

Progress in AFL's initiatives towards 0% risk-weighting for its debt securities to support the financing of French local governments

The draft Simplification Bill, which is due to be examined by Parliament following the municipal elections in France, includes in Article 26 an amendment to the framework governing the guarantee provided by local governments to AFL's creditors. This legislative proposal represents a major milestone for the local government bank, which is continuing its efforts to ultimately secure 0% risk-weighting for its debt securities.

The proposal is the culmination of an initiative launched by AFL several years ago in conjunction with the relevant authorities, aimed at improving the financing conditions offered to local governments. It was in this context that the ACPR reached its decision on 21 June 2024 to risk-weight French local government debt at 0%, although AFL was unable to benefit from this as an issuer of debt securities. To finalise this process, it would make sense for AFL, as the local government bank, to be assigned a risk-weighting aligned with that of its shareholders and borrowers.

Reference regulatory framework

The decision issued by the ACPR Supervisory College on 21 June 2024, establishing a 0% risk-weighting for French local government debt, constituted a major step forward in recognising their financial strength.

This decision has notably enabled debt securities issued by AFL to be classified as High-Quality Liquid Assets (HQLA Level 1), enhancing their attractiveness to investors.

However, despite this progress in 2024, bonds issued by AFL remained risk-weighted at 20% (under the standardised approach) and subsequently at 30% since AFL has been rated A+ (by Fitch and S&P), following the downgrade of France's sovereign rating. This remains the case even though the vast majority of the bank's exposures (loans granted to local governments) are risk-weighted at 0%.

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Ongoing discussions with public authorities

To align the risk-weighting of its debt securities with that of its shareholders, AFL has entered into discussions with government departments to examine the legal and regulatory developments likely to support this initiative. These exchanges are part of the ongoing work surrounding the Simplification Bill, which is linked to the decentralisation process. This text is due to be presented to the Council of Ministers following the municipal elections.

Article 26 of the bill provides for the possibility for AFL shareholders to adapt their guarantee mechanisms to enable 0% risk-weighting for either AFL itself or the securities it issues.

Improving financing conditions for local governments

Ultimately, such recognition would help bolster the attractiveness of the AFL signature in the financial markets and align with the objective of improving the financing conditions offered to local governments. Through this initiative, AFL confirms its commitment to supporting local public investment and the financial sovereignty of French local governments.

“The recognition in June 2024 of a 0% risk-weighting for French local government debt is the result of extensive work undertaken by AFL in close coordination with the relevant authorities. It is therefore entirely justified that AFL – a bank wholly owned by local governments with activity exclusively dedicated to financing their investments – should now continue its efforts to ensure that its own debt securities eventually fall under the same prudential logic, for the benefit of all its shareholder authorities”, said Yves Millardet, Chairman of the AFL Executive Board.

About AFL, the local government bank

“Embodying responsible finance to empower the local world to meet the present and future needs of the population.”

As the only French bank wholly owned by local governments, AFL has a unique and innovative model: a bank created by and for all local governments. By becoming shareholders in AFL, local governments gain access to rapid, tailor-made financing for their local investments while being part of a sustainable and responsible finance initiative. For these governments, it means the freedom to invest while maintaining controlled management of their finances. Since commencing operations in 2015, AFL has already granted over €12 billion in loans, including €2 billion in 2025; as of 31 December 2025, it had 1,271 shareholders.

More information available here: www.agence-france-locale.fr/en/

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