2019-2024

FOR A WELL-FINANCED SOCIETY IN A SOVEREIGN EUROPE

FÉDÉRATION BANCAIRE FRANÇAISE

CONTENTS

INTRODUCTION 4

PROPOSALS OF FRENCH BANKS 6

01 ENSURING THE STABILITY OF REGULATORY REQUIREMENTS 8

02 EXAMINING THE TRANSPOSITION OF THE BASEL ACCORD OF DECEMBER 2017 9

03 ENSURING THE COMPETITIVENESS OF EUROPEAN BANKS WITH RESPECT TO PRUDENTIAL AND TAX MATTERS 10

04 ENSURING HIGH-LEVEL STRATEGIC AND POLITICAL STEERING OF THE FINANCING UNION 12

05 DEVELOPING CAPITAL MARKETS BY CREATING REFERENCE ASSET CLASSES IN THE EURO ZONE 14

06 REVIEWING BANKING UNION GOVERNANCE 14

07 SUPPORTING THE COMMISSION'S CLIMATE ACTION PLAN 15

08 MEETING THE REQUIREMENTS OF THE DIGITAL REVOLUTION IN THE CUSTOMERS' INTEREST 16

09 PROMOTING THE INTEGRITY OF A RESPONSIBLE AND INCLUSIVE FINANCIAL SYSTEM 18

10 PROMOTING EUROPEAN SOVEREIGNTY 19

Introduction

HIGHLY ANTICIPATED REGULATORY STABILITY

Fifty percent of the European Commission's production of legislative texts from 2014 to 2019 was devoted to financial services. In order to allow financial players and their customers to adapt to existing regulatory requirements and develop their activities, the next European term of office should prioritise regulatory stability and limit any new legislative proposals to a few targeted measures regarding key aspects and allowing the development of the European economy.

In addition, it is essential to conduct a study of the impact of the last ten years of regulation on the financing of the economy.

STRATEGIC PRIORITIES FOR EUROPE

The United Kingdom's departure and the renewal of the European institutions should be an opportunity to reflect on the Europe of financing and answer the following questions:

- How can Europe provide support in the context of the reduction in the proportion of bank loans (76%) in corporate financing by developing its capital markets to avoid depending on third-country markets?
- European finance and investment banks (FIBs) lost 10 points of market share in 10 years in the EU territory, to the almost exclusive benefit of their American competitors, which nevertheless were at the root of the crisis of 2008. Is there not an issue of sovereignty?
- How can the EU's financing needs and the characteristics of European companies be taken into account in the legislation and particularly in the future transposition of the Basel Accord of December 2017?
- How can European financial sovereignty be ensured in the digital age and particularly with regard to payments?

These are strategic matters that need to be addressed by the political authorities. The priorities for a Financing Union must thus be defined by the Eurogroup together with the Commission, and not by the supervisors who are not mandated to ensure growth in Europe, but merely to ensure financial stability.

REVITALISATION OF THE FINANCING UNION

In order to meet these challenges, greater capital fluidity and liquidity is required within Europe. The Banking Union should not only be a Union of Supervision; it must allow the decompartmentalisation of national markets to facilitate financing with a better allocation of savings. The current lack of capital fluidity and liquidity in Europe is a significant obstacle for European consolidation and aggravates the problem of profitability of European banks. In fact, the European banking sector is much less concentrated than that of the United States or Canada, for example.

The emergence of a Financing Union will also involve a strategic revitalisation of the Capital Markets Union. The creation of a group of high-level personalities with a strategic approach based on the model of the "Lamfallussy" group could provide renewed impetus.

THE BANK AT THE CORE OF SOCIAL ISSUES

Bank customers are very supportive of the role played by their institution in major social issues: the energy transition, privacy protection and banking inclusion.

French banks have made strong commitments in the fight against climate change and are at the forefront in this regard. It is at the European level that climate issues are addressed: taxonomy, prudential incentives, methodology, etc. It is essential that the future Commission makes it one of its priorities.

Banks are trusted third parties, on which innovation in security depends. They ensure the security of their customers' funds and data. The EU must ensure that this requirement is taken into account in all regulations currently being drafted and particularly in the recurring debates on "digital finance" in the context of a rise in cyberattacks. Europe must reinforce this area of common security.

