

Notification template for Articles 133 and 134(5) of the Capital Requirements Directives (CRD) – Systemic risk buffer (SyRB)

Template for notifying the European Central Bank (ECB) and European Systemic Risk Board (ESRB) of the setting or resetting of one or more systemic risk buffer rates pursuant to Article 133(9) CRD and to request that the ESRB issue a recommendation to other Member States to reciprocate the measure under Article 134(5) CRD

Please send/upload this template to

- macropru.notifications@ecb.europa.eu when notifying the ECB (under Article 5 of the Single Supervisory Mechanism (SSM) Regulation¹);
- [DARWIN/ASTRA](#) when notifying the ESRB.

The ESRB will forward the notification to the European Commission, the European Banking Authority (EBA) and the competent and designated authorities of the Member States concerned without delay. This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure².

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

| 1. Notifying national authority and scope of the notification | |
|--|--|
| 1.1 Name of the notifying authority | Haut Conseil de Stabilité Financière (HCSF), French macroprudential authority |
| 1.2 Country of the notifying authority | France |
| 1.3 Type of measure (also for reviews of existing measures) | <p>Which SyRB measure do you intend to implement?</p> <p><input checked="" type="checkbox"/> Activate a new SyRB</p> <p><input type="checkbox"/> Change the level of an existing SyRB</p> <p><input type="checkbox"/> Change the scope of an existing SyRB (incl. changes to a subset of institutions or exposures)</p> <p><input type="checkbox"/> De-activate an existing SyRB</p> <p><input type="checkbox"/> Reset an existing SyRB (review)</p> |

¹ Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

² On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

2. Description of the measure

2.1 Institutions covered by the intended SyRB

Please indicate whether the SyRB applies to:

- All institutions authorised in the Member State
- One or more subsets of credit institutions in the sector (please provide the names and identifiers (Legal Entity Identifier (LEI) code) of institutions covered)

| Name of institution | LEI code | Consolidation level |
|-------------------------|----------------------|--------------------------------|
| HSBC Continental Europe | F0HUI1NY1AZMJMD8LP67 | Highest level of consolidation |
| La Banque Postale | 96950066U5XAAIRCPA78 | Highest level of consolidation |
| Groupe Credit Mutuel | 9695000CG7B84NLR5984 | Highest level of consolidation |
| Société Générale | O2RNE8IBXP4R0TD8PU41 | Highest level of consolidation |
| Groupe BPCE | FR9695005MSX1OYEMGDF | Highest level of consolidation |
| BNP Paribas | R0MUWSFPU8MPRO8K5P83 | Highest level of consolidation |
| Groupe Crédit Agricole | FR969500TJ5KRTCJQWXH | Highest level of consolidation |

- A subsidiary whose parent is established in another Member State. (Please provide the names and identifiers (LEI code) of subsidiaries)

| Name of subsidiary | Name of the parent | LEI code of the subsidiary |
|--------------------|--------------------|----------------------------|
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The intended sSyRB applies to the 7 main French systemically important banks at the highest level of consolidation.

Consistently with the previous article 458 measure implemented in 2018, a materiality threshold will be implemented for the sSyRB, applicable when the total amount of the final exposures of the group of connected clients at the highest level of consolidation, as defined in the CRR large exposures framework, exceeds 5% of its Tier 1 capital. Accordingly, among the 7 main French banking groups on which the sSyRB will apply, only those whose exposure to a group of connected client reaches the threshold of 5% of their Tier 1 capital will be subject to an additional sSyRB requirement.

2.2 Exposures covered by the SyRB (Article 133(5) CRD)

Please indicate the exposures to which the SyRB applies:

- (a) all exposures located in the Member State that is setting the buffer;
- (b) the following sectoral exposures located in the Member State that is setting the buffer:
- (i) all retail exposures to natural persons that are secured by residential property;
 - (ii) all exposures to legal persons that are secured by mortgages on commercial immovable property;
 - (iii) all exposures to legal persons excluding those specified in point (ii);
 - (iv) all exposures to natural persons excluding those specified in point (i);

