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FEATURE

The (Still) Almighty Dollar

A symbol of US power, the dollar enjoys unrivalled status as the world's reserve currency, even as economic and geopolitical pressures challenge its supremacy.

EDITORIAL

Stéphane Giordano and Stéphanie Hubert | AMAFI

The European Commission has launched a far-reaching consultation on the integration of EU capital markets, a critical element of its Savings and Investments Union strategy *(see News p.5)*. What is at stake is to ensure that Europe's financial autonomy is commensurate with its colossal economic needs and geopolitical aspirations. The consultation itself deals chiefly with the organisation and supervision of trading and post-trade activities. For AMAFI, however, the central issue remains making European markets attractive to investors, especially European households, whose savings need to be channelled to a greater degree into productive investments and innovation.

The EU Competitiveness Lab – a Spanish-led initiative – is working towards this goal. Member states, including France, are voluntarily cooperating to make headway in priority areas such as creating a European labelling scheme for long-term savings products. The question is whether the scheme will be enough to persuade our fellow citizens to accept more risk in their savings choices, and particularly to invest in equities.

On a broader note, amid widening fiscal and social deficits, we surely need a substantive debate on adding a funded component to the French pension system. Admittedly, such a step would be complicated to implement and would require robust transition mechanisms. But it could be a powerful driver for channelling savings into long-term financing and growing the prosperity of Europe's citizens.

The (Still) Almighty Dollar

Sandra Sebag

Moody's, a ratings agency, stripped the United States of its top-notch credit rating on 16 May, downgrading it from Aaa to Aa1 and changing the outlook to stable from negative. Moody's was the last of the Big Three agencies to deprive the US of its triple-A status, thus evicting it from the select group of the world's most creditworthy countries The decision was spurred by concerns over the country's massive debt, which has ballooned to some $36 trillion, and the resulting burden on the federal budget. As a result, the government deficit, already at 6.4% of GDP in 2024, is expected to increase still further. The downgrades coincide with a period in recent months when the dollar's position as a safe haven currency has come under strain. Since the end of World War II, the greenback has anchored the international monetary system. By acting as a global reserve currency – a benchmark for international trade and the ultimate refuge during times of turbulence – the dollar is a powerful tool. It also gives the United States what former French president Valéry Giscard d'Estaing called an "exorbitant privilege", allowing it to run twin trade and fiscal deficits and finance them effortlessly thanks to the rest of the world's need for dollars to trade, refinance and invest. And since US households do not have to save massively to finance the deficits, the country's saving rate is extremely low, at below 5% of GDP, compared with 17% in France and 12% in the United Kingdom, while Americans enjoy higher living standards on average than people elsewhere in the world.

An onerous privilege

Yet the new administration under President Donald Trump sees the United States' ability to print money for the rest of the world as an Achilles heel. "While emerging nations are rising, America's economy is expanding more sluggishly than most other countries, causing global demand for liquid dollar assets to outpace US economic growth," wrote Agnès Bénassy-Quéré, Second Deputy Governor of the Banque de France in an opinion piece published by the Banque de France on 19 March. She added, "This brisk demand is keeping the dollar too strong relative to the deficit that needs to be absorbed, and interest rates are too low to dissuade US public and private borrowers from taking on more debt." Stephen Miran, Chair of President Trump's Council of Economic Advisers, believes that the trade deficit and strong dollar are hollowing out the US economy, a process that has to be arrested. In his view, the dollar needs to be weakened to restore US competitiveness, potentially through higher trade tariffs or an international agreement along the lines of the Plaza Accord, signed in 1985 by the leaders of the G5 countries at the Plaza Hotel in New York City. The early 1980s had seen the dollar gain ground after the US Federal Reserve hiked interest rates aggressively from 1979 onwards as part of a campaign to curb inflation. America's trade deficits with Japan and Germany widened dramatically in the ensuing years. As a result of the 1985 agreement, central banks took coordinated action to weaken the dollar, which duly depreciated over the next two years. Today, however, international tensions and, more importantly, changes to exchange rate mechanisms would make a similar accord difficult to achieve. Back in the 1980s, exchange rates tended to be fixed whereas now they are mostly floating and move in accordance with global capital flows. Many central banks have also become independent. And whereas they used to account for the bulk of international flows, private capital now takes the lion's share, making it more complex to intervene in foreign exchange markets.

