



Corporate and investment banking in France

Corporate and investment banking (CIB) is a high value-added business that plays a strategic role in financing companies and in France's economic growth. Its development is a key issue for the competitiveness of the French financial market. The work of the High Level Committee, chaired by the Minister of the Economy, Industry and Employment and tasked with improving the competitiveness of the Paris financial centre, is supporting the promotion of the CIB sector.

The development of CIB is a crucial factor in enhancing the competitiveness of the French financial marketplace. A vigorous corporate and investment banking sector helps spread innovations in market financing, enhances the financing of growth companies and SMEs through financial engineering techniques, encourages companies to keep their head offices in France and mobilises international institutional investors, among other benefits.

A market-led initiative

The importance of developing CIB has been recognised by the government which has put in place a series of measures:

... **the Finance Innovation global competitiveness cluster dedicated to the financial industry was created in July 2007:** this new body aims to raise the profile of French players in the industry and improve awareness of the corporate and investment banking professions.

... **The High Level Committee, chaired by the Minister of the Economy, Industry and Employment, was set up in October 2007:** the committee is tasked with drawing up an action plan to enhance the competitiveness of the Paris marketplace and create a favourable environment for the development of CIB. Work has focused among other areas on the modernisation of securities law, on "better regulation" by the supervisory authorities and on making the market welcoming for international professionals.

The French financial sector has been a key driver of this market-wide initiative: **since January 2008, the FBF has financed five investment and market banking research chairs** and this is in addition to other actions by individual banks. A major aim of this profession-led initiative, backed by 6.5 million euros of funding over five years, is to promote French expertise in financial innovation and mathematics which will help sustain the leading positions of French corporate and investment banks in high value-added areas such as derivatives and structured products.

A closely regulated field

The CIB sector is overseen by the Autorité des Marchés Financiers (AMF), the body responsible for regulation and oversight of all financial transactions affecting listed companies. It also controls investment services activities, ensures the correct functioning of markets in financial instruments and sees that investors are fully informed. The Banking Commission also has oversight powers over institutions in the field.

CIB is one of the areas where European integration is most advanced. Most of the European measures taken under the Financial Services Action Plan 1999-2004 concerned activities on financial markets: markets in financial instruments (MiFID), takeover bids, transparency, prospectus, market abuse, etc.

Key players in the industry

The major corporate and investment banks

There are four major French banks active in CIB: BNP Paribas, Calyon, Natixis and Société Générale.

As a rule, CIB makes a major contribution to banks' net banking income (NBI): in 2006 CIB generated over 28 billion euros in NBI, providing nearly 32% of total consolidated NBI for the four big groups. In 2007, this fell to 24%, CIB being a naturally cyclical business¹.

A major financial centre

The direct contribution of the French finance industry is critical to the French economy:

- ... nationally, the financial sector as a whole (banking, insurance, asset management, etc.) provides one million jobs, 6% of France's total employment, and 7% of GDP.

- ... the Paris financial market employs 150,000 or 7% of the region's workers, and generates 15% of GDP in the Ile de France.

The areas where the Paris financial centre excels, which include asset management, structured finance and equities derivatives, make it one of the world's leading financial markets. Also, the quality of training provided by French schools and universities, particularly in financial mathematics, is internationally recognised.

The initiatives launched by the government and financial sector seek to build on these advantages and to turn Paris into a global financial centre and the natural centre for the issuance and trading of euro-denominated securities.

The banks organise their CIB operations in different ways, some integrating CIB into the group structure, others operating separate specialist subsidiaries. They have also followed different strategies, developing particular areas of expertise. As a result, they now rank among the global leaders in their field.

French banks featured among the top 15 global banks in several business areas at end-2007 (source: Thomson Financial league tables):

- ... in syndicated loans, there were 3 French banks among the top 15;
- ... in project finance all 4 French majors were in the top 15;
- ... one French bank is global market leader in equities derivatives with over 15% of the global market;
- ... one French bank is a leading M&A specialist.

Providers of securities services

In post-trade activities, three French banks have developed specialist securities services for their institutional clients, distinct from the normal back-office activity of their CIB business, run as subsidiaries or joint ventures. These are BNP Paribas Securities Services, CACEIS and SG Securities Services.

