




# Restructuring the Banking Sector and Ensuring the Single Market for Financial Services

*50th Anniversary Conference of SUERF  
The Financial Reconstruction of Europe*

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- **Should banks be split up to ring-fence certain activities ?**
  - **What is the best approach in the international context and in terms of the European universal banking model ?**

# Outline



**1. Where do we stand ?**

**2. What Model for Europe ?**

# 1- Where do we stand ?

## 5 observations (*see annexes*)

**Observation 1: Reduction in banking assets/GDP**

**Observation 2: Lower concentration in larger countries and higher concentration in smaller countries**

**Observation 3: Increasing concentration since the crisis**

**Observation 4: Diversity of legal structures**

**Observation 5: The universal model has proved resilient**

# Outline

**1. Where do we stand ?**



**2. What Model for Europe ?**

## 2. What Model for Europe ?

### MAIN LESSONS:

- ❑ High-Level Expert Group (Liikanen): No particular business fared particularly well, or particularly poorly...
- ❑ ... but excessive risk taking and excessive reliance on short term funding, not matched with adequate capital protection were pointed out
- ❑ Core banking services have to be preserved.
- ❑ The more speculative activities have to be (and actually have been) reduced.
- ❑ Don't throw the baby with the bathwater : We need to preserve activities that are crucial for the financing of the economy

## 2. What Model for Europe ?

### TWO DIMENSIONS:

#### 2.1. SEPARATION

#### 2.2. RESOLUTION

## 2. What Model for Europe ?

### 2.1. Separation of risky trading activities (1/3)

- ❑ Agreement with Germany to push forward a regulatory framework for separating banking activities.
  
- ❑ The French reform was implemented in July 2013. It aims at :
  - **reducing market risks** that banks may take at the minimum level needed to conduct the trading activities that are necessary to finance the economy;
  
  - **protecting customer deposits** from risks incurred in proprietary trading activities. The goal of the reform is to limit drastically the risk of taxpayer and deposit insurance money being used to cover losses incurred on trading activities;
  
  - **Enhancing prudential supervision** of trading activities in credit institutions and investment firms.



## 2. What Model for Europe ?

### 2.1. Separation of risky trading activities (2/3)

- Above a specific threshold, **trading activities or unsecured financing to hedge fund have to be conducted within a separated trading entity, that would be regulated and supervised.**
  
- Separated trading entities would not be allowed :
  - to collect deposits,
  - to offer payment services to retail customers,
  - to benefit from group guarantee or liquidity support.
  
- Client deposits will not be used to finance proprietary speculative activities.

## 2. What Model for Europe ?

### 2.1. Separation of risky trading activities (3/3)

- ❑ Market activities that could be useful for the financing of economy are authorised within the entity that collects deposits
  
- ❑ **Market making activities must be preserved :**
  - Crucial role in providing liquidity to markets,
  - Importance of banking intermediation in Europe for the benefit of smaller companies in particular,
  - Prevention of unintended consequences of the implementation of Basel III : disintermediation effect for instance.
  
- ❑ **Some trading activities will not have to be ring-fenced if they have a significant role in financing the economy :**
  - Trading positions involved in customer-driven investment services,
  - Liquidity management activities,
  - Investment in securities with the intention of holding them over the long term.
  
- ❑ **Banks will have to disclose a mapping of their trading activities**

## 2. What Model for Europe ?

### 2.2. Resolution (1/2)

## The French approach: new powers at home

- ❑ **The ACP has been granted resolution powers and become the ACPR**
  - Banks are required to prepare recovery plans.
  - The ACPR may require reorganization of bank's structure.
  - The resolution college of the ACPR lays down a bank's preventive plan of resolution.
  - **Losses are to be borne by equity holders and subordinated creditors**
  
- ❑ **The initial mission of the Deposit Guarantee Fund (DGF) has been widened. It may :**
  - Acquire shares of a credit institution
  - subscribe to the capital of the bridge institution
  - subscribe to a capital increase of the institution under resolution or of the bridge institution
  - provide funding or guarantees to the institution or the bridge institution.

## 2. What Model for Europe ?

### 2.2. Resolution (2/2)

### Cross border resolution is the next step

- ❑ Currently, non-viable banks are not resolved in the same way in the various Member States.
- ❑ A concern for cross-border banks
- ❑ Proposed Recovery and Resolution Directive
- ❑ Ongoing discussions as to a Single Resolution Mechanism

# Conclusion

- ❑ A deep change of regulation in France
- ❑ A promising venue at the European level
- ❑ Handling systemic risk and tackling individual and sector-wide sources of systemic disruptions
- ❑ In case of crisis, ensuring costs will not be borne by taxpayers but that risk takers duly take their part in the resolution process.