No end in sight for dollar dominance

The US administration is not alone in being unhappy about the situation. Many countries, including major emerging nations such as China, Russia and Brazil, are keen to make their economies less reliant on the greenback, while Europe wants to establish the euro as an alternative reserve currency. To be sure, the dollar's share of international foreign currency reserves is shrinking: it fell from just over 70% in the 2000s to 57.8% in 2024, according to the International Monetary Fund. A diversification trend is taking shape as several currencies, notably the euro, yen, sterling and renminbi, boost their shares. But no currency has successfully imposed itself as a true alternative to the mighty dollar. The amount outstanding in US Treasuries is approximately $36 trillion, compared with a combined total of $12 trillion in outstanding Treasury securities across the main European countries, including Germany, France and Italy. The continent's capital markets are also fragmented, and liquidity and spreads vary from market to market, further compounding the volume mismatch. The EU Savings and Investment Union could be a game changer in this regard, but progress will not happen overnight, even though Europe's institutions seem resolved to make headway with this initiative. China, the world's number-two economic power, is likewise unable to impose its currency; nor would such an outcome be in its interest because the renminbi is strictly controlled by the central government and is not freely convertible. In the private sector, too, all roads lead to the dollar. To invest in innovation, especially artificial intelligence, the greatest opportunities are in the United States, a situation that automatically gives the dollar a pivotal role. Moreover, the international monetary system has traditionally been centred on a single currency. Sterling fulfilled that function pre-World War I, before being supplanted by the dollar. A multi-currency system would be far less efficient, argues Patrick Artus, economic adviser at Ossiam, an investment manager. Furthermore, the dollar has fended off competition to increase its share of global transactions in recent years. It accounts for more than half of all international transactions on SWIFT, a global financial messaging network, and its share has risen steadily over the last two decades. That said, euro-denominated transactions have also climbed and now make up approximately 30% of SWIFT traffic. Meanwhile, China is trying to require that payments be made in renminbi, particularly for oil purchases from Persian Gulf countries.

The buck does not stop here

Donald Trump unleashed panic on financial markets when he announced massive hikes in trade tariffs. US Treasuries traditionally provide a safe haven in troubled times when risk aversion mounts. But they have failed to play their role in the recent period, with ten-year sovereign bonds now yielding in excess of 4.5%. For Guy Stear, Head of Developed Markets Strategy at Amundi Investment Institute, this movement is part of a broader trend over recent months that has seen US Treasuries return less than the dollar asset swap rate, making them less attractive. Mr Stear identities two main reasons for this. First, US government debt and spending surged in the aftermath of the 2020 Covid-19 crisis, prompting investors to anticipate a sizeable increase in debt issuance. Second, international investors' holdings of US Treasuries have not risen in step with issuance. Asian countries in particular are not selling off their holdings, but are scaling back purchases to account for a smaller proportion of issuance. In parallel, the Fed is doing its best to shrink its balance sheet and acquire fewer Treasuries. In other words, supply is increasing while appetite is dwindling. During recent auctions, Treasury staff actually contacted some major investors directly to ensure that everything went smoothly.

Yet any notion that investors are turning away from US debt needs to be put into perspective. According to annual data from the United States Treasury, over the long run, foreign investors' holdings of US assets correspond to annual flows equivalent to 3% of US GDP, evenly spread between equities, sovereigns and corporate bonds. America's debt market is one of the deepest in the world, while US equities, especially growth stocks, generate earnings growth that comfortably beats performances anywhere else in the world. In the 1990s US equities made up approximately one-third of the major global indices; today, that share stands at more than 70%.

Even with its special status, the dollar does come under pressure from time to time. This was the case in the lead-up to the Plaza Accord during the 1980s, and once again in the early 2000s when the dot.com bubble burst, the twin deficits mushroomed and interest rates fell. The currency has lost ground since the Trump administration announced its tariff hikes. As Patrick Artus points out, the dollar is now trading at €1.12, compared with €1.02 at the beginning of the year, a decline underscored by the fact that the US-Europe interest rate gap stands at 200 basis points. Even so, the current level is still above the €1.15 rate based on purchasing power parity. Will the latest depreciation be enough to right the imbalances and restore confidence in a dollar that is once again aligned with its economic fundamentals? That seems unlikely: instead, most experts are predicting a protracted downward slide. Pending the emergence of a genuine rival to the greenback, the latest pause on tariffs announced by the US, both on China and the EU, is a positive sign. Other key tests await, including the vote on the next federal budget – will the Moody's downgrade galvanise the US administration into taking corrective action? – and Jerome Powell's reappointment as Chairman of the Federal Reserve in 2026. In April 2025 President Trump attacked Chairman Powell, calling him a "major loser" for not cutting interest rates, but denied any intention of firing him. Over-politicisation of the US central bank could sap confidence on debt markets and further undermine the dollar's stability. Conversely, confirmation of the Fed's independence would go a long way to reassuring investors.

