

**AUTORITÉ DE CONTRÔLE PRUDENTIEL ET DE RÉOLUTION**

-----

**RESOLUTION BOARD**

-----

**Communication on the Resolution Strategy  
of ACPR Resolution Board**

## Summary

<b>1.</b>	<b>Executive Summary</b> .....	2
<b>2.</b>	<b>The formulation of a resolution strategy addresses several objectives</b> .....	5
2.1.	Transparency, clarity and predictability of the ACPR's actions .....	5
2.2.	Mitigate moral hazard and limit contributions from depositors/taxpayers .....	5
<b>3.</b>	<b>The choice of a resolution strategy forms part of the French resolution framework established by the Banking Separation and Regulation Act on 26 July 2013</b> .....	6
3.1.	Resolution provisions play a core role in the French system for preventing and managing banking crises.....	6
3.2.	The Banking Separation and Regulation Act established France's resolution framework .	8
3.2.1.	The ACPR identified as the resolution authority .....	8
3.2.2.	A Resolution College established .....	8
3.2.3.	Recovery and resolution plans legally required to be drawn up in advance .....	9
3.2.4.	Terms and conditions for implementing resolution measures set down by law .....	9
3.2.5.	The ACPR provided with appropriate measures to implement a resolution procedure.....	10
3.2.5.1.	Tailored resolution measures .....	10
3.2.5.2.	Formulation of a resolution strategy guides the use of these measures .....	11
<b>4.</b>	<b>The Resolution College has opted for the Single Point of Entry (SPE) approach, best suited to the characteristics of the French banking sector</b> .....	12
4.1.	Description of different possible resolution strategies.....	12
4.2.	Criteria for choosing between the SPE and MPE strategies .....	12
4.2.1.	Institutional criteria .....	12
4.2.2.	Operational criteria .....	13
<b>5.</b>	<b>The SPE approach entails close cooperation with foreign authorities</b> .....	15

## 1. Executive Summary

- 1 The purpose of this document is to present the position of the Autorité de contrôle prudentiel et de résolution (ACPR) on its resolution strategy, formulated at the meeting of the Resolution College on 12 March 2014.
- 2 In addition to describing the French framework for the prevention and resolution of banking crises, this document details the organisation and the general rules governing orderly resolution of entities subject to recovery and resolution provisions (“Entities”).<sup>1</sup>
- 3 The 2008 financial crisis showed how the difficulties encountered by the banking sector affected both the real economy and the financial system. Although French banks were broadly resilient, France responded to the situation by strengthening the legislative framework for preventing and managing banking crises.
- 4 The Banking Separation and Regulation Act of 26 July 2013 (BaSRA),<sup>2</sup> which was passed at that time, established arrangements for preventing and managing banking crises. Among other things, the new legislation:
  - requires Entities to draw up a recovery plan covering planned recovery measures if their financial condition deteriorates seriously. This plan is assessed by the ACPR. As a resolution authority, the ACPR also has to prepare a resolution plan which could be used if recovery options implemented are ineffective to avoid the failure of an Entity;
  - assigns all resolution powers to the Resolution College of the ACPR, which has sole authority in this area on French territory;
  - sets objectives for bank resolution: *“safeguard financial stability, [...] ensure the continuity of the activities, services and operations of institutions whose failure would have a serious impact on the economy, [...] protect depositors, [...] and avoid or [...] limit to the greatest possible extent any recourse to public financial aid”*;<sup>3</sup>
  - establishes several conditions for the exercise of resolution powers, consistent with the principles set down by the EU Bank Recovery and Resolution Directive (BRRD),<sup>4</sup> including in particular:
    - the principle that *“no shareholder, stakeholder or creditor shall bear losses exceeding those that they would have suffered if the entity [had] been liquidated in accordance with the court-ordered liquidation procedure provided for by the Commercial Code”*;<sup>5</sup>
    - the principle that *“valuation should be [...] fair [...] and realistic [...] performed [...] according to customarily used objective methods”*<sup>6</sup> when valuing the assets and liabilities of an institution subject to resolution measures.

<sup>1</sup> Cf. p. 4: Table on the scope of recovery and resolution measures.

<sup>2</sup> Act n° 2013/672 of 26 juillet 2013, JORF n° 0173 du 27 juillet 2013 page 12530/..

<sup>3</sup> Article L. 612-1 II 4 of the Code monétaire et financier.

<sup>4</sup> Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council. Published in the OJEU on 12 June 2014.

