

„Too big to fail“ and Bank Separation

Markus Henn

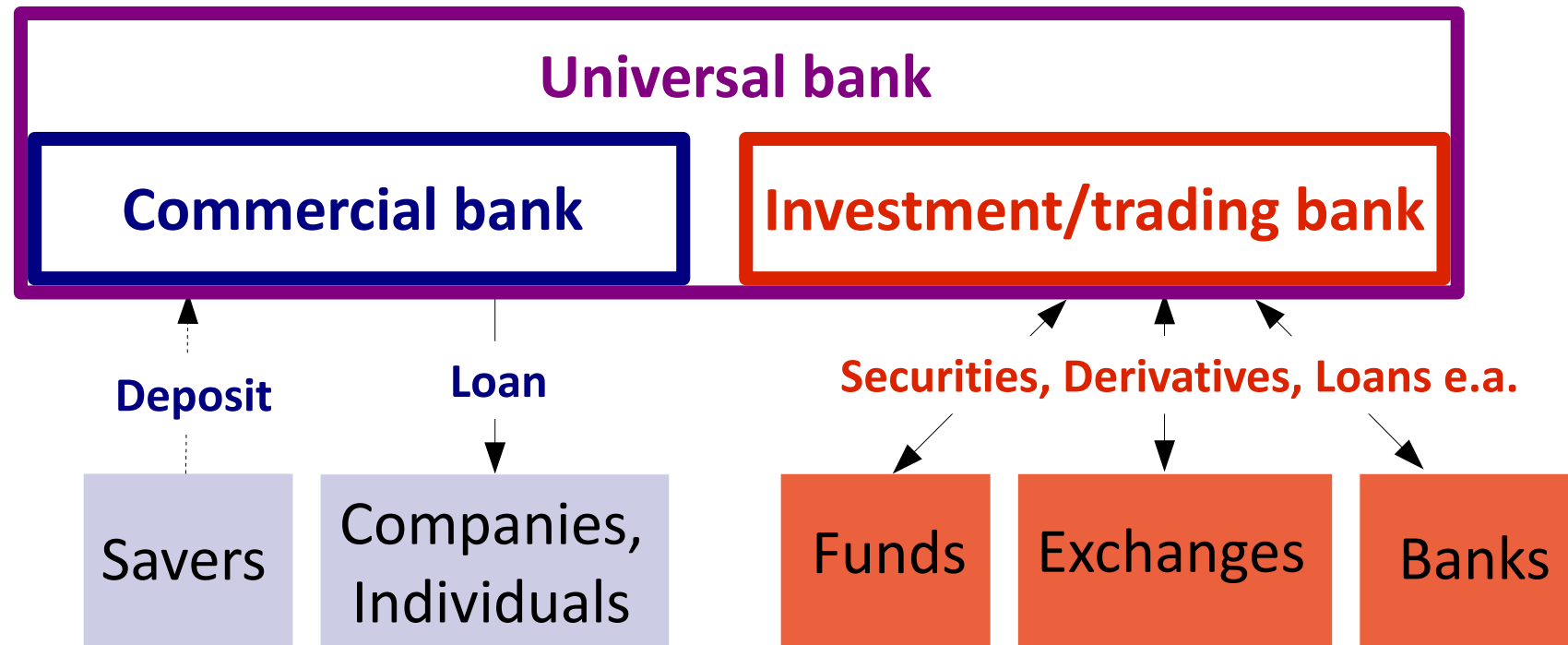
Policy Officer Financial Markets, World Economy, Ecology & Development – WEED

