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Structural Banking Reforms

Cross-border consistencies and global financial stability implications

Report to G20 Leaders for the November 2014 Summit

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Executive Summary

This report responds to a call from the G20 for the FSB, in collaboration with the IMF and the OECD, to assess cross-border consistencies and global financial stability implications of structural banking reforms, taking into account country-specific circumstances, and to report to the 2014 Leaders' Summit.

The FSB, working with the IMF and OECD, has collected information and perspectives both of those jurisdictions originating structural banking reform measures, and of jurisdictions that might be affected by these reforms, to examine the likely impacts, both positive and negative, on other jurisdictions' financial systems and on global financial stability.

Structural banking reforms have recently been implemented or proposed in a number of jurisdictions, which account for a material share of global banking assets. The most far-reaching reforms are in jurisdictions that are home to global systemically important banks (G-SIBs), as well as host to substantial operations of G-SIBs. The recent financial crisis highlighted concerns around the complexity and resilience of banking group structures. A broad aim of many structural banking reforms is therefore to introduce a separation between certain 'core' banking activities – such as payments and retail deposit-taking – and the risks emanating from investment banking and capital market activities. The reforms are designed to reduce risks to banking groups stemming from trading activities, limit the range of activities covered by the public safety net, and more generally to simplify legal and operational structures of complex banking groups, in order to enhance their supervisability and resolvability with a view to reducing systemic risk, enhancing depositor protection and limiting fiscal exposures. The reforms have mostly taken the form either of functional separation of types of financial activities through outright prohibitions, 'ring-fencing' or subsidiarisation; or of geographical separation via local subsidiarisation requirements for domestic operations of foreign banks.

The main findings of this report are as follows:

- Jurisdictions implementing structural banking reforms emphasise that the reforms support the international reform agenda and promote global financial stability by reducing systemic risks as well as the implicit government guarantee to too-big-to-fail (TBTF) institutions, resulting in more efficient market pricing of risk and more efficient allocation of capital. Authorities in other jurisdictions generally support the overall objectives of the structural banking reforms, as being consistent with the shared goal of ending TBTF.
- At the same time, authorities in other jurisdictions identify a number of potential negative cross-border implications, including possible impacts on the efficiency of cross-border

groups and complications to their crisis management and resolvability, decreased liquidity of financial markets, regulatory arbitrage and leakage to the shadow banking system. To date they have not observed instances where structural banking reforms being implemented elsewhere have had a material adverse impact on their domestic financial systems. They also note, however, that in many cases the details of reforms are yet to be fully specified or put into effect.

- Regulatory restrictions to banking structures in order to provide greater *ex ante* transparency and certainty to the market and authorities in a resolution scenario can have implications for the mobility of cross-border capital flows. Some fragmentation might however be an *intended* consequence of reforms that have the objective to reduce interconnectedness between intermediaries, including across borders. The materiality of its effects for global financial stability will only became apparent as these reforms are fully implemented.
- It will be important to continue monitoring the potential implications of structural banking reforms as they are being implemented; in particular with respect to the effective functioning and operability of resolution strategies of cross-border groups, and to the liquidity of sovereign and corporate bond markets in jurisdictions where global banks have to date played an important role.

As implementation of structural banking reforms progresses, the FSB, in collaboration with the IMF and OECD, will provide an update of this assessment, expanding the analysis with data where available, to G20 Finance Ministers and Central Bank Governors in 2016, as part of the FSB's ongoing work to monitor the implementation and impact of post-crisis reforms.

In addition, the FSB is of the view that in order to better assess the implications of geographical separation requirements for cross-border financial stability, a clearer picture is needed of the range of national requirements for capital and liquidity held locally (not only the requirements resulting from recent structural banking reforms, but also the requirements in existing regulations). The Basel Committee on Banking Supervision (BCBS) intends to take stock of jurisdictions' current and prospective treatment of cross-border branches and subsidiaries and report its findings to the FSB by end-2015. The OECD intends to take stock of the consistency of requirements with the OECD Codes of Liberalisation of Capital Movements and of Current Invisible Operations and report to the FSB by end-2015.

The remainder of this report sets out in more detail the key structural banking reforms being implemented or proposed in individual jurisdictions, the perspectives of both the jurisdictions undertaking the reforms and other jurisdictions that are affected by the cross-border and global impacts of the reforms, and how further monitoring of these reforms will be undertaken.

1. Background

In 2013 the G20 called on the FSB, in collaboration with the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD), to assess cross-border consistencies and global financial stability implications of structural banking reforms, taking into account country-specific circumstances, and to report to the 2014 Leaders' Summit.[1]

At a high level, structural banking reforms have been designed in response to the problems highlighted during the recent crisis and created by the extension of public safety net protections to investment banking activities, and by the shift in culture brought by mixing of relationship and transaction-based banking, which encouraged greater leverage, larger balance sheets and worsened the TBTF problem. In response to these problems, structural banking reforms introduce a separation between, on the one hand, certain banking activities such as payments and intermediation and, on the other hand, certain risky investment banking and capital market activities. Further, proposals for structural reform have the objective of improving financial stability by: (i) reducing the risk of cross-contamination between investment and commercial banking, achieved by separating the capital allocated to the two activities and dis-allowing blended funding; (ii) acting on the 'risk culture' of firms either by reducing the extent to which the incentives and risk-appetite of transactions-based trading activities are spread to relationship-based commercial banking activities, or by reducing the risks to banking groups stemming from trading activities themselves; and (iii) increasing the loss-absorbency capacity in the banking system and improving the resolvability of firms.

These reforms have mostly either taken the form of functional separation between types of financial activities, or geographical separation via subsidiarisation requirements of significant domestic operations of foreign banks. Structural reform proposals that insist on functional separations have either taken the form of outright prohibitions, or 'ring-fencing' or subsidiarisation requirements for certain activities to be conducted by separately capitalised entities within a common holding company structure.

In early 2014, the FSB secretariat and the IMF and OECD staff undertook a survey of FSB member jurisdictions and a small number of additional OECD members regarding domestic and foreign 'structural banking reforms'. Reform measures that jurisdictions were asked to consider included (but were not limited to) measures originated at home or host country level that:

- require ring-fencing and/or separation of specific activities into different legal entities;
- impose activity restrictions;
- introduce or materially strengthen requirements related to capital, intra-group exposure limits, liquidity, funding sources to parts of a banking organisation on a sub-consolidated basis; or
- require or incentivise banks to operate through certain structures rather than others (e.g. subsidiaries rather than branches).

