For a sovereign and sustainably growing Europe

Detailed proposals from French banks for the 2024-2029 term

FÉDÉRATION
BANCAIRE
FRANÇAISE

1

Finance future needs of households and businesses with high-performance tools

2

Boost the European banking sector, a guarantee of economic and industrial sovereignty

3

Contribute to the success of the ecological transition

Foreword

In addition to the profusion of legislation (see box below), the past term has been marked by a series of major international crises (COVID, war in Ukraine), new challenges (acceleration of the climate crisis, adoption of the Inflation Reduction Act in the United States), and the acknowledgment that European GDP has declined compared with the United States and has been overtaken by China[1]. This unprecedented environment has prompted European action to focus on:

- the determination to achieve European strategic autonomy in several areas, including defence and energy;
- the need to strengthen the competitiveness of our economy.

In this context, European banks not only underwent a real-time stress test during the COVID crisis, but also:

- **provided a way** for businesses to remain stable during the health crisis. For example, French banks granted nearly €145bn in state-guaranteed loans to over 685,000 companies, more than 80% of which were micro-enterprises. At the European level, some €350bn in loans guaranteed by public authorities were granted in 2020, i.e. more than twice the annual European budget;
- **continued to play a central role** in financing European companies and their investments. Bank financing, which accounted for 85% of corporate needs in Europe in 2017, continues to account for 79% today (compared with 39% in the United States);
- **served as unwavering partners** in implementing the various European sanctions regimes.

In the light of these results, French and European banks are committing themselves. **Financing decarbonisation, digitisation and major projects is a matter of strategic autonomy: Europe must be in control of its own destiny, and the strength of European banks will enable it to achieve this.**

Consequently, French banks propose **the following three key priorities, broken down into 18 proposals:**

1. Finance the future needs of our continent

In concrete terms, this involves:

- ensuring the long-term development of the European universal banking model as part of the retail investment strategy and the opening up of access to financial data to foster the development of investments by individuals and companies;
- revising the project to create a digital euro, drawing on private initiatives that have proved their worth;
- developing securitisation through real incentives.

2. Boost the European banking sector, a guarantee of economic and industrial sovereignty

This entails:

- to create a true banking union in which capital circulates in line with needs in order to optimise its use and ensure that savings in one Member State can finance an investment in another Member State;

(1) European GDP was $17,600bn in 2022, compared with $17,900bn for China and $25,000bn for the United States.

- to ensure the economic strengthening of European banking players: their competitiveness must become a priority of the single supervisor and the European authorities;
- to adapt resolution requirements that go well beyond international requirements and to make sure that the future revision of macroprudential rules does not lead to higher capital requirements which would penalise European banks;
- to establish a qualitative approach in the context of the relocation of euro derivatives clearing to the EU, to make sure that financial cover for company risks are covered by European banks at the best price.

3. Contribute to the success of the ecological transition to remain the leaders in reducing CO_2 emissions

This requires:
- breaking down the European Union's environmental commitments[2] into target trajectories by sector and by Member State and ensuring that each European company subject to the CSRD implements a robust and auditable transition plan aligned with the target trajectory for its business sector;
- involving European stakeholders by favouring disruptive technologies short on maturity but strong on potential;
- simplifying the regulatory framework and the collection of material non-financial data in Europe.

(2) A 55% reduction in greenhouse gas emissions by 2030 compared with 1990, carbon neutrality by 2050, restoration and preservation of 30% of natural ecosystems, phase-out of environmentally harmful subsidies.

REVIEW OF THE 2019-2024 EUROPEAN TERM

The body of European legislation adopted during the 2019-2024 term in the banking sector has increased significantly, but has not halted the decline in the weight of the European banking sector worldwide:
- *further revisions to prudential rules: capital requirements regulation and directive, fast-track proposal following the outbreak of the COVID crisis;*
- *the standardisation of sustainability reports and harmonisation of the data all economic players are required to publish: the aim with these texts (EU Taxonomy regulation, CSRD, and Pillar 3 ESG for banks) is to make reporting more transparent, while limiting greenwashing. This body of law also includes the European Single Access Point (ESAP) regulation and the European Green Bond Standard (EU GBS) regulation;*
- *the harmonisation of retail banking rules: overhaul of the distance-selling and consumer-credit directives, Retail Investment Strategy;*
- *adjustments to the rules on digital technologies: regulation on crypto-asset markets, ePrivacy regulation, regulation on digital operational resilience for the financial sector, laws on digital markets and digital services;*
- *the harmonisation of anti-money laundering legislation.*

1

Finance future needs of households and businesses with high-performance tools

- Develop investment through European savings and the strengths of the European universal banking model
- Capitalise on private initiatives such as the European Payments Initiative (EPI) by guaranteeing the transformation activity of the European banking sector
- Free up capital to finance the economy by enabling the development of an efficient and secure securitisation market in Europe

Develop investment through European savings and the strengths of the European universal banking model

The proposed text for the Retail Investment Strategy should prevent a decline in investments by individuals and businesses.

The European Commission's proposal suggests key measures for developing financial savings, such as financial literacy, the digitalisation of the materials provided to customers, and a revision of fee and service transparency. In truth, it runs counter to the Commission's stated objective of completing the Capital Markets Union, which involves increasing European savers' investments in financial products. According to the latest Eurobarometer survey on financial literacy[3], while more than one in two US households have financial products, only 24% of European households own a share, fund or bond. In this respect, no proposals have been made to reduce the amount of documentation provided to savers, which is an obstacle to their distribution.

