APPEAL
ON THE IMPORTANCE OF COOPERATIVE BANKS FOR EUROPE'S ECONOMIC RECOVERY AND GROWTH

To:
All Heads of State or Government in the European Union

To:
Mr. José Manuel Barroso, President of the European Commission
Mr. Martin Schulz, President of the European Parliament
Mr. Herman Van Rompuy, President of the European Council

And to the Presidents of:
The European Systemic Risk Board
The European Banking Authority
The European Securities and Markets Authority
The European Insurance and Occupational Pensions Authority

For a speedy recovery from the economic crisis: why financial regulations should be mindful of cooperative banks

- Over the past few years, it has become clear that in order to fully recover from the economic crisis (and to avoid the distortions that have triggered the crisis in the first place) Europe needs to **strengthen** its **small and medium enterprises and rediscover the social elements** at the core of its economic system. This is one of the key areas the European Commission is focusing on, especially thanks to the commitment of Commissioner Michel Barnier, Commissioner Antonio Tajani, and President Manuel Barroso (as evidenced, most recently, by the Single Market Act Communication).
- This approach correctly emphasizes the importance of small and medium enterprises (including small banks) as the bedrock of the European economy. They are the engine of an economic development model that needs to be rooted at the local level in order to be sustainable in the long run. It also recognizes the **key role of all enterprise types** (including cooperative and social enterprises, as stated in the Social Business Initiative) in ensuring a model of growth that combines prosperity, equity and sustainability.
- Small and medium enterprises (SMEs), however, cannot thrive without **access to adequate and targeted credit**, which is the lifeblood of a local economy. Traditionally, this credit has been largely provided by a particular type of SME: **local financial institutions, and cooperative banks in particular**. These banks are built to serve their local communities and engage in lending practices tailored to meet the financial needs of families and SMEs.
- Indeed, it is no coincidence that **local and cooperative banks did not engage in the risky financial activities that triggered the crisis**. On the contrary – and most importantly – **they continued to concentrate their lending on the real economy,** providing credit to families and SMEs even when other banks had stopped doing so.
- The importance of these banks for their local communities is increasingly recognized and appreciated by policymakers and consumers alike. This is evidenced by the success of initiatives such as the "Move your Money" movement, which encourages people to move their savings from large commercial banks to community and cooperative banks in an effort to reward ethical and responsible lending practices, already resulting in the transfer of over 10 million bank accounts.

- In sum, **cooperative banks are essential contributors to economic growth, as they provide an irreplaceable source of credit for SMEs and of local development for their communities.**
- Moreover, the **diversity of enterprise types in the banking sector helps increase financial stability** and achieve a higher degree of competitiveness and efficiency.
- Since growth in Europe relies on the solidity of its banking system and not on financial markets (like in the United States, for example), **it is crucial to maintain a diversified and efficient banking system**.
- In light of these facts, it is particularly troubling to observe that **the new regulatory framework for financial institutions poses a serious threat to the viability of European local and cooperative banks**, thus jeopardizing a key ingredient for the economic recovery and the future financial stability of our continent (in contradiction with key EU policies like the Single Market Act). Indeed, while the new regulations are designed to make the banking system more resilient and less prone to the type of financial crisis we have witnessed starting in 2008, their "**one size fits all" approach effectively penalizes the banks that contributed the least to the onset of the crisis and proved to be the best at mitigating its effects**.
- New regulations and supervisory requirements impose disproportionate costs on local and cooperative banks, which have less elaborate information systems than larger banking organizations, thus reducing the availability of credit and increasing its cost. This unintended consequence was acknowledged even in the United States – as recently declared by Federal Reserve Chairman Ben Bernanke on February 16, 2012 – where community banks were exempted from the new financial regulations.
- In order to prevent this unintended outcome, **policymakers and regulators should recognize the specificities that distinguish local and cooperative banks** from other banks (including their capitalization schemes, liquidity management systems, and governance structure) and adjust their requirements accordingly. We therefore deem of the utmost importance that policymakers and regulators implement the following recommendations:
    1) adopt an effective proportionality principle and adjust the new standards based on the size and complexity of each institution;
    2) waive the requirements that are inconsistent with the cooperative business model and its governance structure;
    3) before it is adopted, estimate the impact of the new regulations on different types of banking models and on different types of enterprises;
    4) re-evaluate the phase-in timetable of the new regulations, taking into account the impact on the different national industrial structures and the effect on the process of recovery from the economic crisis.

This appeal was written by the participants of the International Conference "Promoting the Understanding of Cooperatives for a Better World," which convened many of the most prominent scholars on cooperatives and the social economy on the occasion of the United Nations' International Year of Cooperatives. Of the several topics addressed at the conference, the issue of the regulation of cooperative banks in particular poses a serious threat to balanced economic growth and deserves the full attention of European policymakers at all levels, prompting the conference participants to write this document.