

14. Oktober 2022

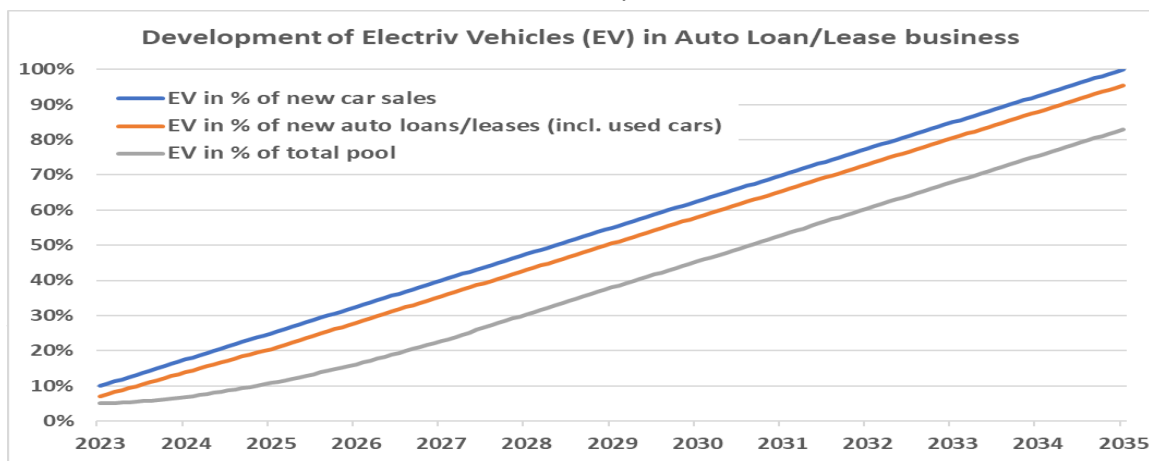
EU Green Bond Standard (EU GBS) – Treatment of Securitisations

Dear Ladies and Gentlemen,

A key element of the EU Green Bond Standard (EU GBS) as proposed by the Commission is “a uniform set of specific requirements ... for bonds issued by financial or non-financial undertakings or sovereign...” (recital 7). This implies that the same rules shall apply for sovereign issuances, corporate bonds, covered bonds and for securitisation transactions (ABS). Accordingly, the Use-of-Proceeds (UoP) should be applied equally for ABS from a material perspective.

As announced by the EBA on 2 March 2022 (EBA proposal), the EU GBS shall be adjusted for securitisation transactions inter alia by applying the UoP on the originator of a securitisation transaction leading to materially equal treatment. Applying, however, the UoP to the issuer SPV which would be a technical interpretation leading to a materially different treatment of the EU GBS for ABS.

We do strongly recommend following the EBA proposal and would like to elaborate on this topic especially from the perspective of an automotive bank. The following chart illustrates the development of auto loan and auto leasing portfolios with respect to electric vehicles (EV), following assumptions are made: 5% EV in the total portfolio in 2022; 10% share of EV in new car sales; 100% share of 100% EV in new car sales by 2035; 30% share of used car business:



Automotive banks typically have a funding mix of retail deposits, senior unsecured bonds (DCM) and Auto ABS (ABS). When issuing DCM under the EU GBS, all proceeds need to be applied for new car EV financing irrespective of the total share of EV in the total pool. Accordingly, the same rule shall apply for ABS, i.e. all proceeds from the sale of the auto loan/lease receivables received by the originator (automotive bank) shall be applied to new car EV financing and no minimum share of EV shall be required for the ABS portfolio. It is market practice that automotive banks randomly select auto loan/lease receivables for ABS and it can reasonably be expected that the share of EV in ABS pools is reflected by the grey line ("EV in % of total pool"). This development is not affected by the decision of the automotive bank whether to issue DCM or ABS under the EU GBS. The only difference is the fact that in ABS, the figure "EV in % of total pool" is transparent and published in addition to UoP.

Proposal: Option 2 of the "Non-paper on the treatment of securitisation in the European green bond standard" from 20 September 2022 should be pursued. To assure that market practice of random selection is always applied and that no ABS could be issued under the EU GBS with a pool with no or below average EV, a rule could be added: "A random selection shall assure that the percentage of taxonomy compliant assets of the securitized pool is not lower than the overall portfolio, unless the originator chooses to securitise a higher percentage of taxonomy compliant assets."

Conclusion: Any other Option (1, 3, 4a or 4b) as described in the "Non-paper on the treatment of securitisation in the European green bond standard" from 20 September 2022 will have a material negative impact on the development of the securitisation market which is fundamental for financing the digital and green transformation in Europe. The adoption of Option 2 does (i) assure a level playing field among different bonds markets, (ii) allow an efficient implementation of the EU GBS for securitisations and (iii) leave full discretion to issuers to select 100% green portfolios if deemed appropriate to match investors preferences.

Kind regards

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