| | <p><input checked="" type="checkbox"/> (c) subsets of any of the sectoral exposures identified in point (b). Please specify the subsets in Section 2.3;</p> <p><input type="checkbox"/> (d) all exposures located in other Member States;</p> <p><input type="checkbox"/> (e) exposures located in third countries.</p> | | | | | | | | | | | | | | |
|---|--|--------------------------|----------|--|-----------------------------------|-----------------------|----|---------------------|---|------------------|--|-----------------------|-----------------------|-----------------------|----|
| <p>2.3 Subsets of sectoral exposures</p> | <p>Where the systemic risk buffer applies to subsets of any of the sectoral exposures identified (see point 2.2 (c)), please specify:</p> <ul style="list-style-type: none"> - The elements of the dimensions and subdimensions that were used to identify the subset(s) of sectoral exposures as laid down in the EBA Guidelines on the appropriate subsets of exposures in the application of SyRB: <table border="1" data-bbox="584 607 1414 992"> <thead> <tr> <th>Dimensions/subdimensions</th> <th>Elements</th> </tr> </thead> <tbody> <tr> <td>1. Type of debtor or counterparty sector</td> <td>French non-financial corporations</td> </tr> <tr> <td>1.a Economic activity</td> <td>NA</td> </tr> <tr> <td>2. Type of exposure</td> <td>All exposures (Materiality threshold : Final exposures to the group of connected clients at the highest level of consolidation, as defined in the CRR large exposures framework, representing more than 5% of T1 capital)</td> </tr> <tr> <td>2.a Risk profile</td> <td>Total debt-to-EBITDA ratio strictly above 6 or negative, at the highest level of consolidation</td> </tr> <tr> <td>3. Type of collateral</td> <td>Secured and unsecured</td> </tr> <tr> <td>3.a Geographical area</td> <td>NA</td> </tr> </tbody> </table> <ul style="list-style-type: none"> - Assessment conducted in accordance with Section 5 of the EBA Guidelines on the systemic relevance of the risks stemming from this subset, taking into account: <ul style="list-style-type: none"> (i) size (ii) riskiness (iii) interconnectedness. - Why it would not have been appropriate to set the systemic risk buffer at the level of a sector (as in point 2.2(b)) to cover the risk targeted? <p><u>Size:</u> The Banque de France assesses that the size of the targeted subset of sectoral exposures, by focusing on large exposures held by systematically important institutions to highly indebted non-financial corporations, can give rise to a serious risk to the financial system and the real economy in France and in the Euro Area (see 4.1 below)</p> <p><u>Riskiness:</u> A rise in credit risk, as measured by the total debt/EBITDA ratio, of large corporates to which banks are heavily exposed could lead to significant losses as they could be affected by the same common exogenous shock.</p> <p><u>Interconnectedness:</u> The materialization of risk in the targeted subset could lead to negative spillover effects to other exposures and the real economy given bank portfolios' concentration, as measured by the large exposure framework of CRR. A shock affecting a large exposure may prompt banks to cut credit supply to other non-related firms in order to mitigate its losses.</p> <p>The measure tackles the vulnerabilities linked to risk concentration to highly indebted non-financial corporations in the financial system. We do not identify systemic risks associated with the exposure of banks to the non-financial corporation sector as a whole.</p> | Dimensions/subdimensions | Elements | 1. Type of debtor or counterparty sector | French non-financial corporations | 1.a Economic activity | NA | 2. Type of exposure | All exposures (Materiality threshold : Final exposures to the group of connected clients at the highest level of consolidation, as defined in the CRR large exposures framework, representing more than 5% of T1 capital) | 2.a Risk profile | Total debt-to-EBITDA ratio strictly above 6 or negative, at the highest level of consolidation | 3. Type of collateral | Secured and unsecured | 3.a Geographical area | NA |
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| 3. Type of collateral | Secured and unsecured | | | | | | | | | | | | | | |
| 3.a Geographical area | NA | | | | | | | | | | | | | | |

