

1 October 2015

Mr Andrea Enria  
Chair  
European Banking Authority  
(by email)

Dear Andrea

AFME and its members would like to express their strong support for the SME Supporting Factor. The Supporting Factor (SF) facilitates the deployment of funding to European SMEs which are the core of growth and employment in the EU. While AFME's focus of representation is wholesale financial markets, our members fully support the development of SME financing through all types of instruments, including bank lending, non-bank lending and equity.

The price at which banks provide finance to SMEs is determined by many factors, including the client's size, industry, geography, credit risk, performance, management, and the relationship between the bank and the firm. Capital is another crucial factor contributing to price, as well as banks' overall capacity to lend. AFME's members are of the view that, given the importance of SMEs in every country across Europe, the SF is a beneficial tool to support lending.

While its effects may not yet be fully visible or may be difficult to quantify given the negative economic and market conditions of the past years, our members view the SF as having played an important role in freeing up capital resources which can then be allocated to supporting SME lending the real economy.

It is also worth recalling that the SF was introduced to neutralise the impacts of the capital conservation buffer and prevent lending to SMEs being penalised by the higher capital requirements of Basel III. However, particularly when considered against the backdrop of the weak macroeconomic environment of past years, had it been conceived more broadly (either in terms of quantum or scope of application), the SF could have potentially played an even greater role in supporting lending to SMEs.

Consequently, AFME would recommend that the EBA and European Commission consider the merits of enlarging the scope of application of the SF. Currently, its limited application (i.e. to a total outstanding exposure of €1.5 million) acts as a cap on SME exposure growth. Moreover, it focuses on micro and small businesses, but plays only a marginal role in supporting medium enterprises. Such an extension of the SF would of course also be fully consistent with and complementary to the overall objectives of the Commission's Action Plan for Capital Markets Union announced yesterday.

In analysing the effects of the SF on SME finance, AFME recommends that the EBA extends its analysis to include the impacts changes in capital requirements on non-bank lenders.

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AFME will soon publish the AFME Guide to Raising finance for Europe's small & medium-sized businesses which provides practical guidance to SMEs on how to successfully tap the right type of funding given its specific circumstances. The report also includes extensive data on national SME support programmes and SME growth market listing requirements in major European markets.

We look forward to maintaining a dialogue with you and to contributing to EBA's future work in this area.

If it would be helpful to discuss our Guide in person we would, of course, welcome such an opportunity.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Michael Lever". The signature is fluid and cursive, with a prominent initial "M".

Michael Lever  
Managing Director - Head of Prudential Regulation

cc: Mr Mario Nava – Director General, Directorate D, DG FISMA