FSB FINANCIAL STABILITY BOARD

# Peer Review of France

Review Report

20 July 2017

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# Foreword

Financial Stability Board (FSB) member jurisdictions have committed, under the FSB Charter and in the *FSB Framework for Strengthening Adherence to International Standards,*[1] to undergo periodic peer reviews. To fulfil this responsibility, the FSB has established a regular programme of country and thematic peer reviews of its member jurisdictions.

Country reviews focus on the implementation and effectiveness of regulatory, supervisory or other financial sector standards and policies agreed within the FSB, as well as their effectiveness in achieving desired outcomes. They examine the steps taken or planned by national authorities to address International Monetary Fund (IMF)–World Bank Financial Sector Assessment Program (FSAP) and Report on the Observance of Standards and Codes (ROSC) recommendations on financial regulation and supervision as well as on institutional and market infrastructure that are deemed most important and relevant to the FSB's core mandate of promoting financial stability. Country reviews can also focus on regulatory, supervisory or other financial sector policy issues not covered in the FSAP that are timely and topical for the jurisdiction itself and for the broader FSB membership. Unlike the FSAP, a peer review does not comprehensively analyse a jurisdiction's financial system structure or policies, or its compliance with international financial standards.

FSB jurisdictions have committed to undergo an FSAP assessment every 5 years; peer reviews taking place 2-3 years following an FSAP will complement that cycle. As part of this commitment, France volunteered to undergo a peer review in 2016-17.

This report describes the findings and conclusions of the France peer review, including the key elements of the discussion in the FSB's Standing Committee on Standards Implementation (SCSI) in May 2017. It is the twentieth country peer review conducted by the FSB, and it is based on the objectives and guidelines for the conduct of peer reviews set forth in the March 2015 version of the *Handbook for FSB Peer Reviews.*[2]

The analysis and conclusions of this peer review are based on the responses to a questionnaire by financial authorities in France and reflect information on the progress of relevant reforms as of March 2017. The review has also benefited from dialogue with the French authorities as well as discussion in the FSB SCSI.

The draft report for discussion was prepared by a team chaired by Pascual O'Dogherty (Director General, Financial Stability Department, Bank of Mexico) and comprising Alejandra Bernad (Bank of Spain), Marie-France Bourret (Ontario Securities Commission), Sankaran Nair Rajagopal (Reserve Bank of India) and Samuel Schenker (Swiss Department of Finance). Dimple Bhandia, Pablo Perez and Costas Stephanou (FSB Secretariat) provided support to the team and contributed to the preparation of the peer review report.

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[1] See http://www.fsb.org/2010/01/r_100109a/.

[2] See http://www.fsb.org/2015/03/handbook-for-fsb-peer-reviews/.

# Abbreviations

| | |
|---|---|
| ACP | Autorité de Contrôle Prudentiel |
| ACPR | Autorité de contrôle prudentiel et de résolution |
| AIF | Alternative Investment Fund |
| AIFMD | Alternative Investment Fund Managers Directive |
| AMF | Autorité des marchés financiers |
| ANC | Autorité des normes comptables |
| AuM | Assets under Management |
| BRRD | Bank Recovery and Resolution Directive (EU) |
| BCBS | Basel Committee for Banking Supervision |
| BCPs | Basel Core Principles |
| BdF | Banque de France |
| CCP | Central counterparty |
| CCyB | Countercyclical buffer |
| CDS | Credit default swaps |
| CGFS | Committee on the Global Financial System |
| CIF | Conseiller en Investissement Financier (investment advisor) |
| CMF | Code monétaire et financier (Monetary and Financial Code) |
| COREFRIS | Conseil de Régulation Financière et du Risque Systémique |
| CPMI | Committee on Payments and Market Infrastructures |
| CRE | Commercial real estate |
| CRR/CRD IV | Capital Requirements Directive and Regulation IV (EU) |
| D-SIB | Domestic systemically important bank |
| DSF | Financial Stability Department (Banque de France) |
| EBA | European Banking Authority |
| EC | European Commission |
| ECB | European Central Bank |
| EDTF | Enhanced Disclosure Task Force |
| EEA | European Economic Area |
| EFRAG | European Financial Reporting Advisory Group |
| EIOPA | European Insurance and Occupational Pensions Authority |
| ELTIF | European long-term investment funds |
| EMIR | European Market Infrastructure Regulation |
| ESMA | European Securities Markets Authority |
| ESRB | European Systemic Risk Board |
| ETFs | Exchange-traded funds |
| EU | European Union |
| FGD | Fonds de Garantie des Dépôts (Deposit Guarantee Fund) |
| FIU | Financial Intelligence Unit |
| FMI | Financial Market Infrastructure |
| FPC | Financial Policy Committee (UK) |
| FSB | Financial Stability Board |
| FSAP | Financial Sector Assessment Program |
| GAAP | Generally Accepted Accounting Principles |
| GDP | Gross Domestic Product |
| G-SIB | Global systemically important bank |
| G-SII | Global systemically important institution |
| H3C | Haut Conseil du Commissariat aux Comptes |
| HCSF | Haut conseil de stabilité financière |
| IAIS | International Association of Insurance Supervisors |
| IASB | International Accounting Standards Board |
| IFRIC | IFRS Interpretations Committee |
| IFRS | International Financial Reporting Standards |

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| ICPs | Insurance Core Principles |
| IMF | International Monetary Fund |
| IOPs | IOSCO Objectives and Principles of Securities Regulation |
| IOSCO | International Organization of Securities Commissions |
| KIID | Key investor information document |
| MoF | Ministry of Finance |
| MoU | Memorandum of Understanding |
| OTC | Over-the-counter |
| SFCR | Solvency and Financial Condition Report |
| SIB | Systemically important bank |
| SRB | Single Resolution Board |
| SSM | Single Supervisory Mechanism |
| TRACFIN | Traitement du renseignement et action contre les circuits financiers clandestins (FIU) |
| UCITS | Undertakings for Collective Investment in Transferable Securities |

# Executive summary

## Background and objectives

The main purpose of this peer review is to examine two topics that are relevant for financial stability and important for France: macroprudential policy framework, and public disclosures of financial sector data. The peer review focuses on the steps taken by the French authorities to implement reforms in these areas, including by following up on relevant FSAP recommendations and FSB initiatives and recommendations.

## Main findings

Significant progress has been made in developing a comprehensive macroprudential policy framework and in enhancing financial sector disclosures in recent years. This progress reflects initiatives undertaken at both European Union (EU) and national level. However, there remain a few areas where further progress would be desirable. On the macroprudential framework, this involves continuing to expand the scope of macroprudential policy; enhancing systemic risk assessments and their disclosure; and strengthening public communication relating to financial stability issues. On disclosures, this involves adopting guidance to enhance the transparency of capital treatment in complex banking groups; establishing a programme to review and follow up on reports that will be submitted by insurers under Solvency II; and considering the publication on a regular basis of comparable insurance company information.

***Macroprudential policy framework***

The July 2013 Banking Reforms Act provided the inter-agency Haut conseil de stabilité financière (HCSF) – originally created in 2010 – with an explicit mandate for financial stability and a broad range of macroprudential powers, including data collection powers for financial stability purposes, powers to formulate opinions and recommendations, as well as a comprehensive set of legally binding macroprudential tools for the banking sector. Financial stability mandates were also embedded in the objectives of the Banque de France (BdF), Autorité de Contrôle Prudentiel et de Résolution (ACPR) and the Autorité des marchés financiers (AMF). The HCSF is operational and has enhanced cooperation and information sharing amongst its member authorities. Risk assessments have been strengthened through improved analytical tools. The authorities have expanded the range of publications since the FSAP to communicate on financial stability issues, and the HCSF has used communication as a soft power to raise market participants' awareness of risks (e.g. on the French commercial real estate market). Recent legislative initiatives have addressed gaps regarding HCSF powers for information collection and to impose credit standards on non-bank credit providers, and have provided the HCSF with innovative macroprudential tools for the insurance sector.

Building on these accomplishments, as with other countries, additional work is needed to extend and deepen the macroprudential policy framework.

- ***Scope of macroprudential policy***: While HCSF surveillance has been wide-ranging, its legally binding powers to date have focused on the banking sector. This reflects the importance of the sector in the French financial system, initiatives at EU level and the current state of international knowledge in this area. The HCSF has analysed possible risks in the insurance sector and has obtained new powers to reinforce the resilience of insurance companies and to take preventive macroprudential measures when necessary to preserve the stability of the sector. More recently, the HCSF has analysed potential risks in the asset management sector, while work is underway to assess interconnections between this sector and the rest of the financial system. At this stage, no conclusions have been reached about the need to expand available AMF tools in the sector for macroprudential purposes.

In its strategy document, the HCSF notes that the "strategy is liable to be revised and expanded as experience in macroprudential matters grows." In order to pursue its mandate of "supervising the financial system as a whole", the HCSF and its member authorities should continue to extend the macroprudential approach to other important financial sectors, such as insurance and asset management. This involves not only evaluating systemic risks in those sectors (which is underway), but also assessing whether the five intermediate objectives that guide the operational implementation of macroprudential policy should be revised in light of those risks; adding policy tools as appropriate and mapping them to objectives; fleshing out decision-making processes to apply those tools; and discussing implications for public communication. While most countries face similar challenges in developing their macroprudential framework – and indeed, the cross-border nature of some of those risks necessitates an international response – this is particularly relevant for France given the importance of those sectors in its financial system.

- ***Systemic risk assessments and their disclosure:*** One of the risk assessment tools used by the BdF and ACPR is network analysis, which indicates the level of interconnectedness and related risks. The BdF uses network models in research work to quantify domestic and cross-border contagion in the banking sector as well as to assess the impact and propagation of shocks on banks, asset managers and interbank markets. The ACPR conducts network analysis to assess the amplifications of common shocks due to financial linkages within the banking sector as well as between financial conglomerates, banks and insurance firms. The analysis is now being extended to the assessment of vulnerabilities and transmission of risks from financial exposures of other sectors within the financial system or outside it, as is the case in some other countries. Extending the network analysis based on recent BdF research to other sectors – such as asset management, the corporate sector (in terms of bilateral exposures with financial institutions) and foreign financial institutions (within and outside the EU) – will enhance the coverage and accuracy on the interconnectedness of the financial system and of any associated systemic risks and amplification channels.

  The BdF report on "Assessment of risks to the financial system" presents the findings from the systemic risk assessments prepared by staff of BdF and ACPR. The report is comprehensive and identifies the main risks to the French financial system. However, there is little disclosure on the data, methodologies and assumptions underpinning the report. The authorities note that some of these are found in other BdF/ACPR and European Banking Authority (EBA) publications; that some prudential data may be confidential; and that disclosure of certain indicators may give the misleading impression to market participants that the authorities rely exclusively on them for policy decisions.

  Faced with these challenges, authorities in some other countries have sought to enhance transparency on risk analysis in their financial stability reports (e.g. data and assumptions used to arrive at results, methodologies and analytical tools deployed), so as to enable market participants to better judge the risks set out in the assessment. This can be done by citing methodologies and assumptions in footnotes or Annexes, as well as by including additional relevant information on the website while making clear that such information is complemented by expert judgement in arriving at risk assessments and policy decisions.

- ***Communication on financial stability issues:*** The authorities' main publications on financial stability issues are the HCSF annual report (since 2015), the BdF risks assessment report (since 2015) and the AMF risk outlook report (since 2007). At present there is no pre-announced publication calendar for these reports, but indicative dates are communicated: the BdF reports are expected to be published twice a year (June and December), the HCSF report is expected to be published following its June meeting, while the AMF report is typically published in July. Similarly, fixed dates for future HCSF meetings are not published in advance to market participants, although it is expected that the HCSF meets in the last month of every quarter.

  A number of financial stability bodies in other countries schedule meetings and publish their reports based on a pre-announced calendar. Such transparency and predictability is aimed at improving the effectiveness of communication and enables market participants to be better prepared for any policy announcements. These arrangements are important because in the absence of a well-articulated paradigm, macroprudential authorities have substantial discretion and need to exercise judgment in setting instruments.

  The HCSF and its member authorities seek to coordinate, whenever necessary, their communication policies. Unlike in the case of some other countries with a similar institutional set-up, the HCSF and BdF reports present their own analysis of developments and risks in the French financial system. The authorities note that the two reports are published at around the same time and seek to complement each other. The AMF risk outlook report, which is published shortly thereafter, also includes a set of identified risks. This 'bunching' of reports over the same time period and the similarities in their content leaves open the possibility of overlapping analysis or potentially conflicting messages. The relevant authorities may therefore wish to consider whether to revisit the content (e.g. in terms of coverage) or timing (e.g. in terms of publication dates) of their respective reports.

***Public disclosures of financial sector data***

There has been a broad range of initiatives since the FSAP to enhance disclosures. They include enhanced disclosure requirements for banks (CRR), insurers (Solvency II) and other financial institutions (UCITS and AIFM Directives), supported by guidance and reviews/assessments from European Supervisory Authorities and national authorities as well as by active interaction with stakeholders. The HCSF and BdF have expanded their public reporting of conditions and risks to the French financial system, while detailed bank-by-bank data on capital positions, risk exposure amounts and asset quality (including for 12 French banks, which account for 91% of the domestic banking sector) is disclosed by EBA.

At the same time, however, there remain a few areas where further progress would be desirable.

- ***Disclosure of capital treatment in complex banking groups***: Some concerns expressed in the FSAP regarding the disclosure of the regulatory capital treatment and financial interactions within major French mutual banking groups appear to have been addressed as a result of the simplification of their corporate structures. However, the complex internal solidarity mechanism within those groups still requires detailed information to be disclosed.

As regards the treatment of bancassurance exposures in a banking group, recent EBA guidance requires disclosures of the amount of holdings of own funds and risk-weighted amounts associated with those exposures. These are expected to enable investors to better understand the implications of the alternative consolidation treatment applied where holdings of own funds in insurance undertakings are not deducted under the CRR. The date of application is 31 December 2017, although the guidance contains an early application instruction. The French authorities are of the view that these additional disclosures are not necessary, given that Directive 2011/89/EU already provides an adequate legal framework for supplementary prudential supervision and transparency. They also note that these requirements form part of the European Commission's proposed amendments to the CRR.

Notwithstanding discussions on the most appropriate prudential treatment of bank-insurance groups, these disclosures are expected to enhance the information available to investors and thereby help to address the FSAP recommendation to "require full and consistent disclosure of the capital treatment in place and the related financial interactions within complex groups". Given the relevance of this issue for certain domestic banking groups, the ACPR – through its participation in the Single Supervisory Mechanism – should contribute to the application of the EBA guidelines in France in order to enhance the availability and consistency of information on bancassurance relationships.

- ***Process for reviewing SFCRs***: More than 500 insurers supervised by the ACPR apply Solvency II, which requires specific risk disclosures in a report – the "Solvency and Financial Condition Report" (SFCR) – to be published annually at individual and consolidated level. The SFCR covers information on the business model, governance arrangements, risk exposures and concentrations, valuation of technical provisions, capital management, and resources eligible to meet the minimum requirements. The ACPR is responsible for supervising compliance by insurers with the SFCR, and the first reports will be available by 20 May 2017 (single SFCR) and 30 June 2017 (group SFCR).

  The fact that 2016 is the first year for which SFCRs will be prepared, and that such reports are not subject to an external audit, is expected to compound the demand on ACPR resources – particularly given other impending challenges relating to Solvency II. In order to address this issue, the ACPR should establish a risk-based, proportional programme for SFCR review, considering factors such as the size, risk exposures and concentrations, solvency and nature of business of the entities. This would allow the ACPR to deal more effectively with the SFCR reports that will be submitted by insurance groups in 2017. Such a programme should also include a formalised process to assess identified deficiencies and seek rectifications to improve the quality of SFCR disclosures, subject to review by ACPR governing bodies owing to the importance of this new task for the institution.

  Relatedly, the ACPR may want to require entities to explicitly state in their SFCR whether (and which) information and figures have been audited.

- ***Disclosures on insurance companies by authorities:*** The authorities have made considerable progress in disclosing conditions and risks to the French financial system. In addition, detailed bank-by-bank data is disclosed by EBA through its transparency exercise.

  The insurance sector does not undergo a comparable transparency exercise such as the one prepared by EBA for the banking sector. Solvency II sets out disclosures by supervisory authorities and the information that should be publicly disclosed by insurance undertakings in the SFCR. National authorities will publish around mid-2017 aggregated information (as of end-2016) and individual companies will publish their SFCR. For the time being, there is no plan to publish institution-by-institution data in national authority websites or by EIOPA. As a matter of good practice and given the importance of this industry in France, the ACPR may want to enhance transparency – when Solvency II data is sufficiently reliable and in the absence of a transparency exercise conducted at EU level – by either publishing on a regular basis comparable financial and prudential information (based on the SFCR) for a representative sample of French insurers, or by developing a common template and standard interfaces to facilitate such disclosures by the firms themselves.

**Recommendations**

In response to the aforementioned findings and issues, the peer review has identified the following recommendations to the French authorities:

***Macroprudential policy framework***

1. The HCSF should continue to extend its macroprudential approach (in terms of systemic risk assessments, policy tools and decision-making processes) in the insurance and asset management sectors.
2. The BdF, working with other authorities, should continue to enhance its systemic risk analysis on interconnectedness outside banks and insurers (e.g. asset management and corporate sectors) as well as on a cross-border basis. It should also disclose publicly the data, methodologies and assumptions underpinning the analysis in its risk assessment reports.
3. The HCSF, BdF and AMF should examine whether the content and timing of their respective publications relating to financial stability can be further coordinated. In addition, the HCSF should consider publishing a calendar with indicative dates of scheduled meetings and publications.

***Public disclosures of financial sector data***

4. The ACPR should contribute to the application of the EBA guidance on disclosure requirements, so as to enhance the transparency of the regulatory capital treatment of insurance undertakings within banking groups as well as the overall consistency and comparability of banks' Pillar 3 disclosures.
5. The ACPR should establish a programme to review and prioritise the SFCR submissions of insurance companies based on criteria that identify sources of risk. The programme should include a process to formally assess, communicate and follow up on corrections of identified deficiencies in SFCRs. The ACPR should also consider requiring entities to explicitly state in their SFCR whether (and which) information and figures have been audited.
6. The ACPR should consider publishing on a regular basis, or facilitating publication by individual firms through the development of a common template and standard interfaces, comparable institution-by-institution information for a representative sample of insurance companies relating to their financial statements, solvency ratios and technical provisions.

## Introduction

France underwent an assessment update under the Financial Sector Assessment Program (FSAP) in 2012. The FSAP Update included assessments of the Basel Committee for Banking Supervision (BCBS) *Basel Core Principles for Effective Banking Supervision*, International Association of Insurance Supervisors (IAIS) *Insurance Core Principles*, International Organization of Securities Commissions (IOSCO) *Principles and Objective of Securities Regulation* and Committee on Payments and Market Infrastructures (CPMI)-IOSCO *Recommendations for Securities Settlement Systems and Central Counterparties*.[3, 4]

The FSAP concluded that France's financial system had shown resilience to significant market pressures during the global financial crisis, but that it faced challenges. While its structure had contributed to solid profit generation, the crisis exposed the risks posed by the banks' size, complexity and dependence on wholesale funding. The larger banks have been actively restructuring their balance sheets by moving to more stable sources of funding; reducing their cross-border presence; and building up capital. The FSAP noted that these banks remain, however, vulnerable to sustained disruptions in funding markets and reduced profitability, which would cause delays in meeting capital-raising plans.

The FSAP also found that the regulatory and supervisory regime for banks, insurance and securities markets, and market infrastructures is of a very high standard. Areas for improvement included greater de jure independence of supervisory authorities; disclosure of the capital treatment and related financial interactions within complex banking groups; a move toward a more economic risk-focused approach to insurance regulation and supervision; and enhanced supervision of investment service providers and financial advisors. The FSAP noted that, notwithstanding extensive financial sector disclosures under International Financial Reporting Standards (IFRS) and as a result of bank regulations, disclosure of financial sector data falls short of best international practice and that enhancements would be highly desirable.

The IMF's 2016 Article IV report[5] concluded that France's economy is recovering, but that major efforts are still needed to foster job creation and put public finances on a more sustainable footing. On the financial sector, the report found that France's big banks have buttressed their balance sheets since the global financial crisis, which has helped them cope with recent bouts of financial volatility; that profitability is still fragile and the main challenge is for banks and insurers to operate in an era of modest growth and very low interest rates; and that the financial sector will need to continue adapting to this environment, including the evolving regulatory framework). The report recommended ensuring that banks and insurers adapt their business models accordingly, while monitoring emerging risks, to ensure that the financial sector can provide adequate support to the real economy.

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3 See "France: Financial System Stability Assessment" (December 2012, IMF Country Report No. 12/341 https://www.imf.org/external/pubs/ft/scr/2012/cr12341.pdf). The ROSC assessments have been published and are available on the IMF website (http://www.imf.org/external/np/fsap/fsap.aspx).

4 In December 2014, the BCBS published its assessment of the consistency with the Basel III framework of the risk-based capital regulations in the European Union. See http://www.bis.org/bcbs/publ/d300.pdf for details.

5 See France's "2016 Article IV Consultation" (July 2016, IMF Country Report No. 16/227, https://www.imf.org/external/pubs/ft/scr/2016/cr16227.pdf).

This peer review report has two main sections, corresponding to the two topics being reviewed. Section 2 focuses on the macroprudential policy framework, while Section 3 covers the public disclosures of financial sector data. In addition, Annex 1 provides background information on the institutional framework and recent regulatory developments in France; Annex 2 outlines the structure of the financial system; and Annex 3 describes the institutional framework for financial sector disclosures. Annex 4 presents the follow-up actions reported by the authorities to key FSAP recommendations; these actions have not been analysed as part of the FSB peer review and are presented solely for purposes of transparency and completeness.

