Barclays welcomes the opportunity to respond to the European Commission’s (the “EC”) consultation on reforming the structure of the EU banking sector, and specifically to the questions raised in the Commission’s consultation paper. In response to the financial crisis, regulators in the EU, and globally, have taken steps to strengthen the stability and resilience of the banking sector, particularly with respect to global systemically important banks (“G-SIBs”). Reforms and proposed reforms have included enhanced capital and liquidity requirements (e.g., Basel III, CRD IV, and the G-SIB capital surcharge), recovery plans, stress testing, an international leverage ratio, and limits on certain proprietary trading activities. We believe that these reforms have significantly enhanced the strength of the banking sector, although we accept that additional steps may be required to further insulate retail banking operations from the risks posed by other activities of a banking group; and more broadly, to reinforce the policy objectives of eliminating any real or perceived taxpayer liability for solvency support. Structural reform is cited as one possible mechanism to accomplish the foregoing objectives. We believe that any viable structural approach must accomplish its objectives whilst satisfying two complementary principles:

1. First, structural reform must maintain the global competitiveness of a diverse European banking system and avoid negative consequences for the real economy, customers, and taxpayers, and;
2. Second, such an approach must be implemented consistently in a manner that preserves a level competitive playing field across the EEA, whilst, where appropriate, giving discretion to Member States and their resolution authority.1

As discussed below, we believe that any benefits achieved through full ownership separation would be significantly offset by the high direct and indirect costs associated with this approach, and therefore do not support it. Barclays believes that the best European approach would be to give Member States and their resolution authority some flexibility around the composition of activities to be ring-fenced while strengthening consistency around the regulatory treatment of intra-group legal entity relationships. This would allow the EU to accommodate a wider range of banking models and preferences whilst promoting a level playing field within the single market for financial services. Flexibility of activities to be ring-fenced would critically allow Member States to take both a narrow deposit-taking approach (as in the UK) and a narrow trading entity approach (similar to that proposed in France and Germany). Barclays supports structural reform that is as targeted as possible, particularly with regards to the protection of clients and customers, as a means of avoiding negative unintended consequences. Any artificial and possibly harmful separation of client activities among various entities may affect client and customer experiences and banks’ ability to serve them effectively and economically.

Referring to the original task prescribed to the Liikanen Group, we believe that three of the key principles that should be adhered to when considering the structure of a universal bank are to:

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1 It is important to note that our response assumes that any EU regulatory approach would not apply to non-EEA operations of EEA-based banks. We believe this should be the case for two primary reasons. First, as a practical matter, we believe it is likely not possible to separate out non-EEA operations in many jurisdictions due to regulatory conflicts. Second, such separation should not be needed in the first place because non-EEA operations will be subject to their own host-country regulatory scheme.
allow for a Group structure that can facilitate a single point of entry bail-in mechanism to improve resolvability;

- support the use of a dedicated operational subsidiary that guarantees operational continuity of critical services, and;

- insulate a narrow scope of retail deposits and customers who are the most vulnerable in the event of an institution’s failure

Barclays believes that a ‘narrow’ retail ring-fence is the most appropriate approach to accommodate these principles.

- As you know, the UK is currently legislating for a retail “ring-fence” via the Banking Reform Bill and Barclays supports this; we believe a ring-fence should be applied to a narrow scope of retail deposits. However, to the extent that the Commission does not deem this approach sufficient to meet its objectives, we believe that a workable and incremental next step could be that a supplemental “ring fence” could also be applied at the other end of the spectrum - around the “client-less” side of trading activities. Any second ring-fence should be of a very limited nature because it would only be implemented as an extra safeguard.

- The ‘narrow’ approach seeks to address the objectives by ring-fencing retail deposits into a “narrow retail bank”, thereby protecting the most fundamental and vital components of the banking sector and the customers who are the most vulnerable in the event of a bank’s failure. Indeed, it should be stressed that what makes this option viable is the very targeted and narrow nature of the ring-fence such that only true retail and SME banking (e.g. deposits under a certain threshold) is mandated to be within it.

