MAIN PUBLIC POSITIONS OF SOCIETE GENERALE GROUP REGARDING ITS RESPONSIBLE ADVOCACY POLICY

CAPITAL AND LIQUIDITY REQUIREMENTS

PROBLEM

The latest financial crises have proven that it was important for banks to have sufficient capital and cash resources to cope with solvency and liquidity risks. Successive Basel agreements have defined increased capital and liquidity requirements for banks.

REGULATORY RESPONSE

On 7 December 2017, the Basel Committee finalized the "Basel III" scheme initiated just in the aftermath of the 2009 G20. The measures stemming from these elements will have to be transposed into European law. In order to limit the results produced by the use of internal models, the members of the committee set an "output floor" of capital at 72.5% compared to the calculations produced by the standard methods. In addition, the agreement revises the methods for calculating weighted risks by modifying the requirements for credit risk, operational risk and market risk. The new rules will apply from 2022 with a phase-in extending until 2027. The standard method is clearly reinforced by this agreement. The European texts "CRR II - CRD V", introduced in November 2016 and corresponding to a proposal to revise the transposition of the Basel III agreements into European law, are still under negotiation at the Council and the Parliament.

SOCIETE GENERALE POSITION

In calculating the risk-weighted assets (RWA) involved in the various solvency ratios, the conservation of internal models, which allow a detailed assessment of the risks borne by the banks, is essential. If the agreement around a floor at 72.5% seems to be an acceptable compromise, the European specificities must be taken into account when transposing the rules. The calibration of the different capital and liquidity ratios should not limit the ability of banks to finance the global economy.

Societe Generale group is pushing for the Basel reforms not to have a significant effect on the requirements for European banks. This is essential in a European economy which is still at three-quarters financed by the banking system. Societe Generale group supports the approach of the European Union, which has adapted Basel's logic to take into account the specificities of the continental economy, particularly regarding SMEs and the financing of infrastructures.

BANKS RESOLUTION

PROBLEM

The bailout of struggling banks by the states during the 2008 crisis was rightly deemed as problematic. To avoid this situation being repeated for banks "too big to fail", the European Union on the one hand and the G20 on the other hand have decided to put in place mechanisms for recovery and resolution.

REGULATORY RESPONSE

In terms of resolution, the major European banks are the target of overlapping regulation.

At the level of the European Union, the Bank Recovery and Resolution Directive (BRRD) lays down the principle of systematic bail-in and introduces the preference for depositors. This directive provides for each bank to put in place recovery and resolution plans. The text also imposes a minimum "bail-inable" debt ratio to be met by 2020: the Minimum Requirement of Own Funds and Eligible Liabilities (MREL). In November 2016, the European Commission published a proposal to revise certain provisions of the BRRD.

The Single Resolution Mechanism (SRM), which became fully operational on January 1st 2016, is complemented by a Single Resolution Fund (SRF) matched by banks. Some provisions of the SRM will also be subject to revision by the European Commission during 2017.

Total Loss Absorbency Capacity (TLAC) is an additional constraint that will apply to the largest international banks ("GSIBs"). The TLAC is a capital and junior debt ratio that derives from the most severe of the following two constraints:

• 19.5 to 23.5% of the RWA, including current cushion levels;

• Twice the Basel Leverage Ratio (LRE) (6% for a leverage ratio of 3%);

• Thus, from January 1st 2019, the GSIBs will be compelled to respect a TLAC equivalent to 16% RWA and 6% LRE;

• From 2022, the minimum threshold will be 18% of RWA and 6.75% of LRE respectively.

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

SOCIETE GENERALE POSITION

Societe Generale group approves the establishment of an efficient and consistent resolution mechanism that will solve the "too big to fail" problem. However, the major European banks face a triple constraint (MREL + TLAC + SRF) which strongly penalizes their ability to finance the economy and their competitiveness.

