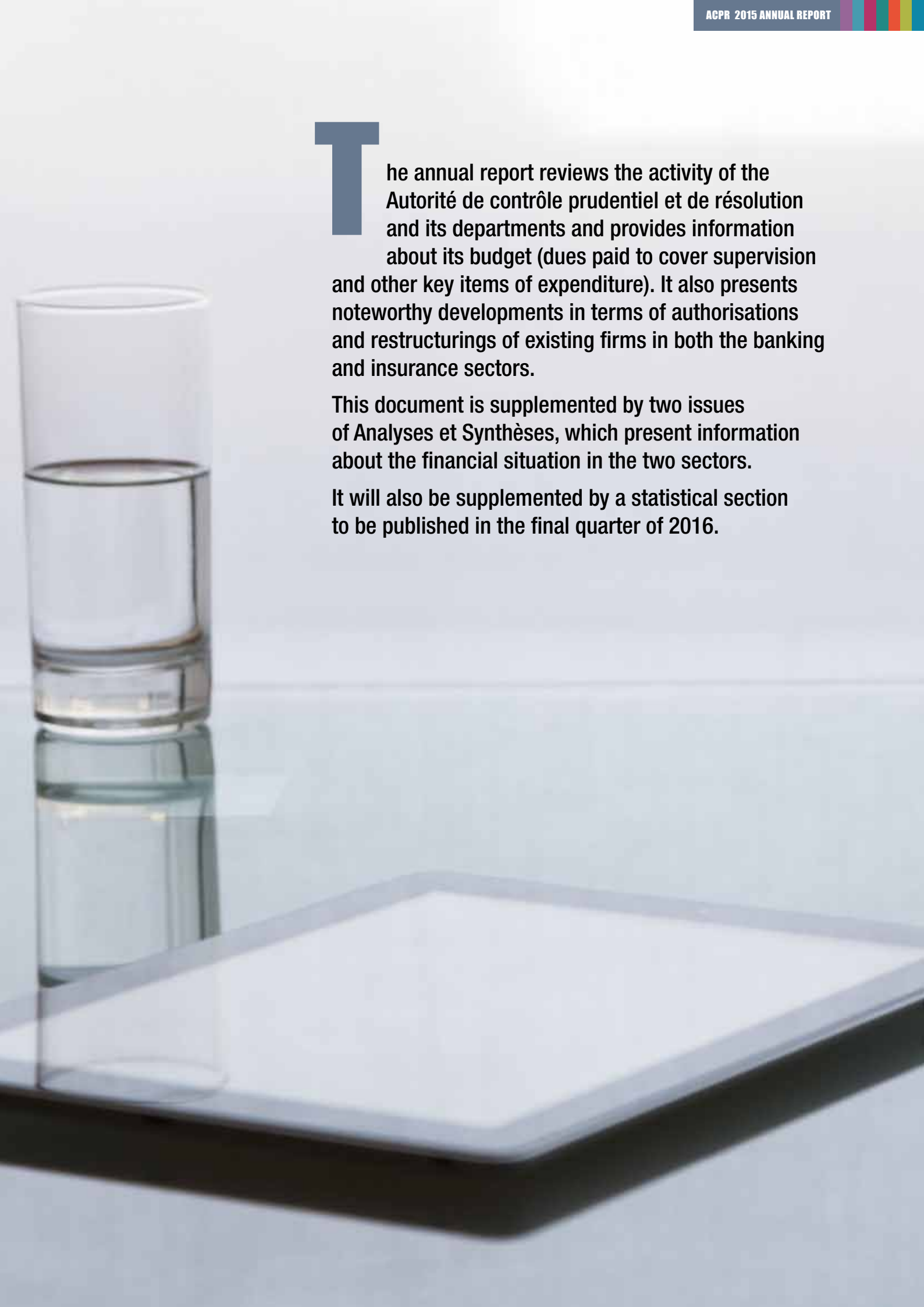




ANNUAL REPORT

2015

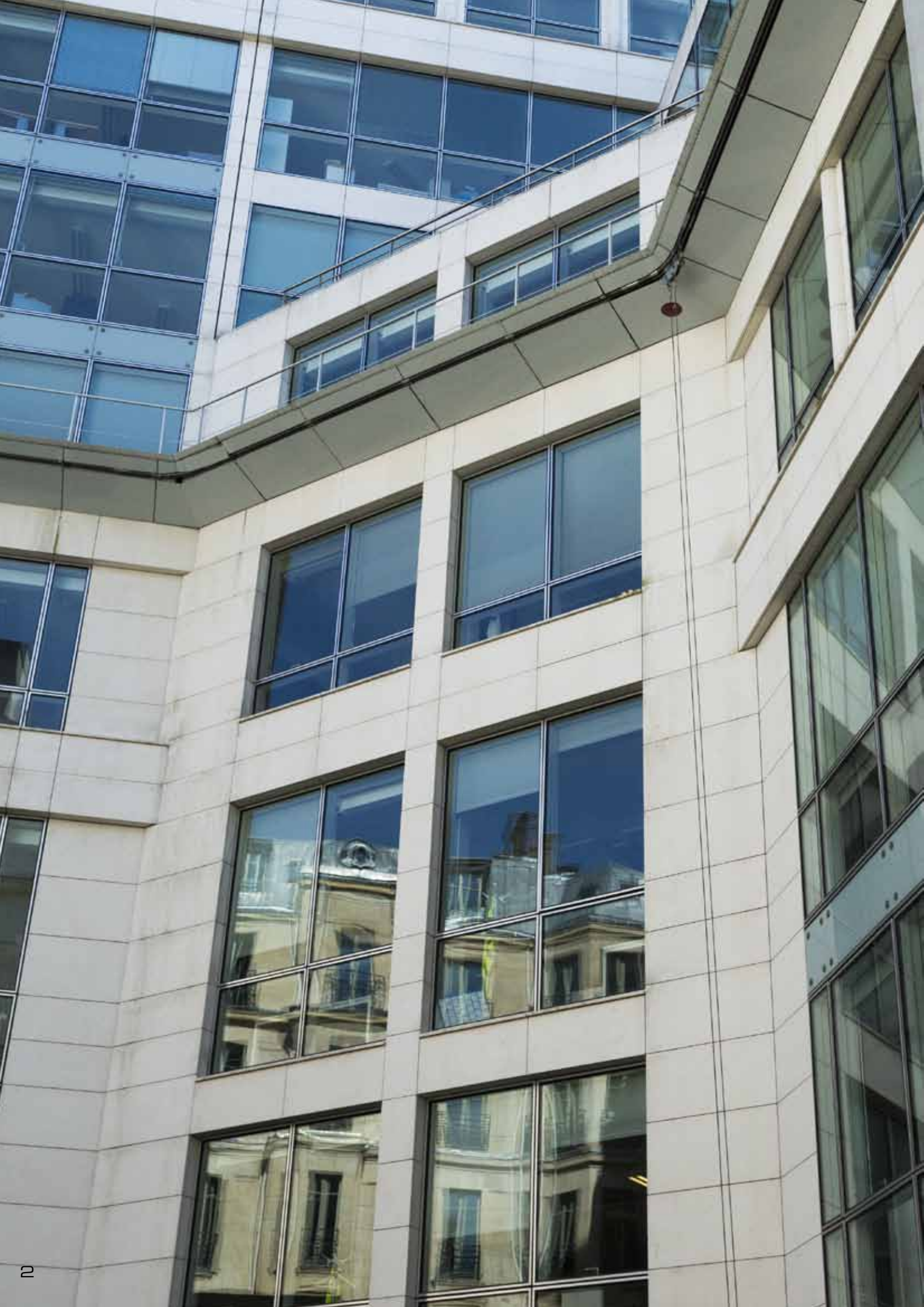


A glass of water is positioned on the left side of the page, resting on a highly reflective surface. The glass is partially filled with water, and its reflection is clearly visible below it. To the right of the glass, a tablet computer lies flat on the same surface, also reflecting itself. The background is a soft, light blue gradient.

The annual report reviews the activity of the Autorité de contrôle prudentiel et de résolution and its departments and provides information about its budget (dues paid to cover supervision and other key items of expenditure). It also presents noteworthy developments in terms of authorisations and restructurings of existing firms in both the banking and insurance sectors.

This document is supplemented by two issues of *Analyses et Synthèses*, which present information about the financial situation in the two sectors.

It will also be supplemented by a statistical section to be published in the final quarter of 2016.



Editorial by François Villeroy de Galhau, Chairman of the ACPR and Governor of the Banque de France	4
Édouard Fernandez-Bollo's interview, ACPR Secretary General	8

CHAPTER 1

OVERVIEW OF THE ACPR	12
1. Statutory objectives and jurisdiction of the ACPR.....	14
2. Structure of the ACPR	17
3. Activities of the ACPR's supervisory college.....	30

CHAPTER 2

ENSURING THE STABILITY OF THE FINANCIAL SYSTEM	38
1. Licensing and authorisation	40
2. The financial system's exposure to risk in 2015	48
3. Prudential supervision.....	54
4. Resolution banking crises	71

CHAPTER 3

PROTECTING CUSTOMERS IN BANKING AND INSURANCE	76
1. Complaints handling	78
2. Lessons learned from inspections performed in banking and insurance	80
3. Consumer protection: taking action on best practices and preparing the market for the new regulations....	86
4. Consumer protection and the European Union.....	88

CHAPTER 4

PARTICIPATING IN ANTI-MONEY LAUNDERING AND COUNTER-TERRORIST FINANCING	90
1. ACPR supervision in 2015	92
2. Work on legal instruments in respect of AML/CTF.....	96

CHAPTER 5

SANCTIONING VIOLATIONS	100
1. Cases referred to the committee in 2015	102
2. Decisions handed down in 2015	104
3. Information on appeals against Sanctions Committee rulings	108

CHAPTER 6

CONTRIBUTING TO THE DEVELOPMENT OF THE INTERNATIONAL, EUROPEAN AND FRENCH REGULATORY FRAMEWORK	110
1. ACPR action in European and international bodies.....	112
2. Developments in laws and regulations	123

CHAPTER 7

BUDGET AND PERFORMANCE MONITORING	128
1. Budget of the ACPR	130
2. Activity monitoring	137

ANNEX	142
--------------------	------------

GLOSSARY	144
-----------------------	------------



Amid historically low interest rates, 2015 saw increased intervention by the ACPR to protect the long-term stability of the French financial system.

Interest rates have been at all-time lows since April 2015. They are likely to remain very low in the medium term, consistent with the new asset purchase and long-term funding measures adopted by Eurosystem in March 2016. The overall effect of unconventional monetary policy on banks' margins is a complex issue that must take into account numerous favourable measures including TLTROs (Targeted Long Term Refinancing Operations), which help finance lending. However, this economic environment has on occasions raised fears of a decline in the profitability, and thus the solvency, of the banking and insurance sectors, as well as fears that they might increase risk-taking.

For insurers, the long-term persistence of low interest rates is gradually eroding investment returns. With guaranteed rates of 0% on 75% of assets under management, the French market still has time to react, provided that life insurance resets remain limited and wealth reserves are built up.

The ACPR has adopted preventive measures in response to these risks. It is closely monitoring loan renegotiations, which can reduce yields on property loans over the long term; more generally, analysing the profitability of banks' business is one of its priori-

ties. As part of the preparatory exercise for the Own Risk and Solvency Assessment, it asked insurers to estimate the impact on their medium-term solvency if interest rates were to remain at historically low levels, as well as if they were to rise. Following this exercise, the Authority adopted tailored approaches with individual insurers to encourage them to take steps appropriate to their situation. In this regard, reductions in life insurance revaluation rates announced at the beginning of the year mostly remain insufficient. In 2016, the ACPR will continue its work to address the consequences of this low interest rate environment.

The ACPR is playing its part in continuing to strengthen European financial supervision.

There has been substantial progress in European supervision: 2015 was the first full year of operation of the Single Supervisory Mechanism (SSM) and Joint Supervisory Teams (JSTs), consisting of personnel from the European Central Bank and competent national authorities. The first comprehensive and harmonised risk assessment of the 123 banking groups directly supervised by the ECB was successfully completed using a single methodology. The ACPR's supervision staff were heavily involved in this work.

Another key event in 2015 was the transposition into French law of the Bank Recovery and Resolution Directive (BRRD). Meanwhile, at the European level,

EDITORIAL

François Villeroy de Galhau,

Chairman of the ACPR and Governor of the Banque de France

the second pillar of the Banking Union – the Single Resolution Mechanism (SRM) – was put in place, entering fully into force on 1 January 2016.

This year will thus see the ramp-up of the SRM and the continued harmonisation of supervisory practices within the eurozone under the SSM, notably following the review of the hundred or so national options and discretions undertaken in 2015.

Finally, like most European supervisory authorities, in 2015 the ACPR identified systemically important banking groups at the domestic level using the common methodology established by the European Banking Authority.

A capital buffer requirement was established for the six French groups designated by the ACPR; starting in 2016, this will be phased in alongside the existing higher-quality capital requirement.

In insurance, the European Solvency II Directive was transposed into French law in 2015, and the ACPR processed around a hundred decisions related to it. 2015 was also the final year of preparations before the entry into force of the new prudential framework on 1 January 2016. Both participation in this exercise and compliance with the new requirements improved relative to 2014. In 2016, the ACPR will be extremely attentive to the quality of data submitted, the relevance of assessment methods and the actual implementation of governance requirements.

The ACPR is actively involved in drawing up an international financial system regulation.

Implementation of the CRD IV regulatory framework continued, notably with the entry into force of the one-month liquidity ratio (LCR: Liquidity Coverage Ratio) on 1 October. Work to introduce stable funding requirements into European regulations moved forward.

A number of notable advances were made in the Basel Committee's programme of work to complete the review of the prudential framework applicable to banks, notably as regards the review of the standardised approach to credit risk, the review of internal models, and rules governing interest rate risk in the banking book. Meanwhile, the G20 published final details of the TLAC (Total Loss Absorbing Capacity) in November 2015. Thanks to TLAC, in the event of a banking crisis, resolution authorities will be able to mobilise liabilities meeting specific criteria to absorb losses and recapitalise global systemically important banks (G-SIBs).

The focus for the rest of 2016 will be on wrapping up Basel III without significantly increasing the overall amount of capital required by the banking system; the goal is clearly not to initiate a Basel IV.

In insurance, the ACPR plays an active role in the International Association of Insurance Supervisors (IAIS), whose work includes both the identification of "systemic" insurers and the establishment of minimum capital requirements, to be applied to insurers



with significant international business by 2019. The Financial Stability Board (FSB) published a new list of systemic insurers in 2015 following the work of the IAIS, in which the ACPR was involved. A review of the methodology used to identify these systemic insurers is currently underway.

The ACPR stepped up its domestic supervisory activities, particularly in respect of consumer protection and the prevention of money laundering and terrorist financing.

The ACPR continued to play an active role in implementing legislative and regulatory changes in 2015, mainly in connection with the 2013 Banking Separation

Act and the creation of the “Ficovie” file cataloguing all endowment and life insurance policies.

As well as monitoring solvency and compliance with prudential legislation and regulations, one of the ACPR’s key roles is to oversee consumer protection and ensure that banks and insurers are doing everything in their power to effectively help prevent money laundering and terrorist financing. The ACPR continued to step up its activities, both through on-site inspections and, as regards customer protection, by monitoring the effective and rapid implementation of action plans to address the situation of unclaimed life insurance policies. In 2016, the ACPR will be particularly attentive to banks’ handling of inactive bank accounts in accordance with the Eckert Act.

The ACPR plays an essential preventive role. It will examine the consequences on the financial equilibrium of health insurance institutions of the implementation of the national cross-industry agreement, which requires companies to provide their employees with supplementary health insurance and finance at least 50% of the cost of such cover. The ACPR will also carefully monitor the new challenges it has identified. For example, the FinTech sector can take advantage of technological developments to provide services that are beneficial to the economy; however, through closer dialogue with FinTech operators, the ACPR will ensure that such innovation is conducive to the security of the financial system and the protection of customers.



What were the main areas of work in 2015?

A significant proportion of the ACPR's resources was dedicated to fulfilling our duties linked to developments in the regulatory and institutional environment pertaining to supervision.

In banking, supervisory work was obviously strongly guided by the operational implementation of the Single Supervisory Mechanism (SSM), with new procedures, changes in control methods and new requirements to submit information to the European Central Bank. Our staff had to integrate into a new European supervisory structure, with a more cross-functional dimension than existed prior to the SSM. We also continued to fulfil our domestic duties, including in particular by implementing the Banking Separation Act and supervising payment institutions and issuers of electronic money, both of which are new categories of operator. It was also a busy year for research, with a focus on topics such as the financing of residential and commercial property, the low interest rate environment and the identification of systemic institutions, and we continued to develop our stress testing tools. In the area of resolution, recovery plans for France's four largest banking groups were submitted to the Single Resolution Board (SRB) for approval.

In insurance, we continued with our actions to increase institutions' preparedness ahead of the implementation of Solvency II on 1 January 2016, in particular through exercises to collect quarterly and annual quantitative and qualitative data. We also worked to prepare institutions for the new procedures for appointing effective managers and holders of key roles and made sure that our key messages were

communicated to the industry and the public at our conferences as well as through press articles and regular meetings with industry federations. Inspections were also carried out in response to requests from a number of institutions to approve their internal models and use of specific parameters. At the cross-functional level, studies were carried out on the impact on the sector of the decline in interest rates observed in 2014 in light of Solvency II, as well as on the impact on long-term profitability of interest rates being held at low levels for an extended period.

As regards the supervision of business practices, a number of projects were implemented to structure and strengthen monitoring of business practices, including the introduction of new tools for monitoring complaint handling, an overhaul of the customer protection questionnaire, and the specification of a tool for monitoring intermediaries. In banking, our supervisory work mainly concerned debt consolidation loans, specific-purpose loans, bank charges and the annual percentage rate (APR) on overdrafts. In insurance, our main supervisory priorities were long-term compliance with contractual commitments, continued work on outstanding contracts, construction insurance marketed under the freedom to provide services and unsolicited marketing of health and death and disability insurance. Cross-sector inspections were carried out on the marketing of savings products, distance selling – including the first inspections of crowdfunding intermediaries – and bundling – with an emphasis on unbundling property loans and payment protection insurance. Lastly, a number of inspections concerned issues specific to brokerage, such as monitoring of intermediation chains and conditions of access and exercise.

INTERVIEW

Édouard Fernandez-Bollo,
Secretary General of the ACPR

Finally, as regards the prevention of money laundering and terrorist financing, the priorities laid down by the College for 2015 related to groups' systems for monitoring compliance by their foreign establishments, with on-site inspections carried out in targeted countries. In the insurance sector, we continued to inspect major life insurers and, on a selective basis, smaller institutions. We also adapted our supervisory programmes – for both ongoing supervision and on-site inspections – in light of information provided to us, in particular by Tracfin.

Furthermore, the ACPR continued to play an active role in international negotiations over changes in the regulatory framework, particularly within the Basel Committee with the aim of completing the Basel III reform. We also contributed to international work on systemic insurance groups, notably on the definition of the criteria used to identify such groups. European work on business practices was also stepped up, including in particular work on the key information document and monitoring of the directive on insurance distribution.

What are the supervisory priorities for 2016?

The ACPR's supervisory activities in 2016 will be shaped by five key priorities.

