

Global Investment Banks are all becoming American: What are the Policy Issues?

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Agenda

- Theory

- Function of investment banks

- Empirics

- Market shares of investment banks across the continents
- How do US banks operate in Europe?

- Policy

- Consequence of US dominance
- Policy response

Function of investment banks

Investment banks play key role in financial markets

- Bringing together suppliers (investors) and demanders (corporates) of capital
 - Provision of corporate finance: helping customers raise funds on capital markets and M&A advice
 - Placing capacity with investors
 - Valuation of company & liaison with regulators
- Gatekeepers of Capital Markets Union

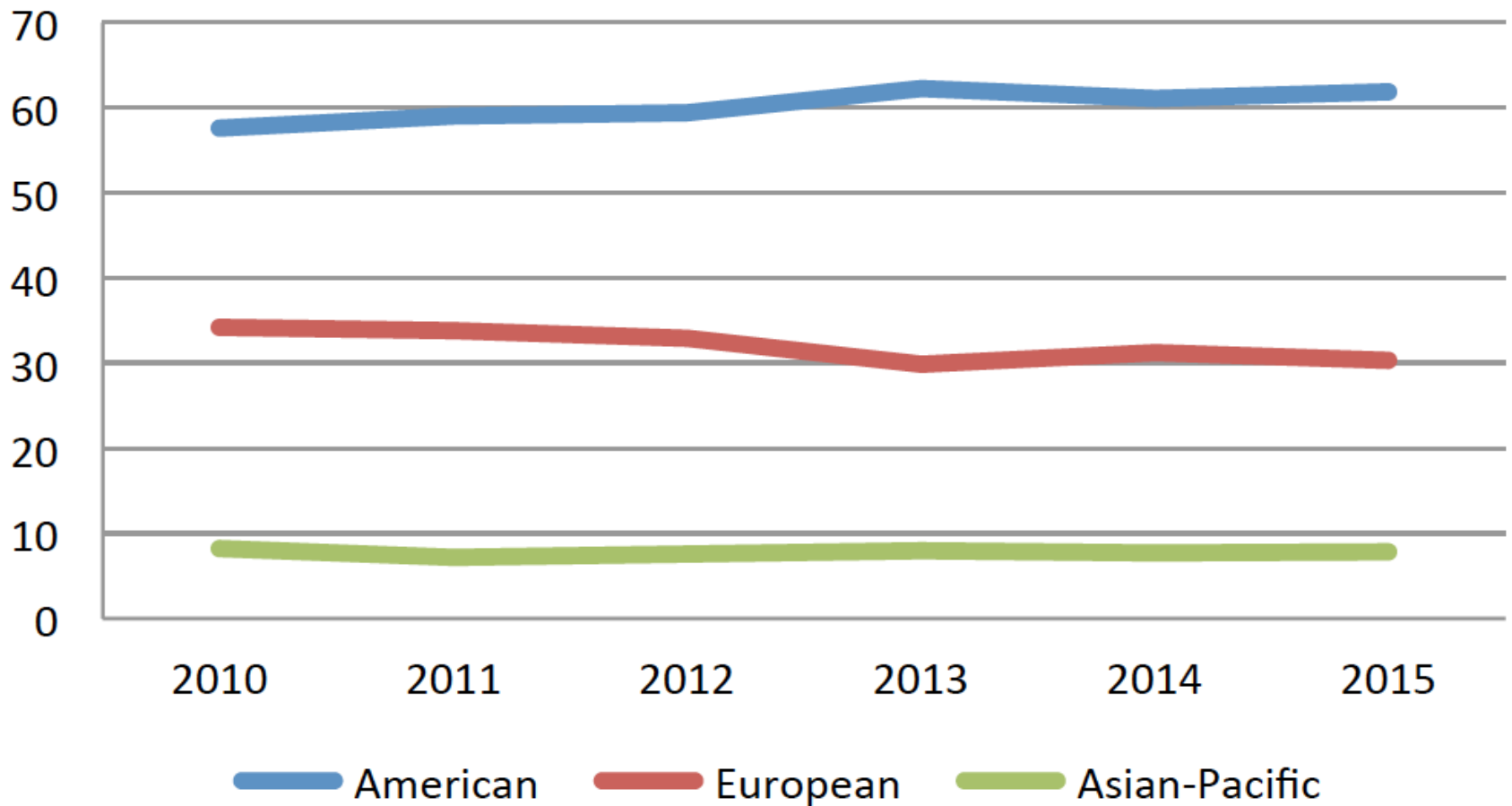
Calculating market shares

Coverage:

