AECM feedback on the Communication on the Competitiveness of the Banking Sector and the Single Market in Banking

AECM – Guarantors Europe welcomes the publication of the Communication on the Competitiveness of the Banking Sector and the Single Market in Banking and the Commission's intentions to streamline the regulatory framework. In preparation of the upcoming legislative package, we would like to share particular challenges related to a specific category of guarantee institutions, those **considered credit institutions subject to prudential requirements under the CRR/CRD framework**.

A specific category of guarantee institutions…

Guarantee institutions across Europe operate under very different legal forms – public agencies, non-profit foundations, mutual societies or licensed credit institutions – but all share the same core promotional mission: sharing risk with commercial banks so that SMEs that would otherwise be considered too risky can access finance. Their guarantee portfolios are directed almost exclusively at microenterprises and SMEs, in line with their promotional mandate.

Among this variety of guarantee institutions, **several are considered credit institutions subject to prudential requirements**, while still regarded as non-profit or limited-profit, publicly-mandated institutions. They do not compete for market share, do not engage in proprietary trading and largely operate under a public or mutual counter-guarantee. Their core – and in most cases sole – activity is issuing guarantees on SME and microenterprise loans on a non-competitive, additionality basis, which is economically equivalent to the promotional lending already recognised in EU law for national promotional banks (e.g. the treatment of promotional loans under the leverage ratio in Article 429a(1)(e) of the CRR). However, **these guarantee institutions are currently subject to specific prudential and regulatory challenges that are severely impacting their activity**.

➢ *Risk weighting for unrated corporates and SME Supporting Factor*

Under the standardised approach, a financial guarantee is treated as a credit substitute and, for unrated counterparties, generally attracts the full 100% risk weight applicable to unrated corporate exposures – compared to the roughly 50%

risk weight that can apply to senior secured loans to the same borrower. This asymmetry is not justified by the underlying risk: a guarantee issued by a publicly backed, non-profit institution operating on an additionality basis is not riskier than a senior loan to the same SME, and in many cases the counter-guaranteed or state-backed structure of the exposure reduces its effective risk well below that of ordinary bank lending. The result is that guarantee institutions holding a banking licence are required to hold capital that is disproportionate to the actual risk of their core activity. AECM reiterates its call for a dedicated, lower-risk-weight bucket for promotional institutions, including guarantee institutions, rather than the default treatment for unrated corporates.

This asymmetry is compounded by the treatment of the SME Supporting Factor under Article 501 of the CRR. Since virtually all exposures guaranteed by our members qualify as SME exposures within the meaning of that Article, the underlying loans already benefit from a reduced capital charge in the bank's books. However, when the guarantee institution itself holds capital against the same exposure as a credit substitute, the reduced-risk profile of the underlying SME obligor is not consistently reflected: the credit-substitute treatment applies a flat, unrated-corporate risk weight to the guarantor irrespective of the SME status of the guaranteed borrower. AECM therefore asks the Commission to clarify that the SME Supporting Factor should apply consistently along the guarantee chain, so that a guarantee institution capitalising an exposure to an SME benefits from the same recognition of lower SME risk as the underlying lending bank.

➢ ***Risk weighing for equity exposures***

Beyond providing guarantees, some of our members also finance SMEs through equity investments. The most recent revision of the CRR increased the risk weight for equity exposures to non-listed corporates to 400%. This increase is hard to understand when considering access to risk financing remains one of Europe's most pressing challenges: SMEs, and particularly innovative and scale-up companies, are structurally dependent on equity rather than debt, since they often lack the collateral or credit history required for traditional lending. Making equity exposures disproportionately costly for promotional institutions that provide this capital therefore works directly against the EU's goal of closing the risk-financing gap. AECM therefore requests to reverse the 400% increase, or at the very least introduce an equivalent to the SME Supporting Factor for equity capital, so that regulatory capital treatment does not undermine, as a side effect, the very risk financing that European policy seeks to promote.

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➢ *Liquidity Coverage Ratio (LCR)*

In several Member States, supervisors require guarantee institutions with a banking licence to hold High-Quality Liquid Assets (HQLA) against these contingent commitments as if they were near-certain, short-term liquidity outflows. This significantly strains institutions whose call rates are low, predictable and, in most cases, further mitigated by a public counter-guarantee. AECM asks the Commission to clarify, at EU level, that the LCR outflow assumptions applied to public-mandate guarantee commitments should reflect their actual, historically low and slow-moving call profile.