| | <p>The measure targets both secured and unsecured loans to replicate the perimeter of the previous article 458 measure.</p> <p style="text-align: center;">-</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|---|------------------------------|---|--------------------|--|------------------------------|---|------------------------------|---|--|---|-------|--|--|---|--|--|--|--|--|---|-------|--|--|--|---|-------|--|--|--|---|-------|--|--|--|---|-------|--|--|--|---|-------|--|--|--|---|-------|--|--|--|--|--|--|--|---|---|----|--|--|---|--|--|--|--|---|--|--|--|--|
| <p>2.4 Exposures located in other Member States and in third countries</p> | <p>If the systemic risk buffer applies to exposures located in other Member States or third countries (see points 2.2(d) and (e)), please include the names of those countries</p> <p>N.A.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>2.5 Buffer rate (Article 133(9)(e) CRD)</p> | <p>Specify the intended SyRB rate. If different buffer requirements apply to different exposures or subsets of exposures, please specify for each exposure indicated under 2.2.</p> <p>Please indicate any changes to the list in 2.1 of institutions concerned and in the buffer rates given in point 2.5 as compared to the last notification, and provide an explanation, if applicable.</p> <table border="1" data-bbox="584 788 1428 1975"> <thead> <tr> <th rowspan="2">Exposures</th> <th colspan="2">New SyRB rate</th> <th colspan="2">Previous SyRB rate</th> </tr> <tr> <th>All institutions (SyRB rate)</th> <th>Set of institutions (range of SyRB rates)</th> <th>All institutions (SyRB rate)</th> <th>Set of institutions (range of SyRB rates)</th> </tr> </thead> <tbody> <tr> <td>(a) All exposures located in the Member State that is setting the buffer</td> <td style="text-align: center;">%</td> <td style="text-align: center;">% - %</td> <td></td> <td></td> </tr> <tr> <td colspan="5"><i>(b) The following sectoral exposures located in the Member State that is setting the buffer:</i></td> </tr> <tr> <td>(i) All retail exposures to natural persons that are secured by residential property</td> <td style="text-align: center;">%</td> <td style="text-align: center;">% - %</td> <td></td> <td></td> </tr> <tr> <td>(ii) All exposures to legal persons that are secured by mortgages on commercial immovable property</td> <td style="text-align: center;">%</td> <td style="text-align: center;">% - %</td> <td></td> <td></td> </tr> <tr> <td>(iii) All exposures to legal persons excluding those specified in point (ii)</td> <td style="text-align: center;">%</td> <td style="text-align: center;">% - %</td> <td></td> <td></td> </tr> <tr> <td>(iv) All exposures to natural persons excluding those specified in point (i)</td> <td style="text-align: center;">%</td> <td style="text-align: center;">% - %</td> <td></td> <td></td> </tr> <tr> <td>(c) All exposures located in other Member States</td> <td style="text-align: center;">%</td> <td style="text-align: center;">% - %</td> <td></td> <td></td> </tr> <tr> <td>(e) Exposures located in third countries</td> <td style="text-align: center;">%</td> <td style="text-align: center;">% - %</td> <td></td> <td></td> </tr> <tr> <td colspan="5"><i>(f) Subsets of any of the sectoral exposures identified in point (b):</i></td> </tr> <tr> <td>Exposures to French NFC under two cumulative conditions:</td> <td style="text-align: center;">%</td> <td style="text-align: center;">3%</td> <td></td> <td></td> </tr> <tr> <td>1. NFC's group total debt to EBITDA ratio is negative or greater than 6;</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>2. The final exposure (under large Exposure framework) to this French NFC's group of connected</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> | Exposures | New SyRB rate | | Previous SyRB rate | | All institutions (SyRB rate) | Set of institutions (range of SyRB rates) | All institutions (SyRB rate) | Set of institutions (range of SyRB rates) | (a) All exposures located in the Member State that is setting the buffer | % | % - % | | | <i>(b) The following sectoral exposures located in the Member State that is setting the buffer:</i> | | | | | (i) All retail exposures to natural persons that are secured by residential property | % | % - % | | | (ii) All exposures to legal persons that are secured by mortgages on commercial immovable property | % | % - % | | | (iii) All exposures to legal persons excluding those specified in point (ii) | % | % - % | | | (iv) All exposures to natural persons excluding those specified in point (i) | % | % - % | | | (c) All exposures located in other Member States | % | % - % | | | (e) Exposures located in third countries | % | % - % | | | <i>(f) Subsets of any of the sectoral exposures identified in point (b):</i> | | | | | Exposures to French NFC under two cumulative conditions: | % | 3% | | | 1. NFC's group total debt to EBITDA ratio is negative or greater than 6; | | | | | 2. The final exposure (under large Exposure framework) to this French NFC's group of connected | | | | |
| Exposures | New SyRB rate | | Previous SyRB rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| (a) All exposures located in the Member State that is setting the buffer | % | % - % | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| (i) All retail exposures to natural persons that are secured by residential property | % | % - % | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (ii) All exposures to legal persons that are secured by mortgages on commercial immovable property | % | % - % | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (iii) All exposures to legal persons excluding those specified in point (ii) | % | % - % | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (iv) All exposures to natural persons excluding those specified in point (i) | % | % - % | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (c) All exposures located in other Member States | % | % - % | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (e) Exposures located in third countries | % | % - % | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <i>(f) Subsets of any of the sectoral exposures identified in point (b):</i> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Exposures to French NFC under two cumulative conditions: | % | 3% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1. NFC's group total debt to EBITDA ratio is negative or greater than 6; | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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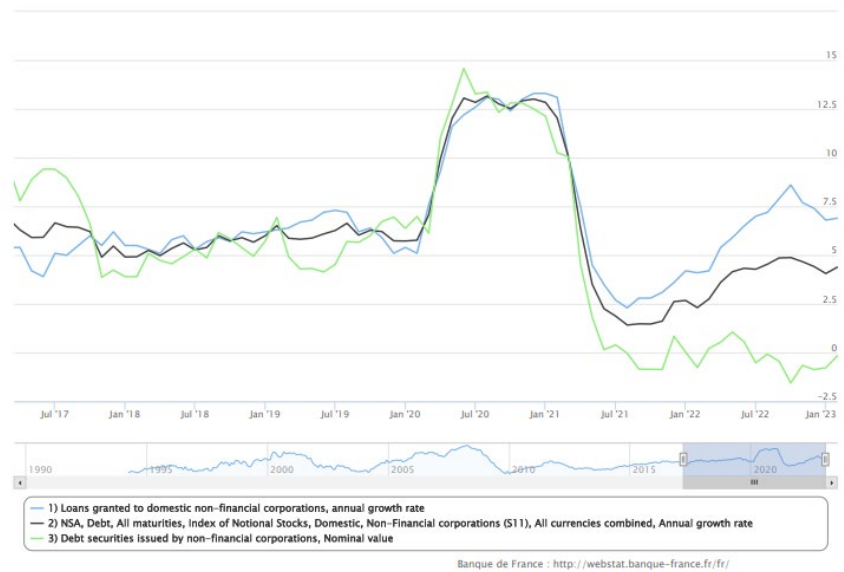
