

Mr. Stefan Ingves  
Chairman Basel Committee of Banking Supervision  
Centralbahnplatz2  
4051 Basel  
SWITZERLAND

Prot. No. 088/GH  
Brussels, 21 March 2016

Dear Governor,

**Subject: Treatment of retail and SME loans in the Standardised Approach for credit risks**

I am writing to you on behalf of UEAPME, the European Association for Crafts and SMEs in Europe and I would like to address some issues related to the current discussion about a revision of the Standardised Approach for credit risk assessment, which concerns SMEs in Europe.

UEAPME welcomes the revision of the risk weight structure by BCBS and we asked for such a review already in 2009, when the Committee worked on Basel III. We are convinced that the banking crisis was caused not only by an insufficient level of regulatory capital in general, but also by inappropriate weights to specific risks. Therefore, the aim of the current revision should be to bring the defined risk weights as close as possible to the real risk involved in different activities of banks.

Of course, nobody will expect from an SME association to be able to contribute with an expertise on the risk of specific bank activities. However, we would like to share some observations on some issues highly relevant for financing the real economy and especially for SMEs.

**1. Risk weights for exposures to corporate SMEs**

UEAPME very much welcomes the proposed lower risk weight for exposures to corporate SMEs, as these exposures have low correlation and often more physical collateral than larger corporates. However, discussions about the risks of corporate SME portfolios with banks using the IRP approach give the impression that the risk weight for SMEs may be even lower than the proposed 85% and could be in line with the current European legislation (75%). Otherwise, the combined effect of higher RWAs and higher capital requirements could notably reduce the credit availability for SMEs.

Furthermore we think that third-party guarantees should be stronger recognised in the prudential framework. Especially in cases of loan agreements for entrepreneurs credit institutions often obtain third-party guarantees as additional collateral. These guarantees reduce significantly the risk of a loan and should be considered when defining the risk weights. Therefore, we suggest that credits which would fall currently in the corporate exposure class should fall into the retail class, if a sufficient third-party guarantee is assigned to a certain exposure.

## 2. Retail exposures

UEAPME is concerned about the discussion to tighten the granularity criterion for the retail exposures category, which states that, in principle, no aggregate exposure to any single counterparty should exceed 0.2% of the overall regulatory retail portfolio. If this criterion becomes binding without any discretion as currently foreseen in the European regulation, it will put smaller and less complex institutions in a difficult position. It is therefore crucial that banks are entitled to use other methods to ensure a satisfactory diversification of the retail portfolio.

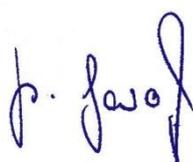
Furthermore and also in line with the current European legislation, it could be considered to differentiate within the retail exposures category. For instance, exposures to SMEs could be allocated a lower risk weight than exposures to individual persons. A risk weight of 60% to SMEs as it is a proxy to the SME supporting factor in the CRR could be seen as appropriate, while exposures to individual persons could be risk-weighted at 75%. In this context, it is also important that the BCBS takes good note of the intra-EU discussions on the so-called SME supporting factor.

## 3. Commercial real estate exposures

Finally, UEAPME is concerned about the suggested risk weights for commercial real estate. The proposal does not recognise collateral sufficiently and risks excluding one of the most important methods of collateralisation for SMEs. If capital requirements are too high in this exposure class, it will create serious difficulties for SMEs to access finance.

We would like to ask for your support in finding pragmatic solutions which allow both, the further stabilisation of the banking sector and the ability of the sector to provide sufficient finance to the real economy.

Yours sincerely,



Peter Faross

Secretary General