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### **SUMMARY OF THE WORKSHOP: IMPROVING CREDIT INFORMATION FOR SMEs IN EUROPE (DISTRIBUTION AMONG WORKSHOP PARTICIPANTS)**

As announced in the Green Paper on building a Capital Markets Union (February 2015), the European Commission (DG FISMA) held a workshop on SME credit information in Brussels on May 28<sup>th</sup> targeted at the following stakeholders:

- Users of such information, e.g. non-bank lenders, trade and business partners of SMEs, as well as investors;
- Credit information intermediaries, e.g. credit reference agencies, credit bureaus and business registers (in National Central Banks);
- Public institutions that are responsible for legislation affecting SME credit information and more broadly access to finance.

It fostered a discussion on the following issues:

- i) what are the needs of non-bank lenders and investors to provide funding to SMEs;
- ii) achieving deeper understanding of the state of play with respect to availability and sharing of credit information for SMEs;
- iii) widening accessibility of information for interested parties (lenders/investors) to finance SMEs;
- iv) how to ensure a level playing field on SME information between non-bank lenders and banks;
- v) improving the quality of information (and related credit reporting and scores) from specialised intermediaries, such as credit reference agencies;
- vi) developing a minimum data set necessary for credit reporting via either private or public sources, while preserving the diversity of existing infrastructure and business models as much as possible.

It should be kept in mind that credit information contains sensitive data and that confidentiality is an issue.

The workshop was organised in four working groups, two of which were taking place in parallel in the morning and two in the afternoon. Two external coordinators and one rapporteur from the European Commission would lead the discussion in each working group. The outcome of the discussion was then presented to all participants in a separate session. Following the workshop, the rapporteurs, supported by the coordinators of each working group, drafted a brief report with concrete action points, which would be considered as the final output of the workshop.

## Working Group 1: Lenders, investors and SMEs

*Key participants: SMEs and representative associations, non-bank lenders (P2P lending platforms), SME-focused private equity firms, banks, credit mediators.*

1. **Unavailability of information makes finance for SMEs more difficult.** All providers of finance, including banks, Private Equity and crowdfunding providers, mentioned that most applications were denied due to a lack of information. Out of thousands of applications, only a few dozen are retained by crowdfunding platforms and private equity funds, even if some applications appeared viable due to a lack of information. Finding the good companies is especially relevant for crowdfunding platforms, where there is a big reputational risk associated to possible failures.
2. **Very small firms are the ones which are more difficult to be assessed, due to lack of information.** Micro-companies count for the largest number of companies (in terms of number of companies belonging to the SME segment). However, most of them are difficult to assess, mainly due to a lack of available information. Various solutions have been mentioned to address this issue, the most relevant of which was: public and/or private registers could play a role in centralising and disseminating information, particularly of smaller companies.
3. **Education needs of SMEs about alternative finance sources and how to submit credit information.** Due to their scale, micro-companies are also those more in the need for information, both on sources of finance and on how to submit information. Various actions have been suggested to tackle these issues, including: disseminating publications on alternative sources of finance addressed to SMEs, especially to those rejected by traditional providers; better informing SMEs on how to submit their credit information, how to manage their cash-flow, etc.
4. **Variety of credit information availability in Member States (MS).** The availability of credit information is diverse across MS. Participants reported that in UK there is enough dissemination and transparency of such information and a reciprocity principle between suppliers/receivers of information is in place. A Bill mandating big banks to better circulate credit information has been ratified by the House of Commons and Lords in the 1Q 2015. In France there is less transparency, and banks are the biggest holders of such information. In Italy there is little reciprocity in the availability of such information.
5. **Cross-border dimension.** Several participants mentioned that there are difficulties on obtaining credit information within MS that needed to be addressed at national level. Even some crowdfunding platforms operating in different MS “ring-fence” their national businesses, to avoid cross-border issues. Moreover, the vast majority of financing to SMEs is provided at MS level. However, a counter-argument was that neglecting such a dimension would miss the creation of conditions to boost any demand of cross-border financing.
6. **What type of information is important?** Several participants viewed qualitative information (e.g. features of the entrepreneur and the team) as relevant, besides standard information on the SME's business performance. However, sometimes it is difficult to find relevant information on those aspects, while financial data is easier to obtain. The discussion also addressed the purpose of such information. Besides financing, it could also be used in B2B (customers and suppliers) relationship, such as in the case of trade credit. One important aspect was also the timing of information, which needed to be as updated and accurate as possible. This is often not the case for SMEs.
7. **Voluntary disclosure and confidentiality concerns (personal data).** Discussants agreed on the fact that the provision of such information should be upon agreement of SMEs, in order not to add extra administrative burden or cost, neither on the demand