(1) **Our cross-cutting priorities** will cover all the areas in which the ACPR operates. For example, specific measures will be put in place to *monitor risks associated with the low interest rate environment and analyse the risk of interest rate rises* for the banking and insurance sectors as well as for consumer protection. The sectors must adapt to a *changing regulatory environment on all fronts*: prudential and accounting regulations, AML/CTF rules

and business practices. In the area of *governance*, a review similar to that undertaken by the SSM in 2015 will be applied to certain other providers of banking services and insurers, with the priority on the most risky institutions. The financial sector as a whole is going to have to make *efforts to adapt to new technologies* by stepping up cybersecurity, and we will be capitalising on work undertaken in connection with the SSM on the banking side and inspections carried out in connection with the implementation of Solvency II for insurers. *Banks' traditional business models must adapt* to new products, additional distribution channels, innovative payment methods and changes in the commercial use of banking data. Lastly, the increasing risk of exposure to litigation means banks and insurers need to *strengthen their compliance control functions*. We will be extremely vigilant in this area.

(2) **In banking**, over and above the direction set by the SSM, one of the ACPR's priorities in relation to the financing of property (both residential and commercial) will be to ensure that France's unique guarantee system is properly understood and adequately taken into account within the various international workstreams. As provided for by the BRRD, the ACPR will also take charge of the approval and annual review of recovery plans for the credit institutions it directly supervises and for investment firms; this work will be spread over 2016 and 2017.

(3) **In the area of insurance supervision**, supervisory work on international groups will continue to be coordinated through colleges of supervisors. Efforts will also be made to speed up work on systemic institutions (identification of groups, implementation of continuity plans and calibration of surplus requirements). Following the intense preparatory work undertaken in previous years, we

will obviously be monitoring to ensure that Solvency II is properly implemented.

- (4) **As regards the prevention of money laundering and terrorist financing**, we will be stepping up our efforts on the prevention of terrorist financing and asset freezes, both in terms of ongoing supervision through new questions added to the annual questionnaire in 2015 and in terms of on-site inspections through more targeted inspections, which will continue to focus, in particular, on groups' supervision of foreign business.
- (5) Lastly, in this fast-changing environment, the ACPR's activities in respect of the **supervision of business practices** will firstly concern improvements to its system for monitoring and detecting anomalies and market developments. On-site inspections will be supplemented by innovative monitoring arrangements in targeted areas such as crowdfunding and issues linked to negative variable rates. Specific inspections will continue in the areas of distance selling, the unbundling of property loans and payment protection insurance, and distribution chains.

How will the ACPR continue to adapt in response to the new challenges that lie ahead?

In 2016, the outline of a stable supervisory landscape will begin to emerge after the upheaval of the past few years: the insurance sector will see the entry into force of Solvency II, while the full powers of the

Single Resolution Mechanism will come into effect in the banking sector. While the SRM will be able to gradually learn from its experience and adjust its methods and processes accordingly, there are many changes still before us, particularly in the area of international regulation. For example, in 2016 the Basel Committee aims to wrap up the entire cycle of post-crisis regulatory reviews and IAIS plans to move towards the definition of a capital standard for all internationally important insurance institutions. In the area of customer protection, the major European harmonisation initiatives are, in fact, ahead of us, including in particular the planned key information document for savings products. As regards the prevention of money laundering and terrorist financing, rules and vigilance requirements are expected to be tightened following the tragic events in Paris in 2015.

Bolstered by major efforts in recent years to adapt its organisational structure and operating methods (new organisation of prudential supervision portfolios, creation of new support services, gradual introduction of expert networks, etc.), the ACPR must now work to develop its activities within a new institutional framework. Continuous efforts to optimise our operational processes should enable us to focus more on the essential issues of identifying and analysing risks, while proposing new actions in the areas within our jurisdiction. In this way, we will continue to develop and gain recognition for the value added by our work, all of which aims to support the stability of a robust and innovative financial sector that listens to and serves its customers.

CHAPTER 1

OVERVIEW OF THE

ACPR

1. Statutory objectives and jurisdiction of the ACPR	14
2. Structure of the ACPR	17
3. Activities of the ACPR's Supervisory College	30

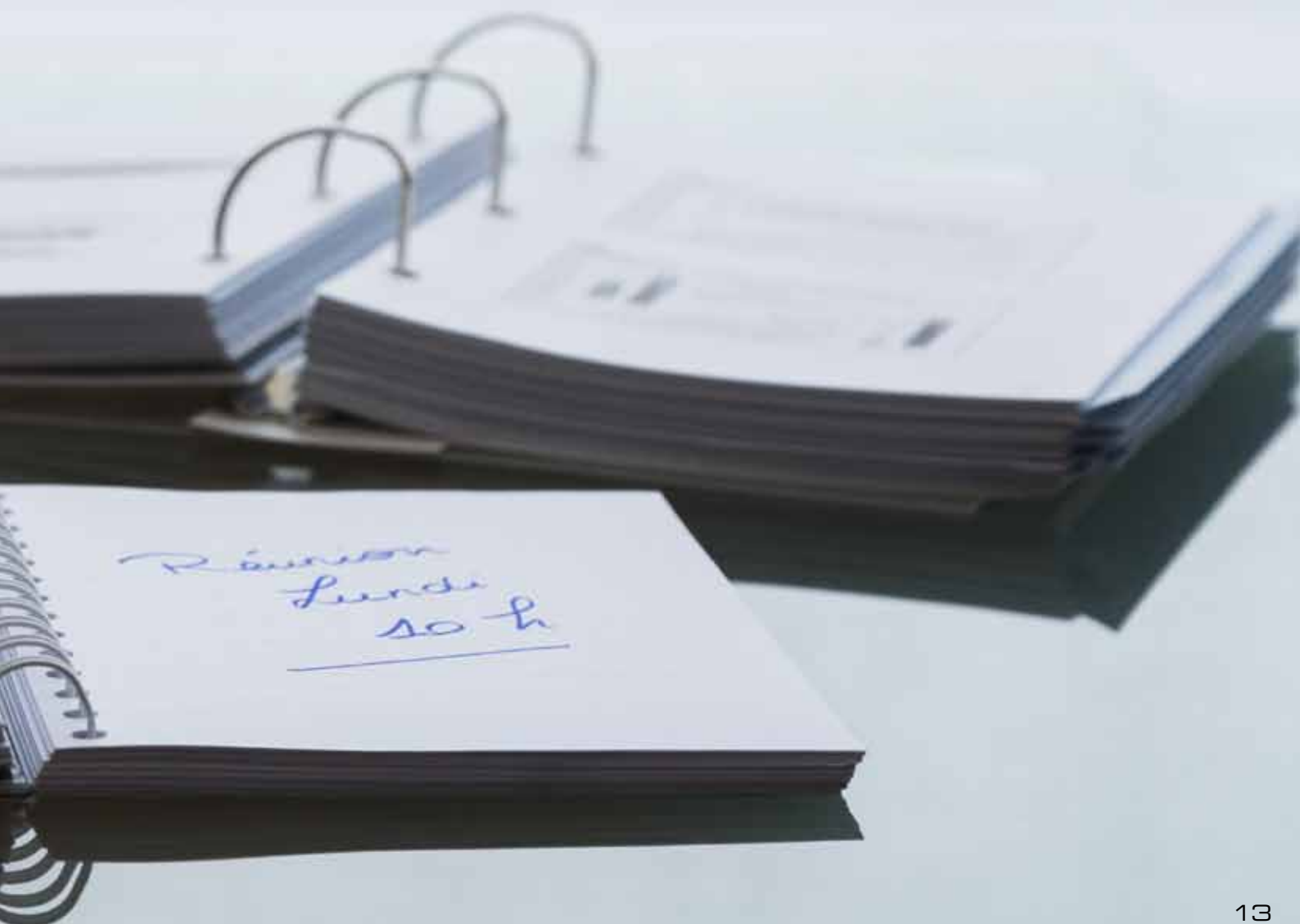


The banking and insurance sector supervisory authorities were merged in 2010 to form the ACP, which subsequently became the ACPR (Autorité de contrôle prudentiel et de résolution) in 2013. It is funded by contributions from supervised institutions and is attached to the Banque de France, which provides a substantial proportion of its resources, notably in terms of human resources and IT.

Tasked with supervising the banking and insurance sectors, the ACPR monitors key issues facing the two sectors with the aim of maintaining financial stability and ensuring that customers and policyholders are protected.

With a workforce of 1,065 people, the ACPR controls access to the banking and insurance businesses and oversees compliance with applicable regulations in each sector.

In banking, the ACPR has since November 2014 been assisting the European Central Bank in its supervision of euro area banks. The ACPR also has powers in the area of bank resolution.



1 Statutory objectives and jurisdiction of the ACPR

1.1. STATUTORY OBJECTIVES

“The Autorité de contrôle prudentiel et de résolution, an independent administrative authority, ensures the stability of the financial system and protection of the customers, policyholders, members and beneficiaries of reporting institutions.”

Its statutory objectives are laid down in Article L.612-1 of the Monetary and Financial Code.

- (1) The ACPR issues licences and authorisations as laid down in legislation.
- (2) It conducts ongoing supervision of the financial position and operating conditions of the institutions under its supervision, including in particular their compliance with solvency requirements and liquidity maintenance rules. For the insurance sector, the Authority ensures that institutions are able at all times to honour their commitments to their policyholders, members, beneficiaries and companies holding reinsurance, and that they actually do so in practice.
- (3) It ensures compliance with customer protection rules arising from European and domestic legislation and regulations, codes of conduct approved at the request of industry bodies, and industry best practice that the Authority either observes or recommends. It also checks that reporting institutions have adequate resources and appropriate procedures in place to comply with these rules.
- (4) The ACPR ensures that measures are developed and implemented to prevent and resolve banking crises. Such measures are designed to preserve financial stability, ensure the continuity of the activities, departments and operations of institutions whose failure would have serious consequences for the economy, protect retail investors, and avoid or limit as far as possible reliance on public support.
- (5) The Authority ensures that the institutions it supervises comply with rules governing how they and their subsidiaries operate as well as rules on acquisitions and equity investments.

Cooperating with the Banque de France and relevant government agencies, **the ACPR represents France within international and European bodies responsible for supervising the insurance and banking industries.** In fulfilling its statutory objectives, the Authority takes into account the objective of financial stability throughout the European Economic Area (EEA) and the harmonised implementation of national and European measures. It also gives due consideration to best practice and recommendations issued by European Union supervisory bodies.

To enable it to fulfil its statutory objectives, the Monetary and Financial Code endows the ACPR with the following powers over the institutions it supervises:

- ▶ supervisory powers
- ▶ administrative enforcement powers
- ▶ powers of resolution¹
- ▶ powers to impose sanctions

It also has the right to publicly disclose any information deemed necessary to fulfil its statutory objectives, without being bound by the rules of professional secrecy laid down in Article L.612-17.

As regards credit institutions, financial holding companies and mixed financial holding companies, the ACPR exercises its powers of authorisation and prudential supervision without prejudice to the powers entrusted to the European Central Bank (ECB) by Council Regulation (EU) 1024/2013 of 15 October 2013.

The ACPR is the competent national authority for France in respect of implementation of the **Single Supervisory Mechanism** established by the aforementioned regulation. As such, it assists the ECB in performing the prudential supervision duties conferred upon it by that regulation².

When, pursuant to that same regulation (third subparagraph of the first paragraph of Article 9), it receives instructions from the European Central Bank in connection with the performance of the latter's duties, the ACPR uses its powers of control and prudential supervision that derive from the Monetary and Financial Code.

The Supervisory College or the Secretary General, as the case may be, adopts the measures needed to implement guidelines, instructions, decisions and all other legal acts issued by the European Central Bank under the terms of the aforementioned Council Regulation (EU) 1024/2013 of 15 October 2013.

Through its Resolution College, the ACPR also participates in the **Single Resolution Mechanism** (SRM), which constitutes the second pillar of the Banking Union, defined in 2014 by the SRM Regulation. In an initial phase in 2015, authority to draw up resolution plans for significant institutions or those conducting cross-border business within the European Union was transferred to the Single Resolution Board.

National resolution authorities play a substantial role in the preparation of resolution plans for institutions falling within the jurisdiction of the Single Resolution Board. They also participate in the adoption of resolution decisions made by the latter concerning such institutions. Responsibility for implementing such decisions lies with national resolution authorities.

1. Since the implementation of the Bank Separation and Regulation Act, the ACPR has new powers and a specific College to fulfil its statutory objectives of resolution, which are distinct from its supervisory objectives. In this context, the ACPR draws up a preventive plans for institutions also required to prepare a recovery plan. These resolution plans contain specific arrangements for the implementation of resolution measures that could be adopted by the Resolution College. If the ACPR considers that an institution's organisation and operation is likely to hamper the effective implementation of its powers of resolution, it can ask to adopt corrective measures.
2. See the ECB's annual report on its prudential activities for 2015, published on its website on 22 March 2016: <https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssmar2015.en.pdf>



Since 4 November 2014, the ACPR has exercised its powers under the Single Supervisory Mechanism (SSM).

1.2. JURISDICTION

Article L.612-2 of the Monetary and Financial Code stipulates which entities are subject to supervision by the ACPR.

A. BANKING SECTOR

- (1) Credit institutions
- (2) Investment firms other than asset management firms, market undertakings, clearing house members and entities authorised to act as custodians or administrators of financial instruments (referred to in points 4 and 5 of Article L.542-1 of the Monetary and Financial Code)
- (3) Payment institutions
- (4) Financial holding companies and mixed financial holding companies, mixed holding companies only for those provisions that apply to them by virtue of Article L.517-10 of the Monetary and Financial Code

- (5) Money changers
- (6) Microcredit associations and foundations (organisations referred to in point 5 of Article L.511-6 of the Monetary and Financial Code)
- (7) Companies selected to help create activities or develop employment under a government contract (legal entities referred to in Article L.313-21-1 of the Monetary and Financial Code)
- (8) Electronic money institutions
- (9) Financing companies
- (10) Parent undertakings of financing companies
- (11) Mixed parent undertakings of financing companies only for those provisions that apply to them by virtue of Article L.517-10 of the Monetary and Financial Code.

The ACPR can also place under its supervision intermediaries involved in banking transactions and payment services as well as intermediaries involved in crowdfunding.

The Authority supervises the investment services supplied by credit institutions, investment firms and other entities referred to in point 2) above, subject to the powers of the Autorité des marchés financiers (AMF – Financial Markets Authority) with regard to the supervision of conduct of business rules and other professional obligations.

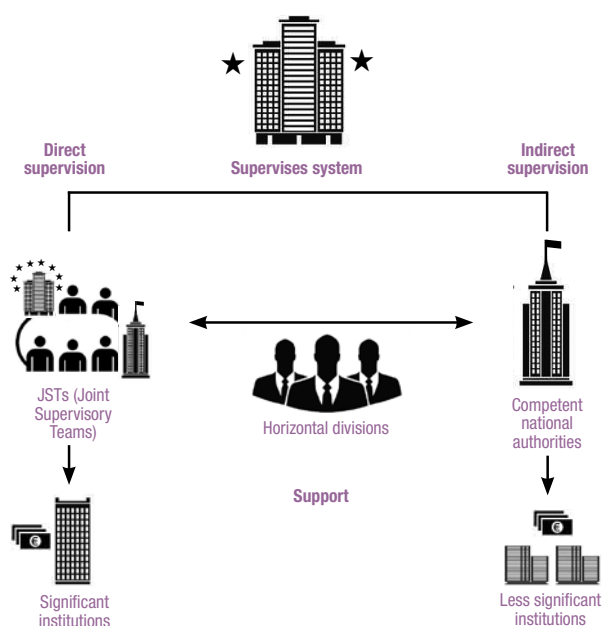
For the purposes of supervising payment institutions and electronic money institutions, the Authority may request the opinion of the Banque de France as the entity responsible for supervising the proper functioning and security of payment systems, pursuant to Section I of Article L.141-4 of the Monetary and Financial Code. The Banque de France may bring any and all information to the ACPR's attention in this regard.

With effect from 4 November 2014, the ACPR exercises its powers within the framework of the Single Supervisory Mechanism (SSM), the first pillar of the European Banking Union, which places responsibility for supervising all euro area banks on the European Central Bank (ECB), in coordination with competent national authorities (CNAs).

This single supervision is exercised in two ways.

- ▶ The ECB directly supervises institutions considered “significant”, in coordination with CNAs, through Joint Supervisory Teams (JSTs).
- ▶ National authorities supervise “less significant institutions”, under the supervision of and within the framework laid down by the ECB.

STRUCTURE OF SUPERVISION IN BRIEF



Furthermore, authorisations relating to licensing, licence extensions, licence withdrawals and significant changes in ownership of credit institutions are now covered by the common procedures laid down in Title V of the SSM Framework Regulation of 16 April 2014. These “common” procedures apply equally to all credit institutions, whether significant or less significant, and whether or not they are subject to direct prudential supervision by the ECB.

The ECB establishes instructions and guidelines that CNAs must apply. In particular, it has published a Supervisory Manual detailing the operation of the SSM and guidelines to be followed when supervising institutions.

The ACPR also retains responsibility for monitoring institutions other than credit institutions (investment firms, financing companies, payment institutions and electronic money institutions), as well as for all duties falling outside the scope of CRD IV³ and CRR⁴: anti-money laundering and counter-terrorist financing, customer protection, the **European Market Infrastructure Regulation (EMIR)** and the Banking Separation Act.

B. INSURANCE SECTOR

- (1) Insurance firms providing the direct insurance services referred to in Article L.310-1 of the Insurance Code and firms referred to in the final paragraph of that same article
- (2) Companies with their head offices located in France that engage in the reinsurance business
- (3) Mutual insurance companies and unions governed by Book II of the Mutual Insurance Code and unions managing the federal guarantee systems referred to in Article L.111-6 of the Mutual Insurance Code, as well as mutual insurance holding companies referred to in Article L.111-4-2 of that same code
- (4) Mutual insurance companies and unions referred to in Book I of the Mutual Insurance Code that manage mutual insurance payments and contracts on behalf of mutual insurance companies and unions referred to in Book II, solely for the purposes of Title VI of Book V of the Monetary and Financial Code
- (5) Provident institutions, unions and groups governed by Title III of Book IX of the Social Security Code
- (6) Group insurance companies and mixed group insurance companies referred to in Article L.322-1-2 of the Insurance Code
- (7) The universal guarantee fund for rental risks referred to in Article L. 313-20 of the Construction and Housing Code
- (8) Securitisation vehicles referred to in Article L.310-1-2 of the Insurance Code

The ACPR may extend its supervision to the following:

- ▶ any entity that has received a subscription or management mandate from an organisation engaging in insurance transactions or that takes out a group insurance contract, or that acts as an insurance or reinsurance intermediary in any capacity whatsoever, as referred to in Article L.511-1 of the Insurance Code
- ▶ any entity that intervenes directly or indirectly between an organisation referred to in point (3) or (4) above and a person or entity wishing to join or belonging to that organisation

2. Structure of the ACPR

The operation of the ACPR is structured around a number of decision-making bodies including the Supervisory College, the Resolution College and the Sanctions Committee. Consultative committees have also been set up to advise the Supervisory College in its decision-making. The ACPR's operational departments are overseen by the General Secretariat.

2.1. THE SUPERVISORY COLLEGE

The statutory objectives assigned to the ACPR are met by the Supervisory College, which meets in various configurations depending on the subjects being addressed.

The Supervisory College has 19 members and is chaired by the Governor of the Banque de France.