For example, it is obvious that for "GSIBs", TLAC and MREL overlap in their objectives and means. Similarly, the automatic nature of the link between TLAC and the leverage ratio is not appropriate because these two ratios have separate objectives. Regarding the SRF, the French banking industry has pleaded not to be penalized excessively compared to other states.

BANKS SUPERVISION

PROBLEM

Following the vulnerabilities identified during the euro sovereign crisis, the European response was the establishment of a single supervision mechanism in the euro zone under the umbrella of the European Central Bank (ECB).

REGULATORY RESPONSE

Since November 2014, the single supervisory mechanism has entered into force in the euro area. The 130 largest banks (including Societe Générale) are now under the direct supervision of the ECB. National supervisors participate in the process of prudential supervision and on-site inspections.

SOCIETE GENERALE POSITION

The Societe Generale group has actively supported the establishment of the SRM, which allows the ECB to progressively harmonize supervisory methods and ensure the comparability of banks from one country to another. In the long term, the SSM will ensure better capital flow and greater financial stability in the euro area.

COMPLETION OF THE BANKING UNION

PROBLEM

As the recent crisis has shown, major economic and financial shocks can undermine confidence in the banking system. The Banking Union project initiated in 2012 aims to restore confidence by establishing a European system of supervision and resolution of banks. These first two pillars must be complemented by the creation of a common deposit protection scheme, the European Deposit Insurance Scheme (EDIS).

REGULATORY RESPONSE

In its communication on Banking Union of 11 October 2017, the European Commission proposed the gradual introduction of a European deposit guarantee scheme. A first phase of reinsurance between national funds would be followed by a co-insurance phase and finally by an insurance phase fully mutualised in the euro area by 2024. The transition from one phase to another will be conditional on the completion progress in risk reduction, as assessed by an Asset Quality Review (AQR). The finalization of the banking package currently under discussion in the Council and the Parliament goes hand in hand with the completion of the Banking Union.

In addition, a single back-up security ("public backstop") network of the Single Resolution Fund (SRF) must be put in place to compensate for any lack of resources in the fund. This public backstop, which would be financed from a credit line of the European Stability Mechanism (ESM), would be fiscally neutral since any contributions from the latter would then be recovered from the banking sector.

SOCIETE GENERALE POSITION

Societe Generale group strongly supported the establishment of the Banking Union. Today, two of the three pillars are operational - supervision and single resolution - which the Group is satisfied with, as it will ensure greater financial stability in the euro area and fairer conditions of competition. To that aim, the Societe Generale group intends to fully participate in the public debate on the proposal for a European Deposit Guarantee Scheme.

CAPITAL MARKETS UNION (CMU)

PROBLEM

Contrary to the American system, the European economy is mainly financed (75%) by the banking system, against 25% for financing by the market (following Brexit, this percentage will increase to 80%). The new regulatory constraints, particularly prudential, have pushed banks to reduce their balance sheets and to engage in a vast movement of disintermediation. In this context, a transition to more market financing is underway in Europe (in France, the proportion of financing provided by the markets has already increased and is approaching 40%).

REGULATORY RESPONSE

The Capital Markets Union (CMU) project is a key initiative of the Juncker Commission. The aim is to facilitate access to the financial markets for European players. For this purpose, the European Commission published on 30 September 2015 its action plan for a Capital Markets Union in which it details the initiatives it intends to take over the next five years. Two legislative proposals were adopted during 2017: one on the reform of “prospectuses” and the other one on the revival of a so-called "simple, transparent and standardized" securitization. A second pillar will include several initiatives aimed at harmonizing the different national insolvency regimes, developing individual retirement savings product markets and launching a comprehensive European strategy for sustainable financing.

SOCIETE GENERALE POSITION

The aim of the Capital Markets Union is to provide companies, especially medium-sized companies, with complementary solutions to bank credit to finance their investments.

As a universal bank, Societe Generale has a long tradition of supporting its clients in the capital markets to help them find the financing they need. Societe Generale has well-known expertise in this area, for example in the structuring and syndication of our clients' securities issues on the markets.

