

# **THE ACPR'S DOMESTIC AND EUROPEAN RESPONSIBILITIES**

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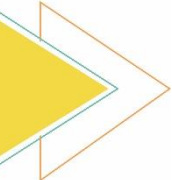
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## About the ACPR<sup>1</sup>

Banks and insurers in France are supervised by the Autorité de contrôle prudentiel et de résolution (Prudential Supervision and Resolution Authority – ACPR). The ACPR is an administrative authority which the Monetary and Financial Code has made both independent in the performance of its tasks and financially autonomous. Operationally, the ACPR is attached to the Banque de France, which provides it with human, IT and other resources.

Established on 9 March 2010 pursuant to the Executive Order of 21 January 2010, the Autorité de contrôle prudentiel (ACP), which went on to become the ACPR in 2013, was created when the authorities responsible for supervising the banking and insurance sectors were merged with the authorities responsible for licensing. The establishment of this new authority with expanded powers was a response to the challenges that emerged during and in the wake of the 2008 financial crisis. Accordingly, the new authority was explicitly tasked with preserving the stability of the financial system to prevent future financial crises. The ACPR also has responsibility for protecting the customers, insurance policyholders, members and beneficiaries of entities under its supervision, as well as for leading the fight against money laundering and terrorist financing.

On 26 July 2013, the Act on the Separation and Regulation of Banking Activities handed the ACP – now renamed the ACPR – new banking resolution powers to deal with crises more cost-effectively. The authority's resolution powers were extended to include the insurance sector in December 2016.

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<sup>1</sup> Reference document prepared by Emmanuel Carrère (project leader) under the supervision of Edouard Fernandez-Bollo (sponsor), with contributions from ACPR General Secretariat and Banque de France divisions.

Since the Banking Union was set up in the euro area, initially based around the introduction of the Single Supervisory Mechanism (SSM) in 2014 before the Single Resolution Mechanism (SRM) was added in 2015, the ACPR has fulfilled its banking-related prudential responsibilities within this new framework.

The ACPR is also in charge of conducting supervision for the insurance sector. European regulations in this sector are currently being harmonised, a process that is being taken forward by the European Insurance and Occupational Pensions Authority (EIOPA). The ACPR is actively involved in these harmonisation efforts.

The ACPR's other duties include, for the overall financial sector (banking and insurance):

- overseeing compliance with systems to prevent money laundering and terrorist financing,
- protecting customers.<sup>2</sup>

The ACPR is thus an integrated authority, on several counts:

- it looks after two sectors – banking and insurance – unlike specialised authorities that supervise just one sector. This organisation reflects a determination to unlock synergies between the supervision of banking and insurance, which are closely tied in France since many leading French banking groups have insurance subsidiaries that rank among the biggest players on the market.

- it is active in every aspect of prudential supervision, and not merely in individual institution-by-institution oversight. Its activities thus comprise a macroprudential aspect designed to promote financial stability, a goal that is supported by the ACPR's

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<sup>2</sup> The ACPR is in charge of protecting customers from the banking and insurance sectors. The AMF, however, is responsible for protecting retail investors in financial securities.

attachment to the Banque de France. The ACPR also has resolution powers.

- besides prudential supervision, the ACPR also supervises conduct-related risks in the banking and insurance sectors, focusing on business practices and efforts to prevent money laundering and terrorist financing. This cross-cutting approach helps strengthen stability across every aspect of the financial sector.

To discharge its duties, the ACPR has the power to impose administrative enforcement measures and sanctions.

The ACPR therefore has overall powers that it may exercise independently while taking multiple sets of concerns into account. It enjoys access to substantial resources by virtue of its attachment to the Banque de France. Its operational structure is based around a General Secretariat comprising the operating departments, along with several decision-making bodies, namely a Supervisory College, a Resolution College and a Sanctions Committee.

In short, the ACPR performs overarching and integrated supervision within a European framework, thus contributing to financial stability and customer protection.

The ACPR is an integrated supervisor that:

- helps to maintain financial stability
- protects customers in the banking and insurance sectors

### OUR TASKS

- Supervise the application of prudential regulations in the financial sector to:
  - ensure the continuity of banking and insurance activities
  - prevent money laundering and terrorist financing
  - protect customers
  - maintain financial stability
- Solve crises with minimal use of public financial aid
- Represent France as supervisory authority at international and European levels

### OUR VISION

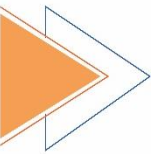
- Be an integrated banking/insurance supervisor attached to the central bank
- Make a significant contribution to Europe's banking-sector supervisory and resolution mechanisms (SSM and SRM)
- Promote the stability and development of financial institutions from the banking and insurance sectors
- Make the use of financial products and services safer
- Improve international regulation of the financial system

### OUR VALUES

- Act in the general interest
- Work with all monetary and financial authorities
- Listen to customers in order to protect them more effectively
- Be in dialogue with financial sector professionals at all times
- Build staff skills by providing training and taking on personnel with diverse career backgrounds

### OUR EXPERTISE

- An institution that merged the authorities responsible for supervision and licensing in the banking and insurance sectors
- An ability to learn the lessons from the crisis, with powers extended to include:
  - financial stability and customer protection in 2010
  - bank resolution in 2013
  - insurance resolution in 2016
- An ability to adapt to a changing environment and innovative developments



## **1. The French model of supervision, featuring extensive integration and central bank backing, is helping to enhance financial stability**

### **1.1 The financial crisis exposed the need for a more effectively coordinated relationship between the micro and macroprudential levels of financial sector supervision**

Before the 2008-2010 financial crisis, financial sector supervision (banks and insurers) was essentially microprudential in nature. According to this approach, financial stability was based on a microeconomic extrapolation whereby the overall financial system was deemed to be safe provided each financial institution assessed individually was well capitalised and stable. The financial crisis challenged this paradigm because of the role played by systemic factors in spreading shocks. Notably, spillover effects across countries, institutions and markets, but also concentration of risk with certain counterparties, played a key part in the initial onset and seriousness of the financial crisis.

The 2008 crisis offered examples, including that of Northern Rock, a failed British bank, of the potentially high cost of separating central bank and prudential oversight functions, which hindered the ability of monetary authorities to anticipate and react to events. The difficulties experienced by AIG, an insurance group, which resulted from the uncontrolled combination of insurance and financial activities, similarly demonstrated the threat of disruption across sectors and the benefits for supervisors of having an overview of the entire financial sector, i.e. all banks and insurers.

The crisis also exposed interactions between the individual supervision of institutions and overall questions linked to financial stability. These interactions revealed that a more

effectively coordinated relationship between micro and macroprudential supervision was needed to ensure financial stability, making the argument for bringing central bank and prudential oversight functions closer together.

In the post-crisis period, prudential supervision therefore moved towards a more comprehensive approach integrating the entire financial sector (banks and insurers) and combining standard microprudential oversight with macroprudential supervision, which complemented, without replacing, the individual supervision of financial institutions.

Acting through the ACPR, France adopted this comprehensive and integrated approach. It is intended to ensure the stability of the overall financial system by identifying and addressing a broad spectrum of individual, sector and systemic risk factors.

### **1.2 The emergence of financial conglomerates calls for integrated supervision of the financial sector**

A far-reaching trend towards deregulation, liberalisation and internationalisation of financial markets and activities has taken place over recent decades. This has led to the emergence of financial conglomerates offering a diverse range of products and services. Developments in France's banking and insurance industries illustrate this shift.

The rise of these conglomerates has resulted in greater diversification in the business portfolios of institutions and, consequently, improved risk profiles. Even so, prudential supervision of financial conglomerates cannot be properly effective if a group's constituent entities are supervised on a strictly individual basis. An overall vision is needed. This requires an institutional framework to enable information-sharing by the supervisors of group entities and specific supervision of financial conglomerates.

The overall assessment of a conglomerate's risks and financial position cannot be a substitute for individual oversight of entities subject to supervision, which remains as important as ever. The idea is to have a two-tier system that rounds out individual supervision, which remains fundamental and unchanged, by adding a verification of the risks and financial position at the conglomerate level.

