AECM's Suggestions on the 'Small Banking Box'

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Introductory Remarks

Because European SMEs make up to two thirds of EU28 employment, they are rightly referred to as being the backbone of the European Economy. A reliable supply of loans to SMEs is vital in order to enable continuous innovation and economic growth.

One of the most widespread instruments to facilitate access to loans are guarantees. Credit guarantees remain the single most important economic policy to facilitate access to finance for SMEs.

The same way that the guarantee instrument is continuously revised in order to deal with economic developments and make guarantees more efficient in both scale and impact, it is the view of AECM and its members that also financial regulation and in this particular regard banking supervisory tools need continuous improvement to deal with the heterogenic landscape of European financial institutions, especially those active in granting loans to Small and Medium Sized Enterprises (SMEs).

At the moment, small, medium-sized and large international financial institutions are all subject to the same regulatory requirements. A look overseas gives a clear picture: while in the United States only 15 financial institutions must fully comply with the Basel III principles, all credit institutions and savings banks in Europe must adhere to the European Single Rule Book of the Capital Requirements Regulation / Capital Requirements Directive IV. Especially small, regional and medium-sized credit institutions are faced with sometimes unsurmountable and business-threatening bureaucratic burden directly resulting from the requirements of the CRR / CRD IV.

AECM therefore not only welcomes but highly encourages the ongoing discussion on the topic of significantly reducing the operative burden of smaller and medium-sized financial institutions, the so-called 'Small Banking Box'.

Main positions

First and foremost, **AECM** and its members **acknowledge the improvements** that resulted from the **regulatory reforms** undertaken by EU supervisory authorities since the financial crisis. At the same time, AECM members would like to underline the important role that smaller, regionally-based and medium-sized banks and most prominently guarantee institutions, played in some of our member countries such as Italy, France, Germany, Belgium, Poland and Estonia in absorbing some of the negative effects of the crisis and re-establishing basic economic principles and stability. While we do share the opinion that a full de-regulation would hence be contra-productive and have the opposite effect of what the most recent initiatives in CRR and CRD strive to do, we are at the same time convinced that the current **regulatory frameworks need to acknowledge much more that the one-size-fits-all approach is not suitable to those institutions active in the access to Finance for SMEs,** which not only are important drivers of their national and regional economies based on their less-risky business models but were more importantly not responsible for the events leading up to the financial crisis in the first place.

Therefore, AECM and its membership network fully supports the objectives pursued by the ongoing discussion on relieving smaller and less-complex institutions from the operational burden and more concretely demand to exempt these institutions fully of the regulatory requirements in terms of:

a. Disclosure:

Disclosure requirements under CRR / CRD IV are too granular for non-complex, small and non-profit financial i.e. guarantee institutions to respond to all the necessary requirements. Therefore, these **institutions should be exempted from these detailed disclosure requirements** that do not match their business models.

b. Requirements for remuneration systems:

Considerable efforts to establish complex remuneration systems would have to be undertaken by all banks under the current framework, which would be a major challenge for non-complex, small financial institutions. The **regulatory requirements for remuneration systems should therefore also be designed around the proportionality principle** and apply only to major financial institutions that have variable compensation systems in place.

c. Recovery and Resolution planning

The **requirements** for establishing detailed and often very time- and cost-intensive recovery and resolutions plans **should not apply to non-complex and smaller financial institutions**, as they do not represent a risk for their national, let alone the European financial markets. Instead these institutions could, if need may be, be subject to the already existing insolvency procedures of their local governments.

d. Net stable funding ratio

The current framework entails a high level of human, technical and IT-resources required to meet the vast number of items to be reported to supervisory authorities. It should therefore be considered to fully **exempt smaller, non-complex institutions** from the Net Stable Funding Ratio i.e. create a **simplified approach to reporting NSFR data**. One solution for such a simplified NSFR approach would include supervisory reporting requirements templates with fewer data fields, which in turn could be more conservatively calibrated.

e. Other areas of reporting

Regarding the area of financial reporting, a **set of core reporting elements would have to be developed** with a special focus on reducing the data points in COREP and revising the relevant Implementing Technical Standards (TS) for reporting. More specifically, these new 'core reporting elements' would include a significantly reduced number of templates from the current COREP standard, with the data points in the remaining templates being reduced i.e. for 'Additional Liquidity Monitoring Metrics'.

f. Creation of a list of core requirements for non-complex and smaller banks

An **extensive list of key requirements for smaller and non-complex financial institutions** should be elaborated and included in the general provisions of the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) IV. This would allow **to anticipate any future developments** in the field of new regulatory principles and avoid their implementation without consideration of smaller and non-complex financial requirements. This would be particularly useful in light of the upcoming implementation of additional and revised Basel-standards.

In this regard, we would also like to draw attention to the merits a two-pronged approach can have, such as the one used in the US financial markets. The banking system in two-pronged approaches is divided into 'advanced' and 'non-advanced' banks, where the level of supervisory scrutiny rises with the level of systemic risk a bank represents. This system of gradually increasing the level of regulatory requirements with the increasing importance of a financial institution for the banking system, allows not only to simplify the sets of regulations and avoid unnecessary complexity, but further prevents regulatory authorities to apply new sets of rules to all banks, before adapting the regulatory framework to the needs of the market and exempting some financial institutions on a 'case-by-case'- basis.

g. Proportionality in the regulatory requirements for outsourcing

One final issue, that AECM would like to raise is in the event that non-complex or small institutions outsource 'critical or important functions or activities', such as officers for data protection and anti-money laundering, internal auditing, risk management etc. These functions are critical to smaller and non-complex financial institutions and should also be treated under the proportionality principle as small institutions are sometimes largely dependent on outsourcing these kinds of services to external providers and do not have the financial and human resources larger or international financial institutions have. Applying the same high levels of regulatory requirements on all institutions in this area would hence discriminate smaller, regional or non-complex financial institutions because it prevents them from outsourcing risk management, controlling or auditing services.

Concluding Remarks

We cordially ask you to take our reflections on a more proportionate treatment of small, non-complex financial institutions as explained in this position paper into your kind consideration when revising the financial regulatory requirements applicable to the Capital Requirements Regulation and the Capital Requirements Directive. The small banking box represents a solution to establishing such proportionality and reduce excessive operative burden on smaller and non-complex financial institutions.

Annexe: About AECM

AECM's 42 members, who are mutual / private sector guarantee schemes, public institutions or mixed, all have in common the mission of providing guarantees for entrepreneurs, small and medium-sized enterprises (SMEs) and freelance professions who have an economically sound project but do not dispose of sufficient bankable collateral. The guarantee provided by AECM's members constitutes a full-value collateral and for a significant amount of AECM's members it reduces the capital adequacy requirements in favor of credit institutions.

AECM represents the political interests 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 given that SMEs and entrepreneurship are key to ensuring economic growth, innovation, job creation, and social integration.