## 1. Macroprudential policy framework

### Background

The FSAP noted that, in the aftermath of the crisis, the authorities took a number of steps to strengthen their oversight framework. Important steps were: the establishment of the Autorité de Contrôle Prudentiel (ACP),[6] attached to the Banque de France (BdF), bringing together responsibility for prudential supervision of banks, insurers, investment firms and market infrastructure providers, with a new mandate for consumer protection; and the creation of the Conseil de Régulation Financière et du Risque Systémique (COREFRIS) as an inter-agency cooperation and coordination mechanism on systemic risk prevention and management, including in crisis times. The FSAP, however, pointed out that France had not yet designated an authority with formal powers to conduct macroprudential policy as envisaged by the Capital Requirements Directive and Regulation (CRR/CRD IV),[7] and that the COREFRIS was not a decision-making body as each authority retained responsibility to act in its own right. The FSAP noted that, to be credible, the macroprudential authority should anchor decision making in analyses of financial stability that help shape the knowledge and expectations of market participants and the public. It also noted that, while the ACP was starting to benefit from synergies in bank and insurance supervision, it will be important not to let consumer protection crowd out the essential microprudential contribution of the ACP to financial stability.

This section, drawing on the experience of other FSB jurisdictions and on international guidance in this area,[8] examines the institutional arrangements for macroprudential policy,

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6 In 2013, the ACP was renamed the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and vested with additional powers related to recovery and resolution of financial institutions.

7 Directive 2013/36/EU on the access to the activity of credit institutions and prudential supervision of credit institutions and investment firms (CRD IV) and Regulation No 575/2013 on prudential requirements for credit institutions and investment firms (CRR). The CRR/CRD IV package transposed Basel III into EU law.

8 See "Macroprudential Policy Tools and Frameworks – Progress Report to the G20" (October 2011, http://www.fsb.org/2011/10/r_111027b/) and "Elements of Effective Macroprudential Policies" by the IMF, FSB and BIS (August 2016, http://www.fsb.org/2016/08/elements-of-effective-macroprudential-policies/); "Macroprudential Policy: An Organizing Framework" (March 2011, http://www.imf.org/external/np/pp/eng/2011/031411.pdf), "Institutional Models for Macroprudential Policy" (November 2011, http://www.imf.org/external/pubs/ft/sdn/2011/sdn1118.pdf), "Key aspects of macroprudential policy" (June 2013, http://www.imf.org/external/np/pp/eng/2013/061013b.pdf) and "Staff Guidance on Macroprudential Policy" (December 2014, http://www.imf.org/external/np/pp/eng/2014/110614.pdf) by IMF staff; and "Macroprudential instruments

including objectives, scope, powers, tools and governance; the role of different authorities in this process and arrangements for information sharing and coordination; the analytical framework for the assessment of systemic risks, design and use of prudential tools to manage identified risks; and the functioning of the framework to date with respect to identifying and addressing systemic risks.

**Steps taken and actions planned**

***Institutional arrangements***: In July 2013, France strengthened its institutional framework for the definition and implementation of macroprudential policy. The revision was introduced in the context of the finalisation of Basel III, the implementation of European Union legislation (CRD IV/CRR) and recommendations of the European Systemic Risk Board (ESRB),[9] which called for Member States to designate a macroprudential authority and vest it with legally binding powers with a view to implementing a macroprudential policy. The French macroprudential framework is part of a broader European system, designed for all EU countries and adjusted for euro area countries as part of the Single Supervisory Mechanism (SSM).[10]

In particular, the system-wide monitoring of financial stability and the conduct of macroprudential policy were entrusted to the COREFRIS, which was renamed Haut conseil de stabilité financière (HCSF).[11] The mandate of the HCSF was defined by the July 2013 Banking Reform Act (Law on the Separation and Regulation of Banking Activities) as "supervising the financial system as a whole, with the aim of safeguarding its stability and ensuring a sustainable contribution of the financial sector to economic growth". The HCSF defines financial stability as a condition whereby financial resources and risks are efficiently allocated so as to limit the financial and macroeconomic impact of adverse financial events. Thus, financial stability is seen as a prerequisite for efficient financing of the economy and sustainable economic growth.

As a collegiate institution, the HCSF brings together all the institutions involved in the oversight of the French financial ecosystem. These comprise the Treasury, BdF, ACPR, Autorité des marches financiers (AMF) and Autorité des normes comptables (ANC). The HCSF is chaired by the Minister of Finance and includes the Governor of the BdF, the Vice-Chairman of the ACPR, the chairmen of AMF and ANC, and three external members selected

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and frameworks: A stocktaking of issues and experiences" (May 2010, http://www.bis.org/publ/cgfs38.htm), "Operationalising the selection and application of macroprudential instruments" (December 2012, http://www.bis.org/publ/cgfs48.htm), "Experiences with the ex ante appraisal of macroprudential instruments" (July 2016, http://www.bis.org/publ/cgfs56.htm) and "Objective-setting and communication of macroprudential policies" (November 2016, http://www.bis.org/publ/cgfs57.htm) by the Committee on the Global Financial System (CGFS).

9 The ESRB recommendations of December 2011 on the macroprudential mandate of national authorities (ESRB/2011/3) and of April 2013 on the intermediate objectives and instruments of macroprudential policy (ESRB/2013/1). See http://www.esrb.europa.eu/pub/pdf/recommendations/2011/ESRB_2011_3.en.pdf and http://www.esrb.europa.eu/pub/pdf/recommendations/2013/ESRB_2013_1.en.pdf respectively.

10 See the European Commission's 2016 consultation document on a review of the EU macroprudential policy framework (http://ec.europa.eu/finance/consultations/2016/macroprudential-framework/docs/consultation-document_en.pdf).

11 Article L.631-2-1 of the Code monétaire et financier (CMF). See http://www.economie.gouv.fr/hcsf-en.

on the basis of their skills in the field of monetary policy, finance or economics.[12] The HCSF meets on invitation by its president at least four times a year and whenever a situation calls for a meeting. This structure allows the HCSF to take into account the views of all the authorities, giving it a comprehensive vision of the financial sector as well as access to external perspective.

The Financial Stability Department of the BdF (DSF) and the Banking and Financial Sector Analysis Department of the Treasury jointly provide the Secretariat of the HCSF. The Secretariat lays out the groundwork for the HCSF's discussion and leads ad hoc working groups that could – depending on the topic – involve other teams within the BdF/Treasury or other authorities. The agenda for each meeting is set by the Chairman of the HCSF, but the HCSF's Rules of Procedure state that any member can ask for a discussion on any topic it deems important to be included in the agenda.

The HCSF seeks to achieve consensus through in-depth discussions,[13] but has also established voting rules. Decisions regarding the publication of opinions and recommendations are taken by a simple majority rule of members present, with the Chairman holding the casting vote in case of a tie.[14] In accordance with the 2011 ESRB recommendation, the institutional setup of the HCSF provides a special role for the BdF. If decisions involve legally binding tools (e.g. countercyclical capital or systemic risk buffer), they have to be proposed by the BdF Governor and are only adopted if at least four members have voted in favour. The Governor can publish his proposals, allowing him to signal if he wished to take action but the HCSF did not follow through. To date, there have not been any instance where such proposals have been published.

The HCSF relies on its members to follow up on the implementation of its decisions. When formulating recommendations, the HCSF explicitly asks for a regular update by the recipient member authority. This follow-up is then integrated in the agenda of the next meetings.

In addition to the HCSF, the BdF has an overarching responsibility for financial stability. In this regard, the BdF aims to assess and prevent systemic risks and spillover effects emerging from the financial system and is in charge of the monitoring of risks and vulnerabilities in the financial system as a whole. It has developed a range of tools and models to support decisions related to activation and calibration of macroprudential capital buffers (see below). The BdF is in charge of the analyses regarding the activation and calibration of the macroprudential tools at the disposal of the HCSF (e.g. capital buffers, credit standards).

The DSF, which was created in 2007, aims to detect and prevent systemic risks, contagion risk and spillover effects emerging from interactions with the financial system and between the financial system and the economy. It is also in charge of macroprudential analysis, research and policy within the BdF. In order to assess these risks and to elaborate policy responses, the DSF analyses hard and soft data, develops impact studies, provides research and engages in international fora involved in designing financial regulation. It also organises the regular financial stability meetings with experts across various divisions of the BdF to perform on a

[12] The three independent members are elected for a five year term by the president of the parliament, the president of the senate and the Economics Minister (CMF L631-2, paragraph 5).

[13] Such discussions usually occur before an issue becomes the topic of a decision (opinion, recommendation or legally binding tool): the issue is flagged during a discussion on risk surveillance, is then the subject of a preliminary discussion, and then an in-depth analysis, before (if it is deemed useful) leading to a decision.

[14] See Article R.631-8 of Decree No 2014-1310 of 31 October 2014 on the mission of the HCSF.

semi-annual basis an assessment of new risks to financial stability in France. This assessment and the development of other financial studies involves the Departments of Statistics, Economics and International Relations, Financial Stability and Operations and the ACPR (Research Directorate and the Directorate of International Affairs). These risk assessments of the BdF and the ACPR serve as a basis for the discussions in the HSCF meetings.

The statutory objectives of the ACPR, which are defined in Article L. 612-1 of the CMF, are to "ensure the stability of the financial system and protection of the clients, the insured, and the members and beneficiaries of the entities subject to its supervision."[15] Through its work as supervisor of banks, insurers and other financial intermediaries, the ACPR contributes to the stability of the financial system. The ACPR is also involved in macroprudential policy through its cross-sectional analysis on the impact of macroeconomic conditions on the solvency and profitability of institutions (stress tests and quantitative impact studies),[16] the designation of systemically important banks (SIBs) in France,[17] and the implementation of certain policy tools defined in the CRR for macroprudential purposes (see below).

According to its mandate as defined in Article L.621-1 of the CMF, the AMF "in carrying out its duties, takes account of the objectives of financial stability throughout the European Union and the European Economic Area". The AMF contributes to financial stability through its core mission of maintaining orderly financial markets and investor protection. As a member of the HCSF, the AMF can provide views and analysis based on its expertise on financial markets.

***HCSF strategy***: As required under the 2013 ESRB recommendation, the HCSF published its strategy in which it outlines its mandate, institutional framework for implementation, macroprudential toolkit, decision-making process, and arrangements for external communication and transparency.[18] Five intermediate and non-exclusive objectives have been defined that guide the operational implementation of its macroprudential policy: mitigating and preventing excessive credit growth and leverage; limiting overreliance on short-term funding or excessive maturity/risk mismatch, and mitigating market illiquidity; limiting direct and indirect exposure concentrations; limiting the systemic impact of misaligned incentives with a view to reducing moral hazard; and strengthening the resilience of financial infrastructures.

To achieve its objectives, the HCSF has a broad range of macroprudential powers at its disposal. These powers have been designed following two principles: (1) subsidiarity, i.e. it is not intended to take over responsibility of pre-existing (microprudential) authorities but to complement and coordinate with them whenever necessary; and (2) collegiality, i.e. to take into account the views of all members and better anticipate interactions between different types

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[15] As regards financial stability, the article provides that "in the performance of its duties, the [ACPR] shall take into account the objectives of financial stability throughout the European Economic Area and convergent implementation of the domestic and Community provisions, taking due account of the good practices and recommendations arising from the Community supervision provisions."

[16] The research directorate of the ACPR provides research and modelling tools, collects data and conducts cross-section analysis in coordination with the direct supervisors.

[17] For coordination purposes, the ACPR informs the HCSF on SIB designation plans, in particular the envisaged annual outcome of designations and update of methodologies. Following its presentation to the HCSF in this area, the ACPR formally designates SIBs and informs the HCSF of the results of its designation process.

[18] See www.economie.gouv.fr/files/strategy_hcsf.pdf.

of policy. The powers can be categorised into soft (e.g. communication by the HCSF); intermediate (e.g. formulation of opinions and recommendations);[19] and hard, where the HCSF exercises its legally binding tools (see below). Each of these powers has different attributes and strengths, and they can be used in combination to complement each other.[20]

In general, the HCSF's decision-making process is an ongoing cycle comprised of four different stages (see below). In the first stage, the HCSF assesses systemic risk by regularly monitoring the financial system as a whole using a broad set of indicators and analysing economic developments and potential structural weaknesses. In the second stage, the HCSF selects and calibrates one or more of the available instruments in order to address the identified risks or weaknesses. The HCSF takes particular care to verify that the chosen instrument is suited to the identified weakness, and analyses both its calibration and intensity to ensure they are consistent with the perceived level of risk. In line with the HCSF's approach of guided discretion, the instruments and calibration are initially selected on the basis of specific rules/quantitative analysis based on analytical tools, but the final decision is based on the High Council's own judgement. The third stage relates to implementation. The HCSF communicates the reasons for its intervention, notably the source of the systemic risk, the instruments it has selected and their transmission mechanisms and impact. The last stage involves assessing the efficiency of the macroprudential policy. This includes verifying ex post that the measure has had the desired effect in terms of mitigating the systemic risk, and adjusting it where warranted.

***Cooperation and information sharing***: At the domestic level, the HCSF's legal mandate requires it to foster the cooperation and exchange of information with and between its member authorities. In practice, this mandate is accomplished by means of regular meetings, where the authorities exchange information. There are also cross-participations in the boards of supervisory authorities: the ACPR, the AMF and ANC all have representatives on each other's boards, while the Treasury is also represented (in a non-voting position) on these three boards. Information exchange is facilitated as the BdF, ACPR and AMF have the legal right to provide the HCSF with any information they may have if it serves to fulfil the HCSF's mandate. In general, the HCSF's coordination role complements pre-existing coordination mechanisms among its member authorities, given that the law already requires the BdF, ACPR and AMF to cooperate and to share any necessary information to fulfil their respective mandates.[21]

In order to optimise the work allocation between the ACPR and the BdF, a common "pôle de stabilité financière" (Financial Stability Pole) under the supervision of a designated coordinator (which alternates between the two authorities) was established in September 2016. The Financial Stability Pole coordinates, in terms of skills and resource sharing, the financial stability-related work of the Research and International Affairs Departments of the ACPR and the DSF of BdF. A common work programme as well as a common decision/validation process at the level of the Financial Stability Pole aim to prevent duplication and ensure consistency.

[19] The HCSF has, by law, the power to formulate any opinion or recommendation useful to prevent systemic risk or any threat to financial stability. These opinions or recommendations which can be addressed to competent authorities or target entire sectors, can be published if the HCSF chooses to do so.

[20] See "Elements of Effective Macroprudential Policies" by the IMF, FSB and BIS (August 2016, ibid).

[21] Article L. 631-1 of the CMF.

With respect to the European and international levels, the legal framework[22] authorises the BdF, ACPR and AMF to cooperate with European or non-EU member authorities in order to provide to each other the necessary information to fulfil their respective mandates. The ACPR and AMF have cooperation protocols with authorities in other countries on regulatory cooperation and information sharing.[23] French authorities are also involved in data collection and information sharing via their participation in international[24] and European[25] organisations.

***Information for systemic risk analysis*:** The BdF, ACPR and AMF are legally empowered to collect a wide range of data from French non-financial corporations (a large number of which are rated by BdF) [26] as well as credit institutions, insurers and funds. Other data are collected for the purpose of surveys or specific statistics such as on commercial and residential real estate and households. Moreover, according to Article L. 141-6 of the CMF, the BdF has a general data collection power that allows it to request any information deemed useful to fulfil its mission (which includes financial stability) from any financial institution.

In accordance with the provisions of Article L. 612-24 of the CMF, the Secretary General of the ACPR may request from the entities subject to its supervision (which includes credit institutions, investment firms and insurance companies) any information or documents necessary to carry out the tasks conferred upon the ACPR. In this respect, the ACPR is empowered to request additional information on an ad hoc basis from these entities for financial stability purposes. Regarding entities that are not under its supervision, the ACPR can only obtain information on a voluntary basis.

According to Article L. 621-8-4 of the CMF, the AMF has the legal basis to request information from all regulated entities in order to conduct its mission of monitoring and surveillance. Data

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[22] Articles L. 632-1, 632-7 and 632-16 of the CMF.

[23] The ACPR and AMF cooperate with EU Member States according to Article 632-1 of the CMF transposing European Directives. Moreover, within the European Economic Area (EEA), the exchange of information between colleges of supervisors' members is governed by multilateral agreements in accordance with European Banking Authority (EBA) guidance. The ACPR and AMF have concluded several bilateral agreements and Memoranda of Understanding (MoUs) with supervisory authorities of non-EEA countries. For details, see https://acpr.banque-france.fr/international/la-cooperation-au-niveau-international/les-accords-de-cooperation.html and http://www.amf-france.org/L-AMF/Relations-institutionelles/Accords-et-actions-de-cooperation/Conventions-bilaterales.html. The ACPR is also a signatory of the multilateral MoUs developed by IOSCO and IAIS.

[24] Examples at the international level include the FSB data collection exercise on shadow banking; the IMF Financial Soundness Indicators; the BIS international banking statistics, Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity, and data of global network connections of G-SIBs via the International Data Hub; and the IOSCO Hedge Fund Survey.

[25] The ESRB and the European Supervisory Authorities have developed data sharing arrangements among EU competent authorities to monitor systemic risks. The BdF also participates in exchanges of information within the European System of Central Banks in the context of the balance of payments or financial statistics.

[26] About 280,000 companies are rated by the BdF annually. The BdF rating system is used for the refinancing of commercial banks and credit institutions can use BDF's rating to calculate their capital requirements.

collected by the AMF focuses on the asset management industry[27] as well as securities and market transactions.[28] Data is routinely shared between the AMF and the BdF under an MoU.

According to Article L.631-2-1 of the CMF, the powers of the HCSF to request information are formally limited to institutions supervised by the ACPR or the AMF. To ensure that the HCSF can access all supervisory information, its members and supporting staff are bound with strict confidentiality requirements. Regarding access to information from institutions outside of the regulatory perimeter, the HCSF at present relies on ad hoc surveys (with voluntary participation of respondents) and on the BdF's general data collection power.

A recent legislative act (see Box 2 below) has clarified and complemented the HCSF's powers by: (i) making it explicit that professional secrecy cannot be used to oppose data requests made by the HCSF for the accomplishment of its mission; and (ii) allowing the HCSF to gather any necessary information from any third parties, including institutions outside of the regulatory perimeter (e.g. data collected by solicitors on real estate transactions).

Recent work on commercial real estate (CRE) highlights the HCSF's efforts to address data reliability and quality issues in particular market segments. In its April 2016 analysis of the CRE market, the HCSF collected data from different sources (including private institutions) and followed with a consultation among CRE professionals to discuss data challenges.[29]

***Analytical framework and risk assessments:*** The HCSF regularly monitors financial system developments and potential structural weaknesses, which inform the assessment of risks and guide the activation and release of macroprudential tools. To enable this, the HCSF considers a broad set of indicators and undertakes analysis relating to macroeconomic, credit, market, liquidity and solvency risk, as well as the risks associated with excessive concentration and interdependency. Indicators include regular statistics (macro-financial time series, macroeconomic forecasting, financial data, microprudential data) complemented by model-based indicators (e.g. composite indicator of systemic stress; bank stability indices; joint probability of default extracted from credit default swap prices) and analytical tools (e.g. early warning indicator models) developed by the BdF. These are assembled in a comprehensive chart pack designed to facilitate the synthesis of the various monitored indicators. Quantitative data are supplemented with qualitative analysis of the systemic risk being examined.

The HCSF builds upon the risk analysis (both system-wide and issue-specific) conducted by its member authorities – namely, the ACPR, BdF and AMF. Each authority prepares its own contribution to this work, which the HCSF discusses to arrive at a common risks assessment.

The APCR Research Department monitors risks in the banking and insurance sectors and is responsible for conducting transversal analysis, stress tests and quantitative impact studies for

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[27] The AMF receives annually detailed information on the activities, managers, assets and strategies for all funds under its supervision. In addition, pursuant to the Alternative Investment Fund Managers Directive (AIFMD), asset managers are required to report data on the portfolio of all the AIFs they manage; this requirement applies to any type of fund, including hedge funds or fixed-income funds.

[28] The AMF receives on a daily basis details about transactions that occurred on both regulated markets and over-the-counter (OTC) platforms in Europe, for securities that are under its supervision. The scope is very large as it covers all instruments listed on a regulated market and all linked derivatives (both listed and OTC).

[29] See http://www.economie.gouv.fr/hcsf/publications-thematiques.

those sectors (see Box 1). Results of top-down stress tests are presented to its Supervisory College twice a year, at least for the five biggest French banking groups.

The BdF has a leading responsibility for monitoring risks to financial stability from a holistic perspective. Regular BdF-wide financial stability meetings mobilise more than 50 experts across various divisions to perform, on a semi-annual basis, an assessment of risks to financial stability.[30] All the data collected by the BdF/ACPR is pooled for financial stability analysis, particularly in the context of this exercise that is prepared by BdF and ACPR staff, coordinated by the DSF, and reviewed by BdF senior management. It forms the basis of the monitoring presented to the HCSF and of a BdF risk assessment report published twice a year (see below).

The BdF is also responsible for analysing and preparing HCSF decisions concerning the activation and calibration of certain macroprudential tools, and has developed macro stress testing, early warning[31] as well as other models to support these decisions. In this regard, the DSF undertakes evaluations of the possible effects on the real economy from the introduction of those tools to respond to potential bank capital shortfalls identified by top-down stress test results under an adverse scenario. For this purpose, dynamic general equilibrium models are used to carry out counterfactual analysis of how the baseline and adverse scenarios would change as a consequence of the introduction of larger capital requirements.[32]

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30 This is organised in a top-town process whereby potential risk drivers are first identified collectively before they are further studied by thematic working groups: each group is led by a main coordinator who organises, compiles and harmonises the contributions of experts from different departments of the BdF and the ACPR.

