FEDERATION OF EUROPEAN SECURITIES EXCHANGES

FESE Response to the European Commission consultation on the recommendations of the High-level Expert Group on Reforming the structure of the EU banking sector

1. Introduction

The Federation of European Securities Exchanges (FESE) represents 46 exchanges active in equities, bonds, derivatives and commodities through 21 full members from 30 countries, as well as 7 observer members from European emerging markets. FESE is a keen defender of cross-border competition and many of its members have become multi-jurisdictional exchanges, providing market access across multiple investor communities. FESE members operate Regulated Markets (RMs), which provide both institutional and retail investors with transparent and neutral price-formation.

FESE members are glad to have the opportunity to contribute to consultation. FESE supports efficient, fair, orderly and transparent financial markets that meet the needs of well protected and informed investors and provide a source for companies where to raise capital and for investors to hedge their portfolios.

2. FESE Comments on the proposals made in the consultation paper

2.1. General opinion

FESE welcomes the key objectives of the Liikanen report of increasing the financial stability of the European Union (EU) and establishing a stable and efficient banking system serving the needs of citizens, the economy and the internal market. We believe it is important to limit the implicit or explicit risks to the taxpayers in the EU financial sector. Towards these objectives, we also agree that it is useful to consider whether structural reforms may be needed.

If any future proposal contains structural reforms, we consider that the European Commission should take into account the effects that some of the proposals could have on the EU financial market as a whole as well as, more specifically, on small and medium markets, which provide access to finance to a number of small and medium enterprises (SMEs) in the EU. Our suggestions in this sense are described in further detail below.

2.2. Key point for FESE

FESE would like to particularly comment on the first of the proposed measures:

'First, proprietary trading and other significant trading activities should be assigned to a separate legal entity if the activities to be separated amount to a significant share of a bank's business. This would ensure that trading activities beyond the threshold are carried out on a stand-alone basis and separate from the deposit bank. As a consequence, deposits, and the explicit and implicit guarantee they carry, would no longer directly support risky trading activities. The long-standing universal banking model in Europe would remain, however, untouched, since the separated activities would be carried out in the same banking group. Hence, banks' ability to provide a wide range of financial services to their customers would be maintained.'

FESE members believe that any future structural reform should be designed so as to ensure that the integrity, security and quality of the EU financial markets are not compromised.

These potential reforms, if they are implemented, need to be carefully calibrated to the diverse sizes and characteristics of the Single Market. In this sense, we would like to bring to the

European Commission’s attention the fact that the ability of SMEs to access finance through small and regional exchanges, particularly important at a time when other types of finance is scarce, would most likely be negatively affected if the proposal to establish a separate legal entity for carrying out proprietary trading and other significant trading activities is applicable to relevant players in those markets. Taking into account that market making in small and regional markets is usually conducted by only a few national investment banks, should these banks be forced to transfer their market making activities into a separate legal entity particularly established for this purpose, they would most likely reconsider their market making activities entirely and might decide to quit this business completely, consequently further hampering the access to finance of SMEs.

Therefore, we would recommend that the measures proposed in the consultation paper be modified to exclude the activities of banks that serve SMEs in small and regional exchanges. We understand that it is already the intention of the report that the smallest banks should be considered to be fully excluded from the separation requirement. We agree with this approach.

2.3. Other comments

Proprietary trading performed by banks, whether or not this is carried out in a separate legal entity, should always be adequately regulated to ensure the transparency, integrity and competitiveness of EU markets and to provide protection for investors and taxpayers. Therefore, we reiterate our view that the operator of a potential OTF venue (in the proposed MiFID II context) should not be allowed to engage in proprietary trading, as this activity should not take place be in an environment intended for multilateral trading.

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