- 4 segments: M&A, equity, bonds, syndicated loans
- Weighted average of top 20 players
- Continents: Americas, EMEA, Asia-Pacific, Japan
- Period: 2005-2015
- Market share split by origin investment bank
- Source: Thomson Reuters

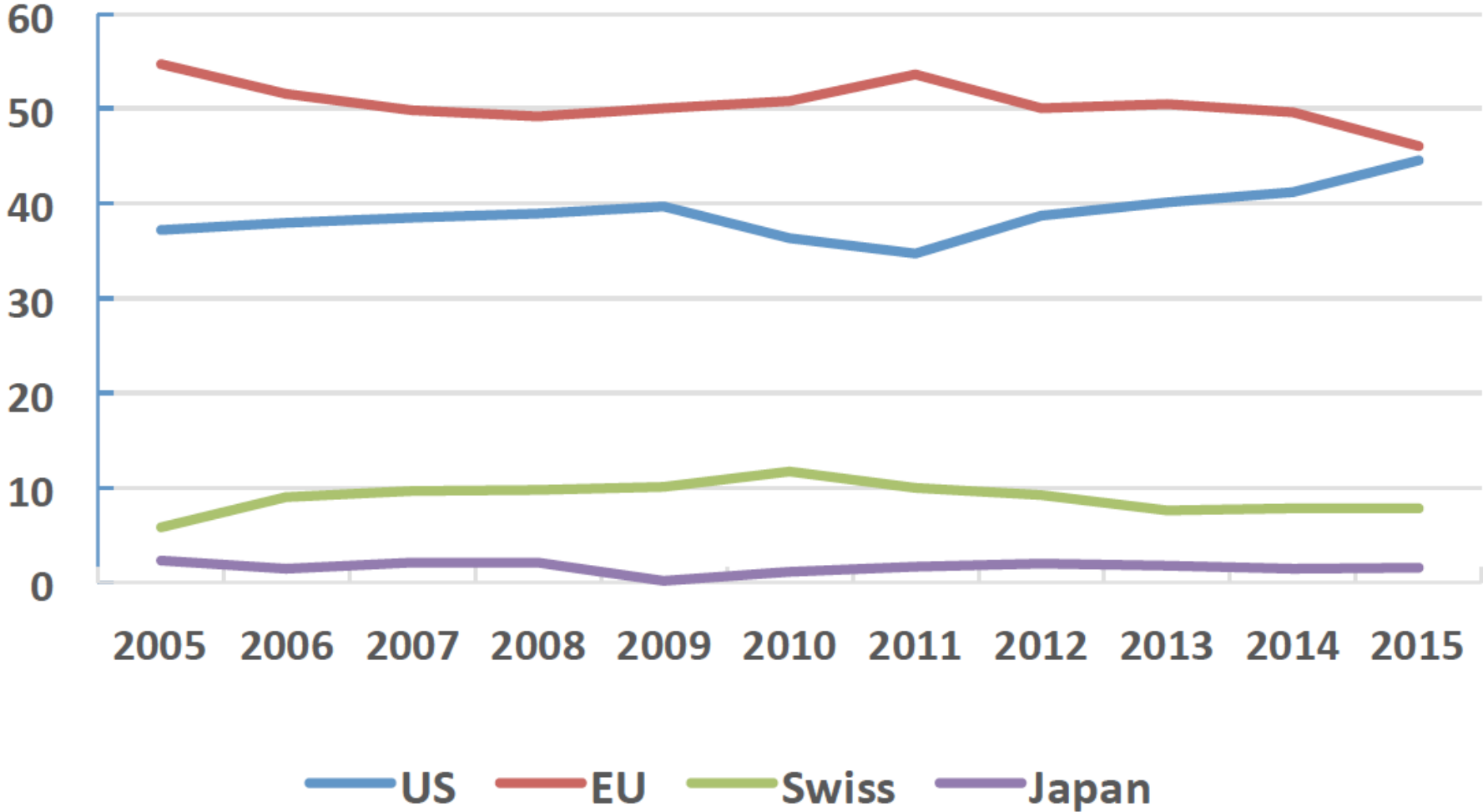
Investment banks by origin: global market shares

Market share (in %)