31 See "Asset-price boom-bust cycles and credit: what is the scope of macro-prudential regulation?" by Borgy et al (December 2009, BdF Working Paper 263, https://publications.banque-france.fr/en/economic-and-financial-publications-working-papers/asset-price-boom-bust-cycles-and-credit-what-scope-macro-prudential-regulation) and "An Early Warning System for Macro-prudential Policy in France" by Coudert and Idier (November 2016, BdF Working Paper 609, https://publications.banque-france.fr/sites/default/files/medias/documents/working-paper_609_2016.pdf).

32 See "Capital Regulation in a Macroeconomic Model with Three Layers of Default" by Clerc et al (December 2014, BdF Working Paper 533, https://publications.banque-france.fr/sites/default/files/medias/documents/working-paper_533_2014.pdf).

## Box 1: ACPR stress tests in the banking and insurance sectors

The ACPR has developed macro (top-down) stress testing models for banking and insurance, whose basic structure is described in an October 2015 working paper.[33]

***Banking sector:*** The "Mercure" macro stress testing framework is aimed at assessing the impact of a (stressed) macroeconomic scenario on banks' solvency, taking into account contagion effects. To design consistent baseline and stressed scenarios, the ACPR relies on 'Mascotte', a model developed by the BdF's forecasting directorate. A vector autoregressive model of the economy is used to generate a range of scenarios, taking into account six macroeconomic variables (real economic growth, unemployment rate, inflation rate, real estate prices and long and short-term interest rates). The impact from the change in one variable on the other variables can be assessed through this model.

The core structure of the stress testing framework is based on three models. The "return on assets" model captures the sensitivity of bank's net income to macroeconomic environment through a panel data econometric model run at the individual bank level. Two other models project credit risk parameters from a deterioration of the credit quality (in accordance with the macroeconomic scenario) of corporate and retail credit portfolios. Satellite models have been developed to analyse key risks of individual financial institutions to a common shock given the composition of their domestic corporate exposures, housing loans, funding etc. Additional refinements are currently being explored, e.g. to integrate the reverse impact/second-round effects of capital shortfalls on credit distribution and to incorporate risks related to liquidity, climate change and commercial real estate.

The ACPR has also run bottom-up stress tests in the context of exercises coordinated by the EBA/ECB and the FSAP. The top-down framework is then used to complement and challenge the results submitted by French banks when a bottom-up approach is implemented.

***Insurance sector:*** The ACPR conducts both top-down and bottom-up exercises under the Solvency I and II frameworks with different assumptions in terms of future lapses and premiums. In contrast to banking, insurance bottom-up stress tests mainly consist of the immediate impact of instantaneous shocks on insurers' and reinsurers' balance sheets. These assumptions are commonly used for EU-wide stress tests led by the European Insurance and Occupational Pensions Authority (EIOPA).

Regarding macro stress tests, the resilience of the life insurance sector is assessed through a top-down model built under the Solvency I framework. The model aims at measuring the impact of different shocks on life insurers' wealth, profitability and solvency ratio. The model applies to French solo life insurance entities, and has been calibrated on the data of the ten most important undertakings. Top-down tools under the Solvency 2 framework are under development.

The ACPR also uses an econometric model to assess the impact of the macroeconomic environment on life insurance premiums. It can be used to project gross premiums for direct stress testing (e.g. in response to interest rates shocks) or to calibrate other stress test models (e.g. relate the macroeconomic scenario to the figures of premiums growth used as an input in the above described Solvency I model).

***Contagion models and financial interlinkages:*** Contagion models have also been developed to assess the amplifications of a common shock due to financial linkages. The network analysis undertaken for the banking sector covers 11 large French credit institutions and assesses the capital loss to the banking system from macroeconomic or idiosyncratic shocks, taking into account spillover effects (both within the financial system and between the financial sector and the real economy). These losses are categorised in to three groups: the impact of initial shock, losses due to solvency contagion and losses due to liquidity contagion. Relying on bilateral exposures available at the individual security level, a combined network analysis for conglomerates, banks and insurers is also undertaken to identify those institutions that are systemically important or fragile.

[33] See "Mercure: A Macro prudential Stress Testing Model developed by ACPR" (https://acpr.banque-france.fr/fileadmin/user_upload/acp/publications/Debats_economiques_et_financiers/20151012-DEF-Mercure.pdf.

The AMF Analysis, Strategy and Risk Division identifies and provides analysis on financial markets topics that may create risks (e.g. corporate bond liquidity, liquidity and leverage in the asset management industry, exchange traded funds market analysis). The quarterly Risk Committee brings together the operational directorates, some Board members and a representative from the BdF to share information and analysis on potential risks. The AMF publishes a risk outlook report every year (see below) as well as targeted studies with analysis on issues that may be relevant from a financial stability perspective.[34] It also engages on an ongoing basis with supervised entities in order to monitor emerging risks. In this respect, the AMF has recently published a guide to assist asset management companies in the implementation and use of stress tests on the investment funds they manage.[35] Finally, the AMF contributes to the identification and assessment of risks and vulnerabilities of financial markets at the EU level through its participation in the European Securities and Markets Authority.[36]

Two examples of risk assessment work undertaken by the HCSF involve the CRE market and asset management in France. On the former, after analysis pointed to a possible build-up of risks, the HCSF established an action plan to study the resilience of banks, insurance and asset managers to a negative shock in CRE prices. The action plan coordinated by the HCSF included the design of CRE stress scenarios by the BdF; the elaboration of an ad hoc stress test and/or sensitivity analysis for the banking and insurance sectors by the ACPR and for the asset management sector by the AMF; and an assessment of potential policy responses. On the latter, the HCSF set up a task force and initiated work to collect and map data to measure interconnectedness of the asset management industry with the rest of the financial system.

***Macroprudential tools***: The main macroprudential instruments at the disposal of the French authorities, as presented in the HCSF strategy document published in December 2014, are found in Table 1 below. All of these tools can be grouped according to the intermediate objective they are designed to achieve (as set out above). Most of these tools have been conferred to EU Member States under CRD IV (transposed into the CMF) and CRR,[37] although some of them – namely, credit standards and the so-called 'flexibility package' – are national

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[34] See, for example, "ETFs [Exchange-traded Funds]: characteristics, overview and risk analysis – The case of the French market" (February 2017, http://www.amf-france.org/en_US/Publications/Lettres-et-cahiers/Risques-et-tendances/Archives.html?docId=workspace%3A%2F%2FSpacesStore%2F2d61ede7-b0be-40fa-8654-fe438a33ad00&langSwitch=true).

[35] See "Guide to the use of stress tests as part of risk management within asset management companies" (February 2017, http://www.amf-france.org/en_US/Publications/Guides/Professionnels.html?docId=workspace%3A%2F%2FSpacesStore%2F8e10f441-056c-4809-9881-36c23a292200&langSwitch=true).

[36] In terms of financial market infrastructure (FMI), competent authorities at the EU level are mandated to evaluate the risks to which central counterparties (CCPs) are or might be exposed. To this end, the EMIR regulation states that ESMA shall, at least annually, initiate and coordinate EU-wide assessment of CCPs to adverse market developments. The first stress testing exercise took place in April 2016 (see https://www.esma.europa.eu/sites/default/files/library/2016-658_ccp_stress_test_report_2015.pdf).

[37] Some of these tools (e.g. O-SII buffers) are subject to a notification and/or no-objection procedure by the ECB before they can be adopted. In addition, the ECB may, if deemed necessary, apply more stringent measures for some tools (e.g. countercyclical capital buffers) than the national competent/designated authorities of participating Member States, aimed at addressing systemic or macroprudential risks.

in nature. Some macroprudential tools are directly under the control of the HCSF subject to a proposal by the BdF Governor, while the tools implemented on the basis of an individual assessment of certain institutions are the responsibility of the ACPR. In the latter case, the ACPR informs the HCSF about its methodology and the HSCF can issue a recommendation on the methodology or the deployment of these tools if it finds it necessary

Since the primary focus of the macroprudential policy framework has been on the banking sector, the initial (2014) list of tools did not include measures that could be applied to other financial sectors, in particular insurance and asset management. The Transparency, Fight against Corruption and Modernization of Economic Life Act, which was signed into law in December 2016, introduced new measures that extend the powers of the HCSF into the non-bank financial sector (see Box 2). In addition, the authorities note that certain microprudential policy tools can be used by the AMF for macroprudential purposes. These include a cap on the leverage of alternative investment funds and various liquidity management tools such as redemption gates as well as, in the case of stress, suspension of investment fund subscriptions and redemptions.

As described above, the general framework of the HCSF's decision-making process is presented in its strategy. The strategy defines and links the ultimate and intermediate objectives that guide the operational implementation of its macroprudential policy.

If systemic risks are identified, the HCSF will select among the available instruments in order to address the threat, or inform the government if it deems that new legally binding instruments may be needed. The HCSF bases its decision-making on the principle of 'guided discretion', where a set of rules and indicators used to signal situations that warrant more in-depth attention are complemented by expert judgement and members' own assessment when making its final decision, taking into account all the available information. According to the authorities, the collegial setting of the HCSF is designed to internalise any economic trade-offs or interaction with other public objectives (such as price stability or safety and soundness of individual financial institutions) that are not primary concerns for the HCSF.

The HCSF periodically re-examines the effectiveness of its macroprudential tools by drawing on its own assessments of implementing macroprudential measures as well as the experience of other countries, particularly EU Member States. So far, the HCSF has not identified risks that required or could have been addressed with its legally binding macroprudential tools – so there is no experience with the application of such tools in a domestic context. Regarding the operational framework of the tools made available by CRD IV/CRR, the HCSF published a detailed note on the operationalisation of the countercyclical capital buffer (CCyB) in September 2015.[38]

[38] See http://www.economie.gouv.fr/files/hcsf-150910_coussin_contracyclique_-_mise_en_oeuvre.pdf (in French only). This note describes, among other topics: (i) the objective of the CCyB; (ii) indicators serving as a starting point to guide decisions on the activation of the buffer, as well as qualitative and quantitative information that the HCSF takes into account to detect the emergence of cyclical systemic risks; and (iii) the principles guiding the HCSF's CCyB decision-making, notably the principle of guided discretion.

**Table 1: Main macroprudential instruments available to the French authorities (per the HCSF's 2014 strategy document)**

| Instrument | Intermediate objective | Responsible authority | EU legal basis | French legal basis |
|---|---|---|---|---|
| Countercyclical capital buffer | Moderate and prevent excessive credit growth and leverage | Designated authority (HCSF), on the proposal of the BdF Governor | Art. 130 and 135-140 CRD IV | Art. L. 631-2-1 MFC |
| Systemic risk buffer | Limit direct and indirect exposure concentrations; limit systemic impact of misaligned incentives and reduce moral hazard; strengthen resilience of FMI | Designated authority (HCSF), on the proposal of the BdF Governor | Art. 133 and 134 CRD IV | Art. L. 631-2-1 MFC |
| Flexibility package*:* national measures that are stricter in terms of requirements for own funds, large exposures, public disclosure, the level of the capital conservation buffer, liquidity, risk weights for targeting asset bubbles in the property sector, and intra financial sector exposures | Moderate and prevent excessive credit growth and leverage; limit overreliance on short-term funding and excessive maturity mismatch, and mitigate market illiquidity; limit direct and indirect exposure concentrations; limit systemic impact of misaligned incentives and reduce moral hazard | Designated authority (HCSF), on the proposal of the BdF Governor, Chairman of the ACPR | Art. 458 CRR | Directly applicable |
| Setting of credit standards (including loan-to-value, loan-to-income and debt service-to-income ratios) | Moderate and prevent excessive credit growth and leverage | Designated authority (HCSF), on the proposal of the BdF Governor | | Art. L. 631-2-1 MFC |
| Additional own funds requirements (buffer) for global systemically important credit institutions and other systemically important financial institutions | Limit systemic impact of misaligned incentives and reduce moral hazard | Competent authority (ACPR) | Art. 131 CRD IV | Art. L. 612-1 MFC |
| Stricter risk weights for exposures secured by residential or commercial property | | Competent authority (ACPR) | Art. 124 CRR | Directly applicable |
| Increase in the minimum loss given default for exposures secured by residential or commercial property | | Competent authority (ACPR) | Art. 164 CRR | Directly applicable |
| Additional own funds requirements under Pillar 2 for institutions with similar risk profiles | Limit systemic impact of misaligned incentives and reduce moral hazard | Competent authority (ACPR) | Art. 103 CRD IV | Article L.511-41-1-C MFC |

*Source: http://www.economie.gouv.fr/files/strategy_hcsf.pdf. Note: the list does not include other instruments made available to the HCSF through recent legislative changes or other microprudential policy tools that can be used by national competent authorities for macroprudential purposes.*

**Box 2: Legislative amendments strengthening the HCSF's powers**

The Transparency, Fight against Corruption and Modernization of Economic Life Act, which was signed into law in December 2016, contains an article that reinforces the HCSF powers.

***Broadening of the HCSF's power to set credit standards***: In recent years, non-bank actors have played an increasing role in credit provision and (less importantly) origination. In this context, the HCSF's power to impose, on proposal of the BdF Governor, credit standards for lending with a view to preventing excessive rises in asset prices or an excessive build-up of debt by economic agents (5° of Article L.631-2-1 of the CMF) that was initially limited to persons under ACPR's supervision (credit institutions and insurers) has been extended to entities or persons under the AMF's supervision (i.e. investment funds).[39] The new drafting includes all institutions authorised to originate credit. It also specifies the scope of this power (loans granted to resident counterparties or financing assets located in France).

***New powers in the insurance sector***: In order to be able to reinforce the resilience of insurance companies in the current environment, and more generally to enable them to cope with important variations in interest rates or asset prices, the Act allows the HCSF to implement a countercyclical approach in setting up the technical provision for profit-sharing for the insurance sector as a whole or a subset of it (annual returns on portfolios backing life insurance policies can be smoothened for some time). Moreover, the new legislation enables the HCSF to take, as safeguard measures, preventive macroprudential measures when it is necessary to preserve the stability of the financial sector or to prevent risks that threaten severely the financial situation of insurance companies, or a significant subset of them. Thus, on the basis of a proposal of the BdF Governor following consultation of the supervisory college of the ACPR, the HCSF can:

1. temporarily limit certain operations and activities, including the writing of premium;
2. temporarily restrict the free use of all portfolio assets or a subset of them;
3. temporarily limit, for the whole portfolio or a subset of it, redemption payments;
4. delay or temporarily limit, for the whole portfolio or a subset of it, the ability of policyholders to arbitrage between funds or to receive contract pre-payments; and
5. temporarily limit the distribution of dividends to shareholders.

These additional powers can only be activated for a maximum period of three months by the HCSF, which can be renewed: (i) if the conditions that underpinned their activation in the first place are still prevalent; and (ii) after due consultation of the French Consultative Committee of financial legislations and regulations.[40] The temporary suspension of redemption payments can only be maintained for a maximum period of six consecutive months.

***Clarification of the powers to access information***: The legislative act has clarified and complemented the legal underpinnings of the HCSF's powers to access information by: (i) making it explicit that professional secrecy may not be opposed to the HCSF; and (ii) allowing the HCSF to gather any necessary information from any third parties (representatives from banks, financing companies, investment firms, insurers as previously drafted but also any other relevant actor).

[39] Since the creation of European long-term investment funds (ELTIF, pursuant to the EU Regulation 2015/760) that may lend directly to companies, it is now possible for certain EU funds to grant loans. In addition, France is currently amending its rules to allow certain kind of funds marketed only towards professional investors to grant loans. To date, the number of authorised funds that grant loans is very limited in France.

[40] This body, which is composed of public authorities, representatives from the private sector and from civil society, is consulted and gives a non-binding opinion on every proposed financial legislation and regulation.

***Communication and transparency***: The communication of the macroprudential stance and of any policy actions is the responsibility of the HCSF or its chair, although other authorities also communicate on financial system developments and risks to financial stability in accordance with their respective mandates (see Table 2).

**Table 2: Publications by the French authorities on the financial system**

| Institution | Title of document | Frequency (per year) | Date of publication |
|---|---|---|---|
| HCSF | Annual Report | 1 | June |
| BdF | Annual Report | 1 | Q2 |
| BdF | Risk assessment of the French financial system | 2 | June, December |
| BdF | Bulletin de la BdF & Research Notes ("Lettre des études et de la recherche") | 6 and 4 respectively | Every 2 months for the Bulletin |
| ACPR | Housing finance | 1 | July |
| ACPR | CRE finance | 2 | February, July |
| ACPR | Overview of the main French banking groups | 1 | Q2 |
| ACPR | Overview of the main French insurance companies | 1 | Q3 |
| ACPR | Yields on euro-denominated life insurance contracts | 1 | Q3 |
| ACPR | Overview of the main French mutual insurance companies | 0.5 (biennial) | Q4 |
| ACPR | Overview of factoring | 1 | Q3 or Q4 |
| ACPR | Figures on the bank and insurance markets in France | 1 | Q3 or Q4 |
| ACPR | Monitoring of premium written and investments made by the 12 main life insurers | 4 | Every quarter |
| AMF | Risk outlook | 1 | July |
| AMF | Key figures of the asset management industry | 1 | July |

From a legal perspective, the HCSF is accountable before Parliament. It has to submit an annual report to the French Parliament and its Chairman may also be called to appear before the relevant committees of both houses of Parliament. The annual report of the HCSF presents its analysis of recent developments in the macro-economy and in the financial and non-financial sectors; references existing risks to financial stability; and presents thematic analysis of topics that the HCSF thinks warrant public attention. It also presents a record of its activities and decisions during the previous year.

Beyond these legal obligations, the HCSF uses its external communication to inform the public, media and financial system stakeholders of its assessment and the orientation of its policy stance, both on an ex ante basis (to anchor market expectations) and on an ex post basis (to enable stakeholders to understand the rationale behind decisions taken). With this objective, HCSF publishes: a press release after each of its meetings; decisions on instruments under its control; analyses and consultations to shed further light on topics relating to financial stability;[41] and opinions and recommendations designed to prevent the emergence of systemic risks, provided that their disclosure is not likely to jeopardise financial stability.

Key risks identified and discussed by the HCSF in recent years include: macroeconomic and financial market developments both domestically (e.g. revisions of growth and inflation prospects) and internationally (monetary policy divergence, emerging markets vulnerability, oil price development, various policy risks); the consequences of the low interest rate environment for financial institutions' business models and financial markets; liquidity situation of various markets; the housing market; the CRE market; and corporate indebtedness.

An example of the HCSF's use of communication as a soft power to raise market participants' awareness of risks has been its work on the French CRE market. The risks in that market were flagged in the HCSF annual reports as well as in the BdF's "Assessment of risks to the French financial system" (see below). Following its March 2016 meeting, the HCSF indicated that it was "*monitoring market developments, participants' exposure to such developments, and CRE funding practices*", which was followed in April by the publication of its analysis of risks in that market for consultation. The HCSF's June 2016 annual report dedicates a full section to risks in the CRE market, including on the funding practices of the major French banks and on the macroprudential tools at the disposal of the HCSF to tackle risks in this market.

BdF's communication on financial stability issues takes place mainly through two publications: the 'Assessment of risks to the French financial system' and the Financial Stability Review (FSR). The former, which brings together the analyses prepared by staff of BdF and ACPR, is published twice per year since 2015[42] and presents an assessment of risks and vulnerabilities in the French financial system (i.e. macroeconomic risks, risks facing financial institutions, risks for financial markets). The latter, which is published once per year since 2006, gathers the views of international institutions, regulators, scholars and market participants on general topics related to financial stability.

The ACPR contributes to the analysis in the HCSF and BdF reports. It also publishes a range of other reports providing an overview of the banking and insurance sectors, including analyses and data on specific issues (e.g. housing and CRE finance, French banks' performance, premiums and investments by the largest life insurers in France).

The AMF publishes an annual risk outlook report that analyses trends in markets and the financing of economic activity, and also looks at market organisation and intermediation, household savings and collective investment.[43] It also publishes targeted studies containing detailed analysis on issues that may be relevant from a financial stability perspective.

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[41] For example, the HCSF published occasional notes on the operationalisation of the countercyclical capital buffer (September 2015), CRE developments (April 2016) and its macroprudential strategy (December 2014).

[42] See https://publications.banque-france.fr/en/liste-chronologique/assessment-risks-french-financial-system.

[43] See http://www.amf-france.org/en_US/Publications/Lettres-et-cahiers/Risques-et-tendances/Archives.html?docId=workspace%3A%2F%2FSpacesStore%2Fc384ec29-a8f0-44d3-97bf-4013e7f17114.

**Lessons learned and issues to be addressed**

Considerable progress has been made since the FSAP to further define and operationalise a comprehensive macroprudential policy framework. The July 2013 Banking Reforms Act provided the HCSF with an explicit mandate for financial stability and a broad range of macroprudential powers, including data collection powers for financial stability purposes, powers to formulate opinions and recommendations, as well as a comprehensive set of legally binding macroprudential tools for the banking sector. Financial stability mandates were also embedded in the objectives of the BdF, ACPR and AMF. The HCSF is operational and has enhanced cooperation and information sharing amongst its member authorities. Risk assessments have been strengthened through improved analytical tools (e.g. expanded stress testing and contagion models for banks and insurers). The authorities have expanded the range of publications since the FSAP (HCSF annual report, BdF risk assessment reports) to communicate on financial stability issues, and the HCSF has used communication as a soft power to raise market participants' awareness of risks (e.g. on the French CRE market). Recent legislative initiatives have addressed identified gaps regarding HCSF powers for information collection and to impose credit standards on non-bank credit providers, and have provided the HCSF with innovative macroprudential tools for the insurance sector.