As a result, the ACPR is involved in the prudential monitoring of all the activities and risks of financial conglomerates, while also having an overall view of the strategy and governance of the reporting group. The teams responsible for banking and insurance activities within conglomerates work together regularly and are thus best placed to identify the overall risk profile and improve the prudential monitoring of reporting entities. To give one example, self-placement of securities issued by reporting entities may be supervised more effectively within the framework of overall supervision, particularly in the case of bank securities placed via a life insurance subsidiary.

The scope of the powers assigned to the ACPR, which, on the banking side, is involved in exercising ECB/SSM responsibilities while remaining the sole competent supervisor on the insurance side (see below), means that the ACPR can make a very informed contribution. Accordingly, the ACPR is capable of performing supervision that meets the prudential requirements demanded by the diversified business activities and unique risk profile of financial conglomerates. In particular, the ACPR can warn the SSM's joint supervisory teams (JSTs) if insurance risks could potentially affect the banking activities of a financial conglomerate. The fact that the JSTs are primarily made up of ACPR personnel facilitates this warning role.

### **1.3 Since it is attached to the Banque de France, the ACPR can tap into substantial resource synergies and contribute more effectively to financial stability**

The ACPR is an administrative authority attached to the Banque de France, which provides it with human, IT and other resources. This relationship also enables the ACPR to tap into synergies with the Banque de France's wider resources and functions. The ACPR has its own budget, financed by contributions from the entities under its supervision, but may also receive exceptional funding from the Banque de France.

From a functional perspective, the ACPR is an integrated supervisory authority that works closely with the central bank. By performing its supervisory tasks in conjunction with the Banque de France and the other authorities of the French financial centre, the ACPR enjoys a more complete view of the financial sector.

To ensure that it has access to skills that span banking and insurance, the ACPR takes on staff from the Banque de France but also hires directly on the domestic and European labour markets. The Banque de France, however, remains the sole employer of all central bank and ACPR personnel. This creates opportunities for a wide variety of skills and career backgrounds, which in turn promote cooperation and a smooth flow of information between the Banque de France and the ACPR.

The ACPR and the BDF collaborate closely with a view to anticipating and recognising macroprudential/monetary policy interactions. The two institutions are jointly responsible for calibrating a number of macroprudential instruments referred to in the European directives and regulations on capital requirements for credit institutions.

A Financial Stability Unit was set up in September 2016. Comprising the competent



divisions of the Banque de France (Directorate General, Financial Stability and Operations – DGSO) and the ACPR General Secretariat (Research and International Affairs), the new unit is intended to increase the two institutions' ability to anticipate developments and so maximise the effectiveness and influence of the Banque de France and the ACPR in financial stability and regulation.

The unit seeks to take a more cross-cutting approach to financial stability through greater coordination of responsibilities within the Banque de France and the ACPR General Secretariat. Its role is therefore to supplement existing interactions and exchanges relating to the conduct of monetary policy operations, the supervision of financial markets and payment system infrastructures, and the individual supervision of credit institutions, insurers and mutual insurance organisations.

In the area of monetary policy, the fact that the ACPR is attached to the central bank is highly beneficial. In the context of the ECB's monetary easing policy, for example, the ACPR, under its SSM responsibilities, works closely with the Banque de France to help assessing the eligibility of securities issued by financial institutions, by providing prudential assessments of institutions issuing securities that could potentially be purchased by the ECB. The ACPR's involvement is largely based on targeted surveys designed to test the quality of internal models that assess institutions' solvency and hence the solvency of securities that are potentially eligible to be purchased by the ECB<sup>3</sup>. By virtue of its attachment to the Banque de France, the ACPR is thus able to act with the requisite fluidity and agility and make a valuable contribution to liquidity management at both systemic level and individual institution level.

The ACPR also works closely with the Banque de France in microprudential supervision,

since the latter is responsible for supervising payment systems and market infrastructures. Insofar as some infrastructures and participating institutions are directly supervised by the ACPR, this cooperation is essential to maintaining financial stability. Thanks to smooth information-sharing with the Banque de France's Capital Markets Directorate, the ACPR can track the liquidity positions of reporting institutions and any emerging stress more easily.

Last but not least, the ACPR works with the Banque de France to enhance protection for the customers of financial intermediaries around the country (see below, 4.1).

#### **1.4 France's authorities have learned the lessons from the crisis by establishing an integrated supervisory system spanning the banking and insurance sectors**

The French supervisory model fully integrates the dual dimensions of microprudential and macroprudential supervision. It also recognises the prudential needs arising from the development of financial conglomerates. Since 2010, this model has been based on an original and extensively integrated institutional organisation covering banking and insurance.

The French supervisory model allows the ACPR to obtain all the data needed to gain an overall view of financial activities and assess the risks to the sector, including those stemming from interactions between insurance and banking. This makes for a more accurate assessment of the cross impact of risk factors that could affect banks and/or insurers from a prudential standpoint. For example, the ACPR was able to assess the impact of very low interest rates on bank profitability and insurer solvency at individual and sector level. This provided a basis for generating appropriate prudential guidance for the sector as a whole.

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<sup>3</sup> Eurosystem Credit Assessment Framework (ECAAF)

Furthermore, combined banking/insurance supervision makes it possible to spot regulatory differences between the banking and insurance sectors and their interactions in order to ensure consistent treatment. Examples might include the treatment of cross-sector activities when assessing the systemic importance of groups, or the treatment of specific areas in situations where banking institutions and insurance entities engage in activities of the same nature, such as guaranteeing property loans. In this last case, the ACPR makes sure that the overall security of the system is preserved to an equivalent level in both sectors and minimises the risks of regulatory arbitrage.

Integrated supervision is based on recognising the specific traits of the banking and insurance sectors. Each sector has its own characteristics that relate to the nature of its activity: in insurance, for example, the production cycle is reversed because the sale (payment of a premium) takes place in exchange for the promise of a future product (claim compensation) whose cost is initially unknown to the insurer. This means that risk modelling over medium- to long-term horizons becomes vitally important, including for retail activities such as car insurance. Accordingly, insurance supervision employs a range of statistical and actuarial tools.

Conversely, prudential monitoring in the banking sector can count on a conventional production cycle where the amount of risk is typically known as soon as the transaction is carried out. Moreover, the prudential approach to the banking sector takes a shorter-term perspective, particularly when it comes to monitoring liquidity risk. Finally, compared with insurance, banking features greater systemic risks linked to the scale of interbank activities.

Aside from their differences, the insurance and banking sectors have a number of shared traits that essentially flow from the financial

nature of their activity and from the importance of maintaining confidence and protecting customers. The ACPR has used these common traits to unlock synergies and enhance the prudential supervision of the overall financial sector.

Conducted with the same goals of financial stability and customer protection, supervision of banking and insurance can draw on solid shared foundations in terms of objectives and resources, with the primary focus on governance and strengthening equity, as well as on solvency and liquidity. The new prudential requirements (Basel III and CRD IV for banks, Solvency II for insurers) have led to accelerated prudential convergence between the two sectors, in particular by:

- (i) emphasising a consolidated risk-based approach within the framework of an overall group view,
- (ii) adopting a shared three-pillar approach (quantitative financial requirements, supervisory activities, market discipline),
- (iii) giving greater importance to governance, customer protection and prevention of laundering,
- (iv) aligning the nature of prudential information required by supervisors, even if reporting formats differ.

The new prudential requirements have spurred cut-backs in some businesses that carry high capital charges, such as corporate and investment banking, and led to consolidation, with numerous mergers in the banking and insurance sectors alike. This rationalisation trend has resulted in the formation of large banking, insurance and bancassurance groups, which have held an important place in recent years within Europe but also internationally.

The ACPR has specialised in-house skills that allow it to capture the specific characteristics of banking and insurance, while also having an overall view of the financial sector that promotes convergence in prudential approaches.

## French banks and insurers rank among the leaders in Europe

The French financial system is a leader on the European market. French banking institutions accounted for 24% of total bank assets in the European Union (EU) in 2007, a proportion that had risen to 27% by end-2016. The French banking system's share of all financing provided to non-financial companies in the EU (excluding the public sector) increased from 14% to 20% between 2007 and 2016. And France's banking system represented 9.4% of total assets worldwide at the end of 2016.

Since they deal in large business volumes, French banks have always kept careful control over asset quality. Although the non-performing loan (NPL) ratio rose from 2.8% in 2008 to 3.7% in 2016, it was still well below the EU average of 5.1% at end-2016.