The College meets in **plenary session** to address general supervisory issues affecting both the banking and insurance sectors. It analyses risks in both sectors in light of the economic situation and determines supervisory priorities each year. It also determines the Authority's organisational, operating and budget principles and establishes its rules of procedure.

The College also meets in **restricted session** (consisting of eight members) to examine individual matters likely to have a material impact on both sectors or on financial stability more generally. In this configuration, it is also tasked with examining matters pertaining to the monitoring of financial conglomerates.

The **Sub-Colleges** – one for insurance and one for banking – have jurisdiction over individual cases and general issues relating to the respective sectors.





3 2 1 4 5



6 7 8



9 10 11 12



13 14 15

4 **Anne Le Lorier**, First Deputy Governor of the *Banque de France*.
5 **Édouard Fernandez-Bollo**, Secretary General of the ACPR.

ACPR SUPERVISORY COLLEGE



16 17 18 19



20 21 22 23

COMPOSITION OF THE ACPR'S SUPERVISORY COLLEGE (at 31 December 2015)

PLENARY SESSION

Chairman:

1 François Villeroy de Galhau
or the designated Deputy Governor, **2 Robert Ophèle**

Vice-Chairman with professional experience in insurance, appointed by the ministers with responsibility for the economy, social security and mutual insurance:

3 Bernard Delas, Vice-Chairman of the ACPR

The other members of the ACPR's Supervisory College are as follows:

Chairman of the *Autorité des normes comptables* (ANC, the French national accounting standards board) **7 Patrick de Cambourg**, Chairman of the *Autorité des marchés financiers* (AMF, Financial Markets Authority) **8 Gérard Rameix**,

Appointed by the President of the National Assembly

9 Catherine Lubochinsky,

Appointed by the President of the Senate

11 Monique Millot-Pernin

Appointed on the recommendation of the Vice-Chairman of the *Conseil d'État*:

14 Henry Toutée, member of the *Conseil d'État*

Appointed on the recommendation of the Chairman of the *Cour de cassation*:

13 Francis Assié, counsellor

Appointed on the recommendation of the Chairman of the *Cour des comptes*:

15 Christian Babusiaux, Chairman of the *Cour des comptes*

Appointed for their expertise in customer protection, quantitative or actuarial techniques, or other areas that help the Authority fulfil its statutory objectives:

10 Emmanuel Constans

12 Thomas Philippon

Appointed for their expertise in insurance, mutual insurance, provident institutions or reinsurance:

18 Jean-Louis Faure

16 Jean-Luc Guillotin

19 Jean-François Lemoux

17 Philippe Mathouillet

Appointed for their expertise in banking, payment services or investment services:

23 Christian Duvillet

20 Martine Lefebvre

22 Ariane Obolensky

21 Christian Poirier

Furthermore, the Director-General of the Treasury, **Bruno Bézard**, or his representative, **6 Corso Bavagnoli**, sits on the College in all its configurations, and the Director of the Social Security administration or his or her representative sits on the Insurance Sub-College or other configurations dealing with entities governed by the Mutual Insurance Code or the Social Security Code. While they do not have a vote, they are entitled to request that matters be deliberated a second time.

RESTRICTED SESSION

(at 31 December 2015)

Chairman:

François Villeroy de Galhau

Or the designated Deputy Governor,

Robert Ophèle

Vice-Chairman:

Bernard Delas

Chairman of the *Autorité des normes comptables*:

Patrick de Cambourg

Presiding judge at the *Cour des comptes*:

Christian Babusiaux

Appointed for their expertise in banking:

Christian Duvillet

Christian Poirier

Appointed for their expertise in insurance:

Jean-Louis Faure

Philippe Mathouillet

INSURANCE SUB-COLLEGE

(at 31 December 2015)

Chairman:

Bernard Delas

Governor or Deputy Governor of the Banque de France:

François Villeroy de Galhau

ou **Robert Ophèle**

Counsellor at the *Cour de cassation*:

Francis Assié

Presiding judge at the *Cour des comptes*:

Christian Babusiaux

Appointed for their expertise in insurance:

Jean-Louis Faure

Jean-Luc Guillotin

Jean-François Lemoux

Philippe Mathouillet

BANKING SUB-COLLEGE

(at 31 December 2015)

Chairman:

François Villeroy de Galhau

Or the designated Deputy Governor,

Robert Ophèle

Vice-Chairman:

Bernard Delas

Member of the *Conseil d'État*:

Henry Toutée

Appointed for his expertise

in customer protection:

Emmanuel Constans

Appointed for their expertise

in banking:

Christian Duvillet

Martine Lefebvre

Ariane Obolensky

Christian Poirier

2.2. RESOLUTION COLLEGE

The Resolution College, which has six members and is chaired by the Governor of the Banque de France, oversees the preparation and implementation of measures to prevent and resolve banking crises.

COMPOSITION OF THE RESOLUTION COLLEGE (at 31 December 2015)

Chairman:

1 François Villeroy de Galhau

Designated Deputy Governor:

2 Robert Ophèle

Chairman of the *Autorité des marchés financiers* (AMF, Financial Markets Authority):

3 Gérard Rameix

Director of the Treasury or his representative:

4 Antoine Saintoyant

Chairman of the Deposit Insurance and Resolution Fund:

6 Thierry Dissaux

Presiding judge at the Commercial Chamber of the *Cour de cassation* or his representative:

5 Jean-Pierre Rémerly



2.3. AUDIT COMMITTEE

The **Audit Committee** is an advisory body that makes sure that the Authority's resources are used appropriately.

It reports to the Supervisory College meeting in plenary session by issuing opinions, prior to their adoption by the College, on the following:

- ▶ the draft forecast budget; as such, it is informed of forecast receipts, including expected investment income from contributions carried forward from previous years, deductions against reserves of retained contributions held in Banque de France accounts, and any additional Banque de France funding and expenditure expected by the Authority for the fulfilment of its statutory objectives;
- ▶ the budget outturn report for the previous year, which sets out all the Authority's income and expenditure for the period as well as fluctuations in the retained contributions account; it also sets out variances between the forecast budget and the budget outturn and analyses the rebilling of resources and services sourced by the Banque de France.

2.4. CONSULTATIVE COMMITTEES

The ACPR's Supervisory College is supported by three consultative committees and a Scientific Consultative Committee that advise it on certain topics.

The **Consultative Committee on Prudential Affairs** is tasked with giving its opinion prior to adoption on ACPR instructions governing periodic filings by supervised institutions. Draft versions of explanatory notices and guides are also referred to the committee.

COMPOSITION OF THE AUDIT COMMITTEE (at 31 December 2015)

- **Monique Millot-Pernin**, Chairman
- **Christian Babusiaux**, presiding judge at the *Cour des comptes*
- **Patrick de Cambourg**, chairman of the *Autorité des normes comptables*
- **Jean-Luc Guillotin**
- **Martine Lefebvre**

It also issues opinions on all matters falling within its remit and which the College asks it to analyse. The Audit Committee gives opinions, prior to their adoption by the College, on all agreements specifying the methods used to determine the costs of resources and services sourced by the Banque de France and charged to the ACPR, including in particular the Banque de France/ACPR financial agreement and the IT services rebilling agreement.

COMPOSITION OF THE CONSULTATIVE COMMITTEE ON PRUDENTIAL AFFAIRS (at 31 December 2015)

- **Philippe Mathouillet**, Chairman
- **Christian Duvillet**, Vice-Chairman

Members appointed from entities reporting to the ACPR:

INSURANCE SECTOR

- **Cédric Cornu**, PRO-BTP
- **Violaine Conti**, AXA France
- **Maud Petit**, Covéa

BANKING SECTOR

- **Michel Bilger**, Casa
- **Benoît Catherine**, Exane
- **Véronique Ormezzano**, BNPP
- **Catherine Méritet**, Société Générale

The following industry bodies are also represented on the committee:

INSURANCE SECTOR

- Centre Technique des Institutions de Prévoyance (CTIP)
- Fédération Française des Sociétés d'Assurances (FFSA)
- Fédération Nationale de la Mutualité Française (FNMF)
- Groupement des Entreprises Mutuelles d'Assurance (GEMA)

BANKING SECTOR

- Association des Sociétés Financières (ASF)
- Association Française des Marchés Financiers (AMAFI)
- Fédération Bancaire Française (FBF)

Caisse des dépôts et consignations also appoints a representative.

The **Consultative Committee on Anti-Money Laundering and Counter-Terrorist Financing** is tasked with giving an opinion on draft versions of instructions, guidelines and other ACPR documents dealing with anti-money laundering and counter-terrorist financing.

COMPOSITION OF THE CONSULTATIVE COMMITTEE ON ANTI-MONEY LAUNDERING AND COUNTER-TERRORIST FINANCING

(at 31 December 2015)

- **Christian Babusiaux**, Chairman
- **Francis Assié**, Vice-Chairman

Members appointed from entities reporting to the ACPR:

INSURANCE SECTOR

- **Gaël Buard**, Natixis Assurances
- **Philippe Giraudel**, Groupama
- **Hubert Marck**, Axa France
- **Paul-Henri Mezin**, groupe Malakoff Médéric
- **Catherine Petapermal**, La France Mutualiste
- **Jacques Kerforne**, Allianz France

Members appointed from entities reporting to the ACPR:

BANKING SECTOR

- **Alain Breuillin**, Bank Audi Saradar France
- **Raoul d'Estaintot**, Caisse fédérale de Crédit mutuel
- **Pierre-Emmanuel Charrette**, Oddo & Cie
- **Patricia Jouan**, Société Générale
- **Édouard Leveau-Vallier**, HSBC France
- **Jacques Piccioloni**, BNC
- **Luc Retail**, La Banque Postale
- **Grégory Torrez**, Banque Accord

Sont également membres de la commission, les associations professionnelles suivantes :

INSURANCE SECTOR

- Centre Technique des Institutions de Prévoyance (CTIP)
- Fédération Française des Sociétés d'Assurances (FFSA)
- La Fédération Nationale indépendante des Mutuelles (FNIM)
- La Fédération Nationale de la Mutualité Française (FNMF)
- Le Groupement des Entreprises Mutuelles d'Assurance (GEMA)
- La Chambre Syndicale des Courtiers d'Assurances (CSCA)

BANKING SECTOR

- Association Française des Établissements de Paiement et de Monnaie Électronique (AFEPAME)
- Association Française des Sociétés Financières (ASF)
- Association Française des Marchés Financiers (AMAFI)
- Fédération Bancaire Française (FBF)

Caisse des Dépôts et Consignations also appoints a representative.



The **Consultative Committee on Business Practices** gives opinions on draft recommendations falling within its area of expertise. It explores in more detail issues relating to business practices identified by the ACPR and gathers information and suggestions from its members on customer protection.

COMPOSITION OF THE CONSULTATIVE COMMITTEE ON BUSINESS PRACTICES (at 31 December 2015)

- **Emmanuel Constans**, Chairman
- **Jean-François Lemoux et Christian Poirier**, Vice-Chairmen

Five members chosen for their expertise acquired by participating in associations representing personal or business customers, associations representing retail investors, charities operating in this area and the consumer institute INC:

- **Jean Berthon**, Chairman, FAIDER
- **Philippe Fleuret**, UFC - Que choisir
- **Olivier Gayraud**, Consommation Logement et Cadre de vie
- **Romain Girard**, Fédération nationale Familles rurales
- **Hervé Mondange**, legal specialist at AFOC

Four members chosen for their expertise acquired within a credit institution, an insurance institution or an industry group:

- **Pierre Bocquet**, FBF
- **Frédéric Lipka**, Natixis Assurances
- **Philippe Poiget**, FFSA
- **Karine Rumayor**, ASF

Two members chosen for their expertise acquired within an insurance intermediary, a banking and payment services intermediary or an industry group:

- **Jérôme Cambournac**, Association française des intermédiaires bancaires
- **Chantal de Truchis**, Syndicat des courtiers d'assurances et de réassurances d'Île-de-France

One member chosen for his experience in representing the staff of entities reporting to the ACPR:

- **Aurélien Soustre**, FSPBA-CGT

One member chosen for his academic work on banking and insurance issues:

- **Pierre-Grégoire Marly**, senior professor of law

One member chosen for his expertise acquired in monitoring these issues in the media:

- **Jean-François Filliatre**, editor-in-chief, *Mieux Vivre Votre Argent*

The **Scientific Consultative Committee** exists to promote synergies between financial research and prudential supervision and to keep abreast of developments that might affect the banking and insurance sectors.

COMPOSITION OF THE SCIENTIFIC CONSULTATIVE COMMITTEE (at 31 December 2015)

- **Thomas Philippon**, Chairman
- **Catherine Lubochinsky**, Vice-Chairman

- **Laurent Clerc**, economist at the Banque de France
- **Antoine Frachot**, Director-General, Groupe des Écoles nationales d'économie et de statistiques
- **Christian Gollier**, professor, Université Toulouse I
- **Guillaume Leroy**, consulting actuary, Institut des Actuaire
- **Didier Marteau**, professor, ESCP Europe
- **Kevin O'Rourke**, professor, Oxford University (All Souls College)
- **Guillaume Plantin**, professor, Institut d'études politiques de Paris

- **Lucrezia Reichlin**, professor, London Business School
- **Hélène Rey**, professor, London Business School
- **Jean-Charles Rochet**, professor, University of Zurich
- **Laurence Scialom**, professor, Université Paris Ouest Nanterre La Défense
- **Amine Tarazi**, professor, University of Limoges
- **Philippe Trainar**, chief economist and special adviser to the chairman, SCOR
- **Natacha Valla**, deputy director, Centre d'études prospectives et d'informations internationales

2.5. GENERAL SECRETARIAT

A. OPERATION

The General Secretariat houses all of the ACPR's operational departments. It is overseen and organised by the Secretary General, who is appointed by the finance minister, at the proposal of the ACPR's Chairman. This position is held by Édouard Fernandez-Bollo. He is assisted by **1** First Deputy Secretary General Sandrine Lemery and two other Deputy Secretaries General, **2** Patrick Montagner and **3** Frédéric Visnovsky.

As an independent authority attached to the Banque de France, the ACPR can benefit from synergies with functions performed by the central bank and from the resources at the latter's disposal. All ACPR staff are employees of the Banque de France. The Authority has its own budget, which is an annex to the central bank budget, and can use the Banque de France's resources, which are charged out to it by the Banque de France.

While reporting institutions' contributions to supervisory costs are collected by the Banque de France, they are allocated in full to the ACPR. By exception, the central bank may also top up these contributions with additional allocations.

2

1

3



REGULAR MARKET COMMUNICATIONS

The ACPR undertakes a range of communication activities to foster regular dialogue with supervised entities and the general public.

• PUBLICATIONS

- ▶ *La Revue de l'Autorité de contrôle prudentiel et de résolution*, a twice-monthly review on recent developments in the financial sector and the ACPR's activities, is distributed to professionals in the banking and insurance sectors.
- ▶ The ACPR's research is published in a review titled *Analyses et Synthèses*.
- ▶ *Débats économiques et financiers* are articles that solely reflect the views of their authors and may not express the position of the Authority. They encourage debate on economic issues in banking and insurance, regulation and prudential policy.

• SEMINARS

ACPR seminars are mainly held in connection with the "Regulation and systemic risks" research initiative.

A list of 2015 publications and seminars can be found in the appendices.

• CONFERENCES

The ACPR regularly holds conferences to reach out to professionals and address key issues relating to their activities.

The following conferences were held in 2015:

- ▶ a conference on 23 June covering two topics: new draft banking regulations and the final stretch before the implementation of Solvency II in insurance;
- ▶ a conference on 20 November covering two topics: business practises and anti-money laundering in insurance.

• WEBSITES

The ACPR has two separate websites:

- ▶ The main ACPR website at www.acpr.banque-france.fr brings together all of the Authority's texts, reviews, research and publications;
- ▶ The website of the ACPR/AMF Joint Unit (Assurance Banque Épargne Info Service), at www.abe-infoservice.fr, provides the general public with information on rights and procedures in relation to banking, insurance and financial investment.

B. HUMAN RESOURCES

At end 2015, the General Secretariat of the ACPR had 1,065 staff, all employed by the Banque de France.

From its establishment in 2010, the ACPR's workforce grew rapidly until 2012. It then declined slightly from 2013 onwards, and more so in 2014 due to the creation of the Single Supervisory Mechanism (SSM) and the departure of more than 80 employees to join the ECB in Frankfurt.

In 2015, a continued proactive recruitment policy and a reduction in the number of secondments to organisations in connection with prudential supervision allowed the workforce to return to its end 2013 level, notably so as to be able to respond to the Authority's expanding duties in respect of monitoring of business practises and anti-money laundering and counter-terrorist financing.

There was little change in the relative weighting of the Authority's areas of activity in 2015. Two thirds (66%) of the General Secretariat's workforce is responsible for supervising reporting credit insti-

tutions and insurance institutions on an individual basis, including ongoing supervision and on-site inspections, as well as monitoring business practices and licensing and authorising institutions.

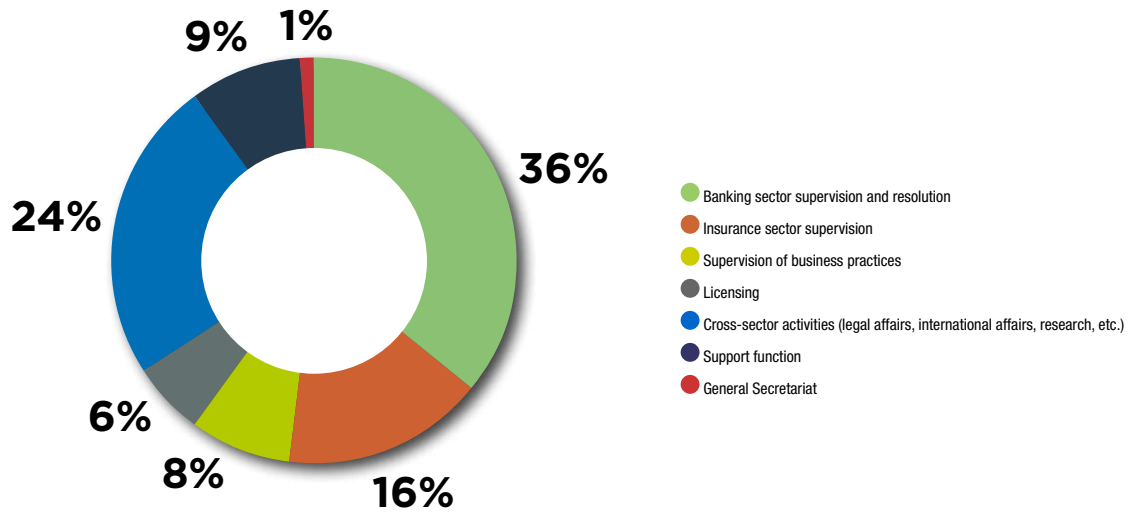
- ▶ Thirty-six per cent of the workforce is assigned to individual supervision of licensed institutions in the banking sector, including resolution duties, while the equivalent figure for the insurance sector is 16%. Staff involved in licensing in both sectors account for 6% of the total workforce of the General Secretariat of the ACPR, while those tasked with monitoring business practices account for 8%. As such, two thirds of the workforce are dedicated to individual supervision of institutions.
- ▶ A further 24% are assigned to macroprudential supervision, international work on regulatory preparation, legal activities, and cross-cutting (IT, quality control) and methodological activities, which provide essential support for the Authority's supervisory work.
- ▶ Meanwhile, support functions (human resources, training, financial control and budgeting, premises and facilities management, communications, and IT facilities management) account for 9% of the total workforce.



