ESRB
European Systemic Risk Board
European System of Financial Supervision

Assessment of the French notification in accordance with Article 458 of Regulation (EU) No 575/2013 concerning the extension of a stricter national measure as regards requirements for large exposures

Introduction

On 5 May 2021, the High Council for Financial Stability (*Haut Conseil de stabilité financière* – HCSF) notified the European Systemic Risk Board (ESRB) of its intention to extend the period of application of its current macroprudential measure based on Article 458(2)(d)(ii) of the Capital Requirements Regulation (CRR)[1], which aims to limit concentration risk with regard to highly indebted large non-financial corporations (NFCs) having their registered office in France. The HCSF is designated as the authority in charge of the application of Article 458 of the CRR in France[2]. The extended measure will differ from the original measure because of the change in the definition of large exposures following the application of Regulation (EU) 2019/876 (CRR II)[3].

Pursuant to Article 458(4) of the CRR, the ESRB must provide the Council, the European Commission and France with an opinion within one month of receiving the notification. The opinion must be accompanied by an assessment of the national measure in terms of the points mentioned under Article 458(2) of the CRR. The procedural framework for providing opinions under Article 458 of the CRR is clarified in Decision ESRB/2015/4[4].

The ESRB's assessment focuses on the net benefits of extending the national measure for maintaining financial stability and its impact on the internal market. In particular, the ESRB has assessed the rationale and merit of extending the measure against the following criteria.

- **Justification:** Has there been a change in the intensity of systemic risk and does it pose a threat to financial stability at the national level? Can alternative instruments provided for under the Capital Requirements Directive (CRD)[5] and the CRR adequately and appropriately address the risk, taking into account their relative effectiveness?

[1] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p.1)..

[2] According to Article L.631-2-1, sub-paragraph 4, of the French monetary and financial code (*Code monétaire et financier*), the HCSF, on a proposal from the Governor of the Banque de France, who is also President of the French Prudential Supervision and Resolution Authority (*Autorité de Contrôle Prudentiel et de Résolution* – ACPR), has the power to take measures under Article 458 of the CRR.

[3] Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 (OJ L 150, 7.6.2019, p. 1).

[4] Decision of the European Systemic Risk Board of 16 December 2015 on a coordination framework for the notification of national macroprudential policy measures by relevant authorities, the issuing of opinions and recommendations by the ESRB, and repealing Decision ESRB/2014/2 (ESRB/2015/4) (OJ C 97, 12.3.2016, p. 28).

[5] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).

- **Effectiveness:** Is the extension of the measure likely to achieve its intended objective?
- **Efficiency and suitability:** Will the extension of the measure achieve its objective in a cost-efficient way, i.e. have the appropriate instruments and calibration been used?
- **Proportionality and impact on the Internal Market:** Is there an appropriate balance between the costs resulting from the extension of the measure and the problem it aims to address, taking into account any potential cross-border spillover effects?

The ESRB's assessment draws on the information provided by the HCSF in addition to discussions with the Banque de France, the French Prudential Supervision and Resolution Authority (*Autorité de Contrôle Prudentiel et de Résolution* – ACPR) and their staff.

Section 1: Description of and background to the existing measure and its extension

1.1 Description of the existing measure and its proposed extension

The existing measure tightens the limits for large exposures of French systemically important credit institutions to highly indebted large NFCs that have their registered office in France. The tightened limit requires systemically important French credit institutions to ensure that exposures to highly indebted large NFCs having their registered office in France are no greater than 5% of eligible capital, in the current setting. An NFC is to be classified as highly indebted if its ultimate parent company has both a net leverage ratio[6] greater than 100% and an interest coverage ratio[7] below three. A credit institution applies the measure to those of its exposures where it has an original exposure to the highly indebted NFC, or to the group of connected clients to which the highly indebted NFC belongs, equal to or larger than EUR 300 million.[8] The HCSF has based the calculation of the thresholds for these parameters on an assessment of their role in capturing the deteriorating NFC credit quality, as used in the Banque de France ratings process. The choice of the threshold resulted from a trade-off between being sufficiently conservative to protect financial institutions and not being too restrictive, so as to avoid an excessive reduction in bank exposures to large NFCs.