The main services offered are custody, securities lending, securities transactions, prime brokerage (a bundled offer including clearing and settlement, custody, provision of liquidity, forex services, etc.), processing of securities in funds (e.g. UCITS). These activities are marked by large-scale transactions, with a relatively small number of clients trading high volumes (broker dealers) or placing large numbers of securities in custody (institutional investors).

1. Source: data based on banks' annual results.

Market infrastructure

The banks in the French CIB sector rely for the conduct of their business on the Paris market's securities clearing and settlement infrastructure:

... **LCH.Clearnet SA** acts as clearing house for all products listed on Euronext and as sole central counterparty for all trades. In 2007, LCH.Clearnet cleared nearly 1,727 billion transactions.

... **Euroclear France** is the central depository for French securities and also runs the ESES France securities settlement system. A subsidiary of the Euroclear group, Euroclear France is responsible for the trade-settlement phase, which ensures the buyer gets the securities and the seller gets paid. In 2006, Euroclear France settled 34 million transactions, after netting.

In trading terms, the **European markets of the NYSE Euronext group** recorded **323 million transactions** in 2007, a 47% increase on 2006. At end-2007, the total market capitalisation listed on Euronext was **nearly 2,883 billion euros**.

These three specialists are among the European leaders in their niche and among the global top ten, particularly in securities custody. Their client base essentially comprises mid- or modest-sized corporate and investment banks, the French subsidiaries

of foreign CIB firms (the leading broker-dealers), institutional investors, asset managers and funds.

Personnel

The CIB industry employed around 33,000 people in France at end-2007. This includes all those directly employed in CIB (front, back and middle offices) plus those working in support functions (legal, tax, IT departments, etc.). Adding in the staff of the securities service providers, the CIB sector employs more than 48,000 people in France².

The providers of securities services alone employ for over 15,000 people in France, including some functions linked to the retail banking distribution network³.

Numbers employed in CIB and by providers of securities services in France (end-2007)

CIB front office (mid-2007)	10,200
CIB back/middle offices and support functions	22,600
Securities services providers	15,450
Total	48,250

Source: Observatoire des métiers de la banque

2. Source: Observatoire des métiers de la banque : www.observatoire-metiers-banque.fr

3. Source: idem

The activities that make up CIB

CIB covers three broad areas of activity:

Financing of large corporates

This in turn breaks down into two main areas:

... **corporate banking or coverage** which entails developing a high-quality and wide-ranging banking relationship with a target group of large corporate clients in order to identify business opportunities and conduct financial transactions in partnership with the product specialists;

... **structured finance** which covers direct and syndicated loans, made for the purpose of financing assets (aircraft, shipping, etc.) or industrial projects (roads, nuclear power stations, etc.) or linked to foreign trade or acquisitions involving the bank's client.

Investment banking

This breaks down into two areas:

... **consultancy on mergers and acquisitions (M&A)** which entails developing a network of contacts with large corporate clients and winning mandates to arrange and execute M&A transactions. This includes arranging financing solutions (raising capital, loans) and offering a wide range of corporate finance services;

... **corporate finance** covers financial engineering techniques in equity capital markets (ECM), initial public offerings (IPOs), debt capital markets (DCM), arranging structured finance for M&A, and the securitisation of loans.

Global capital markets

This involves a range of activities:

... **primary markets:** syndication/placement of capital issues, loans or structured products;

... **secondary markets:** sales of market products to investors, trading and executing clients' orders as a broker (sales trading) and taking positions in the markets (proprietary trading). These brokerage and trading activities can be in equities, equity derivatives, fixed-income products, fixed-income derivatives, credit derivatives, forex products or commodities;

... **structured products:** design of derivative and synthetic products, etc. for corporate finance and market activities;

... **analysis:** (charting, quantitative, fundamental and sector analysis): the purpose of the analysis is to help sales departments to advise clients, structured product specialists to design products and traders to define their trading strategies.

These activities are mainly services provided for external clients. However, the bank may also engage in some of them on its own account.

All activities are closely intertwined

The different activities that go to make up CIB are necessarily interdependent. Corporate bankers, for instance, need to act in synergy with global capital market desks to develop solutions for hedging forex risks. Similarly, if the investment banking arm is performing capital, bond or convertible issues, these products will need to be placed on the financial markets where they will be traded.



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