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Press release | 27.06.2012

Financial sector regulation

New study on EU banking sector reveals crucial gaps in legislation to be addressed

A new study on the EU banking centre by the Centre for European Policy Studies, commissioned by the Greens/EFA group, was presented today in the European Parliament (1). The study, which includes a comprehensive analysis of the European banking sector (including 74 banks, representing two-thirds of the asset base of the industry), includes key findings on the different business models in the banking sector and makes policy recommendations to address some critical gaps in EU legislation.

Commenting on the study and the implications for EU legislation, Green finance spokesperson **Philippe Lamberts** (MEP, Belgium) said:

"The findings of this study underline the different risks associated with different banking business models (retail, wholesale, investment and universal) and the need for a different regulatory approach to deal with the specific nature of each model. There can be no one-size-fits-all regulatory approach to dealing with the different models and risks they imply but current EU legislation fails to reflect this. In practice, this would imply adapting key requirements, like capital, liquidity and leverage ratios, to the different risks associated with the different models.

"The study also highlights serious gaps in current EU financial legislation, including the key Capital Requirements Directive, which is currently in the legislative process. The introduction of a binding leverage ratio would be a crucial provision for reducing the reliance on risk-sensitive capital requirements, while a net stable funding ratio would help in addressing liquidity problems. This would help reduce systemic risk. A strengthened monitoring and enforcement role for the European Banking Authority would be a crucial step for enhancing the stability of the banking system, while stronger disclosure standards (e.g. on risk exposure and liquidity) are also essential.

"A much more comprehensive EU approach is needed to reduce the probability of bank failure and reduce the social risk in the case of failure. This implies structural changes to end the Too Big To Fail doctrine, ringfencing, resolution arrangements and living wills. Despite the growing rhetoric to this end in the context of debates on a banking union, it is clear that there is still a political preference for championing unsustainable banking business models. This, combined with politicised banking regulation, risks trapping Europe in a flawed banking system, with potentially destructive implications for our economies and societies."

(1) View the study:

/legacy/fileadmin/dam/Documents/Studies/2012-6-27%20Bank%20Regulation%20in%20the%20EU.pdf

And summary: /legacy/fileadmin/dam/Documents/Studies/2012-6-27%20CEPSTWO-FindingsBIS.pdf

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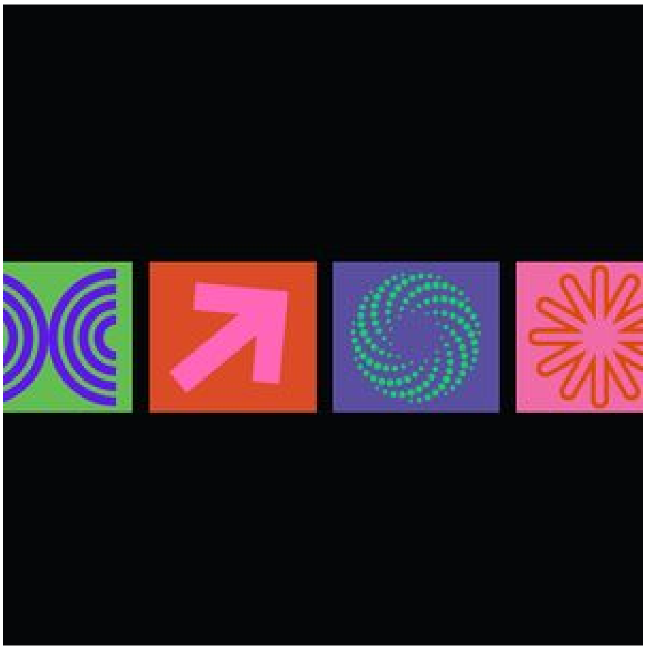

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