The primary objective of the existing measure is to increase the resilience of systemically important French credit institutions in the event of default of large and highly indebted NFCs. This is achieved by limiting concentration and hence the impact that the default of a large debtor could have on the lender's solvency. Furthermore, as a secondary objective, the measure aims to send a signal to financial institutions and investors about the risks associated with the high leverage of large French NFCs and their concentration. For a more

6 Defined as total financial debt less outstanding liquid assets over total equity.

7 Defined as earnings before interest and taxes over interest expenses.

8 Exposures as defined in Articles 389 and 390 of the CRR that are larger than or equal to EUR 300 million before taking into account the effect of credit risk mitigation techniques and exemptions in line with Article 9 of Commission Implementing Regulation (EU) No 680/2014 and with Regulation (EU) No 2019/876. For NFCs that belong to a group resident in France, the sum of the net exposures towards the group at the highest level of consolidation applies. For NFCs resident in France belonging to a foreign group, the large exposure limit applies to the sum of the exposures towards the part of the group resident in France. The term "group" also includes interconnected clients based on the conditions outlined in the CRR large exposure framework other than ownership.

detailed description of the existing measure and its first extension, please refer to the ESRB's assessment of the first extension of the measure.[9]

The extension of the measure is scheduled to apply from 1 July 2021, the date the current measure in force would expire. A decision on the extension is expected to be taken in June 2021 and communicated to the market by means of an HCSF press release and publication of the related legal text on the HCSF website and in the Official Journal of the French Republic (*Journal Officiel de la République Française* – JORF). If extended, the measure would continue to be fully applicable for two additional years until 30 June 2023.

Given the application of CRR II as of 28 June 2021, the measure in its extended form uses a different definition of large exposures limits and hence a different calculation base. The existing national measure applies until 30 June 2021; it is based on the definition of large exposure limits in the CRR applicable before the application of CRR II and refers to "eligible capital" as the relevant capital base. Under CRR II, the capital base changes to "Tier 1 capital" from 28 June 2021 onwards. The HCSF intends to reflect that change in the extended measure from 1 July 2021. Applying this changed definition based on Tier 1 capital, five NFCs are beyond the exposure threshold according to data as of December 2020, which is an additional four NFCs compared with the previous threshold definition using eligible capital. The change corresponds to a tightening of the measure at the level of the banking sector from EUR 22.8 billion to EUR 19.6 billion of maximum financing capacity towards each highly indebted NFC from the seven French other systemically important institutions (O-SIIs). However, taking into account both debt ratios (net leverage ratio and interest coverage ratio), no individual exposure of any given O-SII currently breaches the measure. In addition, only one exposure is expected to breach the threshold in the future, according to HCSF simulations of NFC debt ratios resulting from an expected increase in credit demand following the coronavirus (COVID-19) pandemic-related crisis. This breach would also occur using the previous definition of the large exposure limit.

The HCSF had requested reciprocation of the existing measure by other Member States under Article 458(8) of the CRR, and the ESRB General Board had decided to recommend reciprocation.[10] As the calculation base of the existing measure will change given the application of CRR II, the Annex to Recommendation ESRB/2015/2 will have to be modified accordingly. The HCSF emphasised that reciprocity remains relevant for the extended measure, since the banking sectors of some Member States may be exposed directly or through their branches to the risk of NFCs' indebtedness in France. In addition, there is risk of regulatory arbitrage and leakages towards foreign entities. While the market share of significant institutions other than the seven French O-SIIs targeted by the measure is very small, the HCSF points out that in addition to the positive impact on the financial stability of the reciprocating jurisdictions, the reciprocation reduces financial stability risk and the risk of leakages and ensures a level playing field in the EU.

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9 **Assessment of the French notification in accordance with Article 458 of Regulation (EU) No 575/2013 concerning the application of a stricter national measure as regards requirements for large exposures, ECB, 9 March 2018.**

10 **ESRB recommendation of 5 December 2018.**

1.2 Background

The proposed extension of the measure comes at a time of severe economic crisis triggered by the impact of the COVID-19 pandemic. The rise in corporate indebtedness is a significant macroprudential risk confronting the French financial system in the challenging context of the COVID-19 crisis;[11] large firms could seek to reintermediate their debt holdings. The measure focuses on the seven French systemic banks which hold market shares of 84.6% of total assets and 96% of total loans to the non-financial private sector. The measure in its extended form continues to provide a backstop to ensure no individual systemic bank is unduly exposed to any individual large NFC. This is particularly important in a context where the effects and duration of the pandemic-related crisis are still uncertain, the indebtedness levels of NFCs are rising, and risks in the corporate sector are intensifying in the EU and globally.

