For a sovereign and sustainably growing Europe

French banks' proposals for 2024-2029

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For a sovereign and sustainably growing Europe

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The European Commission term that is drawing to an end was marked by major crises (Covid 19, war in Ukraine, etc.), changes in the balance of power between economic powers (fall in European GDP versus US GDP, and Europe being overtaken by China), high inflation, and the acceleration of the climate crisis. In this environment, the European banking sector has demonstrated its deep resilience, both during the Covid crisis and in the turmoil caused by the failure of US banks and the takeover of Crédit Suisse.

There are many challenges in a world undergoing profound change – a world that is evolving ever faster, with strong competition and considerable issues to be tackled for the ecological and digital transitions. Faced with growing investment needs, Europe must take control of its own destiny, and the strength of its banking sector will enable it to do so. Banking is a strategic sector for achieving sustainable growth and financing the decarbonisation of the economy, digitalisation and major projects.

To translate this into concrete measures, French banks are setting out their proposals for the European Union’s next term of office, broken down into three main priorities:

1. **Financing Europe’s future needs:** ensure banks can finance the economy and increase sources of financing by developing the European universal banking model and promoting the growth of capital markets. The digital euro project, which is likely to undermine a model that has proven its relevance, must also be reconsidered.

2. **Developing the European banking sector:** create a genuine banking union to facilitate the movement of capital and liquidity and, to ensure that the solidity of European banks does not become their weakness, establish a fair prudential framework with regard to non-European banking and market players. The competitiveness of European banks must be a priority for the supervisors in their supervisory duties.
3. **Working together to succeed in the ecological transition:** accelerate the transition to a low carbon economy by setting target trajectories for each business sector and by simplifying non-financial data disclosure obligations for greater efficiency. Promising disruptive technologies must also be promoted so as to bring all of Europe's driving forces on board.

These priorities are essential for the sustainable transformation of the economy and to ensure that Europe does not miss out on the industrial revolution arising from the digital and ecological transitions because of a lack of funding. The European Union's autonomy is at stake.

With these proposals, we wish to participate in the ambitious construction of a sovereign and sustainably growing Europe, for the benefit of the Member States, companies and citizens.

Maya Atig
Chief Executive Officer of the FBF

Financing the economy

The European framework must allow European banks to provide long-term financing for the economy.

24%

of households in Europe own shares, fund units or bonds, compared with more than 50% of households in the United States.

Source: European Commission, Eurobarometer, July 2023

Encourage investment

Increasing investments of European savings in financial products is a key element in the development of the capital market, which is an essential source of financing for the European economy. The European Union’s legislation must therefore build on the strengths of the European universal banking model and ensure its development. In this respect, certain initiatives likely to impact this model must be reconsidered.

- The proposed retail investment strategy is likely to strike a blow to the shared financing of investment advice. This could deprive people with lower incomes of access to support and advice and thus create a two-tier market. The proposed strategy must be adapted so as to **promote free competition between the different models for distributing savings products** in the EU. The documentation provided when selling financial products must also be simplified.
- The proposed financial data access framework provides for the opening up of all financial services data. While the contractual approach adopted is positive, data cannot be shared without the customer's informed consent from data users and confirmation from the bank. **Any information resulting from specific processing of customer data by the bank (e.g. risk score) must be excluded.**
- The universal banking model, based on a diversification of activities, has shown its effectiveness in financing consumers and businesses, in terms of both profitability and solidity. Also, **the existence of groups offering both banking and insurance services must be encouraged** by confirming the capital requirements applying to banks with stakes in insurance companies (the “Danish compromise” rule).

12.5%

the estimated decline in retail customer deposits in the euro area caused by the digital euro.

Source: ECB, May 2022

Ensure banks' financing capacity

The ECB's digital euro project must be revised to safeguard the banking sector's ability to finance the economy. **Europe has a full range of retail payment solutions to ensure its sovereignty** with its existing pan-European instruments and those under development, such as the European Payments Initiative (EPI) and instant payments.

A retail digital euro would compete with banks' business offering and upset the balance of the banking ecosystem. It would lead to the transfer of depositors' funds to a digital euro wallet, thereby reducing banks' deposits and their ability to finance the economy. **The strengthening of European payment sovereignty must be based on private initiatives**, which already meet all user needs.

All digital euro holdings and transactions carried out using the digital currency should **go through existing banking applications**, which are among the most widely used alongside weather apps, and not through a new ECB application. The limit on digital euro wallets should correspond to **current everyday uses, i.e. €100** based on average ATM withdrawals.

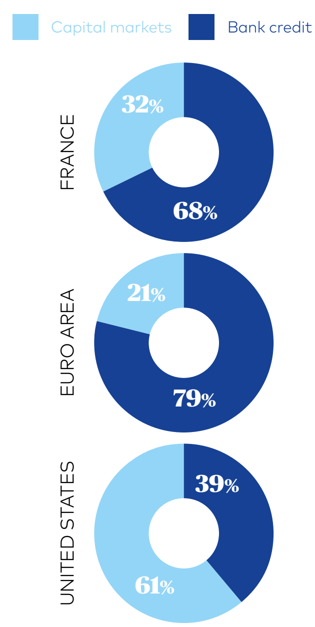
Free up capital to finance the economy

The growth of capital markets is a strategic issue that will enable better allocation of abundant savings in Europe and meet the massive financing needs of the ecological and digital transitions. While bank credit remains the main source of financing for companies in the euro area, the development of market financing would offer greater diversification while meeting needs that bank balance sheets alone cannot satisfy.