| | <p>clients exceeds more than 5% of T1 capital.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|----------|---------------|--------------------|--|---------------------|--|--|--|--|-----------|---------------------|----------|---------------|--------------------|--|--|--|---|--|--|--|--|---|--|--|--|--|---|--|
| <p>If different buffer requirements apply to different subsets of institutions, please specify for each institution mentioned under 2.1.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table border="1"> <thead> <tr> <th colspan="5">Set of institutions</th> </tr> <tr> <th>Exposures</th> <th>Name of institution</th> <th>LEI code</th> <th>New SyRB rate</th> <th>Previous SyRB rate</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td>%</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td>%</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td>%</td> <td></td> </tr> </tbody> </table> | | | | | | Set of institutions | | | | | Exposures | Name of institution | LEI code | New SyRB rate | Previous SyRB rate | | | | % | | | | | % | | | | | % | |
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| | | | % | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | % | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | % | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>3. Timing for the measure</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>3.1 Timing for the decision</p> | <p>What is the date of the official decision? <u>For SSM countries when notifying the ECB</u>: provide the date on which the decision referred to in Article 5 of the Single Supervisory Mechanism Regulation (SSMR) will be taken.</p> <p>28/07/2023</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>3.2 Timing for publication</p> | <p>What is the proposed date of publication of the notified measure?</p> <p>30/07/2023</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>3.3 Disclosure</p> | <p>Information about the strategy for communicating the notified measure to the market.</p> <p>Do you also intend to publish the justification for the SyRB? If not, why do you consider that publication could jeopardise the stability of the financial system?</p> <p>The measure will be officially communicated by a press release of the HCSF and with the publication of the legal text on the HCSF's website and in the Journal Officiel de la République Française (JORF), as it had been the case when introducing, amending or extending previous measures according to Art. 458 CRR. The HCSF intends to publish the justification for the sSyRB. In parallel, the process of implementing a new reporting requires that the ACPR consults with the banks on an operational basis.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>3.4 Timing for application</p> | <p>What is the intended date of application of the measure?</p> <p>01/08/2023</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>3.5 Phasing in</p> | <p>What is the intended timeline for phase-in of the measure (if applicable)?</p> <p>No phase-in foreseen</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>3.6 Review/deactivation of the measure</p> | <p>Until when will the measure presumably be in place? What are the conditions for its deactivation? On what indicators would the decision be based? Please specify whether you intend to review the measure before the maximum period of two years foreseen in Article 133(8)(b) CRD.</p> <p>The measure is intended to be implemented for two years and possibly renewed afterwards.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>4. Reasons for the notified SyRB</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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| <p>4.1 Description of the macroprudential or systemic risk in your Member State (Article 133(9)(a) of the CRD)</p> | <p>Where applicable, please classify the risks targeted by the notified SyRB under the following categories:</p> <p>(i) risks stemming from the structural characteristics of the banking sector</p> <ul style="list-style-type: none"> - Size and concentration of banks - Ownership structure - Other structural risks <p>(ii) risks stemming from the propagation and amplification of shocks within the financial system</p> <ul style="list-style-type: none"> - Exposure concentration/asset commonality - Commonality in bank business models - Financial interconnections and contagion <p>(iii) risks to the banking system stemming from either the real economy or specific sectors</p> <ul style="list-style-type: none"> - Economic openness - Sectoral risks from the private non-financial sector, households and the public sector <p>(iv) Other risks</p> <p>Please specify:</p> <ul style="list-style-type: none"> - Whether these risks are widespread across the whole financial sector? - Or whether they are concentrated only in one or more subsets of the sector? <p>The measure follows up on the current Article 458 CRR measure and will target the same risks. Since the introduction of its macroprudential measure based on article 458 in 2018, the HCSF has been closely monitoring the concentration risk of banks' portfolio and the level of debt of French NFCs. This monitoring indicates that the concentration of risks towards a few highly leveraged large corporates (LC) remain. However, the new macroeconomic environment of monetary tightening and heightened uncertainty has changed the nature of the risks faced by banks.</p> <p>(1) French Large Corporates (LC) represent a significant proportion of NFCs' indebtedness and contributed to its overall increase. Although monetary policy tightening may slow down credit growth, some firms remain highly leveraged in France. LC account for a hefty part of total corporate credit with French bank credit to NFC amounting, in April 2023, to € 200 billion of the total € 1,337 billion³. In April 2023, credit growth to NFCs remained dynamic (+5.7% yoy for all non-financial corporates). This was mainly driven by large corporates: in April 2023, the annual growth rate of bank debt was +10.0% for large companies. In addition, the stock of debt carried by NFCs is large, significantly higher than the European average: at the end of December 2022, the consolidated gross debt of French NFCs represented 80.8% of GDP, compared with 59.7% of GDP for the euro zone as a whole. This debt is borne by large French companies of international scope, whose activities extend over a perimeter larger than France.</p> |
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³ Source: Banque de France, Webstat (BSI1.M.FR.N.R.A26.A.1.U6.2240.Z01.E).

