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SME UNION President Leitl: French proposals for international financial market reform not ambitious enough: EU position has to become more concrete in order to avoid future crisis and combat its roots

At the day of the EU summit in Brussels on the current global financial crisis SME UNION President Christoph Leitl proposes the following 7 points for future regulations:

1. Creation of a European Rating Agency with a clear mandate and set of laws. With respect to liquidity-providing operations by the European Central Bank and national central banks (Eurosystème) a rating by the European Rating Agency should be mandatory for the collateral provided by counterparties in these operations. Besides that, better supervisory standards for all operating rating agencies would be necessary which will also avoid conflicts of interests between rating agencies. The EU Commission should come up with its proposal for a directive as soon as possible.
2. Restriction and more transparency for “off balance sheet” transactions
3. Stricter capital requirements for credit institutions: 9% equity ratio, 5% minimum equity ratio for the consolidated balance sheet. Large and risky transactions which could endanger the stability of financial institutes should be even more limited in the future but less risky business segments (like micro loans or loans for SMEs, which, according to the Basel II rules already need less capital requirements for the banks) should be stoutly developed and supported. As regards the revision of the current capital requirement directive, SME UNION President Leitl warmly welcomed the nomination of SME UNION board member and SME Intergroup President MEP Othmar Karas as new Rapporteur. Karas will therefore play a key role for this so important and complex issue in the European Parliament fighting against the current worldwide financial crisis.

4. Stricter supervisory standards for hedge funds and big private equity funds (better transparency, minimum equity ratio). An extensive usage of debt (leveraging) by hedge funds, as we have seen in the past, can lead to systemic risks.
5. International coordination for supervision of the financial system and crisis prevention has to be ameliorated swiftly. This has to be addressed by the bigger EU member states already at the planned G 20 summit in Washington on November 15th.
6. Financial transaction tax of 0.2 per mill for every financial transaction. Revenue from this tax could finance the EU budget and could therefore substitute the member state contributions to the EU budget. As an alternative the revenues from the tax can be used to create a “financial crisis fund” to stabilize the situation in future economic crisis and to hedge against the risks of the financial system.
7. Ban of short selling at European level, since it increases volatility in the markets, often dramatically (see e.g. the massive surge of VW’s shares at the end of October). Solidity should prevail over short term speculations.

“Only with these clear signals we can regain the lost reputation of the financial system. Furthermore, the stability of the financial system as an important source for SME finance would be re-established and lessons learnt from the current financial crises would be taken into account. Both, the financial system and the real economy urgently need this security and stability”, concluded the SME UNION President.

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SME UNION (Small and Medium Entrepreneurs Union) of the EPP (European People’s Party) is the network of pro-business Christian-Democrat, Conservative and Liberal politicians and political organizations. Its main objective is to help in shaping EU policy in a more SME friendly way. www.sme-union.org