- As we have stated publicly, we fully support this “narrow bank” solution because we believe it satisfies the foregoing principles and accomplishes regulatory objectives more effectively and at a lower cost than other options, such as full ownership separation.

- Of particular significance, the “narrow bank” structural approach, unlike full ownership separation, also allows EEA-based banks to remain competitive with non-EEA-based banks by preserving economies of scale achieved through a universal banking model. It should also be made clear that this approach is not one of the options listed in the EC’s Consultation Paper. The UK’s model, which is more limited and targeted, is not equivalent to Option H.

- We therefore urge the Commission to consider seriously the UK version of the “narrow bank” structure as an alternative to those options presented by the Commission.

- Crucially, any reform also needs to be delivered in such a way that maintains the diversity of the universal banking model, and does not limit the supply of services to customers and the wider economy.

- In the remainder of this paper, we respond to the specific questions raised in the Consultation Paper.

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2 Which was to “assess whether additional reforms directly targeted at the structure of individual banks would further reduce the probability and impact of failure, ensure the continuation of vital economic functions upon failure, and better protect vulnerable clients”.

3 As we understand the structural options described in the Consultation Paper (“narrow bank” options G, H and I), the UK retail bank ring-fence is more limited and targeted than those options.
1. Can structural reform of the largest and most complex banking groups address and alleviate these problems? Please substantiate your answer.

We are supportive of an initiative that explores the need for further reforms that can contribute to the restoration of confidence in the EU banking sector and wider economy, and believe that structural reform represents the logical next step in this direction.

We believe in the value of the long-standing universal banking model in Europe and the value of self-supporting financial institutions that provide a wide range of financial services to customers through such a model.

As noted above, it is our view that the resilience of banks has been significantly enhanced since the crisis via, among other things, successive capital and liquidity requirement reforms, stricter stress testing, recovery and resolution plans and the introduction of leverage ratio restrictions. We believe that the resilience of banks will continue to be enhanced as the fundamental review of the trading book by the Basel Committee reaches its conclusion and CRD IV is implemented.

With that said, we agree that consideration of the need for further reform is beneficial to maintaining the ongoing strength of the EU banking sector. Barclays’ view is that certain elements of ex-ante structural reform could be implemented in ways that are beneficial to financial stability, customers and the wider economy. The objectives of this reform must be specific and clear so that any subsequent design can be tested for appropriateness and cost effectiveness against those objectives.

In our view, when compared to additional structural reform (in that it is supplemental to initiatives already underway in Member States), it remains more pressing to achieve an effective regime to resolve banks in the event of failure. It is vital that a bank, regardless of its size, can be resolved in a way that removes taxpayer subsidy for its losses. As well as supporting the real economy through customers and businesses, the key principle that should guide any reform process should be: competitiveness of the EU banking sector; the efficiency and integrity of the internal market; and the elimination of moral hazard from excessive and favoured taxpayer support for the industry (whether real or perceived). We believe that achievement of such a regime first, and determining its method of implementation, will make it easier to determine the most appropriate and effective pan-EU structural reform measures.

2. Do you consider that an EU proposal in the field of structural reform is needed? What are the possible advantages or drawbacks associated with such reforms? Please substantiate your answer.

We believe that an EU initiative could be an effective measure, providing it is consistent and compatible with the approaches taking place in Member States, with respect to EEA operations. It is critical that competitive equality be the foundation for any structural reform that may be undertaken.

While it is critically important that these approaches are compatible in practice, given the challenges this presents, Barclays believes this could be difficult to achieve. Compatibility will rest on decisions
made in the two different regimes about how to treat the activities considered ‘in the middle’ and not directly covered by either regime, e.g. that are neither deposit-taking (via the UK), or trading activities (via the High Level Expert Group). If not carefully drafted in legislation, the implementation of a ring-fence for retail activities and a separate ring-fence for trading assets could mandate three entities where originally there was one – resulting in the separation of the retail, the trading, and the aspects of the business that lie in between, and generating excessive costs.

