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Press Release

FOR IMMEDIATE RELEASE

BASEL II: Commission’s directive will determine long-term effects of new agreement on Banks and SMEs

Brussels, 06 July 2004 Reacting on the recently published new capital adequacy rules, Basel II, UEAPME, the European Crafts and SMEs employers association, stated that the broad effects of the Basel II agreement on European SMEs and its relationship with banks will substantially depend on the way the accord will be applied into European law.

“Surely the Basel Committee has improved the situation for SMEs in the new capital accord but the real effects of this agreement on the day –to day dealings of SMEs will only be known once the European regulator has transposed the agreement into a directive” said **Hans-Werner Müller**, Secretary General of UEAPME.

The association therefore urges the European Commission and the new European Parliament to use the flexibility granted by the new Capital Accord to guarantee an SME friendly implementation of Basel II. UEAPME believes that the changes introduced by the Basel II will acutely change the relation between banks and their SME clients. With the Basel II agreement banks are likely to increase their risk-awareness and this will affect SMEs in different ways.

First of all, banks will be able to measure the risk of their clients more accurately. Therefore, “riskier” and less stable companies will be confronted with higher costs for their loans and more difficult access to finance.

Moreover, with the introduction of new rating systems and instruments for credit scoring, SMEs are likely to often face opaque internal rating procedures which will add to the feeling of uncertainty of many SMEs. In order to avoid this situation, UEAPME believes that it is vital that banks inform SMEs on both, how the rating is carried out and what the results of the rating are. With this kind of information, SMEs would be able to face the banks’ rating procedures more confidently by improving their internal management and by providing banks with more accurate revenue and production forecasts.

In view of the publication of the European Commission’s proposal for a Directive implementing the Basel II Accord, UEAPME is currently working on a EU financed-project which aims to inform SME owners throughout Europe –via a series of conferences- on how to relate with banks once the Basel II agreement enters into force. The conferences will begin in September 2004 and continue during 2005.

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