<sup>5</sup> Article L. 613-31-16 II of the Monetary and Financial Code.

<sup>6</sup> Article L. 613-31-16 III of the Monetary and Financial Code.

- 5 At its meeting on 12 March 2014, based on the abovementioned principles and objectives and given the characteristics of the French banking market, the ACPR Resolution College determined that the Single Point of Entry (SPE) approach was the most appropriate overall resolution strategy:
  - the organisation, governance, business model, geographical bases, location of loss-absorbing capacity and the financing structure of the main French banks argue in favour of this approach;
  - the extended powers provided to the ACPR allow it to implement such an approach where necessary.
- 6 The SPE approach is the focal point of the French resolution strategy. It enables the ACPR to exercise its powers and apply resolution measures at the level of the parent company of banking groups.
- 7 This approach is consistent with the general principles established by the Financial Stability Board (FSB)<sup>1</sup> in October 2011. It translates into tighter requirements on cooperation and information-sharing with foreign supervisory and resolution authorities, in addition to extensive national cooperation, with the Banque de France and the Autorité des Marchés Financiers (AMF) in particular. Under this approach, the home country authority has the key responsibility of coordinating resolution decisions and enforcing the ensuing measures. Accordingly, the negotiation of cooperation agreements, notably with non-European Union (EU) authorities, and the cross-border recognition of resolution measures are key to achieving orderly resolution.
- 8 While this presentation of the ACPR's resolution strategy seeks to make the authority's actions more transparent, clear and predictable, the choices described should not, at this juncture, be considered final and irreversible. In the event that a resolution procedure is triggered for a given entity, the strategy applied will consider the specific situation of the entity in question and any relevant circumstances. While based on the approach determined by the ACPR, the resolution strategy may also be adjusted or combined with other approaches if need be.
- 9 When the ACPR is the host authority of an entity, the SPE strategy should not necessarily be considered as appropriate. The ACPR's action could be different, taking into account the home authority's strategy.
- 10 Between now and 2015, the French framework will be changed to reflect implementation of the BRRD and the Single Resolution Mechanism Regulation<sup>2</sup> over the coming months and years.

---

<sup>1</sup> FSB, October 2011, *Key Attributes of Effective Resolution Regimes for Financial Institutions*.

<sup>2</sup> In the process of adoption.

## Scope of resolution measures

<i>BaSRA</i>	<i>BRRD</i>
Article L. 613-31-14 Monetary and Financial Code	Article 1(1) BRRD
<ul style="list-style-type: none"> <li>• Credit institutions</li> <li>• Investment firms other than portfolio management companies</li> <li>• Financial holding companies</li> <li>• Mixed financial holding companies</li> </ul>	<ul style="list-style-type: none"> <li>• Institutions that are established in the Union</li> <li>• Financial holding companies, mixed financial holding companies and mixed-activity holding companies that are established in the Union</li> <li>• Parent financial holding companies in a Member State, Union parent financial holding companies, parent mixed financial holding companies in a Member State, Union parent mixed financial holding companies</li> <li>• Financial institutions that are established in the Union when the financial institution is the subsidiary of a credit institution or an investment firm, or of a company mentioned above and is covered by the supervision of the parent undertaking on a consolidated basis</li> <li>• The branches of institutions that are established outside the Union, in accordance with the specific conditions laid down in this Directive</li> </ul>

## **2. The formulation of a resolution strategy addresses several objectives**

- 11 The formulation of a resolution strategy is designed to help maintain financial stability and make the ACPR's actions more transparent, clear and predictable. The strategy is also intended to mitigate moral hazard and prevent covered depositors and taxpayers from having to make a contribution should a banking crisis occur.

### **2.1. Transparency, clarity and predictability of the ACPR's actions**

- 12 By formulating a resolution strategy, the ACPR provides economic agents with visibility on its potential actions. This approach is based on compliance with three principles:
- transparency: the tools available to the ACPR must be known and their use should be disclosed;
  - clarity: economic participants must be able to understand the actions likely to be adopted by the ACPR as well as the procedure for putting them in place;
  - predictability: steps should be taken to provide guidance on the events and objective elements that could trigger intervention by the ACPR and on the procedures for establishing such interventions.

### **2.2. Mitigate moral hazard and limit contributions from depositors/taxpayers**

- 13 By providing the ACPR with a set of measures to organise orderly resolution of a credit institution or investment firm, the law wanted to mitigate the risk of moral hazard:
- the purpose of establishing a French resolution framework is to maintain the continuity of the activities, services and operations of institutions whose failure would have a serious impact on the economy, irrespective of the size of the entities affected;
  - the resolution toolkit may be used to limit the impact of a resolution on the economic system, while protecting individual depositors and small and medium-sized enterprises and preserving the public finances.

