



Public consultation

Draft guidance of the European Central Bank on leveraged transactions

Template for comments

Contact details (will not be published)

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Please tick here if you do not wish your personal data to be published.

Please make sure that each comment only deals with a single issue.

In each comment, please indicate:

- the relevant article/chapter/paragraph, where appropriate
- whether your comment is a proposed amendment, clarification or deletion.

If you require more space for your comments, please copy page 2.

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Draft guidance of the European Central Bank on leveraged transactions.

Template for comments

Name of Institution/Company Rabobank

Country The Netherlands

Comments

Guide	Issue	Guidance (Include number)	Comment	Concise statement of why your comment should be taken on board
<input type="checkbox"/>	Option to report and monitor leveraged exposure on client level		Amendment	General amendment to allow for the option to report on and monitor leveraged exposure on consolidated client level rather than transaction or loan level, to be determined at the moment of deal inception. Rabobank considers itself a relationship bank and therefore proposes to look at leverage from a client perspective. Consequently, this will result in a more conservative approach when all exposure of clients who are labelled as leveraged will be reported.

<input checked="" type="checkbox"/>	Allow for adjusted EBITDA in leverage calculation	Paragraph 3, Page 3, Footnote 7	Amendment	In paragraph 3 (definition), footnote 7 it is proposed allow for adjusted EBITDA (if properly documented and justifiable as market practice) in the leverage ratio calculation in line with the FED regulations in the US.
<input checked="" type="checkbox"/>	Include purpose-test to the definition	Paragraph 3, Page 3	Amendment	In paragraph 3 (definition) it is proposed to add that next to the leverage ratio, a transaction is considered leveraged if the purpose of the financing is amongst one of the following, but not necessarily limited to: a) Company purchase, by buy-out or acquisition of shares and/or b) Capital distribution, such as dividends distributions, share buy-back, repayment of subordinated debt, etc.
<input checked="" type="checkbox"/>	Exclude loans to SME companies	Paragraph 3, Page 3	Amendment	In paragraph 3 (definition) it is proposed to add that next to the leverage ratio and the proposed purpose-test above, the client is not an SME (in line with generally accepted threshold: an SME is company with net sales lower than EUR 50mln)
<input checked="" type="checkbox"/>	Increase exposure threshold from EUR 5mln to EUR 25mln	Paragraph 3, Page 4, bullet (ii)	Amendment	In paragraph 3 (definition) it is proposed to amend the one obligor exposure threshold for leveraged facilities from EUR 5mln to EUR 25mln. This number excludes facilities meeting one of the exclusion criteria, such as project finance loans and trade finance.
<input checked="" type="checkbox"/>	Amend definition of Asset Based Loans	Paragraph 3, Page 4, Footnote 12	Amendment	In paragraph 3 (definition), footnote 12 on Asset Based Loans, it is proposed to change this into: 'If a borrower has provided sufficient tangible assets as collateral to cover its debt

				<p>obligations to the bank under a credit facility, such credit facility will not be considered leveraged. Such to be tested by way of an LTV test (max 100%) to be assessed upon appraisal values (as per bank policy) or, if not available, audited values. In case of an acquisition finance arrangement, the client's opening balance sheet may be used. Furthermore, if no tangible collateral is provided and lenders are pari-passu, and the tangible unencumbered assets are sufficient to cover the debt obligations to the pari-passu banks, such credit facility will not be considered leveraged either". In doing so corporate style financings of tangible assets for which the bank is sufficiently covered, will be out of scope.</p>
<input checked="" type="checkbox"/>	Amend independent Enterprise Valuation requirement	Paragraph 6, Page 7, bullet 3	Amendment	<p>In paragraph 6 (policies and procedures) it is proposed to amend the section on enterprise valuation, to the extent that this has to be taken into consideration as a relevant element in the credit approval process.</p>
<input checked="" type="checkbox"/>	Remove separate liquidity coverage requirement for leveraged lending	Paragraph 6, Page 7, bullet 5	Deletion	<p>In paragraph 6 (policies and procedures) it is proposed to delete the section on liquidity coverage requirements, as this will also be covered by Article 31(1) of DGR 2015/61. This relates to liquidity risk of the Institutions and not the (monitoring of) appropriateness of credit granting which is the objective of this exercise.</p>
<input type="checkbox"/>	Alignment with FED regulations on leveraged lending		Clarification	<p>More alignment with the FED regulatory framework is recommended, to make sure a level playing field is created covering US and EU markets.</p>

<input type="checkbox"/>	Request to brief the industry on key findings of the consultation round	Clarification	It is proposed to organise a 2 nd industry meeting/workshop after the consultation period has ended and comments have been reviewed. This would provide an opportunity to discuss the findings and ensure a smooth implementation.
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