[1] Paragraph 68 of the September 2013 St Petersburg G20 Leaders' Declaration; available at: https://www.g20.org/sites/default/files/g20_resources/library/Saint_Petersburg_Declaration_ENG.pdf.

Jurisdictions were asked to consider both measures established by law or regulation, and measures imposed on a supervisory basis. Jurisdictions that had or proposed to implement national or regional structural banking reforms were asked to describe: the objectives of these reforms (including in addressing issues of concern that emerged during the crisis); and the expected results from the implementation of the reforms (including any domestic or cross-border impact assessments conducted by the authorities). Jurisdictions were also asked to describe the expected effects in domestic markets of structural banking reforms proposed or implemented in other jurisdictions, and in particular provide information on anticipated or observed impacts on markets and on international banks' business models, organisational structures and operations.

2. Key structural banking reforms underway

The following description of structural banking reforms in place or being implemented is based largely on the characterisations provided by the relevant home jurisdiction authorities. The order of description reflects the chronological order in which the reforms have been implemented or proposed. Further details on the key US and UK reforms and the European Commission (EC) proposal are contained in the Annex.

2.1 Reforms in the United States

There are three key structural banking reforms in place or being implemented in the US:

- the 'Volcker Rule';
- the 'Swaps Push-Out Rule'; and
- the 'Foreign Banking Organisations Rule'.

Volcker Rule[2]

This provision of the Dodd–Frank Act generally prohibits US and foreign banking entities in the US from engaging in proprietary trading – that is, short-term, speculative risk-taking that is separate from client business – and from investing in, sponsoring, or having certain relationships with a hedge fund or private equity fund. The core objective of this reform is to address risks posed to insured depository institutions by these activities. While the

[2] Section 619 of the US Dodd–Frank Wall Street Reform and Consumer Protection Act, 2010 ('Dodd–Frank Act') added a new section 13 to the Bank Holding Company Act, commonly referred to as the 'Volcker Rule', that generally prohibits banking entities from engaging in proprietary trading and from investing in, sponsoring, or having certain relationships with a hedge fund or private equity fund (each a 'covered fund') – See Pub. L. No. 111-203; see Dodd–Frank Act § 619; 12 U.S.C. § 1851. These prohibitions are subject to a number of statutory exemptions, restrictions and definitions.

The Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Commodity Futures Trading Commission, and the Securities and Exchange Commission issued final rules implementing section 13 of the BHC Act on December 10, 2013 – see Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds, 79 Fed. Reg. 5536 (Jan. 31, 2014).

prohibitions are subject to a number of exemptions (for example, risk-mitigating hedging activity generally is permitted), prohibited activity must be conformed or divested.[3]

The rule applies to both domestic and foreign activity of US banks and the US activity of foreign banks, and, as noted above, contains some exemptions: all banking entities are permitted to engage in proprietary trading in US government debt instruments, and foreign banking entities (other than insured depository institutions) operating in the US are permitted to engage in proprietary trading in their home country's government debt securities. The final rule also allows proprietary trading by a foreign bank or foreign securities broker-dealer owned by a US banking entity in obligations of the foreign sovereign that charters the foreign bank or foreign broker-dealer. Market-making in all types of securities including foreign sovereign debt is permitted under the final rule. The final rule provides both US and foreign banking entities with equivalent treatment for those activities and operations that occur in, and that have a sufficient nexus with, the United States; it also provide exemptions for certain activities of foreign banking entities that occur solely outside of the United States.

Swaps Push-Out Rule[4]

This provision of the Dodd–Frank Act prohibits the granting of US federal assistance (including Federal Reserve discount window access and Federal Deposit Insurance Corporation (FDIC) deposit insurance) to entities that are registered with the Commodity Futures Trading Commission (CFTC) as swap dealers or major swap participants, or with the Securities Exchange Commission (SEC) as security-based swap dealers or major security-based swap participants. The effect of this provision is to limit the types of swaps activity in which a recipient of US government assistance (e.g. a US insured depository institution or a US branch or agency of a foreign bank) can engage. US insured depository institutions and US branches and agencies of foreign banks are permitted to engage in certain swaps activities, including using swaps for purposes of hedging and other similar risk mitigating activities, and acting as a swap dealer for interest rate, foreign exchange, and certain other swaps. US subsidiaries of foreign banks are treated the same as other US subsidiaries for the purposes of the provision.

Enhanced Prudential Standards for Foreign Banking Organisations[5]

Under this rule, foreign banking organisations (FBOs) with US non-branch assets of $50bn or more will be required to hold their US subsidiaries through a US intermediate holding company (IHC), which is subject to capital, capital planning, liquidity and stress testing requirements similar to those applicable to US bank holding companies (BHCs). FBOs with combined US assets (including US branches) of $50bn or more will be subject to liquidity and risk management requirements in the United States. US authorities noted that the purpose of

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3 The final rule applies the statutory provisions to insured depository institutions; companies that control an insured depository institution; and foreign banks with a branch, agency, or subsidiary bank in the United States, as well as to affiliates of these entities, such as broker-dealers and commodity pool operators.

4 See Title VII, section 716 of the Dodd–Frank Act.

5 See Federal Reserve System, 12 CFR Part 252 [Regulation YY; Docket No. 1438] RIN 7100–AD–86: *Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking Organizations*.

these requirements was to strengthen the regulation and supervision of large FBOs with a US presence in order to:

- address risks to US financial stability; and
- promote a more level playing field for domestic and foreign banking firms that operate within the US.

The rule does not impose a requirement that all US activity be conducted through US incorporated subsidiaries – foreign banks may still operate branches and agencies in the US. Nor do the reforms set a specific limit on the amount a foreign bank's US branches or subsidiaries can lend to their parent or other non-US affiliates.

While FBOs with US non-branch assets of $50bn or more will clearly be affected by requirements for local capital and liquidity, US authorities note that the requirements in the final rule are similar to those in place in other jurisdictions; moreover, compliance with the FBO rule is generally not required before 2016, with only a fairly small number of banking groups likely to be required to form an IHC.[6] US authorities also note that, to a significant degree, the rule should consolidate and give some permanence to the changes that some FBOs have already made with regards to their US operations.