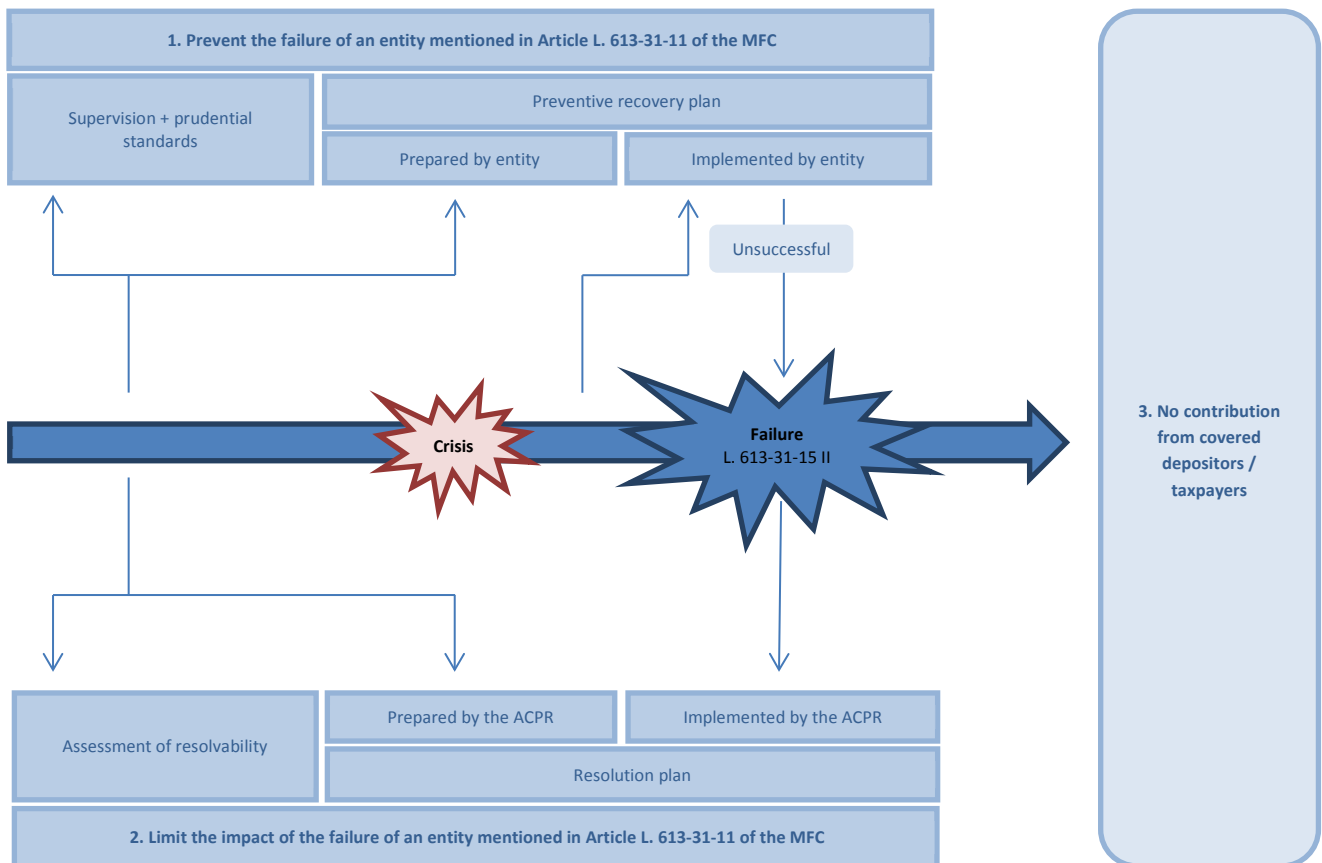
**3. The choice of a resolution strategy forms part of the French resolution framework established by the Banking Separation and Regulation Act on 26 July 2013**

- 14 With the adoption of BaSRA on 26 July 2013, France established a resolution regime and created a resolution authority with the power to implement resolution measures. These are main components of the French system for preventing and managing banking crises.

**3.1. Resolution provisions play a core role in the French system for preventing and managing banking crises**

- 15 The French system for preventing and managing banking crises comprises three pillars in which resolution provisions play an essential role.

