



## Event Report

### Description

The Capital Markets Union (CMU) Action Plan sets out a programme of actions aiming at overcome information barriers that prevent SMEs and prospective investors from identifying new opportunities to secure funding and to make investments, respectively.

1. Strengthening the feedback given by banks when turning down credit applications from SMEs, in order to allow rejected SMEs to adjust their business model to have better access to external funding;
2. Mapping local or national support and advisory structures across the EU to promote best practices in assisting SMEs; and
3. Investigating how to develop or support pan-European information systems that link up national systems to bring finance-seeking SMEs together with finance providers.

Is this the right mix of strategies? What progress has been achieved to date and what are the next steps? Are there alternative strategies worth pursuing?

### Speaker

- **Dr Pierre Schammo** - Reader in Law at the School of Law, Durham University, and Senior Visiting Fellow at the European Institute, London School of Economics

### Panellists

- **Riccardo Bonci** - Senior Economist-Statistician, Monetary & Financial Statistics Division, DG-Statistics, European Central Bank
- **Gerhard Huemer** - Director of Economic Policy, UEAPME
- **Alexis Marchand** - Policy Officer, Capital Markets Union, DG FISMA, European Commission

### Moderator

- **Fabrice Demarigny** - Global Head of Financial Advisory Services and Capital Markets Activities, Mazars

**Dr Pierre Schammo** opened his presentation by stating that access to finance is not a new problem, but rather a longstanding policy theme (see the 1998 European Commission's Risk Capital Action Plan, for example). In order to achieve a European funding market for SMEs, we first need to address information problems that affect both the demand (i.e. SMEs) and the supply side (i.e. banks or other alternative finance providers). While information asymmetries make it more difficult for finance providers to assess the creditworthiness of SMEs on the supply side (by affecting the accuracy of credit risk assessments and the distinction between high and low risk borrowers), SMEs face difficulties navigating funding options available to them on the demand side (by lacking knowledge, confidence, by not shopping around, etc.). Dr Schammo argued that these barriers work more in favour of banks than other non-bank providers, due to branch networks, the ongoing relationship with SMEs through lending business, current accounts and access to raw data.

Regarding the design of the right strategy to remove information barriers, Dr Schammo explained that outside the capital markets context (or the IPO context) there was less agreement among member states on the type of paradigms/rules/institutions that are needed to deal with information issues (e.g. public credit register vs private credit bureaus, voluntary vs mandatory information sharing). He called for the European Commission to reconsider its approach to overcoming information barriers to SME investment, and made a proposal based on three main pillars: i) market-building measures (e.g. support entry of a new tier of actors), ii) emphasis on policies of information sharing on both the demand and the supply side (e.g. account information services), and iii) market-correcting measures (to mitigate security, confidentiality, reputational and financial stability risks).

**Gerhard Huemer** started by presenting some facts: there are 12 million enterprises all over Europe, 92% of SMEs have fewer than 10 employees and half of them have no employee at all, 1-2% of SMEs have access to capital markets, 95% of SMEs depend on debt financing. The access to finance landscape is different for different countries and any solution should accept these differences. While in the UK SME lending is dominated by 3-4 big commercial players, there are many more decentralised banking structures in other countries. As to the feedback provided by banks to SMEs, Mr Huemer welcomed the inclusion of this paragraph in the CMU Action Plan, despite banks' initial unwillingness. It is vital for SMEs to be able to use the feedback received, in order to modify/alter their project, improve their business plan, or even to look for other means of funding. On the other hand, credit information is very heterogeneous across Europe and there is room for improvement, but we should keep what works and improve what does not: one size fits all will not work. Finally, and most importantly, SMEs should keep control of the data and be the ones to decide who receives information.

**Riccardo Bonci** opened his presentation by highlighting the important role SMEs play in the transmission channel of monetary policy. In an effort to improve information on credit developments in the euro area, the ECB initiative AnaCredit will provide harmonised granular data on credit and credit risk. This will be done by offering detailed and timely information about provisions of credit to corporates, mainly SMEs, hence disentangling credit demand and supply effects. AnaCredit data will eventually assist the assessment of the effectiveness of standard/non-standard measures, by enhancing monitoring of credit developments at borrower-lender level. Moreover, and unlike aggregate or survey data, granular data are more informative, flexible and cost-effective. Finally, Mr Bonci explained that the information to be collected by AnaCredit (as of September 2018) will be based on the same harmonised set of definitions across countries (i.e. NPLs) and that no granular information (e.g. lender's and borrower's identity, balance sheet, etc.) will be disclosed to users outside the ECB and participating NCBs.

**Alexis Marchand** presented the EC's work in the context of the CMU to address the information barriers in the SME funding market. On the feedback given by banks to SMEs with declined credit applications, he underscored the necessity to improve the quality and consistency of this feedback across the EU. The European banking industry is currently developing a common set of high-level feedback principles to that end, building on best practices adopted in some countries. Concerning the other barriers, Mr Marchand highlighted the need to i) accompany SMEs during their journey to finance by helping them identify what type of finance is right for their business considering the stage of development and how best to secure it, and ii) improve the availability of SME information for non-bank finance providers (in a proportionate way given the sensitivity of information). He referred to the mapping exercise recently performed by the EC to identify successful national initiatives – such as the adoption of legislative measures, the creation of funding hubs and ecosystems, the development of one-stop shop and match-making platforms – to address these information barriers. Finally, the current consultation process on the review of CMU Action Plan will be instrumental in identifying successful initiatives worth replicating in EU member states (possibly with EC support).