Ultimately, it is critical to first conclude the essential policy and economic objectives intended to be achieved. Second, essential approaches (UK, Liikanen, or others) that would achieve the policy objectives need to be elucidated. As we noted above, there are different permutations of approaches that may all achieve a balance of objectives; implementing legislation will need to be developed that leaves EU jurisdictions sufficient flexibility, but preserves a level playing field throughout the EEA.

We stress the fundamental importance of allowing Member States, their resolution authority and individual banks flexibility on implementing structural reform. Given the range of different business models used within the EU banking sector, this flexibility is imperative if the benefits of the universal banking model are to be maintained, and the introduction of greater financial instability avoided. Without this flexibility structural reform may harm rather than improve the resilience and resolvability of banks by reducing their ability to manage risk effectively across their business divisions as a whole. In turn, this could have a negative, material impact on customers and the real economy.

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.

We do not believe any of the listed definitions are sufficient indicators.

Referring to the October 2012 conclusions of the HLEG, we agree that separation should be considered for only a subset of institutions, and any separation should be carefully considered in the context of the ultimate policy objectives of such separation; for example, we do not believe that separation can guarantee resolvability.

Two of the primary factors in determining which institutions are systemically important, and thus should be considered for structural reform, are: 1) the risk that they pose to the taxpayer and the system as a whole, and 2) whether they are considered to be resolvable by the relevant competent authority. Barclays does not believe that any of the four definitions by itself can be relied upon as the correct measure for these factors.

Given our view, we submit that a more simple and effective approach would be to use categorisation as a G-SIB by the Financial Stability Board as an identifier for those institutions of scale, whose interconnectedness and systemic importance may necessitate structural reform. We would note that this identifier, however, will not capture all institutions that may have “systemically risky trading activities” – this is a much more nuanced issue and may require a system of metrics similar to that being debated by US regulators for the Volcker rule.
4. Which of the approaches outlined above is the most appropriate? Are there any alternative approaches? Please substantiate your answer.

Given the significance of requiring structural separation, firms will need clarity of outcome at an early stage. Furthermore, it is important for firms to be operating on a level playing field in the EU. Therefore we think that any indicators for identifying systemically important trading activities should be included in whatever proposal is adopted. However, we recognise, particularly given the link to resolvability, that there will be a discretionary element to the process as well to be determined by the relevant home supervisor. Therefore, if structural reform were to be introduced across the EU, we would support ex ante separation, on the understanding that it must remain subject to evaluation by the home supervisor.

5. What are the costs and benefits of separating market-making and/or underwriting activities? Could some of these activities be included in, or exempt from, a separation requirement? If so, which and on what basis?

We do not believe market-making or underwriting should be separated from other banking businesses.

These core banking activities provide clients with access to investors and lending, and should not be confused with high-risk activities; if not provided by banks, they would be provided less efficiently by the non-regulated, or shadow banking, sector.

Indeed, banks assist companies to raise capital through both underwriting and market making activities, and these activities cannot be separated. Secondary market making is a critical component of capital raising and market liquidity. Issuers rely on banks’ relationships with investors who will purchase their new issues of securities. Those relationships, and banks’ understanding of market demand, are developed and fostered in secondary market activity. As a result, companies are able to efficiently price new issues into the capital markets.

Without market making, underwriters would be unable to guide companies to accurately assess the market demand for their instruments. Particularly for new issuers or less liquid issuers who require the active assistance of underwriters to find buyers of their securities, breaking apart the relationship between issuers and their prospective investors will make access to the capital markets more difficult, and increase the cost of capital. Separation on a functional level will unnecessarily increase operational risk. Stricter separation may also eliminate EU banks’ ability to facilitate capital markets fundraising altogether.