US authorities note that requiring banks to hold more proportionate amounts of capital and liquidity in jurisdictions based on the risks they take in those jurisdictions is considered to promote financial stability, including by helping to avoid pro-cyclical or disorderly ring-fencing actions in times of stress. Requiring certain FBOs to form a US IHC will also facilitate risk management of the US subsidiary operations and increase the effectiveness of US authorities' supervisory oversight of these firms. The US authorities also consider that their reforms facilitate prospects for cross-border resolution of foreign banking organisations. In particular, in the case of a single-point-of-entry approach, having a US IHC would facilitate resolution by providing one top-tier US holding company to interface with the foreign bank parent, while under a multiple-point-of-entry approach the IHC would serve as a focal point of a separate resolution of the US operations of an FBO. US authorities also consider the FBO rule will promote global competitive equality by moving the US towards parity between the types of requirements that apply to subsidiaries of US firms that operate in foreign markets and subsidiaries of foreign banks that operate in the United States.

2.2 Reforms in the United Kingdom

In the UK, two key structural banking reforms are in place or being implemented:

- the 'ring-fencing of core activities'; and
- the approach to branches of non-European Economic Area (EEA) banks.

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[6] The US authorities estimate that between 15 and 20 FBO have more than $50bn of assets on a global consolidated basis and have $50bn or more in US non-branch assets and will therefore be required to form an IHC. Foreign banks account for around 15% of business lending activity (C&I loans); those banks that will be required to form an IHC account for only a portion of that 15%.

Ring-fencing of core activities[7]

The UK's Financial Services (Banking Reform) Act 2013 implements the recommendations of the Independent Commission on Banking (ICB) which was set up in 2010 in response to the crisis to make recommendations on how to strengthen the UK banking system and improve competition. Following consultation and parliamentary scrutiny, the recommendations were taken forward in this Act, which requires a UK bank's retail deposits, overdrafts and associated payments services to be placed in a subsidiary (known as a 'ring-fenced body') that does not conduct certain excluded investment banking activities. Excluded activities include dealing in investments as principal, and commodities trading, subject to specific exemptions. Ring-fenced bodies are also prohibited from having exposures to relevant financial institutions outside of their corporate group, subject to exemptions. The objective is to preserve continuity in the provision of core financial services, as their provision is considered essential to the UK economy. UK ring-fencing does not distinguish between proprietary trading and other trading such as securities market-making: both are excluded from the entities conducting core activities. Ring-fenced bodies must, as far as reasonably practicable, be legally, financially and operationally independent from the rest of their corporate group.

Ring-fencing applies only to UK-incorporated entities with 'core deposits' if their corporate group holds in aggregate more than £25bn of core deposits. UK subsidiaries of non-UK banks are within the scope of UK ring-fencing if they meet the relevant core deposits threshold. In contrast, operations of overseas subsidiaries of UK banks are not within the scope of ring-fencing requirements, and ring-fencing does not affect foreign banks' UK branches. As such, UK authorities consider that UK ring-fencing does not have extraterritorial impact, and it is not expected to impact on the functioning of, or competitive conditions within, wider global financial markets.

UK authorities note that the aim of the ring-fencing reform is to preserve the continuity of core services – i.e. core retail deposits and payment services essential to the economy. By requiring the *ex ante* separation of essential core services, the reform is also intended to support and enhance the resolvability of both ring-fenced bodies themselves and their wider groups. The UK authorities therefore consider that the reform supports international work on developing effective resolution regimes. To the extent that ring-fencing increases the simplicity and transparency of banks' operations, it will also support the general effectiveness of micro- and macro-prudential supervision and regulation. The UK authorities also note that UK ring-fencing allows differential capital and loss absorbency requirements to be imposed on different parts of banking groups, according to their systemic impact and other considerations, while seeking to minimise the impact on cross-border wholesale banking activities.

The UK Government passed secondary legislation in July 2014 which provides more detail on the provisions of the Banking Reform Act. The secondary legislation specifies which banks will be subject to ring-fencing requirements, as well as which activities will be ring-fenced and where exemptions are possible. Supervisory rules are now being developed to implement the ring-fencing regime. Draft rules for consultation were published in October 2014 on

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[7] See Part 1 'Ring-fencing' of the UK Financial Services (Banking Reform) Act 2013.

governance, legal structure and operational arrangements. Further draft rules will be published in 2015, with the rules expected to be finalised in 2016.[8] Banks must be compliant by 2019.

The approach to non-European Economic Area (EEA) branches[9]

The Supervisory Statement issued in September 2014 sets out the approach to authorisation and supervision of UK branches of non-EEA banks and is intended to advance the UK Prudential Regulatory Authority's (PRA) objective of promoting safety and soundness, in order to ensure the stability of the UK financial system.

For branches from outside the EEA, this framework focuses on three main factors: (i) whether the supervision of the entity in its home state is equivalent to that of the UK; (ii) the activities undertaken by the branch; and (iii) whether the UK supervisor has assurance from the home supervisor over the firm's resolution plan in a way that reduces the impact on financial stability in the UK. Depending on the outcome of an assessment of these factors, the PRA will make a judgement about whether it is content for the firm to operate as a branch in the UK.

2.3 European Commission's proposed EU reforms[10]

The EC's proposal, currently in draft before the European Parliament and Council and expected to be adopted mid-2015, consists of a (i) *ban* on proprietary trading; and (ii) a *potential separation* of certain trading activities (including market-making) from the deposit-taking entity, depending on supervisory judgement and/or certain metrics being breached. Separation would require that the deposit-taking entity and other entities be fully distinct in legal, economic, governance and operational terms. Once adopted, these reforms would apply in all 28 Member States of the European Union.

The proposal would apply to EU banks that are identified as being of global systemic importance, and/or banks exceeding certain thresholds (€30bn in total assets, and trading activities either exceeding €70bn or 10% of the bank's total assets). Regarding these banks, the institutions in scope are EU credit institutions, their EU parents, and their subsidiaries and branches, including in third countries. The regulation would also apply to EU branches and subsidiaries of non-EU banks.

The proposal provides a narrow definition of proprietary trading, focusing on activities specifically dedicated to taking positions for making a profit for the bank's own account, without any connection to client activity, the hedging of the bank's risk, or for cash management purposes. Trading in EU sovereign debt instruments would be excluded from the scope of activities subject to either the proprietary trading ban or the potential structural separation. The EC may extend the scope of this exemption to other sovereign debt instruments if they conform to certain conditions. The proposal allows for restrictions on both intra- and extra-group large exposures of the core credit institution, to curtail excessive interconnection and potential for contagion among financial entities, and help restrict cross-

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[8] See /www.bankofengland.co.uk/pra/Pages/publications/cp/2014/cp1914.aspx.

