CRDIV: An SME Perspective

Position Paper on the Proposal for Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (COM(2011) 452 final).

The financial crisis has made it painfully clear that a stable financial and banking sector is vital to our economy. The necessity to make the financial sector more risk averse is a given.

On a European level, this necessity to regulate the financial sector has manifested itself in the revision of the Capital Requirements Directive (CRDIV), as a direct result of the negotiations of the Basel III committee.

Many of the measures set out in the Regulation, most notably the Higher Minimum Common Equity Capital Ratio, the Leverage Ratio, the Liquidity Coverage Ratio and the Net Stable Funding Ratio, are likely to be adequate instruments to reach the abovementioned objectives. The real difficulty however lies in the creation of balance, as stricter regulation of the banking sector can too easily mean a decrease in SME bank lending, higher interest rates, unfair risk weight assessments and disproportionate collateral requirements.

Whilst the importance of building new safeguards and fortifying old ones cannot be contested, it is of at least equal importance that access to finance for SMEs is not restricted any further than it already is. Yes, banks need to be stable but if we make access to capital unattainable for small businesses, growth will be inhibited significantly and equity levels will fall altogether. It is expected that financial institutions will aim to abide by the new capital standards as soon as possible and are likely to start implementing the new requirements before the deadlines in the regulations have been reached.

In order to restore consumer confidence in the financial sector, it is important that the financial sector operates in the interest of the real economy. The new requirements should not have a disproportionate negative effect on lending to the real economy. The European Small Business Alliance acknowledges that striking this balance will not be an easy task. It is however a crucial one.

ESBA considers the application of an 'SME supporting factor' in the report by Othmar Karas to reflect the risk weight of outstanding loans to SMEs to be a good example of an adequate measure which can be taken to alleviate the direct effects of the otherwise stringent capital requirements on SME lending. It is a step in the right direction that should lead to additional measures of a similar nature.

The risk weight of 75% * a supporting factor of 0.7619 can be acceptable for Small and Medium Sized enterprises (up to EUR 2 million).

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Furthermore ESBA welcomes a requirement for financial institutions to report on the level of their activity directly related to corporates and SMEs (i.e. the real economy).

ESBA considers it important that the risk weights attributed to SMEs reflect the actual amount of unexpected losses. Therefore ESBA would welcome a situation where the European Banking Authority would report to the European Commission on the appropriateness of the risk weights that have been set in the Regulation.

Lastly, ESBA urges the banks at Member State level to properly inform SMEs of the tools and opportunities which are being made available to them by the European Union.