



# ANDRÉ LÉVY-LANG

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## Jean-Claude TRICHET

The last word in the introductory exposition is given to André.

André is, correct me if I am wrong, Chairman of Les Echos, of the supervisory board, Vice Chairman of the Supervisory Board of Rothschild and Company, former Chairman and CEO of Banque Paribas, and you are also in a very great number of non-profits, where I can see you are particularly active.

## André LÉVY-LANG

Yes, thank you Jean-Claude. I would like to take the micro approach and say a few words on the impact of the new environment on the financial institutions, especially in Europe, and the way that they fund the real economy.

As John Lipsky mentioned, we have had an avalanche of regulations since 2008, and still it is probably incomplete. The point I would like to stress first is that we do not have an even playing field, obviously, because the US has really restored the health of its banking system. In Europe, there are a variety of situations. In France, the banking system is in very good health, but there are countries where that is not clearly the case. That is the first point.

The second point is that, as you probably know, the European economy, especially the continental one, is funded up to 70-80% by bank credit, and the rest is market. In the US, it is the reverse: market financing is extremely important. Banking credit is extremely important.

Now, what is the substance of these new regulations?

- 1) Leverage. Reduce leverage, more equity.
- 2) Reduce transformation. Borrowing short to lend longer term.
- 3) Specific investments are especially penalised in terms of equity requirements, especially stocks.

There are several consequences. First, banking credit is more expensive by structure for that reason. Second, banks and insurance companies are no longer active players in capital markets and they used to be one of the stabilising forces in capital markets, which leads to my first comment or worry, which is the liquidity of capital markets. We have very volatile environments, as we all know, and there is a huge amount of liquidity, supposedly, around, because of the policy of central banks. However, it does not seem to show clearly on the capital markets.

In the case of the bond market, the impression, I am sure it cannot be official position, the impression is that the central banks do play a role in watching the bond markets. I guess the recent reaction to Brexit or to Trump's election was proof that there was no major reaction on the bond market.

On the equity market, the situation is different. First of all there is a huge concentration of investors, the number for BlackRock is EUR 5 trillion. That is the largest fund manager in the world.



The second, less known, problem is the role of exchange traded funds, so-called trackers. These are raised to invest in indices, a variety of indices, at a very low price. Trackers are managed by investment banks, and by definition, two things, first they have to buy and sell on the markets and therefore are, I believe, pro-cyclical instruments. By the way, the amount of trackers outstanding today was over EUR 3 trillion. A huge number. Secondly, they do not play the role you would expect in terms of company governance, because their investors are not interested in the companies. As a result, one of the functions of the capital market, as a monitor of governance, does not work anymore.

I am worried about that side of it. I will come back to Europe and to the banking sector.

One of the problems that we have is that the European banking authority has been a very good student of the rules, perhaps a too good student of the rules, set up by Basel and by the Council for Financial Stability. They have tried to be overreacting, so in a number of areas I believe that we have gone too far. There was a question recently on Italy with the famous bailing-in question, and there is a problem.

To complete this side of my introduction, I believe that European banks globally suffer from a suspicion on their health, which again in some cases may be justified but in many cases is not justified, and I think one of the key issues we have today is to restore this faith and find ways not to be too strict, too orthodox, in the way we do it, because clearly it is very important for the real economy to do it.

I do also believe that completing the plan for European banks within the ECB is very important and has to be done, it is still not complete.

One final point which I think is a small element of optimism, I find that there is a fantastic degree of interest and development in start-ups in Europe, especially in France, which is new. I hope this will be helped if we have a new government which removes some of the obstacles from a tax standpoint. Especially in the area of finance, there is a growth of the so-called FinTech companies, start-ups, which is very encouraging. It means that there will be, and there already are, gains in productivity in this whole sector which I am sure can use them.

I guess that I am under the eight minutes Jean-Claude?

#### **Jean-Claude TRICHET**

You are all exemplary speakers, I have to say, I am absolutely amazed. This is the first time that I see that all introductory expositions are extremely concise and full of messages. Thank you very much.