(2) The new macroeconomic environment of monetary tightening and heightened uncertainty affects the nature of risks related to large corporate indebtedness. Given the current monetary policy tightening, the rise in interest rates may decrease the interest coverage ratio while firms cannot reduce their leverage instantaneously. A decline in annual earnings in a less buoyant economic context could amplify this effect. Therefore, breaches of the limit under the article 458 measure are now more likely to be cases of "liability overhang", rather than the consequence of increased banks' exposure to leveraged firms. However, the HCSF set up the article 458 measure in order to tackle the latter, in a low rate environment, where NFCs had an incentive to increase their indebtedness given the low price of credit. The measure expiring at the end of June is therefore not fit for the current context of higher interest rates and might have unintended pro-cyclical effects: if some systemic firms breach the article 458 leverage thresholds, this could lead to an abrupt credit constraint for these firms.

(3) The new environment has also led to a substitution of bank financing for market debt, which justifies the use of a targeted preventive measure. Since July 2021 (see graph below), we've observed a substitution of banking credit to debt securities, which account for the bulk of the high credit growth of LC. While the article 458 measure was implemented as a deterrent in a context of low interest rates and rising market debt, it could now have a procyclical impact by preventing the banking sector from being able to absorb part of the legitimate current corporate financing needs when the cost of debt market financing is relatively higher.



(4) A significant economic weight of French institutions at domestic and European levels

The aggregate balance sheet of the French banking system amounted to EUR 10,470 billion in December 2022 and has been growing steadily since 2017. The French banking system is dominated by seven major banking groups with significant weight at both national and European levels. The top seven French banking groups (BNP Paribas, BPCE, Crédit Agricole, Crédit Mutuel, La Banque Postale, Société Générale and HBCE) account for 83% of the total balance sheet value of the French banking system, while these 7 most significant institutions account for 33% of the balance sheet value of banks directly supervised by the ECB within the SSM.⁴

⁴ The French banking and insurance market in figures, 2021, ACPR

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| <p>4.2 Reasons why the dimension of the macroprudential or systemic risks threatens the stability of the financial system in your Member State</p> <p>(Article 133(9)(b) CRD)</p> | <p>Reasons why the macroprudential or systemic risks threaten financial stability and justifying the systemic risk buffer rate.</p> <p>The significant size of some exposures towards highly leveraged firms could generate a substantial negative impact on credit institutions' credit risk: a shock to these systemic firms could affect banks' credit risk and thus have negative consequences on the real economy, by prompting banks to decrease their credit supply to other firms. This externality is particularly relevant given the central role of the banking sector in the financing of French economy, with the top seven banks representing a large share of corporate loan ownership. This is of particular importance in the current context: increases in policy rates transmitted more quickly to the bond market than to bank credit, leading to higher demand for bank credit and putting further pressure on banks' balance sheets.</p> |
| <p>4.3 Indicators used for activation of the measure</p> | <p>Provide the indicators triggering activation of the measure. When notifying the ECB, please provide the data on which the decision is based, if possible (preferably in an Excel file).</p> <p>The main indicators prompting the use of the measure are:</p> <ul style="list-style-type: none"> - Credit growth (total and for large firms): loans and debt securities. - Indebtedness (total and for large firms): gross debt/EBITDA; - Concentration of banks' exposures to a selection of large non-financial corporations measured via the share of the final exposure in percentage of Tier One Capital. <p>Given the upward trend of indebtedness and concentration, we do not observe a reduction in the intensity of systemic risks compared to 2018 (first implementation of the article 458 measure, which the SyRB replaces). All indicators point to the fact that it would be appropriate to maintain a "safeguard" measure to keep under control any excessive concentration in banks' portfolio.</p> |
| <p>4.4 Effectiveness and proportionality of the measure</p> <p>(Article 133(9)(c) CRD)</p> | <p>Explanation why the draft measures are deemed likely to be effective and proportionate to mitigate the risk. E.g. how will the effectiveness of the measure be assessed? Based on which indicators? What are the expected transmission mechanisms?</p> <p>As indicated in section 4.1., the previous article 458 measure tackled the same vulnerabilities as the sSyRB. Nevertheless, this new policy tool ensures greater proportionality and effectiveness in the current context of higher interest rates while allowing continuity regarding the targeted exposures. Such a measure is consistent with the objective of the HCSF, which aims at signaling and preventing an excessive credit expansion that could lead to the build-up of systemic risk, while being proportionate by targeting specific sectors whose debt dynamic calls for particular attention.</p> <p>The measure ensures the resilience of systemic banks, by mitigating the impact of idiosyncratic corporate shocks. The measure is particularly relevant in a context of market stress, as large corporates seek to reintermediate their debt issuances given current market conditions. On the one hand, banks have to remain appropriately capitalized to mitigate this transfer of debt from NBFIs to banks. On the other hand, liability overhangs could further tighten credit conditions or trigger excessive deleveraging, and thus be pro-cyclical. Therefore, the measure incentivizes private actors to internalize the consequences that their borrowing and lending decisions have on systemic risk, at a cost that is deemed adequate.</p> <p>The measure by construction is proportional to the level of risk (measured by the RWAs) generated by private actors to the rest of the financial system as a whole. Furthermore, the measure gives room for further adjustments through its SyRB rate, depending on the severity of the risk and the state of the financial cycle. In addition, the measure sends a warning signal and intensifies the vigilance of financial</p> |

