BUSINESSEUROPE

13 July 2012

Shadow Banking

Commission Green Paper

Introduction

BUSINESSEUROPE supports the Commission analysing and assessing the potential systemic threat to financial stability posed by entities and activities outside the regular banking system, such as investment and money market funds.

Safeguarding financial stability is crucial for companies. BUSINESSEUROPE is in favour of smart regulation for financial services in response to the regulatory failures that led to the financial crisis and to address the risk of similar events occurring in the future. Reforms should combine financial stability with growth and be mindful of companies' needs to access finance and manage risk.

At a time when the economic recovery can only be sustained through an increase in corporate investment and when banks tend to reduce their contribution to the financing of companies, the implementation of any new reform measures in the area of shadow banking could restrict the availability of finance to businesses, even creating an overall shortage of some companies' main sources of financing.

It is crucial that European rules that impact on the availability of alternative means of financing support market liquidity and make it easier for businesses to access debt and equity funding investments. Investors should be encouraged to invest long-term risk capital in European companies when we need such partnerships between European companies and long-term European investors to generate employment and economic growth.

Scope

BUSINESSEUROPE warns against a general regulatory approach to regulate the shadow banking system.

Several entities and activities are already regulated and supervised, for example under the rules regarding alternative investment fund managers, UCITS and Solvency II. It is important that consistency and coherence with these rules is ensured and that rules are not duplicated. It should be clearly clarified what is precisely targeted by any potential legislative proposals. A distinction should be made between those entities and activities that are already the subject of regulation and/or supervision and those that are not. Focus should be on those non-regulated entities and activities that are also able to pose a significant systemic threat to financial stability.

Consistency in cross-border arrangements will be particularly important to preserve market integration. The risk of segmenting financial services along national borders should not be underestimated, and would have severe consequences for the functioning of the European internal market and its growth potential. Considering that the financial services industry is a global one, any reforms should be agreed and implemented at international level to ensure that they are effective and do not distort competition.

Impact Assessment

BUSINESSEUROPE underlines the importance of comprehensive quantitative impact studies on the cumulative effects of any new rules which assesses both macroeconomic effects and the consequences on the financing of European companies.

A number of other legislative projects, both recently adopted and planned, will also have an impact on financing conditions, such as rules on capital requirements, private equity, financial instruments, derivatives, measures to reinforce bank depositors' protection, and financial sector tax and resolution schemes. The combined effects of these reform measures together with new rules in the area of shadow banking should not jeopardise European companies' access to financial markets on competitive terms and their ability to find long-term investors.

Enhance competition

The Commission should also focus on measures that reduce barriers to entry into the banking market. This will encourage more diverse forms of finance - including non-bank finance - and ensure that the EU remains an attractive market, increasing the choice and possibilities for businesses to access the finance they need to create growth and jobs. Any potential shadow banking proposals should ensure that these barriers to entry are not disproportionately increased.

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