

To the rapporteur and shadow rapporteurs on the Commission proposal COM (2021) 664 for a Regulation as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor (aka Basel III):

Jonás **Fernández**, MEP

Othmar **Karas**, MEP

Gilles **Boyer**, MEP

Ville **Niinistö**, MEP

Marco **Zanni**, MEP

Johan **Van Overtveldt**, MEP

Dimitrios **Papadimoulis**, MEP

To the Swedish Permanent Representative (Ambassador to Coreper II), Lars **Danielsson**.

To the Director for Banking, Insurance and Financial Crime at DG FISMA, Martin **Merlin**, and the Head of Unit for Banking Regulation & Supervision, Almorò **Rubin de Cervin**.

Cc: to the Director for Land Transport at DG MOVE, Kristian **Schmidt**.

Subject: on proposed changes to Basel III in relation to object-based financing

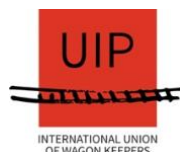
Brussels, 18 April 2023

Dear honorable Members of the European Parliament,

Dear Ambassador Danielsson,

Dear Director Merlin,

If EU climate objectives can only be achieved once European mobility and logistics become more sustainable, this in turn is possible only if the modal shift objectives of the EU Strategy for Sustainable and Smart Mobility are reached through sound pro-rail policies. At the same time, however, EU and national public funding are demonstrating every new day their limits, with public budgets ever more stressed under the impact of the recent economic crises. This is why we need that private investors are empowered to play an increasing role when it comes to financing the rail sector and, more specifically, the procurement of rail rolling stock. Banks and credit institutions play in this context a role whose importance is destined to increase significantly in the coming years.



This is why the Rail Working Group (RWG), together with ALLRAIL, CER, ERFA, UIC and UIP, has been closely monitoring the important work of the European Institutions on the Commission proposal COM (2021) 0664 for a Regulation amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor.

Credit institutions can play a key role in the development of the rail sector, by providing resources that can be allocated to investment projects where public funding is not possible or available, or simply insufficient. Moreover, the increasing willingness of credit institutions and private financiers to view rail projects as necessary and safe investments is fully in line with the objectives of the EU Strategy on Sustainable Finance, of the Taxonomy Regulation and of its Delegated Acts.

Against the background of the text approved on 24 January by the ECON committee and the previously agreed Council General Approach, RWG would like to stress few messages of critical importance and which we hope you will take into due consideration once trilogues commence.

- (i) The proposed new rules and risk weightings applied to object-based financing (and project financing when this includes collateralised lending on rolling stock) seem both unclear and unappreciative of the enhanced security enjoyed by credit institutions when taking enforceable collateral on financed railway rolling stock. This is especially true when one takes into account that the Luxembourg Rail Protocol to the Cape Town Convention, already ratified by the European Union and by the governments of Luxembourg, Sweden and Spain, signed by a further three EU Member States (France, Italy and Germany) as well as, in Europe, Switzerland and the United Kingdom, is expected to enter into force in contracting states in 2023¹, thereby creating a new set of global rules for securing creditors lending with the collateral of rolling stock or leasing such equipment.
- (ii) The updating and expansion of the European rail sector is a key European Union strategy but this will need significant investment from the private sector². In addition, the European Central Bank policy is to encourage more bank lending into environmentally sustainable projects, such as the rail sector. We respectfully remind you that the higher the risk weighting banks are forced to take, the higher their cost of funds - and this will translate directly into making private finance for rolling stock more expensive for operators. This in turn makes the industry less competitive and discourages the entrepreneurs and innovators we urgently need from engaging with rail by increasing their risk and reducing their reward. As the Luxembourg Rail Protocol

¹ The entry into force of the Luxembourg Rail Protocol in contracting states is expected by Q4 2023, when the second and final precondition will be met, i.e. the certification of readiness of the International Rail Registry in Luxembourg City.

² With its Conclusions of 25 May 2021 the EU Council "38. RECOGNISES [...] that investment is urgently needed from the private sector and REMINDS Member States of the existence of international agreements and treaties which facilitate private investment, such as the Luxembourg Rail Protocol to the Cape Town Convention".



will ensure that lending exposure is indeed of high quality when it comes to financing of railway rolling stock, we urge policymakers to agree that when credit is provided for railway rolling stock and is secured under an international treaty adopted by the European Union, such as the Luxembourg Rail Protocol, this must be taken into account by banks when allocating a risk weighting to the credit. **Therefore, we stress the importance of aligning the risk weighting with the quality of specialized secured lending exposure, by lowering the former to 80% on movable assets, such as railway rolling stock, when a directly applicable credit assessment is not available and an international treaty is providing material incremental security for the creditor bank.**

(iii) Article 495b on 'Transitional arrangements for specialised lending exposures' *inter alia* mandates EBA to assess the adequacy of LGD input floors applicable to specialised lending exposures and empowers the Commission to revise the parameters by a delegated act based on EBA's assessment. **We stress that on this matter and when preparing the report as per article 495b(2) the EBA revises LGD input floor values for rolling stock at a percentage that is more in line with the available historical evidence on the rate of defaults of rolling stock debtors (i.e. minimal).**

(iv) It is essential, furthermore, in our respectful submission, to **preserve the permanent possibility for the Commission to recalibrate via a delegated act the level of LGD input floors**, i.e. beyond the four-year limit proposed by the European Parliament in order to accurately reflect the actual probability of unsuccessful creditor recoveries after debtor default or insolvency, again taking into account the incremental creditor benefits from the Cape Town Convention and its protocols when they apply.

We look forward to continuing exchanging with you on this important matter and we remain sincerely yours,

Nick Brooks – ALLRAIL

Alberto Mazzola – CER

Conor Feighan – ERFA

Howard Rosen – RWG

François Davenne – UIC

Gilles Peterhans – UIP