

Position Paper

UEAPME's¹ reply to the Green Paper Consultation on a Capital Market Union

I. General comments

There is no doubt that capital markets within the European Union are heavily underdeveloped and very fragmented along national borders. At the same time Europe's economy suffers from low investment levels, which translate into low growth paths and high unemployment rates. Non-functioning capital markets are one of the reasons, why businesses and infrastructure projects have problems to get financed at all or only under less competitive conditions than in other regions.

Therefore, it is more than consequent that the European Commission, within the framework of its European Investment Plan and with the aim to improve the conditions for investments in Europe, tries to improve capital markets within the European Union with the aim to create a Capital Market Union. UEAPME, the European Association of Crafts and SMEs, representing about 12 Million small and medium-sized enterprises at European level, welcomes this green paper consultation and supports the main objectives of this exercise:

- improving **access to financing** for all businesses across Europe (in particular SMEs) and investment projects such as infrastructure;
- **increasing and diversifying the sources of funding** from investors in the EU and all over the world; and
- making **markets work more effectively and efficiently**, linking investors to those who need funding at lower cost, both within Member States and cross-border.

However, UEAPME does not see more advanced capital markets in Europe as a compensation for restrictions or deficits in the area of debt financing via banks and / or leasing companies. Even if more developed capital markets will improve access to finance of some specific groups of SMEs such as high-tech start-ups and fast growing companies, policy makers have to be aware that the overwhelming majority of SMEs will stay dependent on debt financing by banks when it comes to external finance. This is because 92% of all companies are micro companies with no or up to nine employees, another 7% have between 10 and 49 employees and only 1 % has more than 50 employees, including 0.2% with more than 250 and very few of them are high-tech start-ups or will/want to grow fast and will therefore be attractive to capital market investors.

Therefore, UEAPME welcomes the project to create a real European Capital Market Union, but at the same time UEAPME insists also in additional efforts to improve to capacity of the banking sector to lend to SMEs, especially to those having no access to capital markets, and to support measures which can improve the creditworthiness of SMEs to get better access finance.

¹ UEAPME subscribes to the European Commission's Register of Interest Representatives and to the related code of conduct as requested by the European Transparency Initiative. Our ID number is [55820581197-35](#).

Such a second policy priority, which should be established in parallel to the creation of a Capital Market Union, should include elements such as:

- reduction of administrative and compliance burdens for small local banks, which have proved to be the most effective structure to finance small enterprises in the regions (proportionality principle);
- re-viewing the decision to apply the Basel agreements (Basel II and III), which are designed to regulate large international banks, to all – even the smallest local – banks in the European Union;
- creating an regulatory environment, which attracts the foundation of new local banks, independently from its legal form (cooperatives, saving banks, credit unions, commercial banks, foundations, etc.);
- using European financial instruments to support SME finance in areas where most needed such as for investment loans and riskier projects related to internationalization and innovation;
- increasing the creditworthiness of SMEs by providing incentives to increase the equity base of small companies and by improving financial reporting by SMEs.

II. Reply to selected questions important for SMEs

In this chapter UEAPME provides responses to those questions, which we see as important for SME finance:

- 1) *Beyond the five priority areas identified for short term action, what other areas should be prioritised?*

If the European Commission wants to improve access to finance for real economy, it has to tackle all problems in the area of loan finance. This includes regulatory issues (administrative and compliance cost for small banks, proportionality principle, application of Basel agreement on small banks), but also measures to improve creditworthiness of SMEs (fiscal discrimination of equity in SME balance sheets in many Member States or weaknesses as regards information about financial situation).

- 2) *What further steps around the availability and standardisation of **SME credit information** could support a deeper market in SME and start-up finance and a wider investor base?*

Credit information play an important role for access to finance and there exist well established systems in some Member States, which should not be put under pressure by new legislation. However, measures which allow SMEs to present your credit and re-payment history know by their banks to other parties and potential financiers (investors or lenders), could improve the situation. At the same time UEAPME would not support any measures, which force banks to forward specific information about SMEs to third parties, if SMEs have not agreed with it. Finally, measures may not create new or further obligations for SMEs.

- 5) *What further measures could help to increase access to funding and channelling of funds to those who need them?*

Currently too often tax systems, but also State aid programmes have a bias towards debt financing. This leads to high debt ratios, which create problems for SMEs, if they have needs to additional finances and look for additional loans or for investors. Therefore, any measure to make it more attractive for SMEs to increase their equity ratio by keeping profits in the company would increase access to finance and a better allocation of funds.

Special focus should be put on the treatment of intangible assets in this regard. Intangible assets are gaining more importance, as production processes become increasingly knowledge intensive. However, intangibles are still not sufficiently accounted for compared to physical assets when assessing credit risks.

Furthermore, the creation of tax incentives for private investors investing in SMEs; the elimination of obstacles for cross-border funding and improving of investment readiness of SMEs and investors through information would contribute to bridge the gap between potential investors and SMEs in need for finance.