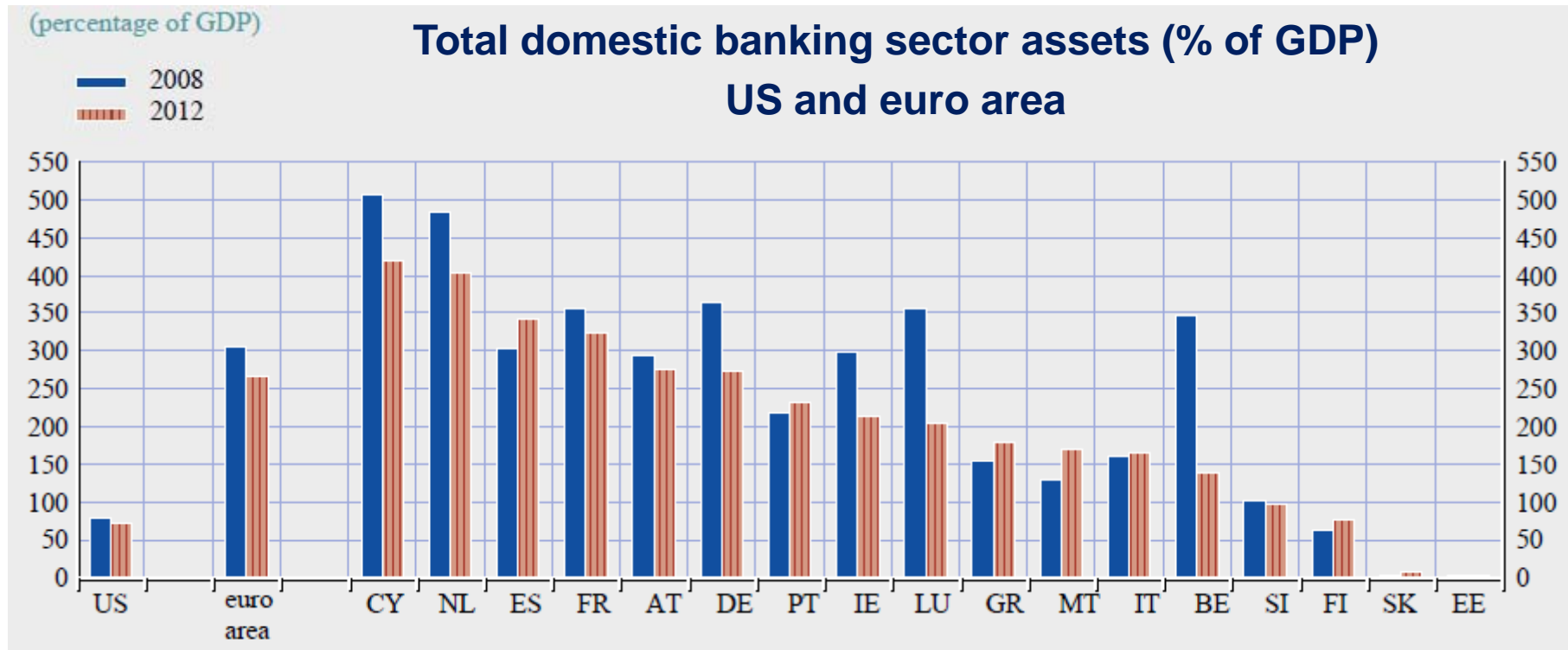


# Annexes

## Observations on where do we stand

# 1-Where do we stand? (1/5)

## Observation#1: Reduction in banking assets/GDP

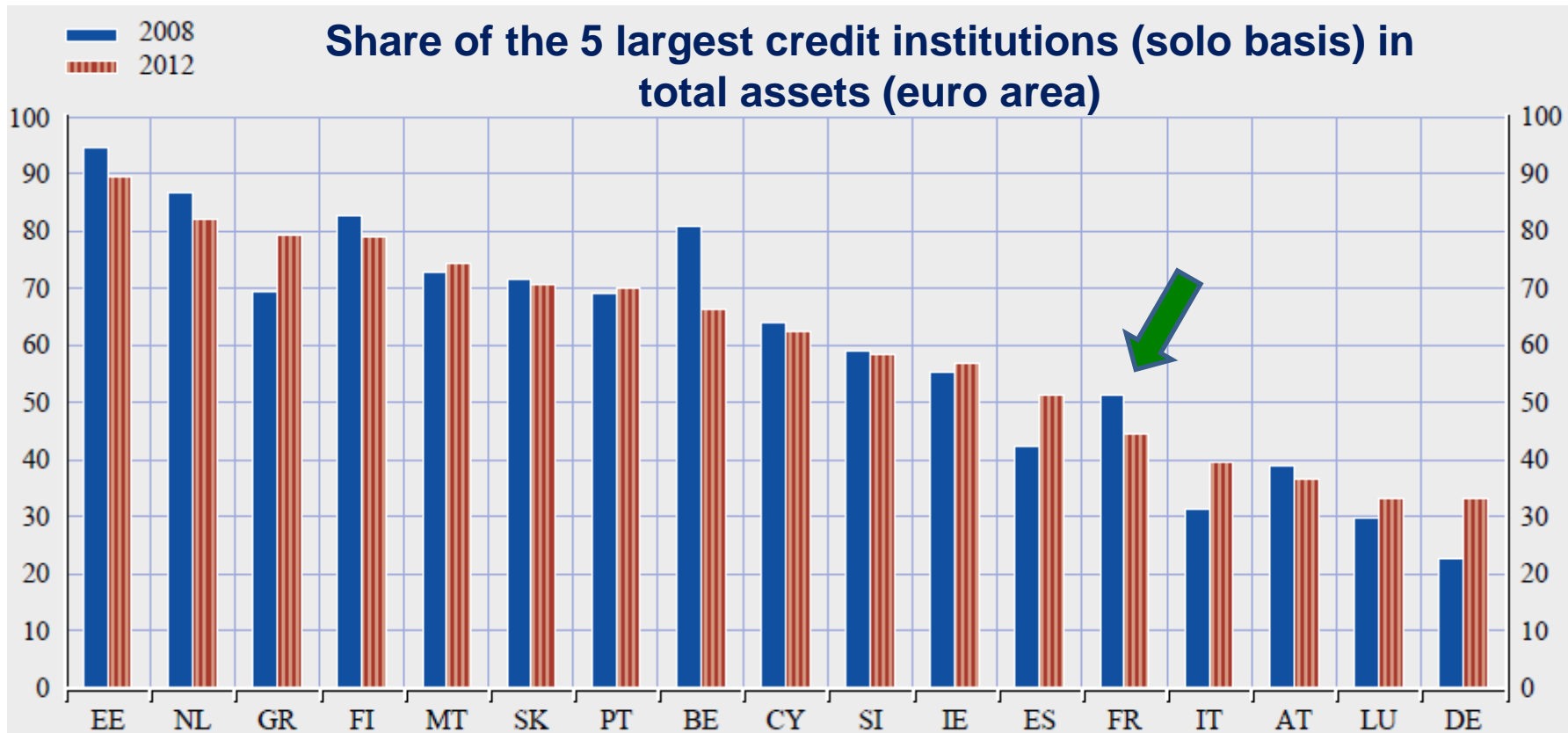


Source: Federal Reserve System and ECB

Note: The chart shows total assets of domestically chartered commercial banks, i.e. excluding data for foreign subsidiaries and branches