This proposal, inspired by the Netherlands, where – also according to the Eurobarometer – consumer confidence in investment advice from banks is among the lowest in Europe, is a threat to the economic system for financial instrument distribution (based on a system of kickbacks to distributors). In practice, a ban on kickbacks has been achieved, whereas the draft text presents it as a compromise. The scope of the ban on kickbacks in the European Commission's proposal is extremely broad (and broader than the definition of execution only in MiFID II) and calls into question access to support and advisory services (the partial ban will limit banking income and thus automatically reduce the number of branches and advisors). The ban serves to reduce the sharing of financing between the wealthiest and the poorest, which is a central component of French banks' universal banking model for investment advice, which is based on cost pooling. This de facto ban is reinforced by the review of the text in three years.

The proposal also results in a pricing policy that would standardise, through a downward levelling, the offer of financial products via a European benchmark.

Furthermore, the proposal would create a two-tier market, potentially depriving the least wealthy of access to advice and unduly favouring independent advisors and ETFs. This would be tantamount to imposing the US/UK transactional advisory model at the expense of other advisory models.

Ultimately, this proposal would force distributors to adapt their systems, which they will no longer be able to finance under sustainable economic conditions, as the text introduces new requirements or strengthens existing obligations in numerous areas.

PROPOSALS

1 - Develop the European universal banking model and its strengths, as well as free competition between different distribution models, as part of the retail investment strategy.

2 - Simplify and reduce the amount of documentation provided when selling financial products, which complicates the sale process and discourages retail clients, as part of the retail investment strategy.

The scope of the proposed regulation for the creation of a framework for access to financial data needs to be reviewed. Opening up all the data on financial services within the framework of the European Commission's proposed regulation, whether on home loans, savings, or otherwise, is likely to undermine the European universal banking model.

(3) European Commission, Monitoring the level of financial literacy in the EU - Eurobarometer survey, 18 July 2023.

While the French banks welcome the fact that the draft text endorses the contractual approach, this should not result in compulsory adherence to data-sharing schemes, and should take account of the investments made. Furthermore, the industry, which is very concerned about the protection of customer data, points out that the sharing of data cannot be considered without the customer's informed consent being obtained from data users and confirmed by the bank. Against a backdrop of fraud and proven cyber risks, it is important that the legislator takes security aspects at face value by imposing the same security requirements on data users as apply to the banking sector. The industry will be vigilant to ensure that the text excludes any information resulting from specific processing of customer data by the bank (e.g. risk score).

PROPOSAL

3 - Ensure that a high level of security is maintained in the protection of customer data by imposing uniform security requirements on all players in the chain.

The sustainability of the bancassurance model must be guaranteed. Business models based on the diversification of activities have proven effective for retail and business financing. The French financial landscape is marked by the presence of large "bancassurance" groups, which combine banking and insurance activities. The existence of these large and diversified groups has demonstrated numerous advantages in terms of resilience, risk diversification, systemic risk management, financial solidity and the development of customer-friendly competition. The benefits come from the diversification of activities, which provides a variety of sources of income, and from economies of scale and scope; they far outweigh the costs of increased complexity, which is also rigorously managed. Furthermore, the financing structure between banks and insurance companies is complementary. Combining their financing methods in a consolidated structure enables the group to better cover risks, particularly liquidity risk. Finally, the financial conglomerate ensures financial solidarity between the group's different entities.

PROPOSAL

4 - Ensure the long-term development of the bancassurance model in Europe by confirming the Danish compromise on the calculation of banks' capital requirements for their investments in insurance subsidiaries.

Capitalise on private initiatives such as the European Payments Initiative (EPI) by guaranteeing the transformation activity of the European banking sector

Discussions on the introduction of a digital euro partly reflect the determination to ensure European sovereignty in payments, a sector where Europe remains overly dependent on non-European players. This extremely relevant policy objective cannot alone justify the decision to issue a central bank digital euro, as Europe has at its disposal all the building blocks required to establish its sovereignty. It has developed European payment solutions, including standard transfer, instant transfer and direct debit schemes. These solutions are adopted and used by all stakeholders, from customers and consumers to retailers, SMEs and large corporates, public administrations, and payment service providers. These solutions run on private and public European payment infrastructures, which are entirely under Europe's supervision. On this basis, and in line with the European Commission's retail payments strategy, 14 major European banks and 2 major European payment companies are launching the European Payments Initiative (EPI), which will be rolled out in 2024, initially for P2P instant payments and then for other offerings. While the project is currently supported by banks from four EU Member States, which account for more than 60% of non-monetary retail payments in the eurozone, the objective is to extend the EPI to other EU Member States and further expand

the project to include other functionalities such as B2C payments, online payments and point-of-sale payments. However, the introduction of a digital euro, which does not address any new concrete use cases, and which would probably become a new means of payment for all merchants, poses a real challenge in terms of competition with banks' current and future commercial offers (EPI). The question of the costs of this project for all economic players, public and private, in particular administrations, retailers, the ECB and banks, must also be asked.

While the decision of the ECB's Governing Council on whether to launch the digital euro, initially scheduled for October 2023, has been postponed to the second half of 2025, we must sound the alarm on the digital euro's impact on the balance of the banking ecosystem. The introduction of a retail digital euro would lead depositors to transfer funds from their commercial banks to their digital euro wallets. Deposits would thus be converted into direct claims on the ECB. This would lead to a decrease in commercial banks' deposit base, which could in turn affect banks' ability to finance the European real economy, individuals and businesses alike. Any situation that weakens deposits has an impact on the financing of the economy (€1 less deposit equals €1 less credit for the financing of the economy).

For a digital euro wallet of €3,000 used in full by depositors, the digital euro could reach €1.15tn and generate a 12.5% flight of deposits from retail customers in the eurozone, not to mention the waterfall and reverse-waterfall mechanisms, which could cause an even greater flight of deposits. Furthermore, any holding and transaction in digital euros should be carried out through existing banking applications, consulted very regularly by customers, and not through an ECB application which would constitute public competition not justified by a market failure. In this context, the holding limit should correspond to current everyday uses, namely 100 euros.

