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

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# THE STRUCTURAL REFORM OF BANKS

Earlier this year, the European Commission published a draft regulation on banks' structural reform, which prohibits proprietary trading. Banks may also be required to separate their market-making activities, as well as certain other client-driven activities, to specific trading entities.

The new rules would apply to banks that are globally systemically important or have balance sheets and trading activities which exceed certain size limits.

Presented in a package with the structural reform proposal, the Commission also gave a draft regulation on reporting and transparency of securities financing transactions. The proposal sets reporting obligations that apply to the entire financial industry and also to other companies. It also sets additional requirements on investment funds.

The Commission says that the regulation on reporting and transparency of securities financing transactions is justified by the risk that the new rules for the structural reform would cause banks to move part of their activities outside the scope of traditional banking. The Commission therefore seeks to regulate this alternative form of financing.

## Structural restrictions would impede growth

The Finnish financial industry does not consider banks' structural restrictions necessary, because they can easily weaken banks' capacity to finance economic growth in the EU. The restrictions would significantly affect banks which follow so-called universal banking model.

The crisis over the past few years has proven that universal banks (which consist of different kinds of retail, wholesale and investment bank activities) have in general fared relatively well under difficult conditions. Their wide range of activities has spread the risks and balanced income, which has supported the stability of the entire banking system.

Structural restrictions would ultimately be detrimental to bank customers, because banks' capability to provide diverse and flexible services would weaken. For example the separation of market making[1] would hinder securities-based corporate funding and raise its costs. This would conflict with the aims to diversify corporate finance. The Commission has indirectly admitted that the restrictions would be detrimental in this respect.

The structural restrictions on banks could have a particular impact on Nordic banks and their customers. In a background analysis made for the proposal, the Commission picked 29 banks as candidates for the restrictions if they enter into force. Altogether six Nordic banks were included: Danske Bank, DNB, Handelsbanken, Nordea, SEB and Swedbank. Combined, these banks provide a considerable portion of all the loans and other financial services to companies and households in Finland.

[1] Market making means that banks pledge to buy and sell e.g. shares and bonds at a specific price. This facilitates trading and increases the liquidity of the market, because investors can always rely on having a willing buyer and seller of securities.

**Further information:**

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