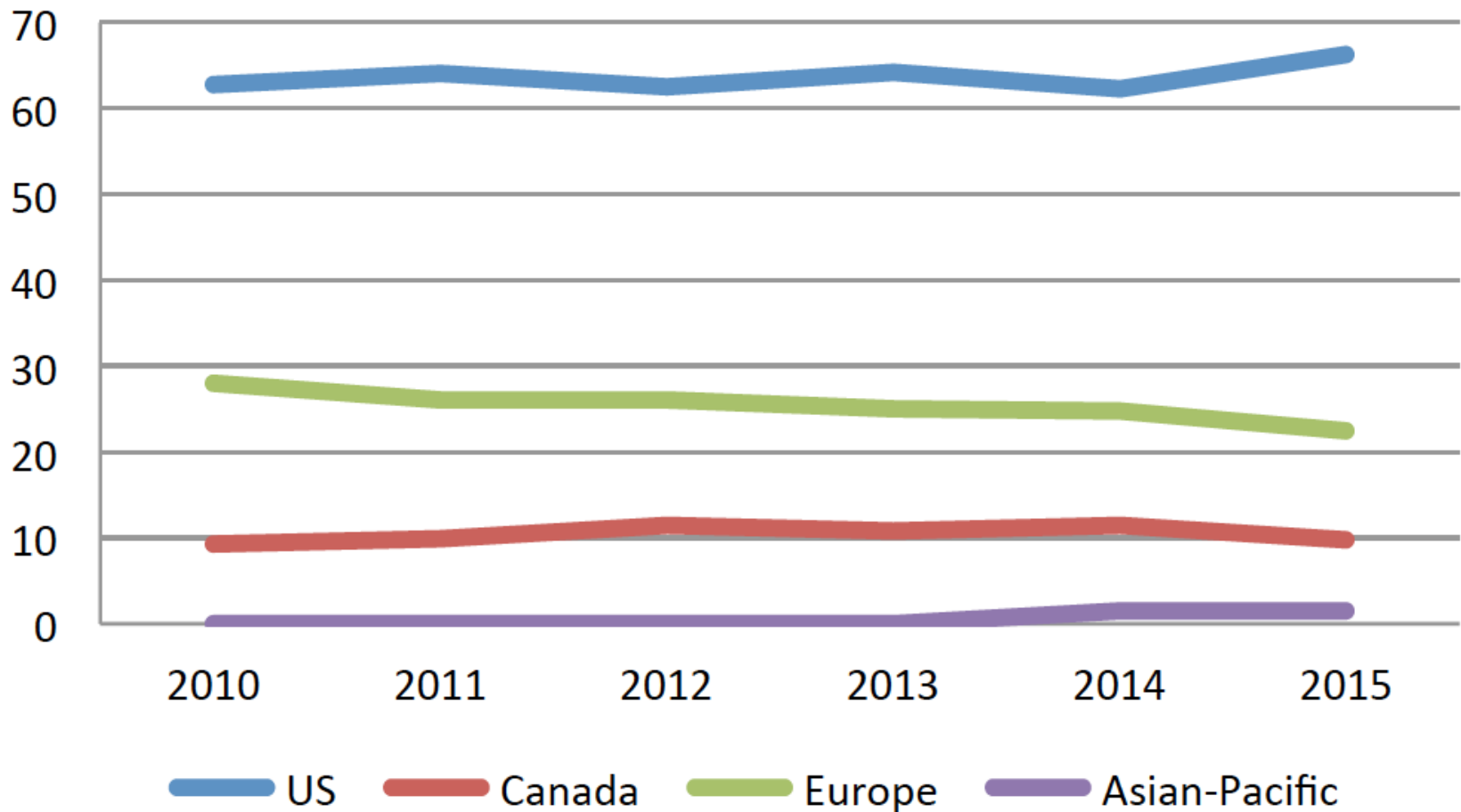
Investment banks by origin: EMEA market shares

Market shares (in %)