[9] See UK Prudential Regulation Authority, 'Supervising International Banks: the PRA's approach to branch supervision – SS10/14', Supervisory Statement, September 2014.

[10] See European Commission, 'Proposal on banking structural reform', 29 January 2014, COM/2014/043 final - 2014/0020 (COD).

subsidisation that may arise from TBTF funding cost advantages in parts of the banking group.

The EC proposal provides for the possibility to recognise other jurisdictions' regimes as equivalent to that of the EU, in order to allow for a reduction in duplicative regulation where appropriate. In the absence of an equivalent regime decision, EU groups with geographically decentralised structures operating overseas might still benefit from a supervisory carve-out under certain circumstances.

The EC notes that the proposal has been accompanied by measures improving transparency and data reporting of shadow banking activities, to improve information on whether, as a result of the new rules, certain banking activities migrate away from regulated banking groups towards shadow banks where there may be less scope for control by supervisors (whether or not located with the EU).[11]

EC authorities note that the main objective of their proposal is to complement TBTF reforms, limiting financial instability that stems in particular from the systemic risk associated with the largest, most complex and interconnected banks that engage to a significant extent in market-based trading activities. It does so by providing additional constraints on large banks' trading activities where these generate systemic risk beyond acceptable levels. For the EU single market, uniform rules on banks' structures would enhance financial stability within the EU, better integrate financial markets, facilitate the orderly resolution and recovery of the group, enhance the cross-border provision of services, reduce competitive distortions, and prevent regulatory arbitrage. The EC considers that the proposal would facilitate the effective and timely resolution of the largest and most complex banks, because risky activities would be located in separate legal entities, rendering banking groups more resilient and more resolvable. In addition, the European authorities consider that the possibility of the exemptions, and in particular the equivalence regime allowing for the recognition of other jurisdictions' rules with similar objectives, mitigates the potential cross-border implication that might derive from an overlap between different reforms acting on the same intermediaries depending on their cross-border presence.

2.4 Structural banking reforms in other G-SIB home jurisdictions

In addition to the US and UK reforms and the EC proposal described above, reforms are being implemented or proposed domestically in other G-SIB home jurisdictions. Unlike the reforms described above, these other jurisdictions' reforms have generally not been highlighted by 'host' jurisdictions as having material effects outside the home jurisdiction.

In Switzerland the TBTF Banking Act approved in 2011 introduced core measures with regard to capital, liquidity, risk diversification and organisational structures of domestic systemically important banks (D-SIBs).[12] In particular, D-SIBs are required to have a capital structure comprising progressively higher levels of going and gone concern capital

[11] See European Commission, 'Proposal on reporting and transparency of securities financing transactions', 29 January 2014, COM/2014/040 final - 2014/0017 (COD).

[12] The D-SIB designation process takes into consideration the domestic market share in lending, deposit and payment transactions. The same process applies to all banks, independently of whether they are headquartered in Switzerland or belong to a foreign banking group.

components for banks of increasing systemic importance, and an organisational structure in place that ensures that systemically important functions (defined as payment transactions, deposit and lending business) can be continued in an insolvency of the group. The form of this structure is not prescribed by legislation, but it requires D-SIBs to be able to demonstrate, and the supervisory authority to verify, that the organisational measures in the emergency plan are sufficient with respect to a bank's legal structure, capital and liquidity planning, and operability (infrastructure and resources) to guarantee the maintenance of systemically important functions.[13] Swiss authorities note that the focus on systemically important functions and the aspects of 'self-sufficiency' with regard to legal structure, capital and liquidity planning, and operability are similar to the self-sufficiency requirements in UK reforms. While no explicit approach to cross-border equivalence is provided for by the TBTF Banking Act, foreign banking subsidiaries are exempted from certain requirements, particularly in the area of consolidated supervision, if they are subject to a regulatory and supervisory framework equivalent to that of Switzerland.

Swiss authorities note that the reform is a cornerstone of eliminating perceived implicit government guarantees to the banking sector and that it will increase market confidence in the resilience of D-SIBs and reduce spill-over effects on other financial institutions of a disorderly winding up. The potential impact on the market for credit is considered to be minor, given the presence of other banks that can increase their credit market share.

In the EU, France and Germany have adopted domestic banking structural reforms that they state largely follow the conclusions in October 2012 of the High Level Expert Group on structural banking reforms, chaired by Erkki Liikanen, Governor of the Bank of Finland. In these countries' reforms, if a deposit-taking credit institution (or an entity that belongs to a group that includes a deposit-taking credit institution) exceeds certain thresholds[14] it must either discontinue certain trading activities or transfer those activities to a trading entity which is economically, operationally and legally separated from the deposit-taking credit institution.

Under the French and German reforms, the activities to be transferred are proprietary trading and certain relations with hedge funds. Proprietary trading is defined as an acquisition and sale of financial instruments on the institution's own account, without a service for third parties, except when used for prudent hedging and management of capital of the institution. Market-making, which is considered as a key activity for the financing of the economy, is authorised within the deposit-taking credit institution, thus preserving the 'universal' banking model, but the competent authority can, as a 'backstop' measure, demand the separation of market-making activities if they might threaten the solvency of the deposit-taking credit institution or of one of its group entities (other than a trading entity that is engaged in the risky trading activity). This means that if the trading activities might threaten the solvency of an institution they would need to be separated at the discretion of the competent authority. Hence the separation measure in German and French law is motivated by the authorities' aims of preserving financial stability, protecting deposits and retail banking against risks arising

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[13] Both UBS and Credit Suisse have decided to execute the emergency plan *ex ante*, by segregating the systemically important functions from the rest of the bank and transferring them to a clearly separated entity.

[14] In the case of France, Decree 2014-785 of 8 July 2014 regarding the threshold mentioned in article L.511-47 of the French Monetary and Financial Code indicated that the threshold is based on the value of financial assets, at 7.5% of the total balance sheet.

from certain trading activities, removing conflicts of interest, and encouraging lending to the real economy. Belgium (not currently home to a G-SIB) has undertaken similar reforms.

