FEDERATION
BANCAIRE
FRANCAISE

Separating banking activities: missiles to the West, pacifists to the East.

Marie-Anne Barbat-Layani, Chief Executive of the French Banking Federation (FBF)

The aftermath of the financial crisis brought with it a plethora of regulations to reinforce the solidity of the banking industry. Today's banks are not what they were. The French Banking Federation (FBF) has supported the majority of these demanding reforms, particularly the Banking Union which is a major step in the consolidation of the euro zone and its banking sector.

Curiously, despite the incredible arsenal of regulations already in place, the European Commission has drafted a new text on the separation of banking activities which expressly aims to reduce the size of banks in Europe. At a time when the crisis has led to the constitution of financial giants in the United States, Europe appears to be plagued by the resurgence of the old demons which cost it so dearly and in so many industries, with the European Commission emphatically preventing the emergence of new champions for the continent. The European myth of "small is beautiful" is reminiscent of an age when, to paraphrase former French President François Mitterrand, the East developed missiles and the West developed pacifists. Today the opposite is true.
Europe needs strong banks that are powerful enough to finance the projects and businesses that will restore it to its legitimate place in the current global competitive arena, and set it firmly back on track to growth and employment.

It is for this reason that the FBF, but also and above all the Governor of the Bank of France and the French and German governments and parliaments, and European businesses have spoken out strongly against the Commission's proposal. An analysis of the impact of regulations on the financing of the economy must come before any new changes, and even more importantly before the new European Parliament decides to take matters into its own hands.

Reforms must allow banks to finance a return to growth through lending and the markets.
The structure of banks has already undergone substantial reform in several member states, including Germany, the United Kingdom, Belgium and France which account for 80% of Europe's corporate and investment banking sector. As a result, the European Commission's proposal on the separation of banking activities in January 2014 has led to great confusion in that it differs profoundly from the national legislation currently being adopted, with extremely damaging consequences for the financing of businesses and the economy.

Safeguarding the financing tools of businesses whilst reforming the organization of banks was one of the primary criteria guiding national legislators. French legislation sets out which activities need to be kept structurally separate based on a specific set of criteria and under the strict control of the supervisor. Standard practice requires that the European Commission examine the national legislation in place before imposing a new model.

The European proposal has an entirely different basis in that it does not protect the market activities needed to finance business such as market making. The fact that only market making activities in sovereign debt markets will be exempt shows the extent to which the proposal would have desperate implications for companies! It would compromise the ability of Europe's universal banks to accompany their business clients on the markets despite the fact that new prudential regulations precisely imply an increasing return to the markets. What we are left with is an extremely dangerous contradiction in terms.

The proposal would also lead to distortions in competition within the European Union since the exemption from the separation of activities that it allows for member states would only apply to the United Kingdom. Finally, the proposed ban on proprietary trading - which goes further than the Volcker rule that inspired legislation in the United States, France and Germany and the Liikanen report from which the Commission purportedly takes its inspiration - would trigger a mass transfer of activity towards the shadow banking sector. Would financial stability really be stronger?