New EC initiatives for SMEs funding in Europe
Financial obstacles and use of alternative sources of finance

A. Financing obstacles (percentages)

Note chart A: Financing obstacles are defined as the sum of the percentages of SMEs that applied for a bank loan, but were rejected, received only a limited part of the amount for which they had applied, or did not take up the loan because borrowing cost were too high.

B. Use of financing instruments by euro area SMEs by size (contributions in percentages, average 2009-2013)

Note chart B: the bars show the sum of the percentages of SMEs that reported having used a specific instrument in the preceding six months.

Source: ECB (SAFE) and ECB calculations. Base: All SMEs.
March 2013: Commission's Green Paper on "Long-Term Financing of the European Economy",
• debate on what further actions need to be taken in order to restore the EU financial sector's capacity to channel savings to (long-term) investment in the real economy, and SMEs.

December 2013: HLEG final report "Finance for Growth"
• a comprehensive list of short and medium-term recommendations, focusing on access to financing for SMEs and infrastructures.

February 2014: FSC questionnaire on SME financing
• follow up on the access to capital markets for SMEs (securitisation, covered bonds, private placements, credit information on SMEs and the cumulative impact of financial regulation).

March 2014: EC Roadmap on Long–Term Financing of the Economy

G20 WG on long term finance – OECD high level principles for institutional investors
What lessons from HLEG “Finance for Growth”

Lessons from “Finance for Growth”

- **EU Dependence on banks amplified crisis**
- **Securitisation**
  - stable funding, capital relief, reduced sovereign link
- **Reliance on home banking**
  - reinforces fragmentation and deters new investors
- **Large SME and Infrastructure**
  - other pan-EU, non-bank funding possible
- **SME balance sheets need Equity & Mezz**
- **Small & Mid SMEs - banks remain key for credit**

Source: HLEG presentation at the Informal ECOFIN –April 2014
## A new paradigm for funding SMEs

| Area of Focus         | Relevant Measures                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | What's needed                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Small and Micros      | • Bank lending is key  
                         • Other forms like crowd funding, government schemes can be developed but important equity is provided too.                                                                                                                                                                                                                                                                                                                                                                                           | • Banks remain key and EIB/NDBs may provide cheaper funding or guarantees to encourage lending to Small and Micros  
                         • Other new forms of P2P lending like crowd funding could be developed  
                         • Encourage schemes to provide start up and growth capital (e.g., Venture Capital) perhaps with aid of EIF                                                                                                                                                                                                                                                                                                                                                                               |
| Medium sized companies| • Bank lending remains key but pressure on bank capacities needs to be relieved  
                         • Done initially by EIB and NDBs but more sustainably by securitisation type funding                                                                                                                                                                                                                                                                                                                                                                                                       | • EIB-EIF as creator of high quality securitisation standard and initial underwriter of securities where markets reticent  
                         • Regulatory rules must not be harmful to banks sponsors or regulated buyers of securities for high quality securitisations  
                         • Pan EU quality label and ECB accepting of securities as collateral                                                                                                                                                                                                                                                                                                                                                                                                           |
| Larger scale SMEs (“mid-caps”) | • Use of more direct debt and equity options such as Private Placements, lending from funds, issuances on Public Equity Markets or the use of Mini-Bonds can release bank capacity                                                                                                                                                                                                                                                                                                                                                       | • MS to investigate and implement national private placement markets for SMEs, to create EU wide market  
                         • Funds to be able to passport both assets and liabilities  
                         • MS to investigate best practice abroad and how that can be replicated at home.  
                         • Ecosystem of brokers, analysts and market makers will be key here to new listed offerings.  
                         • Retail bonds should be developed.                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

Source: HLEG presentation at the Informal ECOFIN – April 2014
The package includes three elements:

A **Communication on the long-term financing of the economy**
- which builds on the responses to the consultation and on the debate in international fora such as the G20 and the OECD.

A **legislative proposal for new rules for occupational pension funds**
(revision of Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision - IORPs).

A **Communication on crowd funding** to offer alternative financing options for SMEs.

The package proposed by the Commission focuses on a number of issues to be further studied and explored, rather than proposing a concrete set of actions.

New proposals will be examined and adopted under the new Commission.
### EC Communication: a broad range of initiatives on different fronts

<table>
<thead>
<tr>
<th>Area</th>
<th>Action</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Further develop European capital markets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Equity and corporate bond markets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Delegated Act for MiFID 2 on SME growth markets to minimise the administrative burden for issuers on these markets, while maintaining high levels of investor protection.</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Study on whether further measures are necessary to enable the creation of a liquid and transparent secondary market for corporate bonds.</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Assessment of the implications and effects of the rules of the Prospectus Directive, in particular of the proportionate disclosure regime for SME issuers and companies with reduced market capitalisation.</td>
<td>By end 2015</td>
</tr>
<tr>
<td></td>
<td>Assessment of the eligibility criteria for investments by UCITS regarding securities listed on SME growth markets.</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>Private placement</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Study to map out the private placement markets in Europe against other locations/practices, analyse their key success drivers and develop policy recommendations on how this success can be replicated more widely in the EU.</td>
<td>By end 2014</td>
</tr>
<tr>
<td><strong>Improve SME’s access to financing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Improving SMEs access to finance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mapping of the EU and national legislation and practices affecting the availability of SME credit information, with a view to considering possible EU approaches to the credit scoring industry and assessing the feasibility of harmonising/increasing the comparability of SME data across the EU.</td>
<td>2014</td>
</tr>
<tr>
<td></td>
<td>Revival of the dialogue between banks and SMEs particularly with regards to feedback provided by banks on loan applications and assessment of best practices on helping SMEs to access capital markets.</td>
<td>Ongoing</td>
</tr>
<tr>
<td><strong>Cross-cutting measures (enhancing the wider framework for sustainable finance)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Accounting standards</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Public consultation to examine (i) the case for a simplified accounting standard for the consolidated financial statements of listed SMEs, and (ii) the usefulness of a complete self-standing accounting standard for non-listed SMEs to supplement the Accounting Directive.</td>
<td>2014</td>
</tr>
</tbody>
</table>
EC Communication: other important initiatives

- **Securitisation**: a) differentiation of “high” quality securitisation products across financial sectors and possible preferential regulatory treatment compatible with prudential principles; and b) global standards on securitisation, in particular on risk retention, high quality standardisation and transparency to ensure consistency and avoid regulatory arbitrage;

- **Covered bonds**: a) review of the covered bond treatment in the CRR with a view to building the basis for an integrated European covered bond market (end-2014); and b) study on the merits of introducing an EU framework for covered bonds;