Member of Working Group Financial Markets & Taxes, Attac Germany

Contact: markus.henn@weed-online.org

21 August 2014 Paris

Banking structure

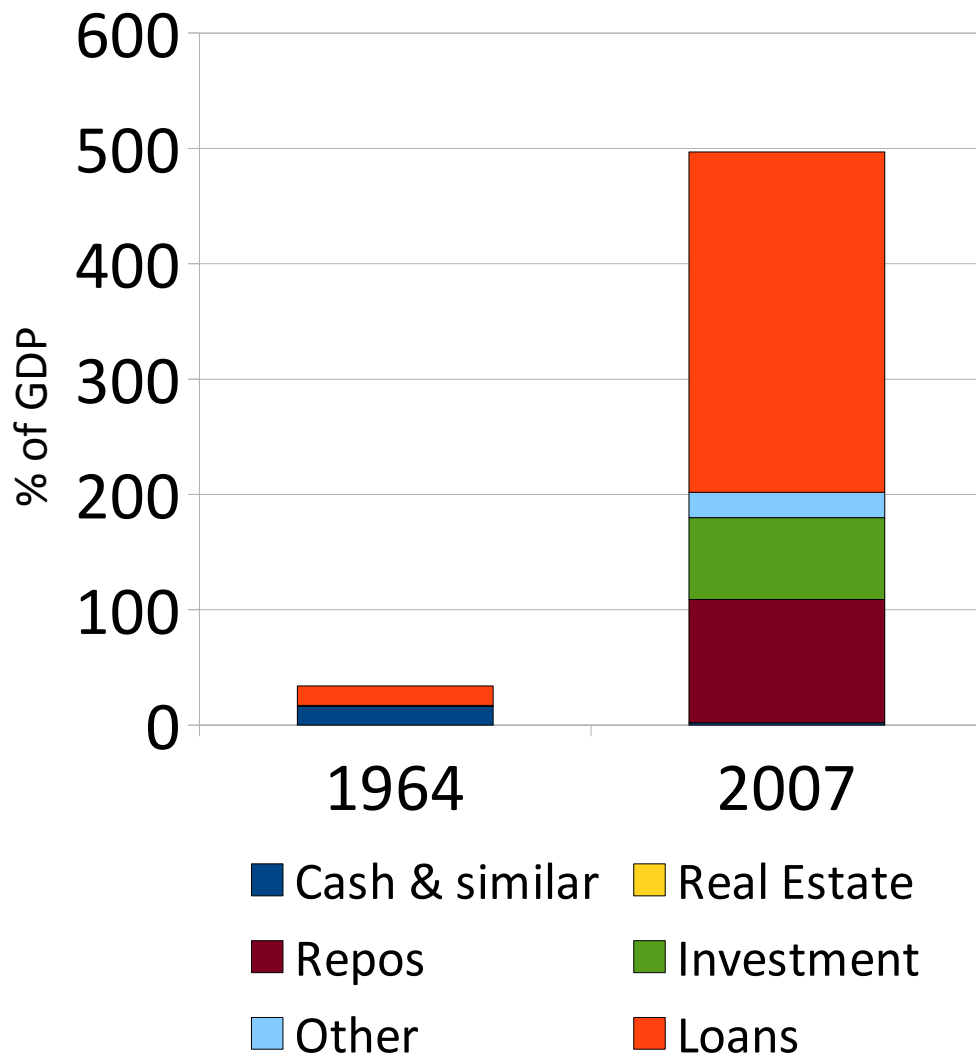


Trading either on **clients'** account
or on **own** („proprietary trading“)

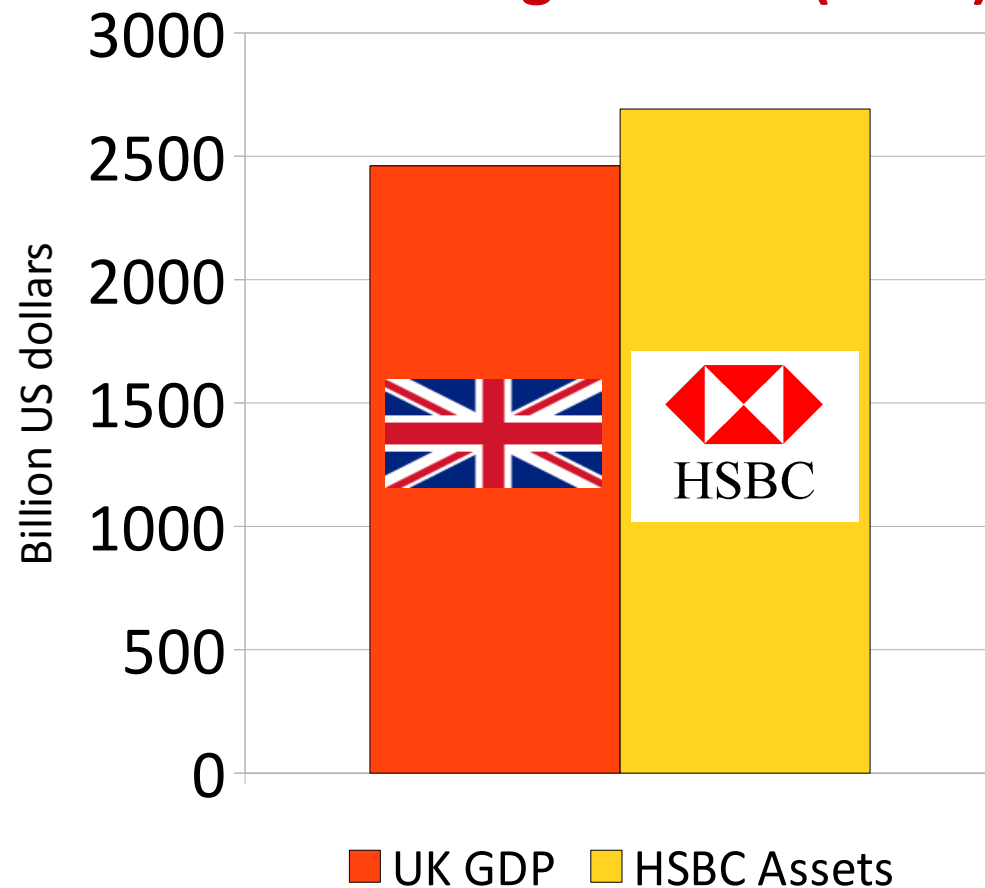
U.S. Glass-Steagall Act: no universal banks, abolished in 1999