Member States, EU institutions and national authorities have taken a number of policy measures to mitigate the impact of the COVID-19 pandemic.[12] Supervisory and macroprudential authorities have notably encouraged credit institutions to use their capital buffers to ensure they can continue lending to the real economy. In this regard, the HCSF decided on 18 March 2020 to lower the countercyclical capital buffer (CCyB) to 0%. The CCyB had previously been set at 0.25% and was scheduled to increase to 0.5% as of 2 April 2020. Moreover, the French government provided substantial fiscal support to the French economy, which partially took the form of State guarantees for corporate loans.[13] These measures were introduced in addition to the economic measures taken as part of the common European response to the COVID-19 outbreak coordinated by the European Commission.[14]

The HCSF is of the view that in the current economic situation, which has significantly deteriorated due to the COVID-19 pandemic, large exposures to highly indebted NFCs having their registered office in France remain a macroprudential concern. While the measure currently in place has succeeded in keeping the concentration of large exposures to highly indebted firms stable and in keeping the debt growth trend of large firms or very indebted large firms fairly constant, the COVID-19 crisis could lead to a deterioration in the situation.

Section 2: Analysis of the underlying systemic risks

The underlying vulnerabilities which the HCSF aims to address with the extension of the measure are the same as for the existing measure, namely highly concentrated corporate debt and increasing leverage ratios of large NFCs. In the context of the pandemic-related crisis, it is particularly important for financial stability that banks maintain diversified exposures, because overall vulnerabilities in the NFC sector have increased due to

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[11] See for example ***Assessment of risks to the French financial system - December 2020***, Banque de France, 2020; ***France : 2020 Article IV Consultation***, IMF, 2021; and the **HCSF 2020 annual report**.

[12] For an overview of policy measures in response to the COVID-19 pandemic, see **https://www.esrb.europa.eu/home/coronavirus/html/index.en.html.**

[13] See, for example, the information on the European Commission's website concerning three State guarantee schemes expected to mobilise more than EUR 300 billion of liquidity support for companies affected by the economic impact of the COVID-19 outbreak: **https://ec.europa.eu/commission/presscorner/detail/en/IP_20_503.**

[14] See the overview of the Commission's response on its website, **https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/overview-commissions-response_en.**

higher debt levels. The measure can hence be described as a backstop to ensure resilience by limiting individual exposures to a maximum of 5% of Tier 1 capital compared with the general 25% limit provided for in Article 395(1) of the CRR. The HCSF points out that in the light of the high debt levels reached by some large NFCs and the high concentration of the French banking sector, the measure ensures that the lender base of NFCs is properly diversified, particularly against a potential increase in risk aversion on the bond markets that might lead large corporates to increase their share of bank funding.

The underlying systemic risk has intensified in the light of the economic impact of the COVID-19 pandemic. Corporate debt increased strongly in 2020: annualised growth of total NFC loans stood at 13.1% on average in 2020, compared with 5.1% in 2019 and 6% in 2018, according to the HCSF. Unsustainable debt levels of large firms have a bearing on credit institutions' solvency position if exposures to them reach high levels. The COVID-19 pandemic will have an impact on all of the measure's parameters: NFC leverage ratios will increase, making it more likely that the net leverage ratio of 100% will be reached; earnings will be reduced while interest expenses may increase, in spite of loose monetary policy, making it more likely that the interest coverage ratio will be breached; and the Tier 1 capital of credit institutions could shrink, making it more likely that the 5% threshold will be breached.

The HCSF conducted a simulation to assess the potential impact of the COVID-19 pandemic on the different parameters of relevance for the measure. The simulation used negative activity shocks due to the lockdowns, mitigated by public support measures, for a number of large firms. The results suggest that seven additional NFCs could become highly indebted firms in this scenario, but only one of them would be above the 5% threshold.