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| | <p>institutions and investors regarding the high leverage of large NFCs and the potential concentration of their risk.</p> <p>The measure has been calibrated to deter banks from lending more to the highly leveraged companies to which they are already highly exposed by imposing a cost in the form of a capital surcharge associated with these particular exposures. Therefore, the total impact of the measure on banks' CET1 capital was not compared to banks' aggregate portfolio but was assessed at the level of the firms' loans concerned by the measure. It was calibrated on the basis of different pass-through assumptions, from CET1 capital to borrowing costs. The rate of 3% has been identified as striking the right balance between deterring additional lending to the most leveraged companies to which banks are already highly exposed, and enabling profitable corporates to rise debt. Given the many margins of transmission possible and the fact that this is the first time a sSyRB is targeting corporate exposures, relatively more conservative assumptions were given more weight. At this stage, the aggregate levels of additional CET1 requirements when the sSyRB will enter into force are limited, given that observed concentration risks are currently high but targeted and under control.</p> <p>The measure does not prevent corporates from increasing their debt as soon as the lender base is diversified enough. 5% of T1 at the scale of the seven targeted French banking groups represents around EUR 24bn in debt capacity⁵, after taking into account risk mitigation techniques, for a given NFC by end 2021.</p> |
| <p>4.5 Reason why the systemic risk buffer is not duplicating the functioning of the O-SII buffer provided for in Article 131 CRD</p> <p>(Article 133(9)(f) CRD)</p> | <p>Where the systemic risk buffer rate applies to all exposures, please justify why the authority considers that the systemic risk buffer is not duplicating the functioning of the O-SII buffer provided for in Article 131 CRD.</p> <p>Not applicable, as the SyRB applies only to French NFCs which are member of a group of connected client reaching the threshold of 5% of their Tier 1 capital and member of a group which exhibits a negative or greater than 6 debt to EBITDA ratio.</p> |
| <p>5. Sufficiency, consistency and non-overlap of the policy response</p> | |
| <p>5.1 Sufficiency of the policy response</p> | <p>For a macroprudential policy to be 'sufficient', the policy responses must be deemed to significantly mitigate, or reduce the build-up of, risks over an appropriate time horizon with a limited unintended impact on the general economy.</p> <p>Note that the ESRB will use this assessment of the macroprudential stance as relevant input in assessing the sufficiency of the macroprudential policy in the Member States.</p> <p>Please provide any additional information that the ESRB should consider in assessing the sufficiency of the policy response.</p> <p>The measure covers the seven largest banks whose market share among French banks in the NFC segment in France is 92%. The increase in CET1 requirements for highly indebted firms' exposures complement the microprudential large exposure limit, in light of the systemic risk they represent for the financial system as a whole.</p> |

⁵ The total amount of Tier 1 capital (CET1) reached EUR 473 billion at end 2021 for the whole French banking sector at the highest level of consolidation (The French banking and insurance market in figures, 2021, ACPR)

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| | <p>Finally, the compliance of the measure will be assessed with the implementation of a dedicated and more comprehensive reporting, enabling a more specific monitoring of the risks associated with these targeted exposures.</p> <p>Although the measure applies only to systematically important banks in France and not to the other French banks (small SIs and LSIs), it also provides guidance to those smaller banks - not directly concerned by the measure - in their assessment of NFC overall indebtedness when financing French NFCs.</p> <p>The measure targets concentration risks in banks' portfolio, but excludes firms that are very unlikely to default. As such, it adopts a broad definition of leverage, through the total debt/EBITDA ratio⁶. This ratio is computed at the highest level of consolidation. It includes off-balance sheet exposure, credit by foreign banks and market debt. This ratio is easily computable by banks and based on available public information. The criterion focuses on the level of debt for a given level of current profitability, irrespective of financing costs. This ratio is thus more conservative than the ratios of the art. 458 CRR measure previously in place in France (interest coverage ratio and leverage ratio). The threshold of 6 still enables to capture the tail of the distribution across large firms. As of end 2021, 30.8% of French large firms, and 42.4% of their consolidated total gross debt (including undrawn credit lines)⁷ goes beyond the threshold, total debt/EBITDA > 6, (compared to respectively 21.8% and 17.8% with art. 458 measure thresholds).</p> |
| <p>5.2 Consistency of application of the policy response</p> | <p>For a macroprudential policy to be 'consistent', the policy instruments must be deemed to meet their respective objectives as outlined in ESRB/2013/1⁸ and must be implemented in accordance with the common principles set out in the relevant legal texts.</p> <p>Note that the ESRB assessment of consistency will consider whether the same systemic risks are addressed in a similar way across and within the Member States over time.</p> <p>Please provide any additional information that the ESRB should consider in assessing the consistency of the policy response.</p> <p>The choice of the SyRB rather than article 458 CRR to address this risk has been purposely made in order to comply with the pecking order of macroprudential instruments in the European legislative framework. It focuses on banks' resilience by adopting a buffer approach that is proportional to risk weights and which prompts private actors to internalize the costs and benefits of their choices. It still refers to the large exposure framework, which is well-known to French banks and which is the baseline framework to assess concentration risks in the SSM.</p> |
| <p>5.3 Non-overlap of the policy response</p> | <p>For a policy instrument to be 'non-overlapping', it should aim to address a systemic risk that either differs to the risk addressed by other active tools in the same Member State, or to be complementary to another tool in that Member State which addresses the same systemic risk.</p> <p>- Are other policy instruments used to address the <u>same</u> systemic risk?</p> |

⁶ The definition of total debt/EBITDA follows the SSM Guidance on the leverage transaction.

⁷ Sample of French groups only, includes the debt of their foreign subsidiaries. 2022 debt ratios are not yet available for all firms and there is also a delay for the Banque de France division in charge of NFCs balance sheets to harmonize and check quality of these ratios.