A FINANCIALLY SOVEREIGN EUROPE

Financing, its channels and its players are a strategic matter. Europe must maintain its autonomy to ensure that the financing of its economy is prioritised by financial players. The control of financing and payment channels is an essential attribute of sovereignty, including for maintaining control over the regulations applied by financial players. This is the challenge with respect to the competitiveness of the European banking industry. In this context, it will be crucial for European policy makers to ensure that the principle of fair competition is observed:

- between banks and non-banking players (investment firms, loan funds, FinTechs, etc.): all players in the same business (or a similar business) must be regulated in the same manner and subject to the same regulations;
- between third-country banks and European Union banks: the integrity of the internal market must be preserved;
- between banks within the European Union: the principle of proportionality must make it possible to reduce reporting requirements but must not weaken the "single rule book," which is the foundation of the Banking Union. The increased convergence of supervisory practices and the role of ESAs must make it possible to avoid races to the bottom with regard to regulation.

All of these conditions must allow Europe to assert its strategic financial independence.

FOR AN AMBITIOUS ROADMAP

In short, in our view, the challenge of the new European term of office must be:

- to enable European banks to better meet the financing requirements of their European customers through credit and the market (Financing Union);
- to encourage the role of bank financing in dealing with societal, climate, digital and security issues
- to affirm European economic sovereignty and the resilience of its banking sector.

Proposals of

1 **Ensuring the stability of regulatory requirements:** a comprehensive cost/benefit assessment of the current framework is required.

2 **Examination of the transposition of the Basel Accord of December 2017:** a prerequisite for any transposition of the Basel Accord must be to take into account the specificities of financing in the European economy and the need for fair competition among all banks, regardless of their size.

3 **Guaranteeing the competitiveness of European banks with respect to prudential and tax matters:** capital and convertible debt requirements, banking union costs, competitiveness of banks in tax matters.

4 **Ensuring high-level strategic and political steering of the Financing Union:** to allow a true development of capital markets and a reduction in the fragmentation of the Banking Union. This is particularly important in the context of Brexit.

5 **Developing capital markets by creating reference asset classes in the Euro zone**

6 **Reviewing Banking Union governance:** to ensure greater consideration of the general European interests, better coordination between supervisors and the transparency of supervisory practices.

French Banks

7 **Supporting the Commission's climate action plan:** promoting positive impact financing in financial regulation.

8 **Meeting the requirements of the digital revolution in the customers' interest** fostering innovation by ensuring respect for personal data protection by all players; preventing cyberattacks; promoting financing of new technologies.

9 **Promoting the integrity of a responsible and inclusive financial system:** establishing better coordination between banks and authorities to fight financial crime; promoting responsible and inclusive financing.

10 **Promoting European sovereignty:** in the payments industry, the localisation of essential European infrastructures, by developing the international role of the euro.

01 ENSURING THE STABILITY OF REGULATORY REQUIREMENTS

A COMPREHENSIVE COST/BENEFIT ASSESSMENT OF THE CURRENT FRAMEWORK IS NECESSARY

In order to allow financial players to adapt to existing regulatory requirements and to best support their customers in their projects, it is necessary to stabilise regulation, particularly regarding retail banking activities in the context of the planned assessments of the consumer credit and mortgage credit directives.

In general, it is necessary to conduct an assessment of the impact of the last ten years of regulation on the financing of the economy and to perform a strict evaluation of existing rules (costs/benefits) before introducing new legislative measures.