For these three countries, and also for the UK, the interaction between the already adopted national reforms and future EU rules remains to be seen, given a possible derogation for individual credit institutions subject to national regimes deemed equivalent to the EU rules. Other G-SIB home jurisdictions in the EU (Italy, Netherlands, Spain and Sweden) have not issued structural banking reform proposals separate from those proposed by the EC.

China noted a range of pre-existing structural measures, and some steps being taken regarding separation of banking and securities market activity. Only 'authorised pilot banks' are permitted to set up non-bank financial affiliates, while restrictions are also in place on bank lending for stock market activity.

Japan reported that no domestic structural banking reforms are underway or proposed.

2.5 Other jurisdictions' reforms

Several other jurisdictions are implementing national reforms both to give effect to elements of the international reform agenda, and with additional domestic policy objectives. While in most cases these national measures do not have an explicit structural reforms objective, some elements have been suggested as having structural implications. Authorities note that the main objectives of these additional reforms are to enhance protections for depositors (particularly retail), enhance domestic authorities' capacity to resolve institutions that are systemically important in the domestic market, and to safeguard core banking operations.

In Indonesia, foreign bank branches are required to hold a certain proportion of assets in domestic Capital Equivalence Maintained Assets – i.e. a minimum amount of 'capital equivalence' must be placed in financial assets that must meet certain requirements. The objectives of this regulation are, among others, to strengthen Indonesia's position as a host supervisor as well as to maintain and promote the stability of Indonesia's banking sector.

In both India and Singapore, measures are being put in place to require foreign banks' local presences to be established as separately incorporated subsidiaries where certain thresholds of activity (or other criteria) are met. Key objectives of these requirements are to enhance local authorities' oversight and resolution capacity for firms that are systemically important in the domestic market, notably for the purposes of local (particularly retail) depositor protection. These jurisdictions noted that the measures being introduced are similar to those that have already been in place in other jurisdictions for quite some time (e.g. Australia). Singapore noted that its reforms were not being introduced as a response to recent crisis events.

In Mexico, where foreign banks operate only as subsidiaries, limits have been introduced for related-party transactions (with authorisation from the central bank required for transfers or assumptions of assets and liabilities exceeding a certain percentage of core capital), and the supervisory authority has been granted power to set higher capital requirements or limit transfers of revenues and asset purchases made by a bank to a parent company or other controlling stakeholder. Mexican authorities noted that the supervisor will only use this power when there is no adequate cooperation with foreign resolution or liquidation authorities or there is evidence that measures taken by them would affect the bank's stakeholders. The authorities felt that none of these provisions acted as impediments to implementing a global resolution strategy.

In India, Indonesia and Saudi Arabia, measures are also being introduced with the aim of promoting broader financial market development and/or directing financial resources to certain sectors of the economy. While these were generally not characterised as structural banking reforms, authorities acknowledged that this was imposing additional requirements on locally active banks.

3. Considerations regarding the cross-border consistency and global financial stability impacts of structural banking reforms

Jurisdictions have identified a range of potential cross-border and global financial stability implications resulting from the implementation of structural banking reforms in various jurisdictions. Originating jurisdictions have emphasised that these reforms are meant to support internationally agreed reforms by contributing to the curtailment of implicit government guarantees to TBTF institutions, resulting in more efficient market pricing of risk and more efficient allocation of capital.

Several of these intended benefits of the reforms have also been acknowledged by other jurisdictions, who also, however, note several concerns with the reforms being implemented. These authorities' perspectives tend to reflect differences in the extent of cross-border banking activity and the range of banking services in their jurisdiction. While banks from emerging market economies are less likely to have a significant foreign presence and unlikely to engage in proprietary trading activities, many countries by contrast have markets where banking institutions from the US and EU have a material presence and may engage in activities locally that are subject to restrictions in their home jurisdictions. Where this is the case, the impact of US and EU structural reforms on the operation of foreign markets may therefore be important. Perceived impacts also tend to reflect the structure of domestic markets, such as whether these markets are more or less dependent on the services and liquidity provision by foreign intermediaries, and the degree of market concentration.

In July 2014 the OECD and IMF hosted a roundtable with financial industry and other stakeholders to discuss the impact of the various reforms. The issues discussed were similar to those that were identified in the survey of members. Although industry participants agreed that it is too early to gauge impact, they expressed concerns about additional costs implied by business model adjustments.

Considerations regarding some specific issues are discussed in more detail below.

3.1 Supervisability, crisis management and resolvability

A core purpose of jurisdictions' implementation of structural banking reforms is to enhance national authorities' capacities to effectively supervise and, if necessary, resolve banking groups, including cross-border ones, in the event of failure. Jurisdictions that are not the implementers of the reforms generally acknowledge that the reforms will be supportive of these objectives. However, they also note that some domestic reforms that aim to improve the resolvability of a complex group, in particular those requiring geographical separation, might create complications for the fluidity of cross-border capital and liquidity flows and hence for achieving a successful recovery in a situation of severe stress of a cross-border banking groups.

- ***Complications to crisis management and resolvability.*** Some jurisdictions have concerns that structural banking reforms may potentially 'trap' liquidity or capital in domestic silos, complicating the crisis management of globally active banks. There are concerns that restrictions on transfers of funding and excessive prepositioning requirement may undermine single-point-of-entry resolution strategies which require sufficient loss-absorbing capacity at the top parent that can be down-streamed to those subsidiaries that need to be recapitalised in a crisis. Some authorities have questioned whether the mechanism of downstreaming funding and upstreaming losses can work effectively if the banking group's subsidiaries are all ring-fenced and funding themselves independently, or if there are restrictions on intra-group exposures. Such reforms could increase a 'siloed' approach to financial stability and cause further fragmentation and greater cross-jurisdictional distrust at times of stress. More generally, some authorities observe that a contradiction is emerging between international initiatives on cross-border recognition of resolution actions and national restrictions on the activities of foreign subsidiaries.
- ***Enhanced* ex ante *clarity around crisis management responses and resolution.*** Authorities in some of the jurisdictions implementing reforms note, however, that since in a distress or resolution scenario it is highly likely that many authorities will look to 'ring-fence' domestic operations and/or assets, reforms that are formalising such structures are providing greater *ex ante* transparency and certainty to the market and other authorities. This helps avoid a situation where ring-fencing requirements might be imposed in an *ad hoc* and uncoordinated fashion at a time of stress. There is an argument that *ex ante* ring-fencing could offer benefits to financial stability; for example, where the reforms result in some structural separation between core services (such as retail deposits and payment services) and riskier activities, the reforms can support and enhance the resolvability of both the separated bodies and the wider banking group more generally. This is in contrast to *ex post* ring-fencing that might exacerbate tensions in financial markets if implemented at times of significant market stress. Moreover, authorities from jurisdictions undertaking the reforms observe that while ring-fencing reforms require sufficient capitalisation and liquidity to support the activities inside the ring-fence, any surplus capital will still be able to flow throughout banking groups. Losses will still be able to be transferred where local subsidiaries have issued bail-in-able debt to other group affiliates; and as for liquidity, it is doubtful intragroup liquidity can be more effective in addressing local shortfalls than domestic lender-of-last-resort borrowings.

