Mr. Nout WELLINK

Governor
De Nederlandsche Bank

Westeinde1
1017 ZN Amsterdam

NETHERLANDS

Prot. No. 593/GH
Brussels, 5 November 2009

Dear Governor,

Re: regulatory capital / dynamic provisioning / tier 1 capital

We are writing to you on behalf of UEAPME, the European Association for Crafts and SMEs in Europe. We would like to address you in your capacity as chairman of the "Basel Committee on Banking Supervision" and present you with three issues regarding the current discussion on regulatory capital for banks, which are of utmost importance for small and medium sized enterprises and their access to finance.

1. Several years ago, when the Basel II regulation was discussed, SMEs had already raised their concerns about the pro-cyclical effects of the current capital requirement regulation of banks. The introduction of IFRS created additional effects in the same direction. Nowadays, there is a broad consensus that such pro-cyclical effects have materialised in both directions when the bubble was building up, the increase of equity in the balance sheets of banks and the improved rating of companies increased the capacity of financial institutions to provide credit and loans at very high volume and at low prices, while during the last year, when equity and other forms of regulatory capital melted down and the ratings of enterprises got worse, the provision of financing to companies had to be reduced and the prices went up.

   Therefore, UEAPME would support any regulatory change to dampen these pro-cyclicality effects in a new proposal from the Basel Committee, i.e. by forcing financial institutions to build-up reserves in "good" times (dynamic provisioning).

2. The current crisis proved that the current regulations for regulatory capital (Basel II as transposed in the CRD) have not been sufficient to avoid the need to bail-out financial institutions. Therefore, we believe that the discussion about an increase of regulatory capital in the balance sheets of financial institutions is justified, insofar as it necessary to avoid such a crisis again. At the same time, the amount of capital required must not create comparative disadvantages for the European economy and should not diminish the capacity of the financial system to provide financing to the real economy.

   Therefore, UEAPME supports a reasonable increase as regards capital requirements, but this increase should be linked to financial services and products that created the current problems, like the trading book and sophisticated products, even if they have a good rating (during good times). However, UEAPME sees no justification to increase the capital requirements for normal retail or SME loans.

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3. Currently SMEs from all EU Member States complain about difficulties and restriction in access to finance, but there are significant differences among countries. SMEs from countries where a highly decentralised banking system still exists, including local and regional cooperative banks and saving banks, show significantly less problems with access to finance throughout the crisis compared to SMEs in countries where SME finance is dominated by commercial banks only.

   Therefore, UEAPME asks to respect the particularities of co-operatives and savings banks as regards their capital and not to exclude their specific types of capital from tier 1, which would otherwise create serious problems for access to finance for SMEs in many regions of Europe.

We would like to ask for your support in finding solutions capable of contributing to restabilising the financial market, in line with the needs of real economy enterprises and without endangering their access to finance in future.

Yours sincerely,

Georg Toifl
UEAPME President

Andrea Benassi
UEAPME Secretary General

CC:

Mr. Stefan WALTER

Secretary General
Basel Committee on Banking Supervision

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