

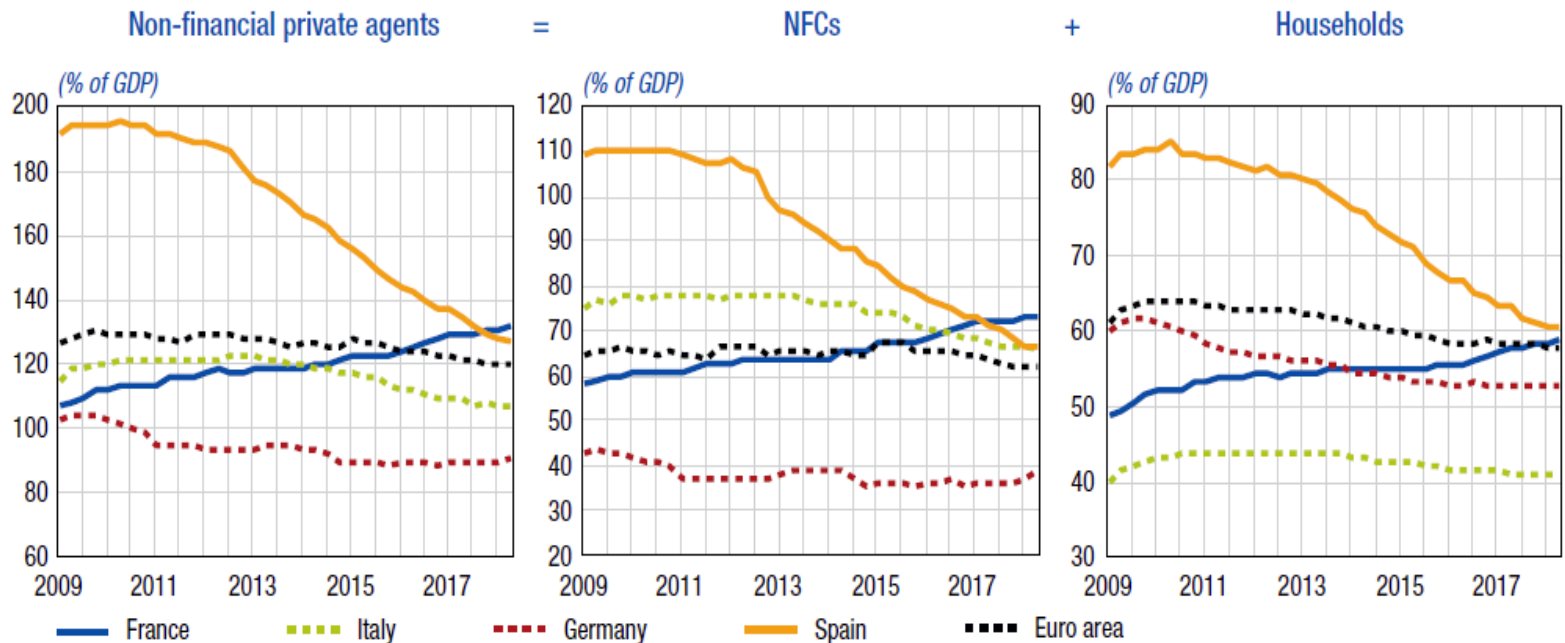
# Supervisory and resolution issues

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1. Risk outlook on corporate and property lending
2. Risks for the French Banking sector
3. The macro prudential measures taken
4. The SSM and SRB: 4 years after

## Private debt is reaching elevated levels

Debt ratio of non-financial private agents in European countries



Source: Banque de France.

Debt ratio of French non-financial private agents:

- lower than in the United Kingdom (155%), the United States (149%) and Japan (147%),
- but 12.3 pp above the euro area average (120%)
- mainly owing to the debt ratio of non-financial corporations, 11.2 pp higher than the euro area average.

