FSB publishes consultation on SME financing evaluation

The Financial Stability Board (FSB) today released for public consultation an Evaluation of the effects of financial regulatory reforms on small and medium-sized enterprise (SME) financing. The evaluation has been delivered to G20 Finance Ministers and Central Bank Governors for their meeting in Fukuoka on 8-9 June.

This evaluation examines the effects of the post-crisis financial regulatory reforms on the financing of SMEs. As part of a broader FSB examination of the effects of the G20 regulatory reforms on financial intermediation, it is motivated by the need to better understand the effects of the reforms on the financing of real economic activity and their contribution to the G20 objective of strong, sustainable, balanced and inclusive economic growth.

For the reforms that are within the scope of this evaluation, the analysis thus far does not identify material and persistent negative effects on SME financing in general, although there is some differentiation across jurisdictions. There is some evidence that the more stringent risk-based capital requirements under Basel III slowed the pace and in some jurisdictions tightened the conditions of SME lending at those banks that were least capitalised ex ante relative to other banks. These effects are not homogeneous across jurisdictions and they are generally found to be temporary. The evaluation also provides some evidence for a reallocation of bank lending towards more creditworthy firms after the introduction of reforms, but this effect is not specific to SMEs.

SME lending growth has resumed in recent years, although volumes remain below the pre-crisis level in some jurisdictions. Access to external finance for SMEs also appears to have improved, particularly in advanced economies. Stakeholder feedback suggests that SME financing trends are largely driven by factors other than financial regulation, such as public policies and macroeconomic conditions.

Any potential costs found in this evaluation, which appear limited and transitory, should be framed against the wider financial stability benefits of the G20 reforms estimated in ex ante impact assessments. These studies generally found significant net overall benefits in terms of reducing the likelihood and severity (lost output) of financial crises.

Responses to this public consultation should be sent to fsb@fsb.org by Wednesday 7 August 2019. Respondents are encouraged to use this template to submit their response. All responses will be published on the FSB website unless respondents expressly request otherwise. The final report will be published in November 2019.

Notes to editors
The evaluation draws on a broad range of information sources and is based on various types of analyses and extensive stakeholder feedback. These include responses to a questionnaire by FSB jurisdictions; input from stakeholders (SMEs, market participants, trade associations, think-tanks and academics) through a roundtable, a call for public feedback and interviews with market participants in FSB jurisdictions; a review of the literature; and empirical analysis using data from commercial providers and FSB member authorities.

The evaluation was undertaken using the FSB’s framework for the post-implementation evaluation of the effects of the G20 financial regulatory reforms. The framework guides analyses of whether the G20 reforms are achieving their intended outcomes, and helps identify any material unintended consequences that may have to be addressed, without compromising on the objectives of the reforms. This is the third evaluation under the FSB framework; the FSB recently launched a call for public feedback on the fourth evaluation, on the effects of too-big-to-fail reforms for systemically important banks, which will be completed in 2020.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Randal K. Quarles, Vice Chairman for Supervision, US Federal Reserve; its Vice Chair is Klaas Knot, President, De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.