**Two-thirds
of SGACPR staff
are allocated
to individual
monitoring
of institutions.**

Elisabeth DURIF-TORIBIO,
IT, Methods and Human Resources Directorate.

WORKFORCE BREAKDOWN



C. TRAINING

In 2015, the ACPR continued with its intensive training efforts to support new staff members and maintain the level of knowledge within ACPR departments amid substantial regulatory change.

The entry into force of Solvency II on 1 January 2016 required the rollout of a training plan covering the new regulation, representing approximately 1,300 training hours spread over 23 sessions.

Furthermore, the arrival of almost 200 new staff members saw the introduction of around 8,500 hours of common core training, supplemented by specific training, notably in banking (with the latter representing 10,000 training hours, spread over a hundred or so sessions).

Lastly, 76 staff members working within the Single Supervisory Mechanism's Joint Supervisory Teams received training alongside their European counterparts.

In 2015, ACPR staff received approximately 57,000 hours of training, compared with 64,000 hours in 2014, with 5,600 of those hours dedicated to the introduction of the Single Supervisory Mechanism.



ACPR GENERAL SECRETARIAT (1 march 2016)

DELEGATION CHARGED WITH THE ON-SITE INSPECTION OF CREDIT INSTITUTIONS AND INVESTMENT FIRMS
 Representative: **Thierry MERGEN**
 Deputy: **Matthieu LECLERCQ**

- ▶ On-site inspection Teams and Risk Modelling Control Unit

RESOLUTION DIRECTORATE
 Director: **Olivier JAUDOIN**
 Deputy: **David BLACHE**

IT, METHODS AND HUMAN RESOURCES DIRECTORATE
 Director: **François BARNIER**
 Deputy: **Jean-Marc SERROT**

- ▶ Human Resources Division: **Vincent TEURCQ**
- ▶ Standards, Methods, Organization and Training Division: **Christine DECUBRE**
- ▶ Operational Support, Functional and Application Management Division: **Freddy LATCHIMY**

QUALITY AND MANAGEMENT DIRECTORATE
 Director: **Michel BORD**
 Deputy: **Martine BODILIS**

- ▶ Financial Management Division: **Muriel LECORNU**
- ▶ Property and General Services Division: **Olivier LE GUENNEC**
- ▶ Quality Control Division: **Béatrice ROBERT**

CROSS-FUNCTIONAL AND SPECIALISED SUPERVISION DIRECTORATE
 Directeur : **Bruno LONGET**
 Adjoint : **Mary-Cécile DUCHON**

- ▶ Internal Models Division: **Guillaume ALBERGÈRE**
- ▶ Supervision of AML procedures Division: **Patrick GARROUSTE**
- ▶ On-site inspection team of Insurance institutions
- ▶ Specialized On-site Inspection Division: **Thierry AURAN**

▶ Communication Division: **Dominique POGGI**

▶ FinTech Innovation Pole: **Alain DEQUIER**

BANK SUPERVISION (DIRECTORATE 1)
 Director: **Violaine CLERC**
 Adjoint : **Ludovic LEBRUN**

- ▶ Division 1-Entities of the Société Générale Group **Philippe SOURLAS**
- ▶ Division 2-Foreign banks **Jérôme CHEVY**
- ▶ Division 3-Public banks **Sophie BÉRANGER-LACHAND**
- ▶ Division 4-Entities of the BNP Paribas Group **Laure QUINCEY**

INSURANCE SUPERVISION (DIRECTORATE 1)
 Director: **Paul COULOMB**
 Deputy: **Claire BOURDON**

- ▶ Brigade 1-Scope of the Mutual Insurance Code **Nathalie PAILLOT-MUHLHEIM**
- ▶ Brigade 2-Bancassurance groups **Jacky PHILLIPS**
- ▶ Brigade 3-Mutual Insurance Code **Marie-Lorraine VALLAT**
- ▶ Brigade 4-Reinsurance sectors and French insurers **Fior GABRIEL - Olivier DESMETTRE**

GENERAL SECRETARIAT OF THE PRUDENTIAL SUPERVISION AND RESOLUTION AUTHORITY

Secretary General
Édouard FERNANDEZ-BOLLO

First Deputy Secretary General
Sandrine LEMERY

Deputy Secretaries General
Patrick MONTAGNER
Frédéric VISNOVSKY

BANK SUPERVISION (DIRECTORATE 2)
 Director: **Philippe BERTHO**
 Deputy: **Sébastien CLANET**

- ▶ Division 5-Entities of the Crédit Agricole Group **Anne de TRICORNOT-AUBOUIN**
- ▶ Division 6-Entities of the BPCE Group **Clémentine VILCOCCQ**
- ▶ Division 7-Entities of the Crédit Mutuel Group and regional banks **Isabelle BARROUX-REHBACH**
- ▶ Division 8-Specialised banks **Christophe REYNAUD**

INSURANCE SUPERVISION (DIRECTORATE 2)
 Director: **Bertrand PEYRET**
 Deputy: **Evelyne MASSE**

- ▶ Brigade 5-Entities of the AXA Group **Eric MOLINA**
- ▶ Brigade 6-Social Security Code **Jacky MOCHEL**
- ▶ Brigade 7-Mutual insurers **Didier POUILLOUX**
- ▶ Brigade 8-Foreign insurers **David REVELIN**

RESEARCH DIRECTORATE
 Director: **Olivier de BANDT**
 Deputies: **Anne-Sophie BORIE-TESSIER**
Dominique DURANT

- ▶ Actuarial Research and Simulation Division: **Henri FRAISSE**
- ▶ Statistical Studies and Documentation Division: **Denis MARIONNET**
- ▶ Cross-Sectoral Risk Analysis Division: **Emmanuel POINT**

INTERNATIONAL AFFAIRS DIRECTORATE
 Director: **Romain PASEROT**
 Deputies: **Émilie QUÉMA**
Nicolas PELIGRY

- ▶ Banking International Division: **Philippe BILLARD**
- ▶ Insurance International Division: **Nathalie QUINTART**
- ▶ Accounting Affairs Division: **Sylvie MARCHAL**
- ▶ SSM Secretariat and Coordination Division: **Jean-Christophe CABOTTE**

LEGAL AFFAIRS DIRECTORATE
 Director: **Henry de GANAY**
 Deputies: **Anne-Marie MOULIN**
Barbara SOUVERAIN-DEZ

Board Services:
Marie-Françoise BARAS

- ▶ Institutional Affairs and Public Law Division: **Jean-Gaspard d'AILHAUD de BRISIS**
- ▶ Business and Private Law Division: **Béatrice PASSERA**
- ▶ AML and Internal Control Division: **Audrey SUDARA-BOYER**

AUTHORIZATION, LICENSING AND REGULATION DIRECTORATE
 Director: **Jean-Claude HUYSSSEN**
 Deputy: **Nathalie BEAUDEMOULIN**

- ▶ Financial Regulation Division: **Gilles PETIT**
- ▶ Banks and Investment Firms Division: **Jacqueline THEPAUT-FABIANI**
- ▶ Specialized Procedures and Institutions Division: **Muriel RIGAUD**
- ▶ Insurance Institutions Division: **Martine PROCUREUR**

SUPERVISION OF BUSINESS PRACTISES DIRECTORATE
 Director: **Olivier FLICHE**
 Deputy: **Mark BEGUERY**

- ▶ Oversight of Contracts and Risks Division: **Hélène ARVEILLER**
- ▶ Intermediaries Supervision Division: **Maryvonne MARY**
- ▶ Consumer Information and Complaints Division: **Jean-Philippe BARJON**
- ▶ Coordination Division : **Charles BANASTE**

ENFORCEMENT COMMITTEE DIVISION
 ▶ **Jean-Manuel CLEMMER**

THE ACPR MANAGEMENT BOARD



From left to right: Bertrand Peyret, Thierry Mergen, Philippe Bertho, Michel Bord, Violaine Clerc, François Barnier, Olivier de Bandt, Paul Coulomb, Jean-Claude Huyssen, Olivier Fliche, Olivier Jaudoin, Bruno Longet, Henry de Ganay, Romain Paserot.

3 Activities of the ACPR's Supervisory College

THE SUPERVISORY COLLEGE MADE

639

decisions in 2015, broken down as follows:

- **525** decisions on individual situations⁵
- **63** decisions on general issues
- **18** decisions on the ACPR's structure and General Secretariat
- **33** sundry other decisions

Decisions on general situations included the following:

- **29** administrative enforcement measures or other binding measures⁶
- **9** disciplinary proceedings initiated

1,369

decisions concerning agents of payment institutions and senior management appointments:

- **795** decisions made by the Chairman of the College, under the delegated authority of the Supervisory College, on the registration of agents of payment institutions
- **574** appointments of effective managers and directors (428 decisions in banking⁷ and 146 in insurance)

3.1. DECISIONS ON GENERAL ISSUES

In 2015, the Supervisory College adopted numerous decisions on general issues in preparation for the entry into force of the provisions of the Solvency II package on 1 January 2016. These included a notice detailing procedures for implementing the new provisions introduced when the directive was transposed into French law, as well as instructions adapting certain reports and application packs to reflect the new texts.

The College also prepared for the entry into force of the new bank resolution regime adopted at the European level, in particular by committing to implement the European guidelines on deposit insurance.

The College also adopted numerous decisions on general issues relating to the final terms of implementation of the prudential rules in the CRD IV package, in the form of both notices and instructions.

(See the list of decisions on general issues adopted in 2015 and published in the ACPR's official register or on its website.)

3.2. INDIVIDUAL DECISIONS

Issues relating to individual entities are examined by the sectoral sub-colleges and the Supervisory College meeting in restricted session. They mainly relate to licensing applications and, for institutions that are already licensed, to applications for changes of status.

Furthermore, the College regularly makes binding decisions concerning institutions in the banking and insurance sectors, such as injunctions, administrative enforcement measures and decisions to initiate sanction proceedings. These decisions take into account supervisory findings and follow a procedure that ensures that all sides of a case are heard.



The College's decision-making activities were affected by the implementation of Solvency II in the insurance sector, as well as the first full year of ECB decisions: licensing decisions (concerning all credit institutions) and prudential supervision decisions (concerning significant credit institutions falling within the jurisdiction of the SSM).

5. Including decisions delegated by the College to the Chairman.

6. Including the appointment or re-appointment of a liquidator.

7. With effect from 1 January 2015, the ACPR makes decisions on the appointment of bank directors, in accordance with the procedure laid down in Decree 2014-1357 of 13 November 2014.



In 2015, the usual large number of rulings handed down by the ACPR College.



In 2015, the Supervisory College adopted a total of 525 measures concerning individual entities. These included 370 decisions on licences, changes to licences, licence withdrawals and other authorisations (see Chapter 2). In addition, 92 decisions were made in relation to the monitoring of prudential requirements, including in particular a number of decisions in connection with the entry into force of Solvency II in the insurance sector (authorising the use of internal models, specific parameters, etc.).

The Supervisory College also adopted 29 administrative enforcement measures and other binding decisions. In particular, it placed one insurance institution under provisional administration, placed another insurance firm under special supervision and handed down a temporary ban on trading to an investment firm. The College also re-appointed five provisional administrators. It also issued five injunctions requiring credit institutions to hold more than the minimum regulatory capital or adjusting the level of requirements previously imposed on institutions, as well as two injunctions with coercive fines for failure to submit documents. It also asked one insurance institution to submit to it for approval a recovery programme (in connection with a takeover by another firm) and two insurance institutions to submit short-term financing plans.

As regards work on individual resolution cases, the ACPR continued with the exercise assessing the capacity of major French banking groups to be subject to resolution measures and identifying potential obstacles to the implementation of such measures⁸. The Resolu-

tion College signed off the findings of this assessment, which were formalised in a letter from the Chairman of the ACPR to the Chairman of the Financial Stability Board. Finally, the Resolution College signed off draft transitional preventive resolution plans for major French banking groups prior to their submission to the Single Resolution Board.

• New disciplinary proceedings

The College initiated nine new disciplinary proceedings in 2015, referring them to the Sanctions Committee. In particular, these proceedings concerned serious failings in anti-money laundering and counter-terrorist financing arrangements involving institutions in the banking and insurance sectors, irregularities in governance, and breaches of conditions of exercise by insurance intermediaries and of the duty to advise and disclosure obligations incumbent on the latter.

• Monitoring of measures adopted

The ACPR monitors institutions' response to the measures it adopts. In particular, it reviews action to rectify previously sanctioned breaches and administrative enforcement measures such as cease-and-desist orders. Of the nine disciplinary proceedings initiated in 2015, three were initiated by the College on grounds of failure to comply with a cease-and-desist order.

8. The RAP (Resolvability Assessment Process), launched in 2014 by the Financial Stability Board (FSB).

LIST OF DECISIONS ON GENERAL ISSUES ADOPTED IN 2015 AND PUBLISHED IN THE ACPR'S OFFICIAL REGISTER OR ON ITS WEBSITE

Instructions mainly concerned the appointment of effective managers or holders of key roles, submission to the ACPR of prudential resolution documents and electronic signature of documents submitted electronically to the ACPR.

INSTRUCTIONS

Instruction 2015-I-01	on the form for appointing or re-appointing an effective manager and the form for appointing or re-appointing a member of a corporate body
Instruction 2015-I-02	on the form for appointing or re-appointing senior managers in insurance sector institutions
Instruction 2015-I-03	on the forms for appointing or re-appointing effective managers or holders of key roles in insurance sector institution and amending Instruction 2015-I-02
Instruction 2015-I-04	on requests for approval to use the provisions on duration-based equity risk
Instruction 2015-I-05	on requests for approval of the measurement and classification of unlisted own-fund items
Instruction 2015-I-06	on requests for approval to use the transitional measure on technical provisions
Instruction 2015-I-07	on requests for approval to use the transitional measure on the relevant risk-free interest rate curve
Instruction 2015-I-08	on the standardised approach for liquidity risk
Instruction 2015-I-09	on the application for authorisation to apply the advanced approach for liquidity risk
Instruction 2015-I-10	establishing application thresholds for quarterly information submissions for supervised institutions
Instruction 2015-I-11	setting out the terms of exemption for institutions referred to in Article 3 of Instruction 2015-I-10
Instruction 2015-I-12	on the communication to the ACPR of the international legal entity identifier by insurance institutions
Instruction 2015-I-13	on the disclosure of prudential financial information applicable to significant groups and entities
Instruction 2015-I-14	amending Instruction 2012-I-04 of 28 June 2012 and Instruction 2014-I-06 of 2 June 2014 on information about anti-money laundering and counter-terrorist financing arrangements
Instruction 2015-I-15	on the contents of applications for administrative licences, or licence extensions, for insurance and reinsurance institutions
Instruction 2015-I-16	on documents to be produced in connection with the carrying on of insurance business in another country in the European Economic Area
Instruction 2015-I-17	on the contents of the notification pack prior to the affiliation, withdrawal or exclusion of a group mutual insurance company (SGAM), a mutual insurance union group (UMG) or a group social protection insurance company (SGAPS)
Instruction 2015-I-18	on the electronic signature of documents submitted electronically to the ACPR (insurance sector)
Instruction 2015-I-19	on the electronic signature of documents submitted electronically to the ACPR (banking sector)
Instruction 2015-I-20	on the deadline for submitting the market-making indicators laid down in the Order of 9 September 2014 implementing Title I of Act 2013-672 of 26 July 2013 (the Banking Separation and Regulation Act)
Instruction 2015-I-21	on the submission of regulatory reports of the "Banking Separation Act" subgroup for institutions with a dedicated subsidiary within the meaning of Title I of Act 2013-672 of 26 July 2013 (the Banking Separation and Regulation Act)

Instruction 2015-I-22	on the questionnaire on business practices and customer protection
Instruction 2015-I-23	amending Instruction 2014-I-10 of 22 August 2014 on prudential requirements applicable to financing companies
Instruction 2015-I-24	amending Instruction 2015-I-08 on the standardised approach for liquidity risk
Instruction 2015-I-25	repealing Instruction 2005-04 on additional supervision for financial conglomerates
Instruction 2015-I-26	amending Instruction 2009-04 of 19 June 2009 on additional submissions for calculating contributions due from institutions subject to guarantee schemes for deposits, securities and bank guarantees
Instruction 2015-I-27	on the procedure for obtaining authorisation from the ACPR to publish a single group-level SFCR ⁹
Instruction 2015-I-28	on the procedure for obtaining authorisation from the ACPR to conduct an ORSA ¹⁰ simultaneously at both group and subsidiary level
Instruction 2015-I-29	on reporting minor changes to internal models to the ACPR
Instruction 2015-I-30	setting out the terms of exemption from the requirement to submit information on external ratings in detailed reports on investments and derivatives
Instruction 2015-I-31	on disclosures for the purposes of financial stability (insurance sector)
Instruction 2015-I-32	on the submission of prudential documents to the ACPR by insurance and reinsurance institutions
Instruction 2015-I-33	on the submission of quarterly statements to the ACPR by insurance institutions falling outside the scope of the "Solvency II" regime
Instruction 2015-I-34	on information to be submitted to the ACPR in connection with the acquisition or extension of an ownership interest in an insurance or reinsurance undertaking, or in a group insurance company

RECOMMANDATIONS

Recommendation 2015-R-01	on advertising communications for life insurance policies
Recommendation 2015-R-02	on the marketing of life insurance policies linked to funeral payment plans
Recommendation 2015-R-03	on complaint handling
Recommendation 2015-R-04	concerning the marketing to retail customers of loans exposed to foreign exchange risk

NOTICES

Prudential ratio calculation methods under CRD IV

Implementation of the advanced approach for managing liquidity risk

Solvency II notice - Disclosures to the supervisory authority and the general public (RSR¹¹, SFCR)

Solvency II notice - Own Risk and Solvency Assessment

Solvency II notice - Governance system

Solvency II notice - Internal models

Solvency II notice - Calculating solvency for groups

Solvency II notice - Calculating the SCR¹² using the standard formula

Solvency II notice - Own funds

Solvency II notice - Recognition and valuation of assets and liabilities other than technical provisions

Solvency II notice - 2015 technical provisions (including measures included in the long-term guarantee package)

Solvency II notice - 2015 covering note

GUIDELINES AND SECTOR ENFORCEMENT PRINCIPLES

ACPR sector enforcement principles on anti-money laundering and counter-terrorist financing for the insurance sector

Joint ACPR and Tracfin guidelines on Tracfin reporting and disclosure requirements

9. SFCR: Solvency and Financial Condition Report.

10. ORSA: Own Risk and Solvency Assessment.

11. RSR: Regular Supervisory Report.

12. SCR: Solvency Capital Requirement.

DECISIONS CONCERNING INDIVIDUAL ENTITIES MADE BY THE COLLEGE

	TOTAL	of which	BANKING SECTOR	INSURANCE SECTOR
Licensing and authorisation	370		204	166
Supervision (monitoring of prudential ratios, exemptions)	92		25	67
Administrative enforcement measures	8		2	6
<i>Warnings</i>		0	0	0
<i>Cease-and-desist orders (issued by the Chairman under delegated authority)</i>		1	1	0
<i>Requests for recovery programmes</i>		1	0	1
<i>Placing under special supervision</i>		1	0	1
<i>Limitation of activity</i>		1	1	0
<i>Placing under provisional administration</i>		1	0	1
<i>Other</i>		3	0	3
Other binding measures	21		14	7
<i>Re-appointment of a provisional administrator</i>		5	4	1
<i>Appointment of a liquidator</i>		2	1	1
<i>Re-appointment of a liquidator</i>		4	3	1
<i>Injunctions on capital requirements</i>		5	5	0
<i>Requests for short-term funding plans</i>		2	0	2
<i>Injunctions with coercive fines</i>		2	1	1
<i>Other</i>		1	0	1
Disciplinary proceedings initiated	9		2	7
Other measures concerning individual entities (including initiation of joint decision-making processes, opening of inter partes proceedings, etc.)	25		16	9
TOTAL DECISIONS CONCERNING INDIVIDUAL ENTITIES	525		263	262



