



## **FSB CONSULTATION - THE EFFECTS OF FINANCIAL REGULATORY REFORMS ON SMEs FINANCING**

At the end of 2017, The Italian cooperative movement consisted of more than 13,5 million members, 1.350 million employees, mostly women. The cooperative turnover in Italy is around 161 billion, including active cooperatives and not cooperative enterprises owned by cooperatives.

Within this movement, the Italian Cooperative Alliance represents more than 39.500 associated, 11 million members, 1.1500.000 employees (85%); the aggregated turnover is about € 150 billion (93%).

The main sectors of activity are: Agro-food, fisheries, consumer and retailing, credit and mutual, industrial production, social, health & welfare, housing, tourism, culture & sport.

Cooperatives member of the Italian Cooperative Alliance represent:

- 14% of banks branches,
- 34% of consumers and retailers,
- € 35 billion of agri-food production "Made in Italy",
- 90% of cooperatives operating in social activities.

As globally known, the Italian productive framework is largely made up (99%) of micro, small and medium sized enterprises (SMEs), that play a key role in the national economy, both in terms of employment and income.

Therefore, the Italian economic growth depends largely on the development of these enterprises.

For SMEs, bank debt is the main source of financing, independently from the term of the loans, short or long. For the cooperatives classified as SMEs, this incidence is slightly increased as a reflection of the natural prevalence of human capital in these enterprises compared to financial capital.

Also at European level, the relevance of SMEs is confirmed in terms of employment and income, as well as the strong dependence on bank loans. For these reasons the development of SMEs in Italy and in Europe too is related to a constant and balanced flow of resources by the banking system, especially in term of loans and debts.

Caused by the recent economic and financial crisis, the European banking regulation has become more rigorous/severe/rigid in terms of banks' capital funds in order to safeguard the solidity of the banking system.

For this reason, in order to mitigate this negative effect towards SMEs, according to the requests of the main European and Italian business Associations - including the Italian Cooperatives Alliance - in January 2014 the European Authorities introduced a correction factor, named "SMEs supporting factor", in the European banking regulation, to reduce capital requirements relating to the credit risk associated to the SMEs bank exposures. This factor has been very useful for facilitating access to credit for SMEs.

So, even now – in this new discussion about the adoption of Basilea IV rules- Italian Cooperative Alliance considers extremely positive that it has kept in the European regulation and also it hopes that “SMEs supporting factor” can be strengthened.

As well the Italian Cooperative Alliance suggests the introduction of a “sustainable supporting factor” related to social economy and “green” finance. Both these sectors can help to push forward a sustainable development in EU and is important not to concentrate only to “green” banking. The “sustainable supporting factor” should work similarly to the actual SME supporting factor.

About the new ECB regulation on non performing loans (NPL) - which requires banks to completely devalue NPL between 2020 and 2026 - (“calendar provisioning”), the Italian Cooperative Alliance is seriously concerned about the indirect effects on bank loans to SMEs that could shrink or reduce during next years financing and loans widely.

Finally, Italian Cooperatives Alliance suggests the adoption of appropriate, proportional monitoring measures in order to eliminate or contain the risk of reducing financing for SMEs.