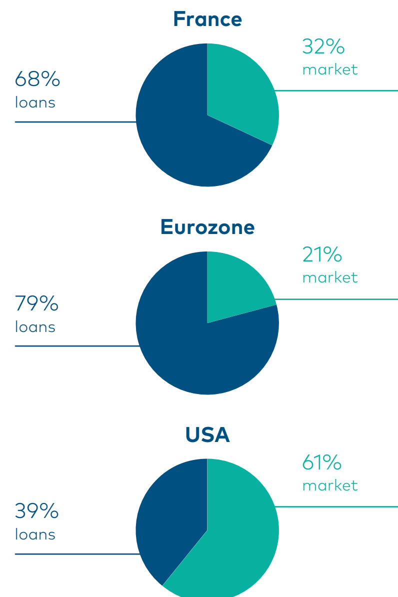
PROPOSAL

5 - Establish European payment sovereignty by relying on the European Payments Initiative and instant payments, in order to maintain banks' transformation activity, which is essential to meeting the European economy's financing needs.

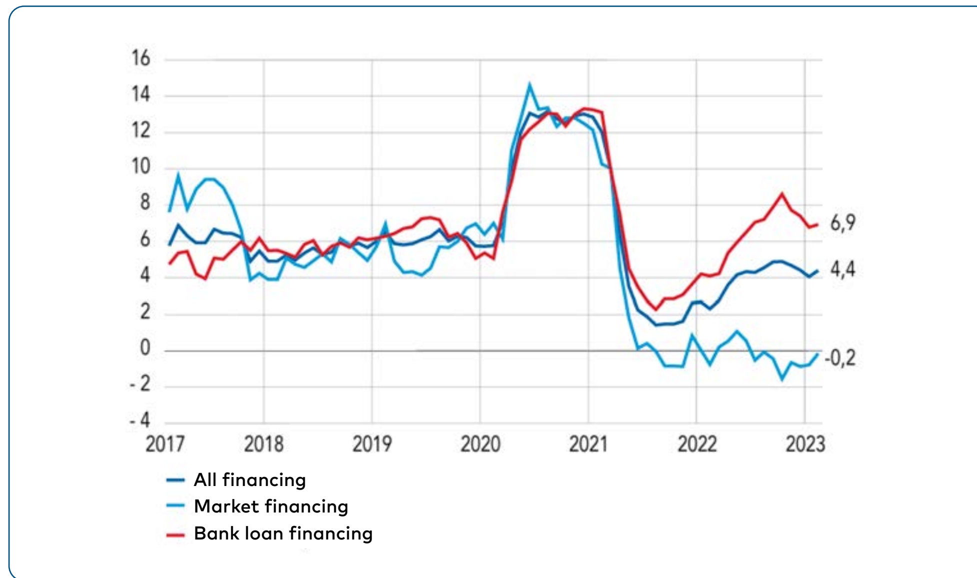
Free up capital to finance the economy by enabling the development of an efficient and secure securitisation market in Europe

The completion of the Capital Markets Union (CMU), launched in 2014 and supplemented by an action plan in 2020, remains a vital undertaking.

But bank financing in the eurozone and in Europe remains by far the dominant source of financing, accounting for 79% of corporate needs in Europe, a role played in the United States mainly by the markets (61%).



Sources of corporate financing in 2022
(Source : Banque de France)



Change in bank loans and market financing in France (annual growth rate in %)
(Source : Observatoire du financement des entreprises)

In this context, we continue to see the wider diversification of corporate financing sources as useful in funding the ecological and digital transitions. A revitalised CMU would also make it possible to invest copious savings, with the Banque de France estimating that surplus savings in the eurozone relative to investment amounted to €340bn in 2019.

The growth of capital markets is therefore strategically important for a better allocation of savings to meet EU investment needs resulting from the ecological and digital transformations. These transformations represent an unprecedented challenge, with substantial additional investments of between €330bn and €350bn a year for at least a decade for the ecological transition and €125bn a year for the digital transformation.

This is all the more important as bank balance sheets will not suffice. The average trend in European bank balance sheets over the past 10 years has been +2% a year. With the sector's consolidated balance sheet amounting to some €33,980bn in March 2023, annual growth at the same pace would generate around €680bn per year in additional financing capacity. While this amount appears to suffice to finance the traditional economy, it would not be enough to finance the ecological and digital transitions. And it does not factor in the impact of new regulatory constraints on banks' balance sheets. As things stand, the final transposition of the Basel accords will increase their capital requirements by around 10% on average, increasing their risk-weighted assets by around €900bn over five years and reducing their financing capacity by €500bn per year[4].

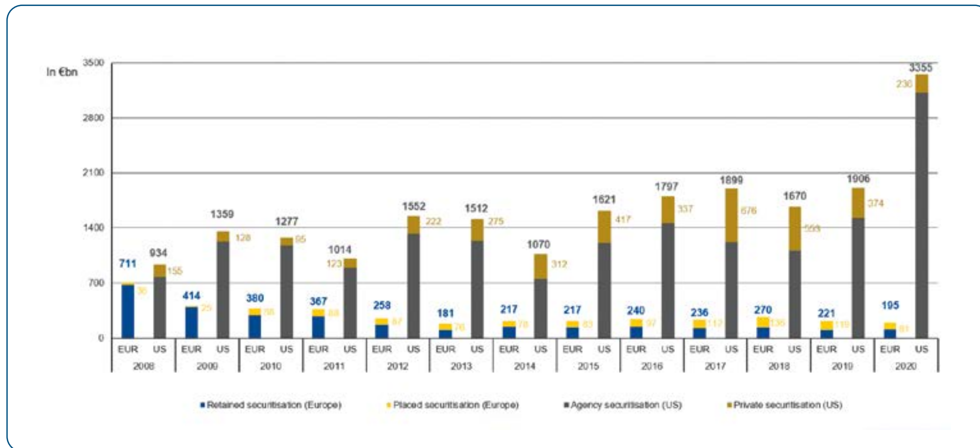
This market financing percentage could change through the transfer of loans, i.e. the sale of loans issued by banks to external public or private investors. Securitisation would make room on banks' balance sheets, enabling them to grant new loans to the economy.

