Position paper to the Basel Committee on Banking Supervision Consultative Document: Revisions to the Standardised Approach for credit risk

- **Adequate risk weight for auto loans and auto leasing contracts required**

Captives are automotive manufacturer owned banks that exist to finance parent vehicle sales. The VDA Working Group of Automotive Captives is an informal alliance of EU based automotive captive banks working together and with their respective manufacturer parents to lobby against financial regulations that threaten the automotive sector. The Verband der Automobilindustrie (the "VDA") is the trade association representing the automotive industry in Germany and the Arbeitskreis der Banken und Leasinggesellschaften der Automobilwirtschaft (the "AKA") is the trade association representing the automotive captive banks in Germany.

Captives are critical to the success of the automotive sector. Each year about 13 million new passenger cars are registered in the European Union and more than 60% of these sales are either financed or leased with a significant proportion of this finance being provided by the captives. Many of the members of the captive group have been providing automotive financial services for more than 50 years and are extremely experienced in this business area.

We welcome the BCBS` aim to increase the risk sensitivity of the Standardised Approach. However, higher risk sensitivity must also mean that businesses with low loss level obtain a lower risk weight. The financing and leasing of cars features low loss levels because the loan and leasing contracts are secured by a vehicle that can be easily sold. This applies especially in the case of retail auto-finance and auto-leasing business with private customers. In this segment the willingness to pay is extremely high because retail customers need the vehicle to preserve their mobility.

Thus, due to the low credit risk we request a separate risk weight for auto loan and auto leasing contracts secured on physical collateral. Based on a conservative estimation of unexpected losses **we deem a risk weight of 50% in retail business as risk-adequate.** In the corporate business, the favourable risk profile of secured auto loans and auto lease contracts should be recognised by a **25% discount** from risk weights to reflect the marketability and value of the underlying collateral.

Without such compensation, which is more than justified by observed loss profiles, we fear that the revised Credit Standardised Approach will result in unfairly high capital requirements which will be detrimental to the business model of the captives, placing constraints on capital which could hinder opportunities to further promote the growth of sales of vehicles from the car manufacturers. In addition, this must be considered against the back-drop of the phasing-in of Basel III and higher capital requirements for operational risks which will result in further significant increases in capital requirements. Thus, it is more important than ever that those businesses which evidence low loss levels obtain a risk weight that is commensurate to the risk.

Finally, the 300% risk weighting where corporates have not provided revenue and leverage data as at the relevant legal reporting date is not commensurate to the risk and should be significantly reduced.

Berlin, Köln, 27-03-2015

Verband der Automobilindustrie e.V., Behrenstrasse 35, 10117 Berlin, Germany

Arbeitskreis der Banken und Leasinggesellschaften der Automobilwirtschaft e.V.,
Gut Maarhausen, Eiler Straße 3 K1, 51107 Köln, Germany

<u>Supported by:</u>

Banque PSA Finance, 75 avenue de la Grande Armée, 75116 Paris, France

BMW Bank GmbH, Heidemannstr. 164, 80939 München, Germany

FGA Capital S.p.A., Corso Agnelli 200, 10135 Torino, Italy

FCE Bank Plc, Eagle Way, Brentwood, Essex CM13 3AR, United Kingdom

GMAC Bank GmbH, Adam Opel Haus, Friedrich-Lutzmann-Ring, 65428 Rüsselsheim, Germany

Honda Bank GmbH, Hanauer Landstr. 222-224, 60314 Frankfurt, Germany

MCE Bank GmbH, Schieferstein 5, 65439 Flörsheim, Germany

Mercedes-Benz Bank AG, Siemensstr. 7, 70469 Stuttgart, Germany

RCI Banque, 14 avenue du Pavé Neuf, 93168 Noisy le Grand, France

TOYOTA Financial Services Europe & Africa Region, Toyota Allee 5, 50858 Köln, Germany

Volkswagen Financial Services AG, Gifhorner Str. 57, 38112 Braunschweig, Germany