2.1 Developments in French NFCs' debt

According to the HCSF, there was an upward trend in the debt of large and highly indebted NFCs, underlying the macroprudential risk facing the French financial system. Overall NFC debt growth has continued at a fast pace following the announcement of the measure in December 2017 and its implementation in July 2018. The increase in corporate debt was particularly strong up to the end of 2019, with the total annualised NFC debt growth rate amounting to 5.6% between December 2017 and December 2019. Exposures in the form of debt securities, which constitute the bulk of large corporates' debt portfolios, rose even faster (at an annualised rate of 6.6%). The debt-to-GDP ratios of NFCs having their registered office in France increased from 2017 levels by 3.6 percentage points to 73.5% in the second quarter of 2019. Information provided by the HCSF shows the entire distribution of large NFCs' net leverage ratios (defined as debt net of liquid assets relative to equity) shifted upwards in 2018. This is not a counter-factual analysis, i.e. it does not indicate by how much the leverage would have increased in the absence of the French measure.

Due to the economic impact of the COVID-19 pandemic, the ESRB expects a sharp rise in NFCs' debt levels. The scenario analysis conducted by the HCSF takes this effect into account.

The ability of NFCs having their registered office in France to service the increased debt levels did not improve materially in recent years, as reflected in the interest coverage ratio and the debt service ratio. Large NFCs' interest coverage ratios saw only a small decrease in 2018 relative to 2017. A more comprehensive debt service ratio comprising both interest and principal payments increased in recent years for NFCs having their registered office in France. Data for 2019 and the first quarter of 2020 were not provided in the notification.

The HCSF points to the sensitivity of outstanding debt to an increase in interest rates. The concerns raised by the ESRB in its assessment of the original measure in this respect remain valid.[15] This is particularly relevant in the light of the high share of French corporate debt carrying a floating interest rate or maturing within one year that is likely to need renewing, possibly under less favourable conditions due to the COVID-19 pandemic.[16]

Section 3: Effectiveness and efficiency of the measure

3.1 How the measure addresses the identified risk

As stated in Section 1, the measure's primary objective is to safeguard the resilience of the French banking system by limiting concentration risk. Its secondary objective is to serve as a preventive warning signal. The effectiveness of the measure is therefore assessed according to its capacity to (i) prevent the excessive concentration of exposures to highly indebted NFCs in French systemically important credit institutions and (ii) signal to all investors the risk inherent in the accumulation of debt by large and highly indebted NFCs.

As regards the primary objective, the concentration in systemically important credit institutions of large exposures to highly indebted NFCs did not increase further. The existing measure was taken to prevent a possible further increase in this concentration. According to the HCSF, the amount of debt owned by firms breaching both thresholds remained stable. This implies that most of the increase in debt observed over the past years can be attributed to firms with lower debt ratios.

As regards the secondary objective, it is difficult to provide evidence of increased investor awareness as a result of the measure, but at least no obvious leakages were observed. The indebtedness of large NFCs is still high and rising despite the measure having been implemented, mainly as a result of the pandemic-related crisis. The HCSF assesses incentives for NFCs to increase their share of market-based financing (around 35% in the third quarter of 2020) as limited but will, together with the ACPR, regularly monitor the situation.

Overall, the specific conditions that led to the activation of the existing measure still prevail, so the extension of the measure as a backstop against a potential further increase in concentration risk seems

15 See Section 2.2, **Assessment of the French notification in accordance with Article 458 of Regulation (EU) No 575/2013 concerning the application of a stricter national measure as regards requirements for large exposures, ECB, 9 March 2018.**

16 See the Banque de France's website, **https://blocnotesdeleco.banque-france.fr/en/blog-entry/do-highly-indebted-large-corporations-pose-systemic-risk.**

warranted. The ESRB's assessment of the unchanged calibration (apart from the regulatory change in the calculation of exposures) and design of the existing measure remains valid in this respect.[17]

3.2 How the measure relates to possible alternatives

As required under Article 458 of the CRR, the ESRB's assessment of the original measure already analysed whether other available macroprudential instruments under the CRD and CRR could adequately address the systemic risk identified, taking into account their relative effectiveness.[18] The main arguments as to why these measures are not considered to be appropriate alternatives to the envisaged extension of the measure under Article 458 of the CRR remain the same and are repeated below.

a) Article 124 (risk weights under the standardised approach) and Article 164 (higher loss given default (LGD) minimum under the internal approach) of the CRR

Articles 124 and 164 of the CRR relate to exposures secured by mortgages on immovable property. Given that the measure pertains to exposures to the NFC sector and is intended to limit the risk deriving from the growing indebtedness of these corporates, Articles 124 and 164 of the CRR are not relevant or able to safeguard the resilience of the French financial system with respect to this risk.

b) Article 133 (SyRB) or Article 136 (CCyB) of the CRD

While the general systemic risk buffer (SyRB) would not be suitable for addressing risks stemming from the specific segment of some large NFCs having their registered office in France, the sectoral SyRB could be suited to addressing such risks. However, in the current pandemic-related crisis, banks are encouraged to use their buffers, so that a capital-based tool would not be appropriate. In addition, it would be difficult to target a group of NFCs similar to the one targeted with the existing measure.

