

## Denis Beau: Financial markets - driving innovation and connectivity

Opening remarks by Mr Denis Beau, First Deputy Governor of the Bank of France, at the Paris Financial Seminar, co-organised by the Hong Kong Monetary Authority and Paris Europlace, Hong Kong, 16 January 2019.

\* \* \*

Ladies and Gentlemen,

I am very pleased to open this seminar jointly organised by Paris Europlace and the Hong Kong Monetary Authority (HKMA). A new year is usually the time when we regain confidence in the future and in our collective ability to prepare for it.

\*\*\*

### **However there are many uncertainties weighing on the global economic outlook.**

In Europe, there are still many uncertainties about the outcome of Brexit negotiations and the vote over the withdrawal agreement. Caution requires that we all be prepared for a no-deal scenario. Public authorities and most importantly market participants have all prepared serious contingency plans to address and master the cliff-edge risks associated with such a no-deal scenario. As a result, we can expect that those risks will be appropriately managed, without financial stability implications, should such a scenario occur.

Outside Europe, global trade tensions are also generating additional uncertainties. Protectionism can indeed be a temptation, but in my view it should not be an option. Let's be clear: our economies are increasingly integrated, and research conducted at the Banque de France suggests that a rise in protectionism on a large scale (i.e. a generalised trade war scenario) would have a negative impact on global growth.

**Yet these uncertainties can be turned into opportunities and I would like to emphasise that.** It is worth noting that EU Member States remained impressively united behind their negotiator, Michel Barnier, during the Brexit talks. This unity must now be directed towards achieving an ambition: completing and strengthening the economic and monetary union.

**This period of uncertainties actually reminds us that bilateral and multilateral cooperation are quite valuable, as they are a common wealth enhancer,** especially when the issue at stake is financial regulation and financial stability. At the end of 2017, central bankers and supervisors reached a very important agreement on the Basel III post-crisis regulatory reforms. This agreement must now be implemented in various jurisdictions to further increase the soundness of the banking system. Since the great financial crisis, other issues have emerged. Cyber-risks have risen significantly over the last few years and the financial sector remains a primary target. The surge of crypto-assets is another challenge for regulators given the risks they pose for consumer protection and anti-money laundering. To address these risks adequately, the digital and global nature of crypto-assets calls for an international approach.

\*\*\*

**Cooperation is all the more necessary as the major financial centres, including Paris and Hong Kong, are highly interconnected.**

**I believe that Paris today has all the attributes necessary to become the pre-eminent financial trading and financing hub for continental Europe.** Some of the world's biggest banks, asset managers and insurers are already preparing for life after Brexit and steering their European operations away from London to our capital. Paris is already home to four of the eight

global systemically important banks in the euro area, in addition to being number one in the region in insurance and asset management. Recent regulatory initiatives have made Paris even more dynamic. Capitalising on the reform of Negotiable European Commercial Paper (NEU CP) in 2016, a number of very innovative projects have been launched: for instance, the French telecoms company Orange and the fintech SETL have jointly set up a new central securities depository (CSD) called ID2S for the NEU CP market, using blockchain technology.

**Paris is also at the heart of cross-border initiatives**, making the European financial market more integrated. The market exchange operator Euronext is continuing to expand its federal model and in November 2017 acquired the Irish Stock Exchange. The CSD Euroclear is also committed to fostering common infrastructures, and is even looking beyond Europe with partnerships in the United States with DTCC or in Asia thanks to Bond Connect.

**Building on this comprehensive financial ecosystem, Paris has also been one of the principal supporters of the renminbi's move towards internationalisation.** As of today, Paris is indeed the leading continental European centre for deposits and bond issuances in RMB. This support was embodied and exemplified as early as 2014 with the signature by the Banque of France of two memorandums of understanding with the HKMA and the People's Bank of China.

\*\*\*

**Cooperation will also prove invaluable in the face of the uncertainty caused by structural challenges.**

**A first structural challenge is the digital revolution.** The digital revolution is being fuelled by a wave of cutting-edge technologies, but also by the surge of new players. This new competition is being driven by fintech start-ups, but also, more importantly, by tech firms that have started to expand into the financial sector. Here in Asia, you can testify as to just how rapidly big tech firms can impact the financial sector. While ensuring a level playing field between competitors, our role as a central bank and supervisor is to guarantee that the digital revolution eventually delivers on its promises regarding increased security and efficiency. At the same time, incumbents should be prepared to adapt. Their business models are being challenged by the unbundling of financial services and by increasing customer expectations in terms of responsiveness and autonomy.

The answers are not easy and cannot be uniform, but I expect that only the most digitally agile financial companies will eventually prove financially resilient. Against this background, France has many assets that can make it a leader in digital innovation in Europe, and the Banque de France is committed to playing its part in this regard. Through its Fintech Innovation Hub, which has welcomed over 400 innovative players since 2016, the Banque de France promotes active and open dialogue with all market stakeholders, with the aim of building streamlined regulation for digital innovation.

The Banque de France is also committed to leveraging new technologies for its own digital transformation. We are already running an interbank blockchain called "MADRE" to automate the generation of creditor identifiers. I am convinced that by conducting their own experiments, central banks and regulators are more capable of designing relevant policies and regulations for digital finance.

\*\*\*

**A second structural challenge is climate change, which is perhaps less tangible than the digital revolution but certainly no less significant.**

The transition to a low-carbon economy requires shifting thousands of billions of dollars from carbon intensive industries. As a result, beyond green bonds, we also have to develop new

financial products to bridge this green finance gap. I am thinking of green securitisation, green covered bonds, and green loans accessible to individuals, SMEs and start-ups. France is at the forefront of this challenge. Four out of the world's top ten green bond book-runners are French banks. France is among the top three green bond issuers. This trend is being supported by public action: a law has been introduced requiring investors and listed companies to disclose their climate-related risks; the French State issued the largest green sovereign bond in 2017.

We also believe that central banks and supervisors must play their part as, in the long run, climate stability is one of the main determinants of financial stability, which is their mandate. This is a shared conviction. At the One Planet Summit in Paris in December 2017, the Banque de France, with the support of other central banks and supervisors, launched the Network for Greening the Financial System (NGFS), which now comprises some 30 central banks, supervisors and international organisations, including four Asian members, and will certainly attract more in the coming years.

\*\*\*

Let me now conclude by quoting Nassim Nicholas Taleb, the famous author of *The Black Swan*. He once wrote that uncertainties can be like the wind which “extinguishes a candle and energises fire”, and added the following: “You want to use them, not hide from them. You want to be the fire and wish for the wind”. My wish is that the ongoing uncertainties will become the wind that deepens our bilateral and multilateral cooperation. On that hopeful note, I wish you a very Happy New Year and for the time being an inspiring and fruitful conference.