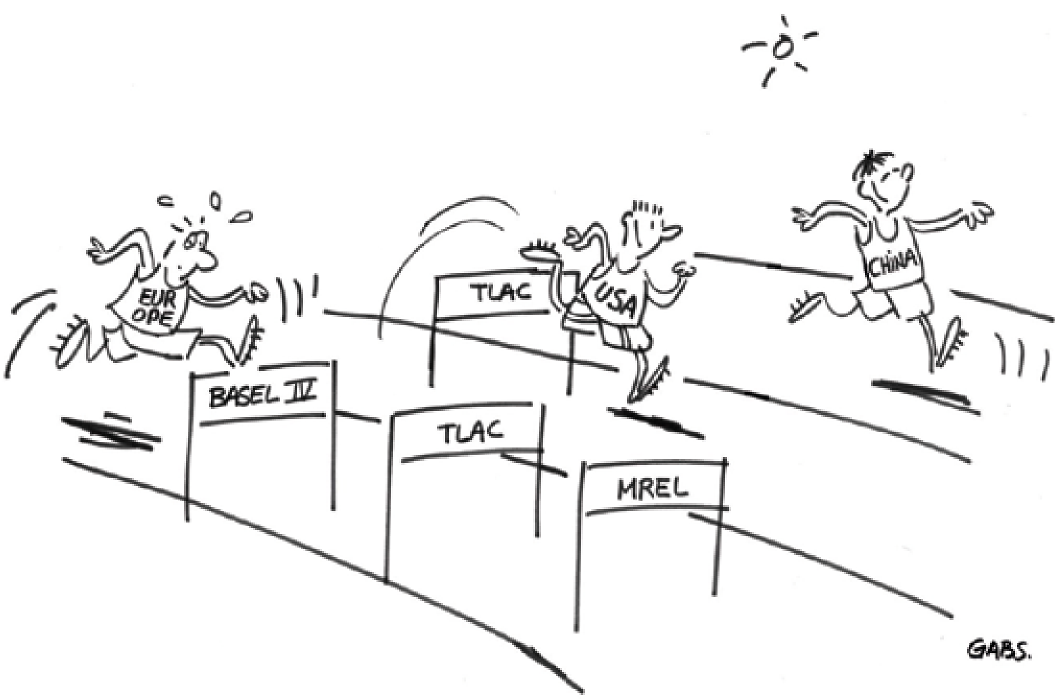

Illustration by Gabs.

02 EXAMINATION OF THE TRANSPOSITION OF THE BASEL ACCORD OF DECEMBER 2017[1]

A PREREQUISITE FOR ANY POTENTIAL TRANSPOSITION OF THE BASEL ACCORD MUST BE TO TAKE INTO ACCOUNT THE SPECIFICITIES OF FINANCING IN THE EUROPEAN ECONOMY AND THE NEED FOR FAIR COMPETITION AMONG ALL BANKS, REGARDLESS OF THEIR SIZE.

Before potentially transposing the Basel agreement, it is necessary to consider the competitiveness of the European economy and the specificities of its financing while ensuring the application of these requirements to all banks, regardless of their size.

The stability of the banking sector has increased significantly in recent years. The solvency ratio of French banks rose from 5.8% to 13.8% from 2008 to 2017. Furthermore, the solvency ratio of European Banks is 14.5% in 2018, compared to 12.3% for US banks.[2]

In this context, in any potential transposition of the accord of 7 December 2017 finalising the Basel III reform, it is crucial for the future European Commission to endeavour to preserve the banks' ability to finance their European customers. However, the impact of this transposition would increase the capital requirements of European banks by 21.3% compared to only + 1.5% for US banks. For largeEuropean banks (GSIBs), the impact would in fact be 28.4%.[3]

European specificities, in particular with regard to mortgage financing, specialised financing (which is essential for the financing of infrastructure, equipment and rental in the context of the energy transition) and the financing of unrated high quality companies (which are a majority in Europe, unlike in the United States) and SMEs must be previously taken into account.

For example, this Basel Accord would increase capital requirements for mortgage exposures by 2.6, for aircraft financing by 4, and for infrastructure financing by 2.8. This would have major consequences for projects with a high climate impact under the Commission's sustainable development policy.

PRIORITIES FOR THE TRANSPOSITION OF THE BASEL ACCORD

- the refinement of credit risk to preserve risk sensitivity (real estate loans, specialised financing, financing of unrated high-quality companies);
- application of the output floor at the highest level of consolidation and only to the relevant capital requirements;
- a more adequate definition of operational risk;
- maintenance of the European exemption for the scope of the market value of a credit default risk (Credit Value Adjustment);
- market risk calibration suited to European capital markets, which are less liquid and deep than in the United States.

(1) December 2017 and January 2019 on market risks (FRTB: Fundamental Review of the Trading Book)
(2) According to figures of the New York Fed
(3) According to figures of the EBA as of 30 June 2018

03 ENSURING THE COMPETITIVENESS OF EUROPEAN BANKS WITH RESPECT TO PRUDENTIAL AND TAX MATTERS

The main European banking groups have an overall return on equity (RoE) of 7.2%, calculated as a weighted average [3] lower than that of US banks (11.3%[4]) and than the cost of capital, which raises the question of the industry's capacity for financing the European economy in good conditions in the future. These results are partly due to the context of low interest rates in Europe, which penalises the profitability of banks.

Therefore, it is crucial for Europe to control regulatory, supervisory, resolution and tax costs.

