Amafi
Association française des marchés financiers

Financial Newsletter

INTERNATIONAL AND FRENCH MARKET NEWS

December 2018 **No36**

Editorial

Highlighting the role played by markets in financing the economy has been one of AMAFI's key action areas for many years. One important way in which we are pursuing this goal is by working to improve the capacity to provide small and medium enterprises (SMEs) and mid caps with the sources of capital they need to grow. This newsletter features stories about initiatives being taken forward to this end. We talk about the work being done to update liquidity contracts and regulate the cyber-asset market. You can also read about the SME Growth Markets project and our annual survey of savings taxation, which spotlights the challenges associated with this crucial issue. The government shares our concerns, some of which are addressed by measures contained in the draft legislation on business transformation and growth - the PACTE Bill - which is currently before Parliament. In addition, in October, Bruno Le Maire, France's Finance and Economy Minister, asked Philippe Tibi, AMAFI's previous Chairman and currently Pergamon Campus Chairman and Professor of Economics at Ecole Polytechnique, to examine the obstacles preventing SMEs and mid caps from listing and enjoying long-term growth on financial markets. Based on the review, Mr Tibi will make recommendations aimed at removing these obstacles. We will of course be providing our input to his review and recommendations. However, as Chairman of AMAFI between 2007 and 2014, he understands our areas of concern perfectly, having led many different initiatives in this field. Looking ahead, these elements will also inform discussions being led by AMAFI in relation to the Capital Markets Union (CMU). CMU is a critical initiative if we want a financing model for the economy that features a bigger role for markets. Reviving it must be a central concern for the next European Commission.

Bertrand de Saint Mars
AMAFI Chief Executive

Sustainable Finance:

Profitable pathway to a better future

Feature

The world is getting to grips with the challenges of sustainability. Financing this effort is critically important. And sustainable investing is already worth a staggering $23 billion globally. France is working hard to maintain and grow its position as world leader in this crucial area.

With balanced development now a key global challenge, sustainable finance has become a mainstream issue, worth $23 billion annually. Even so, a financing gap remains if sustainability targets are to be met. The United Nations Secretary-General recently unveiled a strategy for attracting and directing finance to achieve that organisation's Sustainable Development Goals. Central banks and supervisors, including the Banque de France, the European Central Bank and the Bank of England, have set up a worldwide network for greening the financial system. And the European Commission launched its own sustainable finance action plan in March of this year. The Paris financial centre is equipped to play its part in the opportunities generated by the push towards sustainability. ▸

Feature

Sustainable or green. What's in a name?

It's easy to lose your way in the dense thickets of jargon surrounding sustainability. But although green finance is often lumped together with sustainable finance, the latter actually has a far broader scope. Sustainable finance is based on a long-term ethical vision of financial investment that seeks a balance between generating profit and making a positive social and environmental impact. In practice, the sustainable finance umbrella includes socially responsible investing (SRI), which includes environmental, social, ethical and governance (ESG) factors, along with inclusive finance and micro-credit. It also encompasses green finance, which in turn comprises investments to promote the transition to a low-carbon energy future as well as environmentally focused investment funds. The ESG criteria form the bedrock of sustainability analysis. Sustainable finance and green finance are often conflated, probably because more headway has been made in green finance than in any other area. And a good thing too, because the stakes could not be higher: the challenge is to support the energy transition in a bid to hold the global temperature rise by 2100 to two degrees Celsius – rather than the four- to six-degree increase that the scientific community is warning of. That means, for example, redirecting financing into green bonds and getting investors interested in sustainable investment products.

A look at sustainable investing approaches reveals plenty of variety. The earliest methods involved negative screening, where investors sought to avoid specific sectors of the economy, such as fossil fuels because of their polluting effects. Some investors now prefer to hold a diversified portfolio and encourage all sectors to adopt improved ESG practices under a best-in-class approach, picking stocks with top ESG performances. Others prefer a thematic approach and invest in products that incorporate the UN's sustainability goals, while applying an ESG screen. Clearly, there is more than one route to sustainability.

