

SHIP FINANCING

ECSCA position on the EBA Guidelines on Loan origination and monitoring (Consultation response)

ECSCA welcomes the opportunity to comment on the draft EBA guidelines on loan origination and monitoring (EBA Guidelines).

General remarks

Scope: although the draft EBA Guidelines address financial institutions and their supervisory authorities, their impact on shipowners may be significant.

The proposed rules, if finally adopted without due adjustments, may restrict lending capacities to shipowners in Europe and could create competitive distortions within the European shipping sector in two ways:

- 1) by making available funding provided by EU-based lenders more expensive, the Guidelines may lead to European shipowners seeking funding from outside Europe and/or
- 2) due to more expensive funding, it may distort the competitiveness of European shipowners vis a vis their global competitors.

On the basis of the above-mentioned remarks, the Guidelines should clearly incorporate a cost-benefit analysis in terms of compatibility of the proposed rules with relevant international standards and, if not, explain the rationale underlying the deviation.

Response to specific questions

Question 1: What are the respondents' views on the scope of application of the draft guidelines?

ECSCA asks EBA to clarify the scope of the Guidelines, as it is unclear whether debt securities are outside its scope as point 7 suggests, or if some parts are included as point 8 suggests.

Question 2: Do you see any significant obstacles to the implementation of the guidelines by the application date and if so, what are they?

ECSCA understands the need for finalising the EBA Guidelines based on the European Council's Action plan on tackling high-level non-performing exposures (2017). However, we would like to flag that a number of regulatory initiatives are in the pipeline which may change their content. For example, this draft document suggests in point 49 *'that institutions [...] should develop specific green lending policies and procedures covering granting and monitoring of such credit facilities.'* At the same time, the European Commission is still working on the taxonomy.

ECSCA recommends that EBA should reconsider the timing with regards to finalising and entry into force of these Guidelines, taking into account the development of the European Commission's Proposal on EU taxonomy for sustainable activities.

Question 3: What are the respondents' views on whether the requirements set in the draft guidelines are future proof, in particular in relation to technology enabled innovation and environmental factors and green lending.

A number of regulatory initiatives are in the pipeline which may change the content of the EBA Guidelines. For example, this draft document suggests in point 49 *'that institutions [...] should develop specific green lending policies and procedures covering granting and monitoring of such credit facilities.'* However, the European Commission is still working on the taxonomy.

ECSCA recommends that EBA reconsiders the timing with regards to finalising and entry into force of

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these Guidelines and wait for the outcome of the pending regulatory initiatives.

Question 8: What are the respondents' views on the requirements for assessment of borrower's creditworthiness (Section 5.2)?

ECSA asks for further clarification on the requirements under point 171, sub-point c which are related to the creditworthiness of the borrower in ship finance. We have the understanding from the current drafting that these requirements are based on a static market balance approach (rather than on dynamic models), which hinder the application of the main principles of prudent loan origination. In line with EBA's intention, as laid down in point 125, we support a holistic approach in the creditworthiness assessment in opposition to a purely asset based approach. The holistic approach is the foundation of trust that the shipping industry needs both of- and in the financial sector.

It is noted, in particular, that the draft in its current form may disincentivise the financing of newbuild vessels and favour the financing of second-hand vessels. This could lead to discouraging sustainable innovation and hinder the European shipping industry's transition to new technologies in order to meet CO₂ and other emission reduction goals.

With regards to point 171 sub-point d, ECSA finds it important to elaborate on the methods that credit institutions use for vessel valuations when assessing borrowers' creditworthiness or to ensure further transparency requirements on this matter.

ECSA understands that these Guidelines focus on a restricted segment of shipping. For example, "soft infrastructure shipping" and regulated activities (i.e licenced activities), such as towage, are not mentioned.

ECSA recommends that under point 171 sub point c EBA expands the list with more examples in order to cover a wider range of shipping activities or at least EBA confirms that the listed items only provide examples and other factors should also be considered.

For the above arguments, ECSA would like to engage in a constructive dialogue with EBA on initiatives that could unintentionally limit the banks' possibilities and to ensure necessary flexibility in ship financing arrangements taking into account current and upcoming regulatory developments.

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