Bank size: example United Kingdom

Bank assets



GDP and largest bank (2012)



Financial crisis: commitment to end „too big to fail“

- **Structure, size and interconnectedness** of banks turned out to be reasons for the financial crisis.
- **Ben Bernanke (2010)**: "to have a competitive, vital, and innovative financial system (...) we have to end the too-big-to-fail problem once and for all."
- **Angela Merkel (2010)**: "Wie kann ich sicherstellen, dass die Banken, die Finanzinstitutionen nicht so groß werden, dass sie letztendlich immer ein Erpressungspotential für Staaten darstellen?"
- **Finance Watch (2013)**: "A well-designed and effective structural reform is one of the most important measures to safeguard financial stability."

Overview on bank separation reports and laws

USA



Paul Volcker

EU



John Vickers



Erki Liikanen

2010 Dodd-Frank Act
2011 with Volcker Rule

2012

2013 Final Provisions

2014

2015

Vickers Report (UK)

Liikanen Report (EU)

German, French & UK laws

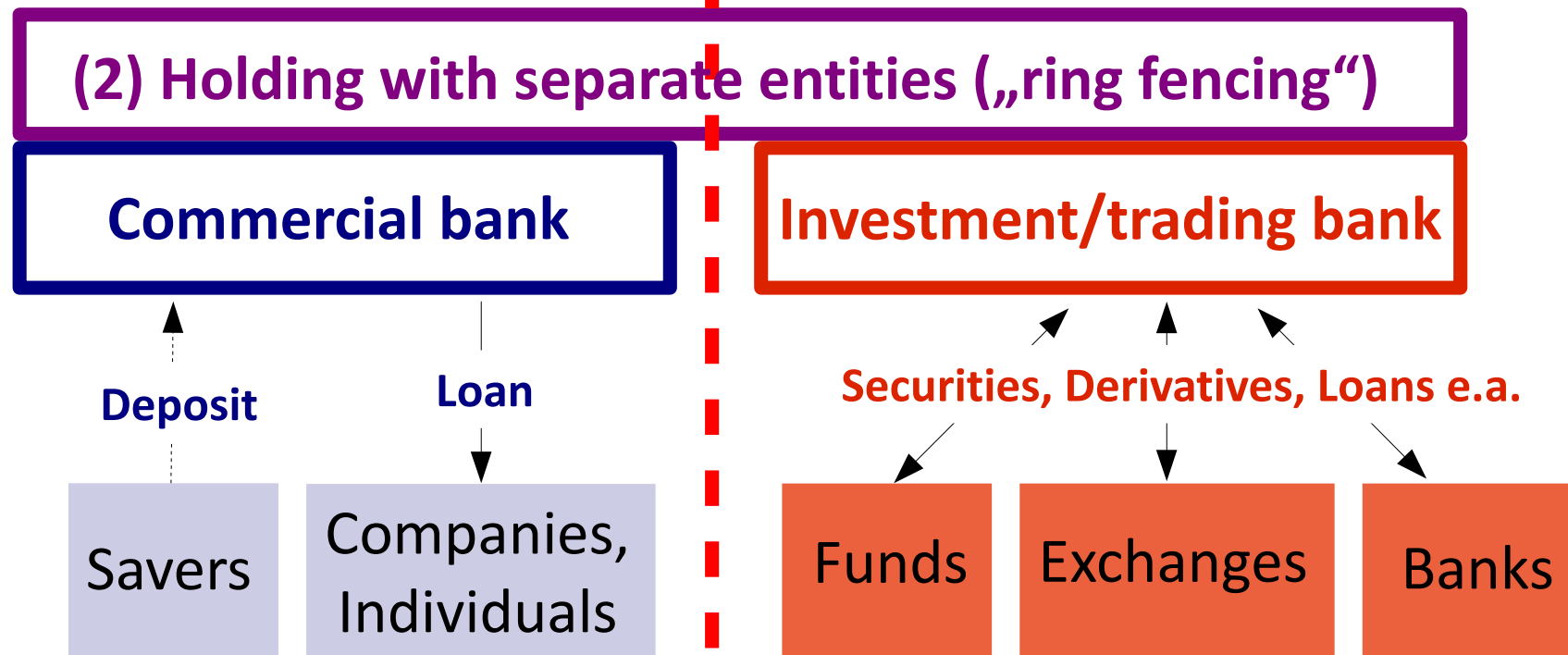
EU Commission Draft Law

EU & secondary UK law

What kind of separation / prohibition?

Volcker	Vickers/UK	Liikanen	Commission	Germany
(1) Full separation	(2) Holding	(2) Holding	(1/2) Mixed	(2) Holding

(1) Full separation (i.e. prohibition of activities for commercial banks)



Which banks exempted (thresholds)?

Volcker	<ul style="list-style-type: none">• no threshold (only for compliance programs)
Vickers/UK	<ul style="list-style-type: none">• £25 billion retail deposits (probably)
Liikanen	<ul style="list-style-type: none">• trading assets €100 billion <u>or</u> 15-25% of total assets
Commission	<p>Prohibition: €30 billion total assets <u>and</u> trading activities of €70 billion or 10% of total assets <u>and</u> EU Globally Systematic Important Institutions</p> <p>Holding: list of criteria, little discretion of supervisors → 29 banks in EU plus some non-EU</p>
Germany	<ul style="list-style-type: none">• trading assets €100 billion <u>or</u> trading assets 20% of total and €90 billion total assets• single case decision by supervisor

