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The ACPR announces a reduction in the risk weighting of exposure to French local authorities to 0% and HQLA 1 eligibility for debt issued by the bank of local authorities

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In its decision of 21 June, the Supervisory Board of the Autorité de Contrôle Prudentiel et de Résolution (ACPR) announced that the risk weighting for exposures to French local authorities has been reduced from 20% to 0%. This change means that AFL's debt will now qualify as HQLA 1.¹ AFL has long been in favour of aligning the prudential treatment of French local authority exposures with that of sovereign risk.

French local authority risk now assimilated to sovereign risk

The ACPR decision of 21 June 2024 places French local authorities on the same level of risk as the French State. This means that the risk weighting for exposures to local authorities and their tax groups is now 0%. This weighting means that the debt issued by local authorities is recognised as being in the lowest risk category among the various issuers.

The first consequence of weighting the debt of local authorities on the same level as the French State is to make this debt more attractive, more liquid in times of crisis and therefore less costly.

The second consequence of the change in the risk weighting of local authority debt to 0% is the classification of securities issued by AFL as level 1 HQLAs (high-quality liquid assets). This makes the debt issued by AFL more attractive on the debt market.

The various prudential rules applicable to credit institutions require compliance with a number of ratios. Among them, the **capital adequacy ratio** sets the amount of capital that each institution must hold in relation to loans granted, weighted according to the level of risk associated with the borrower. A high weighting means that more capital must be set aside for the same amount of credit.

Until now, loans granted to local authorities have had a risk weighting of 20% under the standardised approach. The move to 0% recognises the excellent creditworthiness of French local authorities.

Long-standing battle by AFL and local authorities

Since AFL's creation 10 years ago, the bank for local authorities has fought for fair treatment of local authorities in relation to the French State in terms of prudential

¹ Subject to the condition that AFL's 0%-weighted loans to local authorities remain at least 90% of total outstanding loans at all times.

banking regulation of their debt. For more than 10 years, AFL has been calling for local authority debt to be weighted in the same way as that of the French State. This measure of equity would put French local authorities in a situation comparable with that in force in most European countries.

Local authorities, through national associations of elected representatives, expressed support for AFL's request in a joint statement issued in 2019. The statement argued that "French local authorities account for 70% of French public investment and, because of the golden rule, have an extremely limited risk profile, which does not justify any difference in treatment in relation to the French State."

"This new environment will improve the placement of securities issued by AFL with bank investors, which account for a significant proportion of the placement of our bond issues. But it will also serve local communities across the board. By defending this cause, AFL has illustrated what a bank for local authorities is: a financial institution for which the local interest is also measured against the regulations that concern the entire local sector," said Yves Millardet, Chair of the AFL Management Board.

About AFL

"Embody responsible finance and empower local authorities to respond to the present and future needs of their inhabitants."

"By creating the first bank that we wholly own and manage, we, the French local authorities, have taken a strong political step toward decentralization. Our institution, Agence France Locale, is not a financial institution like the others. Created by and for local authorities, it acts in a local context to strengthen our freedom, our ability to develop projects and our responsibility as public actors. Its culture of prudence safeguards us against the potential dangers posed by the complexity and depth of its governance and conflicts of interest. Its fundamental objective is to offer local authorities access to resources on the best terms and with complete transparency. We are guided by the principles of solidarity and equity. Convinced that we will go further together, we wanted an agile institution that would appeal to all authorities, from the largest regions to the smallest towns. We see profit as a way to optimize public spending, not an end in itself. Through AFL, we support a local environment committed to addressing social, economic and environmental challenges. AFL strengthens our power to act, to carry out projects locally, for today and tomorrow, for the good of the people who live there. We are proud to have a bank that expresses growth as we see it, ever more responsible and sustainable. We are Agence France Locale."

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