

NEWS RELEASE: Wednesday 14 November 2012

For Immediate Release

Bank separation rules will stifle banks' ability to support Europe's economic recovery, says new AFME/ISDA submission

New requirements for European banks to ring-fence their significant market-making activities would increase funding costs for banks and restrict their ability to deliver affordable financing and risk management services to European customers at a time when Europe needs capital markets funding, according to a joint paper issued today by the Association for Financial Markets in Europe (AFME) and the International Securities and Derivatives Association (ISDA).

The paper was submitted this week to the European Commission in response to a consultation on the recommendations of the High Level Expert Group on reforming the structure of the EU banking sector, also known as the Liikanen Group.

AFME and ISDA caution that the negative impact of the mandatory separation proposals on returns is likely to cause some banks to re-evaluate the economics of continuing with certain market-making related business lines, which could reduce their ability to provide liquidity to the capital markets, with a potentially significant detrimental impact on European growth.

It could also weaken the structure of the European banking sector, risk fragmenting the single market and reduce competition, adds the joint paper.

Furthermore, AFME and ISDA voice their concern that there are already various regulatory initiatives, completed as well as proposed, that seek to address the same issues. If these regulatory measures are not co-ordinated effectively, it could result in substantial regulatory inconsistencies and would ultimately undermine the primary goal of reducing risk in the banking sector.

Simon Lewis, Chief Executive of the Association for Financial Markets in Europe, commented:

“AFME agrees with the core objectives of the Liikanen Group’s work, particularly the goal of reducing risk in the banking system, promoting competition and maintaining the integrity of the single market. However, if the Liikanen proposals are implemented as they stand there is a serious risk that the capital markets will be unable to meet Europe’s financing needs at this time of very subdued bank lending.

“The impact of these structural separation recommendations needs to be assessed,

particularly regarding any potential systemic and operational consequences. We therefore strongly urge the Commission to conduct a thorough impact study to consider the balance of costs and benefits arising from this recommendation.”

George Handjinicolaou, Deputy Chief Executive Officer and Head of Europe for the International Swaps and Derivatives Association, said:

“ISDA is committed to safe and efficient markets and supports the goals of the Liikanen Group to reduce risk in banks and the banking system. However, we are particularly concerned by the Liikanen proposals to impose a one-size-fits-all business model on banks with significant trading activities. We firmly believe that such an approach is unnecessary and it would risk undermining HLEG’s stated key objective of ensuring a banking sector that is capable of financing the real economy.

“We urge the Liikanen Group to conduct a thorough impact study to assess the costs and benefits of their recommendations and strongly encourage efficient co-ordination of regulatory initiatives to ensure the goal of reducing risk in the banking sector is achieved without harming global financial markets”.

Please click here: [www. http://www.afme.eu/WorkArea//DownloadAsset.aspx?id=7215](http://www.afme.eu/WorkArea//DownloadAsset.aspx?id=7215) to view the joint AFME ISDA response submission to the European Commission consultation on the recommendations of the High Level Expert Group on reforming the structure of the EU banking sector.

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About AFME

The Association for Financial Markets in Europe (AFME) advocates stable, competitive and sustainable European financial markets that support economic growth and benefit society. AFME promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants.

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association through the GFMA (Global Financial Markets Association). For more information please visit the AFME website, www.afme.eu

About ISDA

Since 1985, ISDA has worked to make the global over-the-counter (OTC) derivatives markets safer and more efficient. Today, ISDA is one of the world's largest global financial trade associations, with over 840 member institutions from 59 countries on six continents. These members include a broad range of OTC derivatives market participants: global, international and regional banks, asset managers, energy and commodities firms, government and supranational entities, insurers and diversified financial institutions, corporations, law firms, exchanges, clearinghouses and other service providers. Information about ISDA and its activities is available on the Association's web site: www.isda.org.