⁸ Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1) (OJ C 170, 15.6.2013, p. 1).

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| | <p>- If yes, please explain the need for more than one instrument to address the same systemic risk and how the different instruments interact with each other.</p> <p>The measure targets specifically concentration risks, focusing on leveraged firms. No other macroprudential instrument specifically targets such risks. The basic large exposure limit is a microprudential instrument acting as a backstop.</p> |
| 6. Cross-border and cross-sector impact of the measure | |
| <p>6.1 Assessment of cross-border effects and the likely impact on the Internal Market</p> <p>(Article 133(9)(d) of the CRD and Recommendation ESRB/2015/2⁹)</p> | <p>Assessment of the cross-border effects of implementation of the measure.</p> <p>a. Assessment of the spillover channels operating via risk adjustment and regulatory arbitrage. The relevant indicators provided in Chapter 11 of the ESRB Handbook on Operationalising Macroprudential Policy in the Banking Sector¹⁰ and the Framework to assess cross-border spillover effects of macroprudential policies of the ECB Task Force on cross-border spillover effects of macroprudential measures can be used.</p> <p>b. Assessment of the:</p> <ul style="list-style-type: none"> ○ cross-border effects of implementation of the measure in your own jurisdiction (inward spillovers); ○ cross-border effects on other Member States and on the Single Market of the measure (outward spillovers); ○ overall impact on the Single Market of implementation of the measure. <p>The measure applies only to French banks' exposures to French large corporates, there is thus no indication that it would have any significant impact on individuals or companies outside France. However, foreign subsidiaries of NFCs resident in France can contract debt and channel it to the rest of the group via intragroup lending. This potential leakage will be regularly assessed and the parameters of the measures will be reassessed accordingly.</p> <p>The new measure focuses on the same macroprudential risk as the article 458 measure did and no sign of negative impact on the Internal Market that would outweigh the financial stability benefits resulting in a reduction of the macroprudential or systemic risk has been identified. There is no reason to expect this observation to change when transforming the article 458 measure into a sSyRB.</p> <p>In addition, in view of the importance of cross-border banking groups in France and the degree of openness of the economy, safeguarding financial stability in France will also have positive effects on financial stability in the Euro Area.</p> <p>The systemic risk buffer will help to reallocate exposure to leveraged French firms among French systemically important banks, but also among European banks. However, foreign banks would also have strong incentives to limit their exposures to highly indebted French NFCs.</p> |

⁹ Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).

¹⁰ Available on the ESRB's website at www.esrb.europa.eu.

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| <p>6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</p> | <p>Referring to your Member State's specific characteristics, what is the scope for "leakages and regulatory arbitrage" in your own jurisdiction (i.e. circumvention of the measure/leakages to other parts of the financial sector)?</p> <p>Is there scope for "leakages and regulatory arbitrage" in other jurisdictions?</p> <p>The HCSF acknowledges that the capital surcharge of a sectoral SyRB cannot currently apply to exposures of subsidiaries of French NFCs located in other Member States, even though those foreign subsidiaries are part of the group of connected clients and are thus economically dependent from the French entity. As a consequence, some adverse effects may theoretically appear in France:</p> <ul style="list-style-type: none"> • French NFC group may circumvent the measure by raising funds through their foreign subsidiaries before channeling back to the group through intragroup lending. This potential leakage will be closely monitored and the parameters of the measure may be revised accordingly (see section. 61.). • NFCs may try to increase market-based financing; as of February 2023, 35% of the NFC financing was provided by the market. However, the measure indirectly addresses market-based debt since the latter is included both in large exposures (when debt securities are held by banks) and in the criteria assessing NFCs' indebtedness; in addition, we expect that the signaling effect of the measure will enhance market discipline. • NFCs may seek to increase their financing by non-systemic banks. This adverse effect is rather contained, given the market share of French systemic banks (see above). Smaller French banks could only take over these risks to a limited extent, as they are also bound by the generic CRR large exposure regulation. • Regulatory arbitrage could also appear by actors increasing NFC lending through the Non-Bank Financial Intermediaries. So far, these sources of NFC financing are contained as market financing cost remains higher than new loans cost¹¹. • Finally, the article 458 measure, which strictly limits leverage to large and indebted corporate, could generate more circumvention towards non-regulated entities than implementing a sSyRB that builds up additional capital available to handle the risks associated to these highly leveraged corporates rather than transferring the risks to other non-regulated entities. <p>Overall, incentives for such regulatory arbitrage appear for the moment quite limited but the HCSF and the ACPR will regularly monitor possible leakages or regulatory arbitrage going forward.</p> |
| <p>6.3 Request for reciprocation by other Member States (Article 134(5) CRD and Recommendation ESRB/2015/2)</p> | <p>Does the authority intend to ask the ESRB to issue a recommendation to other Member States to reciprocate the measure in accordance with Article 134(5) CRD?</p> <p>No</p> <ul style="list-style-type: none"> - If yes, please provide in Section 6.4. the justification for that reciprocity. - If no, what are the reasons for not requesting reciprocation? |
| <p>6.4 Justification for the request for reciprocation by other Member States (Article 134(5) CRD and Recommendation ESRB/2015/2)</p> | <p>To request reciprocation, please provide the following:</p> <ul style="list-style-type: none"> - a concise description of the measure to be reciprocated; - the financial stability considerations underlying the reciprocity request, including the reasons why the reciprocity of the activated measure is deemed necessary for its effectiveness; - the proposed materiality threshold and justification for that level. <p>If the ESRB deems the request for reciprocation to be justified, the description provided will form the basis for translation into all EU official languages for the purposes of an update of Recommendation ESRB/2015/2.</p> |