- High thresholds; trading assets appropriate (better e.g. derivatives?)

Which activities separated / prohibited?

	Proprietary trading	Hedge Funds & Private Equity Funds (EU: AIF)	Other
Volcker	Yes (but short term)	Owning, sponsoring & other relations	
Vickers/UK	Yes	(Probably: relations to non ring-fenced entities)	Market making, securitization ea
Liikanen	Yes	Shares & linked instruments	Market making
Commission	Yes (narrowly, prohibited , indirect too)	Shares & linked instruments (prohibited , indirect too)	Holding: market making, risky products
Germany	Yes (but short term)	Sponsoring & guaranteeing	Optional: market making, risky products

Which activity exempted (most important ones)?

Volcker	U.S. sovereign bonds; risk-mitigating hedging; market making; funds: wholly owned, joint ventures, e.a.; several client services (e.g. as broker / agent), e.a.
Vickers/UK	Not fully clear yet (secondary law), probably simple derivative trading; debt-equity swaps; securitization e.a.
Liikanen	Hedging services; simple securitization; money market funds; asset management; interbank lending
Commission	EU sovereign bonds; client-related services; money market activities; funds: closed-ended, non-leveraged, long-term, venture capital
Germany	Risk-mitigating hedging (client deals, interest, currency, liquidity); long-term shares; non-speculative trading

Summary

- Separation and down-sizing is – particularly in the EU – the missing piece to ensure an effective banking regulation
- Rules on separation / prohibition go into right direction but much too weak, particularly on the kind of separation (often holding only) and due to many exceptions (market making, hedging, fund shares/sponsoring)
- No effective down-sizing of banks – the contrary has happened after the financial crisis
- Civil society needs to push for stronger reforms, particularly in the ongoing EU law making process

Thank you for your attention!



weed

Weltwirtschaft, Ökologie & Entwicklung

World Economy, Ecology & Development

www.weed-online.org