Growth in banking activity, coupled with sound risk management, has translated into sustained improvements in the returns of the French banking system. The return on equity (RoE) of French banks increased from 2.2% at end-2008 to 6.6% at end-2016, compared with EU averages of -0.95% and 3.3% respectively.

French insurers have consolidated their position within the EU as well, growing their share of the total assets of insurance entities from 19% in late 2005 to 23% at end-2016. With total premiums received amounting to EUR 225 billion in 2015, the French insurance sector accounted for 20% of the EU total at end-2015, up from 18% at end-2007. The total life insurance premiums (life and mixed) of French insurers, at EUR 159 billion, also accounted for 20% of the EU total at the end of 2015 and 6.9% of the worldwide total (2015). Furthermore, the number-one French insurance company has dominated the global market for some years by total assets. Growth in the business of French insurers has also been accompanied by improved profitability, which rose to 6.8% in 2016.

The size and sound financial positions of the financial institutions established in France have made Paris one of Europe's leading financial centres. Directly or indirectly employing 1.2 million people, the finance industry lies at the heart of a rich and diversified ecosystem that plays a part in financing the French and European economy.

France's finance industry is backed by a major stock market: Euronext is Europe's largest equity and corporate bond market of euro area market capitalisation. Moreover, with the support of a world-class scientific environment featuring 100 financial research centres employing 1,000 researchers, France's finance industry is at the forefront of innovation, particularly in modelling, and boasted around 750 fintechs.

The size and sophistication of France's finance industry are underpinned by a system of prudential supervision that has kept pace with the growth of financial institutions by maintaining leading-edge technical skills and high-calibre institutional dialogue. Institutions supervised by the ACPR thus benefit from the quality of France's prudential supervision, which contributes to their credibility and growth.

*Sources: ACPR, ECB, EIOPA*

### **1.5 The ACPR cooperates closely with other monetary and financial authorities and is in constant dialogue with the industry**

The ACPR contributes to the work of the Haut Conseil de stabilité financière (High Council for Financial Stability – HCSF). The HCSF, which is chaired by the Minister for the Economy and Finance, is the authority responsible for implementing macroprudential policy in France. The ACPR is represented on the HCSF by two people: its Chairman (the Governor of the Banque de France) and Vice-Chairman.

The HCSF is tasked with preventing systemic risk and facilitating cooperation and information-sharing between the institutions that its members represent (Finance Ministry, Banque de France, ACPR, AMF and ANC). With its collegial structure, the HCSF is able to bring together the viewpoints of all the represented authorities and to establish an overall vision of France’s financial sector.

The HCSF operates within the European institutional framework coordinated by the European Systemic Risk Board (ESRB). Depending on the circumstances, the HCSF may take decisions in collaboration with the European Commission, the European Central Bank (ECB), the European Banking Authority (EBA) and the macroprudential authorities of other EU Member States.

The ACPR also maintains close bilateral relations with the AMF. This collaboration is warranted by the growing interactions between different financial activities on ever more interconnected markets. ACPR/AMF cooperation promotes a better understanding of the activities and risks affecting the financial sector as a whole.

Collaboration with the AMF ensures that actions taken by the two authorities are effectively coordinated, irrespective of the status of the firms or sponsors of financial

activities involved. It also paves the way for action in areas of shared interest, such as promoting the Paris financial centre. In this regard, for example, the authorities took the initiative in October 2016 to authorise a simplified licensing procedure in response to Brexit (see below).

## Brexit: the ACPR and AMF simplify licensing procedures

In a joint news release on 28 September 2016, the ACPR and AMF announced their decision to simplify and speed up licensing procedures in response to Brexit.

The two authorities took as their starting point the realisation that the UK's departure from the EU could have consequences for the institutions established there and doing some or all of their business in other EU countries under the freedom to provide services or the freedom of establishment (i.e. through branches or other permanent forms of establishment).

In this environment, it could be that some entities covered by European passports might decide to create a French insurance company, investment firm, payment institution or electronic money institution<sup>1</sup> to take over the activities currently performed in France either through a branch or directly from the home country under the freedom to provide services. The ACPR would be responsible for licensing and supervising such entities.

In the case of takeovers of existing activities already supervised by the competent authority in the home country, the licensing procedure will be made quicker and more straightforward, notably by referring to existing English documentation, such as materials previously submitted to the supervisory authorities of the home country or covering the branch whose activities are to be taken over by the subsidiary.

Applicant institutions will be assigned an English-speaking case officer who will steer the procedure and provide advice and information, even before the licensing application is filed, to ensure that the application is handled efficiently.

<sup>1</sup> *Credit institutions, which are licensed by the ECB, are not concerned at this stage. However, credit institutions that are also licensed as investment services providers in the UK and that want to set up a subsidiary for these activities, which are currently conducted under the passporting framework, through an investment firm licensed by the ACPR, could be affected.*

In the area of customer protection especially (see below), the ACPR has been collaborating successfully with the AMF for over six years through the Joint Unit for Insurance, Banking and Savings<sup>4</sup>. The decision to set up the Joint Unit was spurred by the growing interconnections between savings products – especially life insurance and collective investment schemes – and the rise of new market participants. The unit has made it possible to significantly enhance the protection of customers across the entire financial sector, particularly in the marketing of savings products, crowdfunding solutions

and distance selling. Coordinated supervisory and monitoring activities form the core of the Joint Unit's work; at a time when digital technologies are taking off, these efforts are helping to provide customers with more effective protection in the face of innovative business practices, no matter what type of firm is behind them.

ACPR-AMF cooperation also led to the establishment in 2016 of the FinTech Forum. A body that engages in monitoring and dialogue while also offering up proposals, the forum brings together innovative companies, public authorities and supervisors in an effort to gain a better understanding of the opportunities

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<sup>4</sup> Established by Article L. 612-47 of the Monetary and Financial Code.

and potential risks associated with the development of fintechs and innovation. The forum can also be consulted on proposed amendments to domestic or European regulations or AMF or ACPR policy. It additionally keeps supervisory authorities informed about areas of concern for the industry.

In this regard, and on a more general note, the ACPR is in constant dialogue with the industry and financial sector professionals. This dialogue is first and foremost institutional in nature and seeks to promote more effective information-sharing with the professional associations that represent the banking, insurance and other financial services sectors. The aim for the ACPR is to explain its vision and goals to facilitate the application of prudential regulations. These conversations also make it possible to flag issues of shared interest among institutions to be taken into account in the application and development of prudential rules.

With this in mind, the ACPR organises regular supervisory conferences – twice yearly in principle – to explore topical prudential issues. More generally, it disseminates communication materials, including reviews, annual reports, speeches and conference presentations, that cover its statutory assignments.

The ACPR thus engages with professionals through a rigorous and proactive communication policy, striving to explain the positions and recommendations that it publishes, for example in the area of customer protection. Such publications are always preceded by a consultation phase, notably involving the consultative commission on business practices. The ultimate goal of these consultations and publications is to promote clearly understood standards and a shared vision of prudential supervision.

Furthermore, the ACPR has built long-standing technical and operational ties to the leaders and experts of reporting institutions as part of the implementation of regulations. It draws on this dialogue to better accommodate the constraints and specific needs of French institutions, for example in changes to the European and international prudential framework. This also makes it possible to round out the prescriptive approach to regulation with a forward-looking method that incorporates a judgement-based approach. This approach is applied, for example, when conducting stress tests to assess the ability of financial institutions to withstand adverse conditions.

Through its dialogue with the industry, the ACPR endeavours to meet the following objectives:

- (i) share a common vision founded on financial stability and confidence
- (ii) ensure the continuity of banking and insurance activities by taking a risk-based approach to prudential regulation
- (iii) better understand the diverse range of risk profiles and accommodate the specific needs of different institutions
- (iv) enable appropriate and proportionate application of regulations
- (v) protect customers more effectively.