CAPITAL AND CONVERTIBLE DEBT REQUIREMENTS

Following the adoption of the revision of the Bank Recovery and Resolution Directive (BRRD 2), the Minimum Requirements for Eligible Liabilities (MREL) are stricter than the TLAC (Total Loss Absorbing Capacity) requirements. This additional requirement is a clear example of competitive disadvantage for European banks as it has a direct impact on their refinancing costs. It also leads to a dependence of the European banking sector on the US financial market, the most liquid in the world, for funding. A review of the BRRD 2 to ensure that MREL requirements for large banks are in line with US TLAC requirements is essential.

Furthermore, the costs of compliance with banking and financial regulations weigh heavily on the profitability of banking institutions. The European Commission has launched an impact study at the end of 2018, the conclusions of which are highly anticipated by the banking industry.

BANKING UNION COSTS

One of the major challenges lies in the implementation of the regulations voted by legislators. The complete lack of a consolidated view of the interactions between the different regulations on the one hand, and the lack of coherence in the implementation of these regulations by different European players on the other, lead to an unacceptable increase in costs.

In addition, supervisory costs must now be contained. These supervisory costs between European and national authorities (NCAs, SSM, SRB, etc.) have increased by more than 35% from 2015 to 2018.

(3) Source: European Banking Authority in Q3 of 2018
(4) According to the New York Fed in Q3 of 2018

ESTABLISHING A SYSTEM OF CONTRIBUTIONS TO THE SINGLE RESOLUTION FUND BASED ON RISKS AND WITH NO MORAL HAZARD

Bank contributions are based on size, while they should be based on the cost risk for the Single Resolution Fund (SRF). There is thus a moral hazard risk in not basing these contributions on the risks taken by the institutions.

The methods for calculating contributions should be revised to make them more risk-based. From this point of view, the Pillar 2 capital requirements established by the single supervisor are an appropriate indicator.

The safety net in the Single Resolution Fund provided by the European Stability Mechanism should be used only as a last resort. The terms of use should be carefully considered, as exceptional contributions to the European Stability Mechanism in the event of safety net use can represent up to five times the contributions to the SRF. In this regard, it is essential to establish repayment terms that do not generate a crisis contagion effect.

COMPETITIVENESS OF BANKS WITH REGARD TO TAX MATTERS

EU initiatives in the field of corporate taxation should remain predictable and consistent with the OECD's Base Erosion and Profit Shifting (BEPS) actions. Fair conditions of competition must be maintained with the EU's main trading partners. Adequate tax treatment of debt financing must be ensured across the EU.

The OECD's latest proposals, which greatly exceed the scope of digital players alone, need to be carefully monitored as they would result in a redistribution of corporate tax revenues between states, favouring states with the largest number of consumers.

The 'hidden VAT cost' must also be carefully monitored: in the current VAT exemption system, banks do not generally charge VAT on the services they provide to their customers; however, they cannot recover VAT on the costs that they cover. This non-neutrality of the VAT system applicable to financial services has been aggravated by a series of recent judgements of the Court of Justice of the European Union. The EU must opt for a non-penalising VAT system for the financial sector. The treatment of financial services for VAT purposes should be reconsidered, while recognising the adverse effects that taxation of financial transactions would have on the financial markets.

Lastly, it is essential that withholding taxes on dividends and interest be eliminated in the European Union for increased capital fluidity as withholding taxes are an obstacle to cross-border capital flow and a source of tax litigation.

04 ENSURING HIGH-LEVEL STRATEGIC AND POLITICAL STEERING OF THE FINANCING UNION

These are strategic matters that need to be addressed by the political authorities. As indicated by President Emmanuel Macron in March 2017, who was a presidential candidate at the time, the regulations adopted after the crisis (Basel 2 and 3) prompted financial players to disinvest. Emmanuel Macron stated that these regulations "greatly affect economies like ours that were not at root of the crisis." The prudential authorities want prudence, so their only objective is risk reduction and, therefore, they have discouraged banks and insurance from financing the economy."

The Eurogroup must thus define the priorities for the Financing Union together with the European Commission[5], which should not be delegated to supervisors alone, whose task is to ensure financial stability and not growth in Europe.

ALLOWING A TRUE DEVELOPMENT OF CAPITAL MARKETS

Since the beginning, the FBF has supported the European Commission's project to develop a Capital Markets Union (CMU) in Europe. As one of the world's largest financial centres leaves the European Union, the CMU needs a new strategic impetus. There are still major differences between the financing structures of Europe and the United States: bank credit is still the main source of financing in Europe (76% of corporate financing compared to 30% in the United States) .