PARLIAMENTARY HEARINGS ATTENDED BY THE ACPR IN 2015

DATE	TOPIC	REQUESTED BY	ACPR REPRESENTATIVE
27 January 2015	Discussion concerning the proposed regulation of the European Parliament and of the Council on structural measures to improve the resilience of EU credit institutions	Gunnar Hökmark, rapporteur to the European Parliament for the proposed regulation	Édouard Fernandez-Bollo, Secretary General
28 January 2015	Enforcement powers of financial regulators	Senate Finance Committee, in the context of a joint hearing	Rémi Bouchez, Chairman of the Sanctions Committee
11 February 2015	Agence France locale	Alain Anziani, member of the Senate Law Committee	Frédéric Visnovsky, Deputy Secretary General
18 February 2015	Mise en œuvre des règles de séparation des activités bancaires	Implementation of banking separation rules	Édouard Fernandez-Bollo, Secretary General
21 April 2015	Implementation of banking separation rules	Karine Berger and Jérôme Chartier, members of the National Assembly Finance Committee, in view of preparing the report on implementation of the Banking Separation and Regulation Act	Édouard Fernandez-Bollo, Secretary General
22 April 2015	Implementation of banking separation rules	Karine Berger and Jérôme Chartier, members of the National Assembly Finance Committee, in view of preparing the report on implementation of the Banking Separation and Regulation Act	Christian Noyer, Governor of the Banque de France and Chairman of the ACPR
6 May 2015	Life insurance	Senate Finance Committee, in the context of a joint hearing	Sandrine Lemery, First Deputy Secretary General
13 May 2015	Société de financement local – SFIL	Maurice Vincent, member of the Senate Finance Committee, in view of publication of an information report titled “The challenges facing SFIL”	Frédéric Visnovsky, Deputy Secretary General
19 May 2015	Enforcement powers of the ACPR	Albéric de Montgolfier and Claude Raynal, members of the Senate Finance Committee, in connection with their work on the enforcement powers of financial regulators	Édouard Fernandez-Bollo, Secretary General
20 May 2015	Hearing in view of serving as Vice-Chairman of the ACPR	National Assembly Finance Committee	Bernard Delas
20 May 2015	Hearing in view of serving as Vice-Chairman of the ACPR	Senate Finance Committee	Bernard Delas
28 May 2015	Banque publique d’investissement – BPI France	Véronique Louwagie and Laurent Granguillaume, in the context of the National Assembly’s joint fact-finding mission on BPI France	Édouard Fernandez-Bollo, Secretary General
30 September 2015	Activity, organisation and management of the ACPR	Senate Enquiry Committee on the review and monitoring of the establishment, organisation, activity and management of independent administrative authorities	Christian Noyer, Governor of the Banque de France and Chairman of the ACPR, and Patrick Montagner, Deputy Secretary General
7 December 2015	Draft European Commission regulation on structural banking reform	Christophe Caresche, member of the National Assembly Finance Committee and European Affairs Committee, in the context of the information report on the draft regulation	Édouard Fernandez-Bollo, Secretary General
10 December 2015	“Digital republic” bill	Luc Belot, rapporteur, National Assembly Law Committee on the bill	Édouard Fernandez-Bollo, Secretary General

Highlights

OF 2015

JANUARY

► **20 January:** The ACPR welcomes the publication of delegated acts pertaining to Solvency II. This text covers the project's three pillars, clarifying asset and liability valuation rules, rules for calculating capital requirements, eligibility of own funds to cover these requirements, and governance and disclosure rules applicable to insurance undertakings.

FEBRUARY

► **16 February:** The ACPR publishes a recommendation on advertising communications for life insurance policies. Through this recommendation, the ACPR informs the industry of its expectations in this area, recommending best practice with regard to both the general presentation of advertising and specific terms of implementation.

► **18 February:** The ACPR publishes sector enforcement principles on anti-money laundering and counter-terrorist financing for the insurance sector. This explanatory document, in the form of information sheets, is aimed at all insurance institutions subject to AML/CTF regulations.

► **19 February:** The AMF and the ACPR coordinate efforts to harmonise their expectations with regard to advertising communications. The two authorities clarify their shared criteria for assessing the clarity, accuracy and truthfulness of advertising communications, following discussions in a dedicated working group within the ACPR/AMF Joint Unit.

APRIL

► **27 April:** The ACPR draws the public's attention to the actions of websites that misuse its name and logo to promote binary options trading on platforms regulated by the competent authority in Cyprus.

MAY

► **26 May:** ACPR Chairman Christian Noyer and Sanctions Committee Chairman Rémi Bouchez present the Authority's fifth Annual Report to the press.

JUNE

► **5 June:** The ACPR/AMF Joint Unit, Assurance Banque Épargne, publishes its 2014 annual report.

► **23 June:** The ACPR holds a conference covering two topics: new draft banking regulations and the final stretch before the implementation of Solvency II.

► **25 June:** The Sanctions Committee imposes a reprimand and a EUR 3 million fine on Groupama Gan Vie.

JULY

► **24 July:** The Sanctions Committee imposes a reprimand and a EUR 5 million fine on Generali Vie.

► **27 July:** Bernard Delas is appointed Vice-Chairman of the ACPR, replacing Jean-Marie Levaux.



SEPTEMBER

- ▶ **17 September:** The ACPR, the Banque de France and the AMF launch a YouTube channel bringing together all videos and infographics shown on the Assurance Banque Épargne Info Service website.

OCTOBER

- ▶ **28 October:** The Banque de France and the ACPR hold an international conference on prudential regulation of financial intermediation entities and businesses operating outside the banking sector (insurers, asset managers, market infrastructures).

NOVEMBER

- ▶ **2 November:** François Villeroy de Galhau becomes Governor of the Banque de France and Chairman of the ACPR, replacing Christian Noyer.
- ▶ **19 November:** The ACPR and Tracfin publish joint guidelines on suspicious transaction reporting in connection with anti-money laundering, counter-terrorist financing and public finance fraud.
- ▶ **20 November:** The ACPR holds a conference covering two topics: business practises and anti-money laundering in insurance.

DECEMBER

- ▶ **2 December:** The ACPR holds its second international academic conference on the topic of new challenges and new regulatory frameworks facing financial institutions after the crisis.
- ▶ **16 December:** With fraudulent loan proposals – particularly for peer-to-peer lending – on the increase, the ACPR warns the public against fraudulent loan offers.

CHAPTER 2

Ensuring

THE STABILITY OF THE FINANCIAL SYSTEM

The ACPR ensures the stability of the financial system. This involves issuing licences to institutions in the banking and insurance sectors and conducting ongoing supervision of all reporting entities.

To enable it to perform these duties, the ACPR has a number of directorates responsible for licensing, supervision and research to analyse the main risks facing the financial system as a whole.

In the banking sector, the ACPR exercises its powers without prejudice to the jurisdiction granted to the European Central Bank under the terms of the Single Supervisory Mechanism.

The ACPR also has powers to prevent and resolve banking crises. The Authority's specific duties in this area are performed by the Resolution Directorate.

1. Licensing and authorisation	40
2. The financial system's exposure to risk in 2015	48
3. Prudential supervision	54
4. Resolution banking crises	71



1. Licensing and authorisation

Licensing and authorisation activity In 2015:

370

licensing and authorisation decisions

204 decisions in the banking sector (excluding decisions concerning the registration of agents of payment institutions)

166 decisions in the insurance sector

A total of **1,739** decisions concerning the banking and insurance sectors were made on the basis of applications processed by the Licensing, Authorisation and Regulation Directorate:

- ▶ 370 licensing and authorisation decisions by the ACPR College, including 112 by the Chairman of the College under the delegated authority of the Supervisory College
- ▶ 795 decisions made by the Chairman of the College, under the delegated authority of the Supervisory College, on the registration of agents of payment institutions
- ▶ 574 appointments of effective managers and directors (428 in the banking sector¹³ and 146 in the insurance sector).

1,239 appointments of members of management bodies of credit institutions were notified to the ECB by the ACPR.



SUMMARY OF ACPR DECISIONS* ON LICENSING AND AUTHORISATION**

	TOTAL	BANKING	INSURANCE
Granting of licences, authorisations and registrations	30	28	2
Licence renewals	34	20	14
Waivers and exemptions from licensing and authorisation requirements	10	10	0
Amendments to licences and authorisations	30	30	0
Withdrawals of licences and authorisations	58	40	18
Substitution agreements	15	0	15
Administrative changes	35	23	12
Changes in ownership	46	36	10
Mergers, demergers and/or portfolio transfers - insurance sector	90	0	90
Other	22	17	5
TOTAL	370	204	166

(*) Decisions by the Supervisory College or by the Chairman of the Supervisory College acting under delegated authority.

(**) Excluding decisions concerning the registration of agents of payment institutions.

As well as processing these applications, the ACPR gives its opinion on proposed appointments of statutory auditors by reporting institutions. A total of **1,051** such opinions were given in 2015, 569 of them in the banking sector and 482 in the insurance sector.



1.1. BANKING SECTOR

A. IMPACT OF THE CREATION OF THE SSM

- **France has contributed one quarter of what are now “common” procedures decided on by the ECB**

Since the entry into force of the Single Supervisory Mechanism (SSM) framework on 4 November 2014¹⁴, authorisations relating to licensing, licence extensions, licence withdrawals and significant changes in ownership of credit institutions are covered by the common procedures laid down in Title V of the SSM Framework Regulation of 16 April 2014¹⁵.

These procedures are described as “common” insofar as they apply equally to all credit institutions, whether significant¹⁶ or less significant, and whether or not they are subject to direct prudential supervision by the European Central Bank (ECB).

In this regard, the ACPR now submits proposed decisions to the ECB. The ACPR bases its proposals on licensing conditions laid down in the Monetary and Financial Code. It is then up to the ECB (Supervisory Board and Governing Council) to make licensing and authorisation decisions based on these proposals and after reviewing whether each application meets the conditions laid down in EU law. Decisions are then notified to applicants by the ECB, with the exception of licensing decisions, which are notified by the ACPR.



For 2015, 150 ‘common procedures’ for authorisation were submitted for decision by the ECB, of which 36 (24%) from the ACPR.

Julia Guérin,
Deputy head of department, Banks and Investment Firms Division,
Authorization, Licensing and Regulation Directorate.

New arrangements for appointing members to management bodies of credit institutions

With effect from 1 January 2015, the date of entry into force of Decree 2014-1357 of 13 November 2014 transposing the provisions on governance, notably for credit institutions, arising from CRD IV, credit institutions must now notify the ACPR of all appointments or re-appointments of members of their corporate bodies (whether supervisory or executive). The ACPR, or the ECB for credit institutions placed under its direct supervision¹⁷, has either two or three months¹⁸ to object to such appointments if they fail to meet the criteria laid down in regulations.

The assessment criteria are expertise, experience, knowledge, reputation, honesty, integrity, independence of mind and sufficient availability. As such, pursuant to Article L.511-52 of the Monetary and Financial Code, executives and directors of the most significant entities¹⁹ are subject to rules on the concurrent holding of more than one corporate office. Checks must be carried out to ensure that there are no conflicts of interest, or that any such conflicts are properly managed, and the management body must adequately perform its executive or supervisory function. Finally, concerning effective managers who are not corporate officers, the areas for which they have permanent direct responsibility must enable them to have a comprehensive and in-depth view of the entire business as well as its risks and, where an effective manager who is a corporate officer is absent or otherwise unable to serve, they must be able to make all decisions necessary to the continuity of the institution's effective management in his or her place.

In 2015, 1,239 appointments of members of management bodies of credit institutions were notified to the ECB by the ACPR (45% of total notifications received by the ECB in this area).

Around three quarters of these notifications related to the expiry of directors' terms of office, particularly within cooperative networks.

Credit institution status requiring the actual performance of credit transactions and receipt of repayable funds

The European CRR defines credit institutions as legal entities whose business is to receive repayable funds from the public and to grant loans. The SSM considers that credit institutions must conduct business in both areas. It is not enough for them merely to be authorised to conduct such business; they must actually conduct it. In this regard, the Monetary and Financial Code allows the ECB to withdraw a credit institution's licence, notably if the institution in question has no longer operated under its licence for at least six months²⁰.

In this context, in 2015 the ACPR and the ECB reviewed the status of credit institutions that only actually conducted business in one of the two required areas, and asked them to comply with the regulations, either by opting for a status that matched their actual business (e.g. financing company) or by asking the Authority to amend

their programme of operations with a view to conducting business in both areas, bearing in mind that the Authority can object if such an amendment might undermine sound and prudent management of the institution.



New regime applicable to mutual guarantee companies belonging to mutual banks

Decree 2015-564 of 20 May 2015 adapting the provisions of the Monetary and Financial Code to the Single Supervisory Mechanism for credit institutions stipulates (in Article 3) that "mutual guarantee companies which, at the date of publication of the aforementioned Decree, were covered by a collective licence with a mutual or cooperative bank, are deemed to be licensed as financing companies". As such, 50 mutual guarantee companies are now individually licensed as financing companies. However, the Decree stipulates that compliance with rules concerning, in particular, liquidity and solvency will be assessed collectively with the mutual bank or cooperative to which the mutual guarantee company exclusively grants guarantees.

14. See 3.1.

15. Regulation ECB/2014/17 of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities.

16. See list of "significant" institutions pursuant to point 1 of Article 49 of Regulation (EU) 468/2014 of the European Central Bank of 16 April 2014. See 3.1.

17. In 2015, the ECB made governance within credit institutions one of its supervisory priorities.

18. Three months for credit institutions that provide investment services.

19. Entities with total balance sheet assets in excess of EUR 15 billion.

20. Article L.511-15 of the Monetary and Financial Code.

B. CONTINUED DEVELOPMENT OF THE PAYMENT SERVICES SECTOR

Amid rapid technological development and new expectations among an increasing proportion of users of payment services (development of digital technology, growth in e-commerce, personalised customer journeys, etc.), the payment services and electronic money sector continued to develop in 2015.

France now has 30 licensed payment and electronic money institutions, compared with 25 a year ago: final licences were awarded to Brink's France Finance (services to credit institutions in connection with cash transactions), K-Pay (a support tool for the assignment of receivables for companies), Netsize, BD Multimedia (micropayments solution) and Edenred (management of business expenses). SFPMEI²¹, which has refocused its business around partnerships with companies, is now licensed as an electronic money institution. Société Financière de Paiement asked for its licence to be withdrawn.

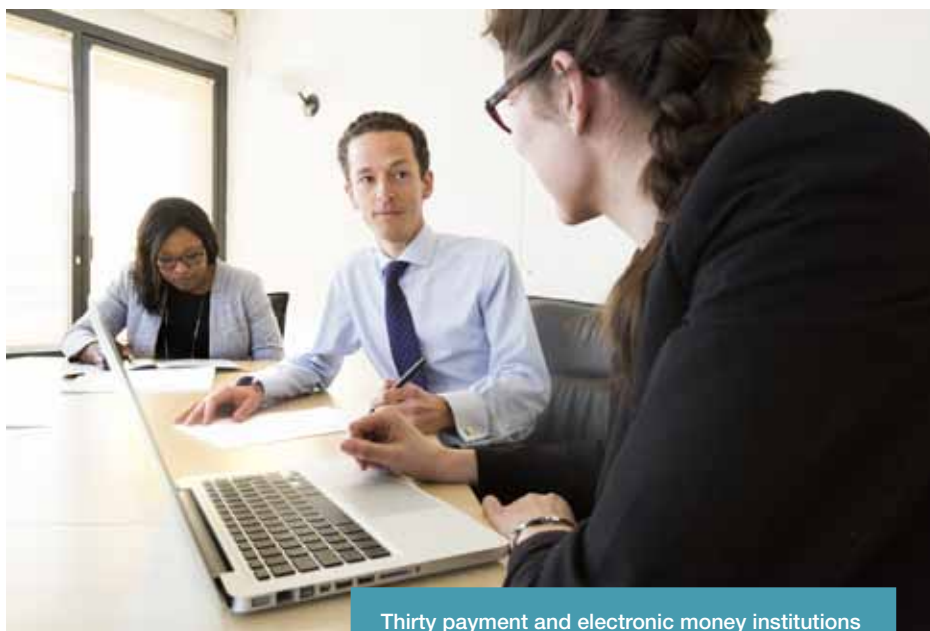
The ACPR's Supervisory College also licensed four other payment institutions with conditions precedent that were still in force at the end of the year. One of them was licensed under the alternative ("simplified") regime, an option transposed into French law in 2014²². Furthermore, this trend is set to continue: numerous applications are currently being processed.

Projects are more frequently being put forward with the support of banks, insurers or investment funds, reflecting a greater affinity for the FinTech sector among such operators.

Furthermore, existing payment institutions have extended their distribution networks, in particular by making greater use of payment services agents and electronic money distributors. The main players involved in such outsourcing are mostly payment institutions specialising in funds transfers, such as Moneyglobe, Tempo France, BNC and Green Transfer, but also Financière des Paiements Électroniques, which markets the Nickel payment account through its network of tobacconists. Other payment institutions also support certain economic actors whose business includes a payment services component and which cannot or do not wish to be licensed directly, such as, for example, crowdfunding platforms (for loans and donations), collaborative economy platforms, marketplaces and savings pools.

Finally, the number of requests for licence exemptions from payment or electronic money institutions based on the use of the payment instrument within a limited network of accepters or to purchase a limited range of goods and services continued to grow in 2015 (with 36 companies authorised as such, compared with 30 a year earlier).

In spite of the increase in the number of licences awarded and the growth of institutions already licensed, the landscape of payment services and electronic money operators in France continues to be characterised by a strong presence among European operators, and especially UK operators, in a variety of forms: branches, payment services agents, electronic money distributors and the freedom to provide services.



Thirty payment and electronic money institutions are now licensed in France.

21. SFPMEI was already operating under the status of specialised credit institution.

22. While the volume of electronic money in circulation is forecast not to exceed EUR 5 million, the ACPR can be asked to issue a licence as an electronic money institution under an alternative prudential status (Article L.526-19 of the Monetary and Financial Code). In such cases, the prudential provisions are adjusted, notably as regards initial capital, capital requirements and internal control (limited to control over essential service providers). Units of electronic money incorporated into the electronic money instrument issued by the institution are limited to EUR 250 and the institution is not eligible for the European passport procedure.