nor on the supply side. Especially smaller companies need to focus more on business rather than on complying with administrative tasks. The approach should be proportionate, in order to take into account the different dimensions of the parties involved. The issue of confidentiality and data protection is relevant, especially in the Private Equity sector, where e.g. invested companies are not willing to disclose.

8. **Standardization.** This aspect has been discussed extensively and subject to different views. Too much standardisation is not seen as a good way forward: the risk is that such path would standardise not only definitions of the variables needed to assess the credit worthiness of a SME, but also the outcomes of the evaluation, thus failing to properly address the distinctive features of the businesses. If to be pursued, any standardisation should be based upon what is already in place and should be built on a simple set of data.

### **Working Group 2: State of play of different business models for collecting and disclosing SME credit information**

*Key participants: credit reference agencies; credit bureaus and business registers, national legislators, banks, non-bank lenders, European Commission.*

1. **Business models for collecting and disclosing SME credit information** and the availability of (positive) data are in very different situation across MS, due to both legislation and culture/market habits.
2. **Data protection.** Participants provided arguments for and against agreement as a legal basis for collecting and processing personal data, with credit reference agencies in some MS relying instead on "legitimate interest". Particular issues arose for the processing of data on micro-firms and sole traders.
3. **Differences in data availability and sharing could be addressed through common rules/best or sound practices on minimum data** to be collected and shared, as well as on the standardization of data.
4. **Positive data sharing can increase lending and reduce over-indebtedness.** There should be adequate practices to increase positive data sharing.
5. **SMEs need to have access to the data on their business/trading partners** (often other SMEs), **also for trade credit.** They can face difficulties in accessing such data cross-border, though individual business information suppliers do form networks to provide such reports. Caution was uttered with regard to ensuring confidentiality of certain data and the infrastructure required to share data with other entities.
6. **It is key to ensure there is a level playing field on the SMEs information available, also cross-border.**

### **Working Group 3: What policy actions are needed to improve the current situation for SME credit information?**

*Key participants: Credit information intermediaries, Ministries of Finance, credit mediators, lenders.*

1. **Increased credit information on SMEs could ease their access to funding and their business development.** For example, a creditworthiness analysis will be required by their business partners before engaging into commercial relationships or for benefiting from a credit insurance coverage on their customers.
2. Efforts should be made by public authorities and credit information providers to **educate SMEs on the benefits of increased information sharing**, the type of information to be shared to improve their access to funding or the different funding avenues they could contemplate.

3. **The European landscape of SMEs is very broad**, ranging from micro companies up to medium-sized companies. For large SMEs there might be more data available and the issue is how to reach institutional investors to invest in those companies. There is room for initiative at the European level in this segment of SMEs, especially in the question of product design. Large SMEs are targeted by other initiatives, such as for example the development of a pan-European private placement market or the review of the Prospectus Directive. Product regulation (which is for large companies) can be done at the European level, whereas basic information for smaller companies should be taken care more at the national level.
4. **At the European level, it would be helpful to have some guidance / benchmark on the best practice (on what data should be available) and the minimum data that should be available.** The idea of promotion of best practices / benchmarks within the EU MS as a way to raise the quality and depth of the data sharing systems of the less advanced countries was supported from several participants. In that regard, it was noted that currently the depth and breadth of the available credit information varies a lot from one MS to another, ranging from basic data up to more detailed data such as current account or loan performance data.
5. The participants in this working group had **mixed opinions on the opportunity to develop a minimum set of standardised definitions** on credit information across the European Union and making these information available to finance providers.
6. The question of availability and sharing credit information **upon agreement or on mandatory** basis was debated during the workshop. A reference was made by one participant to a report of the World Bank, identifying as a possible action the mandatory reporting of key financial information to the relevant public registers or public sector authorities<sup>1</sup>. However, several stakeholders insisted on the importance of taking an approach based on agreement due to confidentiality, competition and data protection reasons, as well as on organising the access to information in a controlled way and on a need-to-know basis. It is also important to consider who should be eligible for receiving such information/data on SMEs.
7. **MS should better cooperate on sharing best practices on credit information on SMEs. Animating a European network to facilitate such exchanges of best practices** could be recommended. A role could be played by the European Commission and relevant European associations in this respect.
8. **There is uncertainty around the final provisions of the future Data Protection Regulation** with respect to the border-line between personal and company data for non limited liabilities. This would impact the assessment of credit worthiness for smaller firms (e.g. sole traders).
9. Some participants also recommended a **better and wider use of public data / registers** which contain very useful information such as registration or VAT data.
10. Sharing SME credit information may also benefit **SME loans securitisation**.
11. Policy initiatives on **standardisation** of definitions and availability of information **should also consider how useful this would be for market-based funding**. One should keep in mind the the correlation of the issue of credit information information with the CMU project.

