

Christian Noyer: New Year's wishes to the Paris financial community

Mr Christian Noyer, Governor of the Bank of France and Chairman of the Board of Directors of the Bank for International Settlements, presents his New Year's wishes to the Paris financial community, Paris, 21 January 2013.

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Ladies and Gentlemen,

I would like to start by extending my warmest wishes to you, your colleagues and your institutions for 2013.

Admittedly, 2012 was a difficult year, but it was above all a fruitful year that marked a turning point in the euro area crisis. Crucial decisions were taken, providing lasting solutions to enhance and safeguard the functioning of our monetary union: the implementation of the European Stability Mechanism (ESM); the Treaty on Stability, Coordination and Governance; the new agreement on Greek debt; and lastly, the banking union agreement, on which I will speak in greater depth.

This progress was achieved through a collective effort: the ECB and the Eurosystem played a decisive role in restoring confidence, thanks especially to a new and particularly powerful tool: Outright Monetary Transactions (OMTs). Today, there are no longer any doubts about the irreversibility of the euro. At the national level, countries have shown that they were capable of taking all possible measures to reduce their deficits and to put their public finances on a sustainable footing while undertaking the structural reforms necessary for a return to growth.

I hope that 2013 will be the year in which this progress is consolidated and built upon.

Today, I would like to give my views on the challenges that lie ahead this year. I believe that the four main challenges are to:

- Adapt to an environment that is still changing rapidly;
- Resolutely pursue efforts to strengthen the resilience of the financial system by preparing for and implementing new regulations;
- Further improve the competitiveness of the Paris financial centre;
- Continue to support the economy by ensuring the best possible financing conditions.

1. A rapidly changing legislative and regulatory environment

First, your working environment will continue to evolve rapidly, in terms of both international financial regulation and France's legislative framework.

1.1 A few words on the draft banking reform law in France

The financial crisis highlighted some major shortcomings of international banking and financial sector regulation as well as the inadequacy of the tools at the supervisory authorities' disposal to reduce and address risks.

The draft banking reform law reflects the commitment of the President of the French Republic to separate activities that are useful for the financing of the economy from speculative activities, which will either be ring-fenced or banned. This law sets out to enhance the protection of deposits and the security of market activities while – and I believe that this is also particularly important – striving to ensure that you are still able to offer a broad range of financial services that allow economic agents to hedge risk, borrow or invest. The same is also true for market making activities that play a vital role in ensuring financial market liquidity and thus in convincing investors to finance the real economy.

This will therefore mean a new organisation for banks and greater powers for the ACP, including notably banking crisis resolution powers. The ACP will then become the ACPR. In exceptional circumstances, the ACP could call on support from the failing entity's shareholders and subordinated bondholders. It could then, if necessary, request intervention by the Deposit Insurance and Resolution Fund, which is currently only required to intervene in the framework of its depositor compensation arrangements, even though it has already voluntarily participated in restructuring operations. In this respect, in line with the Paris financial centre's wishes, the draft law provides that the possibility of calling on support from the Fund will be capped at a ceiling set by decree in order to ensure that the Fund's intervention does not result in contagion.

1.2 A few words on the banking union

Distinct progress was made in 2012 in the area of European banking supervision. The euro area crisis required particularly ambitious measures to be adopted and these steps have now been taken. Thanks to the determination of European leaders, at the end of 2012, an agreement was reached on two draft regulations establishing the Single Supervisory Mechanism under the auspices of the ECB. These two regulations must naturally be enhanced by proposals on the deposit guarantee fund and the crisis resolution mechanism, which are the two other essential pillars of the banking union. The ECB, and all the other national authorities concerned, must now continue the preparatory work so that the Single Supervisory Mechanism can become operational as soon as possible.

The Banque de France and the ACP provide an important contribution and intend to play an active role in the new mechanism. This is particularly the case given that around a dozen major French banking groups will be subject, according to the criteria set out in the regulation, to direct supervision by the ECB, even though the ACP will remain responsible for day-to-day supervision.

2. Resolutely pursuing efforts to strengthen the resilience of the financial system by preparing for and implementing new regulations

The international financial regulatory framework evolved substantially in 2012, and will continue to do so in 2013. It is therefore particularly important to adapt to these changes.

2.1 The insurance sector must continue, in France and Europe, to prepare itself for the application of the new prudential regime, Solvency II

Admittedly, 2012 was marked by tough discussions about the Omnibus II Directive and in particular the question of the treatment of insurance products with long-term guarantees. These discussions were unfruitful and will delay the entry into force of Solvency II. However, a positive signal was sent thanks to the agreement reached between the EU Council, the European Parliament and the European Commission at the end of December on the terms of reference of the impact study on long-term guarantees. This study will give impetus to the discussions and I count on the contribution of the institutions chosen by the ACP.

Insurance companies must take advantage of the extra time before Solvency II comes into force: in coordination with EIOPA at the European level, we consider that it is already possible and necessary to make use of certain definitive elements in the Solvency II directive, in particular concerning governance and the ORSA (Pillar 2), and reporting to the supervisory authority (Pillar 3).

