EUROPE

FEDERATION BANCAIRE FRANCAISE

BANKING AND FINANCIAL REGULATION: 4 PRIORITIES FOR THE NEW EUROPEAN COMMISSION

In the wake of the 2008 crisis, between 2009 and 2014 Europe has undertaken an unprecedented programme to reform its banking and financial institutions. This includes, in particular, the implementation of the Banking Union which makes the eurozone an unparalleled area of financial security. The challenge for the new European mandature in terms of financial services must be to support growth.

Four priority actions

Given the scale of the reforms already adopted and underway, the FBF advocates that the actions of the future European Commission in terms of financial services focus, first and foremost, on helping to stimulate growth.

1. Encourage the financing of the European economic recovery

- The FBF supports the European Commission's idea of enabling **long-term and infrastructure financing**, as well as **quality securitisation**, to benefit from preferential prudential treatment. This will need to be integrated in a future CRR – CRD V.
- It is essential to **more effectively use European savings whose abundant supply is an advantage for competitiveness**. This involves maintaining and developing European financial channels and players as well as a taxation system that is appropriate to long-term and corporate financing.
- It is necessary to affirm and **defend the importance of the European financing model based on lending and the role of universal banks**. This must guide the positions on banking regulations in international bodies (Basel Committee, Financial Stability Board, negotiation of the Transatlantic Trade and Investment Partnership – TTIP, etc.).
- It will also be necessary to **accompany the trend towards the disintermediation of corporate financing** (preservation of market-making in universal banks, implementation of secure post-trade structures - clearing houses, central depositories, trade repositories).

2. Launch a study on the overall impact of the recent and current regulatory changes on the financing of the economy. The future European Commissioner in charge of financial services will therefore have an essential overall view when he takes up his position, enabling him to prioritise and ensure the consistency of actions to be taken.

3. Better regulate the parallel banking system that is in the process of being created, particularly in the **area of payments**, for customer security, by making sure that requirements in terms of security and responsibility apply to all players. This "fair competition" requirement must apply in all areas of financial activity.

KEY FIGURES

The reforms adopted or underway have radically changed the banking landscape and the European financing model:

- 36% increase in capital between 2008 and 2014.
- 26% increase in deposits.
- new balance between loans and deposits of 114%.
- decline in banks' ROE that is far removed from pre-crisis levels, with banks now setting targets of 10%.
- decline in credit's share of corporate debt (now 63% in France), with companies increasingly resorting to the financial markets.

4. Adopt an accounting system that is more in line with European economic realities

The FBF supports the strengthening of European sovereignty in the field of accounting and believes it is essential for the next European Commission to implement the reform of European accounting institutions. In particular, the FBF is in favour of the implementation of the Maystadt report's proposals so that the European institutions increase their power when the international standards (IFRS) are adopted.

Vigilance regarding international regulatory projects

New regulations are already being discussed by the Basel Committee and Financial Stability Board (FSB). These include:

- the long-term liquidity ratio (NSFR);
- hedging of bank exposure to the banking book's interest rate risk;

- the review of trading books;
- the FSB's proposal for a new "gone-concern loss absorbing capacity" (GLAC[1]) requirement;
- the framework for the assessment by banks of risk-weighted assets;
- the regulation of the "parallel financial system";
- banks' exposure to central counterparties;
- the leverage ratio.

All these restrictive projects for the banks must be seriously assessed based on the priority to be given to the financing of growth by banks which are now very secure.

In addition, the FBF reiterates that the major regulatory projects on banks' structure or the European Financial Transaction Tax should be abandoned since they constitute considerable disadvantages for the financing of French and European companies.

A secure banking system helping to finance the economy

The FBF welcomes the unprecedented work carried out by European legislators in favour of financial stability under the 2009-2014 legislature, **with 20 texts adopted between the beginning of 2010 and the present**. Europe, and more specifically the eurozone, have equipped themselves with a comprehensive and unparalleled arsenal of legislative and institutional measures.

This body of regulations clearly makes the European banking system one of the most secure in the world:

- **thanks to the Banking Union**, which creates a single, transnational and independent supervisor for eurozone banks and a single crisis resolution mechanism, with an ex-ante resolution fund of EUR 55 billion. The current exercise for the assessment of asset quality, carried out by the ECB, coupled with stress tests will help reinforce the solidity of eurozone banks.
- **by implementing the decisions taken by the G20** following the 2007-2008 crisis: strengthening of capital and liquidity obligations, adoption of the EMIR regulation which organises a more solid and more transparent market for derivatives; adoption of the text for the prevention of banking crises which severs the link between banking crises and sovereign crises and fully protects depositors.
- **by increasing investor protection**, thanks to the implementation of the Markets in Financial Instruments package (MIF 2) and the adoption of a regulation on information for retail investment products.
- **by harmonising the rules governing retail banking**: mortgage credit directive, payment account directive

The European banking system and its regulations have now been considerably strengthened. The post-crisis bank is no longer the pre-crisis bank.

1. Gone-concern loss absorbing capacity (GLAC)

TEXTS ADOPTED 2010-2014

- *July 2010* – deposit guarantee schemes (DGS)
- *August 2010* – increased monitoring of financial conglomerates
- *September 2010* – short sales and swap contracts on credit risk
- *September 2010* – derivatives (EMIR regulation)
- *June 2010* – rating agencies (CRA)
- *December 2010* – setting up of the single euro payments area (SEPA)
- *March 2011* – encouragement of responsible lenders (mortgages)
- *July 2011* – single rulebook consisting of the prudential requirements applicable to banks: capital, liquidity and leverage + stricter rules in terms of remuneration and improved fiscal transparency (CRD IV directive and CRR regulation)
- *October 2011* – simplification of accounting rules
- *October 2011* – reinforced framework for securities (MiFiD directive/MiFiR regulation)
- *October 2011* – reinforced framework to prevent market abuse (MAD directive/MAR regulation)
- *November 2011*- rating agencies (CRA)
- *March 2012* - central securities depositories
- *June 2012* – prevention, management and resolution of banking crises (BRR directive)
- *July 2012* – better information of investors regarding complex financial products (packaged retail investment products – PRIP)
- *July 2012* – sounder rules for retail investment funds (UCITS)
- *September 2012* – single supervisory mechanism
- *March 2013* – green paper on the long-term financing of the European economy
- *May 2013* – access to a basic bank account/tariff transparency/changing bank account
- *July 2013* – single resolution mechanism