Any increase in friction costs will directly result in these banks having less capacity to borrow, lend and hold inventory, directly correlating to reduced access to markets by European corporates. While US banks may fill this gap to some extent, pressure from the US authorities on exposure limits will hinder the US banks’ ability to meet the full financing needs of the corporates. Indeed, this impact will not be limited to European corporates. We would expect a similar impact on the European sovereign bond market, where any disintermediation within the market-making/underwriting function will translate directly into increased borrowing costs by Member States.
Barclays recognises from the perspective of both banks and business clients the commercial motivation for including simple risk management products within the deposit bank.

When appropriately marketed and sold, the ability to manage normal business risk arising from fluctuations in currency, interest rates and commodity prices is important for businesses. For example, small business owners with overseas suppliers need to hedge against foreign currency fluctuations affecting key costs.

However, if risk management services are permitted inside the deposit bank, it must not represent the beginning of a piecemeal dilution of the efforts to separate retail deposits from more complex derivatives activity.

Firm and explicit regulatory powers underpinned by legislation embodying clear principles can help prevent this. In particular, legislation should provide for adequate product appropriateness frameworks and approval processes, as advocated by the FCA in the UK.

The direct and indirect costs of functional separation are potentially very high and the benefits, in themselves, are limited.

As you would expect, Barclays is preparing for CRD IV implementation on the 1st January 2014, and the enhanced capital, liquidity and leverage standards which, in the UK, will be applied on both a consolidated group and UK solus basis. Barclays has also focussed significant effort in developing Group Recovery and Resolution Plans – where we understand the benefits inherent in managing and mapping intra-group capital and funding relationships for effective resolvability, at limited up front cost. By contrast, we regard the direct and indirect costs of full legal and functional separation as potentially very high, when weighed against the limited benefits.

If functional separation is pursued, however, the one area where this may not be the case is the legal and functional separation of a bank’s critical operating activities. One of the most essential policy goals of any, stricter, functional separation is to ensure operational independence and continuity – that is, that should one entity fail, the other entity is able to continue to operate with minimal disruption, particularly in relation to essential services, such as payments. This protects the most vulnerable customers, limits systemic contagion and reduces the immediate necessity of a government bail-out.

We believe that the most efficient and robust approach to achieving this operational independence and continuity is to create an insolvency-remote operational subsidiary which acts as a service company to provide key services to separate banking entities within its Group (we elaborate further on
this design in our response to Question 9). This is, of course, in addition to having a robust recovery and resolution plan in place. We note that a key requirement of the RRD is that all plans must ensure operational continuity; further reform should thus be unnecessary.

The operational subsidiary approach is efficient - the costs, if structured correctly, would primarily be one-off and related to the transfer of infrastructure (but not financial) assets into the new entity. In addition, a group would incur the cost of capitalising the subsidiary to ensure that it can operate for a set period post resolution without additional funds, as well as some incremental operational costs of coordination.

The benefits of operational subsidiarisation could be material. Placing critical shared operations in neither a deposit-taking nor a trading entity could facilitate operational continuity, regardless of which entity experiences stress. Such an approach could reduce the loss in default experienced by investors and customers by enabling ongoing services to the bank’s continuing operations.

However, it is worth noting that the creation of separate legal entities for financial assets and a separately capitalised operational subsidiary, would not, by itself, stop financial contagion between the two entities, or reduce the probability of a Group default. One approach to stop simple solvency contagion (where the failure of one entity automatically bankrupts the operating entity that owns it or is owned by it) is to provide for a single point of entry bail-in.

On balance, however, Barclays believes that it is likely that – in addition to the UK ring-fencing approach - existing legislation addressing capital, liquidity, and recovery/resolution should reduce the risk of simple intra-group solvency contagion considerably.

8. What are the relevant economic links and associated risks between intra-group entities?

Examples of the most common intra-group economic links include financial exposures, split hedges, lending between entities, guarantees, and assets sales between the deposit-taking and trading entities.

In those relationships, perhaps the greatest risk is the potential for the accumulation of large, undercapitalised exposures by one Group company to another Group company.

