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MINISTER FOR BUSINESS AND
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Danish response to the European Commission's Consultation on the Structural Reform of the Banking Sector

General comments

Denmark welcomes the general objectives of a reform to establish a stable and efficient banking system. Denmark would like to thank the European Commission for the opportunity to contribute to the consultation.

In our view it is essential that if a follow up on the report of the High-level Expert Group is considered, the options under consideration must be analysed carefully, before possible initiatives are proposed.

It is in this regard important to keep in mind other regulatory initiatives, which seek to promote some of the same goals as a possible structural reform. For instance regulation of SIFIs, including in the CRD IV, aim to address the potential risks which currently are present concerning systemic banking groups. As such, Denmark finds that the appropriate regulation on SIFIs would allow for large banks.

Finally, Denmark finds it important to keep in mind the outspoken variation of the different national banking sectors across the EU. Denmark acknowledges that risks from trading activities incurred significant losses in some countries' banking sectors during the financial crisis. The Danish experience from the financial crisis is, however, that credit risk by far was the most important trigger of losses. Denmark is opposed to a "one size fits all"-model in relation to a possible banking sector reform. It is essential that possible EU-level initiatives allow for Member States to tailor possible regulation to national characteristics of the banking sector.

Detailed comments

1. Problem drivers. Q1: Can structural reforms of the largest and most complex banking groups address and alleviate the problems?

The proposal of the High-level Expert Group as to mandatory legal separation of proprietary trading and other significant trading activities should be further reflected upon. Denmark acknowledges the Consultation as

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part of the more in depth analysis of the possible effects, before possible concrete initiatives are proposed.

Denmark acknowledges that a substantial amount of trading activities could increase the risk of losses in a crisis situation. This should lead to the consideration of initiatives that decrease excessive risk-taking and focuses on competent and efficient risk management.

Denmark is therefore of the opinion that further analysis needs to be conducted as to the size of the problems in different Member States including whether the proposed solutions will be proportional to solve the problems identified.

Furthermore, Denmark notes that with a proper implementation of the CRD IV and the CRR including regulation on SIFIs and application of the macro-prudential powers Member States will come a long way in preventing the build-up of imbalances and problems like those that particularly the large and complex banking groups faced during the financial crisis.

Finally, the coming Bank Recovery and Resolution Directive will make it easier to resolve large banks across the EU, which is one of the focus areas in regulation on a structural reform. Any impact assessment of the proposed initiatives of a structural reform therefore needs to take this coming regulation into account.

2. Subsidiarity. Q2: 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?

Denmark welcomes an EU-wide approach to bank regulation and international coordination. Important and well-coordinated regulative actions based on a recommendation from the High-level Expert Group are the recovery and resolution plans as proposed in the Commission's Bank Recovery and Resolution Directive.

Denmark assesses that more in depth analyses of the effects of the already implemented regulative actions approaching would be welcomed before radical actions such as separation of large banking groups should be proposed.

3. Policy options. Q3: Which of the four definitions is the best indicator to identify systemically risky trading activities? Q4: Which of the approaches is the most appropriate? Q5: What are the costs and benefits? Q6: Should deposit banks be allowed to provide risk management services?

Denmark acknowledges the Commission's consideration on separation of risky trading activities in the large systemically important banking groups, considering the structure of the banking sector in some countries.

However, mandatory structural changes of a group are actions which could be comprehensive and burdensome, so for the sake of proportionality the scope is important.

Denmark is opposed to a “one size fits all”-model. As such, Denmark finds it is highly important that any possible initiative is proposed in the legal form of a Directive with minimum harmonisation standards constituting a general framework, in particularly taking into account the varying banking sector structures in the different Member States. This would make it possible for Member States to tailor possible regulation to national characteristics of the banking sector.