



Presentation of the Munich Financial Centre Initiative in Brussels
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„Bavaria as a banking centre – dialogue with Europe“

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Ladies and gentlemen,

Let me start by expressing my hope that you profited as much as I did from the informative meetings held during the Munich Financial Centre Initiative's visit to Brussels.

These meetings and the insights which they produced confirmed and reinforced a key observation.

Munich and the rest of Bavaria constitute a financial community of European stature. Munich vies with Frankfurt for being Germany's leading financial services centre. Munich's importance partially stems from its ranking number one in insurance in Germany.

As an important financial centre, Munich cannot refrain from participating proactively in the policy-making and implementation undertaken by the organs and committees forming part and maintained by the European Union. As a matter of fact, Munich is obliged to do such. And for a very compelling reason: because all of the operations of the members of Bavaria's financial community — banks, insurers, providers of private equity and others — are affected by the results of this policy-making, which is designed to produce an all-encompassing, pan-European market for financial services.

Another observation which today's meeting bore out: as you well know, Germany has a federal system of government. This system has produced a financial community possessing an invaluable asset. Rather than being concentrated in one nation-dominating centre, the community is polycentric. Thanks to this, a fierce competition for business prevails in the community.

Competing among each other are Germany's metropolises, each with its own well-established financial community, and each with its own strategy for mastering the challenge of sustaining its development on today's capital markets. This spirit of competition also very much exists in Germany's banking sector. It has produced a sector not characterized by a market immutably pre-apportioned among major players, but one, rather, which is open to new ways of doing business. This openness is to be found in all three (four) categories of banks in Germany:

- Large and smaller sized, generally private banks
- Savings banks
- Credit unions
- (foreign-owned banks)



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Each of these categories of banks, and each of the institutes comprising them, is engaged in a fierce competition for business. Prime beneficiaries of this are the banks' customers, who profit from the near-record levels of pressure on margins existing in Germany and arising from this competition for business.

Please allow me to now give you a brief overview of the financial community in Munich and in Bavaria as a whole:

- Among the members of our financial community are 501 banks. Of them, 82 are privately-owned, a further 78 are savings banks, and the remaining 341 are credit unions.
- These 501 banks have a total balance sheet of nearly €1 trillions.
- The banks employ some 120,000 staff members.
- The banks maintain a state-wide network of nearly 10,000 offices and outlets. This network ensures each company and each citizen in our state, no matter where they are from or how much wealth they have accumulated, of having access to a comprehensive range of financial services.
- The banks manage a total of € 433 billion in customer deposits, and
- currently have some € 477 billion in credits outstanding to corporate and private customers.
- Viewed as a whole, Bavaria's banking sector thus provides its highly diverse clientele, via its great number and kinds of offices and outlets, with access to a comprehensive range of financial services.

We are grateful for having had the opportunity today to explain our concerns and points of view to such high-ranking people at the EU-level, with this applying to both the Commission and Parliament. We attach great importance to these encounters, because we believe that

- Europe needs us and
- we need Europe.

This importance of this reciprocal relationship mandates our monitoring the EU's decision and implementation processes on an ongoing basis. One of our main responsibilities is thus to come up with, at an early stage, assessments of the impact of the measures forthcoming at the EU-wide level. These assessments, in



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turn, form the bases of the positions we take vis-à-vis these measures.

The strength shown by Munich's financial community derives from and is dependent upon its being an integral part of the EU. In the meetings we had today, we had an opportunity to advance our views as to requisite measures. I would like to present a few more views during the next few minutes.

All of the EU's member states—with this including of course Germany—are required to have implemented MiFID by November 1, 2007. The delay in the promulgation experienced in Germany has led to a curtailing of the time available to the country's banks for implementation of the directive. We have heard that this situation is also being experienced in other member countries. Since the period of implementation is obviously way too short, an extension of this deadline is urgently needed, in our opinion.

An especially important object of discussion is provided by the endeavors to internationalize the standards of corporate accounting. These endeavors led the International Accounting Standard Board to issue a code of balance sheet preparation. The code is derived from IFRS and is designed for use by SMEs. The code does not adequately address the concerns voiced and experienced by Germany's SMEs. The best way to rectify this situation and to protect our interests is to play an active role in the policy-making conducted at the EU-wide level.

EU-wide decision-making processes offer, in sharp contrast to IASB, an opportunity to provide expert-derived input into standardization processes which enjoy the legitimation of being conducted democratically.

It is our considered opinion that SMEs should be completely exempted from being obliged to adhere to the standards established by IAS. Our reason for taking this position: the cost-benefit analysis displays inadequacies. For that reason, we urge the application of IFRS accounting standards to be restricted to capital markets-oriented companies.

The addressees of IFRS for SMEs are supposedly just the companies, banks and tax authorities. In actual fact, neither the companies nor the banks require the formulation of financial statements adhering to IFRS. The tax authorities require, in any case, a tax balance sheet, or one derived from the commercial balance sheet.

Companies not configuring their operations to meet the needs of capital markets take an approach to the provision of corporate information differing from that of the stakeholders in capital markets-oriented companies (shareholder value).

The banks need information when ascertaining creditworthiness. It is of no



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importance whether this information stems from financial statements prepared according to IAS, German GAAP, US-GAAP or another source. Sources of information are the company's annual accounts, bank accounts, orders on hand, business plans and the like. The verity and accuracy of each of these has to be ascertained. I would like to make a further point in this regard. All of the banks of the world have configured their rating requirements and methods of information procurement to meet the stipulations of Basel II. These methods of reporting would have to be altered once more to satisfy IFRS for SMEs.

Please allow me to make a final point, one that affects all of us in the business world. It is only by playing an active role at the EU-level that we can effectively deal with one of the major hindrances impairing today the free and fair pursuit of opportunity. And that is the ever-greater burden imposed by having to deal with bureaucracy.

A large number of staff members at banks spend their days handling responsibilities imposed on them by the government. Their salaries comprise a large part of the several hundreds of thousands of euros expended every year by an average-sized credit union to satisfy the bank-specific demands of bureaucracy. According to a study, these costs amount to € 3.1 billion a year for Germany's banking sector as a whole. We cannot afford to continue to ignore the perils posed by this trend, which constitutes both motivation and an obligation to take concerted action. With this in mind, we welcome and support all efforts at both the national and EU-wide levels which will lead to a lasting reduction in bureaucracy. It is the EU's responsibility to delimit the playing field and the rules of play. It is not its job to fine-tune, harmonize each and every matter, no matter how small. That can be left up to the competitive forces prevailing on the markets.

Summing it up, let me repeat a key observation: we need Europe and Europe needs us. We are well aware that the size and sophistication of the financial community, one of the most important in Germany, which we represent gives us a strong and expert voice. We intend to continue to do everything in our power to make this voice heard in the advancing of the needs and concerns of the Munich financial community and the companies based there. The meetings held today well served this objective.

I thank you for your attention.