



## **“The Voice of SMEs in Europe”**

### **Press Release**

FOR IMMEDIATE PUBLICATION

#### **Basel II: SMEs welcomes progress made in 3<sup>rd</sup> Consultation but says improvement still needed**

**Brussels, July 10<sup>th</sup>, 2003.** During a workshop on the consequences of Basel II on SMEs at the European Parliament today, UEAPME, the European SMEs employers’ association, welcomed the progress made in the Basel II negotiations so far but stressed that further improvements should be made in order to have an acceptable solution for SMEs. During the workshop, which was organized by the DG Research and MEP Rübige, UEAPME’s Director for Economic and Fiscal Policy **Mr. Gerhard Huemer** reiterated that some open questions remained to be answered if Basel II is not to become an additional burden for Europe’s SMEs.

Under the proposed treatment, exposures to SMEs will be able to receive a lower capital requirement than exposures to larger firms with the same risk level. UEAPME considers that a preferential treatment for loans to SMEs is totally justified, since portfolio and diversification effects in a bank’s loan portfolio reduce the bank’s risk. Nonetheless, there are still points that have to be improved.

First, UEAPME calls for the elimination of the granularity criterion in the standardized approach. According to this criterion, an aggregate exposure to one counterpart cannot exceed 0.2% of the overall regulatory retail portfolio. Applying this criterion would consequently discriminate smaller banks and SME-retail customers of these banks, creating a strong distortion in the competition in the banking sector. To further avoid distortion UEAPME would also like to see the typical collateral offered by SMEs recognized in a wider sense.

Secondly, with regard to the internal rating systems, UEAPME pleads for an implementation of the system that would not create disproportionate costs in order to avoid additional expenses for SMEs, which would go against all the efforts made so far.

Thirdly, additional special measures for newly created enterprises and SMEs taken over by new generations should be taken. Otherwise, companies and entrepreneurs who do not have a rating story when applying for a loan would see their financing condition worsen under Basel II.

Finally, a satisfactory answer regarding the pro-cyclical effects of Basel II has to be given. Until now, despite being widely recognized this effect that could prove harmful for SMEs in economic downturn has received no definite answer.

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