SUERF / Bank of Finland Conference
Banking after regulatory reforms – business as usual?
13 June, Helsinki

The current state of reforming bank structures

Disclaimer: The views expressed in this presentation are my own and are not necessarily those of the European Commission and do not prejudge the position of the European Commission.

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Structural reform in the EU banking sector

- *What?*
- *Why? Why at EU level? Why in addition to regulatory reform agenda? Why (only) now? Who should it be applied to?*
- *Stylised classification of structural reform initiatives*
- *Concluding remarks on assessing the impact of structural reform*

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Fiscal and Financial Numbers

- ✓1.7 trillion €
- ✓13.4%

- ✓4.9 trillion €
- ✓38.8%

- ✓349%, 370

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What is structural reform?

1. **Restrictions** on the **activities a deposit-issuing entity is allowed to perform** (within a large and complex banking group)

2. **Restrictions** on the **economic, operational and legal links** between entities within a large banking group

3. **Restrictions** on the **connections** within and between banking groups

Why structural reform? (1/4)

1. To **facilitate**
   a. **recovery and resolvability** in the bad times; but also
   b. **supervision, management,** and **market monitoring** in the good times.
2. Address **TBTF** concerns and resulting **implicit taxpayer subsidies** and **cross-subsidies**
   a. Risk-taking;
   b. Unintended promotion through safety net of trading and capital market activity (transaction-oriented banking);
   c. Unintended balance sheet expansion;
   d. Competition distortions.
3. To reduce **probability** and **impact of failure**.
4. To reduce **problems of mixed cultures** and **conflicts of interests**.

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Why structural reform *at the EU level*? (2/4)

1. Ensure **support to real economy**, not intra-financial
2. Avoid **competition distortions** and safeguard the **EU internal market** in financial services.
3. Ensure the success of EU **Banking Union** (≈ mutualisation of risks).
4. Avoid the costs for cross-border banking groups of **uncoordinated, divergent** and **national reforms**.

➔ **Mandate** for structural separation follow-up given in the European Commission **College debate** of 6 March 2013. Need highlighted for a sound **impact analysis** that focuses on

- **Comparison** of different structural reform options**.**
- Assessment of **complementarity relative to reform agenda.**

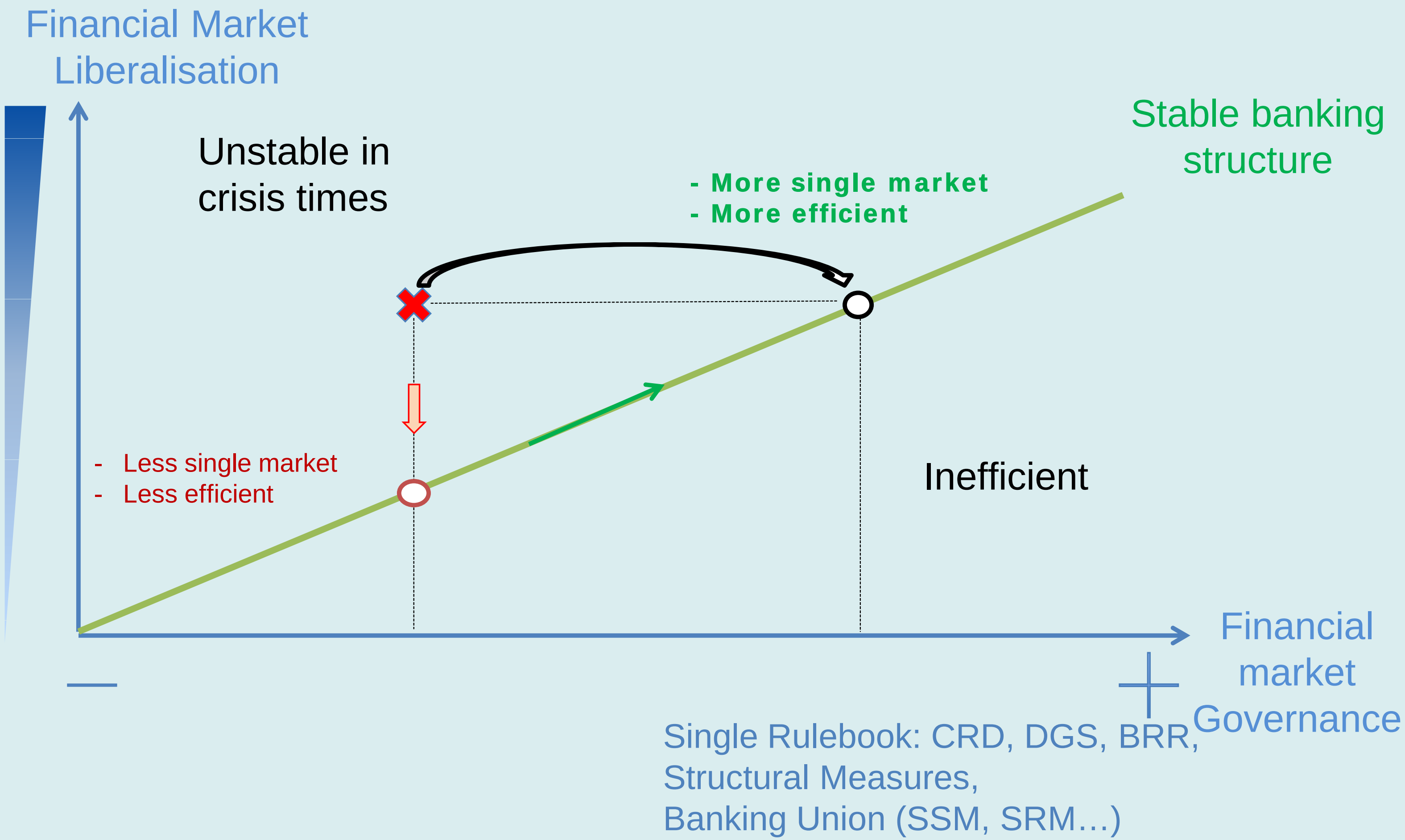
Why structural reform *in addition to everything else?* (3/4)