# 1. Risk outlook on corporate and property lending (2/3)

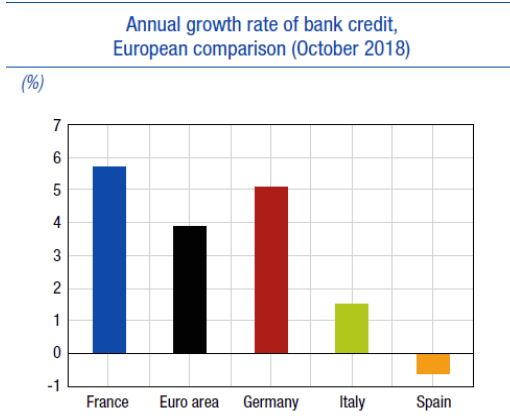
## Non-financial companies debt continued to increase

Total debt of non-financial companies:  
**1 658 billion euros**

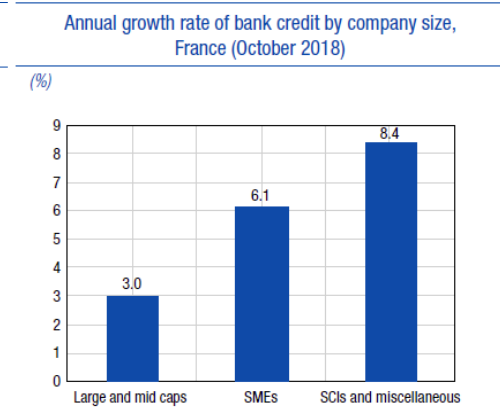
- 653 billion euros in debt securities
- 1 004 billion euros in loans from French banks

Financing costs still very low

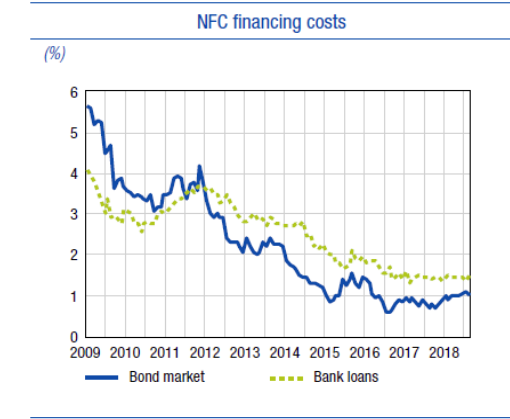
Debt service ratio has stabilized



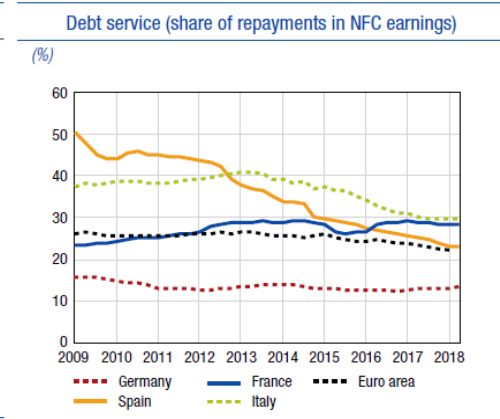
Sources: Banque de France, European Central Bank.



Source: Banque de France.  
Note: SCIs = real estate companies.



Source: Banque de France.



Sources: Banque de France, European Central Bank.

## Household debt is increasing

Outstanding loans to resident individuals: 1 213 billion euros, including 999 billion in property loans and 178 billion in consumer credit.





1 - But **three structural factors** specific to the French market need to be underlined which help to mitigate the risk in the vent of difficulties:


- since virtually all property loans are at fixed rates, an increase in interest rates would not have a direct impact on borrower solvency;
- virtually all property loans are protected in some way, either by a “cautionnement” guarantee (60% of loans), a mortgage (30%) or another type of guarantee (5%);
- borrower solvency remains the main criterion of analysis, rather than the value of assets financed.

2 - The non-performing loan ratio for property loans to households is historically **very low (around 1.5%)** and has risen little since the 2008 financial crisis.

