



Conversation with Olivier B elorgey

Olivier B elorgey - Deputy Chief Executive Officer and Chief Financial Officer, Cr edit Agricole

David Wright - President, EUROFI

David Wright

Olivier B elorgey is the deputy chief executive officer and chief financial officer of Cr edit Agricole Corporate and Investment Bank. He has had a very distinguished career. He began with Cr edit Lyonnais in 1991 and moved to Cr edit Agricole around 2000 or 2001. He became head of management control at Cr edit Agricole and held a number of senior managerial positions. He was appointed head of the financial management department before becoming the chief financial officer of Cr edit Agricole CIB in 2017. He took over the supervision of procurement in 2020 and was appointed deputy chief executive officer of Cr edit Agricole in 2021.

He has a very interesting background, coming from the  cole Polytechnique and holding a postgraduate degree in – I am afraid I do not know what this is – condensed matter physics and a doctorate in sciences. You are bringing some scientific rigour to us this evening, Olivier. We welcome that, we welcome you, and we thank you for Cr edit Agricole’s support for Eurofi over many, many years, which is greatly appreciated. The first question I am going to ask you is this. What do you consider the key priorities are for Europe to restore its competitiveness and to drive private investment that is so evidently needed in many sectors of the economy?

Olivier B elorgey

Hello, everyone. Thank you, David, for this short presentation. To be honest, I have forgotten everything about condensed matter. To try to answer your question, I think that we can affirm today that the European banking

system is very healthy. It is written and disclosed in many European Central Bank (ECB) statements. When you look at the European Banking Authority (EBA) stress test, even the most adverse one, the European banking system demonstrates that it is very resilient as the Common Equity Tier 1 (CET1) ratio does not on average go below 12%, even in the worst case. We start from a very healthy situation. To be fair, I think that it is also the case in the US, for example, and the big US banks and the vast majority of US banks also very easily pass the stress tests imposed by the Fed. Today, in both jurisdictions, we are starting from a very healthy situation.

In terms of competitiveness, the question mark and the potential problem for me comes from what is ahead of us going forward. The timing of this conference is perfect, because the US has very recently released its intention and ambition and how it will transpose Basel III endgame, which will lead to a stabilisation or even a slight decrease in capital requirements starting from today, while in Europe, starting from today, the path ahead of us is an increase of capital requirement. The implementation of the input floor for the loss given default (LGD) on some assets, still means an increase in capital requirements of 10% to 15%.

In terms of a joke, let us have in mind that it is also possible to die in a very healthy position. In terms of competitiveness, we should also have in mind that over the last 10 years the gap in terms of return on equity between US banks and European banks is around 4%. It is perhaps a little bit lower today, but over the last 10 years, there is about a 4% gap in terms of productivity of capital. With the total amount of capital at the European

system level, which is around  1.2 trillion, 4% means  500 billion net profit per year. Over 10 years, that is around  500 billion of net profit that has not been generated in the banking system. If you make a very rough assumption of a payout ratio of 50%, that is  250 billion of capital that is not there today to be able to refinance the European economy.

Part of the reason why the European economy, not just the banking system, is lagging behind the US overall is the lack of capacity to finance the European economy. We also have other constraints in Europe. It is not a secret that we have a lot of barriers to cross-border consolidation, on behalf of national strategic concerns that I do not deny at all. At the same time, it seems that policymakers are less concerned about European banks losing market share on their domestic market versus American banks year after year.

In terms of a broad reflection, my question is this. It seems that we favour today local optimum in terms of sovereignty in finance, but is the sum of the local optimum in every country the optimum for the overall European banking industry and European economy? We talk a lot about sovereignty today, sovereignty in defence, sovereignty in digitalisation, sovereignty in energy, sovereignty in agriculture. We do not speak enough about sovereignty in finance. Sovereignty in finance is absolutely key for me if we want to be capable and have the capacity to finance sovereignty on other sectors. That is why we should also think about this barrier on cross-border consolidation.

David Wright

What would your priorities be, Olivier? Say you were the commissioner now and you listened to this. What do you think are the key measures to take?

Olivier B elorgey

We know that at European level we have implemented Basel III endgame, not only at the most consolidated level but also at every local level. I am sorry to be so blunt and say this, but the power of the host regulators is very important today and creates a lot of additional buffers, or needs for additional buffers. I am not a utopian. I try to be optimistic, but I am not a utopian. Removing and coming back to a regulation only at the top consolidated level is probably not reachable, but potentially for banks that are directly supervised by the ECB, meaning around 112 banks, we could think about releasing some constraints at the host level.

I will take an example. Instead of complying with 100% liquidity coverage ratio (LCR) in each of our subsidiaries,

we could potentially comply with 90% of the LCR if you are supervised directly by the ECB, and if the consolidated level is compatible with the regulation. Having to have buffers to comply in each of our entities above 100% requires you to manage at least a 110% or 120% target for each entity, which creates buffers that are not useful at the consolidated level. That is one example, to be honest.

