

**ASF RESPONSE TO THE
EBA DISCUSSION PAPER AND CALL FOR EVIDENCE
ON SMEs AND SME SUPPORTING FACTOR**

As a unique representative body of all the French specialised credit institutions and financial institutions which represents 290 entities, ASF contributes to an appropriate recognition of the specialised financial activities like equipment and real estate leasing, factoring, consumer credit and auto loans and leases, mutual guarantee societies which – with an outstanding of more than €215 billion in 2014 – accounts for about 20% of total amount of credits to the real economy in France.

We would like to thank you for giving us the opportunity to respond to the Discussion paper & Call for evidence on SMEs and SME supporting factor. We would like to draw your attention to some facts and suggestions related to the specificities of our credit activities.

As a preliminary comment, we wish to underline that some ASF members are specialised in two types of activities that are directly linked to SME financing in France and Europe: leasing and factoring.

Leasing represented in France 85 Bns € of outstandings, and the new volumes of leases amounted to 30 Bns €, representing an increase by 4,4% compared to 2013. We estimate that the part of outstandings dedicated to SME is 36%. French institutions are also very active in other EC jurisdictions. In Europe, new volumes of leasing amounted to 209.6 Bns €, representing an increase by 6.7%. A recently released Oxford Economics report on leasing to SMEs, conducted on behalf of Leaseurope, shows that an estimated €121 billion in SME leasing was done in 2014, compared to €104 billion in 2013, a growth of 16%.¹ This rise was not echoed in total leasing figures, where growth from 2013 to 2014 was 9%.² Micro SMEs in particular seem to be accessing leasing more than in previous years, with 19.6% of their investment being financed by leasing in 2014 compared to 15.4% in 2013.

Factoring in France financed 226 Bns € of turnover volumes in 2014, representing an increase by 13% compared to 2013. We estimate that 51% of the financing is dedicated to SMEs. French institutions are also very active in other EC jurisdictions. In Europe 1 373.8 Bns € of turnover volumes have been financed in 2014.

Q1

Most leasing companies in France are credit institutions. The biggest contributors to leasing are banks subsidiaries fully regulated through CRR. RWAs are strictly calculated and followed, most often at the mother bank level. There are systems in place to track the reduction in capital due to the application of the SME supporting factor. For those institutions concerned, the COREP report includes a specific line.

Q2

Capital requirement due to the type of exposure is definitely a main factor to determine credit allocations. The SME supporting factor is with no doubt an incentive to grant financing to SMEs. Yet, it is difficult to determine precisely the role of the SME supporting factor, taking into account that the measure is recent on the one hand, and that, on the other hand, there

¹ Oxford Economics, July 2015, "The Use of Leasing Amongst European SMEs". Available upon request.

² Leaseurope 2014 Annual Statistical Enquiry.

are other factors to be considered in the decision process of lending. For instance, liquidity costs, the volume of lending and riskiness analyses are also important in the decision process. For leasing, the type of equipment leased and the evolution of its market is also of major importance. The decision to lend or not follows a matrix of several parameters. Yet, within this matrix, capital allocation is of major importance. One can observe a rise in the production of leasing and factoring in 2014 in France (new volumes 2014/2013 increases by 4,4% for leasing, and by 13% for factoring) and in Europe (new volumes 2014/2013 increases by 6.7% for leasing, and by 7.2% for factoring), with no reduction, and probably an increase in the proportion of SMEs. Then, although it is difficult to isolate the single impact of the SME supporting factor, we testify that it is certain that it has taken an important role in SMEs financing decision processes.

Q3 Q4 Q5

The definition of SMEs used by French leasing and factoring institutions are in line with the criteria of a turnover < 50 M€ and exposure < 1, 5 M€. For institutions that are subsidiaries of banks, the filters are determined at a mother bank level, in order to harmonize the reports. Criteria are usually determined in order to be on line with the EU reporting requirements.

However, the availability of financial information on SMEs varies from one country to another and is linked to the local authorities' requirements: small enterprises are often exempted from publishing financial statements (see in France the "X07" quotation from Banque de France). Institutions are dependent on this public information especially for the small and standard operations (eligible to "on line" decision for example). Then, if a European definition of SMEs were to be reviewed, it should not use too fine parameters that, in some jurisdictions, would not be available or would be available with great difficulties.

We agree with the importance of a unified definition of SMEs for reporting purposes at a European level. Yet, considering the EU objective to encourage enterprises investment, we recommend to extend the supporting factor over those thresholds to larger SMEs, in order to avoid cliff effects: the SME supporting factor has an impact on the cost of business for institutions, and thus on the pricing, and so these "prudential thresholds" are not an incentive for SMEs to grow.

It would also have a positive impact on the European economy to extend the supporting factor to micro entrepreneurs and startups.

Q6

Default rates should be relevant on a rather large time window since they have been available since 2007. From this point of view, we underline the low risk profile of leasing and factoring activities that are asset based lending activities³. The property of the asset reduces the risk of lending. The unique feature of a asset based lending is the lender's ownership of the financed asset. These ownership rights provide lenders with a valuable and efficient form of in-built security which makes lending extremely low-risk. Asset ownership represents a major advantage for lessors and factors compared to other financial products such as traditional loans, which are typically not secured on assets but rather with other types of financial collateral or personal guarantees.

³ Deloitte undertook research on behalf of Leaseurope (European leasing association), including two reports "Implicit Risk Weights for SME Leasing in Europe" and "The Risk Profile of Leasing in Europe: The role of the leased asset" which demonstrate that default and loss rates for leases are significantly lower than for traditional lending. According to the latter study, which was based on a portfolio of 3.3 million lease contracts in 15 European countries, one-year defaults on leasing Retail SME exposures were 2.7% compared to 4.5% for all Retail SME lending in 2010. Similarly, Loss Given Defaults for leasing were 19.6% compared to 33% for all Retail SME lending.

The second proposed method seems to require too fine and numerous parameters. The analysis of profitability, leverage, activity, liquidity and coverage requires data that are not always available from SMEs. It seems not adapted to SMEs risk measurement.

Q7 Q8 Q9

We also underline the importance of the activity sector to analyze the riskiness of SMEs. Especially in asset based lending activities. For the risk to be rightly measured, the SME's activity has to be replaced in its market environment.

Q10

See Q6

Q11

The interpretation of statistical data on lending trends and conditions should be nuanced. One of the consequence of the financial crisis has been a reduction in the investment of the private sector, and then in credit demand. It seems that the general level of investment is an important parameter to introduce in the analysis.

Q12

Institutions usually proceed annually to the analysis of the previous year lending activity. Then, even if the impact of the supporting factor has not been isolated as a single parameter, it has been taken into account in the lending policies towards SMEs settled in 2014 and 2015.

Q13

Riskiness of borrowers, liquidity costs, volume of the transactions remain important parameters aside the SME supporting factor taken into account in the lending process.

The activity sector of the SME is also of main importance.

For leasing especially, the type of equipment financed, and the evolution of its market are also of main importance.

Q14 15

The SME supporting factor has a major impact on the SME lending decision process, including pricing. Capital allocation is one of the main parameters taken into account in the decision process.

Q16

See Q13

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