- **Ambitious and broad reform agenda**: CRD IV/CRR, BRRD, EMIR, FTT, MiFID, fundamental review trading book capital requirements, Banking Union (« three pillars »), etc.

➔ Key to demonstrate **complementarity**:

- **BRRD**: increase resolution options to authorities upon failure, target a broader set of objectives (facilitating supervision, management, and market monitoring, aligning incentives, etc.)…
- **CRD IV/CRR**: reducing complexity and interconnectedness directly at root, target broader set of objectives,…
- **Banking Union**: address moral hazard arising from mutualisation of risk…

Banking Union and structural reform



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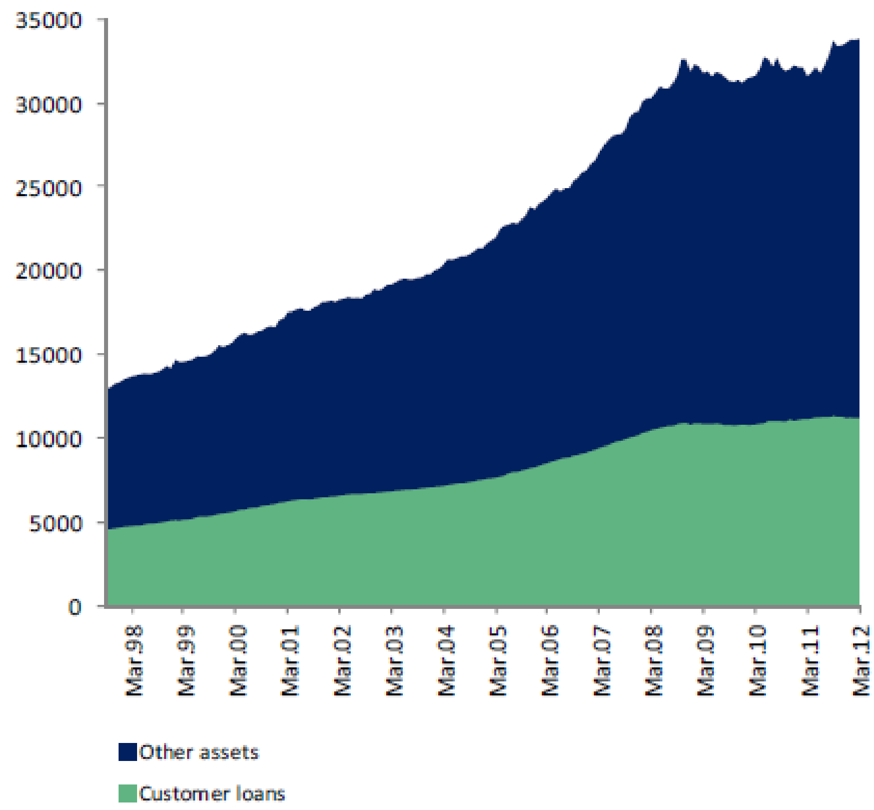
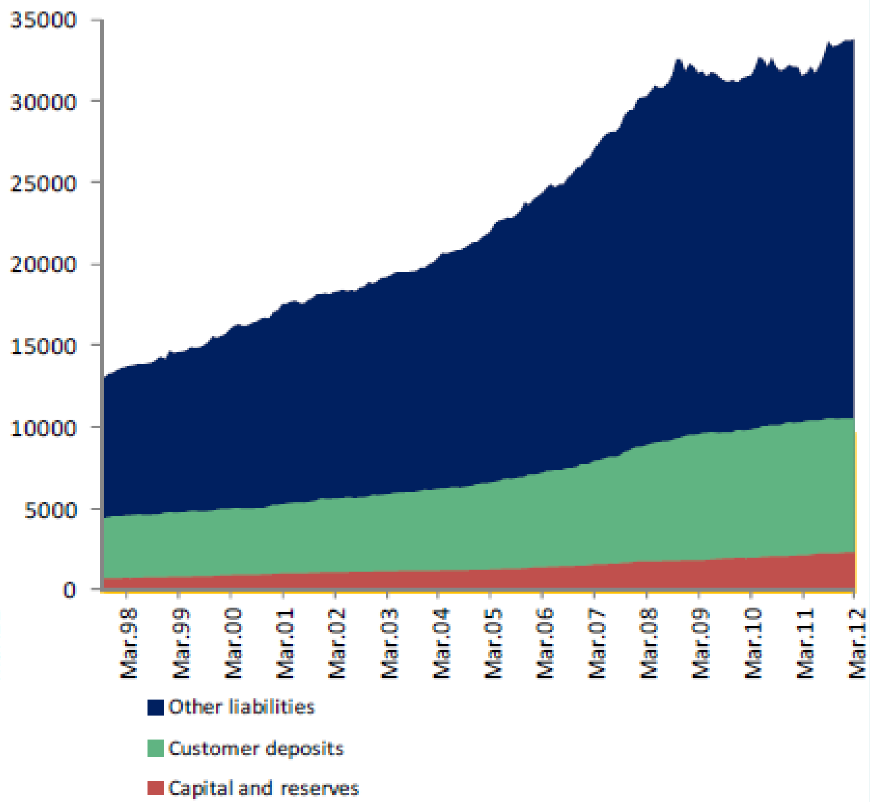
Has significant balance sheet growth benefited the real economy?