**French system for preventing and managing banking crises**



- 16 The first pillar comprises the measures for preventing the failure of an entity mentioned in Article L. 613-31-11 of the Monetary and Financial Code. It is based on strengthening supervision and prudential standards. Notably, the French framework complies with the provisions of the CRD IV<sup>1</sup> and CRR,<sup>2</sup> which, in addition to significantly strengthening capital requirements, introduced two liquidity ratios<sup>3</sup> to measure and identify more effectively the onset of sudden liquidity shocks. Furthermore, the obligation to establish a preventive recovery plan,<sup>4</sup> as described in point 3.2.3 of this document, ensures that entities have a strategic and operational crisis management tool. These plans are subject to careful review by the ACPR, following a methodology consistent with the work done by the European Banking Authority (EBA).
- 17 The second pillar aims to limit the impact of the failure of an entity. With this in mind, and to ensure orderly resolution, the ACPR has several powers:
- it assesses the resolvability of the entity to determine whether “*the organisation and functioning of an institution [...] could hinder the effective implementation of resolution measures*”.<sup>5</sup> If this is the case, the ACPR will ask the designated entity to “*take measures to reduce or remove these obstacles*”;<sup>6</sup>
  - it prepares a resolution plan for entities identified in the Monetary and Financial Code<sup>7</sup> and details the specific procedures for applying resolution measures;
  - it implements the resolution measures that are contained in the plan and that are to be deployed only if the supervised entity “*is failing and there is no prospect that any action other than the application of a resolution measure would prevent this failure within a reasonable timeframe*”.<sup>8</sup>
- 18 Taken together, the elements described above are used to avoid the need for contributions from covered depositors or taxpayers in the event of resolution.<sup>9</sup> This is the third pillar of France’s system for preventing and managing banking crises:
- recovery plans may not “*assume any possibility of extraordinary public financial support [...]*”;
  - the Deposit Guarantee and Resolution Fund may intervene with respect to an entity under resolution, which ultimately limits the reliance on support from depositors.

---

<sup>1</sup> Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, notably transposed in France by Order 2014-158 of 20 February 2014 implementing various provisions to amend legislation to accommodate European Union law on financial matters.

<sup>2</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

<sup>3</sup> Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

<sup>4</sup> Article L. 613-31-11 of the Monetary and Financial Code.

<sup>5</sup> Article L. 613-31-13 of the Monetary and Financial Code.

<sup>6</sup> Article L. 613-31-13 of the Monetary and Financial Code.

<sup>7</sup> Cf. below point 3.2.3.

<sup>8</sup> Article L. 613-31-15 1 of the Monetary and Financial Code and point 3.2.4 of this position.

<sup>9</sup> In this regard, note in particular that recovery plans may not “*assume any possibility of extraordinary public financial support [...]*” and the Deposit Guarantee and Resolution Fund may intervene with respect to an entity in a resolution process, which ultimately limits the reliance on support from depositors.



### 3.2. The Banking Separation and Regulation Act established France's resolution framework

19 In 2013 France established a resolution framework based essentially on:

- assigning resolution powers to a sole authority;
- establishing a procedure for triggering the resolution of an entity;
- determining appropriate resolution measures.

#### 3.2.1. The ACPR identified as the resolution authority

20 Following adoption of the Act of 26 July 2013, the word "résolution" was added to the title of the ACP, which became the ACPR. As such, and in accordance with Article L. 612-1 II 4° of the Monetary and Financial Code, the ACPR was made responsible for “*supervising the preparation and implementation of measures to [...] resolve banking crises*”.

21 The provisions contained in the act ensure:

- a structural separation between resolution tasks and supervisory tasks;
- the operational independence of ACPR departments in charge of resolution, in particular through the creation of a Resolution Directorate,<sup>1</sup> which prepares the work of the Resolution College and whose director is appointed by a decree of the Minister for economic affairs;
- synergies between resolution and supervision, generated by giving members of the College and the Resolution Directorate access to the work and information held by the ACPR for the purpose of discharging its prudential oversight responsibilities.

#### 3.2.2. A Resolution College established

22 The Act of 26 July 2013 created a college specifically to address resolution-related questions. The college's powers, set out in the Monetary and Financial Code,<sup>2</sup> are separate from those of the Supervisory College.

23 The Resolution College is empowered to:

- prepare resolution plans;
- assess the resolvability of entities mentioned in Article L. 613-31-11 of the Monetary and Financial Code;
- take decisions aimed at reducing or removing obstacles to the implementation of resolution measures;
- assess the failure of an institution;
- implement resolution measures.

