



Press Release

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EP Hearing on Basel II Directive: SMEs still concerned about higher loan costs and less transparency

Brussels, 22 November 2004 Business associations, EUROCHAMBRES, EuroCommerce and UEAPME warn MEPs about the possible rise in loan costs and the increased opaqueness of rating systems that might result from the implementation of the Capital Adequacy directive. The warning was issued at the European Parliament's hearing on the so-called Basel II directive today.

Speaking at the hearing, UEAPME's SME finance expert **Gerhard Huemer**, said: "So far MEPs have been very supportive of the concerns of SME regarding Basel II and in particular with regard to capital requirements. However, there are still some elements in the current proposal that could **make the whole credit process less transparent and less affordable for SMEs.**"

One particular concern for SMEs is the **lack of transparency of the rating procedures** used by banks to determine if an enterprise can receive a loan or not. It is vital that banks communicate to their customers the main rating criteria in order to allow SMEs an adequate preparation and reaction. If market forces do not lead to sufficient transparency of rating systems vis a vis the customers, the associations argue that the supervisory authorities should have the obligation to intervene to ensure the right level of transparency.

Another concern for the associations is the higher level of costs and administrative charges that smaller credit institutes will have to face. **Arnaldo Abruzzini**, Secretary General of EUROCHAMBRES commented: "Above all, the costs arising from the implementation of the new rules must not be disproportionate. The new proposals are still very complex and entail enormous efforts and costs, which will have an impact particularly on smaller banks and thus on SME customers."

Since smaller banks constitute the primary provider of SME credits, a **raise of their costs** would have immediate consequences for SME access to finance. Therefore, the associations call on parliamentarians to intensify their efforts to reduce significantly the implementation costs of Basel II for smaller banks. SMEs would like the MEPs to simplify procedures for smaller loans by allowing the partial use of the standard approach for retail portfolios and reduce the reporting duties for smaller credit institutes.

Finally, there is still concern about **the future treatment of collaterals**, which are usually provided by SMEs to guarantee their loans. **Xavier R. Durieu**, Secretary General of EuroCommerce commented: "The current approach to recognising collaterals is too narrow, in particular with regard to residential property. Identifying collaterals too restrictively could prevent many SMEs from using a major guarantee for loans." Therefore, the associations demand that the recognition of collaterals should be in line with current practice in the credit sector.

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About EUROCHAMBRES: *Created in 1958, one year after the birth of the European Communities, EUROCHAMBRES is the Brussels based Association of European Chambers of Commerce and Industry. EUROCHAMBRES has member organisations in 43 countries representing a network of 2,000 regional and local Chambers with over 18 million member companies. More than 80 % of these enterprises are small or medium enterprises (SMEs). Chamber members employ over 120 million employees. EUROCHAMBRES is the sole European body that serves the interests of every sector and every size of European business - due to the multi-sectoral membership of Chambers - and the only one so close to business, as a result of the Chambers' regional focus.*

About EuroCommerce: *Created in 1993, EuroCommerce represents, with more than 100 members from 28 countries, the retail, wholesale, international trade sectors. Commerce is the closest link between industry and the 450 millions consumers across the whole of Europe. It is a dynamic and labour intensive sector, which plays a significant role in the European economy. It generates 13% of the EU-25's GDP. The sector comprises 5.3 million companies of which 95% are small enterprises, so vital to Europe's economic and employment prospects. It is also a major employer providing jobs to over 26 million people drawn from all sections of society and is one of the few increasing employment.*

About UEAPME: *UEAPME is the employer's organisation representing the interests, at European level, of crafts, trades and SMEs in the European Union and countries applying for accession to the European Union. Its 78 member organisations, consist of national cross-sectorial federations, European branch federations and other associate members which support the SME family. Across the whole of Europe, UEAPME represents over 11 million enterprises with nearly 50 million employees. UEAPME is an European Social Partner.*