Notwithstanding the theoretical arguments for both the potential implications and benefit of structural banking reforms on the crisis management and resolution of cross-border banking groups, there is widespread agreement amongst both jurisdictions implementing structural reforms and others that the identification of any significant impediments to resolution (for example, from constraints on cross-border intra-group funding) can only be made once more detailed information on banks' resolution strategies and the concrete development of recovery and resolution plans is available.

- ***Subsidiarisation and other 'local' requirements.*** Authorities implementing reforms anticipate that structural reforms promote greater alignment of business lines with legal structures within a group, both by requiring capital and liquidity to be held where the risks are located in the banking group, and by simplifying internal management and supervision. To the extent that reforms such as ring-fencing increase the simplicity and transparency of banks' operations, this will also support the general effectiveness of micro- and macro-prudential supervision and regulation. Authorities from both jurisdictions implementing structural reforms and others have noted that, where reforms resulted in a greater tendency towards domestic subsidiarisation, this was a similar outcome to that of measures already in place or being implemented in a number of other jurisdictions.[15] In particular, it was noted that the implementation of the D-SIB framework might have similar effects to that of structural banking reforms, in terms of requirements for capital and liquidity held locally in those cases where a global bank is designated a D-SIB in a host jurisdiction. More generally, some authorities have noted that the broad aims of reforms that make banks easier to resolve, as well as protect taxpayers and depositors, might be achieved in other ways, including through the implementation of the prudential and resolution framework requirements.

While some implementing authorities acknowledge that some 'fragmentation' could result from reforms being implemented, this was also noted as being an *intended* consequence of reforms that have the objective to reduce interconnections between intermediaries, including across borders. While such fragmentation can increase costs of financial intermediation (including reduced liquidity), any overall assessment of the cross-border effects of structural and other reforms must therefore take into account under what conditions and thresholds *ex ante* ring-fencing can improve cross-border financial stability and assess under what conditions it can potentially conflict with the TBTF agenda.

3.2 Market functioning and cross-border banking activity

Authorities have identified a number of potential cross-border implications of structural reforms on market functioning and cross-border activity, with consequent possible implications for the real economy. The cross-border complications mainly relate to financial system fragmentation and impediments to cross-border banking activity; negative effects on banking groups' internal functioning and efficiency; change in the risk profiles of other financial firms not directly affected by reforms; decreased liquidity in some financial markets – particularly government bond, foreign exchange and commodity markets; and level-playing field/competitiveness issues.

- ***Impact on efficiency of global institutions and international groups.*** To the extent that some structural banking reforms increase the marginal cost of the local business operations of global banking groups – such as through ring-fencing or subsidiarisation requirements – this might lead to a pull-back in activities and in general reduce the interest of international banks in maintaining presences or operations in foreign markets. This might have further effects in terms of cross-border flows of capital and on domestic bank intermediation in affected jurisdictions, including potentially more restricted or expensive access to financing for firms (particularly small and medium). Authorities have noted a number of ways in which the efficiency of banks' cross-border operations might be

[15] For example, in Brazil, China, Indonesia and Mexico, foreign banks must operate through locally incorporated subsidiaries for all domestic banking activity. In Australia foreign banks are required to incorporate as a local subsidiary if they want to accept retail deposits.

affected, including: increased costs due to greater cross-group capital and liquidity requirements; changed internal management structures; reductions in economies of scale and scope; reduced diversification; and increased compliance costs where financial institutions establish new systems and controls to manage, monitor and report activities. In addition, regulatory uncertainty might have an impact on banks' lending and other commercial activities.

- ***Decreased liquidity of financial markets.*** Some authorities consider that structural banking reforms might have an impact on the liquidity of financial markets (primarily the government bond market) outside the implementing jurisdiction, and may lead to higher financing costs, with the greatest impacts in emerging market economies where markets are thin. The non-exemption of other jurisdictions' government securities would impose particular burdens on international banks that rely on local sovereign debt securities to manage the liquidity and funding risks arising from their local operations. Some jurisdictions also note concern regarding the market liquidity implications of proposed restrictions on foreign banks' proprietary trading of the sovereign debt of other foreign jurisdictions. A jurisdiction also noted that, if proprietary trading in foreign government securities raised financial stability concerns, then the same logic could imply that proprietary trading in domestic government securities should be subject to the same restrictions. Emerging market corporate bond financing, where markets are often thin, could also be affected. These factors could have negative implications for funding costs in the local economy.
- In particular, specific concerns were raised regarding:
    - sovereign debt markets of foreign jurisdictions, with impacts in terms of higher volatility in local markets and increased costs, affecting also corporate debt markets and possibly ultimately with an impact on the financing efficiency of the real economy.
    - foreign exchange swaps and futures markets and commodity markets, with impacts on US dollar funding for foreign institutions (also to fund activities in third jurisdictions), particularly in times of stress. This may increase funding costs, and at the same time institutions might be induced to deleverage from dollar denominated assets.

  On the other hand, some implementing authorities note that, in the case of their reforms aimed at isolating proprietary trading, market-making is still permitted, subject to certain conditions. In these cases, they consider that there may be little if any impact on financial market liquidity. Some also note that they have made exemptions relating to foreign activities of foreign banks.
- ***Regulatory arbitrage and leakage to the shadow banking system.*** There could be a migration of activity to less sophisticated banks or to the shadow banking system, as proprietary trading and other in-house activities (e.g. hedge funds) are shifted away from top-tier banking institutions. There is also a concern about the scope for increased regulatory arbitrage.
- ***Level playing field considerations and competitiveness issues related to increased concentration***. Structural banking reforms might have implications for competitiveness in

other markets if they lead to a reduction in the number of intermediaries operating in local economies, or increase the concentration of banking activity – in particular, those market activities that support lending relationships – among a fewer number of firms. In particular, concerns are related to:

- o some possibility that there would be disproportionately higher costs of doing business for relatively smaller foreign entities in the jurisdictions where the reforms have been enacted, resulting in a competitive disadvantage;
- o potentially reduced competition and higher market concentration in domestic market, particularly in smaller banking markets (such as in cases where global institutions decrease certain activities and/or exit the local market due to insufficient scale to justify a local presence); and
- o comparatively higher costs, and costs greater than benefits, for smaller jurisdictions with many global financial institutions from different countries, leading to a combination of different national requirements with extraterritorial scope, possibly in a conflicting manner.