<sup>1</sup> Article L. 612-8-1 sub-par. 8 of the Monetary and Financial Code.

<sup>2</sup> Article L. 612-1 II 4° of the Monetary and Financial Code.

- 24 The ACPR Resolution College comprises six members:
- the Governor of the Banque de France or his or her representative, in the chair;
  - the Director General of the Treasury or his or her representative;
  - the Chairman of the AMF or his or her representative;
  - the Deputy Governor appointed by the Governor of the Banque de France or his or her representative;
  - the Chairman of the Commercial, Financial and Economic Chamber of the Cour de Cassation or his or her representative;
  - the Chairman of the Management Board of the Deposit Guarantee and Resolution Fund or his or her representative.

### **3.2.3. Recovery and resolution plans legally required to be drawn up in advance**

- 25 The entities mentioned in Article L. 613-31-11 of the Monetary and Financial Code prepare and send the ACPR a preventive recovery plan<sup>1</sup> covering planned recovery measures if their financial position deteriorates seriously. The recovery plan:
- may not assume any possibility of extraordinary financial support from the State or the Deposit Guarantee and Resolution Fund;
  - should be updated by the entity at least once a year and after any material change to its organisation or business;
  - may be amended based on observations sent by the ACPR to the entity.
- 26 The ACPR prepares resolution plans for entities<sup>2</sup> that are required to draft recovery plans. These individual resolution plans detail the specific procedures for applying the resolution measures listed in point 3.2.5.1 of this document.

### **3.2.4. Terms and conditions for implementing resolution measures set down by law**

- 27 Article L. 613-31-15 of the Monetary and Financial Code states that an entity shall be deemed to be failing if it is in one of the situations below, or if there are objective factors indicating that it is likely to find itself in such situations:
- no longer compliant with the capital requirements for continuing authorisation;
  - unable to meet payments, either at the present time or in the near future;
  - in need of extraordinary public financial support.

---

<sup>1</sup> Article L. 613-31-11 of the Monetary and Financial Code.

<sup>2</sup> Article L. 613-31-12 of the Monetary and Financial Code.

### 3.2.5. The ACPR provided with appropriate measures to implement a resolution procedure

- 28 The law has given the ACPR a broad array of powers to organise the orderly resolution of an entity mentioned in Article L. 613-31-11 of the Monetary and Financial Code. In view of the wide range of measures it is empowered to implement, the ACPR can adapt to the specific nature of each situation and each entity.
- 29 The ACPR wants to keep the flexibility offered by this broad spectrum of tools. For the time being, and with regard to the scope of resolution measures<sup>1</sup>, it prefers not to prioritise one measure over another, rather determining which measure or combination of measures to use depending on the situation, following the guidelines in the resolution strategy.

#### 3.2.5.1. Tailored resolution measures

- 30 Article L. 613-31-16 I of the Monetary and Financial Code gives the ACPR Resolution College significant resolution powers. These 14 measures partially anticipate the provisions of the BRRD.

