REPONSE DE BPIFRANCE A LA CONSULTATION DU BCBS RELATIVE A LA REVISION DE L'APPROCHE STANDARD POUR LE RISQUE DE CREDIT

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Q2. Do respondents believe the net NPA ratio is an effective measure for distinguishing a bank exposure's credit risk? What alternative asset quality measure, if any, should be considered by the Committee?

The net NPA ratio can be an effective measure of the quality of banks' balance sheet, but it also can be misleading in specific situations. For instance, French Guarantee Funds are not recognised under the regulatory capital calculation rules, while they are economically covering credit risk. Thus, the use of external ratings should be allowed by the regulator in specific situations, in order to reflect banks' balance sheet quality more accurately.

Q5. Do respondents have views on the selection of risk drivers and their definition, in particular as regards leverage and the incorporation of off-balance sheet exposures within the ratio? Would other risk drivers better reflect the credit risk of corporate exposures?

Bpifrance aims at promoting the financing and development of French companies, and in particular of SMEs and intermediate-sized enterprises, through its activities (Innovation, Financing, Guarantees, and Equity investment).

Based on Bpifrance exposures to Corporates, mainly French SMEs and intermediate-sized enterprises, we realised a quantitative performance test. We observed up to 23,314 different customers over a 5 year-period, and compared the 12-month default rates our own internal ratings model (as a reference), and 16 different combinations of 2 risk drivers (including the ones proposed in this BCBS document). The performance results have been apprehended through the Accuracy Ratio.

Our main conclusions are the following:

- Combinations with Revenue being one of the two risk drivers have shown the lowest performance (Accuracy ratio < 0.331)

- The risk drivers combination proposed in this document (Leverage & Revenue), with the current buckets calibration, ranked 15th out of the 16 tested combinations (Accuracy ratio = 0.285)

- Modifying the buckets thresholds of the Leverage & Revenue combination would allow to improve the Accuracy ratio to 0.302

- The 3 best default predicting combinations are the following:
  i) Cash flows expressed in days' revenue & Personnel expenditure / Added value => Accuracy ratio = 0.400
  ii) Cash flows expressed in days' revenue & Current profit before taxes / Revenue => Accuracy ratio = 0.383
  iii) Cash flows expressed in days' revenue & Leverage ratio => Accuracy ratio = 0.383

- The 7 best performing combinations are systematically based on the 2 following risk drivers: Cash flows expressed in days' revenue and/or Leverage ratio

Our performance test has clearly shown that the Revenue has a low efficiency in terms of predicting the default. We suggest not using this risk driver in the revised approach.

Beyond the pertinence of the risk drivers selection arises the question of their segmentation in different buckets. Same indicators with a different segmentation may lead to a significantly different default prediction capacity.

Q6. Do respondents have views on the appropriateness of the proposed treatment, especially with regard to SMEs? And about the more lenient treatment for start-up companies?

The proposed revision of the Standard approach, with its current calibration (we acknowledge that the Quantitative Impact Study will allow to adjust the calibration), is very penalising, especially for SMEs.

The proposed revision of the Standard approach clearly contravenes the objective of not increasing the overall capital requirement for banks, as we anticipate a 28% increase of RWAs on Bpifrance exposures on SMEs, based on figures as of 31/12/2014.

The fact that large corporates and SMEs are subjects to the same risk weights table, partially based on the Revenue is very detrimental for SMEs. Indeed, SMEs having by definition a Revenue lower than EUR 50m, this risk driver will only be segmented into two buckets (revenue ≤ 5m and revenue between 5 and EUR 50m), leading to a minimum 90% risk weight in the best case (see table below).

Current Standard approach

Credit quality step	FIBEN / Banque de France Rating	Risk weight
1	3++ à 3+	20 %
2	3	50 %
3	4+	100 %
4	4 à 5+	100 %
5	5 à 6	150 %
6	8 à 9	150 %

Source : Banque de France

Proposed revised Standard approcah

Risk weights for senior debt corporate exposures

	Revenue ≤ €5m	€5m < Revenue ≤ €50m	€50m < Revenue ≤ €1bn	Revenue > €1bn
Leverage: 1x–3x	100%	90%	80%	60%
Leverage: 3x–5x	110%	100%	90%	70%
Leverage > 5x	130%	120%	110%	90%
Negative equity(*)	300%			

(*) Note: Negative equity means that a corporate's liabilities exceed its assets.

Source : BCBS

N.B. : A 300% risk weight is assigned if Revenue and Leverage are not made available when required, except for start-ups companies established in the previous or running financial year, that are weighted 110%.

As stated in page 10 of the consultative document, "ratings may be good predictors of corporate defaults". In France, most of the SMEs are rated by the External Credit Assessment Institutions FIBEN (Banque de France). These ratings are currently used by Bpifrance to determine the risk weight to apply to exposures on corporates, including SMEs, under the Standard approach.

A consequence of changing from risk weights based on external ratings to the ones proposed in this consultative document would be that exposures on top credit quality step SMEs, currently weighted at 20% (based on FIBEN ratings), would in the best case be weighted at 90% under the revised Standard approach.

Banks that specialize in SMEs financing will be seriously harmed by the current proposed revision of the Standard approach, and their business model will be put in jeopardy.