(4) Financing represents 55% of risk-weighted assets on average (home loans and business loans).

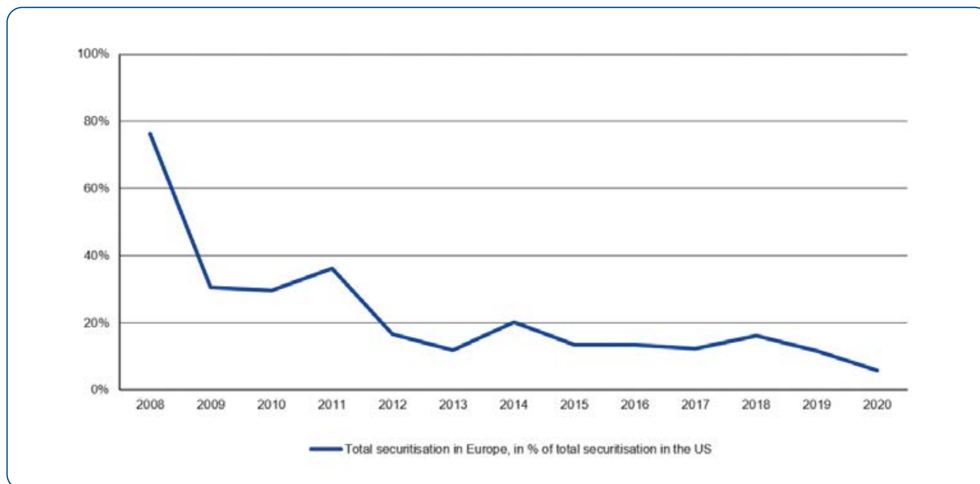
The securitisation market in the United States is substantial and boasts strong momentum (more than €3,000bn in 2020) but remains marginal in Europe (just under €200bn in the same year).

In the EU (see infographics), the volume of loans transfers has contracted sharply since 2008 and is falling steadily compared with the United States, which relies on significant public intervention.

The transfer of loans is not risky in itself if they are safe. During the subprime crisis, high-risk US mortgages passed on to the markets led to high losses. In contrast, the few loans transfers carried out in Europe, made with safe underlyings, did not result in any unusual losses.



Volume of securitisation transactions in Europe and the United States
(Source : AFME, ESM calculation)



Comparative share of securitisation transactions in Europe (including the UK) and the United States
(Source : AFME, ESM calculation)

It is these safe loans that should be transferred on a larger scale in Europe to increase banks' lending capacity, strengthen the European capital markets so that businesses have an additional source of financing, and accelerate the development of the CMU.

To that end, rapidly transposing these proposals into a forthcoming reform of the regulatory framework would boost the financing power of the European economy. It is now up to the European Commission, the co-legislators and the supervisory bodies to ensure that these aspects are properly taken into account. This will prove vital in the future if Europe is to succeed in its ecological transition and digital transformation.

In addition, these secure European loans could be purchased by a European secure asset structure guaranteed by the EIB and thus benefiting from its AAA rating.

PROPOSAL

6 - Develop the market of loans transfer by removing regulatory obstacles:

- *allow for prudential relief, in particular by halving the p-factor for STS (simple, transparent and standardised) securitisations, as in the Boyer amendment, and for non-STS securitisations, which account for 70% of the market (CRR revision);*
- *simplify the European Central Bank's "significant risk transfer" process (CRR revision);*
- *make securitisation tranches eligible as level 1 HQLA assets (revision of the LCR delegated act);*
- *ensure that European banks have the ability to invest in transactions originating in third countries by not applying the reporting rules of the European STS regulation to third-country originators (ESMA position).*

2

Boost the European banking sector, a guarantee of economic and industrial sovereignty

- Facilitate capital and liquidity movements within the Banking Union
- Ensure the economic strengthening of European banking players, whose competitiveness must become a priority for the single supervisor and the European authorities
- Plan a qualitative approach in the context of the relocation of euro derivatives clearing to the EU to immunise companies in their hedging activities

Facilitate capital and liquidity movements within the Banking Union

There is still **room to improve the circulation of capital and liquidity within the Banking Union** and to create a true single market in banking. The calculations made by the single supervisor show that the lack of liquidity derogations prevents around €250bn of high-quality liquid assets from moving freely within the Banking Union. With regard to own funds, the same calculations show that the aggregate amount of risk-weighted assets resulting from the individual non-derogating requirements of cross-border subsidiaries in the Banking Union is approximately 25% higher than the amount of consolidated risk-weighted assets attributable to those subsidiaries at consolidated level. For this reason, **the Banking Union should be recognised as a single jurisdiction across all regulatory and prudential components** (in particular with regard to intra-group exposures). **This would allow progress to be made on reducing the fragmentation of capital, liquidity and MREL.**

Similarly, the banking industry is advocating for the **implementation of a reasonable threshold for internal MREL eligibility** consistent with the definition of the relevant legal entity specified in Implementing Regulation 2018/1624. For banking institutions, **only entities reaching a threshold of 5% of the total amount of the risk or leverage exposure of the resolution group should be subject to this ratio and to the minimum requirements for own funds and eligible liabilities**.

