



FEBIS Comments on the Commission Staff Working Document on Addressing Information Barriers in the SME Funding Market in the Context of the Capital Markets Union

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FEBIS is the federation of leading Business Information Services Providers and Credit Information Agencies. Today it has developed into an organization comprising 80 full members involved in providing both business & consumer credit reports (including scoring), debt collection services and marketing information services of national and international importance. Supported by a combined workforce of over 25.000 employees, FEBIS members and associate members generate over 1,300 billion business reports annually for over 1,6 billion European organizations, providing these clients with business support for the provision of credit and other commercial services. Aggregate sales turnover of FEBIS members and its associate members is in excess of € 11 billion. More information on FEBIS at www.febis.org

FEBIS members support the Commission's Staff working paper to address the information barriers hampering the development of SME Funding market and the proposed reflexion angles.

They specifically welcome the acknowledgement by the European Commission of the importance of business information and credit reporting providers (also called credit bureaus), whose business is perfectly well described as "collecting and processing financial and non-financial information from various sources, and subsequently providing credit reports and other analytical tools that support decision-making when it comes to providing credit to individuals and businesses."

These services are daily used by all types of firms, including SMEs, to take trade credit decisions and manage their cash. As a matter of fact, at present time, *trade credit and* "banks provide the majority of funding to SMEs." This is why it is important to take into account all together trade credit, banks and alternative sources of finance, considering the heavy weight of trade credit which in some EU countries amounts to 1/3 of the GDP and weighs more than traditional banking credit.

FEBIS welcomes the fact that the Commission recognises that:

- the credit reporting and business information providers are acting as important players to help SMEs access to finance, even they do not lend themselves,
- the ongoing relationships between banks and SMEs produce very valuable information for assessing the latter's creditworthiness, information that cannot be accessed to,
- the lack of standardised, verifiable and accessible financial information about SMEs (ie annual accounts, information about credit history, information on repayment capacity and positive / negative payment performance) represents a significant barrier for alternative finance providers to invest into / lend to European SMEs but also for business information providers for going on improving their databases and their credit score outcomes, based on calculation algorithms.

It seems to us important to make it clear to all SMEs that what they consider as regulatory burden or when they decide not to file / to require confidentiality when filing may be counterproductive for themselves. Especially for trade credit purposes, but not only, of course.

The recognition that "*The sharing by banks of data with other market participants (such as business registers, credit bureaus, and business information and scoring firms) is limited and varies from one Member State to another. This may 'lock in' bank customers and limit their access to alternative sources of financing*" should lead the EC to consider that even if banking credit remain the main financing source and that there is a need to alternative funding which needs to be based on

thorough prior-information checks. As 50% of first-time SME borrowers are rejected by their bank in the UK, there is an urgent need to solve this and also to consider the importance of trade credit and of its underlying major requirement which is enabling access to data.

FEBIS welcomes the good description of credit information sharing practices by privately owned credit bureaus made in the Staff working paper, which underlines that “Credit information sharing can also take place through privately owned credit bureaus. Their business consists in collecting and processing financial and non-financial information from various sources, and subsequently providing credit reports and other analytical tools that support decision-making when it comes to providing credit to individuals and businesses. One of the biggest challenges surrounding credit bureaus is access to data”.

In the staff working paper, the 3rd paragraph of page 4 states:

“there is a need to accompany SMEs during their journey to finance helping them identify what type of finance is right for their business considering their stage of development and how best to secure it.

Furthermore, investors and lenders need verifiable information about a company before supporting it financially. Asymmetric information is a serious problem in SMEs since they often do not produce audited financial statements that yield credible financial information....”

This is a serious problem to tackle as soon as possible, thousands of SMEs credit files are rejected every month due to scarce data flows to assess credit worthiness.

“Relationship banks benefit from a competitive advantage over other finance providers: their ongoing relations with SME customers produce very valuable information for assessing their credit worthiness this information is difficult to access for other finance providers.”.

However, as the same document states in 1st paragraph of the same page: only 41% of SMEs in the EU perceive credit with no limitations.

We do need to find a way for the 59% of SMEs facing multiple problems to finance themselves. In some countries, sole proprietors make even higher the ratio of credit refusals.

It is all the more important in FEBIS’ view that the Commission, based on these underlying assessments, promotes initiatives which:

- ***enable business information providers to access credit registries which are currently limited to banks and other financial institutions;***
- ***do not limit reporting requirements from SMEs on the grounds of the administrative burden, because as accounts have to be filed for tax reasons, they can easily be shared with credit information providers. It is important to keep in mind that Business Information Providers usually provide business reports and credit score outcomes about the complete businesses’ population of a country. Which means, practically speaking, that an SME will access this information about its commercial counterparts (suppliers and customers) and that the latter will access the same information on the SME, being also customer or supplier. It also enables SMEs to easily access their own credit score outcome, which is an independent statistical credit assessment and may also play the role of “early warning”.***
Many SMEs (including sole proprietors) are rejected at the first instance at the financial entity as their thin credit files, due to lack of information, makes inviable to move on their credit files. Another fact of information asymmetries: in Spain some innovative Fintech

(crowd funders and lending platforms) which have thrived well in other EU countries in providing credit to sole proprietors and small - micro entities had to give up their activities. The reason was the high ratio of defaults mainly due to lack of proper information available to finalise agile transactions.

- *do not separate credit registries and privately-owned business information providers on the access to data patterns out of fair-competition level playing field approach which should enable equal access to all participants to the credit system, even if they do not handle money.*
- *contribute to make it clear that, in the area of business information, natural persons being company executives are acting in their business capacity and that sole entrepreneurs, liberal professions etc. should be considered as businesses and not as “data subjects” and that therefore their information is considered as business information and not under the GDPR scope (as outlined by the draft Spanish bill implementing the GDPR)*

We thank you for your involvement and of course FEBIS remains at your disposal for any further information you may need

Yours sincerely,

A handwritten signature in black ink, appearing to be 'S. Verilhac', written in a cursive style.

Stephanie Verilhac
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