Building on these accomplishments, as with other countries, additional work is needed to extend and deepen the macroprudential policy framework. This includes, in particular, the expanding the scope of macroprudential policy; enhancing systemic risk assessments and their disclosure; and strengthening public communication relating to financial stability issues.

***Scope of macroprudential policy***: The HCSF strategy provides a comprehensive framework for operationalising macroprudential policy. While its surveillance has been wide-ranging, its legally binding powers to date have focused on the banking sector. This reflects the importance of the sector in the French financial system, initiatives at EU level (CRD IV/CRR, ESRB recommendations) and the current state of international knowledge in this area.

The HCSF has analysed possible risks stemming from the insurance sector and, through a legislative amendment, has obtained new powers to reinforce the resilience of insurance companies and to take preventive macroprudential measures when necessary to preserve the stability of the sector. More recently, the HCSF has analysed potential risks in the French asset management sector, taking into account relevant work at the international level.[44] Work is underway by the BdF, ACPR and AMF, coordinated through the HCSF, to assess interconnections between asset management and the rest of the financial system. At this stage, no conclusions have been reached about the need to expand the range of available AMF tools in that sector for macroprudential purposes.[45]

In its strategy document, the HCSF notes that the "strategy is liable to be revised and expanded as experience in macroprudential matters grows." In order to pursue its mandate of

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[44] See "Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities" by the FSB (January 2017, http://www.fsb.org/2017/01/policy-recommendations-to-address-structural-vulnerabilities-from-asset-management-activities/).

[45] These include a cap on the leverage of alternative investment funds; various liquidity management tools such as redemption fees and redemption gates, swing pricing as well as, in the case of stress, suspension of investment fund subscriptions and redemptions; and protection and segregation of client assets.

"supervising the financial system as a whole", it will be important for the HCSF and its member authorities to progressively extend their macroprudential approach to other important financial sectors, such as insurance and asset management. This involves not only evaluating systemic risks in those sectors (which is underway), but also assessing whether the five intermediate objectives that guide the operational implementation of macroprudential policy should be revised in light of those risks; adding policy tools as appropriate and mapping them to objectives; fleshing out decision-making processes to apply those tools; and discussing implications for public communication. While most countries face similar challenges in developing their macroprudential framework – and indeed, the cross-border nature of some of those risks necessitates an international response – this is particularly relevant for France given the importance of those sectors in its financial system (see Annex 1).

- ***Recommendation 1*: The HCSF should continue to extend its macroprudential approach (in terms of systemic risk assessments, policy tools and decision-making processes) in the insurance and asset management sectors.**

***Systemic risk assessments and their disclosure:*** The BdF and ACPR use a broad range of tools for systemic risk assessments. One of those tools is network analysis, which indicates the level of interconnectedness and related risks. The BdF uses network models in research work to quantify domestic and cross-border contagion in the banking sector as well as to assess the impact and propagation of shocks on banks, asset markets and interbank markets.[46] The ACPR conducts network analysis to assess the amplifications of common shocks due to financial linkages within the banking sector as well as between financial conglomerates, banks and insurance firms. The analysis is now being extended to the assessment of vulnerabilities and transmission of risks from financial exposures of other sectors within the financial system or outside it, as is the case in some other countries.[47] Extending the network analysis based on recent BdF research to other sectors – such as asset management, the corporate sector (in terms of bilateral exposures with financial institutions) and foreign financial institutions (both within and outside the EU) – will enhance the coverage and accuracy on the interconnectedness of the financial system and of any associated systemic risks and amplification channels.

The BdF report on "Assessment of risks to the financial system" presents the findings from the systemic risk assessments prepared by staff of BdF and ACPR. The report is comprehensive and identifies the main risks to the French financial system, both in terms of current levels and change since the previous report. However, there is little disclosure on the data, methodologies (e.g. risk dashboard) and assumptions (e.g. stress tests) underpinning the report. The authorities

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[46] See, for example, "Pandemic crises in financial systems: a simulation-model to complement stress testing frameworks" by Idier and Piquard (January 2017, Banque de France Working Paper no. 621, https://publications.banque-france.fr/sites/default/files/medias/documents/document-de-travail-621_2017-01_0.pdf) and "Cross-border interbank contagion in the European banking sector" by Gabrieli et al (March 2015, Banque de France Working Paper no. 545, https://publications.banque-france.fr/sites/default/files/medias/documents/working-paper_545_2015.pdf).

[47] See, for example, the FSB peer review report of Brazil (http://www.fsb.org/2017/04/peer-review-of-brazil/) and the analysis of interconnectedness in the Financial Stability Reports of the Reserve Bank of India (https://rbi.org.in/Scripts/FsReports.aspx) and Banco de México (http://www.banxico.org.mx/publicaciones-y-discursos/publicaciones/informes-periodicos/reporte-sf/%7B0658503A-685F-A85F-E73B-8221C79DBC1E%7D.pdf).

note that some of these are found in other BdF/ACPR and EBA publications and that there are practical challenges to consider. These include the fact that some prudential data may be confidential and that disclosure of certain indicators may give the misleading impression to market participants that the authorities rely exclusively on them for policy decisions.

These challenges are faced by authorities in other countries. Several of these authorities have sought to enhance transparency on risk analysis in their financial stability reports (e.g. data and assumptions used to arrive at results, methodologies and analytical tools deployed), so as to enable market participants to better judge the risks set out in the assessment.[48] This can be done by citing methodologies and assumptions in footnotes or Annexes[49] as well as by including additional relevant information on the website while making clear that such information is complemented by expert judgement in arriving at risk assessments and policy decisions.[50]

- ***Recommendation 2*: The BdF, working with other authorities, should continue to enhance its systemic risk analysis on interconnectedness outside banks and insurers (e.g. asset management and corporate sectors) as well as on a cross-border basis. It should also disclose publicly the data, methodologies and assumptions underpinning the analysis in its risk assessment reports.**

***Communication on financial stability issues:*** The authorities' main publications on financial stability issues are the HCSF annual report (since 2015), the BdF risks assessment report (since 2015) and the AMF risk outlook report (since 2007). At present there is no pre-announced publication calendar for these reports, but indicative dates are communicated: the BdF reports are expected to be published twice a year (June and December), the HCSF report is expected to be published following its June meeting, while the AMF report is typically published in July. Similarly, fixed dates for future HCSF meetings are not published in advance to market participants, although it is expected that the HCSF meets in the last month of every quarter.

A number of financial stability bodies in other countries schedule meetings and publish their reports based on a pre-announced calendar.[51] Such transparency and predictability is aimed at

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48 See, for example, "Financial Stability Reports: What are they good for" by Čihák et al (January 2012, IMF Working Paper 12/1, https://www.imf.org/external/pubs/ft/wp/2012/wp1201.pdf).

49 Examples of such approaches include the Annex on methodologies of the Reserve Bank of India's Financial Stability Report (ibid), the boxes and footnotes in the Bank of Mexico's Financial System Report (http://www.banxico.org.mx/publicaciones-y-discursos/publicaciones/informes-periodicos/reporte-sf/index-en.html), and the descriptions of the methodology for interest rate stress tests in the Swiss National Bank's Financial Stability Report (http://www.snb.ch/en/mmr/reference/stabrep_2016/source/stabrep_2016.de.pdf).

50 For example, the Bank of England publishes the core indicators used by its Financial Policy Committee (FPC, see http://www.bankofengland.co.uk/financialstability/Pages/fpc/coreindicators.aspx), stating that "Indicators will be useful for shaping the views of the FPC and helping it to explain its decisions publicly. No single set of indicators can ever provide a perfect guide to systemic risks, or the appropriate policy responses, and judgement will play a material role in all FPC decisions. But the Committee will routinely review the set of indicators… which have proved helpful in identifying emerging risks to financial stability in the past… The FPC will regularly update these indicators, to help explain its decisions and to enhance the predictability of the regime". The Bank of England (http://www.bankofengland.co.uk/publications/Pages/fsr/2016/nov.aspx) and other central banks also publish the data used to prepare the charts in their Financial Stability Reports.

51 For example, the Bank of England announces publicly the dates of all scheduled FPC meetings and the publication of its Financial Stability Reports for the following calendar year (see http://www.bankofengland.co.uk/publications/Pages/news/2016/084.aspx). The Riksbank also announces its

improving the effectiveness of communication and enables market participants to be better prepared for any policy announcements. Arrangements that help stakeholders predict policy are important because in the absence of a well-articulated paradigm, macroprudential authorities have substantial discretion and need to exercise judgment in setting instruments.

The HCSF and its member authorities seek to coordinate, whenever necessary, their communication policies. As a form of soft coordination, when an issue has been discussed by the HCSF, its members are expected to ensure that their communication is consistent with the HCSF analysis and stance. Unlike in the case of some other countries with a similar institutional set-up,[52] the HCSF and BdF reports present their own analysis of developments and risks in the French financial system. The authorities note that the two reports are published at around the same time and seek to complement each other. The AMF risk outlook report, which is published shortly thereafter, also includes a set of identified risks. This 'bunching' of reports over the same time period and the similarities in their content leaves open the possibility of overlapping analysis or potentially conflicting messages. The relevant authorities may therefore wish to consider whether to revisit the content (e.g. in terms of coverage) or timing (e.g. in terms of publication dates) of their respective reports.

- ***Recommendation 3**: The HCSF, BdF and AMF should examine whether the content and timing of their respective publications relating to financial stability can be further coordinated. In addition, the HCSF should consider publishing a calendar with indicative dates of scheduled meetings and publications.*

## 2. Public disclosure of financial sector data

### Background

The FSAP concluded that disclosure of financial sector data falls short of best international practice and that enhancements would be highly desirable. It noted that to enable effective market discipline, the ACPR should enforce publication of regular and comparable data on an institution-specific basis for banks, insurance companies and securities firms, including data from prudential returns as appropriate. It also noted that publication of a Financial Stability Report covering in detail financial sector developments in France, along with results from systemic risk analysis, would also be desirable. The FSAP recommended enhancing public disclosure of financial institution conditions and risks; requiring full and consistent disclosure of the capital treatment in place and related financial interactions within complex groups; and enhancing insurance companies' disclosures in a number of areas.

The public disclosure of financial sector data contributes to better pricing processes and improved resource allocation, thereby enabling effective market discipline and enhanced

calendar of publications at the beginning of each year (see http://www.riksbank.se/en/Press-and-published/Notices/2016/Calendar-data-for-2017/). See also "Objective-setting and communication of macroprudential policies" by the CGFS (ibid).

[52] For example, in the case of Germany and the Netherlands, the inter-agency financial stability committees publish an annual report outlining activities undertaken and any decision made during the year, while the main analysis of risks is found in the Financial Stability Report prepared by those countries' central banks.

efficiency. As detailed in Box 3, the BCBS, IAIS and IOSCO Core Principles emphasise the role of disclosures in effective monitoring and supervision of banks, insurers and other financial companies. In this sense, the FSAP recommendations seek to promote effective oversight of institutional resilience and overall financial stability.

**Box 3: Core Principles on disclosures by banks, insurers and other financial entities**

**Basel Core Principles (BCPs)**

BCP 27: *Financial reporting and external audit:* The supervisor determines that banks and banking groups maintain adequate and reliable records, prepare financial statements in accordance with accounting policies and practices that are widely accepted internationally and annually publish information that fairly reflects their financial condition and performance and bears an independent external auditor's opinion. The supervisor also determines that banks and parent companies of banking groups have adequate governance and oversight of the external audit function.

BCP 28: *Disclosure and transparency:* The supervisor determines that banks and banking groups regularly publish information on a consolidated and, where appropriate, solo basis that is easily accessible and fairly reflects their financial condition, performance, risk exposures, risk management strategies and corporate governance policies and processes.

**IOSCO Objectives and Principles of Securities Regulation (IOPs)**

IOP 16: There should be full, accurate and timely disclosure of financial results, risk and other information which is material to investors' decisions.

IOP 18: Accounting standards used by issuers to prepare financial statements should be of a high and internationally acceptable quality.

IOP 21: Audit standards should be of a high and internationally acceptable quality.

IOP 26: Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme.

IOP 27: Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme.

**Insurance Core Principles (ICPs)**

ICP 14: The supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes.

ICP 20: The supervisor requires insurers to disclose relevant, comprehensive and adequate information on a timely basis in order to give policyholders and market participants a clear view of their business activities, performance and financial position. This is expected to enhance market discipline and understanding of the risks to which an insurer is exposed and the manner in which those risks are managed.

This section, drawing on the experience of other FSB jurisdictions and on international work in this area,[53] examines reforms to disclosure requirements by financial institutions and other

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[53] This includes, for example: a) regular reporting requirements within the EU Transparency Directive for EU-listed companies; b) International Financial Reporting Standards (IFRS) accounting disclosure requirements, applying to consolidated accounts of French-listed financial institutions; c) disclosure provisions within Basel III's Pillar 3 that are embodied in CRR requirements and EBA guidelines for the EU banking sector; d)

improvements in the public disclosure of financial sector data in recent years, including in response to the FSAP recommendations.

**Disclosure framework in France**

***Institutional arrangements:*** As described in Annex 3, the institutional framework for financial disclosures in France is comprised of different authorities with specific supervisory and regulatory powers. A number of EU-level and national initiatives have significantly changed this framework since the FSAP.

At a national level (see also Annex 1), the AMF is in charge of enforcing compliance of financial statements of all listed entities with the applicable accounting standards, as well as monitoring and enforcing compliance with periodic and ongoing disclosure requirements.[54] The ACPR is responsible for the revision of prudential disclosures by banks and insurance companies (see below). The ANC is the accounting standard setter for individual/statutory reports and consolidated reports for those entities not following the International Financial Reporting Standards (IFRS), e.g. statutory financial statements for banks and insurance companies. Finally, the Haut Conseil du Commissariat aux Comptes (H3C) is responsible for the supervision of the audit profession, and in particular to ensure independence by auditors and compliance with the code of ethics.

At a European level, the European System of Financial Supervision (in force since 2011) has changed the disclosure framework, with three European Supervisory Authorities (EBA, EIOPA and ESMA) sharing regulatory powers. At a euro area level, the SSM has taken responsibility since November 2014 for the supervision of significant banking institutions, comprising approximately 95% of banking sector assets.

At an international level, the International Accounting Standards Board (IASB) sets international financial reporting standards (IFRS) for companies whose securities trade in a public market, including financial institutions. IOSCO establishes certain disclosure requirements for listed companies; and the BCBS and the IAIS set prudential disclosures for banks and insurers respectively.

***General accounting framework**:* Application of IFRS as adopted by the EU is required for consolidated financial statements of listed entities. There is an option for non-listed companies to prepare their consolidated financial statements under IFRS. The use of French accounting rules is required for all individual/statutory accounts of French companies (including insurance entities and banks), irrespective of whether they are publicly listed.[55]

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insurance-related public disclosure requirements within Solvency II for the EU; and e) private sector-led initiatives, such as the October 2012 principles and recommendations of the Enhanced Disclosure Task Force (EDTF), which may be found at http://www.financialstabilityboard.org/2012/10/r_121029/.

[54] Pursuant to the Transparency Directive 2013/50/EU, Market Abuse Regulation 596/2014 (particularly art. 15.5 on the delay of public disclosure of insider information for banks), and the Prospectus Directive 2003/71.

[55] See http://www.ifrs.org/Use-around-the-world/Documents/Jurisdiction-profiles/France-IFRS-Profile.pdf and http://ec.europa.eu/internal_market/accounting/docs/legal_framework/20140718-ias-use-of-options_en.pdf.

Two of the main differences between French generally accepted accounting principles (GAAP) and IFRS are related to the accounting for financial instruments[56] and the guidance on disclosures in the notes to the financial statements (which is more detailed under IFRS).

***General auditing framework**:* The FSAP noted that "[H3C] will need to continue to enhance its coverage, build its resources, and develop its oversight of audit firms." Since then, H3C has reinforced its staffing dedicated to controls of auditors (see the responses to the relevant FSAP recommendations in Annex 4). Audits are performed on a joint basis for all listed entities and banks in France with assets of at least €450 million. Audit rules have also been revised as a result of reforms at the EU level that took effect from June 2016.[57] These reforms introduced inter alia the obligation for auditors of public interest entities to submit an additional report to the audit committee explaining the results of the statutory audit.[58] Following the transposition into French legislation of these reforms, the ACPR and the AMF can request to receive this additional report; the AMF also asks for these reports in its reviews.

In addition, H3C has created a department in charge of investigating any infringements committed by statutory auditors, prior to disciplinary proceedings. Investigations are conducted according to terms set out in Article L. 824-5 of the French Commercial Code. Sanctions decisions are published on the H3C website and if necessary in newspapers or media, taking into account the seriousness of the fault or breach committed.[59]

***Securities markets framework:*** The AMF has adopted several measures to ensure effective application of the disclosure regime, including compliance with "European Securities Markets Authority (ESMA) Guidelines on enforcement of financial information" (ESMA/2014/1293).[60] In that area, ESMA plays an increasing role in fostering supervisory practices regarding financial disclosures and their oversight,[61] as well as improving convergence of disclosures among listed entities.

In achieving its two main roles of (a) approving prospectuses for initial public offerings, offer of securities and admission to trading; and (b) controlling the effective issuance and the content of issuer's information (periodic and ongoing information), the AMF's Corporate Finance Department reviews disclosure documents published by issuers. This includes the Registration

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[56] Regarding the accounting for financial instruments, the principles in the two sets of standards are quite different since for the classification and measurement of financial assets and liabilities, French GAAP has categories that differ from those of IFRS (e.g. trading, available for sale, held-to-maturity, loans and receivables). French GAAP provides specific rules for the accounting of different financial instruments depending on their nature, the business model used, and the time horizon of the investment.

[57] See http://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/auditing-companies-financial-statements_en#audit-reform-in-the-eu.

[58] Referred to in Article 11 of Regulation (EU) No 537/2014. See http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0537&from=en.

[59] In the event of a risk of serious disruption of the stability of the financial system or of obstructing an ongoing investigation or inspection, or if there is serious and disproportionate harm to the person sanctioned, the published decision will be anonymized (Article L. 824-13 of the French Commercial Code).

[60] See https://www.esma.europa.eu/sites/default/files/library/2015/11/2014-esma-1293en.pdf.

[61] ESMA launched a peer review in November 2016 to better understand how guidelines on enforcement of financial information have been implemented by various national competent authorities in the EU.

Document, a cornerstone of the regime that is published annually and is filed by all French listed banks and insurance companies.

The AMF has published several guidance documents to help listed entities better understand disclosure requirements, often related to European initiatives. This includes the *Guide to the relevance, consistency and readability of financial statements* published in 2015, and the *Guide de l'Information Périodique* published in 2016.

***Disclosure framework for banks:*** In addition to their annual and half-year financial reports, all French publicly listed banks issue Q1 and Q3 interim accounts. These accounts do not contain the same information as the half-year reporting, because the latter are required by the CMF and AMF General Regulation, whereas the former are no longer mandatory since January 2015 given the modifications to the EU Transparency Directive (2004/109/EC).

Beyond the generally applicable requirements to disclose information on the balance sheet and income statement as part of the financial statements, banks are required under prudential rules to publish an annual so-called "Pillar 3 report". This report contains disclosures on a bank's risk exposures, related regulatory capital requirements and existing capital structure, in order to enable investors to assess the bank's safety and soundness. While the Pillar 3 report itself is not audited, some of its disclosures are drawn from annual audited financial statements (e.g. disclosures required under IFRS 7 *Financial instruments: Disclosures*) and as such, are audited by external auditors. Internationally active French banks mostly publish Pillar 3 information within their annual report and, in any case, in conjunction with their financial statements.[62]

Part 8 of Regulation 575/2013 (CRR) transposing Basel III standards into EU law (effective as of 1 January 2014) contains the Basel III Pilar 3 requirements,[63] with the European Commission (EC) and the EBA also preparing relevant additional regulation. More specifically, the EBA recently published guidelines aimed at further developing and clarifying the requirements based on the first part of the Pillar 3 revision. It has also developed regulatory technical standards and guidelines on disclosures related to encumbered and unencumbered assets, proprietary and confidential information, the leverage ratio, remuneration, as well as principles for disclosures to be provided at times of stress. Additionally, the EBA conducts a transversal assessment of EU banks' transparency in their Pillar 3 disclosure reports.[64] The EC has adopted regulation specifying uniform templates for disclosing own funds prudential information and compliance with the countercyclical capital buffer. Additionally, it has recently published a proposal amending Regulation 575/2013 including certain disclosure requirements.

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[62] Pillar 3 remuneration disclosure requirements are generally published at a later stage, given that data about variable remuneration is not always available when the annual report is published.

[63] The BCBS issued the "Pillar 3 disclosure requirements - consolidated and enhanced framework" in March 2017 (http://www.bis.org/bcbs/publ/d400.htm). This represents the second phase of the BCBS review of the Pillar 3 disclosure framework and builds on the revisions to the Pillar 3 disclosure published in January 2015 (http://www.bis.org/bcbs/publ/d309.htm). Such revisions are meant to improve comparability and consistency, and consider best-practice disclosures such as those covered by the EDTF recommendations.

[64] See https://www.eba.europa.eu/regulation-and-policy/transparency-and-pillar-3.

