

AECM position on the BRRD review

AECM is representing guarantee institutions all over Europe and in this function, we would like to hereby express our views on the planned BRRD review and more specifically on a potential extension of its scope.

First of all, let us shortly present the nature and the mission of guarantee institutions. These offer financial guarantees that can be used by banks to (partly) secure loans to small and medium-sized enterprises (SMEs) with a viable business model, but that are lacking the required collateral. Guarantee institutions thereby help to overcome market failure in the area of SME finance. This promotional mission is independent from their ownership structure (public, private or mixed). The large majority of our members are very small institutions under national supervision¹. Only 11/48 members are CRR institutes whereby 5 of these enjoy some limitations of their CRR status on the national level.

Against this background, we strongly advocate for keeping guarantee institutions outside the scope of BRRD for the following reasons:

- Guarantee institutions are promotional institutions that are not profit-oriented and whose central mandate is the promotion of SMEs. They do not engage in speculative transactions that serve to maximise profits.
- Guarantee institutions are not deposit-taking institutions and they do not deal with private clients. That is why no security protection for customer deposits needs to be taken into account.
- Guarantee institutions' activities are restricted to their respective national (or in some cases even regional or municipal) territories. They are not engaged in cross-border activities, nor are they internationally interwoven, which limits risks of default to their respective area of activity.

¹ Only one member is supervised by the ECB.

- Guarantee institutions only assume part of the risk stemming from their guarantee activity. Every institute benefits from some kind of public counter-guarantee/backing (from the EU, national, regional or municipal level).
- The proportionality of regulations must be respected. Guarantee institutions are not systemically relevant and not significant in the sense of the CRR. Furthermore, they have small balance sheets. Regulation should in our view depend on the actual risk and it should take the heterogeneity of European financial institutions into account.

Against this background, the scope of application of the BRRD should not be extended.

In the case of guarantee institutions, national insolvency rules seem more appropriate than Union-level resolution rules. The current treatment outside of BRRD has proven to be better adapted to their business model, their risk profile, their (in many cases very small) size, their very limited international exposure and their promotional mission.

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About us

The 48 members of the **European Association of Guarantee Institutions (AECM)** are operating in 31 countries in Europe. They are either private / mutual 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. This so-called SME financing gap is recognised as market failure. By guaranteeing for these enterprises, guarantee institutions help to address this market failure and facilitate SMEs' access to finance. The broader social and economic impact of this activity includes the following:

- Job creation and preservation of jobs by guaranteed companies
- Innovation and competition: crowding-in of new ideas leading to healthy competition with established market participants
- Structure and risk diversification of the European economy
- Regional development since many rural projects are supported
- Counter-cyclical role during crises

SME guarantees generally pursue a long-term objective and our members, if public, private, mutual or with mixed ownership structure, have a promotional mission.

AECM's members operate with counter-guarantees from regional, national and European level. As of mid-2020, **AECM's** members had about bEUR 259 of guarantee volume in portfolio, thereby granting guarantees to around mEUR 4.5 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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