Lastly, the proposed "daisy chain" directive, which unnecessarily strengthens requirements at the level of each entity, needs to be revised so as not to sterilise additional capital by country.

PROPOSALS

7 - Recognise the Banking Union as a single jurisdiction across all these prudential components (capital, liquidity, MREL) (CRR revision).

8 - Implement a reasonable threshold for eligibility for internal MREL for banking entities in Europe (revision of Implementing Regulation 2018/1624).

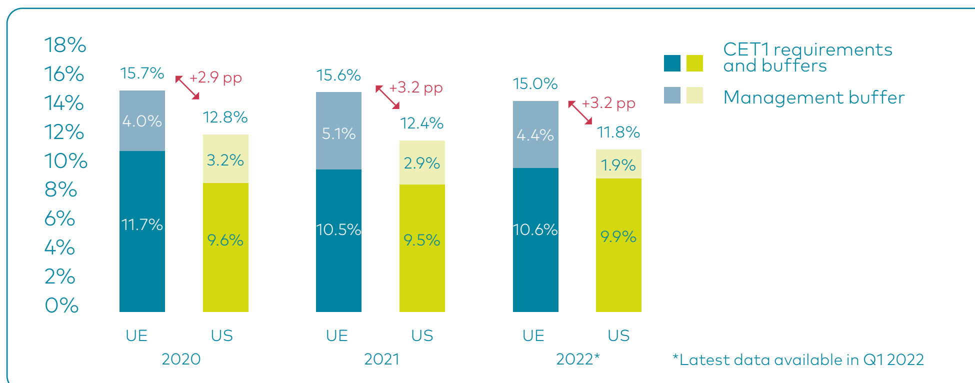
Ensure the economic strengthening of European banking players, whose competitiveness must become a priority for the single supervisor and the European authorities

Banks will continue to play a vital role in financing companies in Europe in the next five years.

The COVID crisis, followed by the turbulence caused by the bankruptcy of US banks SVB and Signature Bank, as well as the takeover of Credit Suisse, were successful stress tests for European banks, whose strength is now recognised by European decision-makers.

The capital of the 450 European banking groups applying Basel rules is now higher than that of the 13 major US banks and include management buffer established in response to European supervision uncertainty (for example, the ban on the payment of bank dividends in 2020-2021) and its increasingly stringent requirements (such as future financial penalties for non-compliance with the requirements. (see infographic on next page)

The soundness of European banks will also be reinforced by the implementation of the banking package, involving an average 16% increase in capital requirements for European banks.



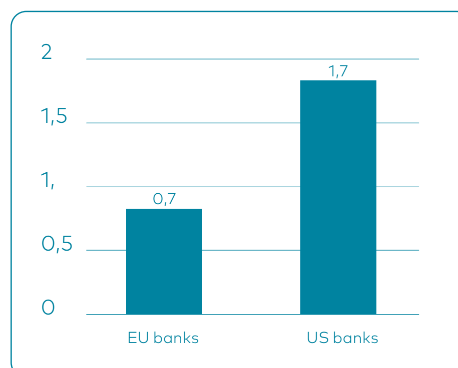
On average over the last 3 years, the CET1 ratio of European banks is 3.1 percentage point (pp) higher than that of US banks (15.4% vs. 12.3%)
(Source: Oliver Wyman 2023 study)

In a context of uncertainty regarding the implementation of the Basel 3 Agreement in the United States, it is also crucial that **the delegated act on market risks (FRTB – Fundamental Review of the Trading Book) is not limited to two years**.

In fact, the main risk today for European banks now appears to be the risk of profitability. This risk stems from the erosion of banks' income streams caused in large part, or even engineered, by European consumerist policies, combined with the need to generate a return on expanding own funds as a result of prudential policy. The risk is reflected in the alarming valuation of European banks. While the price-to-book[5] ratio of European banks and US banks was comparable until the 2008 crisis, it has since diverged significantly, reaching 0.6 on average in the EU in 2022 compared with 1.0 for US banks, which benefit from a deeper and more profitable domestic market.

In 2008, the market capitalisation of the leading American bank (JP Morgan) was just above that of the leading European bank (Santander). In January 2024, it almost equals the sum of the market capitalisations of the top 10 European banks.

Against this backdrop, in addition to systematically taking into account the competitiveness of European players in European legislation, **European supervisory authorities must make strengthening the competitiveness and profitability of Banking Union players a priority**. Practically speaking, this would consist in introducing a second objective, the competitiveness of the banking sector, into the objectives of the single supervisor and specifying such an objective for the supervisory authorities, such as the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA)[6] in particular, because in reality the sector's financial strength guarantees its soundness. This is what the UK recently did, following the vote of the Financial Services and Market Act, for the Bank of England and various authorities such as the Prudential Regulation Authority and the Financial Conduct Authority.



Valuations of European and US banks
(estimates at end-2023)
(Source: Factset, stock prices on tangible net assets of major banks)

(5) Ratio of a bank's market valuation to its net asset value.
(6) Which mentions the competitiveness of the European Union but not the competitiveness of the European financial sector.

PROPOSAL

9 - Introduce a second objective, the competitiveness of the sector, in the Regulation of 15 October 2013, which sets out the ECB's objectives for the prudential supervision of credit institutions, and specify the objective provided for in the regulations of November 2010 establishing the EBA, ESMA and EIOPA.

With the Single Resolution Fund (SRF) to be endowed with nearly €80bn, it is important that **the draft revision of the directives on bank crisis management and deposit insurance (CMDI) serve as an opportunity to strike a new balance between financial stability and the strengthened competitiveness** of European banks.