¹¹ [Financing of enterprises | Banque de France \(banque-france.fr\)](https://www.banque-france.fr/financing-of-entreprises)

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| | <p>Given the current exposure of foreign banks to French NFCs, a redistribution of targeted exposures would help to reduce the concentration risk without implying a subsequent risk for foreign institutions, given the current level of foreign bank exposure to individual French NFCs.</p> <p>In addition, the cost of a specific reporting on exposure to French NFCs would outweigh its benefits for foreign banks compared to the given their small exposure to French NFCs.</p> |
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7. Combination of the SyRB with other buffers

| | <p>Is the sum of the systemic risk buffer rate and the higher of the O-SII/G-SII buffer rates to which the same institution is subject above 5%?</p> <p>Please provide a list of the institutions subject to a G-SII or an O-SII buffer, indicating the G-SII or O-SII buffer and the sum of the G-SII/O-SII and SyRB buffers (a combined buffer rate of over 5% requires authorisation by the Commission).</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| <p>7.1 Combination with G-SII and/or O-SII buffers (Article 131(15) CRD)</p> | <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Name of institution</th> <th style="text-align: center;">G-SII/O-SII buffer rate</th> <th style="text-align: center;">O-SII consolidation level</th> <th style="text-align: center;">Sum of G-SII/O-SII and SyRB rates</th> </tr> </thead> <tbody> <tr> <td>BNP PARIBAS (BNPP)</td> <td style="text-align: center;">1.5%</td> <td></td> <td style="text-align: center;">4.5%</td> </tr> <tr> <td>GROUPE CREDIT AGRICOLE (GCA)</td> <td style="text-align: center;">1%</td> <td></td> <td style="text-align: center;">4%</td> </tr> <tr> <td>SOCIETE GENERALE (SG)</td> <td style="text-align: center;">1%</td> <td></td> <td style="text-align: center;">4%</td> </tr> <tr> <td>GROUPE BPCE (GBPCE)</td> <td style="text-align: center;">1%</td> <td></td> <td style="text-align: center;">4%</td> </tr> <tr> <td>GROUPE CREDIT MUTUEL (GCM)</td> <td style="text-align: center;">0.5%</td> <td></td> <td style="text-align: center;">3.5%</td> </tr> <tr> <td>HSBC CE</td> <td style="text-align: center;">0.25%</td> <td></td> <td style="text-align: center;">3.25%</td> </tr> <tr> <td>LA BANQUE POSTALE (LBP)</td> <td style="text-align: center;">0.25%</td> <td></td> <td style="text-align: center;">3.25%</td> </tr> </tbody> </table> | Name of institution | G-SII/O-SII buffer rate | O-SII consolidation level | Sum of G-SII/O-SII and SyRB rates | BNP PARIBAS (BNPP) | 1.5% | | 4.5% | GROUPE CREDIT AGRICOLE (GCA) | 1% | | 4% | SOCIETE GENERALE (SG) | 1% | | 4% | GROUPE BPCE (GBPCE) | 1% | | 4% | GROUPE CREDIT MUTUEL (GCM) | 0.5% | | 3.5% | HSBC CE | 0.25% | | 3.25% | LA BANQUE POSTALE (LBP) | 0.25% | | 3.25% |
| Name of institution | G-SII/O-SII buffer rate | O-SII consolidation level | Sum of G-SII/O-SII and SyRB rates | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| BNP PARIBAS (BNPP) | 1.5% | | 4.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| GROUPE CREDIT AGRICOLE (GCA) | 1% | | 4% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SOCIETE GENERALE (SG) | 1% | | 4% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| GROUPE BPCE (GBPCE) | 1% | | 4% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| GROUPE CREDIT MUTUEL (GCM) | 0.5% | | 3.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HSBC CE | 0.25% | | 3.25% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| LA BANQUE POSTALE (LBP) | 0.25% | | 3.25% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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| <p>7.2 Combination with other systemic risk buffers (Article 133(11) and (12) CRD)</p> | <p>Indicate all sets or subsets of exposures that would be subject to one or more systemic risk buffers with a combined systemic risk buffer rate in the ranges below:</p> <ul style="list-style-type: none"> - above 3% and up to 5% - above 5% <p>Indicate whether any subsidiaries of a parent in another EU Member State would be subject to a combined systemic risk buffer rate above 3%.</p> <p>No combination with other systemic risk buffers.</p> |
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8. Miscellaneous

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| 8.1 Contact person(s)/mailbox at notifying authority | secretariat.hcsf@banque-france.fr ; Marine Dujardin – Marine.DUJARDIN@banque-france.fr |
| 8.2 Any other relevant information | / |
| 8.3 Date of the notification | Please provide the date on which this notification was uploaded/sent. 28/06/2023 |