A new model for financing the economy, based to a greater extent on the financial markets, is now required for European banks in a context of restrictive banking regulations in order to meet the financing needs of European companies, particularly with regard to infrastructure or the energy and digital transition.

The CMU is aimed at an allocation of savings that is suited to investment and financing needs in the European Union. This reorientation of European savings must also allow the long-term financing of projects and companies, so as to limit dependence on non-European savings. In the event of a crisis of confidence, the mass withdrawal of investors from third countries cannot be ruled out.

The Commission's regulatory initiatives have thus far failed to reactivate the CMU project. The securitisation reform, for example, is still too limited. To truly reactivate the CMU project, several paths should be explored:

- Reference asset classes in the eurozone (see proposal 5)
- Greater flexibility regarding selling conditions for certain financial products (particularly MIF2, PRIIPs and DDA regulations[6]) to promote corporate financing. The regulation has clearly had negative effects, in terms of increasing the information provided to customers without any real benefit in relation to their understanding, which the Commission should evaluate and correct.
- Developing Europe's equity markets

According to an ECMI study[7] published in December 2017, equity markets represent 150% of GDP in the United States compared to only 70% in the European Union. This difference, however, cannot be explained by the number of listed companies. In fact, Europe has the largest number of listed companies (7,353 in 2016) with an average capitalisation of €1.4 billion while the United States has 5,204 listed companies with an average capitalisation of €4.7 billion. Thus, the challenge is rather to broaden the investor base than to facilitate the listing of European companies. In this regard, the various initiatives recently launched to promote the development of European capital markets, in particular that of SME growth markets, must be supported. The recent call for tenders by the European Commission "for a comprehensive analysis of primary and secondary equity markets in the EU" is aimed in the right direction.

The European Banking Federation could establish a committee of Experts with high level personalities to make proposals to the European authorities for the reactivation of the CMU project. This very important process should remove the obstacles that have thus for prevented the effective reactivation of the CMU project.

REDUCING THE FRAGMENTATION OF THE BANKING UNION

True prudential recognition of the eurozone as a single jurisdiction is essential. It is also a necessary condition for the success of the CMU. After the establishment of a single supervisor and a single Resolution Board, such a measure would improve liquidity and capital flow in Europe, given the excess savings in some countries and investing requirements in others.

The supervisory requirements established in host countries hinder the free flow of capital and liquidity within the Banking Union and contribute to the fragmentation of markets in Europe. A report by Oliver Wyman in 2017 shows that eliminating the requirements of each single entity could release €21 billion in CET 1 capital [8] and €59 billion in liquidity in Europe. Intra-group transactions within the Banking Union should thus receive automatic preferential treatment, without the prior authorisation of the competent national authorities.

In addition, exemptions from prudential requirements established on an individual basis for banking group subsidiaries within the Union should be granted if they meet these requirements at the consolidated level.

Lastly, the recognition of the new European regulatory framework for resolution and the creation of the Single Resolution Fund (SRF) must result in the absence of requirements of resolution-eligible liabilities for subsidiaries within the Banking Union, as established by international regulations for institutions within the same jurisdiction.

PRESERVING THE INTEGRITY OF THE INTERNAL MARKET IN THE CONTEXT OF BREXIT

Europe is currently a net importer of financial services. In order to preserve the integrity of European financial markets, their access must be conditional on the achievement of equivalence for the sectors where the mechanism exists, following a unilateral decision by the European Commission, by which it is also monitored.

(5) financing by bank lending through the Banking Union and development of capital markets through the Capital Markets Union.
(6) Markets in Financial Instruments Directive, Regulations on Key Information Documents for Packaged Retail and Insurance-based Investment Products, Insurance Distribution Directive.
(7) Recent Developments in European Capital Markets – Key findings from 2017 ECMI Statistical Package, December 2017
(8) Core Equity Tier 1

05 DEVELOPING CAPITAL MARKETS BY CREATING REFERENCE ASSET CLASSES IN THE EURO ZONE

The creation of high-quality reference assets would be useful to the CMU and would ensure market liquidity and depth. In the absence of public Eurobonds, three paths can be considered:

- the Eurogroup's work on sovereign bond-backed securities (SBBS);
- implementation of private reference asset classes, for example, through the securitisation of (a) real estate loans that meet very high quality standards, (b) consumer credit or (c) corporate loans. A European agency could define and monitor compliance with the quality standard of underlying real estate loans;
- implementation of a European mechanism for the securitisation of credits with a high climate impact with a European label and the guarantee of a recognised public body, e.g. the European Investment Bank, or the "Climate Bank" proposed by the President of the French Republic. Such an initiative would allow both the development of market financing, which is the aim of the CMU, and the support of sustainable finance.