➢ *Proportionality beyond size*

AECM supports the Commission's intention to allow small and less-complex institutions to be more clearly and effectively identified in the regulatory framework. The current Small and Non-Complex Institutions (SNCI) regime relies heavily on size thresholds, yet size alone is not a reliable indicator of risk. A guarantee institution may have a comparatively large guarantee book because of its public mandate while remaining low-risk, non-trading and purely domestic in focus. AECM recommends that eligibility for a simplified regime be based on a holistic set of criteria – business model, absence of trading activity, public or mutual mandate, low historical loss rates and the presence of a public counter-guarantee – rather than balance-sheet size alone.

➢ *Stress testing designed for commercial banks*

Stress-testing frameworks and their underlying parameters (e.g. Loss Given Default assumptions, macro-financial and geopolitical risk indicators) are designed for large, internationally active commercial banks and do not reflect the risk reality of promotional guarantee activity. Applying such parameters mechanically overstates expected losses and distorts capital assessments (including Pillar 2 Guidance) for guarantee institutions. AECM recommends that stress tests be made optional, or specifically recalibrated, for guarantee institutions and other promotional institutions with a public mandate.

➢ *MREL treatment of pass-through and promotional guarantee activity*

Pass-through promotional loans are not currently exempted when determining MREL requirements, despite their non-profit, non-competitive nature already being recognised elsewhere in the CRR (e.g. the leverage ratio exemption under Article 429a(1)(e)). AECM considers that the same logic applies to guarantee institutions:

guarantees issued on a non-profit basis in support of public policy objectives should be excluded from MREL calculations, or otherwise benefit from a treatment consistent with their promotional character, for the sake of coherence across the prudential framework.

…which should benefit from targeted measures that recognise their promotional nature in the regulatory framework

In light of these challenges, AECM considers that the regulatory framework should finally **recognise the promotional character of guarantee institutions**. This may be operationalised through:

- **Introducing a dedicated risk-weight bucket for promotional SME guarantees** issued by guarantee institutions, reflecting their actual, historically low loss experience rather than the standard treatment for credit substitutes or unrated exposures;
- **Reversing the 400% risk weight for general equity exposures** to the baseline risk weight of 100%;
- **Ensuring the SME Supporting Factor applies consistently** along the guarantee chain, so that guarantee institutions capitalising overwhelmingly SME exposures receive the same recognition of reduced SME risk as the banks they support;
- **Introducing a "small banks regime" for SNCIs** in order to appropriately relieve smaller financial institutions. The current approach – a somewhat lighter version of the Basel framework – is not sufficient to meaningfully reduce the regulatory burden on these small players;
- **Calibrating LCR outflow assumptions** for guarantee call commitments to their real, low and predictable call profile;
- **Embedding this recognition consistently across the prudential, reporting, stress-testing and resolution (MREL) frameworks**, so that a guarantee institution's promotional, SME-dedicated status is recognised holistically;
- Recognising that guarantee institutions have a unique promotional mandate which should **exempt them from the scope of the CRD through Article 2(5)**.

In short, AECM completely shares the Commission's assessment that undue complexity, insufficient proportionality and an incomplete adaptation of international standards to EU specificities are holding back the competitiveness of the EU banking sector. Guarantee institutions considered credit institutions subject to prudential requirements are a clear illustration of this gap: regulated as ordinary financial institutions despite performing a promotional, public-interest function dedicated to SME financing, that is economically comparable to that of official national promotional banks. Addressing this gap would directly serve the Communication's ambition to improve access to finance for SMEs. AECM stands ready to provide further evidence and to engage with the Commission's services as the legislative package is prepared in the coming months.

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About us

AECM – Guarantors Europe represents 51 members operating in 33 countries in Europe, and 7 affiliate members. They are national promotional banks and institutions or private/mutual guarantee schemes. 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 address effectively 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, all have a promotional mission.

AECM's members operate with counter-guarantees from regional, national, and European level. At the end of the year 2024, AECM's members had about EUR 218 billion of guarantee volume in portfolio, thereby granting guarantees to around 6 million SMEs. AECM's members are by far the most important counterparts of the EIF concerning EU counter-guarantees, handling EU (counter-)guarantees from the very beginning in 1998.

Have a look at our AECM Brochure and at our most recent publications:

Statistical Yearbook 2024

Annual Activity Report 2024

Position papers

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