David Wright

Would you favour a mandate being given to European banking regulators to have a competitiveness and growth objective?

Olivier B elorgey

Of course. I think that many people talk about it today. We totally welcome the request for comment from the European Commission in this regard. We will answer at different levels, the Cr dit Agricole level, French Banking Federation level, European Banking Federation level, but of course we will answer that request for comment in due time. It is essential, and we should not miss this opportunity to effectively enhance the competitiveness of the European banking sector. We must not forget the complexity that we have produced in our regulation. For us, complexity means higher burden in terms of reporting and of administrative costs. It is perhaps less common, but it also means higher refinancing costs.

I will give you an example, as a global systemically important bank (G SIB), of when you have to explain the difference to an investor. As a G SIB we are subject to total loss-absorbing capacity (TLAC) regulation, which is specific to G SIBs. Also, as a G SIB we are also subject to enhanced supervision on top of some key and specific regulation, which I totally accept. When you have to explain to investors that on top of TLAC you also have to comply with the minimum requirement for own funds and eligible liabilities (MREL), the subordinated MREL, which changes from year to year, sometimes being more binding than the TLAC and sometimes less, you spend almost all of the meeting explaining that complexity. At the end of the meeting, the investor might have understood it. The next day he might have not, and the only thing he will keep in mind is that Europe is very complex. He will then ask for a higher spread for Europe because he does not understand everything.

Complexity is something that costs us a lot in terms of expenses and refinancing costs. Another example is about the multiple layers of systemic buffers. We have the G-SIB buffer. We have the other systemic buffers. We have the systemic risk buffer, which is a European specificity. Once again, when I meet with investors, even I

have to look at my briefing notes before because I do not remember exactly what it means. It is a nightmare.

David Wright

A big effort is needed to make the rulebook clearer and simpler from your perspective, and I think many banks share that. I know you have some very interesting ideas on digitalisation, tokenisation and stablecoins. From your perspective and from the European perspective, what are the key issues here for you?

Olivier B elorgey

Thank you for the question, David. Digitalisation has been at the heart of the client journey for years, especially but not only for retail. That being said, through blockchain technology, tokenised finance creates a new ecosystem that offers large perspectives and opens the door to 24/7 potential financial services. That is why it is absolutely key for the European financial industry to invest in this technology in order to keep pace with innovation. In this regard, first of all it is effectively essential to develop a stablecoin in euro as a stake, once again, of European sovereignty.

This is in the hands of the private sector, and the Markets in Crypto-Assets Regulation (MiCA) is a good framework to be able to develop that. We are all still thinking about how it can work because we are all learning while walking, but a stablecoin could potentially offer the possibility of a new rail for payments. It can offer the possibility to have instant settlement for tokenised assets and tokenised funds. A lot of monetary funds are tokenised today, so that is why it is very important to invest in it. Today, 99% of stablecoins are dollar-denominated, and 95% are used for crypto speculation. We are convinced that it will develop for other use cases that are more embedded in the real economy. That is why it is important to European sovereignty to develop a euro stablecoin.

That being said, I think that we have to be very conscious that stablecoins are also a threat for commercial banks. If our clients switch their sight deposit from our balance sheet to stablecoin because they want to do real-time settlement it will jeopardise the stability of our sight deposit. This stability is essential. In fact, one of the major social roles of a bank in the economic system is to transform contractual, overnight sight deposits into medium and long term loans to the economy, betting on something which is absolutely demonstrated – the statistical stability of this sight deposit. If you lower the stability, if you decrease the amount of our sight deposit on our balance sheet, it will jeopardise our capacity to finance the European economy.

That is why it is also a potential threat. That is why at the commercial bank level we also try to develop what we call tokenised deposits, so a tokenised form of deposit on our balance sheet. Once again, we would propose 24-hour operation eventually. It will not be operational tomorrow, but the idea is to be able to offer our clients, through this tokenised deposit, a way to have an uninterrupted financial service 24 hours a day, seven days a week. That is what we are trying to build today. I think that stablecoins could also be a threat for central banks if instant payments develop outside of central banks. That is why it is also key for us to avoid remuneration on stablecoin, and also to continue to think about regulation of this new ecosystem.

David Wright

Olivier, your comments are most interesting. We will have to close now because of a very tight timetable. Please come and participate in Dublin. Our next meeting will be in Dublin, and I hope we can continue this conversation to talk about other things like payments. We did not quite get there, but I know you have a lot of interesting views about that. Thank you so much. I think everybody has learned a lot. Thank you again for Cr dit Agricole's support of Europe, and we look forward to seeing you physically in Dublin. Thank you so much.

Olivier B elorgey

My pleasure. Thank you very much, David.