**1.6 The ACPR has adopted an approach that is open to the development of fintechs and innovation**

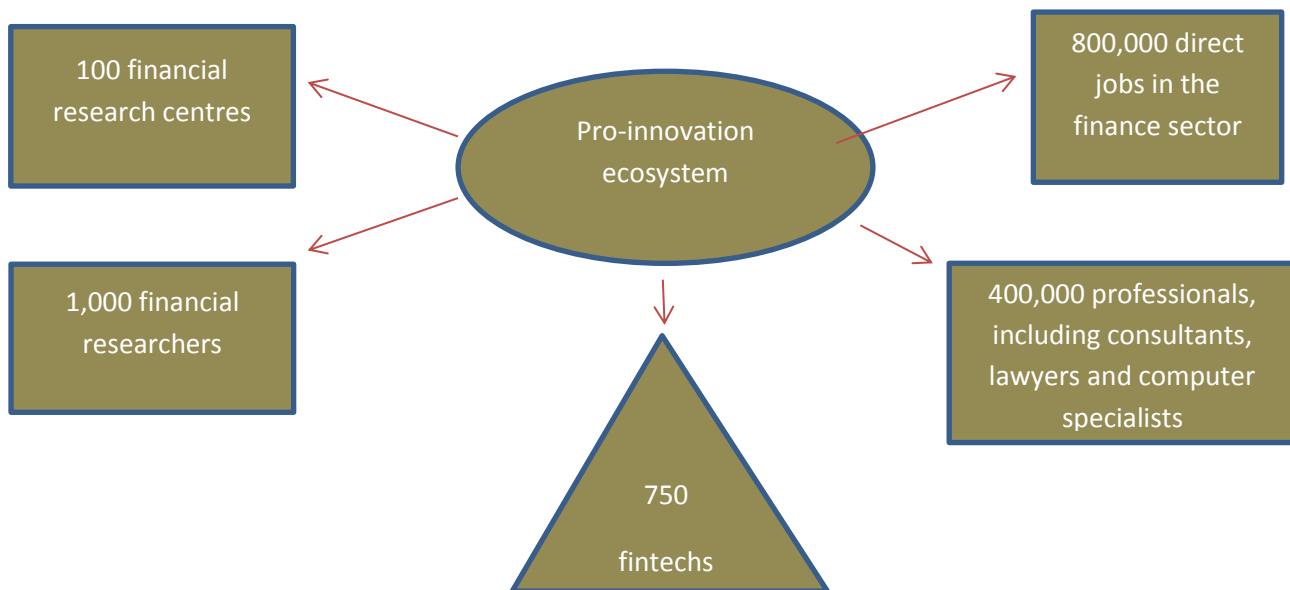
Within the framework of its responsibilities, the ACPR has developed its own specific integrated approach within the ACPR FinTech Innovation Unit set up in 2016. This unit takes a collaborative approach that is designed to build expertise in emerging innovation-related issues and to facilitate the fintech licensing process. The unit draws on the technical expertise gained by the Banque de France

from operational projects (blockchain being an example) and the contacts that it maintains with providers of technological solutions that are supporting digitisation of the banking sector, including big data, artificial intelligence and digital identification. The unit also works alongside the AMF when its activities involve investment services, including within the FinTech Forum mentioned earlier, which has been expanded to include France’s Data Privacy Agency (CNIL) in an effort to promote improved dialogue between authorities.

**France, the euro area’s number-one financial centre**







The integrated approach taken by the ACPR FinTech Innovation Unit is important given the growing digitisation of the financial sector, a trend that is in evidence in new payment and financing solutions (e.g. crowdfunding) but also in investment services (e.g. automated financial advisory services). It is especially necessary because some innovations, such as blockchain technology and optimised data usage, are common or potentially common to several sectors or activities supervised by the ACPR, like banking, insurance and investment services. Through the unit, the ACPR thus helps to support the growth of fintechs by striking a balance between the fluidity required by these innovative developments and the vital prudential security. As part of these efforts, the ACPR works with international taskforces on fintech- and digital-related questions to promote a vision founded on proportionate regulation and supervision.

In summary, the French supervisory model is characterised by a highly integrated organisational structure involving all authorities with responsibilities relating to financial sector stability. This integrated approach ensures a better understanding of

the risks borne by the financial system through:

- pooling of micro and macroprudential data covering the entire financial sector, including banking and insurance;
- shared analytical tools and bodies;
- more effective coordination of actions taken to identify, assess, prevent and deal with risks, with a view to ensuring the stability of the financial system.

**The ACPR is an authority that serves the public interest,  
applies a strict code of ethics and reports on its activities**

ACPR staff must comply with strict ethical rules. Those who take part in or who have taken part in performing ACPR tasks are bound by professional secrecy requirements and have a duty to act with impartiality.

In particular, the personnel of the ACPR General Secretariat may not take, receive or keep, directly or indirectly, even through an intermediary, any interest in a company subject to their administration or in dealings with it. The Criminal Code (Art. 432-12) punishes the unlawful acquisition of interests, which means a person entrusted with a public service assignment taking, receiving or keeping, either directly or indirectly, any interest whatsoever in an undertaking that the person is responsible for supervising or administering. Non-compliance is punishable by severe sanctions (five years in prison and a fine of €75,000). Former staff are also subject to specific obligations in this area for three years.

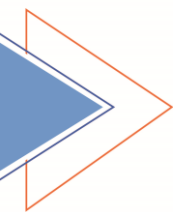
Article R. 616-1 of the Monetary and Financial Code, moreover, includes a special ban on exercising remunerated functions in credit institutions, payment institutions or investment firms. The same ban applies to the performance of remunerated functions in other entities subject to ACPR supervision.

Members of the ACPR Colleges and top senior management are required to report their assets and interests to France's High Authority for Transparency in Public Life (Haute autorité pour la transparence de la vie publique).

Since it serves the public interest, the ACPR is subject to the supervision of France's Court of Auditors (Cour des comptes), which regularly inspects its functioning and evaluates the execution of its assignments. The ACPR is also subject to Banque de France internal control. ACPR senior managers may be interviewed by parliamentary investigation committees and by the finance committees of the National Assembly and the Senate. Internationally, the ACPR is the subject of an in-depth IMF assessment every five years.

ACPR decisions may be appealed before the Conseil d'État.

The ACPR is entitled to make public any information that it deems necessary to the performance of its tasks, including when the aim is to alert customers to improper business practices. The Sanctions Committee also publishes sanctions imposed on institutions that fail to comply with the regulations.



## **2. Operating within the SSM, the ACPR plays a key role in banking supervision in Europe**

### **2.1 The ACPR was a driving force in establishing Europe's system of banking supervision**

French monetary authorities, including the ACPR, quickly learned the lessons from the crisis and acted as a driving force in establishing Europe's system of banking supervision and determining its operating procedures. The 2008-2010 crisis, and especially the sovereign debt crisis that subsequently hit several European countries, exposed the risks of contagion or confusion between the sovereign sphere and the banking system. With its supranational and independent qualities, the Single Supervisory Mechanism (SSM) was designed to break the vicious circle between banks and national public finances. As a result, the SSM greatly enhanced the credibility and effectiveness of prudential supervision.

France's monetary authorities played a key role in setting up the European System of Financial Supervision (ESFS) in 2011, and later in swiftly establishing the SSM (2014) and SRM (2015) as part of the Banking Union. French authorities worked hard within Europe and at home, speaking to Parliament, industry and the public to explain the foundations and goals of the European Banking Union. Their efforts, coupled with those of their European partners, enabled political and institutional agreement to be reached and implemented quickly.

At institutional level, the ACPR, alongside the Banque de France, provided precious technical assistance in setting up the central bodies of the SSM and the SRM by leading and actively participating in working groups, seconding staff and engaging in close collaboration to

facilitate the organisation and start-up of key structures.

On the technical front, the ACPR provided expertise to the SSM in the main areas of prudential supervision and helped to structure its organisation, particularly by giving on-site inspections a central role in prudential supervision (see below). It also supplied advanced technical expertise in the assessment of internal risk measurement models.

### **2.2 The ACPR is playing an important part in SSM operations**

Since 4 November 2014, the ACPR, like all euro area national competent authorities (NCAs), has been taking part in ECB/SSM decision-making processes. The ACPR is also involved alongside the ECB in the ongoing prudential supervision of euro area banks, supplying the lion's share of JST personnel.

As regards licensing decisions, applications are, as before, reviewed by the ACPR and, if deemed compliant, passed on to the SSM for a decision. The ACPR has also retained specific licensing powers over investment firms, payment institutions and electronic money institutions, continuing to have exclusive responsibility for licensing and supervising these entities.

