HCSF

Haut Conseil de Stabilité Financière

Press Release

Paris, 31 July 2023

On 7 March 2023, the HCSF announced that it was examining the introduction of a proportionate capital surcharge measure to be implemented as a sectoral systemic risk buffer, to replace the so-called Large Exposures measure (Decision D-HCSF-2018-2 of 11 May 2018). The HCSF confirmed its intention to introduce such a measure at its meeting of 13 June 2013. After consultation with European authorities, the HCSF is today publishing its decision to introduce a sectoral systemic risk buffer of 3% on the exposures of banks to large, heavily-indebted companies. This measure will come into force on 1 August 2023 and will apply for a period of two years, with the possibility of extension.

The Large Exposures measure, which was introduced in 2018 and expired on 30 June 2023, capped the exposures of French systemic banks to large, heavily-indebted French companies at 5% of eligible capital. For a number of years, the HCSF has thus been closely monitoring trends in the debt levels of French non-financial corporations (NFCs). Lending to NFCs is continuing to rise at a robust pace, driven by bank lending and lending to large companies (growth of 8.1% year-on-year in May 2023 for lending to large companies, and of 5.6% for lending to all NFCs). As a proportion of GDP, NFC debt has stabilised at a higher level in France than in other European countries (80.8% in France compared with an average of 59.7% for the euro area in Q4 2022).[1]

By replacing the Large Exposures measure with a sectoral systemic risk buffer, the HCSF is maintaining its vigilant approach, while at the same time adapting it to the new macroeconomic context marked by rising interest rates. With this measure, the HCSF aims to ensure banks can withstand the risk of a default by heavily-indebted companies. It also wants to maintain discipline in the market by alerting participants to the need to properly assess the risks posed by excessive growth in large companies' debt levels, and indirectly encourage these companies to manage their debt load. The HCSF considers that the application of a proportionate capital surcharge when the materiality threshold is exceeded is the most appropriate tool for the current macroeconomic environment. By eliminating the cut-off effect of the Large Exposures measure, the sectoral systemic risk buffer avoids any procyclical reduction in the supply of bank credit to large companies at a time of higher interest rates and slowing growth, while simultaneously having a dissuasive effect by making it more expensive to lend to heavily-indebted companies beyond a defined threshold.

This Common Equity Tier 1 buffer, which is calculated by multiplying the amount of risk exposure located in France by 3%, will apply to systemically important French banks. The

[1] Non-financial agent debt ratios - International comparison | Banque de France (banque-france.fr)

exposures taken into account are those attached to a non-financial group meeting both of the following criteria:

- after risk mitigation, the total amount of the final exposure accounts for more than 5% of the consolidated Tier 1 capital of a French systemic bank (materiality threshold);
- the non-financial group’s total debt-to-EBITDA ratio at the highest level of consolidation is strictly higher than 6 or negative.

The banks in question are responsible for identifying the counterparties concerned by the measure. The ACPR is tasked with verifying its application.

Given the very low amount of bank exposures exceeding the materiality threshold in other European countries, the HCSF has not requested a reciprocal measure.