Paris, an international leader in green finance

"The Paris marketplace has positioned itself as an international leader in sustainable finance and particularly in environmental finance," says Paris Europlace Chairman Arnaud de Bresson. "We are now on a par with China and ahead of the United States in green bond issuance." Between 2009 and 2017 total fundraising through green bonds came to $33.7 billion in Paris compared with $15 billion for New York and $13 billion for Frankfurt over the same period. French firms are also front-runners when it comes to sustainable finance in asset management, bank savings products, insurer investments and dedicated funds. France is determined to maintain and grow this leadership position. On 14 June 2017 Paris Europlace launched the Finance for Tomorrow (FFT) initiative, designed to build on the 2015 Paris Climate Agreement and work towards the UN 2030 Sustainable Development Goals. FTT brings together private, public and institutional members of the Paris financial community who want finance to play its part in creating a sustainable future. Under the chairmanship of Philippe Zaouati, CEO of the SRI specialist Mirova, the FFT has three main aims: set Paris apart with its high-quality quality products and expertise, unlock synergies to build a dynamic ecosystem, and organise efforts to increase France's influence in green and sustainable finance. But growing the Paris ecosystem is not enough. Green finance itself also needs to be developed. Here, the FFT is focusing on three areas. Strengthen climate reporting on the basis of Article 173 of the 2015 Energy Transition Act, which requires institutional investors to disclose their carbon impact. Promote ESG-compliant investments, which now account for 30 per cent of employee savings schemes but just 3 per cent of other retail investments. And leverage private finance by tapping into the government's five-year plan worth €57 billion, including €20 billion for the energy transition.

A guide to foster sustainable finance

On the business side, while sustainable finance has been around for over 15 years, a major shift occurred three years ago as investors grasped that profitability and sustainability could be paired. Meanwhile, mounting challenges in terms of financing the energy transition, corporate social responsibility (CSR) commitments in the business sector and demand from investors for better portfolio management have all combined to create substantial and rising demand for sustainable finance. Hugues Delafon of Crédit Agricole CIB's Sustainable Banking team, says: "Since 2015 we've seen growth in issuer supply of sustainable financial products, especially green bonds, in response to high investor demand. At the same time, more and more investors are paying attention to ESG criteria, regardless of whether they are specifically planning to invest in sustainable finance, because the environmental and social transition is creating risks and opportunities that have a direct bearing on financial asset performance. Sustainable investment is no longer a niche; it's a broad-based trend that forms part of the hunt for financial returns".

This adds even more weight to the case for facilitating and promoting sustainable investment, particularly by removing practical and regulatory obstacles. In the wake of the subprime crisis, regulators brought in rules to tackle the complexity of financial products, which had been identified as a key factor in the meltdown. Nowadays, end customers have to be able to understand the workings of the products that are sold to them. The hitch is that in some cases ESG criteria cannot be properly applied precisely because they introduce an additional layer of complexity. To solve this issue, AMAFI and the French asset management association, AFG, have teamed up to prepare a guide explaining how financial products, such as debt securities and structured funds, whose underlying assets are ESG indices, can be covered by an approach compliant with the complexity requirements laid down by the French securities regulator, the AMF. The new guide, which has received the regulatory green light, is designed to provide greater security when these products are marketed. Hopefully it will lead to tailored responses that ultimately encourage more sustainable investment. "Since July, when the guide came into effect, we have received several requests, which shows that the mechanism is working," says Julie Ansidei, in charge of strategy and sustainable finance at the AMF's Regulatory Policy and International Affairs Directorate. "We have allowed some products to be released but blocked others because they were too complex. And we are keeping a close eye out for greenwashing, where investment products are falsely portrayed as being environment-friendly." On the latter point, the AMF is getting help from the industry, which is also doing its part to make sure that investments actually live up to their eco-friendly claims and are not simply given a green sheen. Some firms go even further. Société Générale's Isabelle Millat talks about how her sustainable investment solutions team not only checks for positive effects but also ensures that funded projects have no adverse impacts. A wind turbine is great, for sure. But is it located too close to people's homes? Will it harm the local ecosystem?