The dollar faces challenges, but with no rivals in view, it looks set to continue its role as the anchor of the international monetary system.

ICSA

Annual General Meeting, Cambridge, 19-20 May

Stéphanie Hubert, AMAFI Chief Executive, and Arnaud Eard, Director of European and International Affairs, attended the annual general meeting of the International Council of Securities Associations (ICSA), a forum for financial-market associations from around the world. (Ms Hubert also sits on the ICSA board.)

Amid rising global economic tensions, the meeting highlighted efforts underway in numerous jurisdictions to pursue regulatory streamlining, as mentioned by representatives of the United States, India, Australia, the United Kingdom and EU member states. Speaking on this topic, *Martin Moloney,* Deputy Secretary General of the Financial Stability Board, warned against a global dilution of standards. He acknowledged the need to better reconcile economic attractiveness and regulation but cautioned that, without financial stability and sustainability, any economic benefits would be short-lived.

The AGM also focused on European issues, including the Savings and Investments Union, as the CMU initiative is now known. Stéphanie Hubert participated in a panel discussion on market structure, a topic currently being explored in a European Commission consultation *(see News p. 5)*. She stressed that European market integration must safeguard the diversity of market participants, since this is the only way to meet the varied needs of economic agents.

Arnaud Eard

MARKET ABUSE

Pre-hedging

The International Organization of Securities Commissions (IOSCO) invited Etienne Valence, who chairs AMAFI's Compliance Committee, and Compliance Division director Catherine Balençon to take part in a round table on pre-hedging. The event was an opportunity to share the views that AMAFI conveyed in its feedback *(AMAFI / 25-15)* to IOSCO on pre-hedging, a technique that involves trading ahead of foreseen transactions by clients or counterparties for hedging purposes.

Catherine Balençon, Julie Dugourgeot

SETTLEMENT

Transition to T+ 1

The ambitious goal of transitioning to a one-day settlement cycle, or T+1, scheduled for 11 October 2027, has spurred a raft of changes, including a revision of the EU's Central Securities Depositories Regulation. The European Council and Parliament recently endorsed two key proposals for the regulation that have been a major focus for AMAFI *(AMAFI / 25-22)* and are designed to preserve orderly markets:

- The ability to temporarily suspend payment of default penalties in the event of a crisis.
- An exemption from T+1 settlement for securities financing transactions.

With ESMA readying technical standards for the same regulation, AMAFI set out its positions on several critical issues for the switch to T+1 *(AMAFI /25-37)*, emphasising the need for:

- Standards that are consistent with work being done in industry.
- An approach based – at least initially – on existing market practices rather than new rules, in line with the Commission's simplification goals.
- A sufficient transition period to allow participants to adapt, instead of starting application in January 2026.

AMAFI is continuing to work in this area, alongside French and European authorities, to ensure that the reform is implemented realistically and effectively.

Mathieu Jacolin, Arnaud Eard

CAPITAL MARKETS INTEGRATION

Savings and Investment Union

As part of its strategy to build a Savings and Investments Union (SIU), the European Commission held a broad consultation covering topics ranging from trading to supervision and post-trade. The idea behind the SIU is to channel European citizens' plentiful savings more effectively into financing European companies while making it simpler for firms to access capital markets.

AMAFI submitted several proposals *(AMAFI / 25-49)*:

- Any new rules should be limited to what is strictly required, in keeping with the goal of simplification, while existing rules should be better enforced.
- In trading, there should be no systematic interconnection requirement, nor should the US RegNMS trading model be adopted. Either of these approaches would clash with Europe's best-execution principle, which is designed to respond to the diversity of European trade infrastructures.
- Some post-trade barriers to market integration could be lifted by harmonising practices at trade infrastructures, streamlining withholding procedures, encouraging interoperability and promoting widespread use of the TARGET-2 Securities settlement system.
- New technologies, particularly blockchain, cannot fix the problem of fragmentation by themselves.
- ESMA's governance must become more independent; this aspect is intimately linked to the authority's capacity to promote convergence in national regulatory practices. ESMA could also provide oversight for some significant participants in Europe.

