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The Rt. Hon. The Lord Hill of Oareford, CBE, PC
Commissioner for Financial Stability
Financial Services and Capital Markets Union
European Commission
Rue de la Loi 200/Wetstraat 200
1049 Brussels / Belgium

6th June 2016 /bl

Dear Lord Hill,

I am writing to you in relation to a proposal from the Bank for International Settlements (BIS) which will severely curtail private investment in the rail sector. Railways are a key component of a global sustainable growth agenda and following adoption of the 4th Railway Package, which we very much support, the Commission is working actively to move freight and passengers to the railways. The ability of private operators to finance rolling stock at acceptable rates will be critical to the Commission's successful implementation of these plans.

The Rail Working Group is an industry group of stakeholders in the rail sector focused on the adoption of the Luxembourg Protocol to the Cape Town Convention on International Interests in Mobile Equipment. We were established as a not-for-profit association under the auspices of UNIDROIT, the intergovernmental organisation sponsoring the Luxembourg Protocol. The RWG now has over 60 members across the world and in the rail industry, consisting of manufacturers, financiers, lawyers, consultants and industry organisations.

The Luxembourg Protocol will make it much easier for the private sector to finance railway equipment around the world by creating a global legal framework for securing creditors. In many cases it will open up private finance where it just does not exist at the moment. In others it will potentially make the finance cheaper as the creditor risk goes down. Railways of course are an essential element of a sustainable growth agenda around the world so we know that the Protocol will make a real difference going forward.

I attach some additional information about the Protocol and you can see much more on our website at www.railworkinggroup.org. The Protocol is not yet in force but the EU has ratified it in respect of its competences as has Luxembourg, Germany, the UK, Switzerland and Italy have all signed the Protocol and they and many other countries both in Europe and in other parts of the world are now working towards ratification. So we expect the Protocol to go live in 2017 or 2018.

The Rail Working Group is a not-for-profit association constituted under Swiss law representing a broad cross section of the global railway community.

For a complete list of our members and more about us, please visit our website at www.railworkinggroup.org



But all of this good work is being threatened by moves by the BIS as it, quite correctly, looks carefully as to how banks allocate capital to loans and other financing.

In recent consultation documents, the BIS has been arguing for a dramatic increase of the banks' risk-weighting for object based financing where banks lend based on the collateral of assets rather than the strength of debtor balance sheets. Not only will this, we understand, significantly increase the cost of financing in the rail sector, where banks' cost of capital will mean that the pricing will increase by at least 1% but also the BIS does not recognise or give latitude to banks to change their risk-weighting to reflect stable asset classes such as rail assets or when there are international treaties enhancing their security (such as the Luxembourg Protocol). At a time when policy makers across the world are trying to encourage investment in transportation as a stimulus to long-term growth, and central bankers are using monetary tools to encourage this, it is perverse that the BIS is pushing a key part of that industry in the opposite direction.

I attach a copy of a letter that I wrote to the relevant committee last March which will give you some flavour of what this is about and we are now working on a response to their most recent consultation. You can see much more about the current position and the objections from various parts of the industry at

<http://railworkinggroup.org/documentation/documentationother-documentation-and-law/>.

I also attach a brief note that we have prepared on the problem.

So I just wanted to be sure that the EU Commission is aware of this issue and we would ask you to do whatever you can to ensure that "the baby does not get thrown out with the bath water", that the desirable easing of credit conditions for the financing of railway equipment is not endangered by a "one-size fits all" approach from the BIS, which will have a dramatic and unnecessary effect on current and future financings of railway equipment across Europe. Anything you could do to help would be much appreciated.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Howard Rosen", is written over the typed name.

Howard Rosen
Chairman

Encl. (Copy letter to BIS, R0473, R0595, R0155, R0658)