France's cutting-edge rules

The AMF is actively promoting the development of the Paris market. "Since our first SRI and CSR studies back in 2010 and 2013, we have been promoting high-quality disclosure and fostering best practices," explains Ansidei. "We moved up to the next level with Climate Finance Day in December 2017. At the start of this year, we set out our commitment by making sustainable finance one of the key action areas in our five-year strategic vision. Our role is to support innovation, raise awareness and encourage firms that have made the least headway. We also provide information to retail investors." The challenges are daunting because the regulator needs not only a firm hand to maintain confidence in sustainable finance but also a light touch to avoid hampering a fast-changing market. The AMF is also taking part actively in European initiatives, including the new action plan by Brussels to finance sustainable growth. On 8 March 2018 the European Commission unveiled its action plan for a greener, cleaner economy. In the press release announcing the plan, the Commission wrote: "Around €180 billion of additional investments a year are needed to achieve the EU's 2030 targets agreed in Paris, including a 40 per cent cut in greenhouse gas emissions." The main action areas include establishing a unified EU classification system – or taxonomy – to define what is sustainable and identify areas where sustainable investment can make the biggest impact, creating EU labels for green financial products, making asset managers and institutional investors to incorporate sustainability into their investment process, and requiring insurance and investment firms to advise clients on the basis of their sustainability preferences. "Right now, France is the only country that encourages institutional investors to engage in regular climate reporting, that is, to publish a report on how ESG criteria and climate risk are factored into their investment policy," says Arnaud de Bresson. With its lead in sustainable finance, France welcomes the new Commission's plan, which it partly inspired. "The Commission took many existing provisions from French regulations, which are among the world's most advanced. It also addresses our concerns about green bonds. The only downside is the obligation for investment firms to take account of client ESG preferences. Implementing the Markets in Financial Instruments Directive was a major undertaking. The dust has barely settled on the directive and already the obligations have been revised. We are keenly aware of the operational difficulties that this is causing, and we recognise the need to be pragmatic," notes Julie Ansidei.

Time is running out. With the European Parliament set to hold elections next May, Brussels needs to quickly make headway so that as many changes as possible can be set in train before polling begins. These are important days for sustainable finance, and huge sums are in play, both in Europe and globally. Whatever happens, France has the expertise, industry skills and regulatory framework needed to make a significant contribution at a time when the world is seeking a profitable pathway to a more sustainable future.

Olivia Dufour and George Fowler

News

International

ICSA – OECD gathering

The International Council of Securities Associations (ICSA) met with the Organisation for Economic Cooperation and Development (OECD) for the first time in Paris in late September. ICSA's delegation, led by its chairman, Pierre de Lauzun, held talks with Greg Medcraft, head of the OECD's Financial and Enterprise Affairs Directorate, and his team. The aim was to gain a better understanding of the work being done by the OECD to identify potential cooperation opportunities. Director Medcraft explained his directorate's priorities which include blockchain, infrastructure financing and sustainable finance. Based on the discussions, ICSA can now determine how best it can contribute actively to the OECD's work.

Arnaud Eard

Europe

Brexit Access to central counterparties

Derivatives perform a critical function by enabling companies and investors to hedge risks. Right now, though, the only effective clearing solutions for many of these products are located in the United Kingdom. Given this situation and the prospect of a hard Brexit, and assuming a transitional solution is not implemented, it is important to assess how an inability to access UK central counterparties (CCPs) after 29 March might affect the capacity to finance the economy and financial stability.

This was the focus of a position paper published by AMAFI mid-October *(AMAFI / 18-59)*, which sought to raise awareness of the issue among European decision makers. This concern seems to have been taken into account by Commissioner Valdis Dombrovskis, who said in an interview with the *Financial Times* in late October that the Union would have to temporarily recognise UK CCPs if no agreement was reached. This decision was then repeated in a communication published by the European Commission on readiness for the UK exit. Meanwhile, ESMA published a release in late November in which it said that it supported the Commission's approach and that it had already begun working with UK CCPs to prepare for their temporary recognition on 30 March 2019.