Mathieu Jacolin, Arnaud Eard

News

EUROPE

EUROFI

High Level Seminar, Warsaw, 9 -11 April

Roman Slavik

Eurofi's High Level Seminar in Warsaw was an opportunity for AMAFI to present its priorities *(AMAFI / 25-34)* for the European Commission's Savings and Investment Union (SIU) *strategy.*

AMAFI Chairman Stéphane Giordano, along with Director of European and International Affairs Arnaud Eard and several members of the European Action Committee, met with institutional stakeholders, including Stéphanie Yon-Courtin, member of the European Parliament's Committee on Economic and Monetary Affairs, Alexandra Jour-Shroeder, Deputy Director-General, DG FISMA, and representatives of the finance ministries of 12 member states.

AMAFI's SIU priorities were well received overall, especially those focused on relaunching securitisation, supporting less mature local markets and using tax incentives and a European labelling scheme to steer households' savings towards financing the European economy. While a consensus is taking shape on the need to reinvigorate the securitisation market, there is less agreement on how to achieve this goal. Some member states want to relax due diligence requirements, while others would prefer to reform the prudential frameworks for banking and insurance, or establish a public guarantee scheme.

Conversely, not all member states agree on reforming ESMA's governance or moving towards more centralised supervision for participants engaging in cross-border activities.

Arnaud Eard

COMMODITY MARKETS

Derivatives

With the European Commission mooting structural changes to commodity markets, AMAFI is arguing *(AMAFI / 25-39)* for targeted and proportionate adjustments to accommodate the specific features of these markets, which play a critical risk-hedging role for non-financial firms in energy, agriculture, metals and other industries. AMAFI called for discussions to focus on the real issues and stressed that the existing framework should not be tightened without reason.

AMAFI recommended fine-tuning those mechanisms that have proven effective, such as circuit breakers or ancillary activity exemption tests, while removing unnecessary requirements. In particular, the proposed systematic reporting of over-the-counter positions to trading venues is injudicious because it would duplicate EMIR obligations.

More broadly, AMAFI highlighted the growing complexity of reporting and proposed a three-step approach to address this *(see News p 7)*. It also flagged issues linked to margin calculations and eligible collateral, since these contributed to a shift in trading activity to OTC venues during the 2022 energy crisis.

Mathieu Jacolin, Diana Safaryan

MIFID

Best execution

ESMA published in early April its *final report on draft MiFID technical standards for best execution*. AMAFI was pleased that the standards remove a number of difficulties that it had identified *(AMAFI / 24-68)*. In particular, the level of detail of the best execution policy for different asset classes has been significantly reduced and brought back to its present level, while the specific features of own-account execution are better recognised.

Furthermore, the consolidated tape included under the revised version of MiFIR will not be mandatory for venue selection or policy monitoring.

As AMAFI requested, the new standards are therefore set to be broadly consistent with the existing provisions, except for those dealing with the monitoring of best execution policy, which have been substantially amended and now need to be examined to assess their actual practical impact.

Catherine Balençon, Julie Dugourgeot

TRANSACTION REPORTING

Simplification

With the European Commission making regulatory simplification a top priority, AMAFI has offered practical proposals to ease market participants' transaction reporting burden due to EMIR, SFTR and especially MiFID-MiFIR, without interfering with the goals of supervision:

- In the short term, suspend the revision of some MiFIR Level 2 measures and delay application of standards on financial instrument reference data. The European Forum of Securities Associations (EFSA) has written to ESMA with the same request.

- Postpone transposition of the revised MiFID II to focus on regulatory simplification and ensure that selected adjustments are implemented consistently. In the meantime, continue to use existing identifiers without creating new ones for each reporting regime, and harmonise the checks conducted by ESMA and national authorities.

- Further out, fundamental changes are required to make the system less complex while ensuring the quality of data transmitted, including scrapping redundant double reporting, rejecting some instruments that are already covered by other regimes, and refocusing on key information required for regulatory purposes.

Over the long run, Europe's reporting architecture needs to be recast around an ESMA-centralised database, considering the opportunity to gradually converge EMIR, MiFIR and SFTR frameworks to form a unified and stable framework.

Ambra Moschini

PROSPECTUS

Use of supplements

Responding to ESMA's consultation on guidelines on supplements, which introduce new securities to a base prospectus for debt issuance, AMAFI raised serious concerns *(AMAFI / 25-44)* about the proposed interpretation. Under ESMA's proposal, supplements could not be used to add "new features", such as an early redemption clause or a sustainability-linked mechanism to existing securities, to securities for which a base prospectus has already been published. This goes beyond the provisions of the Prospectus Regulation, which requires a new base prospectus only for new types of securities (not for new features to existing ones), making issuance processes significantly longer and therefore more costly.

