FINANCIAL STABILITY BOARD

Press release

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FSB publishes final SME financing evaluation report

The Financial Stability Board (FSB) published today its final report on the *Evaluation of the effects of financial regulatory reforms on small and medium-sized enterprise (SME) financing*, following a public consultation earlier this year. The evaluation 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.

Given that banks are the primary providers of external SME financing, the most relevant reforms implemented to date are the initial Basel III capital and liquidity requirements agreed in 2010. These have been evaluated using both qualitative and quantitative analysis. Consistent with the FSB evaluation framework, other relevant reforms that are at an earlier implementation stage or that are national or regional regulations were only analysed qualitatively.

For the reforms in scope, the evaluation finds no 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 to address SME financing constraints 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.

Klaas Knot, FSB Vice Chair and President of De Nederlandsche Bank, who led this work said: “The evaluation provides robust evidence that the post-crisis financial reforms have not led to a material and persistent reduction in SME lending. Indeed, the stronger financial system created by the reforms provides a firm foundation to support SME growth over the long term.”

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 public consultation; responses by FSB jurisdictions to a questionnaire; input from stakeholders (SMEs, market participants, trade associations, think-tanks and academics) through a roundtable, a call for public feedback; 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 also published today an overview of responses to its public consultation, and a Technical Appendix providing more information on the empirical analysis that was carried out as part of the evaluation.

The FSB will launch a public consultation on its fourth evaluation, which examines the effects of too-big-to-fail reforms for systemically important banks, in June 2020. The next FSB evaluation will be on the effects of money market fund reforms; the evaluation will be launched in mid-2020 and be completed by end-2021.

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, Governor and 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.