Changes in the number of credit institutions, financing companies, investment firms, payment institutions and electronic money institutions in France and in the number of credit institutions in Monaco

CREDIT INSTITUTIONS (licensed in France and Monaco)	2014	2015	CHANGE
Credit institutions licensed in France	402	383	-19
Institutions licensed for all banking activities	296	288	-8
<i>Banks</i>	<i>187</i>	<i>180</i>	<i>-7</i>
<i>o/w branches of institutions having their registered offices in third countries</i>	<i>(21)</i>	<i>(20)</i>	<i>-1</i>
<i>Mutual and cooperative banks</i>	<i>91</i>	<i>90</i>	<i>-1</i>
<i>Municipal credit banks</i>	<i>18</i>	<i>18</i>	<i>0</i>
Specialised credit institutions (formally financial companies or specialised financial institutions at end 2013)	106	95	-11
Branches of EEA credit institutions operating under the freedom of establishment	66	68	+2
Credit institutions licensed in Monaco	22	21	-1
TOTAL CREDIT INSTITUTIONS (licensed in France and Monaco)	490	472	-18

FINANCING COMPANIES	2014	2015	CHANGE 2015/2014
Financing companies (a)	112	160	+48
Dual status: financing companies and investment firms	2	4	+2
Dual status: financing companies and payment institutions	20	20	0
TOTAL FINANCING COMPANIES	134	184	+50

INVESTMENT FIRMS	2014	2015	CHANGE 2015/2014
Investment firms licensed by the ACPR	80	78	-2
Branches of investment firms operating under the freedom of establishment	50	53	+3
TOTAL INVESTMENT FIRMS (b)	130	131	+1

PAYMENT INSTITUTIONS	2014	2015	CHANGE 2015/2014
Payment institutions licensed by the ACPR	21	24	+3
Branches of payment institutions operating under the freedom of establishment	9	9	0
TOTAL PAYMENT INSTITUTIONS (a)	30	33	+3

ELECTRONIC MONEY INSTITUTIONS	2014	2015	CHANGE 2015/2014
Electronic money institutions licensed by the ACPR	4	6	+2
Branches of electronic money institutions operating under the freedom of establishment	1	1	0
TOTAL ELECTRONIC MONEY INSTITUTIONS	5	7	+2

MONEY CHANGERS	2014	2015	CHANGE 2015/2014
TOTAL MONEY CHANGERS	176	180	+4

(a) Excludes mutual guarantee companies belonging to mutual banks licensed individually pursuant to Decree 2015-564 of 20 May 2015.
(b) Excludes dual status with financing companies.

WITHDRAWAL OF THE REQUIREMENT TO NOTIFY THE ACPR BEFORE APPOINTING STATUTORY AUDITORS

Article 18 of Ordinance 2015-1682 of 17 December 2015 simplifying certain prior authorisation and notification rules for companies and professionals repeals the requirement for banking and insurance institutions supervised by the ACPR to notify it in advance of any proposed appointment or re-appointment of statutory auditors. This requirement was laid down in Article L.612-43 of the Monetary and Financial Code. However, the ACPR still has the power to impose an additional statutory auditor if an institution's situation so justifies.

In the context of its statutory objectives and under the terms of Articles L.612-44 and L.612-27 of the Monetary and Financial Code in particular, the ACPR must continue to be

able to dialogue with the statutory auditors of supervised institutions; as such, it must be informed of all appointments and re-appointments of statutory auditors, and of any relevant changes in the situation of the statutory auditors of supervised entities.

In 2016, ACPR Instruction 2012-I-01 will be replaced by a new instruction establishing a new standard report that supervised entities will have to use to notify the ACPR of the identity of their statutory auditors and of specific auditors.

The provisions of the Ordinance of 17 December 2015 entered into force on 1 January 2016.

1.2. INSURANCE SECTOR

In 2015, the ACP made 166 licensing and authorisation decisions in the insurance sector. Many of these decisions concerned the mutual insurance sector, in which merger-based rationalisation continued, mainly in preparation for the entry into force of Solvency II.

The ACPR also approved 156 appointments of real estate appraisers or appraisers of real estate companies and made 146 decisions on the appointment of senior managers of institutions.

APPOINTMENTS OF EFFECTIVE MANAGERS AND HOLDERS OF KEY ROLES

Ordinance 2015-378 of 2 April 2015 transposed into French law the new notification requirements in respect of governance incumbent upon insurance and reinsurance institutions falling under the Solvency II regime. Each institution falling within the scope of the Solvency II regime will have to have at least two effective managers and four holders of key roles (risk management, internal audit, compliance checking and actuarial duties). This requirement also applies to prudential groups.

With effect from 1 January 2016, pursuant to paragraph II of Article L.612-23-1 of the Monetary and Financial Code in its wording arising from the Ordinance, such institutions and groups must notify the ACPR of all

appointments and re-appointments of effective managers and holders of key roles, so that the ACPR can assess their reputation, expertise and experience. The ACPR set out the contents of the application to be submitted to it in ACPR Instruction 2015-I-03.

Transitional arrangements for submitting notifications starting in 2015 were put in place pursuant to paragraph III of Article 19 of the Ordinance. However, this option was little used.

Institutions not subject to Solvency II will continue to apply the provisions previously in force, referring to ACPR Instruction 2015-I-02 for the corresponding application.

A. INSTITUTIONS FALLING WITHIN THE SCOPE OF THE INSURANCE CODE CONTINUE TO SIMPLIFY THEIR STRUCTURES

In line with the previous trend, insurance groups continued to rationalise their structures, seeking in particular to optimise capital allocation under Solvency II by reducing the number of subsidiaries.

Furthermore, a number of applications and plans were submitted in 2015 – only one of which progressed to completion in that same year – concerning the establishment of or changes to group mutual insurance companies (SGAMs), mutual insurance union groups (UMGs) and group social protection insurance companies (SGAPS), with the aim of securing official recognition of the scope of prudential groups.

Nine groups rationalised their structures by carrying out mergers or absorptions or by winding up companies, sometimes involving transfers of portfolios and sometimes not.

Four partial transfers of portfolios in 2015 were driven by commercial concerns or business refocusing, while others were driven by purely operational considerations.

Three institutions secured extensions to their licences to develop new businesses, while another two extended their licences so as to be able to receive portfolios transferred from other institutions in industry sectors not covered by their existing licences.

Finally, one institution had its licence extended to cover the management of guarantees sold by it but previously managed by other companies.

A number of companies made changes to their ownership structures, two of them major institutions. Other licence extensions were mainly the technical consequences of adjustments to organisation charts.

B. CONCENTRATION CONTINUES AMONG MUTUAL INSURERS FALLING WITHIN THE SCOPE OF THE MUTUAL INSURANCE CODE

Ahead of the entry into force of Solvency II on 1 January 2016, concentration among mutual insurers continued at a particularly sustained pace in 2015.

Mergers and portfolio transfers involved 71 mutual insurers, merged into 20 institutions within a significant mutual insurance business, as well as mergers between smaller mutual insurers to meet new regulatory requirements. However, there are still some mutual insurers who prefer to be backed by larger partners rather than merge: 15 substitution agreements were signed, together with 4 amendments to existing agreements.

C. CONTINUED MERGER ACTIVITY AMONG PROVIDENT INSTITUTIONS

Concentration and mergers among provident institutions continued, with two total transfers.

Change in the number of insurance institutions

All in all, the number of insurance institutions fell from 909 at end 2014 to 826 at end 2015.

NUMBER OF INSURANCE INSTITUTIONS	2014	2015	VARIATION
Life and combined insurance companies	93	90	-3
<i>o/w combined insurance companies</i>	38	39	1
Non-life insurance companies	206	191	-15
Total insurance undertakings	299	281	-18
Reinsurance companies	15	16	1
Non-EU country branches	4	4	0
Institutions falling within the scope of the Insurance Code	318	301	-17
Provident institutions	41	37	-4
Institutions falling with the scope of the Social Security Code	41	37	-4
Institutions governed by Book II of the Mutual Insurance Code	550	488	-62
<i>o/w companies backed by larger partners</i>	179	149	-30
Institutions falling within the scope of the Mutual Insurance Code	550	488	-62
TOTAL REGISTERED INSTITUTIONS LICENSED OR EXEMPT FROM LICENSING	909	826	-83

2. The financial system's exposure to risk in 2015

The ACPR bases its supervisory activities chiefly on analysis carried out to identify the principal risks to which the financial system is exposed. In 2015:

17

studies were published in the review *Analyses et Synthèses*, as well as 5 studies in English

5

were published in *Débats économiques et financiers*

1

was published in *Débats économiques et financiers*

10

seminars were held under the banner of La Chaire ACPR and 5 open to outside attendees

2

international conferences were held, bringing together central bankers, regulators, supervisors and top-tier universities

2.1. RISKS ARISING FROM LASTINGLY LOW INTEREST RATES

Interest rates remained at all-time lows in 2015, and short-term rates continued to decline after the European Central Bank announced, in January 2015, a quantitative easing (QE) programme under which it would purchase EUR 60 billion-worth a month of public sector and corporate securities until at least September 2016. Beyond its positive effects on the economy, the extension of this programme until March 2017, announced in December 2015, raises difficulties for business models in both the banking and insurance sectors.

The low interest rate environment continued to weigh on banks' profitability, with the impact varying depending on business model (retail banks vs. corporate banks) and balance sheet structure. In retail banking, the effects were reflected in lower net interest income driven by flattening yield curves in the first quarter of the year, and in loan renegotiations. However, this effect was offset by growth in fees linked to high levels of early redemptions of home loans, as well as high levels of fees on life insurance policies. By putting downward pressure on banks' profitability, low interest rates could prompt banks to compensate by increasing lending volumes and excessively relaxing lending conditions, potentially to the extent of lending even where not justified by borrower credit quality. More generally, the low interest rate environment could prompt banks to seek higher yields from their financial assets by moving into higher-yield and thus higher-risk assets, which would potentially be less liquid in the event of a crisis. Such phenomena, driven by the search for yield, must be closely monitored.

For insurers, the low interest rate environment is a source of risk, particularly given the ensuing gradual long-term decline in returns on assets, and especially bonds. This phenomenon, particularly detrimental to life insurers, who hold assets with long maturities, could encourage institutions to take on excessive risk to offset the yield they lose.

Some institutions have already taken action of various kinds of action to adapt to this low interest rate environment: reducing revaluation rates for euro-denominated life insurance policies (for example, the average rate for individual policies fell from 4.1% in 2007 to 2.54% in 2014) – a lesser reduction than that in interest rates, and which must therefore continue, even in the absence of a further decline in bond yields given yields on amounts to be reinvested; and a shift in inflows towards unit-linked policies, which can help maintain attractive yields without eroding insurers' wealth reserves (with EUR 8.8 billion collected in the first nine months of 2015, compared with EUR 6 billion in the whole of 2014).

The risks to both the banking and insurance sectors associated with lastingly low interest rates are regularly analysed by the ACPR and notified to the Supervisory College in its various configurations. In 2015, the ACPR ran an exercise for the whole of the French life insurance market based on three scenarios linked to the low interest rate environment (see box on page 66 on the results of ORSAs in the low interest rate environment). It regularly conducts impact assessments based on data submitted by all institutions in accordance with prudential rules. Up to now, these assessments have shown that the impact on both sectors was contained. However, given the importance of this issue, institutions must step up their level of vigilance, in particular to better adjust returns paid to holders of euro-denominated life insurance policies to current yields.



The risks associated with long-term low interest rates are regularly analysed by the ACPR and are of considerable concern to the Supervisory College in its various configurations.

Dominique Durant,
Deputy Director of Studies.

2.2. FINANCING OF COMMERCIAL AND RESIDENTIAL REAL ESTATE

Given the significance of real estate lending in French banks' balance sheets and the potential impact of real estate crises on the rest of the economy, the monitoring of risks on real estate markets is of major importance. As such, care should be taken to ensure that changes in France's real estate markets, favoured by a continuing low interest rate environment, do not result in greater vulnerability, and that both banks and insurance institutions maintain prudent lending and investment policies.

The **housing** market enjoyed a significant recovery in 2015. For example, the number of sales of existing homes increased by 12.5% between November 2014 and November 2015 (after declining by 3.4% in 2014)²³. At the same time, the year-on-year decline in existing home prices reversed in the third quarter of 2015, coming in at 1.7% countrywide, compared with -2.5% a year earlier²⁴.

Helped by a continued rise in interest rates up to the middle of the year, new home loans written by French banks recovered sharply, mainly thanks to growth in external redemptions. In spite of this recovery, total loan outstandings grew at only a moderate pace (up 3.7% year on year at end November). External redemptions thus appear to have peaked in September 2015, potentially signalling

the exhaustion of renegotiable loans or the first effects of the slight increase in loan interest rates. Finally, an overall analysis of lending criteria points to continued moderate risk-taking by French banks, which continue to mainly base their lending decisions not on the value of the financed assets but on borrower solvency. In this overall environment, which included positive elements, the main area of concern was continued high unemployment, fuelling a rise – albeit gradual – in the ratio of doubtful loans held by French banks, though the latter continue, for the time being, to hold robust security. This situation must not deter banks from continuing to monitor prices and household borrowing.

In the **commercial real estate** market, business in the first nine months of 2015, measured by total investment, came in slightly below the level seen in the first nine months of 2014²⁵. At the same time, prices rose 3.4% year on year in the second quarter of 2015, compared with a 0.2% rise over the same period a year earlier²⁶. This strong growth requires monitoring, insofar as it is accompanied by a decline in rental yields against a backdrop of stable headline rents and a rise in property values. While risk premia still appear attractive to investors, some market segments are showing signs of fragility that should be monitored, such as, for example, offices at La Défense, where occupancy rates are much lower than in the Ile-de-France region.



23. Source: *Conseil Général de l'Environnement et du Développement Durable* (General Council for the Environment and Sustainable Development).

24. Source: INSEE.

25. Source: CBRE.

26. Source: MSCI.

While new lending by French banks in the first half of 2015 grew 7.4% relative to 2014, banks' exposure held relatively steady²⁷. Furthermore, there was a slight improvement in the doubtful debt rate on portfolios, with the gross amount of non-performing loans declining by EUR 400 million between 31 December 2014 and 30 June 2015 (down 5%), while provisioning rates increased slightly over the same period (up from 37.2% to 38.8%). Finally, real estate continued to represent only a small proportion of insurers' investments²⁸.

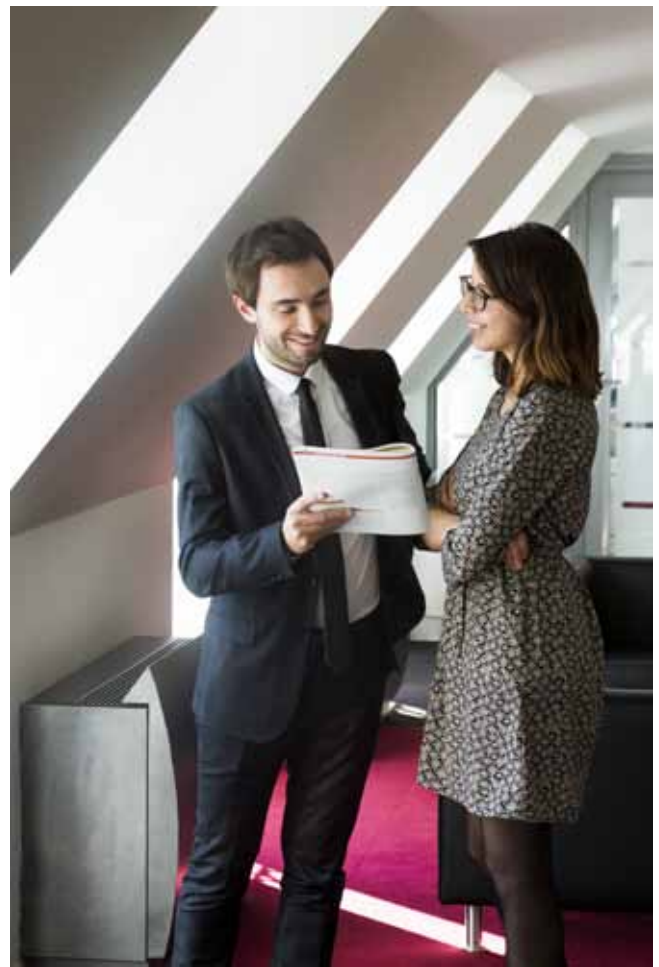
2.3. IMPACT OF REGULATIONS AND CHANGES IN BUSINESS MODELS

In addition to the low interest rate environment, the profound change in the regulatory framework in recent years has affected the business models of both banks and insurance companies. While stricter regulation should yield benefits in the long term by reducing the frequency of financial crises, it generates immediate costs linked to the implementation of new rules, as well as long-term constraints that sometimes require supervised institutions to adjust their business models.

In the **banking sector**, French institutions have already made significant efforts to comply with the new requirements laid down in Basel III and CRD IV, though targeted adjustments may still be necessary, particularly as regards long-term liquidity in accordance with the final calibration to be adopted by the Basel Committee (Net Stable Funding Ratio/NSFR) and the issuance of debt securities that can immediately be used to cover losses in the event of liquidation (Total Loss Absorbency Capacity/TLAC). The timetable of future regulatory changes remains a busy one, including, for example, for the Basel Committee, revision of the standardised approach and redefinition of rules on the use of internal models and interest rate risk on the banking book. These developments are particularly challenging for listed banks due to the divergence between their return on equity (though this rose in 2015) and the still high cost of capital "required" by investors.

The entry into force of Solvency II, effective 1 January 2016, marks a far-reaching shift in the **insurance sector**. While it must be recognised that most institutions have made substantial progress, significant effort is still required as regards governance and the quality of data submitted to the supervisory authority. Such improvements are especially important to enable appropriate measurement and monitoring of critical economic risks such as, for example, those arising from the low interest rate environment.

In a sluggish macroeconomic environment, institutions have had to adapt to tighter constraints on their conditions of exercise and on the profitability of certain businesses, increasing the need for them to implement efficiency plans, cut operating costs, rationalise risk-weighted assets, optimise capital consumption and withdraw from certain business areas, as the case may be. There has thus been a visible reduction in some businesses with a high cost of capital, particularly in corporate and investment banking. In this context, most



of France's major banking and insurance groups have carried out business reviews and drawn up multi-year strategic plans.

Lastly, the environment has also been characterised by the emergence of new players taking advantage of new technologies. The now very widespread use of such technologies and the importance of managing customer data is creating new opportunities while raising new challenges for both supervised institutions and supervisory authorities. These developments are bringing to light risks to retail banking distribution models, particularly as counter traffic reduces, prompting banks to announce restructurings of their branch networks.

It is essential that all financial operators take account of this new environment and its consequences for the conduct of their business and management of their risk, including in particular IT risk, at a time when operational risk can be significant in terms of compliance risk, reputational risk and cybersecurity risk.

For the supervisory authority, it also appears necessary to ensure that the various regulations do not lead to competitive distortion between regulated banks and insurers on the one hand and new FinTech operators on the other.

The ACPR thus makes every effort to analyse and anticipate the impacts of regulatory, macroeconomic and technological changes on financial sector businesses by holding public consultations prior

27. Source: ACPR survey.

28. See "Suivi de la collecte et des placements des 12 principaux assureurs vie à fin septembre 2015" ("Premium income and investments of the 12 largest life insurers to end September 2016"), *Analyses et Synthèses*, issue 57, January 2016.

to the adoption of texts and technical standards and carrying out various impact studies. For example, in the health insurance sector, the introduction of compulsory collective supplementary health cover for employees with effect from 1 January 2016, under the

cross-industry agreement of 11 January 2013, could trigger significant changes in institutions' market shares, with direct consequences for the business of certain institutions.

CALIBRATION OF BANKS' MACROPRUDENTIAL INSTRUMENTS

At the end of 2015, the ACPR College made two decisions on macroprudential instruments falling within its jurisdiction, both of them concerning systemically important banking entities.

