Citizens' summary

Proposal for a structural reform of the EU banking sector

WHAT'S THE ISSUE?

- Since the start of the financial crisis, the European Union and its Member States have engaged in a fundamental overhaul of financial regulation and supervision;
- In the area of banking, the EU has initiated a number of reforms to create a safer, sounder, more transparent and responsible financial system that works for the economy and society as a whole;
- However, the EU banking sector remains large in absolute (EUR42.9 trillion) and relative terms (nearly 350 percent of EU GDP). Some banks still remain too-big-to-fail, too-big-to-save and too-complex-to-resolve;
- In this context, Commissioner Barnier announced in November 2011 the setting up of a High-level Expert Group ("HLEG") with a mandate to assess the need for structural reform of the EU banking sector, chaired by Erkki Liikanen, Governor of the Bank of Finland
- The report of the HLEG, presented in October 2012, stated that reforming the structure of banks is necessary to complement the existing and on-going banking reforms and recommended the mandatory separation of proprietary trading and other high-risk trading activities into a separate legal entity within the banking group;
- In a Resolution adopted on 13 June 2013, the EP called on the Commission "to adopt as quickly as possible" a proposal on the follow-up to the recommendations of the HLEG;
- In Plenary on 3 July the European Parliament adopted the Own Initiative Report on the structural reform of the EU banking sector with an overwhelming majority of MEPS;
- A European initiative on structural reform is needed to address remaining concerns as regards banks that are too-important-to-fail by reducing the intra-group complexity and connectedness of large banking groups; and will protect taxpayers and reallocate resources to real economy activities by reducing intra-group subsidies that artificially promote risky trading activities.

WHAT EXACTLY WOULD CHANGE?

- The structural reform proposal will strengthen the resilience of the EU banking sector while ensuring that banks continue to finance economic activity and growth.
- It will apply only to the largest and most complex EU banks with significant trading activities.
- In brief, the proposal would:

1. Ban proprietary trading in financial instruments and commodities;
2. Grant supervisors the power and in certain instances the rebuttable obligation to require the transfer of other high-risk trading activities (such as market making) to separate legal trading entities within the group ("subsidiarisation");
3. Provide rules on the economic, legal, governance, and operational links between the separated trading entity and the rest of the banking group; and
4. Increase transparency on shadow banking activities, especially repo and securities lending transactions. These transactions have been a source of contagion and leverage in the financial crisis.

WHO WOULD BENEFIT AND HOW?

- The citizens –The overall systemic stability of financial system will ensure that all banks can be resolvable and not require taxpayer bailout when they face difficulties.
- The Single Market - The SR aims to maintain a level-playing field and consistency in the single market – to ensure that banks don't move to where regulation is weakest for example.
- The real economy - The SMEs will benefit from reduced conflicts of interest within the bank - banks no longer will have distorted incentives to allocate their capital towards trading activities, corporate customers, and in particular SMEs, are also likely to benefit from bank capital being more devoted to serving the real economy.

WHY DOES ACTION HAVE TO BE TAKEN BY THE EU?

- Structural reform at EU level is needed to safeguard the EU internal market in financial services.
- Several EU Member States (Germany, France, the United Kingdom and Belgium) as well as third countries (United States) have already taken a step further and have enacted, or are in the process of enacting, structural reforms of their respective banking sectors to address concerns related to the largest and most complex financial institutions.

- National reforms are proliferating and an EU-wide initiative is needed to preserve the smooth functioning of the internal market and the effectiveness of the banking union.

- Structural reforms complement and strengthen the range of non-structural measures agreed under the G20 agenda and reinforce the need of greater coordination at global level. Failing to do that there is a risk of creating conditions for regulatory arbitrage and unintended market access restrictions.

WHEN IS THE PROPOSAL LIKELY TO COME INTO EFFECT?

The proprietary trading ban will apply as of 1 January 2017 and the effective separation of other trading activities will not be compulsory before 1 July 2018.

Data for search engines	
Title tag *(± 70 characters with spaces)*	Proposal for a structural reform of the EU banking sector - citizens' summary
Description *(± 150 characters)*	European Commission proposal for a regulation that would ban banks that are too-big-to-fail from engaging in proprietary trading. It would also give supervisors the power and in certain instances the obligation to require those banks to separate certain other risky trading activities.
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