MAIN PUBLIC STANCES TAKEN BY THE SOCIETE GENERALE GROUP AS PART OF ITS RESPONSIBLE REPRESENTATION POLICY

Capital requirements and liquidity

THE PROBLEM

The recent financial crises showed that it was important that banks have adequate capital and liquidity levels to deal with solvency and liquidity risks. The successive Basel agreements have defined stronger capital and then liquidity requirements for banks.

REGULATORY RESPONSE

Texts CRD IV - RRC adopted in July 2013 are the transposition of Basel III into European law. Regarding capital, the risk-based approach introduced by Basel II is confirmed and specified. The calibration of the new leverage ratio has to be finalized, and a wider debate on the relevance of internal models persists.

Regarding liquidity, these texts transpose into European law the two ratios that are the Basel Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), the new long-term liquidity ratio.

SOCIETE GENERALE’S POSITION

As part of the risk weighted approach, it is essential to maintain the internal models as they allow a detailed assessment of the risks faced by the banks.

The calibration of different ratios of capital and of liquidity should not limit the ability of banks to finance the economy.

Societe Generale notes the repeated assertion from the various regulatory authorities that the numerous Basel reforms still in the reflection stage will have no significant impact on bank capital requirements. This seems all the more essential so as three quarters of the European economy is still financed by the banking system.

Societe Generale supports the European Union’s approach, which has adapted the Basel logic to better take into account the specificities of the real economy, particularly in regards with SMEs.

Banks Supervision

THE PROBLEM

As a consequence of the failures encountered by supervision systems in the past, the European Union responded by establishing a single supervisory mechanism in the euro zone under the direct supervision of the European Central Bank (ECB).

REGULATORY RESPONSE

The single supervisory mechanism came into effect in the euro area on November 2014. The 130 most important institutions (among which is Societe Generale) are now under the direct supervision of the ECB. National supervisors take part in the prudential supervision and on-site inspection process.

SOCIETE GENERALE’S POSITION

Societe Generale has actively supported the establishment of the single supervision mechanism as it will allow the ECB to harmonize supervision methods and to ensure a better comparability between banks from one country to another. Societe Generale has successfully passed the evaluation of its bank balance sheets as well as the resistance tests, both being prior exercises now undertaken by the new supervisor. Ultimately, the single supervisory mechanism will ensure better movement of capital and greater financial stability in the euro area.

Banks resolution

THE PROBLEM

The bail-out by the States of banks encountering difficulties during the 2008 crisis has been rightly criticized. To avoid the renewal of this situation for banks considered as "too big to fail", both the European Union and the G20 decided to establish resolution mechanisms.

REGULATORY RESPONSE

Regarding resolution, the major European banks are now targets for overlapping regulations.

At the European Union level, the Bank Recovery and Resolution Directive (BRRD) establishes the principle of a systematic bail-in and introduces a depositor general preference. The Directive provides for each bank the implementation of recovery and resolution plans. The text also imposes a minimum ratio of "bail-inable" debt to be met by 2020: the Minimum Requirement of own funds and Eligible Liabilities (MREL).

The Single Resolution Mechanism (SRM), a regulation passed in April 2014, complements the instrument established for the euro zone: this regulation creates a single resolution authority, empowered with sanctioning prerogatives, as well as a Single Resolution Fund (SRF) supplemented by banks. Finally, the Deposit Guarantee Schemes Directive provides for the creation of a deposit guarantee fund, yet to be finalized.

The Total Loss Absorbency Capacity (TLAC) is an additional constraint that applies to the largest international banks (GSIBs). The TLAC is a capital and junior debt ratio that arises from the harshest constraint between those following here below:

- 19.5 to 23.5% of RWA, including current financial cushions levels
- twice as much as the Basel leverage ratio (6% for a 3% leverage ratio)

If the leverage ratio were to be increased, the TLAC would mechanically grow as well.

SOCIETE GENERALE’S POSITION

Societe Generale approves the establishment of an effective and coherent resolution mechanism that will bring a solution to the "too big to fail" issue. However, the big European banks have to face a triple constraint (TLAC + MREL + SRF) which strongly penalizes their ability to finance the real economy as well as their competitiveness.