Arnaud Eard

EFSA meeting in Paris, 5 October 2018

AMAFI welcomed its sister organisations from the European Forum for Securities Associations (EFSA) for a meeting in Paris on 5 October. The gathering provided an opportunity to discuss member priorities amid mounting uncertainty surrounding Brexit and the possibility that the UK might leave the EU without a deal. Talks covered issues such as MiFID 2 implementation, the review of the prudential regime for investment firms, the regulatory framework for cyber-assets and the fight against financial crime. Participants also agreed to step up collaboration in light of the forthcoming MAR and PRIIPs reviews and the elaboration of ESMA's Q&As.

One of the sessions included a discussion with Natasha Cazenave, AMF Deputy Managing Director with responsibility for the Regulatory Policy and International Affairs Directorate, which addressed the AMF's five-year strategic priorities and key reforms ahead at European level. The next EFSA meeting will be hosted by the Association for Financial Markets in Europe (AFME) in London in May 2019.

Arnaud Eard

News

Europe

MiFID 2

AMAFI has updated Annex 3 of its guide to implementing product governance obligations *(AMAFI / 18-60)*, which provides a template for the reports that distributors are required to send to manufacturers about sales outside the target market. AMAFI is working to promote its approach and model within the European Working Group (EWG), a panel of European financial participants in which AMAFI is extremely active.

Pauline Laurent, Blandine Julé

Market access for SMEs and mid caps

AMAFI sees financial market access for SMEs and mid caps as a central issue for the implementation of the Capital Markets Union initiative. After the European Parliament vote and while Council currently discussing a draft regulation on SME Growth Markets, AMAFI considers steps are needed to align pan-European market practices and safeguard investor interests.

With this in mind, AMAFI has been reaching out to the MEPs involved in the negociations and to the French Treasury, pointing out that the exclusion from the market soundings framework should apply to all issuers, that all issuers should benefit from liquidity contracts, and that the European model should apply only where there are no national practices. AMAFI also stressed the need to amend the MiFID 2 regime to introduce more proportionality, with a view to encouraging funding of research for the SME and mid cap market. The ECON Committee, voted on its position on 3 December, which have integrated AMAFI's main points.

Arnaud Eard

PRIIPs

AMAFI released an update of its PRIIPs Q&A *(AMAFI / 18-61)* at the end of October. The update's main aim is to incorporate Q&As published in recent months by the three European Supervisory Authorities (ESAs). Accordingly, it clarifies the options for wording Key Investor Information Documents KIDs to suit over-the-counter derivatives as well as the procedures for calculating costs when the intermediate performance scenario features a negative or zero outcome. Clarification also covered procedures for drawing up KIDs for products with a very short maturity, after the ESAs upheld AMAFI's initial position on this point *(AMAFI / 17-12)*.

Pauline Laurent, Blandine Julé

Prudential treatment of investment firms

In late September, the European Parliament's Committee on Economic and Monetary Affairs (ECON) adopted a report on the prudential treatment of investment firms. The Parliament took into account several requests made by AMAFI, notably concerning remuneration arrangements and assurances that the future framework for investment firms would be equivalent from a risk perspective to that applicable to credit institutions under the Capital Requirements Directive and Regulation. Other aspects, such as the possibility of conducting supervision on an exclusively consolidated basis, have not yet been addressed. As part of work led by its Board, AMAFI has sent the French authorities proposed amendments to the report *(AMAFI /18-65)*.

**Emmanuel de Fournoux,
Thomas Cuvelier, Mehdi Ounjema**

News

France

Brexit

The French government is getting ready for the possibility of a "hard" Brexit in which the UK leaves the European Union without a withdrawal agreement. To this end, legislation in being prepared so that measures can be introduced by executive order *(ordonnance)*.