06 REVIEWING BANKING UNION GOVERNANCE

ENSURING GREATER CONSIDERATION OF GENERAL EUROPEAN INTERESTS, BETTER COORDINATION BETWEEN SUPERVISORS AND THE TRANSPARENCY OF SUPERVISORY PRACTICES.

The agreement reached on the review of European Supervisory Authorities (ESAs) has not corrected the fragmentation of the supervision of market authorities and banking supervision. A review of ESA governance and greater coordination between supervisors are necessary, particularly between national supervisors and those of the European Union or the eurozone. Greater transparency in the decision-making and consultation processes of supervisors is also needed.

The creation of a panel of representatives of market players before supervisors would be welcome to ensure that, before adopting certain rules, supervisors take into account their potential impact in terms of market operations.

In order to ensure the prevalence of a more European vision, the executive committees of the European supervisory authorities could be composed of full-time representatives. These independent and recognised personalities would be less sensitive to the interplay of national interests.

In order to prevent market fragmentation, it is necessary to strengthen the ESMA's convergence powers with regard to financial supervision and regulation. The reform of the ESAs includes certain provisions in this regard (direct supervision, European no-action letters, for example). There should be greater convergence, particularly in terms of governance, in order to ensure the lack of national bias among European supervisors. An excessively national perspective prevents any European harmonisation in European financial markets. This may encourage some Member States to carry out regulatory dumping, which is a source of market distortion between European market players.

Finally, it is important that the distinction between regulation and supervision be clear, and that supervisors refrain from adopting quasi-legislative standards or general rules anticipating legislation, at the risk of exceeding the scope of their mandate. This raises questions regarding the single supervisor's recommendations on non-performing loans or its ongoing assignments concerning the validation of internal models anticipating the transposition of the Basel Accord of December 2017.

07 SUPPORTING THE COMMISSION'S CLIMATE ACTION PLAN

PROMOTING POSITIVE IMPACT FINANCE IN FINANCIAL REGULATION

Banks provide support to their customers in facing the big challenges of tomorrow. They are one of the stakeholders in the energy transition.

There are great expectations regarding the actions taken in the fight against global warming as shown by the Eurobarometer (autumn 2018). The fight against climate change is their fifth greatest concern (16%[9]) behind immigration (40%), terrorism (20%), the state of public finances (19%) and the economic situation (18%). It is even their second greatest concern if it is added to the environment (25%).

Given the weight of bank financing in the European Union, the actions of banks in the development of green finance are essential to meeting the challenges posed by climate change. This conviction is at the heart of the actions of French banks, which are champions of the energy transition. They have thus made strong commitments to finance renewable energy and reduce their polluting energy exposures and are responsible for 25% of global green bond issues in 2017 in a market that is expected to represent more than 200 billion euros in 2018. Three French banks were ranked among the top five European banks with regard to climate policy by the non-governmental organization ShareAction.[10]

But the climate challenge can only be met through concerted action at the European level. As a result, the industry supports the objectives of the action plan proposed by the European Commission on climate change.

In this context, the implementation of a taxonomy of green assets is important. It should establish harmonised criteria for defining sustainable activities financed by banks and provide investors with the clarity and transparency necessary for informed decision-making aimed at making a positive contribution to the fight against climate change.

The development of this taxonomy must first focus on environmental criteria. Furthermore, this taxonomy should not penalise the banks' efforts in this regard. Therefore, such provisions, which must be voluntary, must not impose new regulatory requirements and must avoid redundancies with the various existing regulations, particularly with regard to disclosure requirements.

A strong response to the financing needs of the energy transition also depends on the establishment of suitable prudential treatment on the basis of the work of the European Banking Authority (EBA) within the framework of the mandate granted to it under the CRR 2 regulation. Such prudential treatment would make it possible to accelerate the greening of bank balance sheets, for example through a "Green supporting factor," and help finance the required investments estimated by the International Energy Agency (IEA) at $53 trillion by 2035 to avoid exceeding the 2 °C threshold for global warming. Furthermore, as mentioned above, it is essential to prevent the transposition of the Basel Accord from penalising the financing of infrastructures, some of which have a very positive impact on the climate.