With regard to banking supervision specifically, the ACPR continues to play a central role in direct and indirect ECB supervision. ECB direct supervision of the largest, or "significant", banks sees national authorities work together in Joint Supervisory Teams (JSTs) that report to a coordinator based at the ECB, who is supported by local sub-coordinators at the national authorities. The local sub-coordinator coordinates supervision at the domestic level while liaising with the ECB coordinator on key issues, notably where

aspects that go beyond national boundaries are involved. The ACPR therefore participates actively in the JSTs, supplying the majority of their members in fact. These staffmembers provide recognised technical expertise as well as proven knowledge of the operating conditions and environment of supervised entities.

In France, the ACPR's sub-coordinators play an especially important role, given the importance of specific regulations applicable to certain banks or banking products, such as regulated savings or covered bonds. Similarly, the complexity of public funding provided to certain institutions and the peculiarities of financing for local government require domestic expertise that the ACPR alone can provide within the JSTs.

The ACPR also takes part in discussions within the ECB Supervisory Board regarding prudential decisions pertaining to the largest banks (see box below).

#### Distribution of responsibilities between the ACPR and ECB

	Significant institutions	Less significant institutions
<b>Licensing</b>	ACPR / ECB	
<b>Banking supervision within the SSM</b> <ul style="list-style-type: none"> <li>• Compliance with prudential requirements (CRR) – own funds, leverage, liquidity, large exposures, etc.</li> <li>• Compliance with requirements relating to governance, risk management, internal control, remuneration, internal models (CRD IV)</li> <li>• Consolidated supervision and additional supervision of financial conglomerates</li> </ul>	ECB (joint implementation with ACPR)	ACPR
<b>Prudential supervision (non SSM)</b> <ul style="list-style-type: none"> <li>• Insurance</li> <li>• Investment and payment services</li> <li>• Finance companies</li> <li>• Act on the Separation of Market and Deposit-Taking Activities</li> <li>• Customer protection and marketing</li> <li>• Prevention of money laundering and terrorist financing</li> </ul>	ACPR	ACPR
<b>Resolution</b>		

### **The ACPR's role in decisions involving major banks supervised by the ECB**

Prudential decisions concerning banking groups under direct ECB supervision are drawn up by the ECB Supervisory Board. The ACPR, like the other NCAs, has the right to vote on the Board and takes part in the decision-making process alongside representatives of the ECB, the Chair and the Vice-Chair of the Supervisory Board.

Draft individual decisions prepared with a view to adoption (in the framework of a non-objection procedure) by the ECB Governing Council may concern the following (i) licences or licence withdrawals, (ii) qualifying equity investments, (iii) compliance with prudential requirements on own funds, securitisation, large exposures, liquidity and disclosures, (iv) governance, internal control and remuneration policies and (v) implementation of prudential controls .

The ACPR, acting through its representative, namely Robert Ophèle, Deputy Governor of the Banque de France, appointed by the Governor to represent him as Chairman of the ACPR, or his alternate, Édouard Fernandez-Bollo, Secretary General of the ACPR, thus takes part in preparing decisions concerning the euro area's largest banking groups, as part of their direct supervision by the ECB.

These decisions have led, among other things, to the establishment of additional capital requirements under Pillar 2 (supervisory action). Other topics covered include monitoring implementation of the results of the 2014 asset quality review and capital plans for institutions found to have capital shortfalls during their comprehensive assessment.

By virtue of the powers assigned to it under French law, the ACPR identified four global systemically important financial institutions using the Basel methodology and two domestic systemically important institutions. It exercised these powers in close cooperation with other European authorities and the SSM.

Finally, a significant share of the ECB's supervisory activities was devoted to monitoring the resilience of certain banking systems against the backdrop of the financial crisis. These activities were conducted jointly with NCAs.

The ACPR thus continues to play an essential part in supervising the largest banks; it performs a critical coordination role at domestic level and supplies the lion's share of JST personnel.

In addition, the ACPR is the sole authority for the entire supervisory cycle of smaller banks, as well as for investment and payment services companies and finance companies.

These powers apply to the entire supervisory cycle and require substantial resources owing to the large and diverse population supervised. The ACPR exercised these powers as it helped the Paris financial community get ready for the challenges presented by Brexit and took steps to welcome institutions looking to set up in France (see box above).

## The critical role of on-site bank inspections in Europe

On-site inspections (OSIs) have always been an important tool in the supervision of banks in France. Designed to provide a vital supplement to ongoing supervision, OSIs were nevertheless developed based around the principle that investigations should be independent.

Following the establishment of the SSM, the principle of OSIs was reaffirmed within the European framework, and OSIs are now one of the primary supervisory tools for all participating nations. In the case of the largest banks, OSIs draw heavily on the principles and practices followed by the ACPR, which combine independent investigations and in-depth examinations within an adversarial procedure.

Where smaller institutions are concerned, the ACPR has sole responsibility for supervision and continues to use OSIs as an essential tool in prudential supervision. The findings of independently-conducted inspections are reported to the General Secretary of the ACPR for appropriate action.

An OSI programme is drawn up for the annual period based on a number of criteria: time since the last investigation, identification of specific vulnerabilities, and thematic investigations. The programme is prepared in conjunction with the staff in charge of ongoing supervision, who may have identified areas of weakness or that require attention. Post-inspection follow-up investigations are carried out to check that institutions are acting on recommendations and implementing remedial measures required by the ACPR.

There are two main types of OSI: general investigations covering the entire organisation and activities of inspected institutions; and thematic investigations that zero in on specific issues shared by institutions operating in the same line of business.

### **2.3 The ACPR provides ECB supervision, which is highly sector-specific, with a broader vision supported by all national supervisors**

One effect of establishing the Banking Union was to consolidate the sector-based model of supervision in the euro area, because the ECB cannot be assigned prudential powers in the insurance sector<sup>5</sup>. As a result, the ECB has specialised prudential powers that apply solely to the banking sector. Conversely, national supervisory authorities have been able to adopt a more global approach, typically covering the entire financial sector: of the 19 national authorities represented on the ECB Supervisory Board, 15 have powers that extend to the insurance sector as well.

The vertical nature of ECB supervision is further enhanced by the fact that two major areas of supervision fall under national jurisdiction: customer protection and AML/CFT, which remain under the jurisdiction of Member States and are key areas in effective overall supervision (see below).

The ACPR, like the other NCAs, also retains responsibility for supervising investment firms, including those that are part of banking groups.

NCA participation in the SSM thus offers the benefit of maintaining a link between different levels of supervision, which may interact to a significant degree, for example in the organisation of the compliance function and its inclusion in the overall governance of institutions operating at European level.

In terms of disciplinary sanctions, the ECB may only impose fines and only for breaches of directly applicable European law (CRR and associated regulations). For any other breach, even by the largest institutions, and, as the case may be, their senior managers, the NCAs

– including the ACPR for France – open disciplinary proceedings and impose sanctions, at the request of the ECB. The ECB withdraws the licences of significant and non-significant credit institutions, notably following a sanction imposing a total ban on activity imposed by the ACPR and at the latter's request.

The ACPR, alongside other European national supervisors, thus wields specific and vital powers under the SSM. It adds to these its own specific powers, which stem from its unique supervisory model.

In the first place, the ACPR has SSM-related powers at the level of the Banking Union to:

- review licensing applications;
- take part in supervising the largest banks;
- supervise banks, except for the largest institutions;
- gather data and analyse markets;
- play a role in carrying out comparisons and impact studies to calibrate regulations and supervisory tools such as stress tests.

In the second place, the ACPR has specific cross-cutting powers within the financial sector covering:

- joint supervision of the banking and insurance sectors;
- customer protection: cooperation at national level (ACPR-AMF Joint Unit) and international level;
- AML/CFT: ACPR supervisory assignment /technical cooperation, international and European negotiations;
- supervision of the separation of market and deposit-taking activities;
- rules applicable to mortgage credit companies.

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<sup>5</sup> TFEU, Article 127.6.



With these cross-cutting powers, the ACPR can perform integrated supervision that strengthens the oversight carried out by the ECB, for example in terms of supervising financial conglomerates and bancassurers (see 1.2, above).

The ACPR's powers to deal with the risk of misconduct also help to boost stakeholder confidence and improve the integrity of the financial sector through better customer protection and AML/CFT supervision (see below).