On the supervisory side, the Single Supervisory Mechanism (SSM) is responsible for the revision of Pillar 3 disclosures within the ongoing supervision plan for significant institutions in the Eurosystem,[65] and has developed guidelines to promote homogeneous application of disclosure-related rules. The SSM also conducts an annual assessment of Pillar 3 disclosures to ensure effective application of the prudential disclosure regime,[66] and has the power to request additional disclosures if deemed necessary. In turn, ACPR is responsible for reviewing Pillar 3 disclosures for less significant French banks and assesses non-listed banks' compliance with accounting disclosure requirements established by ANC Regulation 2014/07, as well as those set in article L.511-37 of the French Monetary and Financial Code.

In addition to the EU/Eurosystem-wide disclosure framework for banks, the French authorities have enacted regulation affecting the quantitative and qualitative disclosure requirements of encumbered assets (which transposes EBA guideline 2014/03 in this area),[67] global systemically important bank (G-SIB) values,[68] and leverage ratio exposures above €200 billion. A summary of the institutional and regulatory framework in place for disclosures by banks in France is provided in Table 3.

**Table 3: Institutional and regulatory framework for bank disclosures**

| Institution | Scope | Regulation/Guideline |
|---|---|---|
| Financial and accounting disclosure | | |
| AMF | Banks with listed equity or issued debt (70 banks and insurers)[69] | Prospectus Directive 2003/71 of 4 November 2003<br>Transparency Directive 2004/109 of 15 December 2004 and Transparency Directive 2013/50/EU<br>Market Abuse Regulation 596/2014 of 16 April 2014 (Art.17.5 on delay of public disclosure of inside information for credit institutions)<br>AMF General Regulation (details the rules applicable to the AMF and to the participants and products that it regulates)<br>Regulation EC 1606/2002 (application of international financial standards) |
| ACPR | Non-listed | ANC Regulation 2014/07<br>French Monetary and Financial Code, Article L.511-37 (regular publication of financial accounts as determined by the ANC) |
| ESMA | EU level | Guidelines on enforcement of financial information |

[65] The SSM is also responsible for supervising Pillar 3 information disclosed at a sub-consolidated level, i.e. for significant subsidiaries of these banks.

[66] This assessment is included in the ECB supervisory manual and forms part of the annual minimum engagement level of supervision of the joint supervisory teams.

[67] See https://www.legifrance.gouv.fr/eli/arrete/2014/12/19/FCPT1428239A/jo/texte.

[68] The methodology for assessing the systemic importance of G-SIBs, the list of which is updated and disclosed on an annual basis, relies on an indicator-based measurement approach. The selected indicators reflect the size of banks, their interconnectedness, the lack of readily available substitutes or financial institution infrastructure for the services they provide, their global (cross-jurisdictional) activity and their complexity. There are at present four G-SIBs in France: BNP Paribas, Groupe BCPE, Groupe Credit Agricole, and Societé Generale.

[69] Banks issuing debt securities with a per-unit denomination of at least EUR 100,000.

| | | |
|---|---|---|
| Prudential disclosure | | |
| ACPR | Less significant institutions (128 credit institution groups)[70] | Part 8 of Regulation 575/2013 of June 2013 (CRR)<br>EC Implementing Regulation (EU) 1423/2013 of 20 December 2013 (Own funds)<br>EC Implementing Regulation (EU) 2015/1555 of 28 May 2015 (Countercyclical Capital Buffer) |
| SSM | Significant institutions (13 credit institution groups)[71] | EC Implementing Regulation (EU) 2016/200 (Leverage Ratio)<br>French Regulation December 2014 (Encumbered Assets)<br>EC 1030/2014 of September 2014 (G-SIBs' values)<br>French regulation December 2014 (enlarged disclosures for leverage ratio exposures > €200bn)<br>SSM guidelines |
| EBA | EU level | Encumbered and Unencumbered Assets Guidelines<br>Materiality, proprietary and confidential nature and frequency of disclosures Guidelines<br>Remuneration Guidelines<br>Leverage ratio<br>Principles for disclosures in times of stress (Lessons learnt from the financial crisis)<br>Technical standards for the identification of global systemically important institutions (G-SIIs) including uniform disclosure requirements to publicise the values used for the identification and scoring process for G-SIIs |

***Disclosure framework for insurers:*** The framework for disclosures by insurers has also experienced significant changes as Solvency II came into effect in the EU as of 1 January 2016.[72] Out of around 800 insurers supervised by the ACPR, roughly 500 apply Solvency II, which requires specific annual public disclosures. The remaining 300 continue to apply Solvency I and are therefore not required to make public any document other than the financial statements and management report (which must be disclosed by any entity according to French law), although they are required to provide the ACPR with some non-public information.[73]

[70] Excluding investment firms and finance companies that are not banks and are therefore not under SSM supervision. See the latest (November 2016) list of supervised entities by the ECB (https://www.bankingsupervision.europa.eu/ecb/pub/pdf/list_of_supervised_entities_201612.en.pdf).

[71] According to the 2015 ACPR annual report, at end-2015 there were 13 systemically important groups totalling EUR 6,807 billion of assets on a consolidated basis, corresponding to 88.7% of the French banking system.

[72] See https://eiopa.europa.eu/regulation-supervision/insurance/solvency-ii.

[73] Insurance entities not applying Solvency II include: (a) entities totalling less than €5 million of gross premiums and €25 million of technical provisions (Solvency 2, art. 4); and (b) entities conducting very specific activities (Solvency II art. 4-7). In France, it refers mostly to specific health mutuals (mutuelles substituées) that only focus on distributing contracts while transferring its risks to another health mutual.

Solvency II contains risk disclosure requirements for insurers to be included in the "Solvency and Financial Condition Report" (SFCR), a report published annually at both individual and consolidated level.[74] The SFCR covers information on the business model, governance arrangements, risk exposures and concentrations, risk management, valuation of technical provisions, capital profiles and management, and resources eligible to meet the minimum requirements (i.e. the Solvency Capital Requirement and the Minimum Capital Requirement). It also needs to include information on the process the insurer has adopted to fulfil its obligation to conduct an own risk and solvency assessment, as well as a clear and concise summary understandable to policy holders and beneficiaries.

More frequent disclosures are not required by the ACPR or by the EU Regulation, except in the event of a major development significantly affecting the relevance of information disclosed (Article 54 of Solvency II), e.g. upon non-compliance with the Minimum Capital Requirements or significant non-compliance with the Solvency Capital Requirements.

Additionally, the ACPR decided to apply the EIOPA *Guidelines on reporting and public disclosure* released in September 2015 to insurers supervised under the Solvency II framework. These guidelines aim at harmonising public disclosure and supervisory reporting, notably by providing further clarification on, and specifying the expected minimum content of selected sections of the SFCR, including disclosures on performance, governance, risk profile, valuation for solvency purposes and capital management.[75]

General public disclosure requirements are required by the French Code de Commerce. Annually, each insurer must publish or deliver to anyone who requests them, its management report and financial statements. The Insurance Code and the new ANC Regulation 2015-11 provide additional specifications regarding the details to be included in the public reports. All insurance entities must comply at the individual/statutory level with this ANC Regulation, while non-listed insurance companies have to comply with ANC Regulation 2000-05 at a consolidated level. Both regulations require qualitative and quantitative information, including on categories of financial instruments, the related valuation bases, methods and assumptions, as well as actuarial policies, practices and procedures. Specific information is required on the calculation and analysis of technical provisions, separating life and non-life business. The AMF is responsible for reviewing disclosures of consolidated financial statements for listed insurance companies.

In addition, an insurance company must describe in its management report its business activity, strategies, capital management and main risk exposures. Listed companies must also include information concerning their remuneration policies and main characteristics of supplementary benefits for senior managers.

In France, a few entities will also have to apply IFRS 17 *Insurance Contracts* (to be issued in 2017 with likely effect as from 2021), which is expected to enhance the consistency of accounting practices and disclosure requirements of insurance companies.

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[74] Under prior approval, some institutions are excluded from the need to produce consolidated and individual SFCRs, and can only produce consolidated SFCRs for the whole group.

[75] See https://eiopa.europa.eu/GuidelinesSII/EIOPA_EN_Public_Disclosure_GL.pdf.

***Disclosure framework for other financial entities:*** In accordance with the UCITS Directive,[76] Alternative Investment Fund Managers Directive,[77] as well as national laws and regulations, the disclosure obligations applicable to investment funds in France consist of pre-investment (prospectus and a key investor information document, "KIID") and ongoing disclosures to investors. Disclosure requirements differ for retail funds and professional funds. The AMF is responsible for reviewing and monitoring such disclosures. The AMF also authorises the creation and marketing of collective investments and regulates alternative investment funds (AIFs) that are not compliant with the UCITS Directive.

UCITS and general-purpose AIFs must publish annual and biannual reports on the funds' assets, including a balance sheet, detailed income statement, a report on the activities of the financial year and an asset composition statement. Additional requirements apply to exchange-traded funds (ETFs).[78]

Since 2014, product manufacturers and distributors of packaged retail and insurance-based investment products have to provide KIIDs in compliance with the requirements set out by Regulation nº 1286/2014, which harmonises the disclosure requirements applicable to retail package products across sectors. Investment funds marketed to retail investors fall within the scope of this Regulation.

The same general accounting and disclosure requirements for banks and insurers apply to listed investment firms, such as for instance those included in the Prospectus and Transparency Directives. Moreover, EU parent financial holding companies and EU parent mixed financial holding companies are subject to Pillar 3 requirements, while investment firms and finance companies are subject to equivalent disclosure requirements – with the exception of liquidity and leverage ratios in the case of finance companies.

**Steps taken and actions planned**

***Disclosures by authorities:*** The FSAP found that while French banks, and listed companies more generally, make extensive public financial disclosures under IFRS and as a result of specific sectoral regulations, the disclosure of financial sector-wide data falls short of best international practice. It recommended that the authorities enhance public disclosure of financial institution conditions and risks.

Since the FSAP, the authorities have expanded their public reporting of conditions and risks to the French financial system (see section 2). This includes the publication of the HCSF annual

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[76] Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS): http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:302:0032:0096:en:PDF.

[77] Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32011L0061&from=EN.

[78] Pursuant to AMF position 2013-06, an ETF should clearly disclose the policy regarding portfolio transparency and where information on the portfolio may be obtained. If applicable, this includes information on the indicative net asset value, how it is calculated, and with what frequency.

report and other material (e.g. press releases and occasional papers), as well as the BdF's semi-annual "Assessment of risks to the French financial system" report. In addition, EU-wide authorities have also begun to publish comparable information on regulated financial institutions. For example, the EBA published the results of its 2016 EU-wide transparency exercise, providing detailed bank-by-bank data on capital positions, risk exposure amounts and asset quality on 131 banks (including 12 French banks) from 24 EU and EEA countries.[79]

***Disclosure of capital treatment in complex banking groups***: The FSAP recommended that the authorities "require full and consistent disclosure of the capital treatment in place and the related financial interactions within complex groups", which involved the public reporting of regulatory capital ratios for bancassurance groups and cross-holdings of banks within major mutual bank groups.[80] Enhanced disclosure in this domain is meant to provide investors with information necessary to assess the impact of those structures, as well as the effectiveness of intra-group funding and support mechanisms.

As regards the treatment of bancassurance exposures in a banking group, the CRR has introduced an alternative to the deduction of stakes in insurance entities, which involves full consolidation of the insurance subsidiary subject to supervisory approval. The BCBS issued in December 2011 a document with frequently asked questions on the definition of capital requiring banks that apply this alternative to demonstrate, for each reporting period, that consolidation results in a regulatory capital outcome at least as conservative as deduction.[81] Although such requirement has not been included in the CRR, the EBA issued guidance in December 2016 (EBA/GL/2016/11)[82] requiring information about: (i) the amount of holdings of own funds not deducted as a consequence of using Article 49(1) CRR, referred to insurance undertakings within a banking group; and (ii) the total risk-weighted amounts associated with those exposures. Once implemented, those disclosures would provide the information that is required by the FSAP recommendation.

As regards the capital treatment and financial interactions within complex groups, there have been several initiatives by the French authorities to enable appropriate disclosure of their structure (e.g. Pillar 3 disclosures of capital at both at the consolidated group and central body levels). Moreover, the authorities note that the corporate structures of major mutual bank

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[79] See http://www.eba.europa.eu/risk-analysis-and-data/eu-wide-transparency-exercise/2016/results.

[80] The FSAP stated that "While capital requirements are, in many ways, prudent and appropriate, there are material weaknesses in the definition of capital, and related public reporting vis-à-vis current Basel II/II.5 requirements. This is particularly the case for bancassurance groups and cross-holdings of banks by certain major internationally active publicly traded entities within some major mutual bank groups. Certain bancassurance groups produce reported Tier 1 capital ratios that are lower than the applicable Basel requirement and can produce reported measures that involve the recognition of capital that may not be available to the banking part of the group, or double counting of capital. For mutual bank groups the overall consolidated group capital calculation is compliant... despite improvements in the most recent public disclosures after the date of the mission, the current approaches risk confusion for marketplace participants." See also the December 2014 BCBS assessment of the consistency with the Basel III framework of the risk-based capital regulations in the European Union (ibid).

[81] See http://www.bis.org/publ/bcbs211.pdf (question 14).

[82] See https://www.eba.europa.eu/documents/10180/1696202/Final+report+on+the+Guidelines+on+disclosure+requirements+under+Part+Eight+of+Regulation+575+2013+%28EBA-GL-2016-11%29.pdf.

groups have been simplified, particularly in terms of cross-holdings between the central body and other group entities. Most notably, Crédit Agricole sold in August 2016 its stake in the regional banks, which are the major shareholders of Crédit Agricole's Central Body with a 56% stake.[83] After this restructuring, the authorities confirm that no more cross-holdings remain within French cooperative banking groups.[84] However, the complex internal solidarity mechanism within those groups still requires detailed information to be disclosed.[85]

***Other enhancements to bank disclosures:*** In December 2015, the EDTF[86] published a progress report on the implementation of its recommendations on bank risk disclosures. The report identified France as one of the countries where users of bank disclosures assigned a lower implementation score of the EDTF recommendations as compared to banks' own assessments. Specifically, it recommended improvements in areas of disclosure such as collateral valuation, forbearance and reconciliation of the regulatory capital to the accounting figures.[87]

The AMF established a dialogue in recent years with preparers and users of financial information, considering best practice disclosures such as the EDTF recommendations. Following the publication of the EDTF report, the AMF met with the main listed banks to discuss the conclusions, particularly with respect to credit risk disclosures. Furthermore, the AMF has included those recommendations as part of its review of registration documents. According to the authorities, while banks have made some changes to date, they are revamping their information technology and reporting systems and intend to make relevant disclosure enhancements in 2018, coupled with the implementation of additional disclosures required as per IFRS 9 *Financial Instruments*.

Work is underway by the BCBS to enhance Pillar 3 disclosure requirements, with the first set of these disclosures incorporated into EBA guidance applicable for 2017 year-end. These incorporate enhancements in terms of content by introducing new disclosures (e.g. linkages between the accounting and regulatory scope of application or relevant credit risk disclosures)

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[83] See the simplified Crédit Agricole group structure in the November 2016 presentation on (https://www.credit-agricole.com/var/storage/original/application/a1168714bdcc6fd3f67984c61b8e0f55.pdf).

[84] BPCE group (Banques Populaires and Caisses d'Epargne networks), Crédit Agricole network (CA and LCL) and Crédit Mutuel network (CM and CIC).

[85] The groups share a mutual solidarity system by which any central body of a French cooperative shall be responsible for ensuring the cohesiveness of its network and the correct functioning of the institutions affiliated with it. To this end, the central body shall take all necessary measures to ensure the liquidity and solvency of each of the affiliated institutions and the network as a whole (Article L.511-31 and Article L.512-107, French Monetary and Financial Code), which can be achieved through the mutualisation of losses through contributions or internal guarantee funds accessible to each affiliated member.

[86] The EDTF was a private sector group fostered by the FSB, which comprised representatives from the banking industry, audit firms, investors and other regular users and preparers of bank financial reports. In October 2012 it released a report including 32 recommendations for improving bank risk disclosures in the areas of risk governance and risk management, capital adequacy, liquidity and funding, market risk, credit risk and other risks. The EDTF was disbanded in early 2016 after providing three progress reports on the implementation of the recommendations, as well as other targeted reports on disclosures in specific areas (such as credit loss estimates and emergency liquidity assistance).

[87] See http://www.fsb.org/2015/12/2015-progress-report-on-implementation-of-the-edtf-principles-and-recommendations/.

as well as format (by incorporating fixed templates). This revision also specifies the frequency of each disclosure requirement varying between quarterly, semi-annual and annual reporting.[88]

Given the increasingly complex regulatory environment, it has become a challenge for bank issuers to provide clear and understandable information on areas such as the impact of Pillar 2 requirements on capital distribution constraints, the new instruments issued to comply with resolution frameworks, the new features of such instruments in terms of loss absorbency capacity under resolution, or the interaction between prudential and resolution regulations. In this context, the AMF and ACPR are working together to foster high quality disclosures. An example of such work relates to the Asset Quality Review conducted by the ECB in 2014. Regular discussions were held between the AMF and the ACPR on key issues reviewed by the ECB, such as the application of IFRS 13 for valuation of complex financial instruments and loan loss provisioning.

***Enhancing insurance company disclosures:*** The FSAP found that public disclosure requirements for insurance companies needed improvements. While acknowledging that changes were awaiting Solvency II implementation, it recommended that the authorities "enhance insurance companies' disclosures, including on valuation of technical provisions; risk exposures and concentrations; risk management; corporate governance; and sensitivity results from forms of stress testing".

The actions taken by the authorities since the FSAP build on the disclosure of risk-related information under Solvency II requirements. More specifically, the SFCR involves disclosing assumptions and accounting policies regarding the valuation of technical provisions and other aspects of key importance to an insurer's financial condition (such as recognition and de-recognition criteria, or impairment policies). In addition, insurers need to provide information about their existing and foreseeable activity, strategies, capital adequacy management and main risk exposures within their management report. The ACPR is responsible for supervising compliance by insurers with the SFCR starting with fiscal year 2016.

Other recent initiatives with respect to disclosure requirements are described in Box 4 below.

**Box 4: Other initiatives with respect to disclosure requirements in France**

As part of its mandate, the AMF seeks to ensure the effective application of disclosure requirements. As of 1 January 2015, it adopted ESMA Guidelines on enforcement of financial information (ESMA/2014/1293) under IFRS. In particular, the AMF conducts an annual review of registration documents on a risk-based approach, designed to identify listed issuers whose disclosure needs to be materially improved or brought into terms with the requirements in accounting standards. This approach takes into consideration the issuer's characteristics (e.g. market capitalisation, significant items on the financial statements) and industry. Potential outcomes include: (a) requiring the reissuance of financial statements; (b) the publication of a corrective note; or (c) requiring additional information in the Prospectus and/or prospective correction in future financial statements.

The AMF also holds regular meetings with listed banks and insurers to discuss major events, accounting issues or improvements around key disclosures, as well as quarterly calls with these entities before publication of their financial reports. It also meets monthly with users to collect

[88] See https://www.eba.europa.eu/regulation-and-policy/transparency-and-pillar-3/guidelines-on-disclosure-requirements-under-part-eight-of-regulation-eu-.

feedback on their information needs, and regularly liaises with ACPR, auditors (through the H3C Board) and other European authorities through ESMA. That outreach feeds recommendations and one-off statements when deemed necessary. For example, on 10 November 2016, the AMF published recommendations regarding expectations on the implementation and information to be disclosed under IFRS 9, following recommendations by ESMA and the EDTF.

ESMA has also played a role in enhancing disclosures of listed companies, both by requiring certain information to be disclosed (e.g. on Alternative Performance Measures),[89] and by signalling areas of uncertainty that could be subject to a better depiction in the financial statements. Additionally, ESMA conducted a peer review on prospectuses in 2016,[90] concluding that national regulators have different interpretations of certain disclosure requirements that would benefit from further harmonisation, and that prospectuses are often complex and difficult for investors to understand.

In August 2015, France strengthened mandatory climate disclosure requirements for listed companies, and introduced requirements for asset managers and institutional investors to report on how they take into account environmental, social and governance criteria into their investment processes and decisions. For listed entities, the annual report will have to provide a description of the company's impact on climate change, as well as the use of goods and services it produces. Additionally, the CEO report will have to portray the financial risks related to climate change, along with measures adopted by the company to mitigate it by implementing a low-carbon strategy in all aspects of their business. These requirements are applicable the fiscal year ending on December 2016.[91]

**Lessons learned and issues to be addressed**

There has been significant progress since the FSAP relating to financial sector disclosures, prompted by initiatives at both the EU and national level. These include enhanced disclosure requirements for banks (CRR), insurers (Solvency II) and other financial institutions (UCITS and AIFM Directives), supported by guidance and reviews/assessments from European Supervisory Authorities and national authorities as well as by active interaction with stakeholders. The HCSF and BdF have expanded their public reporting of conditions and risks to the French financial system, while detailed bank-by-bank data on capital positions, risk exposure amounts and asset quality (including for 12 French banks) is disclosed by EBA.

Notwithstanding these developments, there remain a few areas where further progress would be desirable. These include enhancements to disclosures by financial institutions – for example, in response to the findings of relevant authorities (e.g. EBA) or users (e.g. EDTF) – which is an ongoing process. Three issues that are more specific and involve action by the French authorities relate to the adoption in France of EBA guidance on the disclosure of capital

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89 An alternative performance measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. See https://www.esma.europa.eu/sites/default/files/library/2015/10/2015-esma-1415en.pdf and https://www.esma.europa.eu/press-news/esma-news/esma-publishes-new-qa-alternative-performance-measures-guidelines.

