

Banking reforms are “not without consequences”

London, 18 June 2010 – Failure to consider the impact of banking reforms on the real economy could hold back global recovery according to an international meeting of bankers and regulators held in London today.

The Fifth City of London - Swiss Financial Round Table discussed key topics common to both countries' financial services sectors. The topics and conclusions drawn were:

Financial stability:

Tackling restoration of global financial stability presents considerable challenges for regulators and is a key task for all stakeholders. The primary objectives should be to minimise the risk of a bank failing; minimise the immediate and ultimate cost to the taxpayer of a bank's failure; and minimise market disruption and further contagion caused by the failure of a bank. Additional capital should not be the automatic answer to gaps in regulation. Macro-prudential supervision, greater shareholder and board engagement, and greater in-house risk control are just as important. It is crucial that regulatory bodies use the right mix of tools and react in a measured way.

Capital and liquidity:

The banking industry is facing higher capital charges designed to discourage excessive risk-taking and new liquidity requirements to make banks less dependent on short-term funding. Politicians and the public want banks to lend more, but want to limit the returns to lenders, which makes it more difficult for banks to raise the capital that the authorities want. In addition, the higher costs of capital and liquidity for the industry will result in dearer borrowing, lower returns to depositors and a rationing of credit.

The participants in the discussion made it clear that banks are not opposed to reform, but those reforms are not without consequences, both for banks and the underlying economy and, arguably, society, as there will be a scarcity of credit. The discussion concluded that reforms should take account of the impact on the real economy and be calibrated, timed and sequenced so as not to hold back the fragile economic recovery.

Angela Knight, chief executive of the British Bankers' Association said: “Banks are at the table for change, both in the UK and Switzerland. We recognise our responsibility to society and the importance of the international decisions that banks will need to hold more capital and more liquidity so we can better ride the storms of the future. But this inevitably adds considerably to our operating costs whichever way we look at it and thus needs to be properly considered.

“The impact of increasing operating costs on banks is the same as with any other company in that it affects the price of their goods and products, which in our case is finance. This in turn flows through to the wider economy as well. We need clear, realistic and workable timetables in the new capital rules so that economic recovery is not adversely affected. For this, supervisors and politicians need to be fully involved and fully committed.”

Patrick Odier, chairman of the Swiss Bankers' Association said: “Banks are not opposed to new regulation in principle, but we are obviously concerned about possible negative effects of the cumulative impact on the banks' ability to fuel the economy with credit. We therefore hope that the capital and liquidity standards eventually agreed take the overall effects of new regulation on bank lending and the wider economy into account.”

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The Round Table was hosted by the Lord Mayor of the City of London, Alderman Nick Anstee, at Mansion House in London and was attended by more than 50 senior representatives from both the British and Swiss financial services industries including Paul Tucker, Deputy Governor of the Bank of England for financial stability; Professor Thomas Jordan, Member of the Governing Board of the Swiss National Bank; Tobias Guldemann, Chief Risk Officer of Credit Suisse Group; and Carla Antunes da Silva, Managing Director at JP Morgan Securities. The debate was chaired by Sir Nigel Wicks, chairman of Euroclear plc.

Notes for Editors

The City of London-Swiss Financial Round Tables are organised jointly by the British Bankers' Association, the Swiss Bankers' Association and the Swiss Embassy. The first Round Table was held in London in June 2006 and the Swiss Bankers' Association hosted the second in Zurich in July 2007. Subsequent Round Tables have been held in London and Zurich in alternate years.

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