NACFB
HELPING FUND UK BUSINESS

Monday 6th March 2023

Impending measures that will quickly impede SME access to finance

Dear Andrew,

Enabling greater SME access to finance is a central tenet of the government's growth agenda, one that the National Association of Commercial Finance Brokers (NACFB) fully endorses. However, the trade body wishes to highlight two regulatory areas both currently in their implementation stages, from which the unintended consequences will likely result in higher barriers to funding at a time when it can be least afforded by UK plc.

Pertinent elements within the Basel III regulations and the FCA's Consumer Duty are likely to impede capital provision, raise funding costs, and cause a divergence in regulatory approaches through a lack of clarity. Please find outlined below overviews of each concern:

- **1. Basel III – Impeding non-high street bank lending**
  Unintended consequences from the Basel III framework will increase borrowing costs and reduce market competition. Lending volumes grew in 2022 with challenger and specialist banks accounting for a record share of gross lending, these same institutions will now be met with punitive measures.

  Under the Basel III PRA proposals there will be a 100% floor to the risk weight on property secured business loans and the SME support factor which currently provides a circa 24% reduction in capital requirements will be removed, resulting in approximately a one third increase in challenger bank capital requirements for SME lending. The constraints expose a clear tension between prudential regulation and the desire to embrace post-Brexit growth opportunities.

  The NACFB is joining wider calls for a greater examination of the unintended consequences that the framework will bring and encourages the Bank of England and the PRA to show their workings by releasing supporting data that justifies their continued approach ahead of its implementation.

- **2. Consumer Duty – Lack of clarity disrupts the distribution chain**
  To be compliant with the FCA's Consumer Duty measures, both commercial intermediaries and their lender counterparts require greater clarity as to the working definitions of each cohort and the subsequent expectations placed upon them. The current definitions leave too much room for differing interpretations, muddying the waters during the implementation phase.

  By the end of April, distributors (commercial brokers) are expected to be in a position to share with their SME clients product information from manufacturers (commercial lenders) so that they can remain compliant with the Duty. Too high a degree of ambiguity remains ahead of this deadline for any party within the funding distribution chain to operate with confidence, live transactions will stall, and the intermediary-led finance route could quickly grind to a halt.

  The NACFB is calling upon HM Treasury to ensure the FCA provides urgent clarity as to whether the Consumer Duty only applies to regulated products or if it extends to regulated activities supporting non-regulated products.

The trade body strongly believes both measures as they currently stand will reduce access to finance for the UK's small business borrowers in the immediate term.

Representatives from the trade body and its membership would be happy to provide further detail on either of the concerns raised and wishes to stress the very real short-term impacts any inaction will bring.

Yours faithfully,

Paul Goodman
Chair, NACFB

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