FK | Finanssialan Keskusliitto
FC | Finansbranschens Centralförbund
FFI | Federation of Finnish Financial Services

25.6.2013

The Federation of Finnish Financial Services represents banks, insurers, finance houses, securities dealers, fund management companies and financial employers operating in Finland. The Federation has about 430 members who employ a total of 42,000 people.

To the European Commission

RESPONSE TO THE CONSULTATION ON THE STRUCTURAL REFORM OF THE BANKING SECTOR

The Federation of Finnish Financial Services[1] (hereinafter "FFI") appreciates the opportunity to respond to the Commission's Consultation on the structural reform of the banking sector. The FFI would like to point out the following considerations.

1. General remarks

Currently there are several large-scale regulatory reforms underway in the EU, intended to reinforce the stability of the financial sector and to reduce the risk of banks being forced to resort to tax payers in possible future crises. These include *inter alia* the new liquidity and capital requirements for banks (CRR / CRD IV), the common framework for bank recovery and resolution (BRRD) and the establishment of the Single Supervisory Mechanism (SSM) for the euro area banking sector.

The FFI wants to emphasize that it is highly important to finalize the current regulatory reform agenda as carefully as possible. Only when the full impact of these reforms on the financial system and economy is known, can we assess whether other reforms are still needed. Accordingly, the FFI does not see need for new reform initiatives at the moment.

It is a known fact that banks are a much more important source of corporate funding in Europe than in many other economic areas. This makes it all the more necessary to assess the impact of reform proposals carefully before any decisions are made. The availability of bank lending and other banking services must be secured especially now when the debt crisis continues in the euro area.

At the moment it is of utmost importance to give banks certainty about the environment in which they will operate in the future and about the regulatory framework that will be applied to them. In this way banks can plan their businesses in a forward-looking manner and best serve the needs of the EU economy.

2. Structural separation

The current consultation on structural reform is a follow-up to the recommendation made by the High-Level Expert Group (HLEG) last October. The HLEG proposed in its report that proprietary trading and *inter alia* all assets or derivative positions incurred in the process of market-making must be assigned to a separate legal entity if these activities amount to a significant share of a bank's business or if the volume of these activities can be considered significant from the viewpoint of financial stability.

[1] Interest representative ID: 7328496842-09. Address: Bulevardi 28, 00120 Helsinki, Finland.
Contact person: Mr. Veli-Matti Mattila, e-mail: veli-matti.mattila@fkl.fi, tel: +358 20 793 4259.

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In its response to the HLEG consultation last November the FFI stated that it does not support the proposed mandatory separation of trading activities. The FFI wants to repeat this statement: we do not see any need for mandatory structural separation of trading or other activities, and we are worried about the negative implications that a mandatory structural separation would have on the universal banking model and the EU economy in general.

The break-up of existing banking structures would inevitably weaken the ability of universal banks to serve their corporate customers in a cost-efficient and flexible way. This would be harmful especially for large multi-national companies, which need a vast range of financial services (e.g. from trade finance to market-making and complex risk management services). In many cases they would have to acquire these services from several sources. There could also be a risk of discontinuities in the provision of certain services.

It should also be pointed out that mandatory structural separation could potentially affect many European universal banks that have acted with prudence and weathered the financial crisis well because of their diversified business model. The diversity of their services has spread the risks and guaranteed a steady flow of income. At the same time several "troubled" banks could continue their operations as before together with most foreign banks that would still be free to choose their business model according to their own and customers' needs. As a result, the structural separation would affect the competitive situation between banks in the EU in a way that would not serve the interests of the EU economy.

Instead of mandatory structural separation, the FFI considers the Recovery and Resolution Plans (RRPs) of the forthcoming Bank Recovery and Resolution Directive (BRRD) an important part of future crisis management in the EU as they enhance the recovery and resolvability of troubled banks. This also applies to large, systemically important banks. The BRRD offers sufficient tools to force recoverability and resolvability if needed – mandatory structural separation would be an impediment for the current balanced group structures which benefit from diversification.

A recent IMF Staff Discussion Note (SDN/13/4, May 2013) also takes up the role of RRPs as a substitute for mandatory separation. In the Note (p. 12) it is stated that *"…well-designed firm-specific RRPs may be more effective than across-the-board structural measures provided that correspondingly adequate cross-border cooperation, especially vis-à-vis burden sharing, can be arranged".*

The FFI also wants to point out that the new bail-in mechanism of the BRRD will help eliminate the implicit public subsidy of the large banking groups arising from a perceived lower default risk. This subsidy is often mentioned as one reason for structural separation. In resolution the bail-in mechanism will sequentially allocate losses to shareholders, subordinated creditors and senior creditors regardless of the size or systemic importance of the bank.

FEDERATION OF FINNISH FINANCIAL SERVICES

Veli-Matti Mattila
Chief Economist