Preferred approach:

We believe the most effective approach to ensuring resolvability is to have a series of safeguards, including appropriate capital, large exposure limits and arms-length risk management.

Imposing limits on intra-group relationships is one method that seeks to de-link those entities within a large G-SIB, thereby reducing the risk of intragroup contagion. This requires different entities to manage their risk portfolios independently, and have independent reporting. However, by reducing the ability of a Group to ‘pool’ and therefore diversify and net off its risks and positions, such a requirement can impose additional cost on banking groups through lower credit ratings and higher
funding costs. At least some of these costs may ultimately be shared with customers. This is, of course, the predominant methodology in the US, in addition to Volcker rule prohibitions.

However, there are number of other policy solutions that are being assessed to help deliver a workable intra-group relationships framework. We believe that some of these frameworks may be furthered by the existing recovery and resolution process, but would caution that the costs and benefits of each need to be assessed thoroughly in light of the policy objectives.

**Independent external funding:**

Barclays believes this option would be extremely damaging for banks and their customers as a result of prohibitive costs that would likely be passed on to the real economy. It would require not only separate and incremental capital and liquidity for the separated entities, but also to require independent external funding (as opposed to centrally raised funding which is downstreamed in the Group to operating entities).

While this approach may be seen as establishing additional market rigour by ensuring that both entities face the markets and have their own public credit ratings (and funding costs), we believe it will impose crippling costs on both a one-off and an on-going basis, mainly due to poor credit ratings of separate entities in the Group (or no credit rating due to the lack of a track record in the entity concerned) and resultant punitive funding rates. Material costs would remain as a result of the associated lost economies of scale of a single large funding programme.

This would, of course, put EU banks, and their corporate clients, at a significant competitive disadvantage. We note that the US authorities, in their consideration of increased prudential standards for the US operations of non-US banks under Section 165 of the Dodd-Frank Act, have not adopted this approach, despite the Federal Reserve’s explicit regulatory concern about the parent company’s ability to serve as a source of strength in times of stress. We believe there are viable alternative funding models for groups with multiple operating banking entities.

**Capital and liquidity requirements:**

Another policy to reduce the risks of contagion and resolution is to impose additional capital and liquidity requirements on an intra-group basis. Barclays is sceptical that this would substantially limit cross-contagion beyond measures that could already be in place, e.g. a rigorous exposures regime, an operational subsidiary and single point of entry bail-in.

We believe that this policy introduces unintended consequences by reducing a Group’s overall financial resilience and efficiency (which pooling provides for), by ‘trapping’ excess capital and liquidity and restricting its deployment to compensate a loss in a single entity. This decreases an institution’s ability to withstand shocks and ultimately increases, rather than decreases systemic risk. The incremental costs of holding additional capital and liquidity would increase the costs of lending by the subject Groups. Although it is possible that local (shadow or de minimis exempted) or unaffected overseas banks may fill some of this void, it is more likely that with reduced competition, borrowing costs increase, and are ultimately shared with customers. The system is also significantly more complex to administer and monitor on a day-to-day basis and increases supervisory complexity rather than simplifying it.
**Legal entity governance:**

Beyond the issue of financial contagion, commentators have cited the perceived ‘contamination’ that can occur between two separated Group entities. Whilst we do not agree that such contamination exists and have not found any evidence to substantiate this, we do acknowledge the perception that conflicts of interest surrounding intra-group relationships may arise. The UK’s approach seeks to address this issue by drawing on the ‘Haldane principles’ (coined by the Bank of England’s Executive Director for Financial Stability, Andy Haldane) – which propose that the deposit-taking entity should have its own Board staffed with a majority of independent non-executive directors, as well as a separate HR/remuneration policy, treasury function and risk management function. Additionally, the primary fiduciary duty and responsibility of Directors is no longer maximising shareholder returns, but ensuring the stability and safety of the organisation. Furthermore, enhanced transparency in reporting encourages greater market scrutiny and discipline.

