# French banks score capital victory against ECB


Reuters/Frankfurt

French banks won a landmark court victory against the European Central Bank yesterday, giving them an exemption from holding capital against customer deposits parked with a state-owned fund.

The European Union’s top court annulled an ECB decision demanding that the six banks set aside capital against special deposits they have with state investment institution Caisse des Dépôts et Consignations (CDC).

The ruling marks the first high-profile success for banks in a case brought against the ECB since the central bank became the industry’s main supervisor in 2014 under the lead of France’s own former chief regulator, Daniele Nouy.

“The ECB has erred in law and committed manifest errors of assessment,” the court said. The ruling will lower capital requirements for BNP Paribas, Societe Generale, Credit Agricole, Credit Mutuel, Groupe BPCE and La Banque Postale by billions of euros in total.

French tax-free savings accounts, such as the Livret A, were worth some €386bn at the end of May but their popularity is waning due to the low interest rate they pay.

Banks can deposit up to 60% of that cash with the Caisse des Dépôts et Consignation, which uses the funds to invest in public housing and other projects.

La Banque Postale and BPCE, which long had a monopoly on French regulated savings accounts, were likely the main beneficiaries of the verdict. Under EU rules, banks must hold capital worth at least 3% of their total assets.

By stripping out the deposits with the CDC, banks would get a higher leverage ratio for a given amount of capital.

La Banque Postale said in its annual report it had capital worth 4.5% of its assets at the end of 2017 but that ratio would come in at even healthier 5.3% if its deposits with the CDC had been excluded.

As the bank's assets were worth 205bn at the end of last year, according to its annual report, that 0.8% difference is worth €1.64bn ($1.91bn).

BPCE and Credit Agricole SA knocked 30 and 15 basis points respectively off their leverage ratios in 2016 to take account of their deposits with the CDC.

The court accepted that these deposits qualify for an exemption because they are "deposits that the institution is legally obliged to transfer to (a) public sector entity…for the purposes of funding general interest investments".

In 2013, before moving to the ECB, Daniele Nouy heself said that French banks would be "strongly impacted" by new liquidity rules due to their exposure to regulated savings accounts, among other reasons.

The ECB is facing a number of lawsuits from banks that disagree with its decisions, including BNP Paribas.