European Banking Federation

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PRESS RELEASE

European banks: EC misses opportunity to support capital markets and growth

The European Banking Federation notes with disappointment today's decision by the European Commission not to withdraw the Barnier proposal for structural reform of the EU banking sector. The Bank Structural Reform (BSR) proposal to mandate a split of Europe's biggest banks may have undesirable consequences for capital markets and the economy.

The European Banking Federation, as representative body for Europe's banking industry, believes the original objectives of the Bank Structural Reform initiative already have been addressed by new regulations imposed on the sector in recent years. Still to be added to these measures is the FSB's Total Loss Absorbency Capacity standard, which will further raise capital requirements.

"To deliver on Team Juncker's ambitions for growth, jobs and investment you need a stable and effective banking system," said Wim Mijs, Chief Executive of the European Banking Federation. "In its 2015 work programme the Commission shows that it wants to turn a page by easing the regulatory burden. But it does so without appreciating the full extent of bank reforms already in place, so discovering that BSR was overlooked is disappointing."

Universal banks are a major source of liquidity in the bond and equity markets and help bring corporates to market by underwriting their issuances. This also supports liquidity in the market as investors are left more confident that they can buy and sell more easily and at demand.

The Barnier proposal, presented in January, may lead to a legal separation for liquidity-generating activities (market-making) at universal banks. Corporate customers, including SMEs, would be forced to use multiple banks for their business. There is also a growing body of evidence that suggests that universal banks are better placed to support their SME and corporate clients during a downturn because of income diversification benefits.

Bank Structural Reform may force such activities out of the largest universal banks and would drive up the costs for this service to the economy. This is well-recognised by policy makers as they have built in an exemption for sovereign bonds. The new European Commission apparently is not prepared to give Europe's corporates the same treatment by dropping the BSR proposal all together.

The results of the recent stress tests by the European Central Bank and the European Banking Authority show that the European banking sector, including the largest universal banks, is robust. New rules on recovery and resolution planning and the creation of an industry-funded emergency fund make it unlikely that banks will have to call on government support again.

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About the European Banking Federation:
Launched in 1960, the European Banking Federation is the voice of the European banking sector from countries in the European Union and the European Free Trade Association. Members of the federation are 32 national banking associations. The EBF represents the interests of some 4,500 banks, large and small, wholesale and retail, local and cross-border financial institutions. Together these banks account for over 80 percent of the total assets and deposits and some 80 percent of all bank loans in the EU alone. Website: www.ebf-fbe.eu