

Subject: RE: SME financing evaluation

From: bsbv@wko.at [mailto:bsbv@wko.at]

Sent: 15 March 2019 14:24

To: Financial Stability Board (FSB), Service <fsb@fsb.org>

Subject: SME financing evaluation

Dear Madam or Sir,

Please find enclosed our comments on the FSB SME financing evaluation:

In order to provide initial feedback, the FSB has asked for consideration of the following questions (please see our input to each question in [blue](#)):

1. What have been the main trends in SME financing (i.e. types of financing, volumes, prices and maturities) since the financial crisis? How do these trends differ across jurisdictions (e.g. advanced vs emerging market economies) and sectors (e.g. high-tech vs traditional firms), as well as by firm size (micro vs small vs medium-sized firms) and age (e.g. start-ups vs mature firms)?

- [Increased documentation requirements and seizures are causing difficulties for small businesses.](#)
- [Due to the fact that medium-sized companies only have limited access to the capital market, they are still dependent on financing from banks.](#)
- [Large companies have alternatives, especially the capital market. Due to their own finance departments they also create the increased documentation requirements.](#)
- [Overall, the business is too "policy- or past-oriented", which makes it particularly difficult for new business models or high-tech.](#)

2. What have been the main drivers of the observed trends in SME financing in recent years? How do they differ across jurisdictions, sectors, size and age of firms?

[Due to the increased requirements for banks \(documents, demanding collateral from customers, etc.\), the coordination effort for financing has increased significantly. Especially smaller companies and start-ups have problems with that. The sum of regulatory / legal requirements leads to an overload of the system and increased costs. The ECB's years of liquidity flood pose a risk of focusing on formal requirements.](#)

3. Have financial regulatory reforms such as Basel III affected bank financing to SMEs (e.g. in terms of loan volumes, prices, maturities and collateralisation)? If so, how? How important have been their effects vis-à-vis other types of bank lending and compared to the main drivers identified in question 2?

[Financing became more expensive as a result of the regulatory reforms, but this is not a problem at the current level of interest rates or has been greatly overcompensated. A problem could emerge when there is a reluctance of systemically important banks in new business due to short-term increases in own fund requirements. It should be noted that banks have to hedge heavily formally - driven by requirements of supervisory authorities. This increased bureaucracy for financing is at the expense of customer needs and significantly increases the costs of banks.](#)

4. Have financial reforms prompted a shift in the provision of SME financing, e.g. between banks and other financial institutions (substitution effects)? If so, how?

[Yes, definitely, alternative forms of financing are the profiteers, because some of them are less heavily regulated, or financing is based on assets as collateral rather than on cash flow.](#)

Best regards,

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