AECM on CRR amendments in light of COVID19

AECM very much appreciates the adoption of the Commission proposal to amend regulations (EU) No 575/2013 and (EU) 2019/876 (CRR). The suggested measures are highly pertinent. It is of utmost **importance to fine-tune these measures in a way that allows for long lasting recovery of small and medium-sized enterprises** that severely suffer, not only from the immediate but also the long-term economic and social consequences of the COVID-19 pandemic[1].

Loan guarantees are the most widespread instrument at the disposal of governments and private promotional institutions to tackle market failure in the area of SME finance[2], both in times of crisis and in economically sound times. Guarantee institutions provide these guarantees and therefore play a key role in the immediate crisis response and the subsequent recovery efforts.

The current treatment of public guarantees to SME exposures in the NPE framework is not only unsatisfactory but even highly dangerous in the light of the current unprecedented covid crisis. As many SME exposures that were healthy before the outbreak of the crisis turn temporarily non-performing (partly even over several years), the de facto depreciation of the public counter-guarantee will substantially increase the risk that has to be borne by guarantee institutions, increasing also the need to top-up their equity capital. This will inevitably lead to a decline in supply of SME guarantees with dramatic consequences on the European economy.

Against this background, we suggest the following adjustment of article 500a on the temporary treatment of public guarantees related to the COVID-19 pandemic:

Art. 47c (4) CRR-new: A new sentence 1 is to be inserted at the beginning

By way of derogation from paragraph 3, for the collateralised portion of an exposure secured by a guarantee or counter-guarantee from sovereigns and other public sector entities in accordance with Article 214 CRR, a factor of 0 shall be assigned to the secured portion of the non-performing exposure, irrespective of the time period following the designation of the non-performing exposure.

The currently in the Commission proposal foreseen article 500a has the following weaknesses:

"By way of derogation from Article 47c(3), until [date of entry into force of this amending Regulation + 7 years] the factors set out in Article 47c(4) shall also apply to the part of the non-performing exposure guaranteed by an eligible provider referred to in points (a) to (e) of Article 201(1), where, subject to compliance with Union State aid rules, where applicable, the guarantee or counter-

[1] "COVID-19 hits small and medium enterprises all over Europe. On average, about 90% of SMEs report to be economically affected" https://smeunited.eu/admin/storage/smeunited/200417-covid19-impact1.pdf
[2] OECD (2020), Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard, OECD Publishing, Paris.

guarantee is provided as part of support measures to assist borrowers amid the COVID-19 pandemic."

In our view, being part of COVID-19 pandemic support measures shall not be a prerequisite for such treatment. This is important since SMEs might get into trouble because of far-reaching economic and social consequences of the COVID-19 pandemic and its domino effect. At present, guarantee institutions are indeed working under specific COVID-19 related programmes in order to mitigate the very immediate economic effects of the crisis. However, they might in part or in total rely on standard programmes during the further recovery phase. In order for the proposed measure to be effective, it is paramount to **apply it to all SME credit guarantee programmes**.

Secondly, **favourable treatment shall not only be applied to the part of the non-performing exposure guaranteed by an eligible provider, but on the complete guarantee** - provided by a public, private, mutual or mixed guarantee society – if the public counter-guarantee granted by the national or regional government or the European Investment Fund amounts to at least 50% of this guarantee.

Finally, there is no material reason to treat publicly counter-guaranteed SME credit guarantees more restrictively than export credit guarantees. That is why we advocate for a permanently improved treatment of public guarantees to the benefit of SME exposures. **In order to allow guarantee institutions to effectively fight the economic and social consequences of the covid crisis we recommend a permanent zero weighting**. Permanent equivalence with export credit guarantees is a minimum necessity. That is why we urge the co-legislators not to set an expiry date to the amendment.

On another note, we would like to express our **fullest support for the anticipated application of the revised SME correction factor**. This measure is an easy and effective way to address credit squeezes in the area of SME finance.

Brussels, 4th May 2020

About us

The 48 members of the **European Association of Guarantee Institutions (AECM)** are operating in 30 countries in Europe. They are either private sector guarantee schemes or public promotional institutions or banks. Their mission is to support SMEs in getting access to finance. They provide guarantees to SMEs that have an economically sound project but do not dispose of sufficient bankable collateral. AECM's members operate with counter-guarantees from regional, national and European level. At the end of 2018 AECM's members had more than EUR 112 billion of guarantee volume in portfolio, thereby granting guarantees to almost EUR 3 million SMEs. AECM's members are by far the most important counterparts of the EIF concerning EU counter-guarantees, handling EU guarantees from the very beginning in 1998.

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