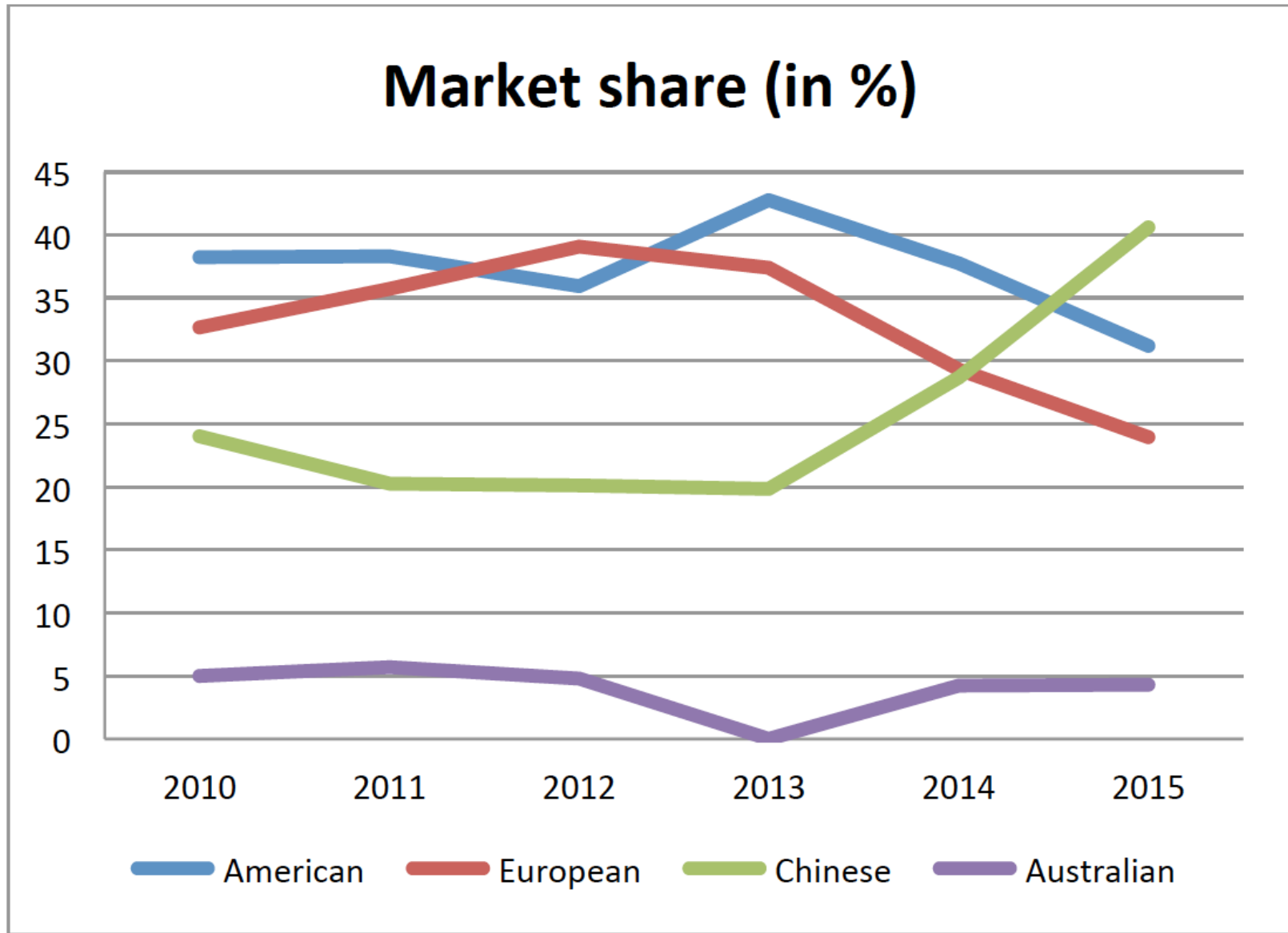


Investment banks by origin: shares of