The transfer of loans (i.e. the sale of loans issued by banks) to external public or private investors would free up capital, thereby giving banks more space in their balance sheets to grant new loans to finance businesses and consumers. Banks are seeking several regulatory adjustments to **facilitate the development of an efficient and secure securitisation market in Europe** (revision of the CRR and the LCR delegated regulation in particular).

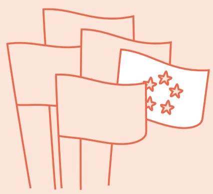
Sources of business financing in 2022

Source: Banque de France



Developing the European banking sector

The development of the European banking sector is a guarantee of economic and industrial sovereignty.



€250bn

in high quality liquid assets do not circulate freely within the banking union due to regulations.

Source: ECB, 2021

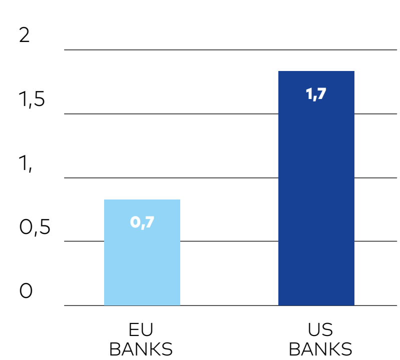
Facilitate the movement of capital and liquidity

Improving the movement of capital and liquidity within the banking union is necessary for Europe to become a genuine competitive single market. To this end, **the recognition of the banking union, in all its regulatory and prudential components, as a single jurisdiction** would enable progress in reducing the fragmentation of capital and liquidity. This requires a **review of certain rules relating to the resolution of banking crises**, in particular the threshold for the application of requirements for own funds and liabilities eligible for bail-in in the event of bank resolution [1].

Ensure the competitiveness of market players

The relocation of the clearing of euro-denominated derivatives to the EU must ensure the competitiveness of European players. The draft text of the European Commission of December 2022 (EMIR Refit) aims to make EU clearing services more attractive and more resilient. The banking sector's proposals aim for a qualitative approach to the relocation of euro derivatives clearing in the EU, **to ensure financial coverage of corporate risks at the best price.**

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



1. MREL – Minimum requirement for own funds and eligible liabilities

+16%

the average increase in Common Equity Tier 1 capital (CET1) for European banks resulting from the European transposition of the Basel III agreement.

Source: EBA, September 2023

On average, European banks hold

3.1%

more CET1 capital than their US competitors.

Source: Oliver Wyman / EBF report, January 2023

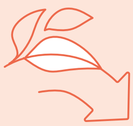
Establish a fair and competitive prudential framework

The solidity of European banks, which have high levels of capital – higher than US banks – will be further strengthened with the transposition of the Basel III agreement into the EU. As the competitiveness of European banks is also a guarantee of their solidity, French banks set the following priorities:

- Due to the uncertainty regarding the implementation of the Basel III agreement in the United States, **the Delegated Act on Market Risk must not be limited to two years.**
- Strengthening the competitiveness of European banks must become **a priority for the Single Supervisor and the European Supervisory Authorities** in their supervisory role.
- Regulation must seek to strike a balance between financial stability and economic strengthening of European banks. This is an essential part of the ongoing work on bank crisis management and deposit insurance (CMDI package): **the requirements must be reasonable and apply to all banks regardless of their size** so as not to distort competition.
- The review of the European macroprudential framework must allow better use of capital requirements and clarify the risks covered, and it must not lead to an increase in requirements. **Any increase must be based on a robust analysis of vulnerabilities,** and not penalise European banks against non-European players, be they banks or markets.
- With a view to **regulatory stability and proper regulation**, legal texts should not be systematically revised – unless an impact study demonstrates the need for a review. Accordingly, it does not appear necessary to revise the Mortgage Credit Directive.

Working together to succeed in the ecological transition

To achieve the target of the European climate commitment to reduce greenhouse gas emissions by 55% by 2030, it is essential to accelerate the transition of the European economy.



-43%

the reduction in greenhouse gas emissions by 2030 induced by the policies and measures currently in force in the Member States, compared with a target of –55% versus 1990.

Source: European Environment Agency, October 2023

Set trajectories by sector

Banks have committed to achieving net carbon neutrality in their financing and investment portfolios by 2050. To meet this commitment, their counterparties must also follow a decarbonisation trajectory leading to net carbon neutrality.

Currently, the European regulatory framework only defines so-called "sustainable" activities. To speed up the ecological and energy transition of the economy, it is necessary also to **define, at the European level, the efforts expected of each sector of activity with target science-based trajectories** aligned with the EU's environmental commitments. The review of the Taxonomy regulation scheduled for 2024 must include this "transition" component.

Promote promising technologies

There is still too much uncertainty surrounding the least mature "green" industrial sectors for commercial banks to be able to deploy financing on a massive scale. To bring the European driving forces on board by encouraging promising disruptive technologies, we need to **consider increasing risk-sharing mechanisms** through public/private financing and commercial support mechanisms offering long-term visibility to both investors and future lenders.

Harmonise non-financial reporting

The standards provided for in regulations on companies' non-financial disclosures (CSRD delegated act) have introduced inconsistencies between the reporting obligations of non-financial companies and those of banks (in application of the CRR). This is why banks are calling for the **harmonisation of European laws** in order to align banks' obligations with those of their non-financial customers.

€520bn

per year

Estimate of the additional needs for public and private climate-related investments from 2020 to 2030.

Source: European Commission, 2021

Consult
the 18 detailed proposals
of French banks for the next
European Commission term 2024-2029
on fbf.fr

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