**9. As regards full ownership separation, what are the associated costs and benefits?**

The costs are likely to be very high and the benefits likely to be limited relative to the efficacy of the solution.

Barclays believes that structural reform in the form of ring-fencing of key operating activities deserves very serious consideration. However, if reform were to mean a full legal separation, it is not obvious that it would reduce the probability of failure, not least because a major lesson from the crisis is that investment and retail banks alike can experience failures, and both are measurably less stable than universal banking models. Just as financial crises are agnostic about whether the investment bank or retail bank is more likely to fail, structure and resolvability rules must be agnostic about the safest way to structure each individual institution.

Full ownership separation does not necessarily aid resolution at the point of failure, as for global universal banking groups, this is probably best achieved by bail-in at a single point of entry. We cannot also see any clear cut cost benefits from full legal separation. In contrast, we do see significant direct and indirect costs if full ownership separation were implemented.

As we have stated above, Barclays does not believe that full legal separation is beneficial. However, in order to respond to the Commission’s question in regards full separation costs, we present below the analysis we recently (May 2013) completed for the UK Prudential Regulation Authority (PRA) into a full operational separation akin to that described in the ‘ownership separation’ format in the Commission’s Consultation Paper. The response presents the impact of full separation in terms of (i) permanent impact on the operating cost base, and (ii) investment spend to implement a full separation. We believe these impacts outweigh any benefits, and that operational/functional separation would achieve the same results without the detrimental effects.
**Costs:**

Recent analysis produced by Oliver Wyman for the UK’s Independent Commission on Banking (ICB) showed total business costs of £17bn for full separation for the top 5 UK banks but did not include operational separation costs as these would differ significantly by bank and composition of the new, separated organisation.

We have considered these operational costs of undertaking a full separation (capital and funding costs, which are reflected in the Oliver Wyman analysis, do not fall into this scope).

**Investment spend to implement full separation:**

Our analysis shows that costs for implementing full separation would also be extremely high. This cost would primarily be made up of the programme to establish separate regulated entities, move customers and clients and build two sets of operations (i.e. premises, technology including payments systems).

**Impact on current operating cost base:**

Our analysis has shown that the annual incremental operating costs of full separation, which does not achieve any material changes in operational safety or independence over and above holding infrastructure in a service entity, would be very significant.

The major elements of cost arise from lost synergies and economies of scale including; increased people costs associated with the re-organisation of Barclays businesses; technology operating costs including segregation of technology environments, data centres infrastructure and duplication of systems; property and premises costs including build of new data centres, contact centre duplication, setup of new and re-configuration of existing branches; and duplication of complex Group support functions such as Finance, Treasury, HR and Legal.

In addition, full ownership separation would potentially incur significantly large tax costs that would not be incurred in a ‘pure’ functional separation scenario (second degree of intervention, p. 7 of Consultation Paper) due to the lack of a holding company structure in the full ownership separation option.

**Implementation timeline:**

We estimate that implementation of full separation of a single bank could be completed within 3-6 years.

**Operational subsidiarisation benefits and costs:**

We have determined that operational subsidiarisation may be the optimal solution in all scenarios and reflects a superior balancing of benefits and costs than full separation. It could prove crucial in supporting resolvability and providing flexibility to the Group, and is a design that Barclays has been developing for some time. It would allow us to continue providing infrastructure and services to critical operations immediately following resolution, by separating the infrastructure needed to perform these services from the legal entities holding the bank’s financial assets and liabilities. It could also provide customers with a greater sense of security knowing that, regardless of stress events, the infrastructure of Barclays will continue to function (e.g., the operational ability to transfer or withdraw money and make payments).
Full ownership separation would mean creation of extra Op Subs that would own and hold infrastructure required to provide services to critical activities to each entity. For this reason, the costs for operational subsidiarisation are also factored in under full separation.

We estimate that operational subsidiarisation across the Barclays Group could be implemented within three years. We estimate the implementation costs and subsequent annual incremental impact on operating costs to be reasonably immaterial.

