

1st of October 2015

ECBC Response to the EBA Discussion Paper and Call for Evidence on SMEs and the SME Supporting Factor

The **European Covered Bond Council** (ECBC)¹ welcomes the opportunity to comment on the Paper and Call for Evidence on SMEs and the SME Supporting Factor launched by the EBA on the 31st July 2015.

The ECBC fully supports the goal of strengthening investment and funding in SMEs which constitute a fundamental pillar of the economy of the EU and would express with this contribution the importance of the need of clear, homogeneous and practical rules in order to set the stage for a more favourable lending environment to SMEs. This is particularly important now as there has been a considerable fall in lending to non-financial corporations and especially to SMEs since the start of the crisis.

In the light of this challenge, the ECBC decided to use its high level of expertise and know-how in the field of covered bonds for the further development of capital markets in the EU by taking a number of steps towards the creation of new capital instruments, among others, of the European Secured Note (ESN), which will be presented to investors and institutions coming 9th October in Milan. The ESN would cover a funding segment located between the traditional covered bond and the high-quality securitisation spaces using, and would complement the long term funding toolkit for European Lenders financing SME loans and potentially other types of assets, such as infrastructure loans.

Therefore, the success of these instruments would rely on both a robust legal framework and a high level of transparency regarding the underlying assets. The latter, as mentioned above, should be achieved through close cooperation with the SMEs whose loans appear in the cover pools. In addition to this, the development of centralised credit registers with harmonised levels of information would provide the ideal tool for the achievement of full transparency (while complying with confidentiality laws), and the subsequent increased level of security of these ESNs. All parties involved would be able to accurately assess risks and thereby differentiate their portfolios accordingly, contributing to the quality of the instruments. This links closely to the other condition, i.e. a robust legal framework, which among other things would focus on determining which assets can be used as collateral. Having transparent information regarding these SME loans is a central aspect of this issue.

As the ESN's strength is based on the quality, comparability and transparency of its underlying assets, i.e. the SME loans, the success of these instruments would rely on solid and reliable data, the ECBC welcomes the enhancement of standardisation and comparability of SME data disclosures at European level. Moreover it advocates for the benefits of having a harmonised definition of SME for reporting purposes, which will greatly reduce the burden of due diligence by investors outside a national arena.

¹The European Mortgage Federation - European Covered Bond Council (EMF-ECBC) is registered in the European Institutions' Transparency Register under ID Number 24967486965-09.



For more information on the ESN, please consult the ECBC's Response to the CMU Green Paper which is available [here](#) (dated 2015-05-06).
