BUSINESSEUROPE

THE DIRECTOR GENERAL

Mr Vassos Shiarly
President of the Economic and Financial Affairs Council
Ministry of Finance
1439 Nicosia
Cyprus

8 October 2012

Dear Sir,

The proposals for revision of the capital requirement rules (CRD IV/CRR) are fundamental for financial market stability in the EU but also have the potential to have a significant impact on access to financing for European companies and therefore long-term growth and investment. As the adoption process is near to its end, we would like to draw your attention to the following points which are of particular concern to us.

Small and medium-sized enterprises (SMEs) have a major role to play in driving economic recovery and depend highly on bank lending. To counter adverse consequences on business costs and access to finance, it is important that the new rules induce banks to focus more on traditional lending and guaranteed lines of credit to SMEs. For this reason, we believe that the risk weighted exposure amounts for credit risk for loans to SMEs should be calculated in accordance with Title II of the proposed Regulation and then be multiplied by 0,7619 (application of an SMEs Supporting Factor) leading to a discount of 23.81%, irrespective of the fact that a financial institution uses the method set out in Chapter 2 or in Chapter 3 of Part Three, Title II of the proposal.

Current negotiations between the Council, Commission and Parliament regarding the new rules may lead to a situation where application of the Supporting Factor will be subject to an increase in the loans to SMEs in comparison with a reference date in the past. We are concerned that this proposal will grant few advantages to those financial institutions operating in countries with slow economic growth as they will be unable to show an increase in SME loans. The proposal is highly pro-cyclical reinforcing the economic cycle. The SMEs Supporting Factor is not intended to exclusively foster loans to SMEs but to avoid the risk of a reduction in their amount. BUSINESSEUROPE thus believes that the discount should be applied regardless of the stock of exposures to SMEs.

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We would also like to raise the issue of recognising credit facilities granted by central banks within the scope of their monetary policy as liquid assets. Every day, and mid-term, central banks grant liquidity lines to banks calculated according to an asset portfolio of good quality (the probability of default of these credits is below 0.4%, meaning that their ratings are the highest between AAA to A-) which banks provide as a guarantee. These assets are notably credits granted to SMEs. This refinancing should be recognized in the short term liquidity ratio LCR as suggested by the European Parliament ECON Committee (Article 404 of the Regulation).

Regarding trade finance, considering that such financing is an important source of credit, particularly for SMEs seeking to expand into overseas markets, it is important that the rules fully recognise the importance of trade finance to European companies and ensure that they are proportionate to risk as suggested by the European Parliament ECON Committee and the Council political agreement as regards credit exports (Article 413).

And lastly, the present proposals increase costs for non-financial companies that use derivatives to hedge risks. This could lead to companies reducing hedging, increasing not only the risk for the corporation concerned but for the economy as a whole. To avoid this, the new rules should exclude derivative transactions used by non-financial companies to hedge market risk from the own funds requirement for CVA risk.

We hope that you can contribute to ensuring that these issues will be part of a balanced and proportionate final legislative package.

We remain at your disposal should you wish to discuss this subject further.

Yours sincerely,

Best regards

Philippe de Buck