

Review and consolidate



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Stricter banking regulations introduced since the outbreak of the financial markets crisis in 2007/2008 have brought about noticeable changes affecting the repo business. Specifically, these regulations - and the Basel III/CRD IV regime in particular - are challenging the entire repo business model, given the impact of the Leverage Ratio and the Liquidity Coverage Ratio.

According to an ICMA survey conducted among market participants, the costs of a repo transaction will rise to at least 40 basis points, if compliance with all Basel III requirements is taken into account. These costs are likely to vary between different institutions. But bearing in mind that repos are a low-margin business, with low costs (to date), it becomes evident just how dramatic the regulation-driven cost increase really is. The way I see it, over the long term this will threaten the significance of the repo market as a key provider of liquidity for the secondary markets in sovereign and corporate bonds.

Whether these are unintended consequences, or - as some would point out - the creators of Basel III were fully aware of the effects, is open to discussion. What cannot be denied is that this development affecting the repo markets, which is solely driven by regulation, is in clear contradiction to the ongoing Capital Markets Union project. It is worth pointing out that the very purpose of CMU is to preserve and strengthen liquid capital markets in order to secure investments in the EU over the long term.

Against this background, the premise that Capital Markets Union does not simply rely on new regulations, but in fact has the stated objective of consolidating existing rules, is not only good news - this is indispensable. Such consolidation must not be limited to the (urgently needed) harmonization of rules and regulations. What is required are specific corrective measures. Hence, I welcome Commissioner Hill's Call for Evidence.

In addition, I support the idea of promoting Best Practices, e. g. private placements (Schuldscheindarlehen). These are critically important measures to prepare EU's capital markets for global competition.