Societe Generale is committed to promoting a European framework that promotes simple, transparent and standardized securitization. It is working with all European players to define proportionate regulations that can reduce bank balance sheets and allow banks to lend more to their customers.

At the same time, we will be vigilant on the definition of common rules. They will have to take into account the operating mode of the major European banking players and their customers. They must be consistent with the other projects envisaged by the European authorities and respectful of the "level playing field" (fair conditions of competition).

FRAMEWORK

PROBLEM

European and international authorities have sought 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 legislative texts to achieve this goal.

European Market Infrastructure Regulation (EMIR) aims to reduce the risk associated with OTC derivatives and imposes a clearing or exchange of collateral for all derivatives. EMIR (REFIT) is currently under negotiation in the Parliament and the Council and aims to amend the existing regulation in order to simplify some of its provisions and make them more proportional.

The Markets in Financial Instruments Directive and Regulation (MiFID II / MiFIR) pursue the goal of greater integration of financial markets and investment services in the EU by segmenting liquid financial instruments and defining transparency thresholds pre-and post-negotiation. However, due to the technical complexity of the mechanisms to be implemented to ensure the effectiveness of the regulation, the deadline for the transposition of MiFID II into national legislation has been extended to 3 July? 2017 and the date of its application to 3 January, 2018.

The European Financial Transaction Tax (EFTT) project is still under discussion between the 10 states involved in enhanced cooperation.

SOCIETE GENERALE POSITION

Societe Generale group approves the MIFIDII / MIFIR and EMIR initiatives, which are generally aimed at promoting the transparency, integrity and integration of financial markets. Regulations affecting the functioning of financial markets may, however, have counterproductive effects.

The project of taxing financial transactions is also in direct conflict with the current desire to promote market financing. In a competitive and open economy, there is a significant risk that even with a reduced rate and a very narrow base, the introduction of such a tax will result in the relocation of activities to the exempt territories. However, the current project is the result of enhanced cooperation, without the United Kingdom. In the long run, the financial transaction tax would destroy its own tax base and generate zero income. The consequences of such a tax would be very negative for the competitiveness of the continental financial centers and would deprive the European economy of the investments necessary for its recovery.

In its response to the "Call for Evidence" launched by the European Commission, the Societe Generale group highlighted the negative effects on the liquidity of the markets of the superposition of regulations, whether they relate to prudential requirements or to the functioning of the markets.

PAYMENT SERVICES DIRECTIVE AND THE FIGHT AGAINST MONEY LAUNDERING

PROBLEM

In the recent years, new players in the payments sector have developed, including providers offering to consolidate and aggregate all data from a user's bank accounts, or payment initiation services. In addition, the reinforcement and persistence of the terrorist threat led the European authorities to revisit the issue of money laundering, and its corollary, the financing of terrorism.

REGULATORY RESPONSE

The adoption of the revised Payment Services Directive (PSD 2) in October 2015 marked the end of a legislative cycle launched in July 2013 on the creation of a modern European payments framework. For the banking profession, the major subject of this review was the legal framework for the relationship between Payment Service Providers (PSPs) and banks, with the former requiring access to information from customers' bank accounts.

In February 2016, in response to the terrorist risk, the European Commission presented an action plan to strengthen the fight against the financing of terrorism, which put forward the deadline for the transposition of the 4th Directive as of 31 December 2016, initially scheduled for 26 June 2017.

On July 5, 2016, the European Commission published a proposal to revise the 4th Anti-Money Laundering Directive with the aim of further strengthening the European Union's rules to combat the financing of terrorism and increase transparency with regard to concerns beneficial owners of businesses and trusts.

SOCIETE GENERALE POSITION

It was important that these new players, called "third party PSP", be applied rules (security, accountability and transparency vis-à-vis the customer) identical to those to which banks are subject while not constituting a brakes innovation in the field of online banking and distance payments.

As far as the fight against money laundering is concerned, Societe Generale group is fully committed alongside the European and national authorities in the strict implementation of the applicable regulatory body. In addition, in an ongoing dialogue with the competent authorities, the Group participates in feedback on the measures adopted.