Europe's new supervisory model is characterised by strengthened central sector-specific powers, particularly in the case of the Banking Union, and by national-level supervisors, many of which have expanded their powers horizontally.

National authorities wield powers that usefully complement prudential supervision because of their relationship with supervised entities and specifically their:

- in-depth knowledge of the environment and operating conditions of institutions established on their national territory and
- experience gained from other functions.

#### **2.4 The ACPR has significant bank resolution powers**

Since the Act on the Separation and Regulation of Banking Activities was passed in 2013, the ACPR has been given new resolution powers and a specific college that performs resolution tasks, which are distinct from the ACPR's supervisory assignments. As part of its responsibilities in this area, the ACPR draws up preventive resolution plans for institutions that are required to prepare recovery plans.

The ACPR's resolution responsibilities are assigned under the second pillar of the Banking Union, which was defined in 2014 by the Single Resolution Mechanism (SRM) Regulation. In the first stage in 2015, the SRM

transferred to the Single Resolution Board the power to draw up resolution plans for banking institutions deemed to be significant or conducting cross-border activities within the Union.

Within the SRM, the ACPR is responsible for implementing the resolution regime, which consists in exercising the powers entrusted by the BRRD to resolution authorities to prevent and manage banking crises. In performing its resolution function, the ACPR is in direct contact with all French banks (including those under direct ECB supervision), which send it individual information and data. As regards resolution, the ACPR also has the power to initiate ongoing supervision, documentary audits and on-site inspections. The ACPR ensures, furthermore, that European resolution decisions are implemented.

The fact that the ACPR brings together supervisory and resolution functions under the same roof enables effective coordination and a smooth flow of information providing equal input to both functions. This makes it possible to ensure continuity and consistency between the preventive recovery plans drawn up by supervised banks and the resolution plans drawn up by the ACPR. This continuity relies in particular on a joint analysis of institutions' critical functions.

Collaboration between supervision and resolution is especially close in the case of non-significant banks, i.e. those not subject to direct ECB supervision. Notably, it makes it possible to prepare crisis management measures, which may be qualitative (reduce obstacles to restoring the solvency of a credit institution, especially in the case of a group with a complex structure) or quantitative (ensure that the necessary resources are available in a timely fashion to successfully complete the resolution). Preventive measures require ongoing monitoring and action by the resolution authority,

necessitating significant interaction with the supervisory function.

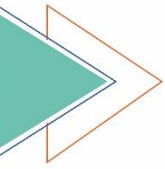
The close institutional ties between the central bank and the supervisory and resolution functions also give the ACPR a louder voice in international negotiations, because it has an overall vision of the factors that contribute to financial stability. Accordingly, the ACPR is in a position to assess the required interactions between monetary and prudential factors in crisis prevention and resolution. Last but not least, the ACPR can use its resolution powers to enhance customer protection in the banking sector (see below).

## **2.5 The ACPR is involved in developing the regulatory framework and international cooperation**

Since the SSM was established, the ACPR has continued to participate actively in developing the international regulatory framework. Within Europe, the ACPR is represented in EBA bodies and is active in several strategic projects that are being conducted to set European technical standards. The ACPR has provided expertise to assist the French Treasury in transposing and implementing directives and regulations in all of its sectors of activity. And because of its expertise in the area, it recently participated in a European Commission consultation on revising the European Directive on Financial Conglomerates (Ficod) (see 1.2, above).

Internationally, the ACPR represents France on the Basel Committee on Banking Supervision, where it works to forge European positions wherever possible. In particular, the ACPR participated actively in the Committee's work in response to the 2008 financial crisis, which resulted in an extensive reform of international banking regulations through the Basel II and III frameworks.

All in all, ACPR staff are involved in around 150 international working groups. In addition to these efforts, the ACPR holds regular discussions with banking industry representatives, notably during public consultations (see 1.5, above).



### **3. The ACPR is responsible for supervising the insurance sector**

#### **3.1 The ACPR is responsible for prudential supervision of the insurance sector**

The ACPR looks after prudential supervision of the French insurance sector, which commands a substantial share of assets at both European and international levels (see box above). The ACPR issues the licences and authorisations required by law and performs ongoing monitoring of the financial position and operating conditions of insurance entities, to ensure that they are able at all times to honour their commitments to policyholders, members and beneficiaries.

Prudential supervision is conducted through ongoing supervision by staff who specialise in the insurance sector and have all the requisite skills, including financial, legal and risk modelling expertise. Ongoing supervision comprises documentary audits based on information provided by reporting entities and on-site inspections, in which teams of inspectors carry out investigations on insurers' premises.

#### **3.2 Supervision of insurance is performed with a view to preserving financial stability**

France has a number of major insurance groups that are supervised with a view to preserving financial stability. Such supervision aims at limiting systemic risks, in relation with these groups' footprint on markets. Some of these entities are described as bancassurance groups that combine banking and insurance businesses under one roof. This leads to risks that are specific to each area but also to risks linked to potential spillover between the two sectors (reputational risk being an example). To better identify these risks, the ACPR has an inspection team that deals specifically with

the insurance subsidiaries of bancassurance groups. The team benefits from the ACPR's dual powers in the areas of banking and insurance.

Insurance supervision also draws on research done within the Financial Stability Unit (see 1.3, above). This research makes it possible to obtain individual comparisons that are useful to day-to-day prudential supervision, and to analyse sector and macroeconomic risks.

The ACPR therefore carries out its financial stability responsibilities by examining the risks that could affect all or a large section of the insurance sector. In recent times, the impact of low interest rates on life insurers, for example, has been a source of constant attention, both at national level and within Europe as part of stress tests conducted by EIOPA.

This situation prompted the ACPR to lend its weight to efforts by the public authorities to provide the HCSF with the macroprudential powers to take precautionary and preventive measures in response to interest rate developments. These actions require a link to be made between the overall, cross-cutting vision of the financial system and individual consequences. The ability to make this link lies at the heart of the powers assigned to the ACPR.

#### **3.3 The ACPR has been entrusted with significant resolution powers in the insurance sector**

In 2016, France's lawmakers further strengthened the powers and tasks of the ACPR, notably by adding a resolution component to its insurance responsibilities, so expanding the ACPR's powers to prevent and deal with difficulties. This was a first for Europe in this sector and highlights the legislature's confidence in the ACPR's ability to carry out new types of tasks in the areas under its purview.

In fact, it was the Sapin 2 Act No. 2016-1691 on Transparency, Prevention of Corruption and Economic Modernisation that added to the ACPR's assignments by providing for the creation of a resolution regime in the insurance sector. Specifically, Article 47 V of the Act authorised the government to expand the powers of the ACPR to prevent and deal with difficulties experienced by insurance entities. By being named as the resolution authority for the insurance sector, the ACPR was thus entrusted with the new task of handling the recovery or resolution of insurance entities.

### **3.4 The ACPR is involved in developing the regulatory framework and international cooperation**

The ACPR is responsible for supervising the insurance sector at a time when the international and European frameworks have taken on particular importance. Prudential rules are being gradually harmonised internationally through the International Association of Insurance Supervisors (IAIS) and also within the European Union through EIOPA. The ACPR is playing its part in this process.

The ACPR represents France within IAIS and contributes actively to work on strengthening international prudential regulation. Efforts are being focused particularly on preparing an international capital standard (ICS) for internationally active insurance groups and, under a mandate from the FSB, on identifying systemically important insurers.

Within Europe, the ACPR represents France in EIOPA and contributes extensively to its work. EIOPA is responsible for harmonising prudential rules in the insurance sector, taking care of coordination between national supervisory authorities and playing a mediation role. It also performs consumer protection functions.

The ACPR played an especially active role within EIOPA in establishing the new Solvency II framework. It drew up instructions and published specific notices to bring France's prudential framework into compliance with EIOPA's Solvency II guidelines. The ACPR also participated in tracking consumer protection issues.

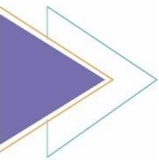
In total, ACPR personnel are involved in about 70 international working groups.

## The importance of ongoing supervision and in the insurance sector

Like banks, insurance and provident institutions are subject to regular on-site inspections. The personnel in charge of these inspections monitor the position and operating conditions of reporting entities. Inspectors ensure that insurers are capable of honouring their commitments at all times.