Finally, guarantee systems for debt and equity finance could improve access to finance for SMEs.

- 6) *Should measures be taken to promote greater liquidity in corporate bond markets, such as standardisation? If so, which measures are needed and can these be achieved by the market, or is regulatory action required?*

From UEAPME's point of view standardisation may help in some cases, but more important would be measures which allow bundling of SME bonds to reach sizes, which can attract investors.

- 8) *Is there value in developing a common EU level accounting standard for small and medium-sized companies listed on MTFs? Should such a standard become a feature of SME Growth Markets? If so, under which conditions?*

EU level accounting standards for those SMEs which search financing on capital markets would have added value, if SME can opt for such a standard, when needed, but the standard may not be obligatory. Furthermore, such a standard has to be significantly more simple than already elaborated IFRS standard for SMEs.

- 9) *Are there barriers to the development of appropriately regulated crowdfunding or peer to peer platforms including on a cross border basis? If so, how should they be addressed?*

Currently some member states are developing national rules on crowdfunding, which could result in further fragmentation of the European crowdfunding market. We see also different

views of supervisory authorities on the qualification of peer-to-peer-lending (some see it as a banking business).

- 10) *What policy measures could incentivise institutional investors to raise and invest larger amounts and in a broader range of assets, in particular long-term projects, SMEs and innovative and high growth start-ups?*

Review of capital requirement rules for banks, insurances and pension funds, but also an adequate calibration of liquidity rules could improve the possibilities for institutional investors to invest in SMEs. Furthermore, measure which support the bundling of SME investments to increase volumes and to diversify risks could be helpful.

- 16) *Are there impediments to increasing both bank and non-bank direct lending safely to companies that need finance?*

In order to reduce the risks for lending to companies, measures which incentivise higher equity rates in companies and/or improve financial information provided by companies will be helpful. Furthermore, public measures which take out risks of private lending (guarantees) and other measures, which make collateral provided by companies more attractive or easier accessible for lenders could also improve such lending.

Furthermore, non-bank lending is often seen as „shadow banking“, also by the Commission. Some member states do not allow non-bank lending, like e.g. peer-to-peer-lending which they see as a banking business. A common approach across Europe to allow peer-to-peer-lending would make sense.

- 24) *In your view, are there areas where the single rulebook remains insufficiently developed?*

UEAPME has always criticised goldplating and regulatory arbitrage by national regulators and supervisors. Therefore, UEAPME supports in principle to create and enforce single rulebooks to avoid the creation of national barriers or competitive advantages. This means, the single rulebook should ensure that similar issues are dealt with similarly in all Member States. However, single rule book may not lead to similar treatments of different circumstances. This is especially a problem, if single rules are applied to different types (business models) and different sizes of financial institutions. Therefore, UEAPME asks that even in case of applying a single rulebook, it has to be ensured that different circumstances are ruled differently.

- 28) *What are the main obstacles to integrated capital markets arising from company law, including corporate governance? Are there targeted measures which could contribute to overcoming them?*

Before further harmonisation the improvement of the already existing framework should take place first. This improvement could be achieved e.g. by more administrative co-operation. It would be important as well to simplify unnecessary administrative measures, such as

abolishing obligations of publication in paper form. The main shortcomings are the complexity linked to frequent cross-references to relevant national legislation, the uncertainty linked to the application of different national legislations, which are applied simultaneously and the differences in the way EU company law forms are understood and used at national level.

29) *What specific aspects of insolvency laws would need to be harmonised in order to support the emergence of a pan-European capital market?*

Most of our member organisations have not received complaints that the differences in national law for the opening of insolvency proceedings are creating problems for businesses operating cross-border in the European Union. Therefore, UEAPME does not see the need for harmonisation.

Therefore, debtors who are located in another Member States than the one in which the proceedings taking place, very often do not know how to correctly file their claims, even if they know the correct applicable law.

Special arrangements for SMEs insolvency proceedings have to make them more efficient and effective. For SMEs, it is important to reduce the costs of procedures. It is further necessary to improve the efficiency and effectiveness of the insolvency practitioners and the efficiency and effectiveness of the courts and the interactions between courts and the parties. The effectiveness of the judicial procedures could also be improved by introducing a mediation or conciliation procedure. Such a mediator or conciliator should have experiences with SMEs and ideally be chosen by the SMEs. Many SMEs also complain that they receive too little information both as debtor and creditor. Therefore, awareness raising needs to be intensified. For SMEs costs are always crucial; thus, the costs for the administrators and other liquidation officials should be reduced. In cross-border insolvency proceedings, the powers of the liquidator are not always clear. A European wide catalogue including the powers of the liquidator and its scope would be helpful.

30) *What barriers are there around taxation that should be looked at as a matter of priority to contribute to more integrated capital markets within the EU and a more robust funding structure at company level and through which instruments?*

UEAPME sees the most important barriers in the tax treatment of equity versus debt financing in companies and in the tax treatment of private investors, here especially as regards the deduction of losses from other incomes.

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