90 See https://www.esma.europa.eu/sites/default/files/library/2016-1055_peer_review_report.pdf.

91 See also the consultation paper by the Task Force on Climate-related Financial Disclosures, with recommendations for effective disclosure of climate-related financial risks (December 2016, http://www.fsb.org/2016/12/recommendations-of-the-task-force-on-climate-related-financial-disclosures/).

treatment in complex banking groups; the process for reviewing SFCRs; and the publication on a regular basis of comparable insurance company information.

***Disclosure of capital treatment in complex banking groups***: Some of the concerns expressed in the FSAP regarding the disclosure of the regulatory capital treatment and financial interactions within major French mutual banking groups appear to have been addressed as a result of the simplification of their corporate structures.

As regards the treatment of bancassurance exposures in a banking group, recent EBA guidance requires the disclosures of: (i) the amount of holdings of own funds not deducted as a consequence of using Article 49(1) CRR; and (ii) the total risk-weighted amounts associated with those exposures.[92] These disclosures are expected to enable investors to better understand the implications of the alternative consolidation treatment applied where holdings of own funds in insurance undertakings are not deducted. The date of application is 31 December 2017, although the guidance contains an early application instruction.

The French authorities are of the view that these additional disclosures required by the recent EBA guidance are not necessary, given that Directive 2011/89/EU already provides an adequate legal framework for supplementary prudential supervision and transparency.[93] They also note that these requirements form part of the EC's proposed amendments to the CRR.[94]

Notwithstanding discussions on the most appropriate prudential treatment of bank-insurance groups, these disclosures are expected to enhance the information available to investors and thereby help to address the FSAP recommendation to "require full and consistent disclosure of the capital treatment in place and the related financial interactions within complex groups". Given the relevance of this issue for certain domestic banking groups, the ACPR – through its participation in the SSM[95] – should contribute to the application of the EBA guidelines in France in order to enhance the availability and consistency of information on bancassurance relationships. The application of the EBA guidance will also enhance the consistency and comparability of institutions' Pillar 3 disclosures more broadly (e.g. in terms of format and specification of the frequency of disclosures), in line with the revised BCBS requirements that were published in January 2015 and are applicable from year-end 2016.

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92 The EBA guidelines complement the requirements of Article 49(5) of CRR requiring the disclosure of the amount of holdings of own funds instruments of financial sector entities not deducted from own funds when investment in these entities are significant (before risk weighting), as well as of the corresponding risk-weighted assets.

93 Under Directive 2011/89/EU (supplementary supervision of financial entities in a financial conglomerate), competent authorities in the EU may authorise financial conglomerates not to deduct their stakes in entities from the insurance sector for the purpose of calculating own funds (Article 49, 1 of CRR), provided that insurance entities are included in the same supplementary supervision as the banking parent entity.

94 The tentative timeline for the application of the amended CRR is 1 January 2019. The proposed amendments to CRR would have to be implemented through technical standards by the EBA.

95 The application of the EBA guidelines is an area of shared competence between the ACPR and the SSM, given that their scope covers (at least) systemically important institutions. These additional disclosure requirements will be considered by the Supervisory Board of the SSM in 2017 for inclusion in its Supervisory Review and Evaluation Process.

- ***Recommendation 4*: The ACPR should contribute to the application of the EBA guidance on disclosure requirements, so as to enhance the transparency of the regulatory capital treatment of insurance undertakings within banking groups as well as the overall consistency and comparability of banks' Pillar 3 disclosures.**

***Process for reviewing SFCRs:*** More than 500 insurers supervised by the ACPR apply Solvency II,[96] which requires specific risk disclosures in a report – the SFCR – to be published annually at individual and consolidated level. The SFCR covers information on the business model, governance arrangements, risk exposures and concentrations, valuation of technical provisions, capital management, and resources eligible to meet the minimum requirements. The ACPR is responsible for supervising compliance by insurers with the SFCR, and the first reports will be available by 20 May 2017 (single SFCR) and 30 June 2017 (group SFCR).

The fact that 2016 is the first year for which SFCRs will be prepared, and that such reports are not subject to an external audit, is expected to compound the demand on ACPR resources – particularly given other impending challenges relating to Solvency II, such as the review of new quantitative templates that form part of supervisory reporting. In order to address this issue, the ACPR should establish a risk-based, proportional programme for SFCR review, considering among other factors the size, risk exposures and concentrations, solvency and nature of business (life, non-life, reinsurer) of the entities.[97] This would allow the ACPR to deal more effectively with the more than 500 SFCR reports that will be submitted by insurance groups in the coming year.

Such a programme should also include a formalised process to assess identified deficiencies and seek rectifications to improve the quality of SFCR disclosures, subject to review by ACPR governing bodies owing to the importance of this new task for the institution. This can also draw on the findings from EIOPA's forthcoming review of the SFCRs issued by a sample of large European insurers, including five French insurers. Relatedly, given the fact that external audit of SFCR is not mandatory in France, the ACPR may want to require entities to explicitly state in their SFCR whether (and which) information and figures have been audited.

- ***Recommendation 5*: The ACPR should establish a programme to review and prioritise the SFCR submissions of insurance companies based on criteria that identify sources of risk. The programme should include a process to formally assess, communicate and follow up on corrections of identified deficiencies in SFCRs. The ACPR should also consider requiring entities to explicitly state in their SFCR whether (and which) information and figures have been audited.**

***Disclosures on insurance companies by authorities:*** As previously noted, the authorities have made considerable progress since the FSAP in disclosing conditions and risks to the French financial system. In terms of institution-specific disclosures, detailed bank-by-bank data on capital positions, risk exposure amounts and asset quality (including for 12 French banks,

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[96] In particular, as of early 2016 there were 508 individual entities along with 44 groups supervised by the ACPR applying Solvency II. As a reference, there were 318 individual entities applying Solvency I (all insurance groups supervised by the ACPR apply Solvency II).

[97] The ACPR is considering an approach of this type based on the EIOPA Guidelines on the supervisory review process (https://eiopa.europa.eu/Publications/Guidelines/SRP_Final_document_EN.pdf), seeking to ensure high-quality disclosures that also ensure consistency across different insurers.

which account for 91% of the domestic banking sector) is disclosed by EBA through its transparency exercise.

The insurance sector does not undergo a comparable transparency exercise such as the one prepared by EBA for the banking sector. Solvency II sets out disclosures by supervisory authorities and the information that should be publicly disclosed by insurance undertakings in the SFCR. National supervisory authorities will publish around mid-2017 aggregated information (as of end-2016) and individual companies will publish their SFCR. For the time being, there is no plan to publish institution-by-institution data in national authority websites or by EIOPA. As a matter of good practice and given the importance of this industry in France, the ACPR may want to enhance transparency – when Solvency II data is sufficiently reliable and in the absence of a transparency exercise conducted at EU level – by publishing on a regular basis comparable financial and prudential information (based on the SFCR) for a representative sample of French insurers, or by developing a common template and standard interfaces to facilitate such disclosures by the firms themselves.[98]

- ***Recommendation 6*: The ACPR should consider publishing on a regular basis, or facilitating publication by individual firms through the development of a common template and standard interfaces, comparable institution-by-institution information for a representative sample of insurance companies relating to their financial statements, solvency ratios and technical provisions.**

[98] In fact, the FSAP had suggested that the ACP take a more active approach to obliging insurance companies to disclose relevant, comprehensive and adequate information on a timely basis, noting that "perhaps this could be accomplished by providing public access to specific company data on a website". Such a practice is undertaken by regulatory authorities in some other countries, e.g. Canada (http://www.osfi-bsif.gc.ca/Eng/wt-ow/Pages/FINDAT-li.aspx) and Spain (http://www.dgsfp.mineco.es/sector/balancesycuentasEA.asp).

## Annex 1: Regulatory framework in France[99]

***Banque de France***

The statutory missions of the Banque de France (BdF) cover two main responsibilities: price stability and financial stability. Concerning more specifically the financial sector, the BdF ensures the stability of the financial system (jointly with the Haut Conseil de Stabilité Financière, High Council for Financial Stability, HCSF) through its three-pronged mission:

- supervising the financial sector (see below for direct supervision of the banking and insurance sector);
- preventing systemic risk; and
- overseeing financial market infrastructures (payment systems, clearing systems and financial instrument settlement systems) and means of payments.

As regards monetary policy, the BdF takes part in the decision making of the Council of Governors of the European System of Central Banks, and takes an active part in implementing monetary policy decisions. The BdF also contributes to defining international and European financial regulation by taking part in many fora/institutions (G20 Finance, BIS, BCBS, FSB, European Systemic Risk Board (ESRB), European Economic and Finance Committee etc.).

***Supervision of banks and insurance companies***

The Autorité de contrôle prudentiel et de résolution (ACPR, French Prudential Supervisory and Resolution Authority) and the ECB (European Central Bank) as part of the Single Supervisory Mechanism (SSM) are responsible for the supervision of the banking sector in France: since November 4, 2014 the ECB ensures a direct supervision of banking institutions assessed as “significant” (Significant Institution) and an indirect supervision on less important banking institutions (Less Significant Institutions), for which the responsibility lies primarily on each national authority, *i.e.* the ACPR in France.

The ACPR is also responsible for the supervision of institutions that carry out financial services (other than repayable funds from the public), such as investment firms, and ensures the supervision of the insurance sector in France.

The ACPR, which is an independent administrative authority, is charged with preserving the stability of the financial system and protecting the customers, insurance policyholders, members and beneficiaries of the persons that it supervises.

The statutory objectives of the ACPR are set out in Article L. 612-1 of CMF. To discharge its duties, the ACPR has, with respect to entities under its jurisdiction: supervisory powers; the power to impose administrative enforcement measures; and disciplinary powers. It may also make public any information that it deems necessary to discharge its duties.

The ACPR is an independent administrative authority attached to the BdF. Its chairman is the Governor of the BdF. Its structure is based on different decision-making bodies (Supervisory College; Resolution College; Sanctions Committee); and consultative bodies, the Audit Committee and the Scientific Consultative Committee. The ACPR’s operating departments,

[99] Based on information provided by the French authorities.

which are overseen by the General Secretariat, comprise around 1,100 employees, who work to ensure the stability of the financial system and customer protection.

The ACPR represents France for matters within its jurisdiction, specifically international prudential regulation in the European Union and wider international negotiations such as the Basel Committee for Banking Supervision (BCBS) and the International Association of Insurance Supervisors (IAIS), and supports the French representatives on the FSB.

***Supervision of securities markets***

The Autorité des Marchés Financiers (AMF, French Financial Markets Authority) regulates participants and products in France's financial markets. It regulates, authorises, monitors, and, where necessary conducts investigations and issues sanctions. It also ensures that investors receive material information, and provides a mediation service to assist them in disputes.

The missions of the AMF, its composition, resources, operating rules, powers (regulations and decisions, authorisation of certain transactions in financial instruments (such as IPOs), audits, investigations, injunctions and emergency measures, administrative settlements, enforcement, reporting of suspicious operations, cooperation with the other public authorities, relations with statutory auditors and possibilities of appeal against its decisions) are governed by Articles L. 621-1 and following and R. 621-1 and following of the CMF.

The AMF is an independent public body with a remit to: safeguard investments in financial products; ensure that investors receive material information; and maintain orderly financial markets. As an independent public authority, AMF has its own budget and staff. Its budget is generated by income coming from fees connected to financial transactions and activities.

The AMF regulates participants and products on French financial markets, including financial markets and market infrastructures, listed companies, financial intermediaries authorised to provide investment services and financial investment advice (credit institutions authorised to provide investment services, investment firms, investment management companies, financial investment advisers, direct marketers), collective investment products invested in financial instruments and crowdfunding intermediaries ("*intermédiaires en investissement participatif*" – "IFP" for loans and grants).

To fulfil its remit, the AMF:

- sets rules;
- authorises participants, approves disclosures relating to corporate finance transactions and authorises collective investment products;
- monitors the participants and savings products under its supervision;
- conducts investigations and inspections;
- has enforcement powers; and
- informs investors and offers a mediation service.

The AMF has two distinct collegial bodies: the Board and the Enforcement Committee.

The Board is the AMF's principal decision-making body and is chaired by the Chairman of AMF. Composed of 16 members, it adopts new regulations, examines individual cases investigated by the AMF, and initiates the sanction procedure. The power to impose sanctions is given to the Enforcement Committee, whose 12 members are different from those of the Board. The Enforcement Committee enjoys full decision-making autonomy.

The Secretary General has responsibility for the various AMF's directorates (462 employees as of end 2015). He decides whether to open investigations and inspections, and gives authorisation to the investigators in accordance with the terms set by the General Regulation. Additionally, he defines the Rules of Procedure and the Rules of Professional Conduct that apply to the AMF staff and submits these rules to the Board for approval. He sets the general framework for compensation and draws up the budget, which is then examined by the Board.

The AMF is supported by five Consultative Commissions, each comprising about twenty experts. Their mission is to inform the Board's decisions on changes to the regulations or the ombudsman's policies.

Lastly, a Scientific Advisory Board composed of recognised experts from the academic and financial fields supports the AMF's study and strategic monitoring remit.

The cooperation activities of the AMF and exchanges of information with other authorities in France (notably through the HCSF) and abroad (supervision, audits and investigations) are governed by Articles L. 631-1 and following and R. 632-1 and following of the CMF.

***Macroprudential supervision***

Presided by the Minister of Finance and gathering the heads of all the institutions involved in preserving financial stability as well as three external members, the HCSF is responsible for macroprudential policy (see section 2 of the report).

***Role of the Ministry of Finance (MoF)***

Within the MoF, the Directorate General of Treasury prepares financial sector legislation and regulation (except in the securities area), participates in European and international negotiations, and contributes to the implementation of the regulatory framework, in particular via its attendance to the ACPR, AMF, HCSF and Haut conseil du commissariat aux comptes (H3C - Superior Council of Statutory Auditors) Boards' meetings.

***Accounting standards of banks and insurance companies***

In France, statutory annual financial statements of banks and insurance are prepared in accordance with French accounting standards, which are compliant with the European directives. Consolidated financial statements are prepared according to French accounting standards or IFRS, depending on whether the company is listed on a regulated market or not: IFRS are applicable to consolidated financial statements of publicly traded companies on a regulated market. This results from the European IAS regulation 1606/2002. In addition, France also authorises (on the basis of the option provided by the European Regulation) other companies to establish their consolidated financial statements under IFRS.

The Autorité des Normes Comptables (ANC), the French accounting standard setter, was created by Ordinance in January 2009 and its missions relate both to French accounting standards and IFRS:

- establishing through regulations the French accounting standards applicable for all the annual accounts of French companies and entities subject to the obligation of establishing accounts: businesses of all size, banks, insurance companies, assets management entities, associations, working unions, cooperative societies, political parties, etc. - consolidated accounts of French groups that are not subject to the European IFRS Regulation (not listed on a regulated market);

- participating in international and European negotiations related to the IFRS: The ANC answers to the various consultations of the IASB, IFRIC and is member of the Accounting Standards Advisory Group of the IASB. The ANC is member of the European Financial Reporting Advisory Group (EFRAG); and
- developing and financing the research in accounting standards.

To fulfil its missions, the ANC is composed of:

- a Board, which members are nominated by ministerial decrees (16 members);
- two Commissions, one responsible for IFRS-related issues, the other for the French accounting-standards, which members are nominated by the Board;
- working groups, composed of auditors, preparers, analysts, regulators, etc., who are experts in particular issues; and
- staff in charge of drafting papers, preparing position.

A representative of the Government also participates to the Board meetings, without voting rights. The composition of the Board is reviewed every three years. The Chairman of the ANC's Board attends the ACPR, AMF, HCSF Boards' meetings.

**Other major reforms**

The bill on transparency, fight against corruption and the modernisation of the economy, which was approved by Parliament in December 2016, is intended to foster growth through increased and diversified market finance and strengthen confidence in capital markets through targeted enhancement in supervision powers. One of the objectives of the bill is to guarantee transparent and effective financing of the economy, in particular through:

- improved financial stability and protection for savers by increasing the powers of the financial regulation authorities;
- a ban on advertising for internet platforms that offer high risk financial instruments;
- support for the development of new means of payment, by creating fair competition conditions for all categories of payment services providers;
- the creation of French-style pension funds by changing supplementary pension regulation schemes in order to redirect €10 to 20 billion into financing the economy;
- enhancing the financing of the real economy by collective investment schemes and the granting of corporate loans by alternative investment funds and securitization vehicles; and
- introducing legal provisions relating to gates for funds and collective investment schemes in exceptional circumstances.

# Annex 2: Structure of the French financial system[100]

The French financial system is structured around three main types of institutions: banks and credit institutions, institutional investors (*i.e.* insurers and pension funds) and an asset management industry. In each subsector, the main players are institutions with a global reach.

***Banks and credit institutions***

With total assets amounting to 367% of gross domestic product (GDP) as of end-2015, credit institutions are a key pillar of the French financial system. Six diversified banking groups (BNPP, SG, GCA, GBPCE, GCM and LBP)[101] with consolidated total assets of €6,147bn (or 282% of French GDP as of end-2015) constitute the bulk of the banking sector. While each group provides for a wide range of financial services, domestic retail banking constitutes the biggest chunk with a 48% average of group-level net income before tax. For most of them, investment banking and capital market activities are a significant component of their business mix (17.2% of net income before tax, around 30% for two groups). Finally, most groups have an insurance arm as well as businesses in the asset management, private banking, and (when they have significant capital market activities) securities servicing industry (17.3% and 8.4% of net income before tax respectively with significant inter-group heterogeneity).

French banks' financial performance has been continuously growing (excluding the US misconduct fines imposed on BNPP in 2014 – see table 1) and profitability has been relatively robust despite a challenging macro-financial environment. Though still below pre-crisis levels, return on equity markedly improved since 2012 (+3.4 %) and is close to the European average. Thanks to a traditional reliance on non-interest income, the revenues of the retail banking division have remained solid despite the downward pressure on net interest margin. With the strengthening of credit demand, lending and deposits have been on an upward trend.

**Table 1: Aggregate net income and return on equity attributable to six banking group parents**

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| Aggregate net income (€bn) | 18.0 | 14.3 (20.3*) | 23.7 |
| Return on equity (%) | 6,00 % | 4,55 % (6,2 %*) | 6,77 % |

* *Without the extraordinary items related to BNP's US fine of 2014. Source: banks' public reporting.*

100 Based on information provided by the French authorities.

101 BNP Paribas, Société Générale, Groupe Crédit Agricole, Groupe BPCE, Groupe Crédit Mutuel and La Banque Postale.

French banks have strengthened their balance sheet since the last FSAP. Solvency ratios improved, reflecting sustained capital accumulation and a limited rise in risk-weighted assets (see table 2). Capital adequacy has also improved on a non-risk-weighted basis (see table 3).

**Table 2: Fully-loaded CET 1 ratio for the six banking groups**

| | BNPP | SG | GCA | GBPCE | GCM | LBP |
|---|---|---|---|---|---|---|
| End 2013 | 10.3 % | 10.0 % | 11.2 % | 10.4 % | 14.2 % | 10.2 % |
| End 2014 | 10.3 % | 10.1 % | 13.1 % | 11.7 % | 15.5 % | 14.0 % |
| End 2015 | 10.9 % | 10.9 % | 13.7 % | 12.9% | 15.8 % | 14.2 % |

*Source: banks' public reporting.*

**Table 3: Leverage ratios for the six banking groups**

| | BNPP | SG | GCA (*) | GBPCE | GCM (**) | LBP |
|---|---|---|---|---|---|---|
| End 2013 | 3.7 % | 3.5 % | 3.8 % | 3.6 % | 5.6 % | N/A |
| End 2014 | 3.6 % | 3.8 % | 5.2 % | 4.5 % | 6.4 % | 5.4 % |
| End 2015 | 4.0 % | 4.0 % | 5.7 % | 5.0 % | 6.2 % | 5.2 % |

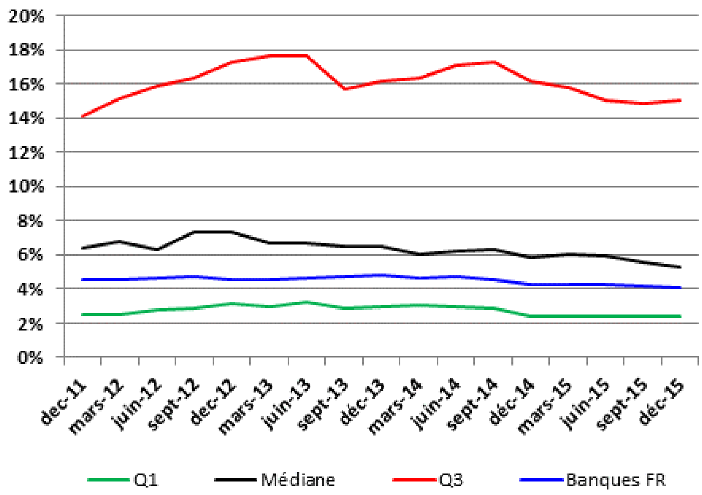
** GCA communicated on a phase-in basis in contrast to the other groups **For GCM, the 2015 figure excludes national options while the opposite applies to 2014. Source: banks' public reporting.*

In terms of risk exposures, the French banking sector displays a global exposure of €2,354bn at end-2015. Credit risk accounted for 80% (out of which 57% correspond to retail and corporate exposures), market risk accounted for 3.2%, while operational risks represented less than 10% of the total exposures.

In terms of geography, more than 72% of French banks' foreign exposures were clustered in eight countries: the USA (20%), Italy (12%), the UK (11%), Belgium (9%), Germany (8%), Luxembourg (5%), Japan and Switzerland (4% respectively).

In terms of credit quality, impaired loans are decreasing since 2012 and, relative to European peers, the ratio of impaired loans has remained low (4% as of end-2015 – see figure 1). The non-performing loan ratio was 1.55 % as of end-2015, while the coverage ratio was 56.7%.

