Roundtable « Potential impediments to long-term investment »
The example of CDC

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Long-Term Investment (LTI)

1. A tentative definition of « long-term investor » (LTI)

- Stable resources…
- … allowing the institution to hold assets in the long term…
- … and, thus, to have counter-cyclical effects on financial markets

2. LTI is crucial for LT growth

- A paradoxical situation in Europe: a lot of cash, many projects, but very few investments,
- Due to the changes introduced in the regulation of their activities, banks limit the funding of long-term investments…
- … financial markets are not mature enough…
- … and, thus, LT investors have a major part to play in financing the economy.

Potential impediments to LTI

- Defining risk measures based on volatile prices,

- Imposing limits on spot risk measures,

⇒ As soon as stock markets are plunging, would lead to major sales (distressed sales) leading markets to plunge even more…

⇒ Whereas LT investors such as CDC usually hold equities when prices are falling… and, even, buy some more in such circumstances!

CDC, a French long-term investor

CDC can be defined as a LTI:

- Stable liabilities: regulated deposits,
- A high percentage of the portfolio invested in equity (listed and non listed)/ long-term bonds / infrastructure and real estate,
- Defined as such by the French law: *"[…] The Caisse des Dépôts et Consignations is a long-term investor and contributes, consistent with its proprietary interests, to the development of companies ."* Article L. 518-2 of the French Monetary and Financial Code

Caisse desDépôts GROUP

A specific regulatory framework

CDC is not submitted to banking or insurance regulation.

Instead, CDC has its own internal model :

- Consistent with its business model,
- Defined by its Supervisory Board, after (non-binding) opinions of the French Supervisory Authority,
- Dealing with both solvency and liquidity aspects.

Main features of the internal model of CDC

1. High standards of requirements in order to maintain the public confidence in the CDC.
   - The main asset = Confidence (« foi publique »).
2. A measure of risks consistent with a long-term horizon.
   - A measure sensitive to real long-term volatility as well as to fat tail-risks, not unduly sensitive to short-term volatility.
3. A governance adapted to a « buy and hold » investment strategy
   - No over-reaction as far as investment decisions are concerned.
4. A model carefully designed to encompass all the possible kinds of risks existing in the balance sheet.
   - Including infrastructure / real estate risks.

By way of conclusion (1/2)

1. It is important to promote an ecosystem of diversified actors to finance the real economy.

2. Long-term investors have a behavior that promotes the proper functioning of markets because of their countercyclical behavior related to a strategy based on an assessment of long-term returns.

3. Cf. OECD in its report to the G20 (2015) : « *Solvency, accounting and funding requirements for institutional investors should avoid creating incentives for pro-cyclical investment strategies.* »

⇒ Important not to impose banking or insurance regulation on LTI,

⇒ One step further: to set up a regulation adapted to LTI?

By way of conclusion (2/2)

1. Promotion of LTI : The European Long Term Investors association (ELTI)

1. Importance of academic research and think tanks'contributions on LTI,

2. Crucial for LT investors to participate in European initiatives such as the European Commission investment plan for Europe…

3. …and to have their contribution acknowledged by European institutions.