# 2.

# Risks for the French Banking sector (1/2)

Main risks to the French financial system in December 2018	Level and outlook
<p><b>1. Market risk</b>                      The risk of a sudden repricing of financial assets remains despite recent equity market corrections. Portfolio turnover phenomena have been observed. Valuations are still high on financial markets, for both equity and bonds, which reflects investors' appetite for risk. Nonetheless, investor confidence could be undermined by a combination of several factors of uncertainty originating from the United States (protectionism and economic policy), Europe (the political situation in Italy, Brexit) and emerging countries (financial vulnerabilities).</p>	
<p><b>2. Risks linked to private sector debt</b>                      Non-financial corporation (NFC) and household indebtedness continues to rise in France, in contrast to trends observed in other European countries. NFC debt dynamics are notably a source of liquidity and default risks, which could intensify in the coming months. Growth in household lending remains sustained and calls for careful monitoring in the face of signs of an easing of lending conditions.</p>	
<p><b>3. Interest rate risks linked to fragmentation</b>                      The political situation in certain euro area countries has led to widening bond yield spreads and a risk of fragmentation in euro-denominated debt markets. This raises the fear of a resurgence of the contagion loop between sovereign risk and bank risk and higher interest rates for the private sector, particularly in Italy.</p>	
<p><b>4. Risks linked to structural changes in the financial sector</b>                      The financial system continues to face structural challenges (digitalisation, cutting costs, the search for new profit sources). Rising operating costs remain an area to watch, as banking institutions continue their efforts to adapt and transform their business models. However, in general the resulting risks are controlled and institutions remain resilient.</p>	

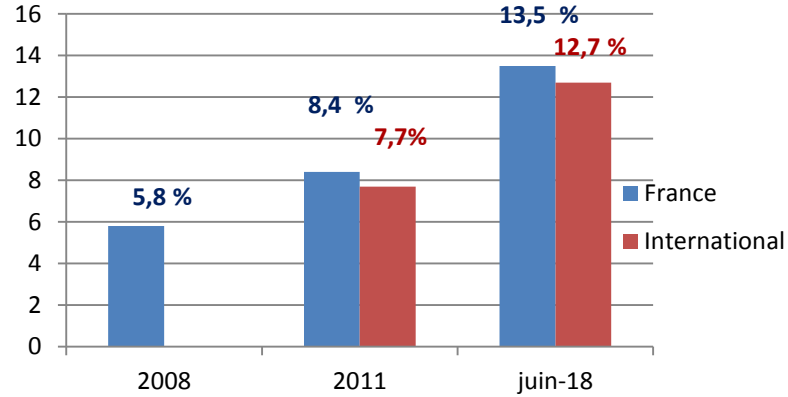
 Systemic risk  
  High risk  
  Moderate risk

*The current level (shown by the colour code) is based on an expert assessment that reflects the probability that the risk will materialise and its potential systemic impact over the medium term. The outlook (shown by the direction of the arrow) indicates the likely change over the next six months.*

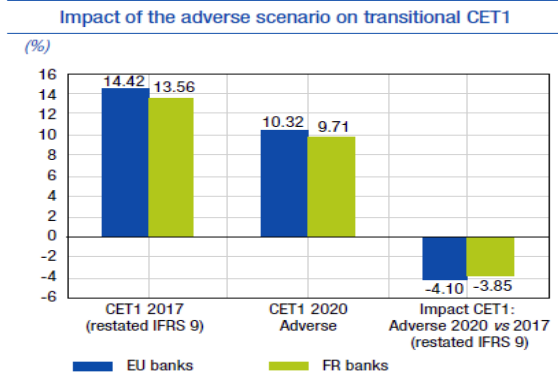
# 2.