Large EU banks suffer from excessive levels of MREL compared with the international TLAC requirement, especially given their most plausible resolution scenarios (i.e. not just an open bank bail-in). They have an excess total risk exposure amount (TREA) of 4% to 5% relative to their US counterparts, which constitutes a serious fair competition problem that has an impact on their profitability.

This is why, realistically, the CMDI package should account for recent bank failures, all of which show that a bailout only strategy is untenable, regardless of the size of the bank concerned, as is the bail-in of certain categories of depositors (households, and even retail). **A combination of several resolution tools needs to be considered, the permanent and non-discretionary exclusion of certain categories of deposits needs to be accepted, and MREL should be determined accordingly. The recovery measures and the resulting reduction of the bank's balance sheet should also be taken into account when assessing the amount required for recapitalisation, and MREL should be determined on the basis of the size of the group after resolution, and not solely on the basis of the resolution plan carried out before resolution.**

Tools for transferring assets and selling businesses should not be limited to entities for which delisting is considered relevant. Recent examples show that, in practice, a combination of tools is used to manage a distressed bank. The choice of tools and the development of the resolution plan should therefore be based on existing data and the specific characteristics of the entity concerned.

In addition, the Commission's proposal would allow small and medium-sized banks to access the European resolution mechanism, which is largely financed by large banks, and French banks in particular, with the help of national deposit guarantee funds. **By not imposing a single system of sufficiently prescriptive eligible debt and capital buffers on the smallest banks, and by allowing the use of national deposit guarantee funds to facilitate access to the SRF, this new text does not draw the most obvious lessons from the US regional bank crisis and also creates unequal treatment from a competition standpoint, while undermining the competitiveness of large banks.**

For this reason, French banks are advocating for **a reasonable MREL target to be applied to all banks intended for resolution, regardless of their size**. Quite simply, the best way for a bank to be ready for resolution is to build up sufficient MREL. Generally speaking, since large banks do not present more risks than small banks, small banks should not benefit from exemptions. Otherwise, there is a competition problem.

In general, as recent events have shown that crises can originate from institutions regardless of their size, small banks should not benefit from exemptions where the latter go beyond reporting. Otherwise, problems arise in terms of competition and the inadequacy of the supervisory system.

And if no prescriptive criteria are specified in the CMDI reform, small and medium-sized banks with a transfer strategy will be able to simply add a minimum recapitalisation amount (RCA) above their capital requirements and thus be able to easily access pooled fund resources. In Denmark and Finland, for example, where a reasonable MREL target has been set for

local resolution entities, even small banks with a balance sheet of a few billion euros have been able to launch issues. Of course, for these small and medium-sized banks, eligible liabilities could be replaced by CET 1 and a ramp-up period could be determined.

PROPOSALS

10 - In the event of resolution, the recapitalisation and MREL amount should be based on the size of the group after resolution and on the recovery options (BRRD review underway).

11 - Forbid the use of national guarantee funds to facilitate access to the Single Resolution Fund, as this creates a moral hazard (BRRD review underway).

12 - For all European banks, specify a reasonable MREL with a minimum recapitalisation amount (RCA) (BRRD review underway).

We firmly believe that European banks are sufficiently capitalised, and it seems to us that **the review of the EU macroprudential framework should not result in higher capital requirements**. If anything, it would be advisable to ease these requirements to respect fair competition, whereas the EU currently goes beyond Basel with buffers and specific requirements (such as the systemic risk buffer (SyRB), the buffer for other systemically important institutions (O-SII), and MREL). Excess capital is therefore locked up instead of being invested in the economy to finance growth (as seen in the extremely high ratios of EU banks and stress-test results).

However, the COVID crisis revealed **shortcomings in the EU macroprudential framework on the usability of buffers**:

- This review should therefore provide **greater certainty on the maximum distributable amount (MDA)**, with banks determining their management buffer according to their distance to the MDA. During the COVID crisis, the EU implemented dividend restrictions even though the combined buffer requirement (CBR) was not breached. We believe that there should be no suspension of dividends without the MDA trigger provided for today by the texts and that the MDA could be lowered in times of stress.

- In addition, the European authorities should coordinate to relax the buffer to ensure consistency in the reduction in risk-weighted assets (RWA), the leverage ratio and MREL. **The measures to relax the buffer will prove ineffective if the restrictions weighing on banks' own funds are not all taken into account.**

- If the countercyclical capital buffer (CCyB) is increased to make the buffers more usable, this should be offset by a decrease in the capital conservation buffer (CCoB). Alternatively, the CCoB itself could be used.

In its current form, the EU macroprudential framework is excessively complex. The review of this framework should notably provide **greater clarity on the risks covered by each of the buffers and on the absence of overlap (multiple counting) with other macroprudential buffers**, as well as with Pillar 2R and Pillar 2G, in addition to the minimum Pillar 1 requirements. What is needed, then, is a holistic vision:

- For example, P2G exists to deal with stressed situations (see scenario severity) while the CCoB is an additional margin to prevent breaches of the TSCR (Total SREP Capital Requirement = minimum requirements + P2R).

- Similarly, we are not in favour of increasing own funds for any new emerging risk until we know exactly how it should be dealt with in P1 and P2. Particular attention must be paid to the risk of P1/P2 double counting, particularly as regards the transposition of Basel IV.

More broadly, **the issue of governance between national and EU authorities, policies and supervision is key**. The roles and responsibilities of the national and EU authorities must be clearly defined with the objective of (i) ensuring the consistency of the EU macroprudential framework as a whole, (ii) ensuring that risks are not double counted, and (iii) avoiding the fragmentation of the EU market. In addition, the revision of the framework should enable these authorities to take coordinated decisions quickly in response to a given situation.