These concerns have been expressed in fairly high-level terms, however, and the impacts are generally acknowledged to be hypothetical since in most cases final rules have not gone into effect. Moreover, authorities generally feel that it is difficult to disentangle that element of market participants' responses – and the consequent effect on market functioning – that might be due to structural banking reforms (whether in place or in prospect) from changes that are taking place in response to other reforms underway (such as higher capital and liquidity requirements, or implementation of D-SIB regulatory regimes) or from broader market and economic developments. For instance, while some observers have noted a reduction in market-making capacity in some financial markets, it is difficult to directly attribute this to participants' response to implemented or anticipated structural reforms, though structural reforms may be a contributing factor. More generally, until the reforms are fully developed and implemented it is difficult to say what will be the ultimate response of market participants, and the relationship between identified benefits and potential costs, including in other jurisdictions, and whether any impacts on market functioning will prove to be permanent or transitory.

Where concerns have been previously voiced regarding particular provisions (for instance, regarding the cross-border effect of Volcker Rule prohibitions on certain activities of US banks' foreign operations), changes made ahead of the requirements being finalised have in some part alleviated these concerns (in the case of the Volcker Rule, for instance, the exemption put in place for certain foreign affiliates of US banks undertaking proprietary trading in the sovereign debt of such affiliates' local jurisdictions). On the other hand, several authorities have noted potentially significant concerns regarding proposals yet to be implemented (such as the EC's reform proposals) – where these concerns materialise will depend on final implementation details (in particular, the potential impact of activity prohibitions on the liquidity of foreign financial markets).

More generally, some authorities observe that while international reforms start with some broadly similar elements and objectives, differences may emerge in the detail of definitions, sub-definitions, criteria and thresholds as the various reforms move forward. Once structural banking reforms are at a sufficiently advanced stage of implementation, more detailed estimation of impacts may be possible to help to identify the implications of overlapping requirements or differences in definitions and thresholds. Should banking groups ultimately face overlapping requirements with potential inconsistencies, some authorities noted the importance of jurisdictions having in place possible mitigants, such as mutual recognition of jurisdictions' regulatory requirements, or harmonised definitions of relevant reform elements such as proprietary trading or market-making.

4. Looking forward

Given the relatively early stage of structural banking reform implementation, FSB members agree that it is too early to know at this stage whether these reforms will have significant adverse cross-border impacts. Moreover, it is also widely recognised that the reforms being implemented are supportive of the broader international agenda of ensuring a more resilient global financial system where the TBTF problem has been reduced.

Authorities recognise, however, the importance of ongoing monitoring of market reactions (both domestically and offshore) during the implementation phase, and in particular: (i) in the short term, the 'operational risk' of implementing different reforms and the need for market participants to simultaneously manage compliance along different dimensions and objectives; and (ii) in the long run, how the different national reforms might overlap or complement each other once implemented, whether any significant adverse cross-border impacts have eventuated due to these reforms, and the ultimate interaction of these reforms with the internationally agreed reforms.

Structural banking reforms can have a cross-border impact on banking group resolution. The ongoing work to develop and test resolution plans for G-SIBs will be important in shedding further light on these effects. Changes in how banks operate across borders – i.e. through branches or through local subsidiaries – are also being influenced by the implementation of other reforms, such as the Basel III framework for D-SIBs. The BCBS intends to explore this issue by initially taking stock of jurisdictions' current and prospective treatment of cross-border branches and subsidiaries and to report its findings to the FSB by end-2015. The OECD intends to take stock of the consistency of requirements with OECD Codes of Liberalisation of Capital Movements and of Current Invisible Operations and report to the FSB by end-2015.

As structural banking reform implementation progresses, the FSB, in collaboration with the IMF and OECD, will continue to monitor developments, expanding the analysis with data where available, and will report to the G20 in 2016 an update to the current assessment.

Annex: Major Elements of Selected Structural Banking Reforms

	US[16]	UK	EC proposal
Key features			
Aim	Reduce speculative losses to banks and focus on intermediary functions serving customers. In December 2013, Federal Reserve, FDIC, Office of the Comptroller of the Currency (OCC), SEC and CFTC adopted rules to prohibit proprietary trading and investments in hedge funds and private equity.	Ring-fencing to preserve the continuity of core services in two ways: by insulating ring-fenced bodies (which provide these services) from shocks originating elsewhere in the financial system, making them more resilient; and by making ring-fenced bodies simpler for the authorities to resolve in the event that they (or their wider groups) do fail.	To establish a safe, stable and efficient banking system in the EU internal market. To deal with too-big-to-fail by reducing systemic risk stemming from large, interconnected banks with substantial trading operations. To shield deposits from risky trading activities by prohibiting proprietary trading in credit institutions and by separating key trading activities. To facilitate recovery and resolution.
Scope	Insured depository institutions; companies that control an insured depository institution (IDI); and foreign banks with a branch, agency or subsidiary bank in the United States, as well as affiliates of these entities, such as broker-dealers and commodity pool operators.	UK-incorporated entities within UK or foreign banking groups. Threshold: £25bn of retail and small corporate EEA deposits.	EU credit institutions and their EU parents, including all branches and subsidiaries irrespective of where they are located; foreign bank branches and subsidiaries in the EU; G-SIIs according to Article 131 of Directive 2013/36/EU. Threshold: consolidated assets: €30bn; trading activities: €70bn or 10% of total assets.
Structural separation features	Any prohibited activity in any group entity.	Ring-fence retail banking into a separate legal entity from investment banking and related activities.	Prohibition of proprietary trading at group level. Possible separation of other trading activities into a separate legal entity, when certain conditions are met and/or subject to supervisory judgement. Rules governing economic, legal, operational and governance links.

[16] This information relates to Volcker Rule requirements.