(9) This concern is even greater in France (22%)
(10) Banking on a low carbon future, December 2017

08 MEETING THE REQUIREMENTS OF THE DIGITAL REVOLUTION IN THE CUSTOMERS' INTEREST

Banks are recognised trusted third parties in the protection of their customers' funds and personal data. In order to help banks better meet this requirement, the EU should:

PROMOTE INNOVATION AND THE FINANCING OF NEW TECHNOLOGIES

To better serve their customers, banks are already using technologies such as artificial intelligence, big data or blockchain technology. 72% of French people believe that banks are looking to the future[11] (innovations, digital services, etc.). Artificial intelligence thus allows the automation of support for financial advice and the improvement of the customer knowledge process, for example. Big Data is used to improve the detection of fraud attempts, to analyse risk more accurately before granting loans, etc. Blockchain technology has many applications, for example it is used to improve SME access to capital markets by facilitating the security and transparency of post-trading operations,[12] in international trade finance or cash management. The work of French banks is fully in line with the ethical framework currently under development by the European Commission.

However, Europe lacks investment in these new technologies. In 2017, private investment in Artificial Intelligence was €3 billion in Europe and more than €5 billion in both the United States and China.[13] The European Commission has decided to accelerate its investments by €1.5 billion from 2018 to 2020 under Horizon 2020, and to mobilise €500 million through the new Invest EU program. This is undoubtedly insufficient when 15,000 Chinese researchers are working in this field in Shenzhen, and ways to accelerate and intensify this effort need to be found.

ENSURING RESPECT FOR PERSONAL DATA PROTECTION BY ALL PLAYERS

The cloud is a way to store data. However, cloud leaders are mainly large non-bank players. European players, even the most important of them, find it difficult to have their technical, regulatory and security constraints recognised, resulting in particular from regulations such as the General Data Protection Regulation (GDPR).

The EU could establish security, technical and legal standards through standard contractual clauses established at the European level in cloud service provider contracts. These clauses should be established following consultation with the banking industry by the European Commission or EBA.

In addition, the Cloud Act raises questions as to its compatibility with European and national regulations, particularly the General Data Protection Regulation (GDPR) and the blocking law in France. According to the Cloud Act, a US company operating in the European Union would be required to comply with requests from US authorities to disclose information it may have and which would be required for ongoing criminal proceedings. Such company would thus be subject to two different and potentially incompatible legal systems. This legal conflict must be resolved to avoid placing companies in difficult situations. The European Commission must be mandated to negotiate an agreement with the United States.

As it stands, the draft ePrivacy regulation would strengthen the control of non-bank players, which provide operating system and browser solutions in a virtually monopolistic manner, on cookies and direct marketing. This would create a competitive disadvantage by increasing banks' reliance on these players to meet their regulatory obligations and possibly access data related to customer preferences. In this context, it is particularly important to continue to respect the legitimate interest as defined by the GDPR.

Lastly, the protection of payment data and commercial data associated with payments is a matter of great political importance, given the use of such data by non-European players who may not be subject to European regulations.

PREVENTING CYBERATTACKS

The single supervisor believes that cyberattacks are the greatest risk faced by banks. This risk should be taken into account more systematically in European law.

Furthermore, it would be useful to make the procedures to be followed after a cyberattack less complicated. There are multiple reporting requirements in the event of an incident: the different regulations (GDPR, DSP2, SSM, NIS, ANSSI) each establish their own requirements, with different forms and deadlines. The sharing of information, which is useful and should be encouraged, should also concern the ECB.

The FBF welcomes the fact that the G7 has begun to address this matter, particularly France in the framework of its Presidency as of 1 January 2019.

(11) According to the bank image barometer published by the BVA institute in 2018.
(12) LiquidShare project with BNP Paribas, Caceis, the CDC, Euroclear, Euronext, S2iEM, Société Générale. 13 to track orders between the importer, carrier and exporter, including their banks.
(13) ABI Research.

09 PROMOTING THE INTEGRITY OF A RESPONSIBLE AND INCLUSIVE FINANCIAL SYSTEM

IMPROVING COORDINATION BETWEEN BANKS AND AUTHORITIES TO FIGHT FINANCIAL CRIME

French banks are highly committed, along with the State, in the fight against financial crime. 68% of reports of suspicious transactions to Tracfin were submitted by banks in 2017. In addition, banks collect information on the tax residence of their customers for submission to tax authorities. Since 2014, banks have publicly reported their establishments and activities outside of France.