Regarding the fight against terrorism, Societe Generale group works with all relevant national and international authorities in the implementation of binding rules in this area.

BREXIT

PROBLEM

The United Kingdom’s outing from the European Union ("Brexit") is emblematic of the political developments that have added additional regulatory uncertainties.

REGULATORY RESPONSE

Brexit could potentially deprive financial institutions established in the United Kingdom of the financial passport that allows a financial company which has obtained authorization by the authority of its home country to operate throughout the European Union. The issue of supervision of clearing houses is also crucial as 90% of euro-denominated rate derivatives are now cleared in London. The United Kingdom's outing from the EU in March 2019 would then mean that systemic clearing houses for the euro area economy would be supervised by a third country. The proposal of the EMIR CCP Supervision Commission currently under consideration within the Council aims to establish a more uniform system of supervision of clearing houses in order to strengthen market integration and level-playing field.

SOCIETE GENERALE POSITION

Societe Generale welcomes the European Commission's proposal to revise the EMIR Regulation and, in particular, the desire to strengthen European supervision of clearing houses, including those located in third countries. The Group also welcomes the proposal to systemically subject important CCPs to more stringent requirements for exercising in the European Union.

DATA PROTECTION

PROBLEM

In a context of accelerating changes linked to digital disruption, the risks associated with digital transformation in the banking sector have multiplied. Ensuring a good knowledge and mastery of these issues is in this respect a key transformation lever for the sector, which can make this digital revolution a real source of opportunities.

REGULATORY REPLY

The General Data Protection Regulation (GDPR), which comes into force in May 2018, enshrines the primacy granted by the European Union to the protection of personal data. This is a first step in the construction of a Digital Single Market. The Payment Services Directive (PSD2), which has been in place since January 2018, makes it possible to access customer payment account data free of charge, as part of two new activities: an account information service (aggregation) and a payment initiation service with the ambition of fostering innovation for a competitive European payments market, but also of increasing the level of payment security and customer protection.

SOCIETE GENERALE POSITION

The Societe Generale group shares the objectives of the European legislator. It is indeed essential to effectively guarantee the data protection of its customers while taking care not to restrain innovation. Thus, in the PSD II discussions, the Group advocated for more opportunities for consumers, while constantly stressing the need to ensure a sufficient level of data protection. More generally, digital transformation is one of our strategic and operational priorities by 2020, with the goal of improving customer experience, operational efficiency and global security.

GREEN FINANCE

PROBLEM

As recently recalled at the Paris Summit in December 2017, finance is at the heart of the fight against climate change. More than €180 billion of green investments per year are needed today to truly ensure the transition to a sustainable economy. In this respect, the banks have a crucial role to play.

REGULATORY REPLY

At the end of 2016, the European Commission set up a High-Level Expert Group on Sustainable Finance (HLEG), which has since identified several courses of action to ensure the long-term sustainability of the European financial system. on the way to the energy transition, in particular by setting up a "green supporting factor" or a bonus / malus according to the respect of the ESG criteria. In its proposal on risk reduction (November 2017), the European Commission suggests the introduction of a reduction in capital requirements in order to stimulate "green" investment by banks ("green supporting factor"). The Commission has also proposed strengthening banking supervision to promote sustainable development and EU finance ministers are discussing the possibility of subjecting financial firms to stress tests based on their exposure to climate risks. The Commission is also working on a classification system (taxonomy) of the EU for what is considered sustainable and what it is not.

SOCIETE GENERALE POSITION

The Group is committed to doubling the amount of project financing in the renewable energy sector by mobilizing an envelope of €10 billion by 2020. In 2016, it maintained its position as one of the world leaders in intervening among other things, 100% of the European offshore wind projects committed during the year. Finally, the Group welcomes the establishment of a "green supporting factor", considering that this adjustment of prudential requirements for investments in sustainable assets will free up additional resources to accelerate the energy transition.