## Risks for the French Banking sector (2/2)

### 1. A good capital base (CET1)

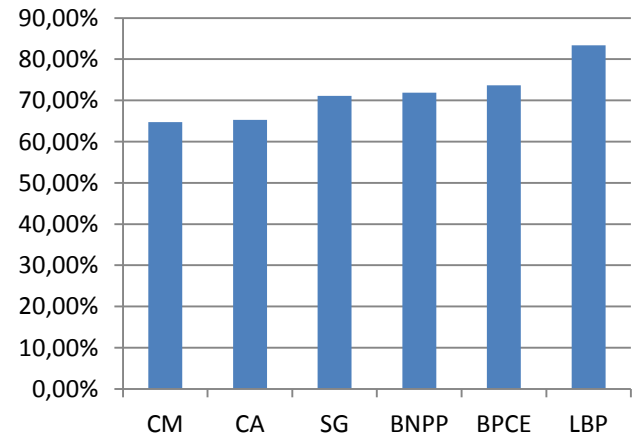


### 2. Good resilience in the EBA/ECB stress test

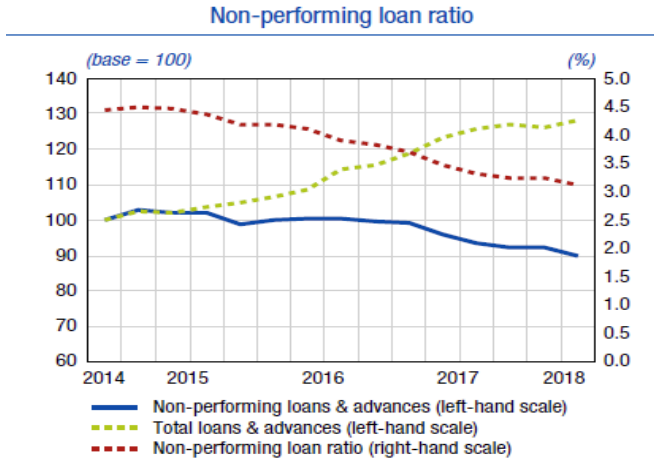


Sources: EBA, Banque de France calculations.

### 3. Cost to income still high (end 2018)



### 4. Low level of non performing loans



Source: ACPR.

## First measure: limit to highly indebted French corporates

The measure consists in requiring from systemically important French credit institutions a tightening of the large exposure limit on **highly indebted large NFCs**, **down to 5%** of banks' own funds (came into effect in July 2018).

### 1. Motivation for this measure

- Resilience: it protects systemic banks in case of defaults in the large French NFC sector.
- Prevention: it sends a strong warning signal and intensifies vigilance of institutions and investors ; aims at limiting intertwined risks between systemic NFCs & systemic banks

### 2. Selection and calibration of the measure:

- In contrast to other potential measures, this measure
  - ✓ Targets where the risk lies i.e. in highly indebted Large NFCs (systemic motive)
  - ✓ Focuses on systematically important banks (95 % of NFC loans in France)
- The 5% limit is designed as a trade-off between
  - ✓ Resilience : i.e. sufficiently tight to protect financial institutions
  - ✓ Prevention : i.e. not too restrictive to avoid emergency deleveraging on specific NFCs, while preventing the build up of risks in the sector of large NFCs.

### 3. Short-term implications of the measure:

- With a 5 % threshold: no direct impact, implementation of a backstop as intended



## Second measure: a countercyclical capital buffer

- A general backdrop of a **supportive financial cycle**:
  - The deviation from its long-term trend in the ratio of credit to gross domestic product for France is maintained at a high level, and was in the 4<sup>th</sup> quarter of 2017 by 3.8 percentage points (compared with 4.1 percentage points in the previous quarter). The buffer rate that would mechanically result from the application of this benchmark would be 0,5 percentage point.
  - The deviation from its long-term trend in the bank lending ratio to gross domestic product is 0.7 percentage point (4<sup>th</sup> quarter 2017)
  - The dynamics of the leverage of non-financial agents, house prices or the evolution of financial, macroeconomic and monetary indicators confirm the acceleration in the financial cycle that has restored or exceeded its long - term average, and the persistence of cyclical risks at significant levels
- It was decided in June 2018 to raise the rate of the countercyclical capital buffer (CCyB), a capital surcharge for European Union (EU) banks in relation to their exposures in France, to **0.25%**,
- The measure, which will enter **into effect in June 2019**, is intended to make the banking system more resilient. This will ensure that this latter is able to support credit supply in the event of a cyclical reversal, especially for PMEs, which are structurally reliant on it.