#### **Working Group 4: The role of public credit registers: is there a potential need for a European credit register?**

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<sup>1</sup> Facilitating SME financing through improved Credit Reporting – the report contains 10 possible actions: [http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/282884-1395933501015/Facilitating\\_SME\\_financing\\_through\\_CR\\_public\\_comments\\_web.pdf](http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/282884-1395933501015/Facilitating_SME_financing_through_CR_public_comments_web.pdf)

*Key participants: NCB (Portugal, Ireland, Italy, Germany, BoE), credit reference agencies, public authorities.*

1. **Role of public credit registers?** public credit registers have two common objectives: a) to share credit information with the market, b) to support central bank functions by collecting data for prudential, statistical, and financial stability purposes. Their focus is on regulated financial entities so, like private reference agencies, there is a closed user group within public credit registers. A key difference among the different credit registers is the thresholds that apply (e.g. Germany has high credit thresholds which effectively means that they focus on corporate lending while Ireland and Portugal they have low credit thresholds which means that they focus on consumer and SMEs).
2. **Scope for opening up credit information data to alternative users?** the central banks seem challenged to extend to other credit providers (e.g. trade credit providers, telecommunication and utility companies) the scope and responsibility to areas where they lack expertise and influence. The current focus is on regulated entities where they can influence compliance and quality. There was a counterview that public registers should not be providing credit intelligence to the market which should be left to the private sector. Perhaps there is a role for both, but the boundaries need to be better defined and the role will depend on individual markets (whether the market is well served by credit reference agencies or whether the market is not served and there is a need for a central register). Public and private credit registers should cooperate and not compete.
3. **Could the infrastructure that banks are building for the collection of EC loan level (AnaCredit) be adapted in order to share part of the data with other stakeholders?** The question of whether the infrastructure that is currently being built to support the ECB (the AnaCredit project) can be used and leveraged to extend the information available for SMEs. The ECB explained the purpose and function of AnaCredit which is to support the ECB and central banks in their functions. An important contribution of the AnaCredit project is the standardisation of definition of credit data. The ECB's approach is not to share this data with the market, but it does not preclude NCBs from arriving to arrangements where the information can be used. There was a discussion on whether there is an opportunity for credit registers to make data available on the basis of consent of the borrower. The Irish legislation allows this consent but there are some concerns on the use of data. The UK is considering extending access through "legitimate interest" only rather than strict consent.
4. **Scope for greater cooperation between public credit registers and credit reference agencies?** There is scope for greater cooperation between public credit registers and private credit reference agencies. First, there is a need for standard definitions across public and private credit registers. Second, the scope of supervisors exercising influence on quality assurance and completeness of reporting by all lenders needs to be explored further. Third, the implications for private credit reference agencies to extend their data models to include data that central banks will be collecting under AnaCredit, i.e. data that is not normally reported to credit reference agencies (such as probability of default, loan loss provisions, risk ratings).
5. **Need for a European Credit register?** The case is not proven yet. There is scope to investigate the available infrastructure set up in MS and improve the data available from those before considering whether a further level of European database is necessary.

Annexes:

1. Workshop Programme

## 2. Workshop List of participants