European Association of Guarantee Institutions – AECM
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AECM contribution to the "Discussion Paper and Call for Evidence on SMEs and the SME Supporting Factor" of the European Banking Authority - EBA

Brussels, 01 October 2015

A/Remarks

AECM's 41 members, who are mutual / private sector guarantee schemes, public institutions or mixed, all have in common the mission of providing guarantees for SMEs who have an economically sound project but do not dispose of sufficient bankable collateral.

AECM represents the political interest of its member organizations both towards the European Institutions, such as the European Commission, the European Parliament and Council, as well as towards other, multilateral bodies, among which the European Investment Bank (EIB), the European Investment Fund (EIF), the Bank for International Settlement (BIS), the OECD, the World Bank, etc. It deals primarily with issues related to prudential supervision, to state aid regulation relevant for guarantee schemes within the internal market and to European support programs.

The development and maintenance of SMEs is paramount for AECM and its members. The activities of the guarantee institutions have to be sustainable and quite some members are obliged by national law to observe CRR legislation.

B/Regarding the consultation

With Basel III, significantly higher equity ratios were decided. Only a supporting factor can prevent that lending to small and medium enterprises does not suffer. Therefore, credits up to 1.5 million Euros have been excluded from the general increase so that they profit from more favourable lending conditions.

If all credits were to be regulated without taking company size into consideration, it would have a significant effect on company financing. Additionally, one should not underestimate the significance of credits to medium sized enterprises as a stability anchor for companies such as banks. The 23 million small and medium enterprises (SMEs) represent the majority of all companies in the EU and create two thirds of the total number of workplaces in the private economy. Due to the persistent market failure, it is much harder for them to get access to loan finance than for larger companies. Therefore, protecting the supply of credit from further limitations does not only benefit EU countries, who must accept the burden of the current reform, but the European economy in general.

Stable lending to small and medium-sized enterprises strengthens the financial system. This is due to the fact that numerous smaller SME loans represent generally often a lower risk than loans of equal amount to a small number of larger companies: SME loans are less dependent on large global fiscal trends. This reduces the risk that many creditors simultaneously get in trouble – and trigger a crisis which could threaten the bank's existence.

This is the reason why the SME supporting factor is not a special concession which was introduced to privilege a specific group of companies. On the contrary: It simply recognises the stabilising effect that the spreading the risks through SME credits has on a bank's business. Furthermore, there are a number of reasons in favour of arguing that it might even have been set too low.

The supporting factor should be retained in its current format, otherwise this could threaten the investment opportunities and therefore the competitiveness of small and medium enterprises.

However, it would be sensible to have a higher upper limit for SME loans. This is due to the fact that the maximum loan limit of 1.5 million Euros is quickly attained. For sole traders in particular, the entrepreneur's private credits are included in the calculation. As the risk does not dramatically increase when the loan limit of 1.5 million is surpassed, there is room for an increase.

We would appreciate a lot if you could please take our line of reasoning into your kind consideration when evaluating the future SME correction factor.