BUSINESSEUROPE

SPEAKING POINTS

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COMMISSION SME FINANCE FORUM

MEETING ON 18 OCTOBER 2011

DISCUSSION ON THE FUTURE COMMISSION ACTION PLAN TO IMPROVE ACCESS TO FINANCE FOR SMES

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1. Loans and Guarantees

Discussion point 1.1: *the Commission will offer guarantees and counter-guarantees under a Business Competitiveness and SME Programme (2014-2020) and the European Investment Bank will maintain its SME loan activity at a sustained pace, close to the 2011 level during 2012 and 2013. How can the EU guarantee and loan schemes be developed further?*

The question is about *how* to develop further the EU guarantee and loan schemes, but I would like to start by emphasising the need for a strong "guarantee" component in the "Competitiveness and SME" Programme.

Looking at the positive results of the CIP (Competitiveness and Innovation Programme), BUSINESSEUROPE has called on a number of occasions for continuation and enhancement of both the loan and equity financial instruments developed under this programme.

Offering both instruments is important to meet the needs of various types of SMEs in the different member states.

This being said, it is important to appreciate the different characteristics of instruments in the light of the evolving circumstances. Loan and guarantee instruments are very efficient for solving cash problems in the short term while venture capital is important from a long-term point of view to improve SME stability.

The experience of most of BUSINESSEUROPE members is that the cash problem is currently the number one problem for SMEs, and this is likely to increase with the growing constraints affecting banks' ability to lend to business in the future regulatory environment. Against that background, EU guarantee instruments have certainly a strategic role to play in the Competitiveness and SME Programme.

Under the Programme's loan facility, it is vital that guarantees and risk-sharing arrangements are provided for both national and cross-border lending.

BUSINESSEUROPE also calls for continuation of the EIB Loans for SMEs scheme that it launched in 2008.

We strongly support the pilot phase launched by the EIB with a view to making the Risk-Sharing Financial Facility (RSFF) truly accessible for SMEs.

Discussion point 1.2: *the Commission will promote the exchange of good practice and encourages the banking sector and SME federations to promote the use of qualitative rating. What measures can be taken to promote the use of qualitative rating for SME projects?*

Regarding rating of SME projects, the Commission is right to encourage banks to promote forms of assessment based on qualitative elements. Possible promotion approaches include:

- Encouraging banks to develop specific creditworthiness criteria for SMEs, enhancing the importance of qualitative criteria and integrating a deeper understanding of potential growth and profitability over the long term in the project rating models. This is an area particularly important for exchange of good practices;
- Support by the Commission to the drafting of a code of good conduct or of a model describing the types of information which could be requested in order to obtain an override
- And finally, the Commission should also promote training and offer support for microfinance institutions.

2. Venture Capital and Capital Markets

Discussion point 2.1: *with the establishment of a new EU venture capital (VC) regime, do further measures need to be taken to create a genuine internal market for VC funds?*

General outlook

In Europe, companies, and especially small and medium-sized companies, depend highly on bank lending to access finance. New capital rules for banks will affect the ability of banks to lend to businesses and liquidity requirements will lead to a bias towards government debt as opposed to equity which is considered more risky. A similar effect is caused by the implementation of Solvency II rules which discourage investments in long-term bonds below AAA-rating.

As demand for capital intensifies, companies will thus find it increasingly difficult to obtain the finance they need for investment. It is crucial that European rules on venture capital support market liquidity and make it easier for businesses to access debt and equity funding investments. Investors should be encouraged to invest long-term risk capital in European companies at a time when we need such partnerships between European companies and long-term European investors to generate employment and economic growth.

<u>Working out a new European regime for Venture Capital</u>

Creating a special passport for small fund managers is rightly at the top of the work agenda of the Commission. The EU should create a passport that would allow managers to manage small funds and to raise capital across the EU. The scope of such a proposal should be broad. It should include:

- both venture and enterprise capital funds and also other investors such as “business angels”;
- high net worth individuals;
- and family offices as these are an important part of the investor base of small funds.

It is important not to cut off capital from these latter categories. Therefore a fitting regime needs to be defined, allowing investments:

- as well from institutional and professional investors as defined in the Markets in Financial Instruments Directive (MiFID);
- but also from investors that would invest a high minimum amount of capital and/or can provide an independent and reliable assessment of their financial know how.

Any regime for small fund managers should be voluntary to avoid disproportionate burdens for funds which choose to operate domestically and/or do not wish to obtain an EU-wide passport. There should be a separate initiative for small funds’ managers rather than a modification of the Alternative Investment Fund Managers Directive (AIFM Directive) as many of the provisions of that directive are not proportionate for them.

Lastly, it is important that small and medium-sized companies which are owned by funds managed by the same funds’ manager do not lose their SME status in the context of the EU SME definition. Application of the concept of “linked enterprises” included in the EU definition should thus not lead to aggregating all those companies so that they are no longer considered to be an SME in the context of the definition.

<u>**Discussion point 2.2**</u>: *the Commission will create an SME growth market label in EU capital markets legislation and facilitate access to high quality information on listed SMEs. How can we facilitate the listing of SMEs on alternative stock exchanges?*

We believe that Member States should be encouraged to foresee fiscal incentives for SMEs which decide to be listed in order to compensate, also partially, the listing costs.

Regarding EU legislation, BUSINESSEUROPE urges the Commission not to be seduced by the idea that a European tailor-made corporate governance regime for SMEs would be an efficient way to attract SMEs on the regulated stock market.

In fact, it could become yet another barrier for growth if the passing of a certain threshold would oblige a growing SME to adapt to and report on a more extensive corporate governance framework. Furthermore, the definition of what constitutes a "small listed company" differs among Member States which would make it difficult to have a uniform EU definition. Therefore, the principle of subsidiarity should prevail in this aspect, with the Member States keeping the option to create special regimes for SMEs, defined in the light of their national circumstances.

The solution for small listed companies seems rather to lie within the existing corporate governance framework and the "comply or explain" principle. Deviations from the relevant corporate governance codes and a fulfilling explanation as to why the company does not comply could very well be sufficient.

In the context of revision of the Market Abuse Directive, press reports have aired the idea of widening this Directive to include in its scope the exchange regulated markets (or the Multilateral Trading Facilities) where a number of SMEs choose to be listed. Given the particular nature of these markets, it seems to us normal that the obligations imposed on listed companies should be less heavy than on regulated markets.

3. Policy coordination

Discussion point 3.1: *the Commission encourages the establishment of national codes of conducts and guidelines to improve transparency in the lending process. How can the decision making regarding credits become more transparent?*

One option consists in building on the European 2003 draft code of conduct between banks and SMEs to develop an overarching set of guidelines and common principles that can help to guide each member state in implementing its own codes if they do not already exist.

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