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## **CONSULTATION ON THE STRUCTURAL REFORM - RESPONSE BY THE MINISTRY OF FINANCE OF FINLAND**

The Ministry of Finance of Finland has a generally positive view on the structural reform suggested in the Liikanen report

### **1. Objectives of and preconditions for the structural reform**

The attractiveness of a general legal obligation to separate banking and trading activities lies mainly in the increased transparency of the business structure and clarity of the governance arrangements as well as increased resolvability of large and complex banks, which may well justify the separation of banking and trading activities for all large institutions.

We emphasize that it is essential to first set out the objectives of possible legislative measures (i.e. the perceived problems that the legislative measures are aimed at) and analyze alternative legislative measures against those objectives. The analysis should be based i.a. on the following points:

- the diversification of risks and revenues provided by the universal banking model has a significant stabilizing effect for banks with such a business model;
- separation of activities within a group subject to consolidation requirements has a limited effect on a going concern basis, as the group as a whole must continue to meet the consolidated capital (and liquidity) requirement and the parent undertaking normally cannot afford any part of the group to become insolvent (or illiquid);
- a requirement to apply an arm's-length principle in intra-group transactions between group undertakings would be consistent with the separation of activities;
- a separate investment bank should continue to have adequate market power to be able to continue to offer all investment services, including market making and underwriting;
- a separate deposit bank should be able to continue to sell and buy derivatives for the purpose of hedging their own interest rate and currency risks as well as those of their clients.

### **2. Degree of separation**

In the light of the objectives and preconditions set out above the most appropriate solution would be to require a legal separation of deposit banking and investment banking within the group. This would meet the main objectives of transparency and resolvability, while preserving the main strength of the current regime, namely a wide diversification of risks and revenues.



### **3. Scope of application**

The objectives and preconditions set out above, in particular the need to improve the resolvability of large institutions, also point towards limiting the scope of the structural reform to global systemically important institutions (G-SIIs).

Even within G-SIIs the separation should apply only to institutions where the size of investment banking business is adequately large for the group to continue to offer the same investment services as before the separation. A possible solution could be to require separation in situations, where the investment banking arm of an institution represents at least 10 % of the aggregate amount of deposit banking and investment banking business (by balance sheet or income).

### **4. Other issues**

To support the separation, it should be required that all intra-group transactions must be carried out at arm's length.

In order to improve the clarity of governance arrangements it could be required that the deposit banking arm and the investment banking arm must have separate boards and separate senior management.

It is also important to allow the institutions an adequate transitional period for the restructuring.