Lastly, macroprudential risks do not only affect banks and it is important that discussions be held at a more global level to achieve **the objective of measuring and covering the systemic risks of the European financial system as a whole** and, ultimately, to ensure its resilience. We support the ESRB's recommendation in its response to the Commission's call for advice in which it supports the principle of "same activities, entity-specific risks, consistent rules" as a general guideline, reflected in particular in the introduction of tools based on the business activities carried out, in parallel with entity-level tools (thus making it possible to cover other players in the financial sector).

PROPOSAL

13 - Ensure that the future macroprudential framework does not result in higher capital requirements for banks by seeking in particular to cover other players, allow the enhanced use of buffers and provide clarity on the risks covered by each buffer to avoid overlap. Base any strengthening of the prudential framework on a robust vulnerability analysis and avoid placing European banks at a competitive disadvantage relative to non-European banking and market finance players.

To apply the better regulation principle, legislative texts should not be systematically revised at predetermined periods unless an impact study demonstrates a significant need. In particular, we do not see any particular need for a mortgage review.

Ultimately, these revisions always entail new constraints and substantial adaptation costs for European banks. Level 1 texts should be concerned with principles and should limit delegations to delegated acts and soft law. Specifically, ESA guidelines, which are excessively numerous, should not add requirements or expand the scope of a Level 1 text.

PROPOSAL

14 - To keep regulatory constraints stable at the current high level of consumer protection, there is no need for a systematic review of legislative texts at predetermined periods in the interest of legislative restraint and there is, in particular, no need for a mortgage review.

Plan a qualitative approach in the context of the relocation of euro derivatives clearing to the EU to immunise companies in their hedging activities

In early December 2022, the European Commission adopted measures to make EU clearing services more attractive and resilient with the revision of the European Market Infrastructure Regulation (EMIR). The industry has submitted several proposals to enable French and European banks to continue to play a key role on the European financial stage after Brexit.

The European Commission's proposal contains some positive elements. For example, it took up our idea of an "active account" within a European clearing house and the easing of the rules governing the operation and review of European clearing house models. An "active account" refers to the obligation, for European players seeking to clear a significant volume of transactions in euro derivatives with a systemically important clearing house in a third country, to hold an open and active account with a European clearing house. **The industry calls for a qualitative approach to this "active account" as a first step (i.e. without imposing quantitative thresholds to be relocated).** In our opinion, a quantitative approach should remain contingent on the possible failure of the qualitative approach. In our view, this solution involving an initially qualitative approach to the active account would have several positive effects. It would: (i) enable the gradual relocation of euro-derivative transactions, thus avoiding any risk of destabilising the financial system, (ii) guarantee the competitiveness of European players in a context where 75% of euro-derivative transactions are carried out by non-European counterparties, and (iii) facilitate the gradual improvement of the European clearing offering to ensure its attractiveness to all customers, and to non-European customers in particular.

If a quantitative approach to the active account were to be subsequently considered, the industry would argue that the relocation restriction should relate (i) for European financial players, to their own account only (activity over which banks have control when choosing where the transactions are cleared), **and (ii) for bank counterparties, solely to European customers subject to the EMIR clearing obligation** (as subjecting non-European customers or non-subject European customers to the EMIR clearing obligation would have no impact on the volume of transactions relocated to the EU and would help drive European banks out of the derivatives market).

To regain its financial sovereignty, Europe must consider solutions that are part of a long-term strategy of naturally locating the liquidity of euro derivatives on the European continent. That is why it needs to strike the right balance between using the regulatory tools at its disposal and incentivising policy actions towards non-European entities to attract liquidity to Europe, and thus achieve critical mass to ensure its independence.

PROPOSAL

15 - In the context of the relocation of euro derivatives clearing to the EU, make sure that companies are covered by European banks at the best price by prioritising a qualitative "active account" approach, followed, if necessary, by a quantitative approach, the parameters of which will be decided at Level 1 as part of an ordinary legislative procedure.

3

Contribute to the success of the ecological transition

- Break down European environmental objectives into target trajectories by sector to enable companies to establish a transition plan and ensure their competitiveness
- Involve European stakeholders by favouring disruptive technologies short on maturity but strong on potential
- Simplify the regulatory framework and the collection of material non-financial data in Europe

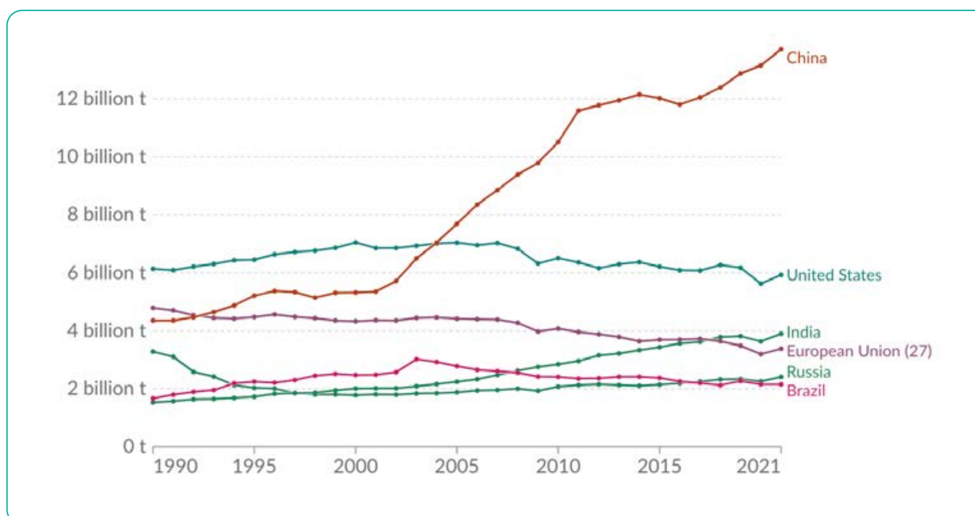
Break down European environmental objectives into target trajectories by sector to enable companies to establish a transition plan and ensure their competitiveness

In accordance with the European climate commitment and the adoption of the resulting Fit for 55 package, **the European Union reduced its greenhouse gas emissions by 28% between 1990 and 2021**, while worldwide they increased by 44% overall, owing in particular to China's high-carbon growth (see infographic).