Banks are by far the largest contributor to the anti-money laundering framework, including massive investments in IT and compliance systems. Nevertheless, financial crime continues to be a scourge and reports of suspicious transactions result in a low number of criminal convictions. It may thus be useful to work on new methods for a more effective fight against financial crime that could include better coordination between banks and authorities, a greater exchange of information, more effective reporting and the use of common digital platforms to manage information on beneficial owners and legal entities.

PROMOTING FINANCIAL EDUCATION FOR RESPONSIBLE AND INCLUSIVE FINANCING

With 99% of people owning a bank account[14], French banks are committed to the social and professional inclusion of all.

In this context, French banks have prioritised the financial education of individuals and entrepreneurs alike and believe that best practices should be encouraged at the European level. For over 15 years, the FBF has developed educational tools through its "Les clés de la banque" ("Keys to banking") program for understanding daily banking operations: budgets, bank accounts, payments, savings, loans, etc. These tools, which are made available free of charge to the greatest number of people possible, including individuals, entrepreneurs or social actors, provide support to vulnerable groups. The website is visited 4 million times a year.

The FBF also participates in the education of the citizens of tomorrow through its "Inviting a banker to my classroom" operation in the framework of the "European Money Week," promoted by the European Banking Federation. It has been implemented in French schools since 2015 and has helped to educate nearly 25,000 primary school students (CM1-CM2) in budget-related concepts using an educational game. These initiatives need to become generalized and contribute to increasing the integration of financial education in school programmes.

More generally, French banks have responsible financing practices. Thus, there have never been any "subprime" loans in France. Nor were there credit restrictions at the time of the crisis. Unlike the other major economies in the eurozone, the French banks continued their financing operations. The bad debt ratio of French banks is much lower than the average of the banks of the eurozone (2.97% compared to 4.40% in Q2 2018)[15] and big French banks have more than doubled their tier-one own funds to comply with the new solvency rules (they increased from 5.8% in 2008 to 13.8% in 2017[16]). The pricing practices of French banks are moderate. The rates applied are favourable to SME projects (1.72% at the end of November 2018, compared to 2.02% on average in the eurozone), as well as to households for real estate purchases. French households have thus benefited from a gain in purchasing power of several billion euros over the past 6 years thanks to real estate loans.[17] In addition, as of February 2019, French banks established an overall cap on payment incident costs for all financially disadvantaged customers.

Lastly, to support digital innovation, the social dimension of digitalisation is of particular importance, to prevent Europeans from being excluded from this revolution. With regard to employees, the banking sector spends twice as much as other sectors in professional training (4.4% of its payroll versus 2.6% on average for French companies), but a large part of such training is dedicated to compliance with banking regulations rather than to adapting to the digital challenge and preparing the staff for the world of tomorrow and for new uses.

(14) Observatory of Microfinance
(15) FBF
(16) Banque de France.
(17) ECB, BDF, ACPR (Oversight and Resolution Authority) and Financial Stability Board.

10 PROMOTING EUROPEAN SOVEREIGNTY

The protection of EU sovereignty must be a fundamental goal of European policy. The defence of European sovereignty is even more essential in the digital era. It is critical to ensure competitive (regulatory and tax) equality with digital players when they operate in the financial field.

IN THE PAYMENT INDUSTRY

French banks innovate to make their customers' daily lives easier. Thus, in 2018 in France, more than 2 billion contactless payments were made, with 63 contactless payments per second (source: GIE CB - Estimation for 2018) for an average amount of approximately €10. The volume of credit card transactions is growing continuously, while the number of frauds decreases.

European players, however, remain behind non-European players in payment offerings that can operate across the European market. One of the major challenges of the next European Commission will thus be to devise solutions promoting European independence in the field of payments. The French banking industry is already working on the harmonisation and standardisation of card payments.

BY PROMOTING THE LOCALISATION OF INFRASTRUCTURES IN EUROPE

The banking industry wishes to foster the financial sovereignty of Europe by promoting the emergence or development, as appropriate, of market infrastructures within the European Union. The aim is to ensure that financial operations being performed within the European Union become common in the future.

BY DEVELOPING THE INTERNATIONAL ROLE OF THE EURO

The European Commission has launched a project to restore the euro's pre-crisis role and protect its companies from extraterritorial sanctions.

French banks will respond to this consultation and work with the Commission on ways to strengthen the internationalization of the euro. The creation of a European reference asset and the fight against the fragmentation of capital markets in Europe are essential in this regard.

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