Such an outcome would make European markets less competitive and hinder companies' access to market finance, which are two prime goals set for the Savings and Investment Union and pursued by the recently adopted Listing Act. In line with these objectives, European harmonisation should seek to align not with the most stringent approaches of national competent authorities but with the most flexible ones, provided they comply with the regulatory framework.

Ambra Moschini, Thiebald Cremers

SUSTAINABLE FINANCE

SFDR revision

Responding to the European Commission's call for evidence on the revision of the Sustainable Finance Disclosure Regulation, AMAFI stressed the need for improved legal clarity and consistency with other sustainability regulations *(AMAFI / 25-46)*.

It recommended extending the SFDR to products that are designed to integrate ESG features, such as structured products, to remove the legal uncertainty for issuers and to make the products more understandable to investors. To do this, however, it will be necessary to accommodate the specific characteristics of these instruments, which differ from the active investment products that are at the core of the SFDR's governing principles. AMAFI is delighted that the French Sustainable Finance Institute and the European Structured Investment Products Association have now taken up this proposal, which it has long advocated for.

AMAFI also recommended clarifying the definitions of key notions, such as sustainable investment and principal adverse impact indicators, making the information provided to retail customers more understandable, and aligning the treatment of derivatives in sustainable performance indicators. It underscored the need to coordinate the ongoing SFDR, MiFID II, CSRD and Taxonomy reforms to promote overall consistency in the European framework.

These recommendations are intended to contribute to efforts to build a regulatory environment that is more efficient, more understandable and better able to support the development of diverse ESG offerings in Europe.

Ambra Moschini

FRACTIONAL SHARES

Draft ordinance

The AMF asked the HCJP, a high-level committee set up to consider legal issues affecting the Paris financial centre, to draft a report on fractional shares, which are becoming more widely available. Meanwhile, the Treasury, under powers entrusted to it by the Attractiveness Act of June 2024, consulted the market community on a draft ordinance to clarify the regime for these instruments.

AMAFI, which took part in the HCJP's work, expressed support in principle *(AMAFI / 25-40)* for fractional shares, which could help to steer savings into equity and, more importantly, familiarise retail investors with the workings of stock markets.

But it pointed out that the proposed legislation focuses purely on the eligibility of fractional shares for standard and SME-focused equity savings plans, without providing a clear legal framework or provisions on investor protection. Tax treatment, particularly as regards the financial transactions tax, also needs to be clarified to ensure there are no unforeseen effects.

Thiebald Cremers

STRUCTURED PRODUCTS

Report by the AMF working group

Crédits :piranka

A working group of the board of the French financial market regulator, AMF, recently held a restricted consultation on its structured products report. AMAFI raised substantive reserves in its feedback:

- The group was seemingly set up in response to concerns about how structured products were being marketed to retail investors. But these concerns should be based on problems that have actually been observed by, for example, AMF staff, the AMF Ombudsman or the AMF-ACPR Joint Unit.
- Given that these products are already covered by stringent European regulations and national policy, imposing new domestic obligations, some of which would be redundant, would run counter to the overarching goal – shared by the AMF – of avoiding regulatory goldplating while promoting supervisory convergence. It would also conflict with the Retail Investment Strategy's aim of streamlining the customer journey.
- Regarding environmental, social and governance objectives, AMAFI and AMF staff are currently engaged in fulsome discussions while amendments to the European regulation are in full swing. Accordingly, the working group's proposals seem premature, and dialogue needs to continue on a structured basis.

AMAFI, which fully supports the detailed observations by the French Structured Investment Products Association (AFPDB), with which it works closely, has therefore recommended that the report should not be published as it stands. If best practices are to be created, this needs to happen through close cooperation between industry and the AMF.

Catherine Balençon, Julie Dugourgeot

NEW MEMBERS

- **Circlub**, an investment firm whose activities include order reception/transmission, placement without a firm commitment and investment advice. Its senior managers are Emmanuel Seviran (Chairman), Brahim Benaïssa (CEO) and Sébastien Mellot (Technical Director).
- **Saxo Bank**, an investment firm whose activities include order reception/transmission/execution. Thomas Jegu is its CEO in France.

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AMAFI documents quoted in this Newsletter and flagged with a reference number are on our website at

www.amafi.fr

Most of them, notably AMAFI's responses to public consultations, are freely available, but some are restricted to members only.

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