

Mr Gianni Pittella  
European parliament  
Bât. Atrium 05K002  
Wiertzstraat 60  
B-1047 Brussel

## **European Parliament's Compromise on Banking Structural Reform**

22 December, 2015

Dear Mr Pittella,

BDI and MEDEF have always been supportive of financial market regulation which aims to make banks and the financial sector more resilient to absorb shocks and at the same time secure their financing role for the real economy.

In this respect we have strongly welcomed the focus on building a European Capital Markets Union, boosting investment and improving the long-term financing of the real economy. It is essential for the competitiveness of European companies, operating in a highly integrated global economy, that they have affordable access to a full range of financial services needed to carry out their business activities. Indeed, a well-balanced framework for companies' financing is crucial in order to achieve our goals of bringing the EU up to speed with its partners and improving its global competitiveness.

Having said this, we are deeply concerned that present discussions, particularly in the European Parliament, on the Banking Structural Reform proposed regulation, could run counter to the political aim of building an effective CMU. Market-making activities in particular and functioning universal banking structures are essential components of businesses' financial toolbox, which must be preserved within an efficient Capital Markets Union.

Several examples reveal that universal banks are able to provide comprehensive and integrated financing solutions to companies. Particularly on the basis of the latest compromise text, such solutions would now become more costly for banks to provide, and therefore more costly for corporate clients. Companies would also need to change the nature of their relationships with their banks and turn to separated – or even entirely new – institutions for their financing and hedging activities.

For example, in the case of corporate bond issuing the separation of primary credit origination from secondary market-making would prevent the bank from being able to properly assess secondary market trends and investor appetite, or to commit to provide the secondary market liquidity required by issuers and investors. Very often operations require both financing and markets expertise and capacity.

To avoid adverse effects of disproportionate interference in the banking structure with far-reaching negative consequences on the real economy, we recommend the following:

- **The separation of certain trading activities or capital add-ons must not apply *de facto* automatically to financial institutions.** Article 10 of the Regulation (particularly its paragraph 4) must incorporate room for a thorough qualitative analysis of the particular risk that a specific bank presents by the competent authority.
- Articles 3 and 4 and recitals 13 and 14 should ensure that the scope of the Regulation (including its Chapter III) covers any **subsidiaries or branches operating in the EU** of a credit institution or of a parent undertaking, wherever such credit institution or parent undertaking are located, so long as they are identified as a global systemically important institution either by Directive 2013/36/EU or by an equivalent legislation or regulation under a third country. EU legislation must ensure a level playing field for EU and non-EU actors rather than create distortions.

The strength of the separation determines whether and to what extent banking businesses that serve hedging activities and complex capital market operations for companies remain possible. We would therefore like to propose the following:

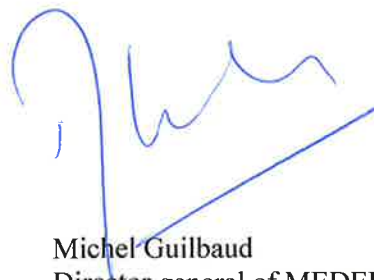
- **Deposit banks (“core credit institutions”) should be allowed to perform all activities that meet the needs of corporates** (bank financing; underwriting and market-making activities to ensure the liquidity of corporate securities; transactions on derivatives (OTC and ETD) and emission allowances; cash investments; taking deposits)
- **The scope of separable activities should be limited to the activities of proprietary trading.** It should clearly exclude market-making activities. Should legislators wish to make some market-making activities separable, these should only cover activities that do not provide liquidity on a regular and on-going basis, that are not necessary for the financial institution, as part of its usual business, to respond to clients’ requests, or that are not necessary to hedge positions associated with the transactions carried out in response to clients’ needs.

We hope that you share our views and will undertake all efforts to ensure that the EU banking sector will continue to contribute to growth and jobs. We remain at your disposal should you wish to discuss this subject further.

Yours sincerely,



Dr. Markus Kerber  
Director general of BDI



Michel Guilbaud  
Director general of MEDEF