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Opening Remarks

Financial regulation

After 2008 we had the impression that the EU was exposed to a high degree of public pressure. It was challenged to quickly adapt the legal framework for participants in the financial market since they were, at least in part, responsible for the financial crisis as levels of regulation had hitherto been too weak and insufficient.

It was also clear to financial institutions that new rules were needed which would ensure a stable and functioning financial market. And, of course, it should not be the taxpayer having to pay when banks that are "too big to fail" experience difficulties. However, what then happened was the creation of the most complex and thus most expensive legal framework that Europe has ever seen.

Banks are not complaining about the new regulations, even if they are sometimes difficult to accept. The problem in this respect is that the banks' core business suffers as a result:

- Instead of banks using their core competencies for their day-to-day business, these are devoted to complying with legal and political requirements.
- The costs associated with complying with these requirements and developing new structures and systems are exorbitant.
- In most cases, the time periods that are provided to comply with these regulations are much too short.
- The requirements often change in the middle of the implementation process.
- The instructions provided for the implementation of new measures are often too imprecise and vague.
- The institutions (European Banking Association – EBA, ECB, European Commission, national authorities) often do not coordinate with one another or their instructions diverge.
- Systemic or national particularities are often not taken into account.

Small and medium-sized enterprise financing

Bank lending continues to represent the most important source of financing for small and medium-sized enterprises (SMEs) and is often based on a long-term relationship between a bank and its customers. Banks with a regional and local focus can adapt ideally to the specific financing needs of SMEs. Banks possess expertise in the evaluation of credit risk from SMEs and can create their appraisal based on a company's credit history. Focusing on the customer is the most effective way to secure and improve access to financing for SMEs.

Due to this intensive relationship between SMEs and banks, the deliberations of the Basel Committee on increasing levels of equity backing for SME financing are not well-founded. This is also because, most importantly, SMEs form the backbone of the European economy, which is why access to finance should not be made more difficult for them.

Nevertheless, it is important to diversify financing options for SMEs in order to allow them to access a broad range of options. However, there are still many obstacles for SMEs if they wish to take advantage of market-based and other more innovative forms of financing. The availability of financial information on SMEs is key to successfully accessing the capital market. Investors must be in a position to assess the profitability of, and risk appetite associated with, their investment, irrespective of whether these are banks, institutional investors or small investors.

A note on forms of financing: bank loans represent companies' borrowed capital. If a company is listed on a stock exchange, it receives equity. This means that the money lender is a co-owner of the company and is exposed to a significantly higher level of risk than a creditor, since if the company is liquidated external creditors have priority. A stock exchange listing is considered the 'high-end' of equity financing. Securitisations could offer an opportunity to increase the level of credit granted by banks to SMEs.

One option made possible by a stock exchange listing and which is associated with lower costs are what are known as 'baskets': SMEs from a certain sector or region are grouped together or combined in a basket to be assessed jointly. However, it should be verified whether this form of financing is deemed to be useful or viable, or whether other financing options can be developed via the capital market for SMEs. If the associated costs mean that it is not practicable to have a company listed on a stock exchange due to numerous information rules and required adjustments across all structural situations, crowdfunding, peer-to-peer loans, employee participation programmes or business angels may represent an appropriate solution.

The use of new and innovative technologies could also open up new financing options for SMEs. It is important to expand SMEs' expertise across complementary market-based sources of financing and to enable them to understand the costs, benefits and the associated risks of these often complex forms of external financing. It is entirely reasonable to create a capital market culture in which entrepreneurs are prepared to consider capital market-related solutions.