



**European Federation of Building Societies
Fédération Européenne d'Épargne et de Crédit pour le Logement
Europäische Bausparkassenvereinigung**

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Transparency register ID Nr.: 33192023937-30

Brussels, 11 July 2013

Position Paper on the consultation by the European Commission on the Structural Reform of the Banking Sector

The European Federation of Building Societies welcomes the possibility to participate in this consultation. Considering the large amount of current legislative proposals, only part of the questions can be answered.

General comments

The idea of institutional separation of banking business fields is already reality for Bausparkassen in Europe. Bausparkassen are so called "ring-fenced" institutions – their core banking business is protected from riskier banking business. The members of the European Federation of Building Societies (EFBS) work under a separated banking system, since the Bausparkassen as specialized credit institutions are prohibited from carrying out certain banking activities under their national Bausparkassen Acts. The national Bausparkassen Acts provide for the restriction that Bausparkassen may only collect savings deposits and grant housing credits. Securities transactions, other retail banking (consumer credit, credit card business) or even payment services may not be offered by Bausparkassen. The limited business fields for Bausparkassen with the prohibition of investment business are of specific interest for their customers, who therefore benefit from a stable and sustainable business of Bausparkassen as specialized lenders. The Bausparkassen banking model allows them to continuously guarantee the supply with mortgage loans with low and fixed interest rates of their customers. Therefore, even during the crisis, the confidence which savers have in the Bausparkassen in the EU has been maintained and even increased.

1. Can structural reform of the largest and most complex banking groups address and alleviate these problems? Please substantiate your answer.

The EFBS supports the proposals of the Liikanen Group with regard to the separation of significant risky proprietary trading within the meaning of the proposed definition. The proposal devised by the Liikanen Group on this subject is an acceptable compromise solution between the systematic ban under the Volcker rule and the ring-fencing of retail business under the British proposals of the Vickers Group.

3. Which of the four definitions is the best indicator to identify systemically risky trading activities? If none of the above, please propose an alternative indicator.

In the opinion of the EFBS, it is important in the context of concrete implementation that clear standards are devised for the supervisors as to from which reference date and from which volume

proprietary trading may be carried out by a separate legal entity. The proposed threshold value of the significant proprietary trading of a credit institution may fluctuate over a period of time.

Moreover, it is important to properly define proprietary trading and allow necessary funding activities for credit institutions.

In the case of any further drafting of provisions for the mandatory separation of the significant proprietary trading, it is essential to continue to follow the narrow approach to the definition of proprietary trading according to the Liikanen Group. Risky proprietary trading to be separated should under no circumstances be defined as proprietary trading by buying up government bonds or by managing investment activities in order to guarantee the continuous supply of mortgage loans to savers. In addition, the definition of proprietary trading should focus on the specific individual risks of the transactions.

4. Which of the approaches outlines above is the most appropriate? Are there any alternative approaches? Please substantiate your answer.

The idea of “ring fencing” as proposed in the Vickers-Report could reduce risks for retail banks. However, financial institutions with a low risk business model should be subject to only appropriate requirements. The investment of surplus collective funds by Bausparkassen should remain possible. The proprietary commitments of the Bausparkassen on the capital market are subject to massive restrictions; for instance in Germany, the Bausparkassen are permitted to invest only surplus collective funds in gilt-edged investments. The background to this restriction is the protection of the savers and the close collective fund scheme of the Bausparkassen against risky financial transactions by a Bausparkasse.