PRESS RELEASE FOR IMMEDIATE RELEASE

"The voice of crafts and SMEs in Europe"

Capital requirements: no regulation before impact assessment, say SMEs

UEAPME warns against rules written "with the head in the clouds", leverage ratios and tier 1 capital exclusions

Brussels, 20 April 2010 – The new capital requirements for the banking sector risk harming SME finance unless their impact on the real economy is assessed beforehand and their scope is fine-tuned to target riskier activities, according to UEAPME, the European craft and SME employers' organisation. Responding today to a consultation launched by the European Commission (1), UEAPME stressed the need for an all-encompassing and independent impact assessment to be carried out prior to any legislative initiative. The organisation also called against an increase in capital requirements for normal retail or SME loans and against the introduction of a "general leverage ratio", which would hold back lower-risk financial products that are widely used by small enterprises. In its reply, UEAPME also wrote that the pro-cyclical effects of Basel II rules and IFRS accounting standards must be reduced, and praised cooperative banks and savings banks for their role in providing access to finance for SMEs.

"As the debate on new capital requirements for banks moves from theory to practice, a specific assessment on the impact of regulatory changes on the real economy is neither available nor foreseen. This is unacceptable for European SMEs", said **Gerhard Huemer**, Director for Economic and Fiscal Policy at UEAPME. *"Some proposals made so far by the Basel Committee and by the European Commission seem to have been written with the head in the clouds and could severely reduce the provision of financing to the real economy. This would be adding insult to injury for small businesses. Policy-makers should not proceed further until the potential impact of the proposals made is clarified, and capital requirements must be modified not to hamper SME loans. Such important decisions must be based on hard data"*, he continued.

The only impact assessment study announced at the moment is too narrow and not sufficient, continued Mr Huemer, and even banks do not seem to be able to come up with figures on how new capital requirements will affect their lending activities. A new, encompassing and independent study is therefore required. Ideally, this study would deal with both the macro and micro economic impact of the new rules, including a specific evaluation of the consequences for SME finance.

Commenting on the specific proposals made so far, UEAPME singled out the introduction of a "general leverage ratio" as one of the most worrying prospects for SMEs. Under this clause, a general ceiling for borrowing against capital would be introduced and applied to all financial products regardless of their risk class. Such a rule would inevitably provide incentives to take more risks and disadvantages for SME loans, which have lower risk and also lower profit margins. A "general leverage ratio" should therefore be avoided, wrote UEAPME. Should this not be possible, the ceiling must be applied only to pure investment banking activities, and an exemption must be carved out for less risky retail and SME loans.

On the increase of capital requirements, UEAPME is in favour as long as the extension is targeted and reasonable, explained Mr Huemer. *"Capital requirements can and should be increased for the products that caused the current crisis, such as the trading book and sophisticated products, but certainly not for normal retail or SME loans. This would diminish the capacity of the financial system to provide financing to the real economy and to small businesses"*, he said. Another key concern for SMEs are the pro-cyclical effects of Basel II rules, which were amplified by the introduction of IFRS accounting standards. *"Pro-cyclical effects must be dampened. For instance, we would support the introduction of 'dynamic provisioning' rules forcing financial institutions to build-up reserves in good economic times"*, stated Mr Huemer.

Finally, UEAPME spoke against the exclusion of the typical own resources of local and regional cooperative banks and saving banks from "tier 1" capital, the core measure of a bank's strength that determines its lending capacity. SMEs in countries with a highly decentralised banking system fared relatively better throughout the crisis compared to those in countries where SME finance is dominated by commercial banks, stressed Mr Huemer. *"Excluding cooperative and savings banks' own resources from 'tier 1' capital would reduce the availability of credit for SMEs in many regions of Europe. This could destroy the first timid signs of economic recovery that we are witnessing at the moment"*, he concluded.

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(1) The reply is available at http://www.ueapme.com/IMG/pdf/100416_CRD4_consultation_UEAPME.pdf

EDITORS' NOTES: UEAPME is the employers' organisation representing exclusively crafts, trades and SMEs from the EU and accession countries at European level. UEAPME has 82 member organisations covering over 12 million enterprises with 55 million employees. UEAPME is a European Social Partner. For further information: http://www.ueapme.com/

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