In practice, supervision comprises:

- examining the regulatory documents sent by individual insurers, such as annual filings, quarterly statements and solvency reports;
- daily monitoring of activities: the ACPR gives its opinion on activities affecting insurers, such as changes affecting status or operations;
- on-site inspections that give rise to the preparation of inspection reports and the insured parties' views, which provides the basis for follow-up and the regular review of the situation by the ACPR College.



#### **4. The ACPR also supervises other risks that are inherent to the activities and conduct of financial intermediaries in order to strengthen the stability and integrity of the sector**

##### **4.1 The ACPR is strengthening customer protection, which is an essential factor in financial sector stability**

Customer protection is one of the ACPR's central concerns, alongside prudential risks.

Prudential risks and the risks to which customers are exposed are different and require specific treatment by the prudential authority. But they are also complementary: prudential supervision primarily covers institutions and looks chiefly at the financial solvency of reporting entities. It does not take account directly of customer interests. But individual customers are not always in a position to assess the risks that they are required to bear, either because of the complexity of the products sold to them or because they lack information. Information asymmetries between the institution (or intermediary) and customer may then result in the taking-on – or transfer – of poorly controlled risks and inadequate recognition of customer interests.

The 2008 US subprime crisis demonstrated how banks' aggressive sales policies prevented customers from properly assessing the risks they had incurred on property loans extended to them; those loans were subsequently securitised and resold as complex financial products to ill-informed counterparties. Because of the scale on which they were carried out, these practices triggered many defaults by individual borrowers and sapped investor confidence, with major economic and social consequences. These failures severely destabilised the financial sector.

Learning the lessons from the 2008 crisis, international bodies such as the G20 and

OECD made a connection between customer protection and financial stability and drafted a set of principles to guide prudential authorities.

France's authorities drew heavily on this guidance, and in 2010 the ACPR set up a customer protection framework, which consisted in promoting early processing of transactions, curbing improper business practices and encouraging responsible behaviour that is respectful of customer interests. This framework helps to limit the risk borne both customers and financial institutions alike.

Customer protection plays a part in boosting confidence in reporting institutions, as well as the transparency and effectiveness of the financial system. This makes it a significant factor in financial stability.

Accordingly, it is essential to recognise the interests of banking and insurance customers, and the services offered to them must be the subject of clear and explicit information. It is especially important that the risks for which they are responsible or that are transferred to them should be understood and manageable.

To perform this task, the ACPR is continually strengthening its actions through on-site inspections as well as market initiatives based around recommended best practices. It ensures that action plans are introduced to address shortcomings and may also impose sanctions on companies, as it did in connection with unclaimed life insurance contracts.

Furthermore, to bolster consumer protection nationwide, the ACPR leverages the Banque de France's branch network to enhance its supervision of financial intermediaries around the country. The central bank plays an important role as the single ACPR-AMF gateway for handling customer requests and complaints. The ARCOP network for oversight of business practices, which is part of the

Ambition 2020 plan<sup>6</sup>, is designed to further increase the network's involvement in customer protection activities.

The ACPR works closely with the AMF within the Joint Unit established by law (see 1.5, above), providing financial sector customers with a single gateway for mail-in, email and phone-in requests (Assurance-Banque-Épargne Info Service helplines)<sup>7</sup>.

Moreover, the ACPR collaborates regularly with the DGCRF to ensure a better insight into market trends and improve the ACPR's effectiveness in the area of business practices.

The ACPR's customer protection tasks also include an international dimension. Accordingly, the ACPR participates actively in work by EBA and EIOPA in this area. This involvement enables the ACPR to be readier for forthcoming regulations and to convey the characteristics and expectations of the French market. The ACPR also takes part in work organised by IAIS, the OECD and FincoNet, an international financial consumer protection organisation.

The decision to house prudential supervision and customer protection under one roof also reflects the desire to strike a balance between individual and collective interests. This organisation makes it possible to protect customer interests while still taking into account the consequences of decisions on the solvency of institutions. In this way, the ACPR can reconcile the interests of individual customers and the collective interest of depositors and insurance policyholders, while preserving the overall stability of the financial sector. However, the ACPR has no jurisdiction over individual disputes between customers and professionals.

#### **4.2 The ACPR is involved in the anti-money laundering and counter**

#### **terrorist financing (AML-CTF) effort, and also helps to enhance the integrity of the financial sector**

The ACPR's responsibilities include the task of overseeing the effective implementation of AML/CTF measures. The ACPR performs this supervision for all entities in the banking sector, including large institutions whose prudential supervision is entrusted to the ECB under the SSM, and in the insurance sector. The ACPR has the means to perform ongoing supervision and on-site inspections as well as the power to impose administrative enforcement measures and sanctions.

AML-CFT is a priority action area for the ACPR and is covered in anti-terrorism action plans prepared by the French government and the European Commission or drawn up in the wake of the Panama Papers. The ACPR ensures that the financial entities under its supervision comply with their AML-CFT obligations. It thus participates in supervising major French banking institutions and in strengthening their financial integrity.

The ACPR harnesses its involvement in international and European standard-setting groups as well as AML-CFT experience garnered from documentary audits and on-site inspections to make an operational contribution to the French AML-CFT framework, working in close cooperation with Tracfin.

The ACPR also supports the Treasury in drawing up French legislation (Monetary and Financial Code). In addition, it carries out preventive and methodological work with supervised entities based around the annual questionnaire sent to these entities and the adoption of guidelines and sector enforcement principles. All these instruments are discussed beforehand with the industry within a consultative committee that serves the ACPR College.

<sup>6</sup> Banque de France 2016-2020 strategic plan

<sup>7</sup> <http://www.abe-infoservice.fr/accueil.html>



AML-CFT obligations include:

- preventive measures covering risk assessment and organisation of an appropriate internal AML-CFT system, customer identification and knowledge, performance of continual due diligence on transactions according to a risk-based approach, detection of unusual transactions and reporting of suspicious transactions to Tracfin specifically under AML-CFT;
- national and European asset freeze measures, particularly those adopted in connection with the fight against terrorism.

The ACPR conducts ongoing supervision of entities, supplemented by on-site verifications and centred around checks on:

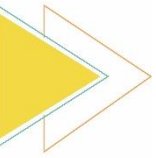
- the suitability of AML-CFT systems set up by entities with regard to their exposure to AML-CFT risks, according to a risk-based approach, taking account of their customers, activities and business locations. On-site inspections check the effectiveness of internal mechanisms and procedures, particularly reporting obligations (suspicious transactions) or disclosures to Tracfin.
- the effectiveness of mechanisms to detect persons or entities subject to restrictive measures and asset freezes, the effective freezing of all assets belonging to persons on the lists as well as reporting to the French competent authority, namely the Treasury.

The ACPR's AML-CFT inspections, and any follow-up, including disciplinary measures for the most serious breaches, are important in and of themselves because they contribute to the dissemination of best practices and the effectiveness of measures to prevent financial crime and terrorist financing. But beyond that, the ACPR's activities in this area also support financial stability insofar as they seek to

promote good governance and the integrity of banking and insurance sector entities, because they are designed to ensure that entities protect themselves effectively against the AML-CFT risks to which they are exposed and that their financial situation is not in danger of being unfavourably impacted, including in terms of reputational risk, by the acceptance and handling of unlawful financial flows that result from criminal organisations or individuals or are linked to terrorist financing activities.

Prudential and AML/CFT supervision can be mutually enhanced within the ACPR because of the ease with which information may be shared between closely coordinated teams. AML-CFT, then, is a key component of the supervision performed by the ACPR and complements prudential supervision.





**5. The ACPR's integrated institutional organisation has been strengthened by new research capabilities that enhance its overall view of the financial system**

**5.1 The ACPR has developed research capabilities that improve the quality of prudential supervision and give it a louder voice in international negotiations**

The financial crisis exposed insufficient knowledge of the factors and mechanisms that spread individual and systemic problems in the financial sector. To address these deficiencies and participate in international research activities, the ACPR has been working in recent years to bolster its in-house research and analytical capabilities while at the same time leveraging external partnerships. Its research has looked at sector-specific risks, the performance of stress tests and the coordination of regulatory impact studies. The ACPR also conducts thematic analyses (solvency, liquidity) and comparative studies.