MFI assets structure



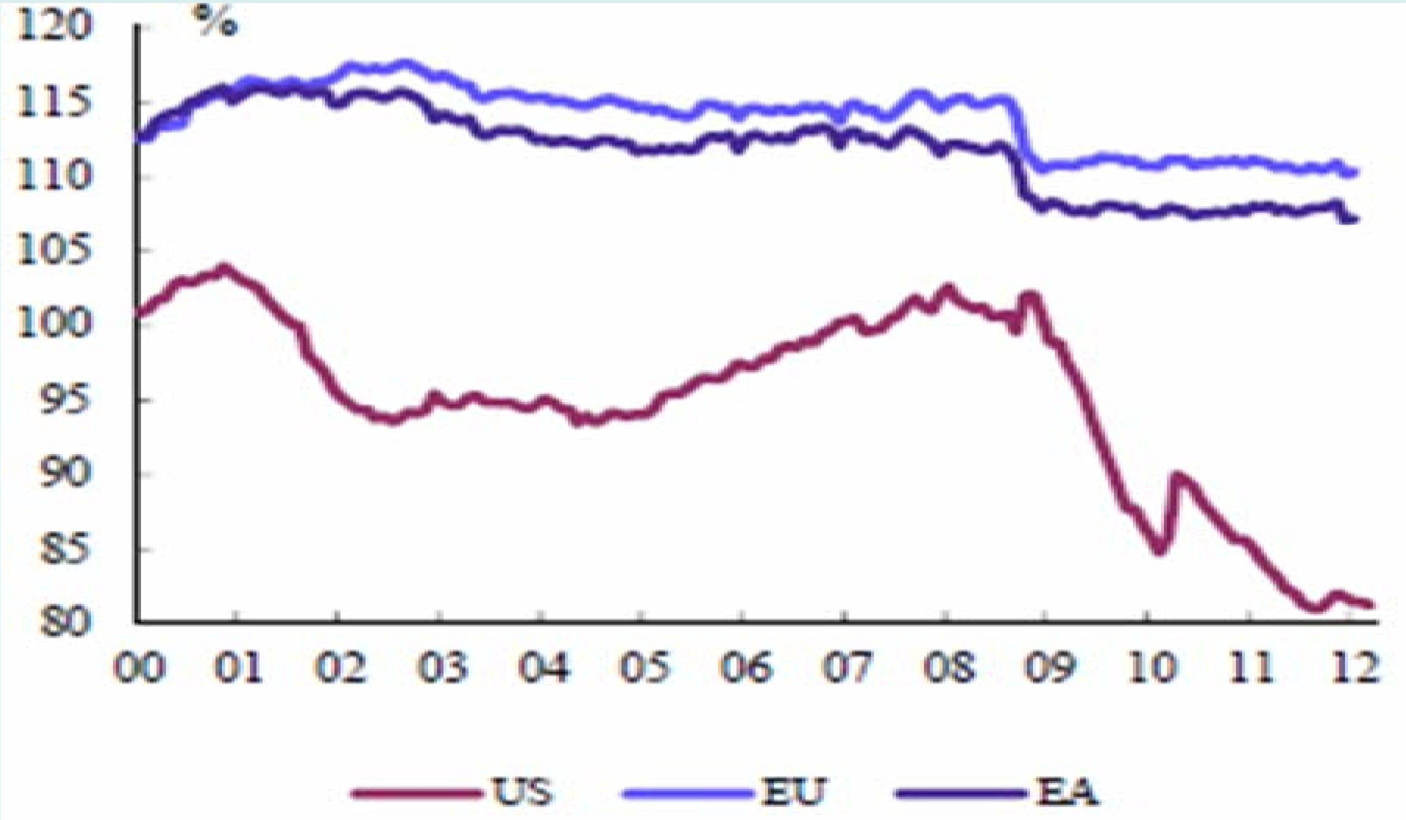
MFI liabilities structure



Note: Customer loans and deposits are from non-financial institutions (Government excluded) of Euro area, in € bn
Source: ECB., SNL Financial.

EU Banks operate with high Loan-To-Deposit ratios

Customer Loan-To-Deposit ratio in EU, EA and US



Note: 2011 data, in %.
Source: SNL Financial

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Stylised classification: activities and strength

Strength separation / Activities to be separated	Subsidiarisation (current restrictions)	Subsidiarisation"+", (stricter restrictions)	Ownership separation
"Narrow" Trading Entity / "Broad" Deposit Entity E.g. Proprietary trading + exposures to VC / PE / HF (PT)	≈ FR, DE (baseline)		≈ US Volcker
"Medium" Trading Entity / "Medium" Deposit Entity E.g. PT + market-making (MM)	≈ FR, DE (if wider separation activated)	≈ HLEG (Liikanen)	
"Broad" Trading Entity / "Narrow" Deposit Entity E.g. all investment banking activities		≈ UK ≈ US BHC	≈ Glass Steagall

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Assessing the impact of structural reform

- There are **limitations to quantitative analysis of costs and benefits** of structural reform.
- ***Social* costs and benefits** are relevant, rather than private ones (but are more challenging to measure).
- **Immediate questions**
  - Which banks should be subject to separation?
  - Which activities?
  - How strong should the separation be?

Policy determination

- **Fundamental questions**
  - Should the public safety net include investment banking?
  - Can links between the retail and investment arms of a universal bank be a source of financial instability, rather than of economies of scope (pre-crisis conventional wisdom)?
- **Policy judgement**
  - Political as well as technical
  - Emphasis on prioritising the protection of citizens, consumers, depositors and taxpayers, while ensuring the financing of the real economy.

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Relevant references

- Liikanen (2012), "*High-level Expert Group on reforming the structure of the EU banking sector*", final report, 2 October.
- European Commission (2013), "*Structural reform in the EU banking sector: motivation, scope and consequences*", Chapter 3 of the *European Financial Stability and Integration Report 2012*, April.
- European Commission public consultation document (17 May 2013) http://ec.europa.eu/internal_market/consultations/2013/banking-structural-reform/index_en.htm