the American market

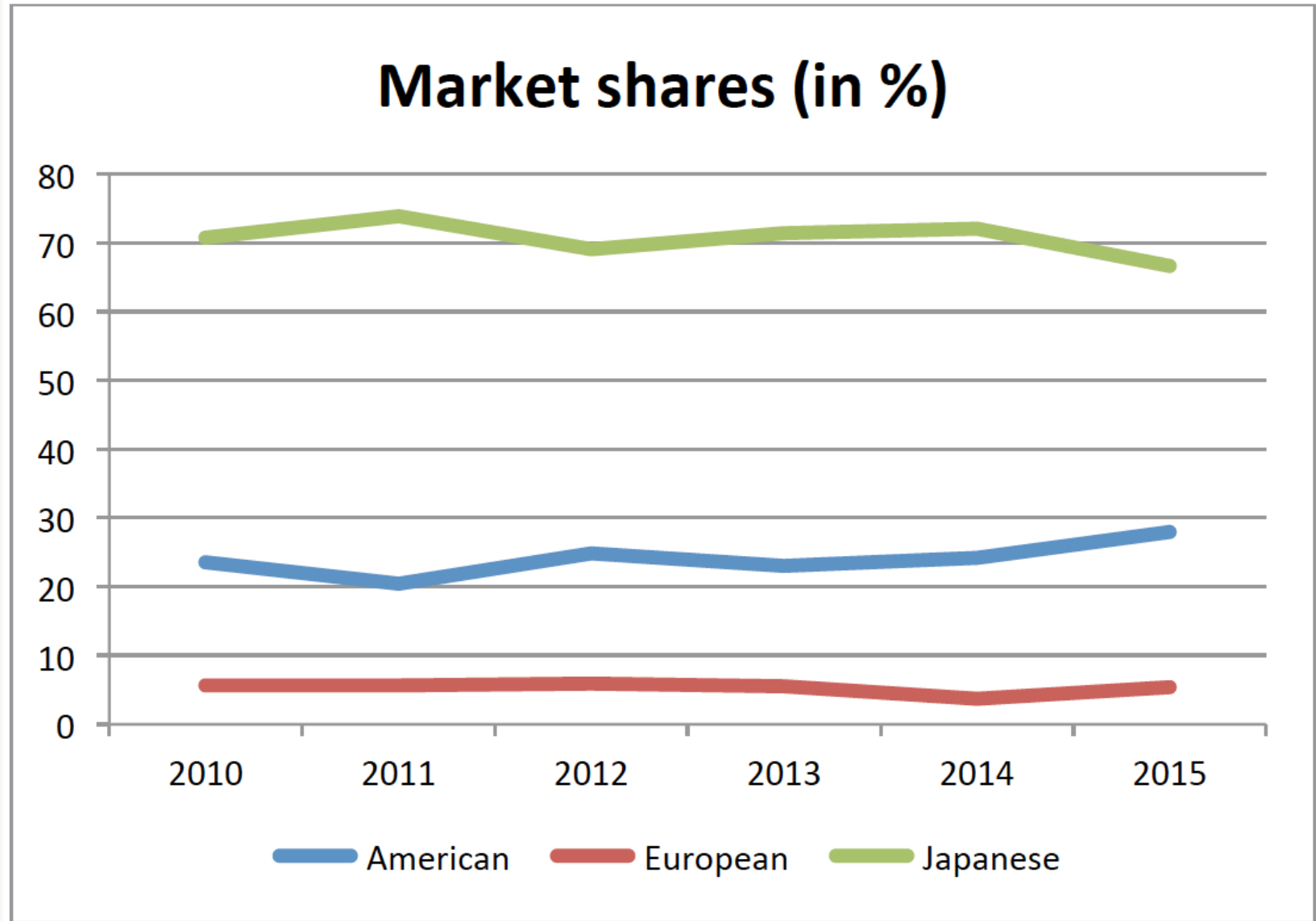
Market share (in %)



