FEBIS comments on Access to Finance for SMEs and increasing the diversity of SME funding in a Capital Markets Union

***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, 3 trillion million 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 welcomes the Draft Report by Mr Karas on "access to finance for SMEs and increasing the diversity of SME funding in a Capital Markets Union", and the work already done with all proposed amendments.

As explained in the introduction here above, FEBIS members, also called Business Information Providers or Credit Reporting Service Providers, have developed solutions dedicated to cash management and trade credit (ie a very short term credit between 2 businesses, a supplier and a customer), both being directly impacted by late payments.

As such, a supplier which grants a payment delay to a customer is acting in fact very similar to an investor, because he is allowing a payment delay to enable his customer to get more cash flow and in the end waiting for a return pay-back of his debt. Though this is not an investment because payment delays should not be seen as positive financing, the supplier must be considered as a very important actor of the financing scheme and deserves the same protection than other traditional investors such as a bank, an institutional or a retail investor.

As well noticed, the acronym "SMEs" represents a large number of situations, legal forms, legislations, number of staff, stages of development, turnover etc. That is why we encourage more harmonization in Europe.

But they usually all have 2 ways to access to finance: bank lending and trade credit.

Other financing solutions, from IPOs to crowdfunding or private placements etc., are additional ones, not solutions that will replace the 2 first ones.

The ongoing initiatives to improve the availability of minimum, standardized and transparent SME credit information (from Anacredit to the creation of a common European Platform enabling SMEs to access capital markets) will resolve the information problem and asymmetry if and only if:

- Anacredit is available to all kind of lenders, not only banks. If not directly because of confidentiality, at a minimum through intermediaries like Credit Reporting Services Providers, enabling the latter to calculate solvency scores to be used by "trade credit lenders";

- the common European Platform is widely fed by a large number of SMEs, of all sizes.

As a matter of fact, it is important to keep in mind that scoring is based on statistics, which means that some minimum requirements are necessary to provide a sound scoring system:

- the size and representativeness of the sample(s) are very important to guarantee the quality of a score. Having too few information will lead to imprecision, and using only voluntary provided information cannot ensure there is no bias in the sample used to build the model ;
- developing a score requires the analysis of information from the past to see what are the consequences today in order to calculate a probability of default in a short / medium term. A minimum historical record of 2 years is then required to start developing a model. And ensuring its stability will require a longer record (5 years minimum).

That is why FEBIS encourages the European Parliament to ensure proportionality of reporting and information requirements for SMEs by considering both the financing needs for SMEs and the information needs of all kind of investors, including "trade credit investors", using reliable structured data and daily scores provided by Credit Reporting Service Providers to manage their cash policy.

To reduce more and more the number of reported information or to make the access to it more difficult may be really counterproductive. In some countries even the access to basic company information such as closure or stopping the business is not available for credit reporting providers, thus making it very difficult to put in place relevant scores. **Allowing the non-disclosure of part of / full annual accounts for micro or small entities (cf. the directive 2013-34)** without developing an efficient solution enabling Credit Reporting Services Providers to do their job, ie providing credit assessments at a cheaper price than a rating, to all kind of lenders, including the ones involved in trade credit **is a risk for … businesses themselves.**

This is why we strongly support the idea to design common accounting standards (not only IFRS ones) for SMEs in order for all kind of investors, independent third parties or analysts to efficiently analyse annual accounts filed by companies from all over Europe.

Since Credit Reporting Service Providers are independent third parties, providing unsolicited scoring on all businesses of a country (another difference with rating), it is necessary for them to access the maximum of positive and negative information on all types of entities.

This information may remain confidential if required, since it is allowed to be used for scoring purposes.