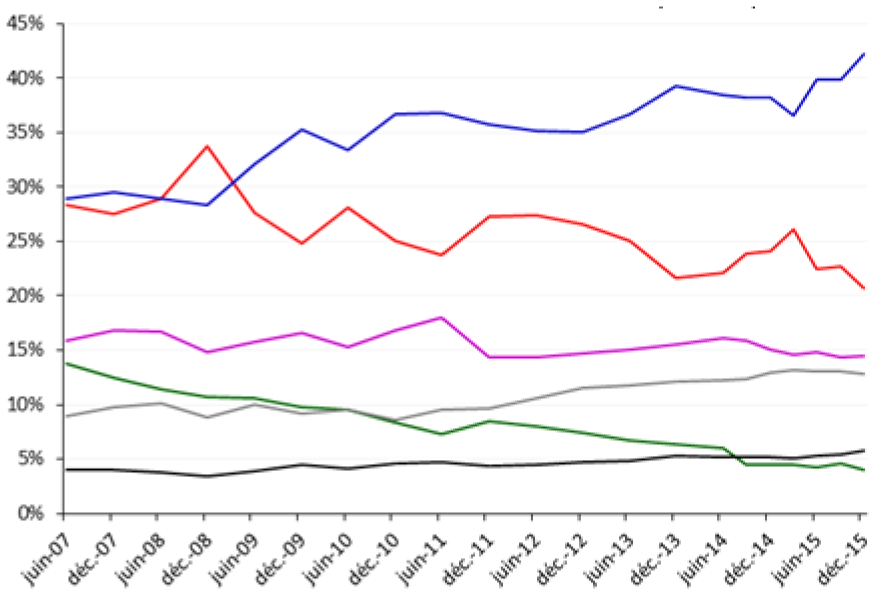
**Figure 1 : Ratio of impaired loans**




*Source: EBA, ACPR, FINREP data.*

In terms of funding, French banks continuously increased their deposit base since the crisis, relying markedly less on wholesale funding (see figure 2).

**Figure 2: Liability structure of the main French banks**




*In blue: deposits (other than those of credit institutions); red: financial liabilities (held for trading); pink: debt securities; green: deposits of other credit institutions; grey: other liabilities; black: capital and reserves. Source: FINREP Data.*

The four biggest banks are maintaining a liquidity buffer (central bank deposits, high quality liquid assets, assets eligible for central bank monetary operations etc.) that largely exceeds their short-term indebtedness (see table 4).

**Table 4: Liquidity reserves as % of short-term debt**

| Liquidity reserves (as % of short-term debt) | BNPP | SG | GCA | GBPCE |
|---|---|---|---|---|
| End-2013 | 154 % | 140 % | 168 % | 112 % |
| End-2014 | 179 % | 168 % | 203 % | 120 % |
| End-2015 | 185 % | 206 % | 257 % | 138 % |

*Source: banks' public reporting.*

***Insurance companies***

With assets totalling €2,473bn, insurance companies (to a lesser extent, pension funds) constitute another key component of the French financial system as they collect a significant part of households' savings (38 % of financial wealth as of end-2015).

The sector can be split between four main categories that reflect different key business lines in insurance: (i) life (and mixed) insurers[102] with approximately 86% of all investment portfolio assets; (ii) non-life insurers[103] with 9.0%; (iii) mutual insurers[104] with 2.7%; and (iv) "provident societies" (*institutions de prévoyance*)[105] with 2.5%.

In terms of effective asset allocation (looking through investment vehicles), the insurance sector invested more than 70%[106] of its portfolio in debt securities. Most of their exposures (around 45%) are concentrated in French residents. The two main exposures are to other financial institutions (around €756bn, more than 50% to French financial institutions, mainly banks) and to the sovereign/public sector (€610bn, 69% to the French public sector).

The low-interest environment boosted latent capital gains within debt portfolio. At this current juncture, the spread between investment returns and the one distributed to policyholders is still largely in positive territory for French life insurers (see figure 3). However, reinvestment into lower-yielding assets puts a downward pressure on financial returns and, eventually, on solvency where this environment to last for several more years.

102 Regulated by the French Insurance Code.

103 Regulated by the French Insurance Code.

104 Regulated by the French Mutuals Code.

105 Regulated by the Social Security Code.

106 All following asset allocation figures are given after applying a look-through approach to the asset allocation of investment funds of which insurers hold shares.

**Figure 3 : Returns distributed to policyholders and portfolio investment returns**


*Dashed blue line: investment returns; Dashed purple line: Average return distributed to policyholders. Source: Prudential data C1V3.*

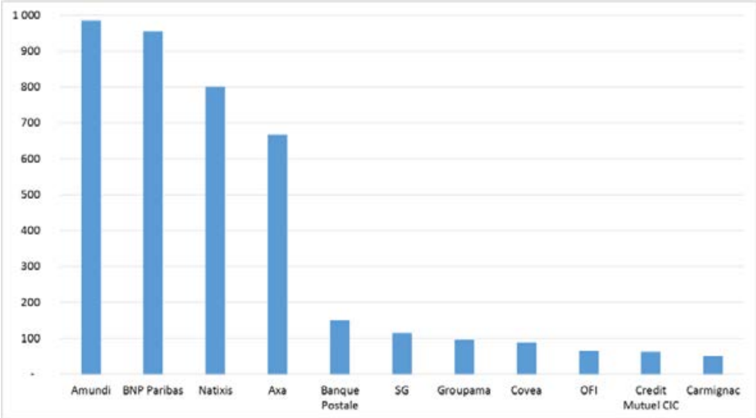
Turning to the resiliency of the sector, a new prudential regime (Solvency II), framed in a market-based and risk-sensitive perspective, was effectively implemented at the beginning of 2016 across the European sector. In preparation for this new framework, the French insurance supervisor conducted in 2015 a stock-taking exercise over the state of the market with regard to Solvency II. Based on end-2014 data, the exercise shows the resiliency of the French insurance industry with a median SCR of 260 %. As of end-2015, the average SCR ratio for a sample covering only the main French insurance companies (CNP, Groupama, AXA and Scor Re) was 220 %.

***Asset management***

The French asset management industry represents 14% of assets under management (AuM) in the Eurozone, but it is a significant actor on the European scene with several key world players (see figure 4): Amundi (€1004 bn, including €296.3 bn managed in France), Axa IM (€669 bn in the 21 countries where it is located, managing €102.6 bn in France) and Natixis Global Asset Management (€784 bn, including €131.4 bn in France).

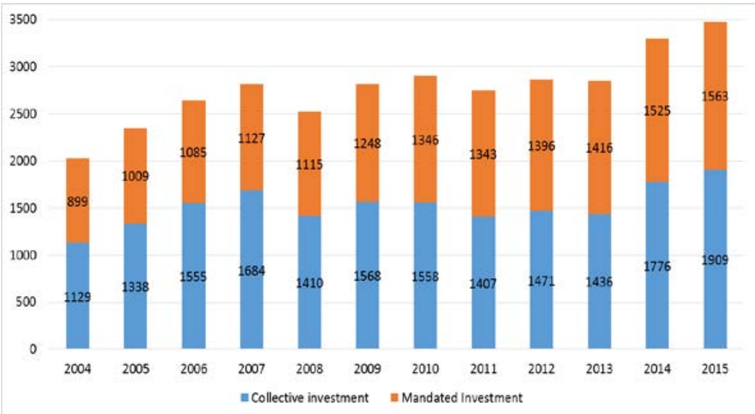
The industry has been quite dynamic over the last few years, with the total number of asset management companies raising from 571 in 2009 to 627 in 2015 and overall AuM increasing from €2,816bn to €3,472bn. Asset management is split along two main business lines: mandated and collective investment. In the former, an asset manager is “mandated” by a client to manage part of its assets. A mandate defines the investment rules (objectives, eligible asset classes, reporting modalities etc.) to be followed by the asset manager. In the latter, the assets of a group of clients are put together inside the same legal vehicle which is managed by the asset manager.

**Figure 4: Top 10 ranking of French asset managers by AuM as of Q4 2015 (€bn)**




*Source: Towers Watson 500.*

**Figure 5 : AuM in France (€bn)**




*Source: AMF.*

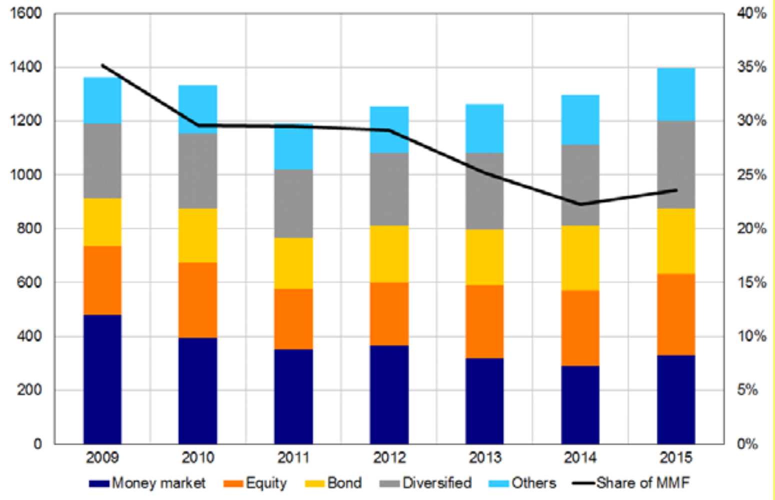
Collective investment can be split into two categories:

- UCITS with total AuM of €710bn in 2015 concentrates on investing in traditional financial assets (equity, debt, diversified, money markets);
- AIFs with total AuM of €815bn in 2015 invests in traditional and alternative assets. This segment has been quite active with the expansion of specialised investment funds.

With the entrenchment of the low-interest rate environment, the sector witnessed a few significant developments:

- Collective investment has seen its AuM grow significantly between 2009 and 2015, notably thanks to favourable valuation effects that amount to €311bn;
- The relative decline of the share of money-market funds from 35% to 24% (see figure 6).

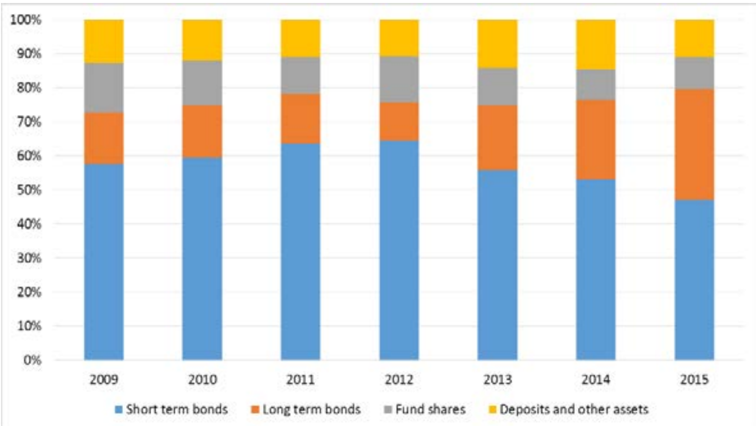
**Figure 6 : AuM (€bn) and share in total AuM (%) of different types of UCITS**




*Source: Banque de France.*

Turning to asset allocation, the past few years have been characterised by a move into longer-duration assets in a context of increasing inflows from investors into bond funds. Money-market funds have been allocating more of their portfolios into non-€ assets (which now represent 22 % of their total AuM) as well as into longer-duration assets (which now constitute 33 % of MMF's total AuM) as shown in figure 7.

**Figure 7: Assets under Management by MMF type (€bn)**




*Source: Banque de France.*

# Annex 3: Institutional framework for financial sector disclosures

<table>
<tr><th>Authorities</th><th>Mission</th><th>Main scope of competence</th></tr>
<tr><td colspan="3">France</td></tr>
<tr><td>Autorité des Marchés Financiers (AMF)</td><td>• Approves and monitors financial disclosures by listed companies<br>• Authorises asset management companies and collective investment products<br>• Monitors the participants and savings products under its supervision<br>• Conducts investigations and inspections<br>• Informs investors and offers the services of ombudsman<br>• Represents France in international and European organisations</td><td>• Listed financial entities such as banks and insurance companies (e.g. BNPP, Crédit Agricole, Société Generale, Natixis, AXA)<br>• Non-listed financial entities that issue bonds on regulated markets (e.g. BPCE, Ag2R La Mondiale)</td></tr>
<tr><td>Autorité de contrôle prudentiel et de résolution (ACPR)</td><td>• Ensures the stability of the financial system<br>• Issues licences and authorisations<br>• Ensures prudential supervision of banks and insurances companies<br>• Assists the ECB in its role of banking supervisor<br>• Supervises the preparation and implementation of measures to prevent and resolve banking crisis<br>• Protects consumers<br>• Represents France in international and European organisations</td><td>• Entities in the banking, payment services and investment services sectors<br>• Direct supervision of less significant institutions[107] (supervision of significant institutions is under direct ECB supervision – see below)<br>• Entities in the insurance sector</td></tr>
<tr><td>Autorité des Normes Comptables (ANC)</td><td>The ANC is the French accounting standard setter. Its missions relate both to French accounting standards and IFRS:<br>• Establishing, through regulations, the French accounting standards<br>• Participating in international and European discussions related to IFRS<br>• Developing and financing research on accounting matters</td><td>• Individual accounts of French companies and entities subject to the obligation of preparing statutory/annual accounts (i.e. insurance companies, banks and asset management entities)<br>• Consolidated accounts of French groups that are not subject to the European IFRS Regulation (i.e. banks and insurance companies</td></tr>
</table>

[107] "Less significant supervised entity" means both: (a) a less significant supervised entity in a euro area Member State; and (b) a less significant supervised entity in a non-euro area Member State that is a participating Member State.

| | | |
|---|---|---|
| | | not listed on a regulated market) |
| ***Haut conseil du commissariat aux comptes (H3C)*** | The H3C is an independent public authority, with legal personality and financial independence, whose mission is to ensure the supervision of the statutory audit profession in France and cooperate with its counterparts on European and international level | • Auditors |
| **Euro area** | | |
| ***European Central Bank (ECB)-Single Supervisory Mechanism (SSM)*** | • The ECB is the central bank of the 19 EU countries that have adopted the euro. Its main task is to maintain price stability in the euro area and so preserve the purchasing power of the single currency<br>• The SSM is one of the pillars of the EU banking union<br>• Since 4 November 2014, the ECB ensures a direct supervision of banking institutions assessed as "significant" (Significant Institution) and an indirect supervision on less important banking institutions (Less Significant Institutions), for which the responsibility lies primarily on each national authority, i.e. the ACPR in France | • Direct supervision of 126 European banking institutions assessed as "significant institutions".[108] At a European level, these institutions hold almost 82% of the banking assets in the euro area.<br>At a French level, they hold around 91% of the assets in the banking sector, and represent 13 banking groups[109]. |
| **European Union (European Supervisory Authorities)** | | |
| ***European Securities and Markets Authority (ESMA)*** | • Enhance investor protection and promote stable and orderly financial markets<br>• Contribute to a single set of harmonised prudential rules for the securities sector (European Single Rulebook) to help create level playing field and high protection to depositors, investors, consumers and issuers<br>• Promote supervisory convergence | • Regulatory powers for the securities sector<br>• Direct supervisor of credit rating agencies and trade repositories within the EU |

[108] "Significant supervised entity" means both: (a) a significant supervised entity in a euro area Member State; and (b) a significant supervised entity in a participating non-euro area Member State. "Significant supervised group" means a supervised group that has the status of significant supervised group pursuant to an ECB decision based on Article 6(4) or Article 6(5) (b) of Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63) (the SSM Regulation).

[109] See the latest (November 2016) list of supervised entities by the ECB (https://www.bankingsupervision.europa.eu/ecb/pub/pdf/list_of_supervised_entities_201612.en.pdf).

| | | |
|---|---|---|
| | • Assess risks and vulnerabilities in the securities sector through regular risk assessment reports and pan-European stress tests (e.g. stress test on CCPs) | |
| ***European Banking Authority (EBA)*** | • Maintain financial stability in the EU and safeguard the integrity, efficiency and orderly functioning of the banking sector<br>• Contribute to a single set of harmonised prudential rules for banks (European Single Rulebook) to help create level playing field and high protection to depositors, investors and consumers<br>• Promote supervisory convergence<br>• Assess risks and vulnerabilities in the banking sector through regular risk assessment reports and pan-European stress tests | • Regulatory powers for the banking sector |
| ***European Insurance and Occupational Pensions Authority (EIOPA)*** | • Support the stability of the financial system, transparency of markets and financial products as well as the protection of policyholders, pension scheme members and beneficiaries.<br>• Better protect consumers<br>• Contribute to the establishment of high-quality common regulatory and supervisory standards and practices in the EU<br>• Promote greater harmonisation and coherent application of rules for financial institutions and markets across the EU<br>• Strengthen oversight of cross-border groups<br>• Promote coordinated EU supervisory response | • Regulatory powers for the insurance and occupational pensions sectors |

## Annex 4: Follow-up of other key FSAP recommendations

This Annex presents the follow-up actions reported by the French authorities to key FSAP recommendations that are not covered in sections 2 and 3. The actions mentioned below have not been evaluated as part of the peer review and are presented solely for purposes of transparency and completeness.

| ***Recommendations*** | ***Steps taken to date and actions planned (including timeframes)*** |
|---|---|
| ***Overall Financial Sector Oversight*** | |
| Give serious consideration to modifying MoF participation in the Boards of ACP (now ACPR) and AMF to support independence of the supervisory process. | The French authorities underline the benefit of the current organisation.<br><br>The ACPR is an independent authority. The AMF is also an independent public authority pursuant to Article L. 621-1 of the CMF. Furthermore, the legal framework does not provide a full member status to the Director general of the Treasury (or his representative) within the AMF and the ACPR Colleges and Sanctions Commissions. The Law sets out a very strict framework for his or her membership and his or her powers, which are very limited and thus unlikely to have an influence on the College decisions :<br><br>- in the area of supervision, he or she sits as a non-voting member ;<br>- he or she does not take part in the deliberation of Sanctions Commissions ;<br>- he or she has only the right to ask the College to hold a second vote (this right does not exist concerning Sanctions Commissions). In practice, the exercise of this right is limited and should in any case be justified by very serious reasons (such as a clear risk of legal uncertainty).<br><br>However, the participation of the Director general of the Treasury (or his or her representative) in the Colleges of Supervisors is an essential part of the overall efficiency of the supervisory and regulatory framework, by allowing an enhanced cooperation between the competent authorities. The organisation of supervisory Colleges is clearly defined and provides for a clear legal basis that enables efficient exchange of information, restricted to what is strictly necessary. This framework gives the Director general of the Treasury the opportunity to fulfil his or her missions while strictly respecting the confidentiality of information covered by the obligation of professional secrecy and the decisional independence of supervisory authorities.<br><br>During the FSAP, the IMF has recognised that the assessors had found no evidence that the independence of supervisors could in practice be put into question (and has not been able to propose alternative models ensuring at least equivalent operational efficiency).<br><br>Finally, since 4 November 2014, the ECB as part of the SSM ensures a direct supervision on banking institutions assessed as "significant" and indirect supervision on less important banking institutions. This further lessens the relevance of the FSAP recommendation. |
| Eliminate limits on headcount for ACP (now ACPR), AMF, and H3C. | The current headcount of the ACPR General Secretariat (1,028 people by end-2015) is significantly lower than the headcount limit set by the Finance Act for 2015 (1,121 people). In the past, the headcount of ACPR has durably been lower than the limit (1,023 people by end-2014, 1035 by end-2013, 1,035 by end-2012, etc.). Under such conditions, the independent authority has sufficient leeway to lead an active recruitment policy and assume |

| | |
|---|---|
| | effectively its missions. Regarding the AMF, the headcount limit is 469 "Full-time equivalent", while the authority had 462 employees at end-2015.<br><br>More generally, for budgetary control reasons, there are no plans to remove limits on headcount for ACPR, AMF and H3C. Nevertheless, the Minister of Finance and the French Parliament shall ensure that current limits on headcount allow supervisory authorities to fulfil their missions. |
| ***Banking Supervision*** | |
| Continue monitoring banks' funding position and availability of collateral to access liquidity through the secured debt market and/or central bank facilities. | The ACPR and the ECB as part of the SSM carry out this mission.<br><br>Since the entry into force of CRR, credit institutions have had to complete templates C 51 000 to C 54 000 of COREP which aim to monitor the liquidity coverage requirements. As of 10 September 2016, these templates will be replaced with templates C 72.00 to C.76.00 imposed under Regulation (UE) n°2016/322 of the Commission of 10 March 2016. These tables allow monitoring the Liquidity Coverage Ratio (LCR) on a monthly basis.<br><br>Since 25 March 2016, the entities have to send to their supervisor tables on additional elements of monitoring of the liquidity imposed by Regulation n°2016/313 of the Commission of 5 March 2016.<br><br>Under Article 100 of CRR, banks are required to report to the competent authorities the level of their repurchase agreements, securities lending and all forms of encumbrance of assets. In addition, credit institutions and some categories of investment firms have to disclose data on assets encumbrance at least once a year (*arrêté* of 19 December 2014 of the Minister of Finance).<br><br>Moreover, the SSM has developed a common methodology that allows to assess the capital and liquidity requirements of credit institutions. The liquidity risk assessment covers the short-term liquidity and the needs of stable sources of funding in the medium term. |
| Give ACP (now ACPR) powers to assess the suitability of Board members (of both banks and insurance companies) and to require removal of all unsuitable Board members. | Article L. 612-23-1 of the CMF provides that :<br><br>- credit institutions notify the supervisor (ACPR) of the appointments and the renewals of all board members;<br><br>-t he supervisory college of the ACPR or the ECB for the significant institutions (*i.e.* the largest banks) can oppose appointments and renewals of all board members if they don't' meet the conditions of worthiness, skills and experience;<br><br>- the term or the position of the officer whose the appointment or the renewal has been objected by the competent authority (the ACPR and the ECB) stop after the notification of objection;<br><br>- any time, the ACPR can oppose to the continuation in office of board members of the entities in the insurance sector when they no longer meet the conditions of worthiness, skills and experience, and remove these unsuitable Board members. |
| Give ACP (now ACPR) powers to ensure it receives prior notification of major acquisitions and is, therefore, able to consider them ex ante. | Concerning the assessment of the FSAP on BCP5 (cross-border major acquisitions), the French authorities would like to precise that the European regulation (since the directive 2007/44/CE) provides that the competent authorities within the EEA cooperate and are consulted in case of cross-border stakes by a credit institution in the capital of a credit institution, an investment firm or an entity of the insurance sector. Nevertheless, any approval by the supervisor of the entity that purchases the stake in the national law would not be in compliance with the directive mentioned above. |