Investment banks by origin: Asia-Pacific market shares



Investment banks by origin: shares of Japanese market



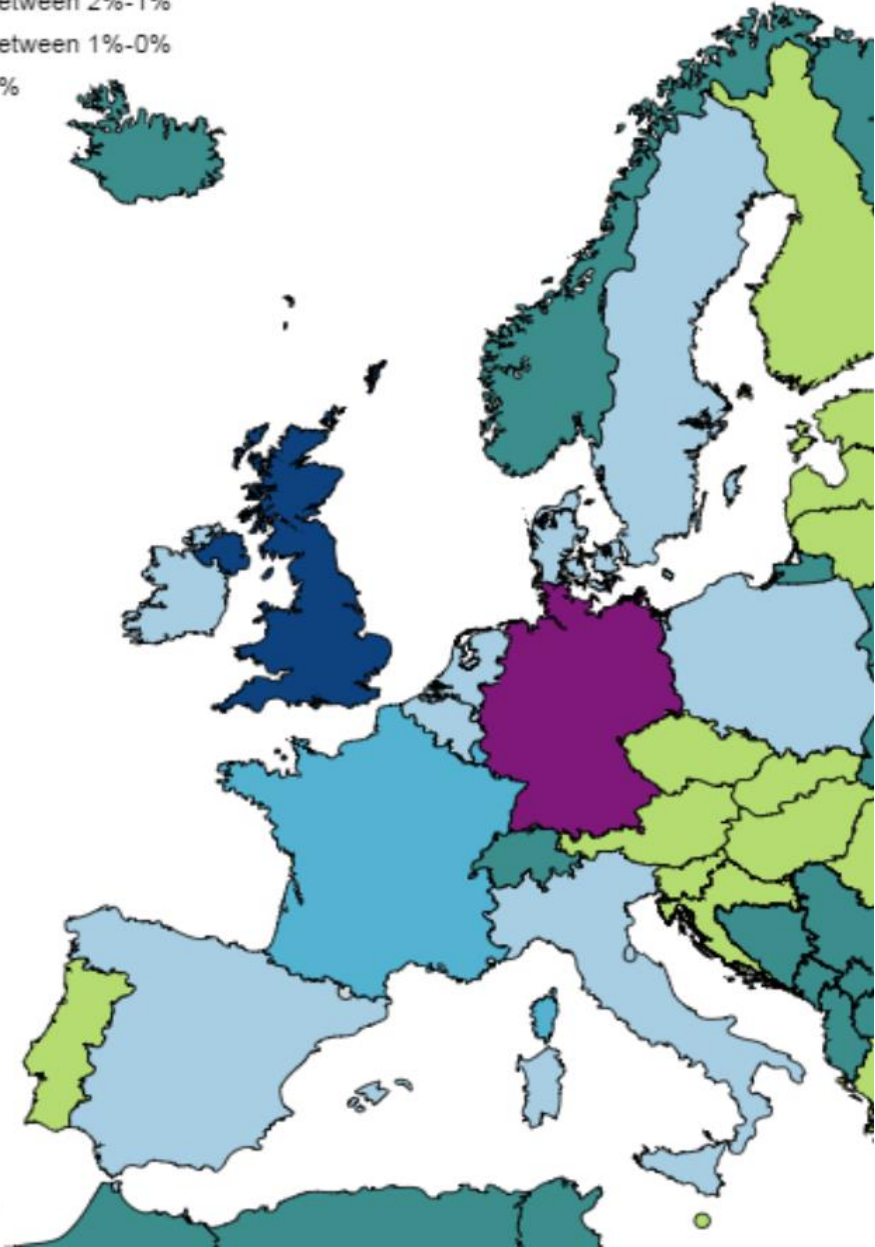
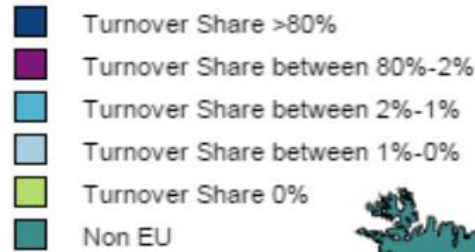
Empirical evidence

1. Global dominance of US investment banks
2. Domestic players dominant in country/region
3. But US is overtaking European banks in Europe
 - Rise of US investment banks
 - March 2009 stress test - quick recapitalisation in US
 - Banking licence for investment banks
 - Decline of European investment banks
 - 3 stress tests needed
 - Liikanen and Vickers Reports → universal bank model ↓

Hub and spoke model

- Turnover of US investment banks in Europe
- Use of banking passport from London
- What happens in case of Brexit?

Segmentation of turnover of US investment banks across the EU



Policy concerns

1. Unwanted American political or regulatory intervention (e.g. Sarbanes-Oxley)
 - EU-US Regulatory Dialogue
2. Competition with only few investment banks
 - Further consolidation – still competition (Big Four)
3. European banks become more national
 - US investment banks only pan-Europeans left
 - Concerns about knowledge about / loyalty to European corporates

Policy response (1)

1. European banking system is down-sizing

- Yes, that should run its course

2. Political side

- Strategic agenda for EU-US regulatory dialogue
- European Commission + ECB + Bank of England

3. Supervisory side

- European supervisory structure can supervise European operations of US players, e.g.
 - ESMA -> credit rating agencies
 - UK PRA + FCA -> US investment banks

Policy response (2)

4. European corporates can take action

- Include at least one European in syndicate in good times, to cater for bad times

5. Complete financial architecture (BU + CMU)

- Completing Banking Union with risk sharing would allow the emergence of strong regional, and potentially global, players

Thank you for your attention

Bruegel