The CCyB can be used to address some of the procyclicality in the financial system. However, it is not an appropriate tool for addressing systemic risks linked to a subset of exposures in a subset of institutions. It is not possible to apply the CCyB requirement to specific subsets of exposures, such as loans to large, highly indebted NFCs, so setting a higher CCyB rate would have the unintended effect of also increasing the capital requirements for other exposures located in France. Moreover, calibration of the CCyB to a specific risk would prevent the CCyB from meeting its primary objective of building resilience in the upward phase of the financial cycle. The ESRB has also identified an important structural dimension of the risk targeted by the present measure, which should not be covered with a cyclical instrument.

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17 See Section 3.1, **Assessment of the French notification in accordance with Article 458 of Regulation (EU) No 575/2013 concerning the application of a stricter national measure as regards requirements for large exposures, ECB, 9 March 2018.**

18 ibid., Section 3.2.

f) Using other measures

In its assessment of the existing measure, the ESRB encouraged the French authorities to take the necessary initiatives to further expand their toolkit to address financial stability concerns, exploring in particular the introduction of borrower-based measures for large NFCs. The ESRB reiterates its view that borrower-based measures for NFCs might be effective in increasing the banking sector's resilience and might help prevent over-indebtedness of NFCs having their registered office in France. Borrower-based measures could target the specific segment of NFCs and be applicable only to corporations fulfilling certain criteria, such as the level of indebtedness or interest expenses. Borrower-based measures could also provide the desired signalling effect.

The ESRB is aware of the challenge of implementing borrower-based measures of this kind. Its stance reflects the absence of such measures in the EU regulatory framework, little experience in their implementation and challenges that their reciprocation could entail. While the ESRB is in favour of working on an EU-wide approach to borrower-based measures, Member States should in the meantime examine national solutions. They should nevertheless take into consideration that borrower-based measures usually apply only at the time of loan origination, while the large exposure limit applies at any time. In addition, the ESRB is mindful that the introduction of borrower-based measures would need to be considered very carefully in a situation of economic crisis, where the provision of credit to the affected NFCs may be impaired.

Section 4: Analysis of the measure's net benefits

4.1 Effects on financial stability, financial system resilience and economic growth

The proposed extension of the measure contributes to the resilience of the French banking system, and thus to potentially enhancing the resilience of the economy as a whole. Tightening the limit on the exposures of SIIs in France to highly indebted, large NFCs would help to maintain the resilience of the financial system to any sudden failure of those NFCs. The impact on the banks' balance sheets would be mitigated, reducing the possibility of a negative knock-on effect on the remainder of the domestic and European financial system.

The targeted nature of the measure contributes to its proportionality by aiming to avoid negative spillover effects on the overall extension of credit and the real economy. The measure applies only to highly indebted large NFCs and therefore does not constrain lending to other sectors such as SMEs or less indebted large corporates. Its sole application to systemically important credit institutions dominant in lending to large NFCs helps to reduce the administrative burden on smaller institutions, thereby respecting the principle of proportionality.

The measure does not seem to unduly restrict current access to financing for large NFCs having their registered office in France, and hence the potential negative impact of the measure on economic growth seems to be small. Given that this is designed as a pre-emptive backstop measure, the expected impact, if any, on growth in other Member States is expected to be minimal. According to the scenario analysis conducted by the

HCSF and described above in Section 2, the measure maintains its nature as a backstop measure, even in the light of the negative economic impact of the COVID-19 pandemic.

4.2 Cross-border effects and impact on the Internal Market

The HCSF does not expect the measure to have a significant negative impact on the EU Internal Market. On the contrary, it believes that the measure strengthens the resilience of the French banking sector against shocks from the large French NFC sector and reduces the risk of contagion from France to other EU Member States.

