French Association of Large Companies

Roadmap for financing the economy

The Letta, Noyer and Draghi reports make **identical observations**:

- **A loss of competitiveness for the European Union**, particularly vis-à-vis the United States including on capital markets.
- **Colossal financing needs** (innovation, double transition, strengthening the Union's defence capabilities).
- **Abundant savings that are not optimally allocated**.

With a view to **operational implementation over 18 months**, it is important to focus on the key measures that can be implemented quickly:

- **Reviving securitisation**
- **Mobilising savings**
- **Reforming regulation and supervision**
- **Simplifying sustainable finance**

In order to make progress on these issues, **political pressure is needed at the highest level**.

I. The conditions for success

– A change of mindset is needed: the European Commission's consumerist policy, centred on a certain conception of the protection of retail investor, is partly responsible for the current situation. It's time **to face up to the fact that if we want to finance the economy:**
  - **European markets must be attractive.**
  - **European financial players must be competitive and profitable.**
  - **European authorities, institutions and retail investors must be encouraged to take greater risks**.
  - The European Union needs to **attract more investment** for its businesses and projects.

– The Savings and Investment Union will not be achieved without **a significant improvement in the European Union's competitiveness and productivity:** savings will only remain or be invested in Europe if the European economy is attractive, growing and if there are projects in which to invest.

– It is also essential to **mobilise as many Member States as possible**. Not all Member States are interested in the development of the financial sector, at least not to the same extent as France or Germany. It will therefore be necessary to **find a way involving (or *at least* neutralising the possible opposition of) these Member States**, by favouring coalitions of the willing on some topics.

- Finally, it is important **not to adopt measures aimed only at developing or financing green projects** but to work towards financing the European economy, and **to avoid any measures that run counter to** the objectives pursued:
  - **Avoid penalising debt and interest deductibility** through tax measures.
  - **Not relaunch the proposed European tax on financial transactions and avoid making it worse domestically**.
  - The Commission's proposal for a Retail Investment Strategy is a source of operational red tape, will discourage risk-taking and **encourage the development of index funds, which invest very little in European assets**.
  - Do not adopt measures **that discourage risky long-term investments** by institutional investors.

II. Developing the European securitisation market

- **European securitisation** is losing ground compared with the world's major economies. **There is an urgent need to reform the regulatory framework (CRR, Solvency II, etc.) to relaunch the European securitisation market**.

- **Two actions** must be carried out in parallel without **creating links or dependencies between them**:
  - An essential need to **review the regulatory and prudential treatment of securitisation**, an action that could be carried out in a relatively short space of time as there are currently no obstacles other than the political will to make the current framework more flexible.
  - The issue of **the European platform**, proposed by the Noyer report, which raises more fundamental and political questions, and **could take longer to set up**.

- **It is also necessary to overcome the resistance** that exists at European level (**European Commission**, **supervisory authorities** and **European Central Bank)** and **resist the temptation to earmark securitised assets or paid-up capital**, the allocation of which must remain determined by the rational decisions of the economic players involved.

- AFEP responded to the European Commission's consultation and supports the measures proposed by Paris Europlace**:**
  - **Reduce the capital charge for banks and insurers**.
  - **Increase the potential investor base by improving eligibility of senior tranches of securitisation transactions (STS and non-STS) for liquidity ratio purposes.**
  - **Streamline reporting and due diligence requirements for investors.**
  - **Simplify the regulatory framework for STS securitisation (simple, transparent and standardised).**

III. Mobilising savings

- AFEP supports the **creation of a long-term savings/retirement savings product invested mainly in the EU** (a kind of PER or equity savings plan), based on the Noyer report's proposal to **create a European label.**

- **The development of employee share ownership would represent considerable leverage in terms of mobilising savings.** The objective is to allow European companies to launch employee share ownership plans open to all European subsidiaries, with the same advantages as in the country of origin. The development of employee share ownership in Europe could be supported by **a recommendation from the European Commission** aimed at harmonising the main features of employee share ownership schemes: see AFEP's position on this subject.

IV. Reform regulation and the European supervisory authorities

AFEP supports **targeted measures** on the following points:

- **Integrate competitiveness more fully into the European Commission's impact studies.** The preservation and strengthening of the European Union's competitiveness should be the subject of a specific and systematic analysis in the Commission's impact studies carried out prior to any proposal for legislative measures.

- **Include competitiveness in the remit of the European supervisory authorities.** The remits of the 3 authorities (EBA, EIOPA and ESMA) would be extended to include competitiveness in their strategy and actions, along the lines of what has been done in the United Kingdom for the market (FCA) and prudential (PRA) regulators.

- **Combat fragmentation and divergent approaches to supervision at European level** by moving towards more integrated supervision, notably by recognising the notion of a group for pan-European operators such as asset managers or market infrastructures. In particular, cross-border market operators must be allowed to operate fully as integrated groups, to level the playing field and facilitate internal outsourcing.

- **Strengthen the power of the** European supervisory authorities' **"*no-action* letters"**. This power was introduced in the last reform of the authorities, but its scope was limited. **We need to go further**.

V. Simplifying sustainable finance

See AFEP's position on this subject, on conceiving the upcoming omnibus proposal – expected in February 2025 – as a tool for European competitiveness

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ABOUT AFEP

Since 1982, AFEP brings together large companies operating in France. The Association, based in Paris and Brussels, aims to foster a business-friendly environment and to present the company members' vision to French public authorities, European institutions and international organisations. Restoring business competitiveness to achieve growth and sustainable employment in Europe and tackle the challenges of globalisation is AFEP's core priority. AFEP has 118 members and represents one-third of Europe's 60 largest companies. More than 8 million people are employed by AFEP companies and their annual combined turnover amounts to €2,600 billion. AFEP is involved in drafting cross-sectoral legislation, at the French and European levels, in the following areas: economy, taxation, company law and corporate governance, corporate finance and financial markets, competition, intellectual property, digital and consumer affairs, labour law and social protection, environment and energy, corporate social responsibility and trade.

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Transparency Register identification number: 953933297-85