	US[16]	UK	EC proposal
Prohibited functions inside depository institution	Both depository institution and affiliates: Proprietary trading (engaging as principal using trading account in any transaction to buy or sell financial instruments that do not benefit customers). Investing in private equity funds and hedge funds beyond a maximum of 3% of any one such fund's capital or of total investments of 3% of bank's own Tier 1 capital.	Securities trading; underwriting; market-making; exposures to relevant financial institutions – subject to certain exemptions, e.g. for risk management, to facilitate trade finance, to facilitate payments, or to sell simple derivatives to account holders. Ownership of non-EEA subsidiaries or branches (except ancillary services undertakings).	Proprietary trading ban at group level. Narrow definition of proprietary trading: dealing with financial instruments or commodities on own account for a profit carried out by proprietary desks, individual traders, etc. Additionally, investments in leveraged alternative investments are prohibited. If required by supervisor, certain trading activities to be carried out in a separate legal entity ("trading entity"). If separation is required, then deposit-taking and related payment services are prohibited in the trading entity.
Permitted functions inside depository institution	Both depository institution and affiliates: Traditional banking; trading in US government securities; trading in home country sovereigns through non-IDI affiliates; underwriting and market-making to meet reasonably expected near-term demands of clients, customers and counterparties; risk-mitigating hedging; certain trading for customers; liquidity management; investments in small business investment companies; limited investments in asset management and advisory businesses; proprietary trading outside the US if decision makers are not in US, risk is booked overseas and certain other requirements are met; insurance business for the general account and separate account of an insurance company; certain fund activities of non-US banks outside the US; investments in securitisations backed by loans.	Deposits, loans, payments system, own hedging risk management, limited sales of simple derivatives to account holders (e.g. interest rate swaps and currency forwards). Trade finance. (NB: deposit-taking, and overdrafts for individuals and small and medium-sized enterprises (SMEs), prohibited in trading entity.)	Deposit-taking and lending, payment services, leasing, money broking, safekeeping, dealing in EU sovereign debt instruments, other trading activities not subject to separation requirement. Own hedging and provision of risk management products to mainly non-financial clients.

	US[16]	UK	EC proposal
Additional related rules	• Swaps push-out rule: Federal assistance is prohibited for registered swap dealers and participants. Exemptions for IDIs: own hedging; dealing in interest rate and foreign currency swaps, among others. • Foreign Banking Organisation Rule. FBOs with $50bn non-branch assets required to hold their subsidiaries as US intermediate holding company. All US financial rules will apply to ensure a level playing field and to enhance resolvability.	• PRA to set out rules covering the degree of intra-group separation required between ring-fenced entities and rest of the corporate group, for example, intra-group exposure limits. • Non-EEA branches allowed in UK based on an assessment of three main factors: (i) whether the supervision of the entity in its home state is equivalent to that of the UK; (ii) the activities undertaken by the branch; and (iii) whether the UK supervisor has assurance from the home supervisor over the firm's resolution plan in a way that reduces the impact on financial stability in the UK..	• Rules of separation: separate sub-groups, self-funding requirements, cross-ownership restrictions, "arm's length" transactions, distinct denomination, cross-directorship limitations, prudential requirements to be met on a sub-consolidated basis. • Large exposure restrictions between separated parts (25% eligible capital); possible additional restrictions on eligible credit risk mitigation techniques. • Aggregate external exposure limit for deposit bank: 200% eligible capital towards financial entities. • Enhanced powers for prudential and market regulator. • Possible derogation for individual credit institutions subject to national regimes deemed equivalent to the EU rules. • Option for equivalence of non-EU country regimes.
Business models and governance issues	Full separation of prohibited activities.	Maintains all business units in the group. Promotes competition in retail banking and wholesale banking separately. Limited interaction between ring-fenced and other entities.	Full prohibition of proprietary trading. For other trading activities, potential separation (i.e. maintains business units in the group). Deposit bank cannot own shares in the trading entity. Separate capitalisation and funding of the deposit bank and trading entity. Cross-directorship restrictions.
Effective date	Volcker prohibitions effective by 1 April 2014; Banking entities need to conform activities and investments with Volcker Rule by 21 July 2015.	2019 – linked to Basel III timetable.	Depending on day of promulgation. Phase-in period of the various provisions up to 36 months. Target date mid 2017 for prohibitions; early 2019 for separation rules to be effective.

	US[16]	UK	EC proposal
Product trading / market-making subject to restrictions			
Sovereign debt	No restrictions on market-making in sovereign debt. Proprietary trading that is not market-making allowed for: US government debt for all banking entities; home country sovereigns for a foreign banking entity chartered by that foreign sovereign (other than an IDI); trading by a foreign bank or foreign securities broker-dealer owned by a US banking entity in obligations of the foreign sovereign that charters the foreign bank or foreign broker-dealer.	Prohibited inside the ring-fence unless traded to manage risks (e.g. liquidity).	EU sovereigns, international organisations (e.g. IMF) exempt from rules. Potential exemption for regional governments and non-EU debt instruments.
Repos, securities lending, re-hypothecation	Generally allowed.	Repo and reverse repo permitted for risk/liquidity management.	Subject to supervisory assessment.
Derivatives	Allowed for risk management / market-making.	Prohibited inside the ring-fence other than where exempted (own hedging and limited sales of simple derivatives to customers).	Potential separation from core credit institution if the supervisor concludes that the trading activity carried out by the core credit institution poses a threat to the financial stability of the core credit institution or the EU financial system as a whole. Allowed for own or customers' risk management.
Risky securitisation	Ownership of securitisations backed only by loans and related servicing assets is unrestricted. Other securitisations may be covered funds under the final rule subject to the restrictions on ownership of the final rule.	Prohibited inside the ring-fence other than where exempted (e.g. own hedging).	Potential separation from core credit institution if the supervisor concludes that the trading activity carried out by the core credit institution poses a threat to the financial stability of the core credit institution or the EU financial system as a whole.
Equities and Exchange Traded Funds (ETFs)	Market-making in equities is permitted. ETF activities may qualify as permissible market-making but no proprietary trading is permitted.	Prohibited inside the ring-fence other than where exempted (e.g. own hedging).	Market-making is permitted, but potential separation from core credit institution if the supervisor concludes that the trading activity carried out by the core credit institution poses a threat to the financial stability of the core credit institution or the EU financial system as a whole.

Sources: FSB member jurisdictions.