

AT/BPC/

By email to: [SMEreferrals.consultation@hmtreasury.gsi.gov.uk](mailto:SMEreferrals.consultation@hmtreasury.gsi.gov.uk)

25 April 2014

Dear Sir/ Madame,

**SME finance: help to match SMEs rejected for finance with alternative lenders**

1. The Institute of Chartered Accountants of Scotland (“ICAS”) is the professional body of accountants for over 20,000 members who advise and lead businesses across the UK and in almost 100 countries around the world. Almost two thirds of our working membership work in business, many leading some of the UK’s and the world’s great companies. The others work in accountancy practices ranging from the Big Four to small practitioners.
2. We welcome the opportunity to comment on this consultation. The ICAS Charter requires it to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members’ views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

**Our key messages**

3. We are sceptical about the prioritisation of this proposal. In terms of scale and impact, the main clearing banks need to remain the focus, challenger banks are still only operating in the margins. Our view is that the proposal under consultation, at this point in time, is a diversion which does not address the fundamental need that the existing main clearing banks should be funding SMEs on a commercial basis which makes sense for both banks and SMEs. We suggest that the priority remains to maintain pressure on the main banks for providing the lending needed by SMEs. Any new initiative should not diminish this pressure on the main clearing banks.
4. We are concerned that an automatic referral process risks looking at credit applications as a commodity which can be decided by a formula. Company financing must not be seen as a faceless commodity - this is a trap we have fallen into before. We strongly believe that quality bank lending decisions should be based on a long term relationship with the customer and an understanding of the business and its cycles. It is not an automated process.
5. The decision as to whether a funding application should be available to other lenders should be decided by the company. If a company does decide to opt in, then any further rejections arising from this referral must not impact on its credit history.
6. The organisation best placed to have an overall perspective of corporate lending is the British Business Bank (BBB). They are in a unique position to view both the main clearing banks, through its funding initiatives, and challenger banks, which may approach them regarding funding and reserves issues. We suggest that it would be worthwhile to wait for their

assessment of the evidence and policy need before drafting a proposal to address the SME funding situation.

7. We hope this is helpful. If you have any questions, we would be happy to discuss.

Yours faithfully,

ALICE TELFER  
Assistant Director, Business Policy and Public Sector