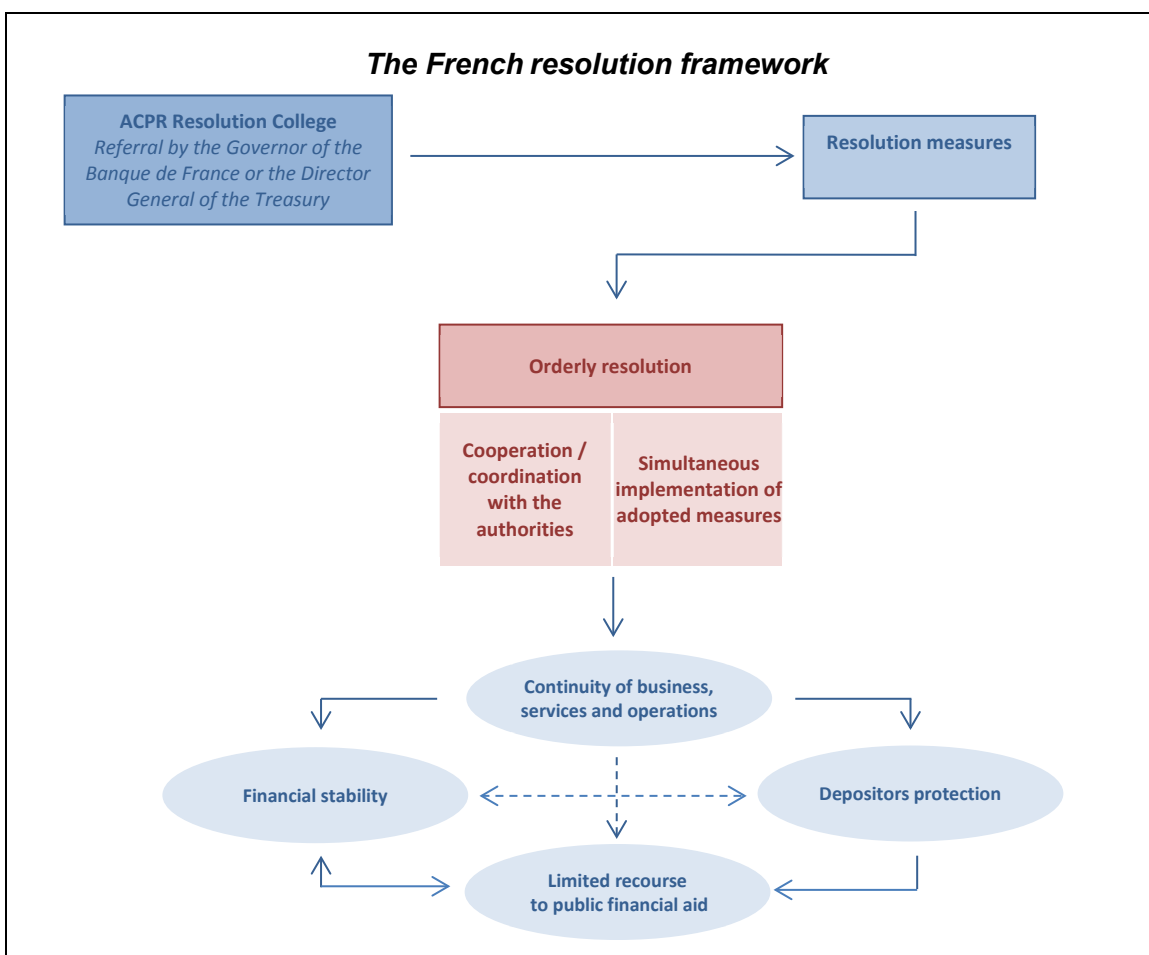
<b>Resolution measures that the ACPR may implement<sup>2</sup></b>	
<b>Measures impacting governance</b>	Appointment of a temporary administrator (2°)
	Dismissal of a senior manager of the entity (3°)
<b>Measures impacting business</b>	Transfer without consultation of all or part of one or more business lines of the entity, current contracts being maintained (4°)
<b>Use of a bridge bank</b>	Use of a bridge bank tasked with temporarily receiving some or all of the assets, rights and liabilities of the entity under resolution (5°)
<b>Measures drawing on the DGRF</b>	Intervention by the Deposit Guarantee and Resolution Fund (6°)
	Transfer, with its agreement, to the Deposit Guarantee and Resolution Fund or a bridge bank of equities and membership shares issued by the entity under resolution (7°)
<b>Measures to strengthen the entity's financial structure</b>	Issuance of new shares, membership shares or other capital instruments (10°)
	Capital reduction; cancellation of equity securities or liabilities or conversion of liabilities items to absorb losses (9°)
<b>Measures restricting or banning certain transactions</b>	Ban on paying some or all debts mentioned in sub-paragraph 9° and that pre-date the authority's decision (11°)
	Restriction or temporary ban on the conduct of certain transactions by the institution (12°)
	Prohibition or limitation on dividend payments to shareholders or returns on membership shares of the institution (13°)
<b>Other measures</b>	Request for information (1°)
	Estimation of impairment based on a valuation of the entity's assets and liabilities (8°)
	Suspension of the exercise of the right to take advantage of a close-out provision and the rights to cancellation and netting referred to in Article L. 211-36-1 of the Monetary and Financial Code and contained in a contract entered into with this entity (14°)

- 31 Following the implementation of the directive BRRD, which should be done before the 1<sup>st</sup> January 2015, powers of the ACPR will be strengthened.

<sup>1</sup> Cf. p. 4: Table on the scope of recovery and resolution measures.

<sup>2</sup> The numbers shown after each measure refer to the numbers given in Article L. 613-31-11 I of the Monetary and Financial Code.