## The SSM: good achievements based on already existing practices (1/2)

1. Restoring confidence in the banking sector
  - bank capital was raised
  - credit risks are tackled, in particular the large volume of legacy non-performing loans
  - inconsistency and high variability in the capital requirements are addressed
2. Breaking the adverse link between banks and sovereigns
  - risk reduction has been achieved to a large extent
  - however building of an effective area-wide safety framework, including common resolution and deposit insurance frameworks, is lagging behind
3. Fostering a level playing field and banking integration
  - European norms directly applicable to banks (such as the Capital Requirements Regulation, or CRR)
  - however, still provisions established by European directives (such as the Capital Requirements Directive) that are not directly applicable but are transposed into national law and provisions that are purely national
  - however, still ring fencing requirement by host countries (Pillar 2).

## The SSM: good achievements based on already existing practices (2/2)

4. Exploiting the synergies between the ECB and the national supervisors
  - the Joint Supervisory Teams (JSTs), which form the operational core of the system in charge of day-to-day supervision, include ECB and national staff
  - a common supervisory culture among staff of different institutions is fostered
  - convergence to higher supervisory quality and global standards with a risk assessment methodology established to determine banks' capital requirements (the Supervisory Review and Evaluation Process)
5. Bringing independence, transparency and accountability up to the best global standards
  - board's members are independent in the exercise of their functions and are supposed to serve in the European interest
  - conduct of public consultations for all new regulations and a right to be heard for banks affected by any decision

## The SRB: still work in progress based on no existing practices (1/2)

- |   |  |
|---|--|
| 1. Strengthening resolvability of banks                   | <ul style="list-style-type: none"><li>▪ drafting resolution plans</li><li>▪ identifying impediments to resolvability and making banks address them</li><li>▪ binding targets for MREL at consolidated level (2019) and solo level (2020)</li><li>▪ however need to be more bank specific</li></ul>                               |
| 2. Fostering a robust resolution framework                | <ul style="list-style-type: none"><li>▪ development of SRB policies</li><li>▪ the International Resolution Teams (IRTs), which form the operational core of the system, include SRB staff and national resolution authorities</li></ul>  |
| 3. Preparing and carrying out effective crisis management | <ul style="list-style-type: none"><li>▪ simplifications of processes to increase their efficiency,</li><li>▪ improving and developing ICT solutions for crisis management, optimizing standardization of data request for valuation purposes</li><li>▪ drawing lessons learnt from crisis cases and training SRB staff</li></ul> |
| 4. Operationalising fully the SRF                         | <ul style="list-style-type: none"><li>▪ Progressive built-up of the fund</li></ul>   |

## The SSM and SRB: 4 years after (4/5)

The SRB: still work in progress based on no existing practices (2/2)

### Lot of questions to be answered

<b>2</b>	<b>Resolution strat. &amp; separability</b>	Institution's legal entity structure and intra-group interconnectedness do not present an obstacle to the realisation of the resolution strategy
<b>3</b>	<b>MREL</b>	Institution is compliant with external and internal MREL requirements set for the group and key subsidiaries, respectively
<b>4</b>	<b>Operational Continuity</b>	Institution has identified and mitigated all material risks to operational continuity in resolution, including access to key FMIs
<b>5</b>	<b>Financial Continuity</b>	Institution has the capabilities to monitor and forecast financial needs in resolution, and identify, mobilise and monitor the available resources to meet these needs
<b>5</b>	<b>Governance &amp; Communications</b>	Institution has clearly defined governance procedures to support timely decision making in resolution, and a clear plan to engage internal and external stakeholders
<b>6</b>	<b>Information</b>	Institution has the systems and infrastructure to produce the information required to implement the resolution strategy

## Need to complete the framework

### Completing the Single Resolution Mechanism:

- The establishment of a backstop to the Single Resolution Fund is the key and the agreement of 29 June 2018 is a crucial first step, but three key issues remain:
  - ✓ how to finance the safety net at a sufficiently high level to be credible;
  - ✓ how to avoid placing too much risk on sound banks;
  - ✓ how to create a rapid decision-making process to deal with emergencies
- The euro area also needs a liquidity - providing system to financially sound banks after resolution

**It is necessary to have a consistent framework of the plans in the event of liquidation**

Thank you for your attention

and find ACPR's analyses on our website: [www.acpr.banque-france.fr](http://www.acpr.banque-france.fr)