



Public consultation

Draft guidance of the European Central Bank on leveraged transactions

Template for comments

Contact details (will not be published)

Institution/Company

Nordea

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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.

Public consultation

Draft guidance of the European Central Bank on leveraged transactions.

Template for comments

Name of Institution/Company Nordea

Country Sweden

Comments

Guide	Issue	Guidance (Include number)	Comment	Concise statement of why your comment should be taken on board
<input type="checkbox"/>	Level Playing Field	2. Scope	Amendment	Nordea appreciates and welcomes the overall purpose of the draft ECB guidance to provide consistent definitions and provide guidance for leveraged finance activities and their supervision. Nordea would like to encourage ECB to consider amending the intended scope of this guidance in order to ensure level playing field within the EU and for the European banks in the global context. - The ECB guidance applies only to significant European

institutions within the SSM which brings competitive disadvantage compared to non-significant institutions and unregulated market participants (shadow banks) operating within the EU.

- The proposed ECB guidance is in some areas more restrictive than the US Fed approach, for example exclusion of EBITDA adjustments, requirement to approve some transactions at the highest level of credit committee.
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<input type="checkbox"/>	EBITDA ratio	3. Definition of leveraged transactions	Amendment	<p>It is Nordea's assessment that the proposed threshold of EBITDA ratio 4 would include normal corporate loans into the definition of leveraged transactions. It is Nordea's view that the proposed EBITDA threshold would capture also large number of normal corporate loans, i.e. non-leveraged transactions, into the definition. Thus, the definition would not be fit for the purpose of additional guidance on management and supervision of leverage transaction.</p> <p>Therefore, Nordea encourages ECB to consider total Debt/EBITDA threshold of > 4.5 in order to exclude normal corporate loans from the definition and therefore, increase the effective focus of the institutions and supervisors on the leveraged transactions.</p>
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<input type="checkbox"/>	Total interest bearing debt threshold	3. Definition of leveraged transactions	Amendment	<p>It is Nordea's view that the ECB's proposal on transactions to be excluded from the leveraged transaction definition does not secure the overall aim to bring additional guidance on management and supervision of leverage transactions by inadvertently including small and medium enterprise (SME)</p>
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segment.

In order to exclude lower risk transactions with SMEs Nordea encourages ECB to consider complementing the proposed definition to exclude

- borrowers with total interest bearing debt below EUR 15m.

For avoidance of any doubt, Nordea proposes this threshold to be added to the threshold proposed by the ECB own on-balance sheet consolidated exposure of the credit institution is below EUR 5m.



Undrawn facilities

3. Definition of leveraged transactions

Deletion

Nordea supports EBF's position that ECB excludes the undrawn facilities from the definition of all gross direct commitments for the purposes of Total Debt to EBITDA ratio. This is due to the following:

- the EBITDA benefit achieved by the possible drawdown is not generated yet
 - Nordea does not have full insight into undrawn facilities in other institutions and vice versa.
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Adjusted EBITDA

3. Definition of leveraged transactions

Deletion

It is Nordea's view that the EBITDA utilised for qualifying customers into the leveraged transactions category shall be reflective of the financial position related to the core business of the customers, which is reflective of the repayment capacity.

Nordea supports the EBF's position that the definition of EBITDA should allow for adjustments to be made. Without adjustments made for non-recurring expenses, exceptional items and other

one-offs many such transactions are included which are de facto not leveraged transactions.

<input type="checkbox"/>	Sovereigns	3. Definition of leveraged transactions	Amendment	<p>Transactions with</p> <ul style="list-style-type: none">• sovereigns and Public Sector Entities• charitable and non-profit organisations and• regulated utilities companies <p>should be excluded from the leveraged transaction definition due to the lower credit risk of such transactions.</p> <p>In addition, the not-for-profit nature of their business drives the EBITDA low, which may incorrectly qualify these customers into the leveraged transaction category.</p>
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<input type="checkbox"/>	Proportionality for underwriting threshold	5. Underwriting & syndication	Amendment	<p>It is Nordea's view that the requirement that all underwriting transactions with total Debt/EBITDA >6.0 times need to be approved on the highest decision-making level does not take into consideration the financing amount of the transaction and thus not the actual credit risk either.</p> <p>Nordea welcomes the guidance for increased levels of decision-making. However, the threshold is seen as disproportionate for referring to the highest level of credit committee for a lender of Nordea's size and complexity.</p> <p>Therefore, Nordea suggests removing this threshold category from the guidance or alternatively including additional requirements related to the size of the lender before escalated decision-making process is triggered.</p>
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