One issue that arises in this regard concerns the possibility of facilitating the intra-group replication of existing market master agreements with European clients by means of a "transfer" from a UK entity to an EU27 entity. This was one of the measures relating to financial services recommended by the Haut Comité Juridique de Place (HCJP), a high-level committee formed to address legal issues affecting the French financial community, in its 15 October 2018 Brexit Report on banking activities and investment services. To implement this measure from a civil and financial law perspective, the HCJP has set up a taskforce in which AMAFI is participating. The aim is to complete the work quickly so that it can be developed into executive orders that may potentially be used by the government.
Sylvie Dariosecq

Liquidity contracts

In early July, following several months of discussions with AMAFI, the AMF issued Decision 2018-01, amending the accepted market practice under which liquidity contracts are implemented in France. Since then, AMAFI has organised its work around two main areas.

First, AMAFI has updated its standard liquidity contract, releasing a new version at the end of November *(AMAFI / 18-67)*. Although the AMF decision did not entail many changes, the amendments did require multiple discussions, with both the Liquidity Contract Group and various AMF departments. An update of the accompanying comments to the contract will be published in December to provide guidance to users of the standard contract.

Second, AMAFI has been drafting a memo to clarify potential ambiguities arising from the AMF's decision and to establish a non-exhaustive typology of situations justifying non-compliance with the restrictions, with a view to streamlining the documentation to be produced in different situations as required by the AMF decision. Talks are ongoing with the regulator on this point.
Bertrand de Saint Mars, Sylvie Dariosecq

Regulating the cyber-assets market

In early October, France's National Assembly adopted the Action Plan for Business Growth and Transformation (PACTE) Bill at the first reading. The bill's many provisions include measures to regulate the initial coin offering (ICO) market as well as the secondary market in these assets and the activities of cyberasset services providers. The new framework, designed to increase the attractiveness of the Paris financial centre, is unusual in being optional and proportionate to the risks linked to these activities. Through its discussions with the French Treasury and the AMF, AMAFI is actively involved in creating the proposed new framework, which is broadly consistent with its recommendations and analyses *(AMAFI / 18-47)*.

AMAFI will use the opportunity presented by discussions to be held within the Senate in early 2019 to make new proposals to improve the arrangements, based on work it is conducting within a special group.
Emmanuel de Fournoux, Thomas Cuvelier, Mehdi Ounjema

News

Taxation

AMAFI's 2018 survey: savings taxation and business financing

AMAFI publishes an annual survey of savings taxation and business financing to assess France's attractiveness in terms of financing the economy. The 2018 edition takes account of far-reaching changes introduced in late 2017 by France's lawmakers to steer savings towards business financing.

The main findings are as follows:

- 24.50% of household financial investments are in shares, a marked 10% increase but one that reflects market growth rather than a behavioural shift.
- Savings taxation is now clearer and simpler thanks to the new flat-rate withholding tax. What is more, three savings categories are being promoted because they are taxed below the flat tax's 30% rate, namely regulated savings, life insurance and some equity investments, such as standard and SME-focused equity savings plans. It is too early to say however whether the mandatory contributions that France levies on capital, when expressed as a percentage of GDP, will come down to the European average. In the last 15 years, France has been two points above the average and up to four points above the German rate.
- French tax treatment is becoming competitive again in business financing thanks to a combination of recently adopted measures, including a phased reduction in the corporate income tax rate, the scrapping of the 3% dividend tax and introduction of the flat tax. By 2022, the competitiveness gap separating French companies from businesses in the UK and Germany should have closed.

However, the 2018 survey also highlights the contradictions contained in a framework that maintains obstacles to the growth of equity savings plans, even though these products are vital to harnessing domestic savings to finance the economy. AMAFI, which has been warning about this issue since last year, has shared its concerns with Albéric de Montgolfier, the Senate's General Rapporteur for the Budget. During the review of the 2019 Finance Bill, the Senate Finance Committee adopted a correction. As this newsletter went to press, Parliament was still debating the 2019 Finance Bill, so final adoption of the measure remains to be confirmed.

The 2018 survey is available on AMAFI's website *(AMAFI / 18-64)*.

