EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS

UEAPME

Commissioner Lord Jonathan Hill
European Commission
Financial Stability, Financial Services and Capital Markets Union
Rue de la Loi 200
1040 Brussels
Belgium

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HG/CDO/15-025

Future Regulation and Loans to SMEs

Dear Commissioner Hill,

The European Association of Craft, Small and Medium-sized Enterprises (UEAPME) and the European Association of Co-operative Banks (EACB) warmly welcome your recent statements regarding the financial services sector as an instrument for growth. We fully support your thoughts about fewer legislative proposals in the future, about the importance of considering the cumulative effect of regulation taking into account the different business models we have in our diverse financial landscape, and about improving access of SMEs to finance.

With this in mind, we would like to express our concern about the plans of the Basel Committee (BCBS) to review, as proposed in December 2014, the Standardised Approach for credit risk, which also determines the fundamental aspects for the treatment of credit risk for all banks. This review is carried on even if its major elements, like the determination of risk weights for loans to corporates, has not led to any difficulties during the crisis. We do not see any evident need for and have serious doubts about the usefulness of such an exercise. The focus should rather be on growth and on making it more attractive to lend to SMEs.

The suggestions of the BCBS for the treatment of exposures to corporates are rather pointing in an opposing direction. Risk weights for such exposure are to be aligned to two risk drivers: the company's revenues and its leverage (own funds ratio), i.e. the smaller the company (the lower its revenues) the higher the capital charges. Thus, loans to SMEs with less than 20% capital and a volume of revenues below € 5mn, would get a risk-weight of 130% (instead of today's 100%), which would definitely make it far less attractive to lend to SMEs.

For the retail portfolio the BCBS suggests a "fix granularity criterion", which would considerably limit the possibility of smaller institutions to lend to SMEs and in many cases even make it impossible for them to grant competitive conditions for SME loans.

For exposures collateralized by commercial real estate one of the suggested options of the BCBS is even to accept no risk-mitigating effect at all and thus treat the exposure like an uncollateralized exposure.

By consequence we are worried that this project of the BCBS may have detrimental effects on the financing of SMEs in the EU. Some of its key elements, as explained above, would counter the aims to create growth. The Banking sector would not be an instrument for growth, but rather hinder it.

Due to these expected effects, the EACB like other banking federations, has expressed highly critical views in its comments to the BCBS consultation paper and asked the Committee to reconsider its plans. We would kindly ask you to support these efforts and, as a Commission to demand significant improvements of the suggested revised Standardized Approach.

Yours sincerely,

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