For example, it is clear that TLAC and MREL are overlapping both in their goals and in their means. Similarly, the automatic nature of the link between TLAC and leverage ratio is not appropriate as these two ratios are aiming at different purposes. Concerning the SRF, the French industry has advocated not to be unduly penalized in comparison with other States.

Banks structure

THE PROBLEM

To reduce or to deal with systemic risks, the regulators have considered as a solution to separate or even to simply ban some banking activities.

REGULATORY RESPONSE

The French Banking Act of 2013, which has imposed to create a subsidiary for proprietary trading activities, participates in this process.

In early 2014, the European Commission proposed an additional text concerning a structural reform for banks. This project banned proprietary trading activities and imposed the automatic separation of retail and investment banks (above a certain size).

Up until now, the text is still under discussion between the different institutions involved in the legislative process.

SOCIETE GENERALE'S POSITION

The predominant model in continental Europe is the universal banking model, which has proven its robustness during previous crises. The separation of European banks would open the way to non-European financial institutions (currently exempted de facto), which would then become the leading funders of the real economy. In addition, the Commission's project would put an end to the banks' market-making activities, which would happen to be fairly inconsistent with the new Union of Capital Markets project and its aim to allow a wider financing of the economy through financial markets.

Strengthening both capital requirements and liquidity on the one hand, and establishing resolution mechanisms on the other hand, appear to have definitely ruled out the possibility to recourse to bail-out. The structural reform regulation project of the Commission could be one too many. This can potentially be destructive for the European economy, particularly in this difficult recovery period.

Markets regulation

THE PROBLEM

European and international authorities wanted to make financial markets safer and more transparent, as well as to prevent and punish market abuse.

REGULATORY RESPONSE

The European Union has adopted a series of laws to achieve this goal.

The European Market Infrastructure Regulation (EMIR) aims to reduce the risk associated with OTC derivatives and imposes either compensation or an exchange of collateral with respect to derivative products. On May 2015, the Commission opened a public hearing that aimed at gathering feedbacks from the market actors about its implementation. The public consultation ended in August 2015.

Markets in Financial Instruments Directive and Regulation (MiFID II / MiFIR) aim for a greater integration of financial markets and investment services in the EU, both through the segmentation of liquid assets and the establishment of pre-trade and post-trade transparency thresholds. Nevertheless, the application of MiFID II / MiFIR was postponed to the 3rd of January 2018 due to the technical complexity of the legislative frameworks that need to be implemented to ensure the effectiveness of the regulations.

The project of a European tax on Financial Transactions (FTT), currently under discussion between the 11 States involved in the enhanced cooperation, participates in this market oversight logic. The project is supposed to make markets less volatile and to restraint certain activities such as the high frequency trading.

SOCIETE GENERALE'S POSITION

Societe Generale welcomes the initiatives that aim at achieving a better transparency and the integration of financial markets. Notwithstanding, the regulations that affect the functioning of financial markets may have counterproductive effects.

Furthermore, the FTT conflicts directly with the current desire to promote market financing. In a competitive and globalized economy, there is a significant risk that such tax provokes a relocation of activities in territories exempted from it, even if applied with a reduced rate and even with very narrow base. Plus, the current project is the result of enhanced cooperation, without the United Kingdom. Ultimately, the tax on financial transactions would destroy its own tax base and generate zero income. The consequences of such tax would be very negative for the competitiveness of continental financial centers and would deprive the European economy of the investments it needs to recover.

In its response to European Commission "call for evidence", Societe Generale highlighted the negative impacts that the overlap of regulations may have on market liquidity, should those regulations relate either with the prudential requirements or with the functioning of financial markets.

The Payment Services Directive and anti-money laundering

THE PROBLEM

In recent years, new players in the payments sector have emerged, some of which are providers that offer to consolidate and aggregate data from users' bank accounts, or payment initiation services. Furthermore, the strengthening and persistence of the terrorist threat led the Brussels authorities to revisit the issue of both money laundering and terrorist financing, its corollary.

