

Public consultation

Draft guidance of the European Central Bank on leveraged transactions

Template for comments

Contact details (will not be published)

Institution/Company

UBI Banca S.p.A.

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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Draft guidance of the European Central Bank on leveraged transactions.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 UBI Banca S.p.A.

Country Italy

Comments

Guide	Issue	Guidance (Include number)	Comment	Concise statement of why your comment should be taken on board
<input checked="" type="checkbox"/>	Total Debt to EBITDA ratio	3. - 2nd paragraph - (i)	Amendment	<p>As far as one of the two conditions relative to the definition of leveraged transactions is concerned, i.e. the post-financing ratio Total Debt to Ebitda, we would like to point out that the implementation of the proposed condition is quite rigid. In particular:</p> <ul style="list-style-type: none">- Ebitda should be calculated by taking into account any adjustment (for non-recurring expenses, exceptional items and other one-offs), that, if supported by relevant appropriate due diligence, would give a more suitable evaluation of the ratio;- If a company has both <i>subordinated debt</i> and <i>senior debt</i>, when calculating the Total Debt, the amount of subordinated

				debt should be taken into account, because at same level ratio, the overall counterparty risk would be lower; - Total Debt should be calculated on a net basis, i.e. net of cash and cash equivalents, making the level of the ratio more significant in order to avoid that some commitments, that actually have a lower risk, would be classified as leveraged transactions; - the proposed levels of Total Debt to Ebitda ratio (greater than 4.0 times to consider a transaction as a leveraged transaction, or greater than 6.0 times for more risky transactions, that therefore should remain exceptional) are applied in an undifferentiated way. We believe that the thresholds should be adjusted on the basis of aspects such as the borrower's industry sector or business activity; - we hope that an alternative ratio or parameter will be proposed in order to evaluate the post-financing leverage level for counterparties involved in industries where the Ebitda is not calculable or is not appropriate and for a newco for which, by nature, no historical data are available. - we hope that the final version of the guidance, will take into account the possibility to remove from the leveraged transactions portfolio, all those transactions where, in the following years, continuously, the level ratio is below the minimum threshold, unless the second condition is complied with.
<input checked="" type="checkbox"/>	ownership by financial sponsors	3. - 2nd paragraph - (ii)	Amendment	We believe that the merely condition to be owned by financial sponsors is not sufficient to consider the relevant transaction as a leveraged transaction, without taking into account other conditions which would better contribute to assess the borrower's creditworthiness, such as leverage, internal ratings, or the loan purpose. We therefore believe that, in addition to those already outlined in the draft, the following conditions should be taken into account: proceeds of the financing used to

				support buyouts; acquisitions or capital distributions (investment loans granted to finance direct investment in productive activities are therefore not expected to be covered by the leveraged transaction definition); transactions where the borrower's post-financing leverage significantly exceeds historical levels; the borrower of the transaction has an internal rating below investment grade.
<input checked="" type="checkbox"/>	consolidated exposure of the credit institution	3. - 3rd paragraph - (ii)	Amendment	We are of the opinion that the level of own consolidated exposure of the credit institution under which the loans are not considered in the definition of leveraged transactions (which amounts to €5 million), could be increased. Furthermore, it is not specified whether the consolidated exposure refers to the single borrower or to the group of companies to which the borrower belongs.
<input checked="" type="checkbox"/>	impairment test	6. - (ii) Ongoing monitoring - 3rd paragraph	Amendment	The situations that make it necessary to run an impairment test (such as breach of covenant, refinancing of a borrower at an increased level of leverage, refinancing of a bullet facility, etc.) could also include the cases where the transaction is a refinancing with a longer repayment period.
<input checked="" type="checkbox"/>	presumption of default	6. - (ii) Ongoing monitoring - 4th paragraph	Amendment	We do not believe that the internal default procedure should recognize a strong presumption of default in the case where the valuation of the borrower, which corresponds to a multiple of its EBITDA, is below the borrower's total debt, especially if the borrower regularly meets debt repayments as per amortization schedule.
<input checked="" type="checkbox"/>	reporting requirements	8. Reporting requirements and IT systems - 2nd paragraph	Amendment	Based on the size of the credit institution, we suggest to set thresholds under which, reporting requirements should not apply.

Choose one option



Choose one option



Choose one option
