Note on pending EU legislation which should either be withdrawn or revised

1. Banking structure reform

There are compelling arguments for reviewing the proposal made by the previous Commission on the structural reform of banks as part of the Better Regulation initiative. The recent Asset Quality Review and stress-tests, coordinated by the ECB and the EBA, demonstrate that EU banks are now well capitalised, able to withstand significant shocks and thus there is little reason to expect significant failures. Since the crisis there has been a wide ranging strengthening of the EU prudential regime. For example, the Capital Requirements Directive IV (CRD IV) and the Bank Recovery and Resolution Directive (BRRD) which together provide considerable safeguards for depositors and customers in the event of a bank failure. Therefore there is no prudential imperative to restructure EU banks. In addition, bank regulators already hold the power to alter a bank's structure if it is thought necessary.

Moreover, the current reform proposals are likely to damage the ability of banks to service customers, in particular SMEs, and thus undermine economic growth. This would run counter to the Commission's growth agenda and CMU initiative.

Finally, there are measures that have been adopted already at national level, the implementation of which would be subject to substantial uncertainty and delay if the Commission proposals were adopted. These national measures appear to provide appropriate remedies therefore with respect the principle of subsidiarity EU measures might be judged unnecessary.

2. Institutions for Occupational Retirement Provision Directive (IORP)

The Directive was designed to create an internal market for occupational retirement provision. It lays down minimum standards on funding pension schemes, the types of investments pensions may make and permits cross-border management of pension plans.

However the IORP Directive drew concerns during the drafting process, as the EC initially intended to include capital requirements for pension funds. Most companies' pension schemes are well funded and appropriate national safety mechanisms exist. Additional solvency requirements are not necessary, and would result in a reduction of liquidities, making pensions more expensive and would force employers to reduce or even stop providing such benefits. While the provision has ultimately been removed, it is feared that it could be reintroduced at a later stage in the legislative process, making the legislation too prescriptive and not adapted to the huge variety in national pension systems. It will also impose significant extra costs on pension schemes and employers (which are estimated at once off costs of €22 per member, with recurring costs of €0.27-0.80 per member per year). This risks undermining the vital role that businesses play in providing workplace pensions as a benefit to their employees, which allows them to save for retirement.

3. Financial Transaction Tax

We do not believe that a Financial Transaction tax is compatible with the European Commission's stated aims of promoting jobs, growth and investment.

The FTT would conflict with the desired aim to diversify the funding sources for corporates so that their reliance on bank funding is reduced. At a time when bank funding is constrained, the main alternative avenue for funding is the financial markets. However, the use of the capital markets, which is already underdeveloped in the EU compared with some other economies, will be further disincentivised as these transactions will be subject to FTT, and therefore more expensive, whereas bank loans will not and will therefore be relatively cheaper. A study conducted by London Economics for the City of London found that on average, corporate bond returns would have to increase by 6-14% (depending on maturity) in order to make up for the cost of the FTT. This increased cost of funding will decrease businesses' ability to invest and grow. Even if the increased costs of accessing financial markets in this way is borne by corporates, for those with group operations seeking to centralise their funding requirements and obligations, yet further FTT may be borne directly on their internal trades due to the wide definition of financial institution and the lack of group exemption.

Furthermore, the FTT will have serious consequences for household savings, the main source of finance for long-term investment. Building up larger pools of savings is key to boost investment. However, a study by London Economics shows that household savings in Europe could be reduced by up to 16% as the values of financial assets fall due to the FTT. This fall in household savings will have a negative impact on consumption, exacerbating the current low levels of demand across the EU, and consequently have a negative impact on growth.