First, it confirmed the four global systemically important banks (G-SIBs), which had been announced by the Financial Stability Board in early November upon publication of the annual list of G-SIBs. Institutions designated as G-SIBs are assigned buffer rates (additional capital charges) resulting from their "systemicity score". This score is calculated in accordance with international provisions laid down by the Basel Committee, set out in full in Article 131 of CRD IV and in Commission Delegated Regulation (EU) 1222/2014 of 8 October 2014. For 2013 and 2014, for a year of full application of the regulations (2019), the following buffer rates will apply to G-SIBs:

- ▶ BNP Paribas: 2% buffer
- ▶ Société Générale: 1% buffer
- ▶ Groupe BPCE: 1% buffer
- ▶ Groupe Crédit Agricole: 1% buffer

These additional requirements are scheduled to be phased in over four years²⁹.

In 2015, the ACPR also completed the initial identification of other systemically important institutions (O-SIIs), in accordance with the provisions of Article 131 of CRD IV and applying the methodology laid down in the EBA guidelines (EBA/GL/2014/10), transposed in an Order dated 11 September 2015 . The ACPR named six O-SIIs in 2014: the four G-SIBs, the Crédit Mutuel group and La Banque Postale . The O-SII buffer rates applicable to these six groups are calibrated in line with the G-SIB buffer rates. They are to be phased in over four years. Like the G-SIB buffer, the O-SII buffer is applied on a consolidated basis.

Finally, for groups on both the G-SIB and O-SII lists, the surcharge may not exceed the higher of the G-SIB surcharge (maximum 3.5%) and the O-SII surcharge (maximum 2%). Where these two buffer rates are different, the levels that result from applying this rule are shown in bold in the following table:

NAME	O-SII BUFFER RATE		G-SIB BUFFER RATE	
	2016	2019	2016	2019
BNP Paribas	0.375%	1.50%	0.50%	2%
Société Générale	0.25%	1.00%	0.25%	1%
Crédit Agricole	0.25%	1.00%	0.25%	1%
BPCE	0.25%	1.00%	0.25%	1%
Crédit Mutuel	0.125%	0.50%	-	-
La Banque Postale	0,0625%	0,25%	-	-

At the same time, the *Haut Conseil de stabilité financière* (HCSF, Financial Stability Oversight Board) finalised its work in view of the implementation of the countercyclical capital buffer requirement, which entered into force on 1 January 2016. In the light of all available quantitative and qualitative indicators, the *Haut Conseil* set the countercyclical capital buffer applicable to exposures located in France at 0%. It also decided to recognise the 1.5% countercyclical capital buffers rate applicable to exposures located in Sweden and Norway. Reporting companies will have to apply these new requirements as from 31 December 2016.

29. See the following table and the 2014 list of global systemically important banks on the ACPR website.

30. On the criteria to be used to determine the terms of application of the third paragraph of Article 131 of Directive 2013/36/EU (on capital requirements), concerning the assessment of other systemically important institutions.

31. See the methodological note on the ACPR website: "Methodology for identifying other systemically important institutions and determining the associated buffer rates".

32. See the 2014 list of other systemically important institutions.



The ACPR analyses the principal risks to which the financial system is exposed.



WORK OF THE SCIENTIFIC CONSULTATIVE COMMITTEE ON FINANCIAL SYSTEM STABILITY

The Scientific Consultative Committee has a dual role:

- ▶ to promote synergies between financial research and prudential supervision;
- ▶ to monitor scientific developments in regard to finance so as to keep abreast of developments that might affect the banking and insurance sectors, and consequently prudential control.

The Committee met three times in 2015, notably to discuss the following topics:

- ▶ in banking: in addition to matters pertaining to supervision and the impact of regulations (EBA 2014 stress tests,

banks' adjustment to Basel III ratios), the Committee addressed issues such as institutions' performance in a low interest rate environment, the effect of mergers on competition, the relationship between capital and economic profitability, the impact of credit distribution on property prices and the consequences of accounting standards for asset valuations;

- ▶ in insurance: insurers' systemicity, models used to generate macroeconomic scenarios and, more specifically for life insurance, insurers' strategies for revaluing contracts and their resilience in a low interest rate environment.

3. Prudential supervision

160

on-site inspections either completed or in progress under the 2015 inspection programme:

75 in the banking sector
85 in the insurance sector

1,244

institutions had their risk profiles assessed in 2015:

463 in the banking sector
781 in the insurance sector

28

colleges of supervisors were set up for groups where the ACPR is the consolidating supervisor:

1 in the banking sector
27 in the insurance sector

131

action letters were sent out following supervisory reports issued in the year

36 in the banking sector
95 in the insurance sector

3.1. BANKING SECTOR

The adoption of the Single Supervisory Mechanism (SSM) Framework Regulation on 25 April 2014 was an essential step in implementing stricter supervision of European banks, and triggered far-reaching changes in the supervisory framework and statutory objectives devolved to the ACPR. With effect from 4 November 2014, the European Central Bank (ECB) directly supervises banks recognised as significant institutions (SIs, of which there were 123 in 2015, including 10 French banking groups), representing a predominant proportion of the European banking system. It also indirectly supervises less significant institutions (LSIs, of which there were 3,444 in total in 2015), primary responsibility for which lies with competent national authorities.



MAPPING THE SINGLE SUPERVISORY MECHANISM

Status at 1 January 2015



A. BANKING SUPERVISION UNDER THE SINGLE SUPERVISORY MECHANISM

Direct supervision

The ACPR continues to be very directly involved in monitoring major institutions: staff tasked with supervising such groups now form an integral part of Joint Supervisory Teams (JSTs).

These **Joint Supervisory Teams** are made up of personnel from the ECB and the national authorities of countries in which credit institutions or significant subsidiaries of a particular banking group are established. A JST is put in place for each significant institution, and is tasked with day-to-day supervision of that institution and implementation of the annual supervisory programme.

Each JST is overseen by a **coordinator** within the ECB. Coordinators are appointed for three to five years and are responsible for implementation of the supervisory duties and activities set out in the prudential supervision programme for each significant credit institution. Furthermore, a **sub-coordinator** within the national authority coordinates supervision at the domestic level and is in regular contact with the JST coordinator.

Implementation of the Single Supervisory Mechanism is governed by a Framework Regulation which lays down, in particular, the terms of cooperation between the ECB and national supervisory authorities, the process for drawing up draft decisions, language rules, and procedures for notifying significant banks. In addition to this framework regulation, a supervision manual sets out, in particular, operating methods for various supervisory tasks under the SSM and the risk assessment methodology. This document is supplemented by a guide to supervisory practices, accessible to the general public. Finally, a reporting manual describes the various components of the SSM's reporting system.

In 2015, JSTs' activities were governed by a newly-defined minimum level of commitment for supervisory activities: with the aim of applying banking supervision consistently across supervised entities and in a manner proportionate to the risks involved, the SSM

defined a minimum set of supervisory actions for each group, to be implemented at consolidated level, with the number, frequency and scope of those actions varying with the size, complexity and degree of risk associated with each supervised bank. This approach also makes it possible to ensure, across the sector as a whole, that the priority when assigning the resources available to the SSM is monitoring those areas of risk identified in advance as being the most sensitive for the current year.

In this context, JSTs focused on carrying out an exhaustive review of risks for each SI based on a methodology that has now been harmonised within the SSM. This review process, known as the SREP (Supervisory Review and Evaluation Process), generated considerable workload for all JSTs.

Analysis of banking risk within the SREP results in an overall score for each institution, ranging from 1 (best) to 4 (worst). The score assigned to each institution ultimately plays a key role in defining a capital requirements surcharge (adoption of "Pillar 2" measures) over and above the regulatory minima. These surcharges, as well as any qualitative measures to be implemented, were notified by the SSM to the institutions concerned during December 2015.



In 2015, for the first time, the Joint Supervisory Teams assessed the risk profile of each significant entity using the methodology developed by the ECB for the SSM.

Sébastien Clanet,
Deputy Director of the second direction
of bank supervision.



As well as individually rating each SI, JSTs were also involved in cross-cutting “thematic reviews”, aimed at enabling the SSM to conduct an in-depth analysis of especially sensitive areas of risk that could potentially affect all institutions. Three specific themes were the subject of such reviews in 2015: assessment of risk governance and risk appetite within each entity, leveraged finance, and IT cybersecurity. These reviews were the subject of specific reports that were presented to the SSM¹ Supervisory Board, together with proposed supervisory activities that flowed directly from them.

Finally, cooperation with foreign supervisors continued to generate significant workload, not only in the usual context of colleges of supervisors with the aim of reaching joint European decisions on additional capital requirements but also in the context of crisis management groups for systemic banking groups.

These ongoing supervisory activities were accompanied by on-site inspections. By decision of the Supervisory Board, the ACPR initiated 42 inspections on behalf of the SSM. A dozen or so inspections involved reviews of internal models. The emphasis in general inspections was on matters of governance, cybersecurity and credit risk. Around half of the ACPR’s on-site inspection resources were allocated to these inspections.

The actions initiated in 2015 will be continued in 2016, with the aim of rationalising the rating process for banks and applying this methodology to the lowest-risk institutions in a more proportionate manner. While the priority areas for ongoing supervision remain substantially the same as in 2015 (governance, solvency, liquidity, credit risk, cybersecurity and data integrity), cross-cutting thematic reviews will cover a number of new topics, including the future impacts of the adoption and implementation of the new IFRS 9 accounting standard, analysis of key drivers of profitability for banking institutions, and banks’ compliance with and implementation of the Basel principles for the effective aggregation and reporting of risk data. Furthermore, important work will be initiated to prepare for the review of rating systems, which will be the subject of on-site inspections from 2017.

THE ROLE OF THE ACPR IN DECISIONS AFFECTING ALL IMPORTANT BANKS FALLING WITHIN THE SCOPE OF THE SSM

Prudential decisions concerning banking groups supervised directly by the ECB (see a country-by-country breakdown on the map on page 53) are prepared by the ECB’s Supervisory Board. Like other competent national authorities, the ACPR has a vote on the Board and takes part in the decision-making process, alongside ECB representatives and the chairman and vice-chairman of the Supervisory Board.

Individual draft decisions, prepared for adoption (under a non-objection procedure) by the ECB’s Governing Council, mainly concern (i) licensing and licence withdrawals, (ii) qualified equity investments, (iii) compliance with prudential requirements on capital, securitisation, large exposures, liquidity and disclosures, (iv) governance, internal control and compensation policy and (v) implementation of prudential supervision.

In 2015, the ACPR, through its representative (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, ACPR Secretary General), was involved in drawing up decisions on major euro area banking groups, in connection with their direct supervision by the ECB.

In particular, these decisions resulted in the establishment of additional capital requirements under Pillar 2. They also concerned monitoring of the implementation of the results of the 2014 Asset Quality Review and capital plans for institutions found by the comprehensive assessment to have insufficient capital. Finally, monitoring the resilience of the Greek banking system, in the context of the financial crisis, represented a significant proportion of the ECB’s supervisory activities, in conjunction with the competent national authorities.

COMMON PRUDENTIAL SUPERVISION METHODOLOGY – KEY PRUDENTIAL DECISIONS MADE BY THE SUPERVISORY BOARD

In connection with the operational implementation of the SSM in 2015, the ECB developed a common prudential supervision methodology and published a number of provisions aimed at promoting the fair treatment of euro area credit institutions.

PRUDENTIAL SUPERVISION AND RISK ASSESSMENT PROCESS

In the context of its direct supervision of the 123 largest euro area institutions, the ECB worked with competent national authorities to develop a common prudential supervision and risk assessment methodology, harmonising the 19 existing methodologies. This methodology, which complies with the recommendations of the European Banking Authority (EBA), provides for consistent supervision of institutions. The methodology uses four dimensions to determine institutions' additional capital requirements (or Pillar 2 requirements) each year: business model, governance and risk management, solvency risk and liquidity risk. These dimensions include the supervisor's expert judgement while also rooting the analysis in objective elements.

NATIONAL OPTIONS AND DISCRETIONS

In order to apply the CRD IV package consistently across the banks it supervises directly, in 2015 the ECB began an in-depth review of the various options contained in both the regulation and the directive. The aim was to be able to apply these options in a convergent manner.

The Supervisory Board reached agreement on 122 options and discretionary powers, including in particular deductions of deferred tax assets, large exposure exemptions for cross-border business and liquidity exemptions for intragroup exposure. The option allowing financial conglomerates not to deduct investments in insurance subsidiaries from equity (in exchange for recognising them on an ad hoc basis in weighted risk assets) was maintained and now applies throughout the euro area. The harmonisation measures were put out to public consultation in November and will enter into force in 2016 in the form of a regulation and a guide for supervisors.

DIVIDENDS AND COMPENSATION POLICY

In January 2015, the ECB published a recommendation setting out dividend payout rules for significant banks, so as to ensure that capital requirements are met and that banks follow a linear trajectory in bringing their ratios up to the full required levels. Furthermore, with the entry into force of capital buffers, automatic payment restrictions now apply whenever overall requirements pertaining to the CET 1 ratio are not met.

The ECB also tightened its policy governing compensation in light of the provisions of CRD IV and EBA guidelines. In this regard, a letter was sent out to senior managers of significant banks reminding them of the need to adopt prudent compensation policies.

Indirect supervision

While the ECB directly supervises significant institutions (SIs), competent national authorities are responsible for directly supervising less significant institutions (LSIs), which are nevertheless indirectly supervised by the ECB. The ECB may also place such institutions under its direct supervision if it deems necessary, particularly in light of exceptional circumstances or to ensure that high-quality supervision standards are consistently applied.

Some LSIs have also been identified as high priority based on their size, the risks they carry and their interconnection with the economic system. A common, tailored supervision methodology for LSIs is currently under development. This methodology must be consistent with the risk assessment methodology used for SIs, which is in turn aligned with guidelines established by the European Banking Authority, and must be implemented in a manner proportionate to the size and complexity of each institution.

Given the wide variety of LSIs, the ECB is currently working on a classification based on each institution's degree of risk and business model. This classification should help ensure that the appropriate level of supervision is applied to each institution.

More than 3,440 LSIs fall within the scope of the SSM, almost half of them in Germany. When the list was last updated in December 2015, France had 138 LSIs.

B. BANKING SUPERVISION OUTSIDE THE SINGLE SUPERVISORY MECHANISM

Monitoring implementation of the French Banking Separation Act of 26 July 2013

Pursuant to Title I of Act 2013-672 of 26 July 2013 on the separation and regulation of banking activities, credit institutions³³ are now required to separate market activities that serve to finance the economy from proprietary trading activities. The Order of 9 September 2014 implementing this Title sets out requirements on trading activities exempt from separation in terms of rules covering their organisation, trading mandates and stricter internal control systems. The Act, supplemented by the implementing texts published in 2014, essentially requires institutions whose assets at fair value account for over 7.5% of the balance sheet to:

- ▶ by 1 July 2014: accurately map market activities undertaken by the institution and identify proprietary financial instrument trading activities that must be ringfenced;
- ▶ with effect from 1 April 2015: submit quarterly indicators monitoring market-making activity as set out in the Order of 9 September 2014;
- ▶ with effect from no later than 1 July 2015: set up, if necessary, a separate subsidiary to undertake non-exempt financial instrument trading activities. The Order further stipulates that certain unsecured transactions entered into with leveraged funds may only be undertaken via the separate subsidiary.

In the first half of 2015, the directorate responsible for authorisations and licensing reviewed licensing applications for these dedicated subsidiaries, ensuring that they strictly complied with legal requirements applicable to the subsidiaries and to subgroups under the Banking Separation Act (groups excluding dedicated subsidiaries). The ACPR's Supervisory College licensed these subsidiaries as investment undertakings to allow them to provide proprietary trading services. The ACPR was thus careful to ensure that the relevant institutions transferred their proprietary trading activities to dedicated subsidiaries by 1 July 2015.



The national authorities are responsible for direct supervision of "less significant" institutions.

The Act further stipulates that institutions controlling such subsidiaries must meet certain management standards intended to safeguard their liquidity and solvency and ensure that they have a balanced capital structure. Following industry consultation, the ACPR published Instruction 2015-I-21³⁴ clarifying expected disclosures and the frequency with which affected institutions must report to the supervisor.

In 2015, the ACPR continued to analyse mappings of internal units engaged in proprietary trading of financial instruments (together with a description of those units and their organisational and operating rules), based on annual updates submitted by institutions by 30 June 2015, in accordance with the Act. It also collected and checked initial market-making indicators submitted by institutions, following the entry into force of the reporting requirement on 1 April 2015. The ACPR laid down submission deadlines for such reports in Instruction 2015-I-20³⁵.

33. More specifically, the entities covered are credit institutions and mixed financial holding companies.

34. Instruction 2015-I-21 on the submission of regulatory reports by sub-groups under the "Banking Separation Act" for institutions with a dedicated subsidiary within the meaning of Title I of Act 2013-672 of 26 July 2013 (the Banking Separation and Regulation Act).

35. Instruction 2015-I-20 relative au délai de transmission des indicateurs afférents aux activités de tenue de marché définies par l'arrêté du 9 septembre 2014 portant application du titre I^{er} de la loi 2013-672 de séparation et de régulation des activités bancaires du 26 juillet 2013.

The ACPR engaged in direct discussion with institutions and banking industry bodies throughout the year. At the same time, it conducted a number of on-site inspections covering implementation of the French Banking Separation Act within supervised institutions. These inspections, which will continue in 2016, allow the ACPR to make a detailed comparison of the organisational structures of activities put in place by entities and the granularity of their internal control systems.



Supervision of entities outside the scope of the SSM

In 2015, **ongoing supervision** of institutions falling outside the scope of the SSM focused on in-depth analysis of institutions' risk profiles and changes in those profiles, as well as risk management and internal control systems and policies in place and the robustness and performance of institutions' business models.

This work is based on a methodology for assessing the various types of risk to which institutions may be exposed and the quality of

arrangements for measuring, monitoring and reducing those risks: the "ORAP" methodology developed by the ACPR. This methodology includes an assessment of business development strategy and performance as well as of governance arrangements in place. Analysis is carried out at least annually for each monitored entity (and more often for institutions considered more risky) and is proportionate to each institution's risk profile and significance. In 2015, the ORAP methodology was adapted to harmonise it with the methodology used for institutions supervised directly by the SSM. Convergence of risk analysis tools has proved essential for maintaining consistency and comparability between ratings assigned to the various populations of institutions supervised by the ACPR, or in whose supervision it is involved under the SSM.

In conducting these analyses, ongoing supervision also takes direct account of the findings of inspections and uses information collected through regular financial and prudential reporting by institutions. It also incorporates information obtained through supervision meetings and written or electronic exchanges with institutions.

Of the various categories of institution supervised by the ACPR, **payment institutions and electronic money institutions** saw significant growth in business volumes as well as a notable increase in the number of such institutions. With a number of operators in this fast-growing sector not yet reaching financial equilibrium, the ACPR focused on the maintenance of a satisfactory capital structure. Ongoing supervision also focused more specifically on checking compliance with regulatory requirements on the segregation of client assets, as well as the quality of anti-money laundering and counter-terrorist financing (AML/CTF) arrangements, including for business conducted through agents and distributors based in France. A number of on-site inspections were carried out in 2015, and the ACPR's Sanctions Committee imposed a sanction on one institution following an inspection conducted in 2014. New operators, most of which were outside the financial sphere before obtaining their licences, were the target of increased efforts to raise awareness of the extent of their new obligations.

The ACPR also undertakes prudential supervision of **microcredit institutions**. Two such institutions were subject to ACPR supervision at end 2015. As part of this supervision, as well as verifying compliance with regulations on internal control, the Authority analysed specific reports.