2.2 *In the banking sector, credit institutions must continue strengthening their solvency – a process that is already well underway – and they must intensify their initiatives to adapt to future regulations concerning liquidity.*

The Prudential Supervisory Authority has organised a series of meetings designed to familiarise the French financial sector with the changes resulting from the implementation of the Basel 3 reforms. In terms of liquidity, the coverage ratio (LCR) is now stabilised. In my New Year address of January 2011, I said that the work on liquidity ratios was unsatisfactory and that it clearly needed to be reviewed. This has now been done. In order to counter the fears of the recessionary impact on loan distribution that the first version of the text might have prompted, a transition phase has been introduced to give banks more time to conduct their adaptations. Moreover, the calibration of the liquidity requirements has been refined to better reflect experiences of the crisis, while the list of assets that can be held to satisfy the liquidity requirements has been extended. Even if adjustments are still possible in the framework of the European observation period, the banks need to integrate this new standard into their liquidity management policies as of today. This means that as we now have clear rules, the necessary structural changes must be undertaken.

In 2013 we will pursue our efforts on the 1-year liquidity ratio, but also on the links between monetary policy and the liquidity ratio.

2.3 *In the field of savings, the reallocation of household's financial investments towards bank savings products in 2011 continued in 2012.*

The raising of the ceiling of the "A" passbook savings account and of the sustainable development account led to two months of significant inflows for these products in October and November, and the ceiling of the "A" passbook savings was again raised on 1 January of this year. I am perfectly aware that these adjustments to France's regulated savings generate tensions for the collection of bank resources and life insurance premiums. However, I call upon the institutions of the Paris financial centre to continue demonstrating prudence and responsibility in their search for client resources. The Banque de France and the Prudential Supervisory Authority will be vigilant in this respect. It is vital that market conditions be fully accounted for in setting the level of interest on financial products, whether offered by banks or life insurers. It is also best if preference is given to the collection of long-term savings that are indispensable for financing the economy. Indeed, I am actively seeking the support of the government with regard to this objective.

The Bank will seek to ease the individual adaptations required by these numerous new regulatory frameworks. In particular we will strive to facilitate the management of liquidity and collateral, notably by continuing to support the mobilisation of lending to the economy via refinancing operations with the central bank, but also via markets. In this perspective, and at the initiative of the Banque de France, a Paris financial centre working group has been set up to develop innovative and safe securitisation mechanisms that should allow banks to make better use of the pool of claims on their balance sheets and to strengthen their financing capacities. The Bank will also continue to mobilise all parties concerned, and in particular companies, in order to accelerate and successfully implement France's migration to SEPA payment instruments that should be finalised by 1 February 2014 for credit transfers and direct debits. When the system is operational, all parties will benefit from advantages in terms of cost, efficiency, payment security and management of the associated liquidity in the context of an integrated, competitive and innovative market for all cashless payments in euro.

3. *Improving the attractiveness and competitiveness of the Paris financial centre*

The competitiveness of the Paris financial centre is an advantage in our crisis exit strategy and one that is important to continue developing – particularly after the announcement of

ICE's takeover bid for NYSE Euronext, which could substantially change the role of the financial centre's players and generate new opportunities.

It is essential that efforts undertaken to consolidate and develop market infrastructures as well as market and post-trade services be intensified. From this point of view, 2013 will represent an important step forward with the full deployment of the offer of clearing and triparty collateral management services for repo transactions in euro that has been developed with Paris's principal financial operators, banks, clearing and settlement infrastructures and the Banque de France. We will also strive to take advantage of new opportunities as they emerge, particularly in the areas of services for financing, investment and settlement in increasingly international currencies (such as the renminbi) and infrastructures for enhancing market transparency (such as data warehouses for the repo market for example).

4. Supporting the economy by offering financing under the best possible conditions

The last point I would like to make is also crucial for economic recovery: it concerns lending to the economy. The downward trend that has been observed for some time is primarily due to a fall in demand. But we must of course ensure that the offer of financing remains sufficiently broad so that SMEs and MTEs, who rarely have access to market financing, can weather the current difficult economic period without encountering additional difficulties. In particular cash facilities must remain sufficiently available and the conditions under which they are offered should not be systematically tightened. In fact, our quarterly survey of several thousand SMEs show a regular contraction of the rate at which SMEs' requests for cash facilities are fully granted. In the last quarter of 2012, this rate was only slightly higher than 50%. The same is true, although to a lesser extent, for mid-tier enterprises (MTEs). I therefore enjoin you, in general terms, to avoid reducing lending to the economy, which would aggravate the situation of companies and make the necessary economic recovery more difficult.

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Ladies and gentlemen,

I have no doubt that you are ready to meet these challenges – particularly as you are already substantially prepared for them.

It only remains for me, once again, to wish you a prosperous new year, and, by way of a conclusion, to express my hope that in 2013 the French financial system will be even more useful to the economy, stronger, more competitive and oriented towards the future, supported by a vigilant and efficient central bank and supervisory authority.