However, the trend is insufficient to meet European objectives, with the reduction generated by 2030 by existing policies and measures in the Member States standing at 43% compared with a target of 55%, according to the European Environment Agency. This is why French banks are proposing several measures to step up the transition of the European economy.

The EU Taxonomy currently only defines so-called "sustainable" activities. It does not define the efforts expected by each sector to meet European environmental commitments, including the 55% reduction in emissions by 2030 and carbon neutrality by 2050. The Commission communication titled "Strategy for financing the transition to a sustainable economy" does not change the situation. The European framework on sustainability sets the overall target to be achieved at the European level but has not been broken down into trajectories or action plans for each sector.

Yet these trajectories are key to the success of the EU's ecological and energy transition. To determine its own objectives, the efforts it must make and the pace of its efforts to contribute to the achievement of the overall objectives of the EU, each company must be fully cognizant of the target trajectories for its sector.



Greenhouse gas emissions (in Gt CO_2e)

(Source : Calculated by Our World in Data based on emissions data from Jones et al. (2023))

French banks are sensitive to the decarbonisation efforts of their counterparties because, by joining the Net-Zero Banking Alliance, they themselves are committed to achieving net carbon neutrality in their financing and investment portfolios by 2050. If banks are to honour this commitment, their counterparties also have to follow a decarbonisation trajectory that leads to net carbon neutrality. Several banks have also made commitments regarding the preservation of natural ecosystems.

The EU therefore has to establish, for each business sector, science-based target trajectories to achieve its environmental commitments, including decarbonisation, climate change adaptation, the preservation and restoration of natural ecosystems, the reduction of environmentally harmful subsidies, and limits on imports into the EU of products resulting from deforestation. These trajectories must specify the intermediate thresholds and deadlines to be respected in order to achieve the European objectives, including carbon neutrality by 2050. Without this information, it will be impossible for companies to make their transition in line with the EU's overall commitments.

This "transition" component could be added when the Taxonomy is revised in June 2024. For numerous business activities, the text specifies the levels of climate and environmental performance to be achieved if they are to be considered sustainable and compatible with the EU's commitments. To meet the long-term sustainability target, the intermediate thresholds and deadlines that each activity must respect as part of its trajectory have to be included in this text.

PROPOSAL

16 - As part of the revision of the EU Taxonomy, set science-based target trajectories, at European level, for each business sector and align them with the EU's environmental commitments.

Involve European stakeholders by favouring disruptive technologies short on maturity but strong on potential

The least mature "green" industrial sectors are those where uncertainty is still too high for commercial banks to deploy substantial funding due to (i) significant technological risks, (ii) the lack of visibility on future volumes, (iii) emerging regulations or those still in the implementation phase, and (iv) support mechanisms that have yet to be developed.

Several sectors are concerned, chief among them: hydrogen produced from renewable electricity and "low-carbon" hydrogen; "low-carbon" mobility (new fuels and new land, air and sea vehicles) and the corresponding infrastructures; biogas; the energy renovation of buildings; electric battery storage units; giga factories (batteries, electrolysers, fuel cells, solar panels, etc.); and the new business models emerging around the circular economy (recycling of metals, plastics, etc.).

This category could also include regenerative agriculture, novel foods to facilitate the decarbonisation of the agricultural sector, and the development of natural capital and biodiversity projects.

Other technological developments in sectors such as offshore floating wind power and double-sided and/or high-performance photovoltaics are perceived as riskier owing to the lack of feedback and their often higher costs in the seed phase.

As with offshore wind power a decade ago, appropriate mechanisms for public financing assistance (R&D assistance, compensation for the initial extra cost related to the new technology) will encourage the flow of bank financing into these technologies so they can be developed. Measures should also be taken that focus on raising equity and supporting the scaling of projects through commercial support.

PROPOSAL

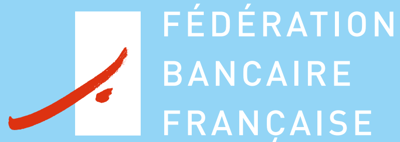
17 - As the USA has done with the Inflation Reduction Act, we need to consider:
- *increasing public/private risk-sharing financing mechanisms (such as effective counter-guarantees for banks) to facilitate the long-term financing of disruptive technologies with as yet unproven commercial (and therefore financial) viability;*
- *implementing commercial support mechanisms to provide investors and future lenders with long-term visibility, as long-term sales contracts with fixed prices and volumes (offtake agreements) are essential and have proven effective in supporting the acceleration of solar and wind projects.*

Simplify the regulatory framework and the collection of material non-financial data in Europe

The first delegated act of the CSRD expanded the materiality requirement to the publication of all corporate sustainability indicators. This approach, which was intended to simplify corporate reporting, has nevertheless introduced an inconsistency between non-financial players, which will be required to report only on material indicators, and banks, which are currently required to report on numerous ESG indicators under the CRR (and the implementing technical standard provided for in Article 449a). We call for the **harmonisation of these European texts and certainly, as a priority, of the implementing technical standard, in order to align the obligations of banks with those of their non-financial customers**.

PROPOSAL

18 - Harmonise European texts to align the obligations of financial players with those of their non-financial customers with respect to the materiality condition.



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