporting Directive (CSRD) (Listed SMEs European Sustainability Reporting Standard (ESRS)) or the Voluntary SME ESRS standard. Therefore, if banks are required to make disclosure covering SME lending, it should be clear these can be based on reasonable estimates and not require SME customers of banks to make additional disclosures, either as a condition of lending or during the life of finance agreements.

2. The leasing industry is supportive of a recognition of both physical and transition risk, with regards to their expected impact on business operations, when data are available. In fact, the

[2] European Commission, Survey on the Access to Finance of Enterprises Apr. – Oct. 2023

incorporation of these principles is already commonplace with the industries we represent, as asset life cycle management requires leasing companies to take a more holistic approach to risk management.

3. The special challenges and opportunities that arise in connection with the management of ESG risks should be recognised, communicated and expressed within each company's corporate culture. As ever, implementation thereof, as well as other proposed measures in the Consultative Paper should be subject to the principle of proportionality.

4. Leaseurope fully supports the notion that an institution's business strategy takes into account climate-related and environmental risks.

5. It is crucial that reporting requirements for credit institutions allow the assessment of ESG risks from SMEs without increasing compliance cost.

6. We have to take into consideration that in the initial stage of the integration of ESG factors new risks may appear, and therefore it may absorb additional capital for credit institutions that need to increase their expertise in managing those risks. In the future, it is likely that enterprises and households will be less risky for ESG factors and creditors will be able to hedge themselves from the ESG risks. Therefore, to achieve financial stability in the long term we need a gradual and proportionate incorporation of ESG in our business models, controls and prudential regulation, taking into account all available data.

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About us

Leaseurope brings together 44 member associations representing the leasing, long term and/or short term automotive rental industries in the 31 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, machinery, ICT and real estate). It also includes the short-term rental of cars, vans and trucks. It is estimated that Leaseurope represents over 90% of the European leasing market.

Asset finance and leasing markets have developed to respond to business investment and consumption needs as well as to accompany the development of local industrial production and distribution. The types of institutions represented by the Federation include specialised banks, bank-owned subsidiaries, the financing arms of manufacturers as well as other, independently-owned institutions.

In 2022, the leasing firms represented through **Leaseurope's membership helped European businesses, households and the public sector invest in assets that is estimated worth more than 404 billion EUR**, **reaching about 930 billion EUR** of outstandings at the end of the year[3]. **Leasing is the most relevant external financing source for SMEs** and is also popular amongst larger corporates[4]. Leasing is also useful to support the public sector (e.g. leasing to schools, hospitals, etc.).

Leaseurope is entered into the European Transparency Register of Interest Representatives with ID n° 430010622057-05

[3] Leaseurope 2022 Annual Statistical Enquiry.

[4] European Commission, Survey on the Access to Finance of Enterprises Apr. – Oct. 2023