REGULATORY RESPONSE

In October 2015, the adoption of the revised payment services directive marked the end of a legislative process on the European framework for payments initiated in July 2013. For the banking industry, the major issue of this proposal concerns the regulation of the activities that require the banks both to access to data from the customers bank accounts, as well as to undertake operations originated from such accounts.

Facing the terrorist threat, the European Commission submitted an action plan in February 2016 that aim at strengthening the fight against terrorist financing, particularly by detecting suspicious financial movements.

SOCIETE GENERALE'S POSITION

It was important that those new players referred to as "third-party PSPs" respect the same security, accountability and transparency rules the banks are currently subjected to. However, it is necessary that the measures to be implemented for this purpose avoid hampering the innovation in the field of online banking and remote payments.

Regarding anti-money laundering, Societe Generale is fully committed to implementing the applicable regulatory corpus beside the European and national authorities. Furthermore, Societe Generale is engaged in a permanent dialogue with the competent authorities and participates in giving feedbacks on the adopted measures.

Capital Markets Union

THE PROBLEM

Contrary to what happens in the US system, up to 75% of the European economy is funded through the banking system, the balance being provided by the markets. The new regulatory constraints, and in particular those that are prudential, have prompted banks to scale down their balance sheets and to engage in a vast movement of disintermediation. In this context, there is a commitment in Europe to achieve more financing through the market. As a matter of fact, in France, the proportion of this financing method has been climbing and currently accounts for up to 40% of the total funding of the economy.

REGULATORY RESPONSE

The Capital Markets Union Project (CMU) is a strong initiative of the new European Commission. Its objective is to facilitate the access of European players to the financial markets. In order to do so the European Commission published on the 30th of September 2015 its action plan for a capital market union detailing the initiatives it intends to take over the five next years. This plan is accompanied by two legislatives proposals that are currently under negotiation. The first one deals with the prospectus reform and the other one with the reactivation of a "simple, transparent and standardized" (STS) securitization.

SOCIETE GENERALE'S POSITION

The goal is to provide companies, and particularly those that are medium-sized, with solutions that would come as a complement to bank credit, in order to finance their investments.

The banks will therefore fully support their customers to help them find the right type of funding they need on the capital markets. Societe Generale has a well recognized expertise in this field, notably in regards with the securitization and syndication of our customers' loans on the markets.

Societe Generale is committed to promoting a European legislative framework that would foster a simple, transparent and standardized securitization. We are working with all the European actors on the definition of a balanced regulation that would be able to relieve the banking balance sheets and allow banks to grant more loans to their customers.

At the same time, we will remain vigilant on definitions and labeling in regards with the adoption of common rules. These will have to take into account the operating modes of both the major European banking institutions and their customers. The rules must be consistent with the other projects foreseen by the Brussels authorities and respect a level playing field.

European deposit insurance scheme and remaining risk reduction measures in the banking sector

THE PROBLEM

From the beginning of the "Banking Union" project, the implementation of a European deposit insurance scheme has been considered as a milestone towards the return of confidence. It is the reason why in November 2015 the European Commission proposed the creation of the European Deposit Insurance Scheme ("EDIS"), third pillar of the Banking Union.

REGULATORY RESPONSE

The "EDIS" should be built progressively following three distinct steps, starting with a reinsurance scheme between domestic funds, then a co-insurance scheme and finally a fully shared insurance in the euro zone by 2024.

Simultaneously the Commission suggested areas of work to reduce the risks remaining in the banking sector and to ensure a fair level playing field within the Banking Union (reduction in the number of options and in the national leeway in the application of European prudential rules).

SOCIETE GENERALE'S POSITION

Societe Generale has actively supported the introduction of the Banking Union. Currently two of the three pillars are operational: supervision and resolution. The group welcomes these two first pillars as they enable a greater financial stability within the Euro zone and fairer conditions of competition. In this regard, Societe Generale intends to fully contribute to the public debate on the European Deposit Insurance Scheme.