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| | Therefore, when a French credit institution acquires a significant capital interest in a financial entity which is located in the EEA, it is the competent authority of the target entity which approves the operation whereas the French supervisor (ACPR*)* is only consulted.<br><br>In accordance with an IMF recommendation, the waiver of approval for the changes of shareholder within a group has been removed by an *arrêté* of 23 December 2013.<br><br>Moreover, concerning i) the stakes on the capital by the French credit institutions in financial entities located outside the EEA, ii) the establishment by the French credit institutions of branches outside the EEA and iii) the purchase of business sectors by the French credit institutions inside or outside the EEA :<br><br>- Article. L. 511-2 of the CMF provides that the credit institutions can take stakes in the capital of financial entities before, as the case may be, prior authorisation for the ACPR*,* statement or notification by the credit institution to the supervisor.<br><br>- Article L. 511-12-2 of the CMF provides that establishment by the French credit institutions of subsidiaries outside the EEA and the purchase of a business sector by these same entities have to be authorised by the French supervisor.<br><br>Concerning these three types of operations mentioned above i) acquisition of stakes on the capital by the French credit institutions in financial entities located outside the EEA, ii) establishment by the French credit institutions of branches outside the EEA and iii) the purchase of business sectors by the French credit institutions inside or outside the EEA), three *arrêtés* have been passed:<br><br>- The *arrêté* du 4 août 2016 *pris pour application de l'article L.511-2 du code monétaire et financier, relatif aux prises de participation des établissements de crédit dans des filiales à caractère financier ou des filiales d'assurance ou de réassurance ou dans des entités comparables ayant leur siège social en dehors de l'Espace économique européen* specifies the conditions under which the credit institutions can undertake these transactions. Acquisition of stakes on the capital by the French credit institutions in financial entities located outside the EEA have to be subject either to a notification by the credit institution to the supervisor or a prior authorisation from the supervisor depending on whether the balance sheet of the target entity respectively exceeds 15% or 25% of own funds of the acquiring entity.<br><br>- The *arrêté du 4 août 2016 pris pour application de l'article L. 511-12-2 du code monétaire et financier, relatif aux conditions dans lesquelles les établissements de crédit peuvent acquérir tout ou partie d'une branche d'activité significative* provides the purchase of a business sector have to be subject either to a notification by the credit institution to the supervisor or to a prior authorisation from the supervisor depending on whether the risk-weighted assets that are purchased represent respectively 5% or 10% of own funds of the acquiring credit institution.<br><br>- The *arrêté du 4 août 2016 pris pour application de l'article L. 511-12-2 du code monétaire et financier, relatif à l'ouverture par les établissements de crédit de succursales dans un État qui n'est pas partie à l'accord sur l'Espace économique européen* provides that the opening |

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| | of branches by French credit institutions outside of the EEA requires the prior approval from the French supervisor.<br><br>In the light of these elements, France is compliant with the BCP5. |
| ***Insurance Supervision*** | |
| Introduce enforceable legal and regulatory corporate governance requirements. | <u>In force since 1 January 2016</u><br><br>Since the last FSAP, Solvency II requirements are now fully transposed into French legislation, leading France to be fully compliant with FSAP recommendations.<br><br>Solvency II "Pillar 2" covers qualitative requirements regarding governance.<br><br>According to the CMF Article L.612-23-1, appointment and renewal of the management are notified to the ACPR, who can oppose if the requirements to be fit and proper are not met (to be of good repute and sufficiently skilled and experienced).<br><br>The system of governance aims at providing a sound and prudent management of a company's business. It comprises four key functions: risk-management function, compliance function, internal audit function, actuarial function<br><br>All elements regarding the governance system are in force since 1 January 2016 (introduced in the "Code des assurances", Chapter IV, Title V, Book III by the "*ordonnance*" n°2015-378 of 2 April 2015, which transposed Solvency II requirements). |
| Require insurance companies to have internal audit and actuarial control functions. | <u>In force since 1 January 2016</u><br><br>Since the last FSAP, Solvency II requirements are now fully transposed into French legislation, leading France to be fully compliant with FSAP recommendations.<br><br>Solvency II "Pillar 2" covers qualitative requirements regarding governance.<br><br>The internal audit function and the actuarial function are two of the four key functions that are part of the system of governance (which also comprises the risk-management function and the compliance function).<br><br>All elements regarding the internal audit function and the actuarial function are in force since 1 January 2016 (introduced by the "ordonnance" n°2015-378 of 2 April 2015, which transposed Solvency II requirements):<br>- In the "*code des assurances*": Chapter IV, Title V, Book III<br>- In the "*code de la mutualité*": Chapter I, Title I, Book II<br>- In the « *code de la sécurité sociale* »: Chapter I, Title III, Book IX. |
| ***Securities Regulation*** | |
| Establish stronger conflict-of-interest arrangements to govern industry participation in the AMF Board. | The presence of industry professionals, and in particular those designated by the Minister of the Economy in light of their competence and expertise on issues related to financial markets, allows AMF to conduct its missions in the best possible conditions, with the adequate consideration given to the markets' reality.<br><br>The composition of the AMF Board and the Commission of Sanctions allows for the participation of experienced professionals of the financial industry, sitting next to the public authorities' representatives. The AMF Board, and Commission of Sanctions often require the presence of professionals next to |

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| | the judges, as this diversity of competence allows efficiency and legitimacy in the decision making process. It is also one of the elements that allows the Commission of Sanctions to judge within a reasonable period of time cases that are getting more and more complex.<br><br>The law of 11 October 2013 on the transparency of public life substantially reinforced provisions regarding conflict of interest prevention, property and interests transparency. In particular, an abstention and offset system ("*déport*") in cases of conflicts of interest was reinforced. In particular, under this law blind management agreements of securities owned by members of these authorities will apply to all members of the AMF Board and Commission of Sanctions which, with the exception of its President, perform their duties part time and often carry professional activities at a high level in the private sector. |
| Strengthen AMF's supervision of investment service providers and financial advisors by increasing onsite work, including inspections. | The AMF continues its action of reinforcing the supervision rules for investment advisors ("*conseillers en investissement financier* – CIF"), and in particular, through the review of the conditions under which authorisation is granted to their associations. For instance, since 2015, the approval documents of these associations now have had to incorporate control and training norms that are stronger and more uniform. In addition, in 2016, the Board of the AMF decided that as from 2017, each CIF will have to pass an exam to certify their knowledge on financial, regulatory and ethical background.<br><br>Associations have reinforced their processes and procedures with regards to admission, control and training of investment advisors. Moreover, the AMF has designed an annual reporting sheet to be filled out by each CIF annually. This enables the regulator to have a better knowledge of these professionals.<br><br>Regarding inspections practices, the AMF has developed and put in place a new, specific, methodology, which allows inspection on a given theme, chosen from among the professional obligations linked to the "CIF" status – this type of control is then performed (across) an important to span a large number of actors. This new, additional policy, carried out alongside inspections of CIFs based on risk identification, has enabled an increase in the scope of inspections, but also to inspect the knowledge of those covered. Over 2015 these two methods were renewed.<br><br>From May 2014 and until the end of 2015, the AMF carried out 162 so-called "mass" inspections of CIFs in 10 towns in France, supported by external consultants or by the Bank of France's regional management network. 10% of such inspections were completed on-site. Additionally, inspections were carried out on the theme of the prevention of money laundering and terrorist financing (AML/CTF) and were delegated to the French Overseas Departments Issuing Institute (IEDOM/IEOM) (in 2015, 17 were carried out in Ile de la Réunion). Regarding inspections of a more "classic" nature, the usual and general theme of client relationship was the topic of focus, with an accent on a specific field of risk: the distribution of atypical products. Several inspections also involved a specific section on AML/CFT.<br><br>A thought process was launched by the AMF in 2014 on the policy for the inspection of investment firms (IFs). In recent years, the staffing of the division in charge of market intermediaries has been stepped up, leading to a 50% increase in staff numbers over four years, notably to tackle the numerous European post-crisis regulatory initiatives. This increase in staff has enabled a strengthening in the supervision of major institutions (Tier 1) |

and of branches (foreign IFs based in France, and French IFs based abroad). As a corollary, the proposed inspections were focused more on Tier 1 institutions (representing half of the inspections in 2015) and in many cases led to repressive measures. With slighter staff numbers than in 2014 (linked to delays in replacing staff departures), and taking into account the proposed inspections and longer enforcement times, the number of IFs inspections carried out by the inspections directorate fell off slightly in 2015. Twelve inspections of IFs were carried out (excluding portfolio managers - PMs) and 18 inspections of PMs. The inspections covered operators of various sizes and a most varied set of themes.

For IFs, the theme of custody account keeping, linked to the protection of client assets, was renewed in 2015. Three new themes were addressed: (i) financial analysis; (ii) depository for collective investment scheme (UCITS) inspection; and (iii) the conflicts of interest management between corporate finance activities and other departments' activities, within the entities inspected. Other inspections focused on the distribution (*commercialization*) of certain financial instruments (CFD/FOREX; units of securitisation funds; structured products) and systems for the automatic detection of market abuse.

For PMs, inspections focused in particular on the management of money market and fixed income investments, private equity, structured product management and securitisation. The programme of inspection of order transmission systems was renewed in 2015 (order pre-designation, audit trail traceability).

Particular attention has been focused on recurrent and key themes for investor protection: governance and conflict of interest management in the field of fund management or marketing; systems for internal control and their traceability; respect of activity programs and provisions relating to PMs' own resources; quality of documentary information provided to investors; respect of rules stated in regulatory texts and product documents of a contractual nature; compliance and pertinence of valuation models. Following on from previous years, several inspections involved an AML/CFT section.

On crowdfunding, the French regulators have decided to reinforce the actors' monitoring, by putting in place two new national statuses: crowdfunding intermediaries (*intermédiaires en investissement participatif* – "IFP" for loans and grants), and crowdfunding advisors (*conseillers en investissement participatif* – "CIP", for equity and debt securities and soon promissory notes) in 2014. These two kinds of regulated professionals are registered with the ORIAS. The CIP are under the supervision of the AMF: this will allow a better monitoring by the AMF of the equity based crowdfunding actors, as the regulator will have the same means of controlling and monitoring as for the CIFs. CIP will also have to fill in an annual report similar to the ones sent to the CIF.

For investment service providers ("*prestataires de services d'investissement*" – PSI), the AMF has reinforced over the last few years its monitoring, though the creation of a dedicated team in charge of monitoring PSIs active on the marketing/managing financial instruments (in addition to the team created in 2011 to supervise market intermediaries). A new modality of monitoring has also been launched: "mystery shopping", launched by external providers, under the supervision of the *Direction des relations avec les épargnants* (DREP); each year, one or two themes are selected for these visits, which are closed by a lessons learned exercise.

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| | The staff of the Market Intermediaries division has also increased by 50% over last four years, in order to adjust the AMF's supervisory capacity to the numerous regulatory initiatives taken at European level post crisis (including EMIR, MAR and MIFID 2). This higher staffing also allowed the AMF to reinforce the supervision of the larger firms ("Tier 1") and of branches of foreign investment firms providing investment services in France. |
| Provide greater enforcement powers to the H3C and increase its staffing levels. | The European reform of auditing was finalised in June 2014, and its transposition into the French law went into effect in June 2016. This has substantially reinforced the power of the H3C, in terms of investigation and sanctions. The H3C is given autonomous power of investigation and sanctions.<br><br>In addition, the H3C is reinforcing its staffing dedicated to the controls of the auditors ("*commissaires aux comptes*"), and this should be continued in the years to come. |
| ***Resolution framework*** | |
| Modify composition of Fonds de Garantie des Dépôts (FGD) Board to limit the potential for conflict of interest. | Major evolutions of the resolution framework occurred since the 2012 FSAP such as the creation of a resolution authority at national level (following banking law of 26 July 26 2013) and of a Single Resolution Board (SRB) at the level of the banking union (following BRRD directive and SRM regulation) which is competent for the major French banking groups. This evolution is key to understand that neither the executive board nor the supervisory board of the FGDR has any decision making power in resolution or to levy contributions for resolution purposes. These matters fall under the exclusive competence of the resolution authority.<br><br>It is worth noting that the governance of the FGDR has been modified by ordinance n° 2015-1024 *du 20 août 2015* (*portant diverses dispositions d'adaptation de la législation au droit de l'Union européenne en matière financière* (https://www.legifrance.gouv.fr/affichTexte.do;jsessionid=2421C121202EECB3B73B55EA0A396DFF.tpdila08v_2?cidTexte=JORFTEXT000031070122&dateTexte=20150821)) to modify the composition of the board and give the resolution authority the above mentioned powers, including the possibility to revoke certain members of the board to avoid conflicts of interest.<br><br>Articles L. 312-9 to L. 312-15 of the CMF are related to the organization and the functioning of the FGDR.<br><br>There is a clear separation of function between the FGDR's directoire (executive board) and its Conseil de surveillance (supervisory board). The appointment of the president of the former is approved by the French MoF. The latter has only residual jurisdiction and decision making power. The FGDR is supervised by the ACPR and an observer appointed by the French MoF participates in the works of the supervisory board.<br><br>In any case, a deontology charter applying to supervisory board members has been set up to further prevent from potential conflict of interest. |
| Expand FDG's powers in the resolution process, so as to assume assets | The FGDR has now (ordinance referred to above) the capacity to take over assets and liabilities from a failing bank. However, such capacity is more likely to be improved by the Single resolution fund (SRF) or a bridge institution under the French (and the Banking Union) rules. |

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| and liabilities from a failing bank. | |
| ***Central Counterparties*** | |
| LCH SA should measure its exposures continuously throughout the business day. | For all segments cleared, the CCP is able to organise multiple intra-day margin calls, depending on the evolution of the market parameters as well as the positions.<br><br>On the cash and derivatives segments, LCH SA is able to perform additional margin call during the day, instantaneously and in real time based on updated positions and prices, based on a semi-automatic process. Three thresholds have been defined by the CCP: if the first threshold is reached an automatic alert is triggered and manual margin calls will be carried out by the CCP; for the two other thresholds if they are reached an automatic alert is triggered and automatic complementary margin calls are processed by the CCP.<br><br>On the fixed income segment: an automatic intraday margin call is implemented. Based on intraday monitoring carried out by LCH.SA and if the pre-defined thresholds are reached, additional margin calls could be performed every hour by the CCP.<br><br>On the credit default swap (CDS) segment: intraday margin calls are performed as soon as the novation occurred independently from any netting of the relevant transactions. Regulators requested the CCP to extent its sourcing prices: LCH. SA used Bloomberg and Markit. From March 2015, LCH. SA receives prices that are provided by the three main dealers. Runs provided by dealers are sent usually every five to 10 minutes. On the CDS Single Names two changes have been implemented allowing the CCP to calculate more precisely the impact of market moves on single names entities: (i) using the Credit Spread Widening, to capture more precisely spreads (from March 2015) and (ii) following the authorisation granted to LCH SA to clear the Senior Financial index, the CCP added this index to the real time monitoring tool (with an effective date on 10 July 2015). Hence, the financial entities are now mapped to an index more in line with the specific nature of such names. Those improvements had been presented to the LCH.SA EMIR College, in July 2015, and had been considered satisfactory.<br><br>The collateral is re-evaluated daily, haircuts that are applied allow the coverage of market variation in the extreme cases (but plausible) with a confidence level of 99.7%. |
| Carry out annually an external audit of LCH.Clearnet SA business continuity plan, including that of the in-sourcing company. | The actual functioning rules of the CCP allow an annual independent audit of the continuity plan. This audit includes the outsourcing activities that for LCH.SA are provided by external suppliers. Agreements framing the outsourcing activities between the CCP and its providers foreseen the possibility of an external audit at any time.<br><br>Furthermore, the CCP's continuity plan that is compliant with EMIR regulation (EMIR has implemented PFMIs in Europe regulation) is submitted to the assessment of the French competent authorities.<br><br>The continuity plan has been assessed during the EMIR authorisation process. Besides, dedicated on-site inspections can be performed by national competent authorities on-site or/and at the suppliers' premises.<br><br>Moreover, and pursuant to EMIR's regulation (article 21 of the aforementioned regulation) an annual review is conducted by the French authorities assessing "arrangements, strategies, processes and mechanisms |

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| | implemented by the CCP". Therefore, this annual review includes notably the business continuity plan and the outsourcing services.<br><br>A supervisory report is drafted by French authorities and provided to the EMIR College of LCH. SA.<br><br>Lastly, twice a year the French authorities participate as observers/overseers to the fire-drills exercises organised by CCP, (simulation of the operational handling of participants' default). |
| ***AML/CFT*** | |
| Strengthen the implementation of AML/CFT measures in the overseas territories. | Concerning anti-money laundering and the fight against terrorist financing, French legislations and regulations are implemented directly in overseas territories: these rules are directly applicable in overseas Departments (Guadeloupe, Martinique, Guyane, Mayotte and Réunion) and in the following overseas collectivities *(*Saint-Martin, Saint-Pierre et Miquelon and Saint Barthélémy). Concerning Nouvelle Calédonie and Polynésie française, their organic laws set the principle of a direct implementation of national rules in this field. These rules are systematically extended in the islands of Wallis and Futuna. European regulations are also extended in overseas territories which do not belong to the European territory. In the specific field of asset freezing for the fight against terrorism, European freezing decisions are systematically extend in these territories by a national order ("*arrêté*").<br><br>According to the conventions signed on the 19 December 2011, and completed in 2014, between the ACPR and the overseas institutes (IEDOM-IEOM), the control of the application of these legislations and regulations is realised by the ACPR counsellor to these institutes. He and his team realise on site controls in reporting entities located in overseas territories and make awareness and training campaigns, sometimes in coordination with TRACFIN (FIU).<br><br>Between 2012 and 2014, 15 meetings with all financial institutions, 45 deep interviews, 30 on-site visits and about 15 meetings with the police, the Justice, tax administrations and the prefectures were conducted.<br><br>Eleven out of 30 controls led to "*lettres de suite*" to the ACPR General Secretary, with demands to adapt the AML-TF mechanisms. One entity was asked, within a fixed period, to comply with the regulation (a second on-site visit was scheduled in 2015 to check it). After these controls, three entities ceased their activities.<br><br>In 2015, the ACPR counsellor conducted on site controls towards four exchange offices and two insurance brokers. One of these controls conducted towards an exchange office led to a sanction of €40,000 imposed by the ACPR on the 4 July 2016. Furthermore, the ACPR counsellor conducted six meetings with banking institutions located in the Indian Ocean, the Pacific and in the Caribbean zone to provide better dissemination and understanding of regulation.<br><br>Besides, the ACPR realises directly actions and controls in AML-FT towards all entities submitted to its control, including entities located in overseas territories, in particular French banks which have entities in these territories.<br><br>In 2012 and 2013, IEDOM conducted 13 controls towards CIFs in the behalf of the AMF) in La Réunion, Martinique, Guadeloupe and Nouvelle-Calédonie. All these controls led to "*lettres de suites*" and information to TRACFIN was sent about one CIF in Nouvelle Calédonie. Due to these results, so-called "mass inspections" have been initiated. In December 2014, |

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| | 50% of the CIFs located in La Réunion were subjected to an inspection by questionnaire in order to envision on site visits in 2015.<br><br>Moreover, TRACFIN and the ACPR counsellor, with the support of IEDOM, organized training awareness sessions in 2013, in *Martinique* and *Guadeloupe* and in 2014 in Nouvelle Calédonie and at Tahiti. During these sessions, the French FIU had discussions with all the public authorities (Préfecture, judges, customs, police) and with private entities from the financial sector (banks, insurance companies, casinos, etc.) and non-financial sector (notaries, lawyers, certified public accountants, external auditors). A clear recall about their obligations as regard AML-TF was made.<br><br>Lastly, several circulars of criminal policy have been issued and sent to the *Procureurs généraux* and *Procureurs de la République*, including in overseas territories, to raise awareness among them of the fight against money laundering and terrorist financing and ask them to be particularly aware of the compliance of professionals from the non-financial sector, to increase their exchanges with TRACFIN, and to have a specific attention on transactions in some sectors such as real estate, gambling, public works, security and sport. |
| Complete legislation to enable the authorities to seize laundered property. | The law of 9 July 2010 improving the seizure and confiscation in criminal matters introduces in the French criminal code (Article 131-21 paragraph 6) a system of general confiscation of the assets.<br><br>The law allows the seizure of all or a part of the convicted person's property or goods for which he or she has the free disposal, regardless of :<br><br>- a link between properties and the offense,<br><br>- the licit or illicit origin of properties in question,<br><br>- the date of acquisition of properties, before or after the offense.<br><br>This penalty is expressly provided for money laundering offenses, for both natural and legal persons. |