### 3.2.5.2. Formulation of a resolution strategy guides the use of these measures



- 32 The ACPR has a wide range of instruments for organising the orderly resolution of credit institutions and investment firms. This enables it to adapt to the different types of situations it faces. From an operational perspective, the ACPR's action may, where necessary, involve simultaneous use of several instruments, cooperation with one or more supervisory authorities, and coordination of actions, as required, with one or more other resolution authorities.
- 33 In this regard, the purpose of formulating a resolution strategy is to facilitate the actions introduced by the ACPR and ensure they are properly understood by entities, markets, depositors/taxpayers and the authorities with which the authority collaborates. Orderly resolution of an entity contributes to the four objectives mentioned in Article L. 612-1 II 4° of the Monetary and Financial Code:
- safeguard financial stability;
  - maintain the continuity of the activities, services and operations of entities whose failure would have a serious impact on the economy;
  - protect depositors;
  - limit, to the greatest possible extent, any recourse to public financial aid.

#### **4. The Resolution College has opted for the Single Point of Entry (SPE) approach, best suited to the characteristics of the French banking sector**

- 34 At its meeting on 12 March 2014, the Resolution College opted for a Single Point of Entry (SPE) resolution strategy. This choice was based in particular on the scope of the ACPR's powers and the characteristics of the French banking system.
- 35 The choice of an SPE strategy may be combined with a pragmatic approach to resolution. It should not be viewed as definitive, irreversible or systematic, but rather as a position in favour of the strategy that seems best suited from an operational perspective, given the organisation and functioning of the main French entities.

##### **4.1. Description of different possible resolution strategies**

- 36 There are two main approaches to the orderly resolution of systemically important banks:
- the SPE approach entails the exercise by the home country authority of resolution powers and instruments at the level of the parent company, with host country authorities taking measures as needed to support the resolution actions;
  - the Multiple Point of Entry (MPE) approach entails the exercise by at least two different resolution authorities of resolution powers and instruments at the level of the different parts of the banking group. These authorities coordinate their activities.

##### **4.2. Criteria for choosing between the SPE and MPE strategies**

- 37 The choice between the two strategies was based on institutional and operational criteria. With regard to these criteria, and setting individual cases aside:
- the French institutional framework is compatible with an SPE approach;
  - the organisation and functioning of the entities that the ACPR supervises on a consolidated basis appear more conducive to an SPE approach in the event that the resolution procedure is activated.

###### **4.2.1. Institutional criteria**

- 38 Institutional criteria were identified using the same methodological approach as that applied by the International Monetary Fund for its Financial Sector Assessment Program (FSAP) as part of the assessment of the crisis management and bank resolution framework.<sup>1</sup> Consistency with FSB standards was also ensured.
- 39 Five criteria were taken into account: the ability of the resolution authority to prevent and manage crisis situation; the enforcement of national resolution regime; the identification of roles and terms of institutions involved in resolution (ACPR, Banque de France, Ministry for economic affairs, Deposit Guarantee and Resolution Fund...); ability to ensure close cooperation and efficient information-sharing during crisis situation; accomplishment of recovery and resolution plans.

---

<sup>1</sup> International Monetary Fund, 1 July 2013, *France: Financial Sector Assessment Program — Technical Note on Crisis Management and Bank Resolution Framework*.

- 40 Following a review of these criteria, the extensive resolution powers and measures assigned by law to the ACPR allow it to establish an SPE approach. In particular, the ACPR now has the power to convert and write down the claims of entities under resolution.

#### 4.2.2. Operational criteria

- 41 The operational criteria used to determine the resolution strategy were identified based on work by the FSB and were broken down into operational sub-criteria by the ACPR. The main criteria are described in the following table.

-	Main criteria used to determine the resolution strategy	+
MPE	Degree to which decision-making process and/or governance approach is centralised	SPE
MPE	Degree to which business model is integrated	SPE
MPE	Degree to which business is located in France	SPE
MPE	Degree to which loss-absorbing capacity is concentrated with the parent company (financial structure)	SPE
MPE	Degree to which management of support functions is pooled (operational structure)	SPE
SPE	Number of significant foreign subsidiaries (legal structure)	MPE
MPE	Degree to which funding is centralised	SPE
MPE	Level of intragroup transactions	SPE

