Investor call

Organized by Bank of America Merrill Lynch – 19 February 2018

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KEY ISSUES IN BANKING REGULATION

1. **Basel 3 rules are now finalised, what is next? How these rules will be implemented in each local jurisdiction and when? In France, what is the thinking around the operational risk, considerations for the guaranteed mortgages, …**

First of all, we welcome the Basel 3 finalization. The Governor of Banque de France has clearly said that this agreement was as a fair, reasonable and final agreement:

- Fair, as it commits all jurisdictions on all the components, including market risks with a now more realistic calendar and calibration. And thus, we consolidate our decisive asset since 2009: our international cooperation to strengthen financial stability, rather than pursuing unilateral initiatives.

- Reasonable, while preserving a core role for better monitored internal models, with their risk-sensitivity. The implementation of the output floor will be gradual enough to avoid excessive capital increases, and preserve the sound financing of the economies.

- This agreement is final. It provides the clarification and stabilization of the rules strongly expected by financial and economic actors.

On the implementation, as you know in Europe it is the Commission responsibility to propose the regulation. We need to be committed by the 2022 implementation date.

- From a technical point of view, even if the process might be long (with a Commission proposal, discussion at the Council and the EU Parliament) we expect it will be possible.

- However, we need to think about alternatives if, with the EU process, the 2022 deadline is not possible. That is something we want to discuss at the EBA table in the coming months.

On specific topics related to Basel 3, such as operational risks or guaranteed mortgages:

- On operational risk, there is a possibility of national discretion not having in Pillar 1 the loss component part and taking this into account in Pillar 2. We will see the EU Commission way to implement this discretion, as an EU rule or a national rule.

- On guaranteed mortgages, there is no issue. They are now clearly considered in Basel 3 as mortgages in the standardized as well as in the internal model approaches.

2. TRIM. Are we moving from a targeted to a "total" review of the internal models? What are the main books to be reviewed, timeframe, implications in terms of capital impact, ...

TRIM is a Targeted Review of Internal Models.

- Motivation is making Pillar 1 models more credible and assuring they are used appropriately

- Ways have been defined to achieve this objective:

  - Ensure compliance with regulatory standards
  - Harmonise supervisory practices in the SSM
  - Reduce non risk based (unwarranted) RWA variability
  - Confirm adequate capital requirements

- TRIM covers all significant institutions with different coverage: at least 60% of the IRB EAD for credit risk, all internal models on market risks and counterparty credit risks

- The timeframe has not changed:

  - There was a preparatory phase in 2016, beginning of 2017
  - The execution phase started second quarter 2017 and the end is end 2018, beginning 2019.

- On the implications: supervisory measures (qualitative and if needed quantitative ones) are part of the follow-up process of the on-site missions

3. Would banks need a buffer on top of P2R and P2G in an environment where regulation is stabilising?

There are numbers of buffers in the regulation. On top of Pillar 2 which takes into account the risk profile of the institution, the SSM has implemented a P2G which takes into account the impact of stress tests.

A breach of P2G implies an in depth dialogue between the bank and the supervisor to determine the adequate measures to restore the buffer. Therefore it quite logical for banks to have what we can call a “management buffer” on top of P2G. As a “”management buffer” it is the management responsibility but of course this is also something on which there is a dialogue with the supervisor when discussing the risk appetite and the capital planning for example.

4. **Could we see a domestic systemic buffer introduced in France in the next few years? What about the Counter Cyclical buffer?**

The French macro prudential authority (HCFS chaired by the Finance Minister) has issued a warning on acceleration of the financial cycle in France during the last quarters. Although this acceleration goes in hand with the improvement of economic conditions, it can overshoot its economic fundamentals and may cause a build-up of risks whose materialization could weaken the financial system.

Macro prudential authorities pay particular attention to the continuous increase in the indebtedness of non-financial corporations (NFC).

- This is why a measure to be taken has been announced following last HCFS meeting in last December consisting of a tightening of large exposure limits applicable to highly indebted large non-financial corporations that are resident in France.

- French Systemically Important Institutions shall not incur an exposure that exceeds 5 % of their eligible capital for NFCs or group of connected NFCs assessed to be highly indebted.

In its press release the HCFS stated that other preventives measures could be considered in the coming months and is stand ready to take actions at any moment in 2018.

5. **Comment on remaining regulations including MREL, FRTB, …**

Regarding MREL, two aspects are critical for us:

- First, we should make sure that the implementation of new regulations does not lead to the introduction of new barriers. The development of cross-border banking activities is a key dimension to deepen the single market, to allow more seamless savings allocation and finance investments. Therefore, as internal MREL requirements are a tool aimed at easing bank resolution, it should be possible to waive them within the Banking Union, considered as a single jurisdiction.

- Second, the consequences of an internationally agreed Basel III package should be carefully taken into account, and in a coordinated way between authorities. This is critical given the need to (i) avoid over-calibration of the MREL requirement following the increase of risk-weighted assets, and (ii) look into a level playing field between Euro area banks and their international competitors.

On Market risks (FRTB), in the package finalizing Basel 3, the GHOS endorsed the Committee’s proposal to extend the implementation date until 1 January 2022.

- Deferring implementation of the revised market risk framework will allow banks additional time to develop the systems infrastructure needed to apply the framework

- and for the Committee to address certain specific issues related to the market risk framework. This includes a review of the calibrations of the standardized and internal model approaches to ensure consistency with the Committee's original expectations.

We can expect this work to be finalized by end of this year.