# 1-Where do we stand? (2/5)

**Observation#2: Lower concentration in larger countries  
Higher concentration in smaller countries**



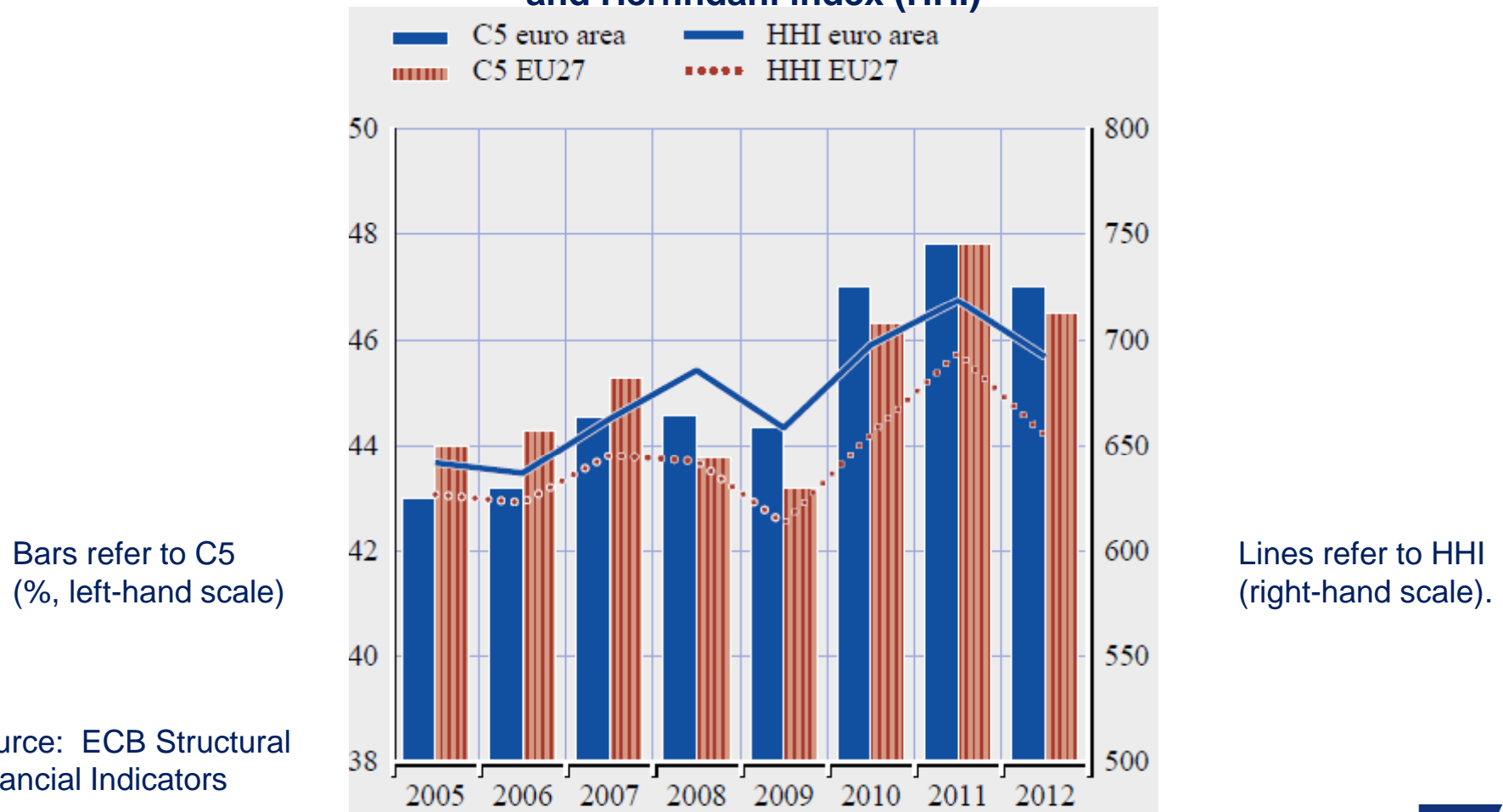
Source: ECB Structural Financial Indicators



# 1-Where do we stand? (3/5)

## Observation#3: Increasing concentration since the crisis

Market concentration – share of the 5 largest banks in total assets (c5)  
and Herfindahl index (HHI)



Source: ECB Structural Financial Indicators

# 1-Where do we stand? A French perspective (4/5)

## Observation#4: Diversity of legal structures

- The structure of the banking sector in France is characterised by the **universal bank model: very similar to other European banking systems**
- The French financial system is **open**
- **5 main domestic banking groups**
- **A mix of legal forms: cooperative and mutual banks alongside public corporations**
- **Retail banking** activities in foreign countries are carried out through **local subsidiaries**, whereas **CIB business** in the major international hubs (New York, London, Tokyo, Hong Kong, Singapore, etc) is usually carried out through **local branches**.

# 1-Where do we stand? (5/5)

## Observation#5: The universal model has proved resilient

- **Strengths of the French model :**

- Predominant retail banking: 2/3 of net banking income & stable funding ;
- Proprietary trading activity already reduced (lessons of crisis) ;
- Good range and availability of financial services ;
- Synergies and economies of scale ;
- Diversification of risk portfolio between business lines & products ;
- Able to mitigate a negative shock.

→ **A reform of banking structures should not hamper these strengths.**

→ **Ring-fencing has to be well balanced to avoid excessive associated costs**



**Thank you for your attention !**