The measure does not apply to NFCs outside France, except for foreign subsidiaries if their parent company has its registered office in France. The HCSF applies the measure to these foreign subsidiaries to avoid excessive leakages and regulatory arbitrage from the NFCs having their registered office in France, because otherwise the French parent company could use its foreign subsidiary to reduce its own debt and channel it to France via intragroup lending. The HCSF states that there is no indication that the measure could have any direct impact on NFCs outside France not covered by the measure.

The HCSF did not observe a shift in highly indebted NFCs' demand for credit away from large French banks toward foreign banks. It stated that the role of foreign banks in the loan market for NFCs having their registered office in France remained small and increased only very modestly, from 6% of total financing of loans to NFCs having their registered office in France at end-2017 to 7% at end-2019.

4.3 Domestic cross-sector effects and regulatory arbitrage

The HCSF has not detected any substantial leakage to the financial markets, the non-bank sector or non-systemic banks as a result of the current measure. As of the third quarter of 2020, 35% of the financing of NFCs having their registered office in France was provided by the financial market, unchanged from the second quarter of 2019. In principal, the measure should prompt firms to diversify their lending and hence also to use market-based finance. At the same time, the measure indirectly addresses market-based funding as it is included in the exposures and in the criteria assessing NFCs' indebtedness. According to the HCSF, non-systemic banks play a fairly small role in financing for large corporates. Since they usually focus on the SME segment, smaller French banks could only take on a small portion of this lending. They are also bound by the general large exposure limits and must comply with their internal risk management practices. NFC loans granted by non-bank institutions remained flat and represented 4% of total NFC loan borrowing in the third quarter of 2020, unchanged from the second quarter of 2019.

The ESRB welcomes the HCSF's and ACPR's intention to regularly monitor possible leakages or regulatory arbitrage in the future. From a financial stability perspective, it is important to ensure that stricter measures in one part of the financial system are not circumvented by the transfer of exposures to other financial intermediaries that may have a lower risk-bearing capacity or where concentration risk may arise.

Conclusion

The ESRB is of the view that the proposed extension of the measure serves as a helpful backstop to ensure risk diversification and safeguard the resilience of the French banking system. The measure is aimed at enhancing the resilience of French systemically important credit institutions by limiting their individual exposure to highly indebted large NFCs having their registered office in France. As such, it serves as a backstop against concentration risk.

The ESRB is of the view that the current economic crisis triggered by the COVID-19 pandemic intensifies risks in the corporate sector across the EU and globally. Owing to these circumstances, the debt levels of NFCs having their registered office in France increased strongly in 2020 and are likely to rise further over the coming quarters. The use of the French measure as a macroprudential backstop to ensure diversification and avoid the concentration of risk towards individual, highly indebted large NFCs having their registered office in France therefore remains justified.

The ESRB is of the view that the proposed extension of the measure does not contradict the overall aim of fostering lending to the real economy throughout the current economic crisis. Clear communication in this respect is important in order to explain to the public that the extension of the measure is consistent with other measures taken in response to the COVID-19 pandemic. The extension of the measure does not per se set a limit to the overall borrowing of highly indebted large NFCs but ensures that individual systemic credit institutions cannot have too large a concentration of their exposures towards any such individual NFC.

The ESRB therefore supports the HCSF's intention to extend the period of application of its stricter national measure, with the changed calculation of exposures deriving from CRR II. At the same time, the ESRB reiterates that the issues raised in its assessment of the original measure require continued follow-up by the French authorities to ensure the effectiveness of the measure and avoid unwarranted consequences.

First, close monitoring of the impact of the measure and the evolution of the risk must continue, particularly if the 5% threshold for large exposures were to be frequently breached as a consequence of the COVID-19 pandemic. All parameters of the existing measure will be negatively affected by the pandemic. Enhanced monitoring of the change in NFC financing vis-à-vis the seven French systemic institutions, and the corporate debt market more generally, is therefore required. The ESRB welcomes the HCSF's constant monitoring of the situation and its readiness to reassess the measure in the light of the evolving circumstances.

Second, the ESRB continues to encourage the French authorities to explore alternative options for addressing financial stability concerns, in particular if risks continue to develop unfavourably. These options include, but are not limited to, borrower-based measures and the sectoral SyRB. The risks targeted are likely to persist over an extended period of time and permanent tools with less onerous administrative procedures should be explored. These alternatives could be used to either replace or complement the current measure.