Although operational subsidiarisation may also incur additional tax costs, these would be much smaller in comparison to that for full separation.

Having compared the costs of implementing a full separation with that of establishing and operating operational subsidiary(ies), we believe that the relatively smaller costs of Op Sub and the benefits of the subsidiary approach are economically more attractive, while equally effective. Over the medium and long term, this approach may enable further economies of scale to be achieved - savings that would then benefit our customers.

10. Does the above matrix capture a sufficiently broad range of structural reform options?

No, and we elaborate on further approaches in Question 11, below.

11. Which option best addresses the problems identified? Please substantiate your answer.

We believe that a ‘narrow’ retail ring-fence model as prescribed under the UK’s (‘ICB’) Banking Reform Bill is the most suitable option to achieve regulatory policy objectives. This is not one of the options listed in the Consultation Paper (the UK approach, which is more limited and targeted, is not equivalent to Option H), but we believe it should be considered as a further option.

Barclays is fully supportive of the narrow retail ring-fence approach and believe it is sufficient in itself to achieve the objectives of this reform. In particular, a narrow retail bank is the most suitable way of ensuring that retail customers are protected from risks that may arise in the remainder of a banking group.

However, if the Commission was to conclude that current initiatives and tools were insufficient to meet the targeted objectives, we believe that additional (rather than replacement) targeted, reform could be introduced on an incremental basis. Of primary importance, however, is that it would be implemented in a manner subject to local regulatory and resolution authority discretion, and that it is consistent with, and complimentary to, initiatives – such as the UK’s Banking Reform Bill – that are already well under way in Member States.

The best European approach would be to give Member States some flexibility around the composition of activities to be ring-fenced while strengthening consistency around the regulatory treatment of intra-group legal entity relationships. This would allow the EU to accommodate a wider range of banking models and preferences whilst promoting a level playing field within the single market for financial services.
Flexibility of activities to be ring-fenced would critically allow Member States and their resolution authority to take both a narrow deposit-taking approach (as in the UK) and a narrow trading entity approach (similar to that proposed in France and Germany). Barclays supports structural reform that is as targeted as possible, particularly with regards to the protection of clients and customers, as a means of avoiding negative unintended consequences.

As addressed in Question 9, Barclays does not believe that ownership separation addresses the issues targeted by structural reform. We believe this to be an unnecessarily strict approach that imposes excessive costs and risks, whilst generating only the same or fewer benefits as other, more nuanced policies available to decision makers.

As stated previously, we believe that the universal banking model best serves customers, shareholders and the wider economy. However, we also acknowledge and recognise the importance of resolvability, the elimination of real or perceived taxpayer support and the role of effective legal governance (as covered in Question 8). Therefore, stricter functional separation with tighter limits on relationships between entities is an approach that could efficiently address the targeted problems, and also benefit from long-term resilience, as limits can be monitored for effectiveness and adjusted over time.

We do not see the range of EC options as exhaustive, and therefore believe there are at least two other options that could represent a workable and sensible incremental element of reform. Two of the options could include: 1) The UK’s approach of a narrow ring-fence around retail deposits, and; 2) A narrow trading approach that would constitute the movement of all non-customer driven trading activity into a separately-capitalised ring-fenced entity.

Additional to those customers indirectly affected, we believe restrictions that specifically target a particular subset of clients (e.g. HF, PE, VC) are unnecessarily discriminatory and imply a punishment for partaking in those businesses. This could have unintended consequences that may not be fully evident and outright harmful to the economy and financial stability (e.g. decreased liquidity, increased cost for remaining clients, and decreased innovation and knock-on economic consequences in the case of VC).

The two additional narrow-scope options are flexible enough to accommodate the diversity of EU banking models and Member State and resolution authority approaches to structural reform. These approaches limit the one-off transitional disruption to banks and their customers/clients, whilst maintaining the benefits of both universal banking and adequate structural separation.