Eric Vacher

Amafi Highlights

Amafi Staff

There were more changes to AMAFI's team of full-time staff at the close of the year, with three departures and five new faces. The team has seen large-scale renewal in 2018, prompted by a combination of individual decisions and career moves.

Sylvie Dariosecq, Head of Legal Affairs, left AMAFI in late December to pursue other activities. Her position has been taken by **Claire Boiget**, who arrived at the start of the month. A member of the French, English and Californian bars, and the holder of a post-graduate degree in general private law, Claire worked for over 11 years in London with a number of financial institutions, specialising in asset management, before joining HSBC Bank plc in Luxembourg.

Chloé Gonzalez, Adviser – Legal and Compliance, is leaving AMAFI in early 2019 to join Unicrédit France as Compliance Officer. In mid-December, **Sarah Bourgeat** came onboard as Adviser – Legal Affairs. Holding a Master's in Business Law – Financial Sector from University of Toulouse, she has had a number of placements with legal practices and has also worked at BNP Paribas CIB.

The Market Activities Unit led by Emmanuel de Fournoux was bolstered in early October by the arrival of **Thomas Cuvelier**. The holder of a Master's in International Affairs from Sciences-Po Aix, which included job placements with CACEIS Bank and AFTI, Thomas will provide support to Mehdi Ounjema.

The Secretariat Unit led by Corinne Chassagne is also seeing changes, with **Sylvia Giannone** leaving in mid-November to begin a new professional career. **Géraldine Lomboto** arrived in mid-October and **Tracy Marius** at the start of November to strengthen the unit.

Personally, and on behalf of the entire team, I would like to wish Sylvie, Sylvia and Chloé every success in their personal and professional endeavours. Sylvie, in particular, has been with us since May 2006, and her departure signals the end of an era not only for AMAFI, but also for the Legal and Corporate Finance Committees. The warm send-off that she received from the members of those committees is a glowing testament to her contribution to our organisation.

Bertrand de Saint Mars

Contacts

For further information about any of the topics discussed in this Newsletter, contact the person(s) named at the bottom of the article in question. Dial (+ 33 1 5383) followed by the extension number, or send an email.

- **Philippe Bouyoux**
  Ext. 00 84
  pbouyoux@amafi.fr
- **Thomas Cuvelier**
  Ext. 00 86
  tcuvelier@amafi.fr
- **Sylvie Dariosecq**
  Ext. 00 91
  sdariosecq@amafi.fr
- **Arnaud Eard**
  Ext. 00 75
  aeard@amafi.fr
- **Emmanuel de Fournoux**
  Ext. 00 78
  edefournoux@amafi.fr
- **Chloé Gonzalez**
  Ext. 00 76
  cgonzalez@amafi.fr
- **Blandine Julé**
  Ext. 00 81
  bjule@amafi.fr
- **Pauline Laurent**
  Ext. 00 87
  plaurent@amafi.fr
- **Alexandra Lemay-Coulon**
  Ext. 00 71
  alemaycoulon@amafi.fr
- **Mehdi Ounjema**
  Ext. 00 73
  mounjema@amafi.fr
- **Eric Vacher**
  Ext. 00 82
  evacher@amafi.fr

Director of Publication: Bertrand de Saint Mars
Editor: Philippe Bouyoux
Writers: Olivia Dufour and George Fowler
Design: C'est tout comme - **Layout:** Sabine Charrier
ISSN: 2557-5317
AMAFI documents quoted in this Newsletter and flagged with a reference number are on our website at
www.amafi.fr
Most of them, notably AMAFI's responses to public consultations, are freely available, but some are restricted to members only.

ASSOCIATION FRANCAISE DES MARCHÉS FINANCIERS
FRENCH FINANCIAL MARKETS ASSOCIATION
AMAFI
13, rue Auber – F-75009 Paris
Phone: + **33 1 5383-0070**
Fax: + **33 1 5383-0083**
www.amafi.fr
Follow us on Twitter: @AMAFI_FR