



Leibniz Institute for Financial Research SAFE  
Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

## SAFE Finance Blog

### Dodd-Frank Act: Good Reasons for Alteration

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02/17/2017

Jan Pieter Krahen greets revision of regulation on proprietary trading



Jan Pieter Krahen (<https://safe-frankfurt.de/de/forschung/wissenschaftler/details/showauthor/14-krahen.html>), Director of the Research Center SAFE and Professor of Finance at Goethe University Frankfurt, considers Donald Trump's announcement to revise the Dodd-Frank Act an opportunity to review European and German approaches on bank structural reforms. Krahen criticizes in the daily newspaper *Süddeutsche Zeitung* on 16 February the prevailing prohibition of proprietary trading by banks in Germany. According to him, the distinction between "good" and "bad" trading is almost impossible.

The German "Trennbankengesetz" restricts banks from proprietary trading above a certain limit. However, it is difficult to tell speculative trading activities, that fall under this ban, from trading activities that aim to hedge interest or currency risks. Therefore, Krahen favors the separation of all trading activities into a

legally and financially distinct broker dealer institution. This is in line with the suggestions of the Liikanen Commission – introduced by the former EU commissioner Michel Barnier -, of which Krahn was a member. Such a separation would limit cross-subsidizing between retail banking and trading. The trading entity could remain under the roof of the bank-holding company, but must be capitalized separately – at a price that takes the trading risk into account. Moreover, the separation would improve the resolvability of banks in case of a crisis, because a legally distinct entity could be cut off more easily.

In Germany, banks can already separate proprietary trading in a legally distinct entity. However, for most of them this does not seem to be an option. Instead, they cut back trading as a whole. According to Krahn, this is an indicator that the prevailing regulation on the prohibition of bank proprietary trading has caused more harm than good, because some trading activities – like hedging – are important to reduce risks and, thus, should not be cut back.

### More on this topic:


Jan Pieter Krahn / Felix Noth / Ulrich Schüwer: Structural Reforms in Banking: The Role of Trading, SAFE White Paper No. 33 (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publication/publicationname/-1ae74eb0eb.html>)

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### Leibniz Institute for Financial Research SAFE

Theodor-W.-Adorno-Platz 3  
60323 Frankfurt am Main

Phone: +49 69 798 30080  
Fax: +49 69 798 30077  
Email: [info@safe-frankfurt.de](mailto:info@safe-frankfurt.de)

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