These cross-cutting analyses (across a population of individual institutions) enable supervisors to situate individual institutions relative to the rest of the market, which is a considerable advantage when it comes to ensuring effective supervision and spotting individual weaknesses.

The ACPR also draws on work on supervision provided by external and independent research units. This work is characterised by a scientific approach that is especially rigorous because it is accompanied by greater sharing of data than in the past. Whether regulators agree with them or not, these research findings fuel the public debate and contribute to an adversarial assessment of supervision in the financial sector. These open debates between supervisors, professionals and academics raise the quality of prudential

supervision, which thus gains in credibility and effectiveness.

The research and analysis activities of the ACPR consequently help to improve prudential supervision, contributing to strengthen oversight at the operating level.

### **Enhanced research capabilities backed by top-level partnerships**

The research and analysis capabilities deployed by the ACPR have resulted in numerous academic and industry publications: in 2015, the ACPR was the source of five publications in peer-reviewed journals and 24 research articles. These publications help to further knowledge in the field of prudential supervision and raise the ACPR's profile within Europe and internationally. The ACPR is thus in a stronger position to shape decisions taken within the European framework and make its voice heard in international bodies.

In part, the ACPR's research capabilities have been bolstered by close partnerships with top-level academic centres such as ENSAE – ENSAI, École des Hautes Études Commerciales (HEC, Jouy-en-Josas), Institut d'Études Politiques de Paris and Toulouse School of Economics (TSE).

These efforts have contributed to the emergence within the ACPR of a new generation of economists, who are gaining personal academic recognition while contributing to the credibility of French supervision.

## **5.2 The ACPR has developed training programmes to maintain top-notch expertise and promote dynamic career paths**

The innovative nature of the financial sector and the emergence of new risks mean that high technicality and constant change are characteristic features of the ACPR's activities. Developments in the sector are reflected in the adoption of complex new prudential regulations (CRD IV, Solvency II) and accounting regulations (IFRS), which require skills to be continually upgraded. Added to this, the establishment of the SSM has led to European convergence in supervisory methodologies and tools, as well as a shift towards use of English as the day-to-day working language.

To respond to these challenges, the ACPR has adopted an ambitious training strategy based around continually strengthening the business area expertise of banking and insurance supervisors. Teaching of English has also been stepped up and adjusted to reflect European requirements. Educational resources are centralised at the ACPR's training centre, which is where training is provided.

The ambition contained in the strategy is reflected in the substantial financial resources allocated, amounting to approximately nine training days per staff member per year. The emphasis is put on initial training for new

arrivals, with insurance and banking training streams, the latter of which includes a significant SSM component. This area also encompasses all business area training that is designed to develop and maintain regulatory expertise.

The ACPR provides skills training courses leading to industry-recognised certifications and diplomas in the areas of accounting, actuarial services and financial analysis. These courses account for a small but steadily growing share of overall training.

The training organised by the ACPR is designed to be open to the outside by bringing in speakers and trainers from the private and public sectors and by welcoming participants from other French and European public institutions.

This training commitment is coupled with a drive to rationalise and control costs, notably by pooling resources with the Banque de France and the ECB, and by using innovative teaching tools.

The training efforts deployed by the ACPR help to keep the level of supervision in line with the top international standards. They also strengthen the professional credentials of ACPR experts and in so doing support dynamic and varied career paths within the ACPR, between supervisory functions and international activities, say, and also within the Banque de France, for example in financial stability-related activities.

## Acronyms

ACPR	Autorité de contrôle prudentiel et de résolution
AMF	Autorité des marchés financiers (France)
AML/CFT	Anti-money laundering/counter-terrorist financing
ANC	Autorité des normes comptables (France)
BDF	Banque de France
BPI	Banque publique d'investissement (France)
BRRD	Bank Recovery and Resolution Directive (EU)
CRD IV	Capital Requirements Directive IV
CRR	Capital Requirements Regulation
DGCRF	Direction générale de la Consommation et de la Répression des fraudes (France)
EBA	European Banking Authority
EIOPA	European Insurance and Occupational Pensions Authority
ECB	European Central Bank
ESFS	European System of Financial Supervision
FICOD	Financial Conglomerates Directive (EU)
FincoNet	International Financial Consumer Protection Organisation
FSB	Financial Stability Board
JST	Joint Supervisory Team
IAIS	International Association of Insurance Supervisors
NCA	National competent authority
OSI	On-site inspection
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
SFIL	State-owned bank financing the local public sector in France
SGACPR	Secrétariat général de l'Autorité de contrôle prudentiel et de résolution (ACPR General Secretariat)

## Annex 1

### ACPR key figures – 2015

<b>Institutions under ACPR supervision</b>	
777	licensed banks subject to ongoing supervision, representing:
7,674	<i>billion euros in total consolidated assets</i>
158	<i>billion euros in net banking income</i>
827	licensed insurance and mutual insurance undertakings subject to ongoing supervision, representing:
2,678	billion euros in total consolidated assets
294	billion euros in premium income, including
167	<i>billion euros in life insurance premiums</i>
<b>Supervisory activities</b>	
370	Licensing and authorisation decisions, including:
204	<i>for the banking sector</i>
166	<i>for the insurance sector</i>
1,244	Entities whose risk profile was assessed, including:
463	<i>for the banking sector</i>
781	<i>for the insurance sector</i>
204	On-site inspections: insurance companies, banks (excl. SSM), business practices, AML
42	On-site inspections on behalf of the ECB under the SSM
131	Follow-up letters after inspection reports sent over the course of the year, including:
36	<i>for the banking sector</i>
95	<i>for the insurance sector</i>
<b>Resources</b>	
989	people, ACPR headcount
80	people seconded to the ECB under the SSM
<b>ACPR activities and decisions</b>	
28	Hearings of the Supervisory College organised for groups for which the ACPR is the consolidated supervisor, including:
1	<i>for the banking sector</i>
27	<i>for the insurance sector</i>
639	decisions by the ACPR's Supervisory College
1,369	decisions on personnel of payment institutions and senior managers
11	Sanctions Committee decisions
<b>Prudential situation of the financial system in France</b>	
12%	Core Tier 1 solvency ratio of France's six main banking groups (regulatory minimum: 10%)
180%	Solvency ratio of insurance companies (Solvency II, regulatory minimum: 100%)
<b>Research activities (with the Banque de France)</b>	
2	reports assessing the risks to the French financial system
5	publications in peer-reviewed journals
24	research projects resulting in publications
2	international conferences
15	research seminars

## Annex 1b

### ACPR key figures – 2016

(data available as at 23 March 2017)

<b>Institutions under ACPR supervision</b>	
748	licensed banks subject to ongoing supervision, representing:
7 866	<i>billion euros in total consolidated assets</i>
	<i>billion euros in net banking income</i>
774	licensed insurance and mutual insurance undertakings subject to ongoing supervision, representing:
2 675	billion euros in total consolidated assets
	billion euros in premium income, including
	<i>billion euros in life insurance premiums</i>
<b>Supervisory activities</b>	
355	Licensing and authorisation decisions, including:
195	<i>for the banking sector</i>
160	<i>for the insurance sector</i>
	Entities whose risk profile was assessed, including:
	<i>for the banking sector</i>
	<i>for the insurance sector</i>
199	On-site inspections under domestic supervisory responsibilities: insurance companies, banks (excl. SSM), business practices, AML
37	On-site inspections on behalf of the ECB under the SSM
<b>Resources</b>	
1,046	people, ACPR headcount
79	people seconded to the ECB under the SSM
<b>ACPR activities and decisions</b>	
16	Hearings of the Supervisory College organised for groups for which the ACPR is the consolidated supervisor, including:
17	<i>for the banking sector</i>
10	<i>for the insurance sector</i>
405	decisions by the ACPR's Supervisory College
1,814	decisions on personnel of payment institutions and senior managers
11	Sanctions Committee decisions
<b>Prudential situation of the financial system in France</b>	
12.6%	Core Tier 1 solvency ratio of France's six main banking groups (regulatory minimum: 10%)
%	Solvency ratio of insurance companies (Solvency II, regulatory minimum: 100%)
<b>Research activities (with the Banque de France)</b>	
2	reports assessing the risks to the French financial system
6	publications in peer-reviewed journals
25	research projects resulting in publications
3	international conferences on stability and financial regulation
20	research seminars and events (13 organised in conjunction with ACPR Research Chair)