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The draft regulation on structural reform in European banking would undermine corporate financing

The European Commission has just adopted a draft regulation on structural reform in banking. According to information available at this point, this proposal would constitute a considerable handicap in financing European companies, thus running counter to the European Union's efforts to restore growth and improve employment.

In calling for the spin-off of most market activities, the European Commission's draft undermines major continental European banks' ability to work effectively with companies on the markets at a time when new prudential rules are encouraging a massive increase in this type of financing.

This European draft, which was not submitted for review by any of the parties concerned, comes at an especially bad time and is sowing confusion and uncertainty at a time when major European universal banks are already in the process of implementing ambitious legislative bank reform provisions, in particular in France and Germany.

This unprecedented situation is generating misunderstanding for banking establishments and for investors at a time when it is essential for the European Union to show consistency and stability. By treating member-states differently through a waiver that seems to apply only to the United Kingdom, it would pose a new risk of market fragmentation that would be at odds with European construction.

Adopting this regulation would have highly negative impact on the European economy:

- Spinning off market-making would raise the cost of these activities considerably; it would undermine the universal banking model, which allows European banks to offer a full range of services to companies, and which has proven to be more resilient than specialised banking models; the draft would thus give an unwarranted competitive edge to US banks set up in London, which alone would be able to provide market financing services to companies.

- The almost automatic split of trading activities and particularly market-making activities for corporate debt, would have a negative impact on corporate financing and hedging costs, at a time when the demand for credit is likely to pick up again with the economic recovery. The separate treatment planned for sovereign debt is a good illustration of the risk that the chosen approach would create for corporate debt.

Remember that many new regulations have been adopted or are in the process of being finalised at the European level to enhance banks' solidity and to prevent banking crises, including the single supervisory mechanism that will be up and running next autumn. European banks are already facing a major challenge in continuing to finance the economy through either lending or market funding, as these rules pile up. It is essential, and in the interest of all parties involved, to allow banks to have the means to finance the return of growth in the euro zone.

For all these reasons, the French Banking Federation regrets that this initiative from the European Commission has thrown up an obstacle to the positive momentum in harmonisation in regulation that has got off to a successful start since the financial crisis in Europe and the euro zone.

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