- 42 Selecting a given resolution strategy does not require compliance with all the abovementioned criteria. An analysis of the French banking system confirmed the need to favour an SPE approach.
- 43 The assessment of the “operational criteria” concentrated on the five largest French banking groups, given their dominant collective position in the country's banking system. These banks had total assets of €5,843 billion at 31 December 2013 out of the €7,269 billion for the French banking sector as a whole,<sup>1</sup> or 80% of the total amount.
- 44 The analysis revealed that the largest French groups have fairly centralised decision-making processes and/or governance approaches.
- 45 In general, these groups have highly integrated business models (market activities managed by large regional economic zones and key currencies, centralised financing of non-market activities, centralised management of collateral and liquidity for non-market activities).
- 46 Just two of the five largest French banking groups do more than 20% of their business through foreign entities, some of which are considered significant.
- 47 The market funding of French banking groups is typically concentrated with two banking institutions based in France (the parent company and a specialised entity). These entities provide for a large proportion of the internal funding of other group entities, which generates a high level of intragroup transactions.

<sup>1</sup> The total assets of the five main banking groups are consolidated under IFRS. As regards the market as a whole, total assets as measured here are based on consolidated data where available (IFRS or French standards) and on individual data in the case of independent credit institutions (provisional data).

- 48 In terms of loss-absorbing capacity, the analysis revealed:
- mutual networks are covered by a legal guarantee system that provides affiliate members with a mutual support scheme, ensuring that losses are effectively transferred and/or resources assigned in the event of difficulties;
  - non-mutual groups concentrate a large share of their loss-absorbing capacity with the parent company.
- 49 An in-depth analysis of the resolvability (i.e. ability to support resolution measures) of entities is underway and should make it possible to assess the effective capacity of certain instruments to absorb losses. This analysis is designed notably to:
- ensure that there is, with regard to the entity’s business model, financing structure and specific characteristics, adequate loss-absorbing capacity at the level of the group, the parent company and the main subsidiaries;
  - make sure that there are sufficiently large and adequate intragroup instruments to effectively absorb losses without generating contagion risks or endangering viable French or foreign operational subsidiaries.
- 50 As regards support functions, the main French banking groups often rely on shared service centres to pool and centralise management of IT resources and of accounting and reporting systems. This organisation, which is used to rationalise and optimise resource management, is being reviewed as part of the work currently being done on resolvability.
- 51 Analyses of the other entities that will be subject to the direct supervision of the future Single Supervisory Mechanism (SSM) are underway but are unlikely to affect the essential characteristics of the French banking sector that informed the Resolution College’s choice of the SPE strategy. The following observations may be made about entities with smaller total assets:
- some of them do all their business on national territory, which renders the SPE/MPE issue irrelevant, since no host authorities are involved in the resolution process.
  - in the case of others, the use of multiple branches in Europe and the relatively small size of the main foreign subsidiaries also argue in favour of an SPE strategy.

## 5. The SPE approach entails close cooperation with foreign authorities

- 52 Within the framework of the SPE approach, the ACPR wishes to maintain its cooperation with all the foreign resolution authorities that might be involved in the resolution of a French group. Orderly resolution requires effective information-sharing and full cooperation by national authorities.
- 53 The ACPR has long-standing experience in international cooperation, which it gained notably through the colleges of supervisors. In the area of resolution, it coordinates four Crisis Management Groups (CMGs) comprising the host authorities of the main entities belonging to French systemically-important banks. CMGs are composed of the supervisory authorities, resolution authorities and, in some cases, the Treasury. They are used to facilitate preparation, crisis management and orderly resolution of global systemically important banks.
- 54 France also takes an active part in the work of the FSB and G20. This provides the opportunity to dialogue with other participants on best practices for establishing a resolution regime consistent with the FSB's key attributes.
- 55 To be effective, cross-border resolution measures require enhanced cooperation with host authorities. With this in mind, the removal of the legal obstacles to the cross-border recognition of resolution is of great importance. The French authorities are already working to this end within the international bodies and expert groups that deal with these issues.
- 56 In addition, the ACPR is conducting discussions with host authorities of French entities to establish cross-border cooperation agreements, which should notably:
- set out the objectives and procedures for organising cooperation within CMGs;
  - determine the roles and responsibilities of different authorities before and while managing a banking crisis;
  - prepare an information-sharing procedure, a cooperation procedure within the framework of the preparation of recovery and resolution plans, as well as a procedure for assessing the resolvability of entities.

\*

\*   \*

- 57 The choice of resolution strategy takes into account the fundamental characteristics of the French banking sector and forms part of the rationale of the French resolution framework created on 26 July 2013 by BaSRA. These arrangements may change over the months and years ahead to reflect the introduction of the BRRD and the Single Resolution Mechanism Regulation.