Consultation Paper on Guidelines on Connected Clients under Article 4 (1) (39) of Regulation (EU) No 575/2013

**General remarks**

We appreciate the opportunity to comment on the draft Guidelines on the treatment of connected clients for large exposures. Non-financial companies using banks and capital markets for financing growth, innovation, and employment have a vital interest in a financial market regulation that addresses systemic risks appropriately and thus ensures that they are provided with financial services in a reliable manner. We are concerned that the envisaged regulatory changes have considerable negative consequences for the German and European real economy that directly or indirectly uses ABCP programs as a source of funding.

The revised guidelines presented by EBA provide a new rationale to differently identify groups of Connected Clients in which the interconnectedness of control (Article 4 (1) 39 a CRR) and the interconnectedness of economic dependency (Article. 4 (1) 39 b CRR) are linked. Moreover, the introduction of the main source of funding for SPVs to define economic dependency is envisaged. We are concerned that the consolidation of sponsor banks and SPVs that are set up for ABCP programs would lead to a severe limitation of funding opportunities for firms.

ABS and ABCP are important sources of funding for the German and European real economy. Meanwhile, banks will again find it more relevant to use the securitisation market for their funding activities and to release bank’s regulatory capital in order to extend credit exposures for SMEs. However, securitisation goes well beyond releasing banks’ regulatory capital to provide new scope for lending. For example, auto ABS support the sales of car manufacturers and thus stabilizes large parts in the automotive value chain. The same applies for trade finance or even for consumer loans (e.g student loans or mobile phone financing). Moreover, for larger SMEs it is increasingly important to use this kind of funding sources to better diversify their financial basis. More and more SMEs use the market for ABCP for the mobilization of trade receivables. ABCP securitisations are a solid mainstay in the financing mix of German and European corporates.

**Specific remarks**

As a consequence of the financial crisis in 2007 and its devastating effects on the real economy, the legislator adopted several measures, in particular Basel III, to regulate the securitisation market. This is to preserve a high quality of ABS and ABCP securities. Properly regulated STS securitisation markets can make a valuable contribution to the envisaged Capital Markets Union. We strongly welcome this. We have repeatedly called for a removal of the various regulatory impediments that contradict efficient and well-functioning European securitisation markets.

In this respect, the EBA proposals on Connected Clients are highly counterproductive. As a result of the regulation, all SPVs have to be assigned to the group of the sponsor bank. This would have far-reaching consequences for the financing of the real economy:

* For example, automotive firms but also all other industry sectors that securitise leasing receivables against their clients and are forced to include SPVs in the group would face considerable changes in their financing situation. The large loan exposure limits reduce the bank’s scope for lending to the company. This, in turn, reduces the refinancing and investment opportunities for the automotive firm as a group.
* For those banks whose SPVs are assigned to their group, the consolidation implies further limitation of intra group exposures in the large loan regime. This, in turn, restricts the group’s internal financing opportunities to provide sufficient liquidity and capital for its subsidiaries. As consequence, this too impedes a smooth financing of the real economy.

The proposals should adequately take into account financing needs of the

real economy. We believe that the obligation of firms to interlink control and economic dependency in a group of connected clients is not justified neither for economic nor for legal reasons. These are two very different dependencies whose linkage is inappropriate. The same applies to a mandatory interconnection due to a common source of refinancing, which we regard not adequate. Liquidity risks are sufficiently regulated and limited by the liquidity provisions of the CRR. For the bank as sponsor or investor the consideration of the credit risk is primarily relevant. The risk is not with the individual SPV but solely with the underlying exposures. Therefore, the look through and the assignment of the exposures to the individual debtors pursing to Article 390 (7) CRR and EBA RTS 1187/2014 are essential and sufficient.

Furthermore, we see the proposed changes in contradiction to the goal of establishing a flourishing STS securitisations market. While the STS regulation seeks to remove barriers for securitisations, the draft guidelines would create additional obstacles. We fully support the Capital Markets Union action plan of the European Commission in order to create jobs and growth. The suggested changes would exhibit negative impacts on this plan by hindering the use of securitisations.