Concerning **market infrastructures**, 2015 brought continued closer cooperation with other competent authorities. As well as jointly leading the supervisory college of the French clearing house established by Regulation (EU) 648/2012 (known as "EMIR"), together with the AMF and the Banque de France, the ACPR was also involved in a number of European colleges of other clearing houses. At the same time, 2015 saw increased cooperation with the SSM in the context of its jurisdiction over credit institutions.

Investment services providers came under scrutiny from banking supervisors for a number of reasons. The number of crowdfunding organisations operating under the status of investment undertakings increased in 2015. In the brokerage sector, the still challenging



The ACPR is responsible for changes in the risks of institutions not subject to the SSM.

market environment prompted the ACPR to maintain stricter supervision, and more specifically to very closely monitor a few operators that do not have (or no longer have) an extensive enough franchise to support their current business model in the long term. In connection with the implementation of EMIR, the ACPR also processed notifications of exemption from the clearing obligation applicable to intragroup transactions involving OTC derivatives. Lastly, ACPR staff were involved in work led by the European Banking Authority (EBA) to adapt the prudential capital requirements laid down in the CRR.

Concerning **financing companies**, ongoing supervisory work took into account changes in the regulatory framework and the process of adapting to the new status: for financing companies referred to in Article L.511-1 of the Monetary and Financial Code, the entry into force of Regulation (EU) 575/2013 of the European Parliament and of the Council on 1 January 2014 removed the possibility of taking into account special depreciation allowances when calculating the initial amount of capital to be held at all times. To take into account this specific feature of French accounting standards, the Order of 30 July 2015, amending CRB Regulation 92-14 of 23 December 1992 on the initial capital of credit institutions, allows financing companies to





include special depreciation allowances in their initial capital, as well as the items referred to in points (a) to (e) of Article 26 of Regulation (EU) 575-2013 of the European Parliament and of the Council of 26 June 2013. However, the conditions for adding back these special depreciation allowances when calculating the solvency ratio remain unchanged: they are included in Tier 2 equity and not in Tier 1 equity, in accordance with Article 4 of the Order of 23 December 2013 on the prudential regime applicable to financing companies.

Concerning **entities in France owned by foreign credit institutions**, the ACPR participates in joint risk assessments, notably through Joint Supervisory Teams (JSTs) and colleges for institutions whose parent is in the euro area (subsidiaries) or colleges of supervisors for other institutions (branches of institutions based outside the euro area). Prudential supervision for European branches qualifying for the European passport falls to the home country, in accordance with Article 49 of Directive 2013/36/EU (CRD IV). Conversely, branches of third country (non-EEA) institutions, which operate subject to licensing, are supervised by the ACPR. As such, the Order of 11 September 2015 on the prudential regime for branches of third country institutions set out the terms of application of Regulation (EU) 575/2013 (CRR) for such entities, with the corresponding prudential requirements due to enter into force on 1 July 2016, in accordance with Article 47 of CRD IV, which stipulates that the prudential regime applicable to branches of third country institutions may not be more favourable than that applied to branches of European countries. Furthermore, throughout 2015 the ACPR continued with its specific supervisory work on issues related to compliance and anti-money laundering and counter-terrorist financing arrangements.

Finally, **concerning on-site inspections**, the ACPR's work on institutions falling outside the scope of the SSM mainly involved two types of inspection conducted in close coordination with ongoing supervision staff. Firstly, the Authority carried out general inspections covering all the activities of small to medium-sized institutions

in response to weaknesses or areas for attention highlighted by ongoing supervision. Secondly, the Authority conducted inspections to follow up on previous inspections. In this regard, the ACPR places particular importance on checking that any requested corrective actions have been properly implemented. On-site inspections are a preferred way of accomplishing this, particularly with regard to requirements set out in a cease-and-desist order.

3.2. INSURANCE SECTOR

A. PREPAREDNESS FOR SOLVENCY II

As in 2014, the ACPR took various actions in 2015 aimed at increasing institutions' preparedness for the implementation of Solvency II. In particular, quarterly and annual quantitative and qualitative data collection exercises were completed at both individual and group level as part of a European exercise that also tested the systematic use of the XBRL computer language for data exchange (*eXtensible Business Reporting Language*), now mandatory. Participation in these exercises was high, with over 500 institutions submitting their 2014 year-end reports and almost 430 submitting quarterly reports as at 30 September 2015. In addition, almost 400 documents prefiguring the RSR³⁶ and 320 preparatory ORSAs³⁷ were received. There was a notable improvement in the quality of data and information received, though more effort is still required in what is traditionally an area where little progress has been made in insurance. Group reports were also submitted for the first time. The results of these exercises were published in the journal *Analyses et Synthèses*³⁸.

Data submitted as at end 2014 were all based on the standard formula, since the first internal models were only signed off in the latter part of 2015. However, they incorporated measures included in the long-term guarantee package, which was not the case at end 2013. All in all, these submissions showed that only 5% of institutions by number were not covering their SCR³⁹.

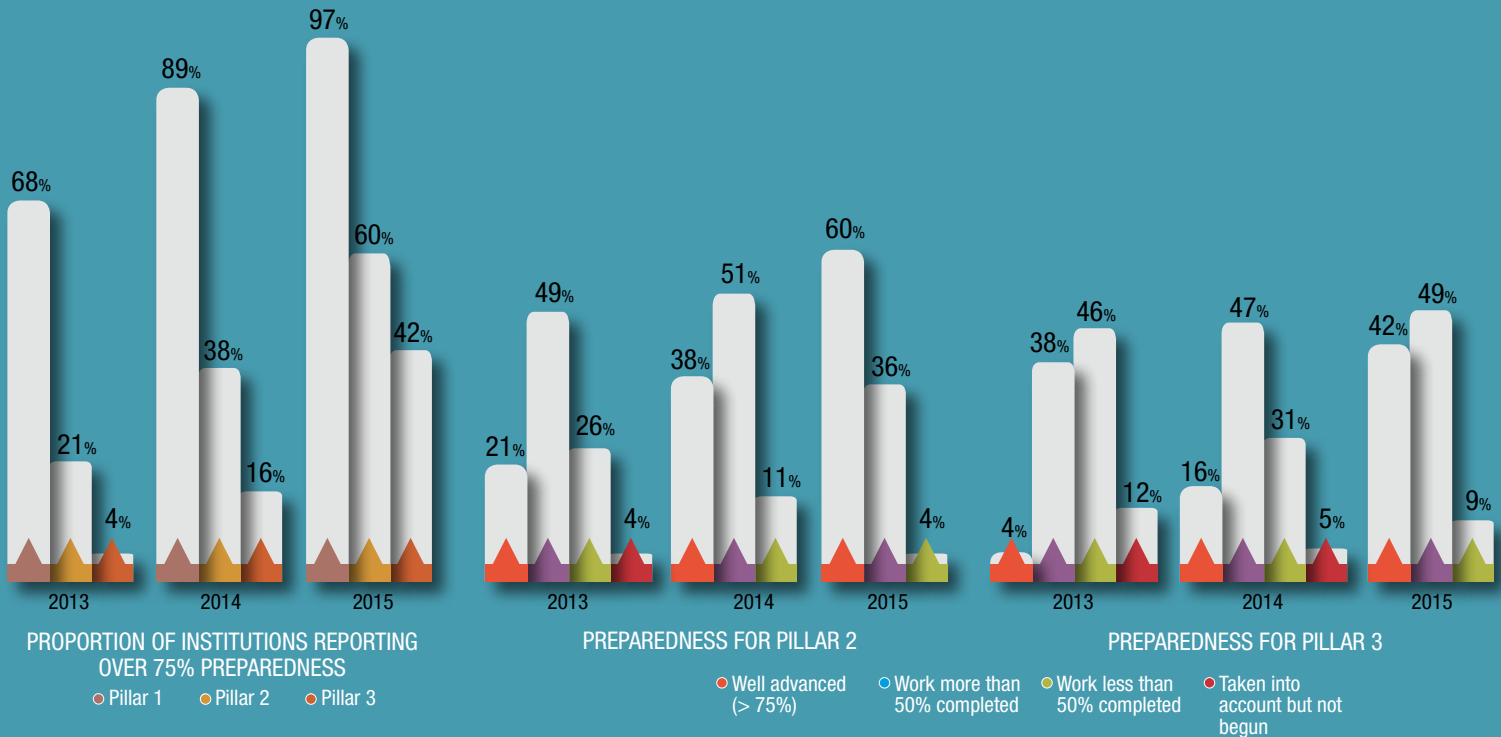
36. RSR: Regular Supervisory Report.

37. ORSA: Own Risk and Solvency Assessment.

38. "Analyse de l'exercice 2015 de préparation à Solvabilité II" ("Analysis of the 2015 exercise on preparedness for Solvency II"), issue 56, *Analyses et Synthèses*, December 2015.

39. SCR: Solvency Capital Requirement.

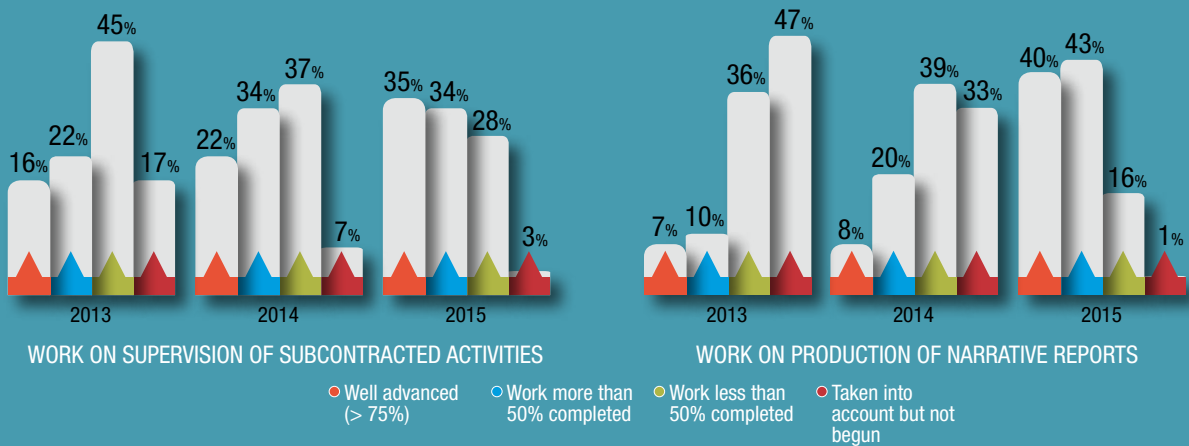
2015 SURVEY ON PREPAREDNESS FOR SOLVENCY II



Based on the data collection exercise and the annual qualitative survey of market preparedness, the ACPR notes a growing appropriation by the French market of the associated steps and tools.

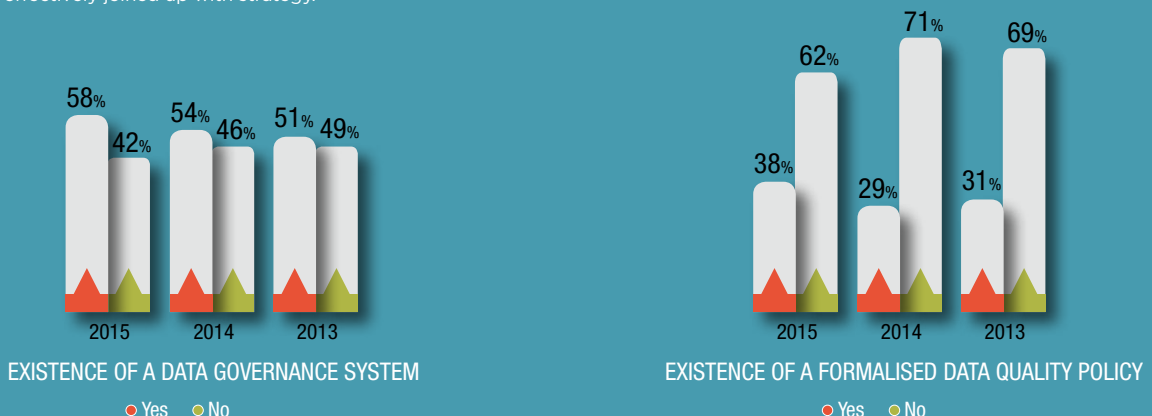
The level of appropriation concerning Pillar 1 can, on the whole, be considered satisfactory, though concerns remain as to institutions' ability to produce quantitative disclosures within regulatory deadlines.

By contrast, institutions continue to lag behind in putting in place reporting systems and governance mechanisms and tools. However, institutions appear to have made substantial efforts to catch up in relation to the many Pillar 2 tools that were neglected in previous years, including in particular supervision of subcontracted activities and written policies, as well as qualitative ("narrative") reports, production of which had not been tested in prior years.



ORSA reflected greater involvement by executive bodies, more in-depth analysis of overall solvency requirements and a higher number of more detailed scenarios; however, the accuracy of projections still needs to improve, action plans must be described in greater detail and, overall, the ORSA exercise still needs to be more effectively joined up with strategy.

Lastly, improving the quality of data appears to be a long-term issue and progress has been slow as regards both appropriate governance of this approach and the development of suitable management tools. This will continue to be an important area of focus for the Authority in 2016.



Preparations by individual institutions were closely supervised: as in 2014, three quarters of on-site inspections were aimed at measuring this effort in connection with the application of the standard formula or in specific areas (information systems, internal models, etc.), and specific measures were adopted for companies not covering their future requirements (minimum solvency capital or solvency capital requirement). Furthermore, actions were implemented to help institutions prepare to appoint effective managers and holders of key roles. The substance of this work was communicated throughout the year to both the industry and the general public (through the supervisory conference, press articles, meetings with industry bodies, etc.).



2 questions to Julie Haag-Chatelain

insurance supervisor.

HOW WAS 2015 FOR YOU?

Extremely busy! On top of supervision and monitoring linked to current regulations, we had to assess institutions' preparedness for the entry into force of Solvency II, both quantitatively and in terms of the appropriateness of organisational arrangements and risk management structures in the broadest sense. In addition, the desire to apply the new rules consistently meant a further increase in training needs and coordination between supervisors, prompting us to undertake comparative work on certain aspects of the new regulations, for example concerning the construction of prudential balance sheets, the criteria for prudential groups and reporting lines for key functions.

WHAT ARE YOUR THOUGHTS ON 2016?

It will be another busy year: we will have to handle regulatory deadlines under Solvency I for the last time, while working to clarify the new regulatory landscape, particularly in terms of policy, as well as managing the first reports submitted under the new formula. However, the in-house work we've been doing for the past three years – notably the Solvency II project within the ACPR – has prepared us for these deadlines and should mean we are able to manage them as effectively as possible. In particular, we have taken advantage of the data collection exercises to test our own internal applications for processing reports submitted. Supervising means thinking ahead!



Finally, the Authority processed many requests from institutions ahead of the implementation of Solvency II (approval of internal models, requests to use specific parameters or apply transitional measures) – around 50 requests in total, including around 10 for internal models. The latter generated a substantial amount of activ-

ity (some of them were several tens of thousands of pages long): as well as carrying out checks prior to processing requests, applications had to be approved by the College and requests from cross-border groups required significant discussion with other European supervisors.

NEW AUTHORISATIONS AND NOTIFICATIONS UNDER SOLVENCY II

The new regulations require institutions to submit a notification or request for authorisation concerning the use of certain measures laid down in the texts, including in particular those arising from the long-term guarantee package:

- ▶ authorisation of a securitisation vehicle;
- ▶ recognition of certain own-fund items (ancillary own funds, unlisted items);
- ▶ use of transitional arrangements for calculating technical provisions (matching adjustment, transitional rates and technical provisions);
- ▶ use of special arrangements for the purposes of calculating solvency (internal models, undertaking-specific parameters, duration-based SCR equity models);
- ▶ notification of effective managers and holders of key roles;
- ▶ creation of group social protection insurance companies;
- ▶ exemptions in connection with supervisory disclosures (partial or full exemption

from the requirement to submit quarterly reports, produce a group ORSA or single Solvency and Financial Condition Report aimed at the general public, exemption from the requirement to publish certain information aimed at the general public).

The ACPR allowed most of these applications to be filed in 2015 so that they could be processed before the new regime entered into force. Almost a thousand applications were received by the end of 2015 and processed within regulatory deadlines (two to six months). Much less use was made of the early notification option for effective managers and holders of key roles, with applications submitted en masse only from the second half of December 2015. As regards other authorisations, the highest volumes related to use of the transitional measure on technical provisions (around 15 applications).

In 2016, the ACPR will remain highly vigilant as to the full application and use of Solvency II, particularly as regards the following:

- ▶ compliance of governance arrangements: specific actions aimed at institutions that have yet to submit the required notifications and definition of an ACPR policy on governance to ensure consistent treatment;
- ▶ monitoring of prudential calculations under Solvency II, given the sensitivity of results to key assumptions;
- ▶ monitoring of developments in internal models and changes in those models following their approval by the ACPR;
- ▶ appropriation by institutions of the ORSA process.



B. ACPR AREAS OF FOCUS IN INSURANCE SECTOR SUPERVISION

The low interest rate environment and its implications for asset-liability management

In 2015, the ACPR carried out various pieces of work to attempt to assess the impact on the insurance sector of the fall in interest rates observed in 2014, amid market preparations for Solvency II. The research undertaken sought to measure the impact on the long-

term profitability and financial strength of institutions with long-term commitments: life insurance, various forms of supplementary pension and other long-cycle businesses (notably general insurance and certain forms of civil liability insurance).

With this in mind, the ACPR College asked French life insurance institutions to review, as part of their 2015 ORSAs, their ability to honour their commitments in a low interest rate environment by simulating two multi-year scenarios applied equally to all institutions.

2015 ORSA REPORTS AND THEIR FOCUS ON LOW INTEREST RATES

The 2015 exercise concerned all institutions, groups and branches of third country institutions covered by the Solvency II requirements. It culminated in the submission of an Own Risk and Solvency Assessment (ORSA) report covering the three assessments laid down in regulations. Participation in this preparatory 2015 exercise improved relative to 2014, with 90% of institutions submitting a report:

- ▶ The three assessments were covered more systematically.
- ▶ In terms of governance, reports were more formally signed off by management bodies. However, the Authority still expects management bodies to not only provide final sign-off but also to genuinely manage the end-to-end process. Furthermore, there is still room to improve the quality of the compensatory measures and corrective actions proposed.
- ▶ Single group-level ORSAs were conducted without prior request as part of this preparatory exercise.

In this exercise, particular attention was paid to the low interest rate environment. As well as a baseline scenario replicating the situation at end 2014, some institutions were asked to simulate two multi-year scenarios: one with very low interest rates and negative

inflation continuing from the beginning of 2015 through to 2019, and the other adding in a sharp rise in interest rates and inflation in 2018. The aim of the exercise was mainly to encourage executive bodies to appropriate the diagnosis and to determine measures to counter unfavourable changes.

The quality of the data submitted suggests that many French life insurance institutions have yet to take full measure of the impacts they will have to overcome in this low interest rate environment.

The results obtained under the baseline scenario, which approximates the situation at end November 2015, should prompt institutions to step up their efforts to adapt to the low interest rate environment while seeking to improve risk management. Meanwhile, the very low interest rate scenario, if it were to come about, would require immediate stronger action. In many cases, the impact of the scenario of a sharp rise in interest rates cannot be properly understood without a more in-depth analysis of modelling assumptions. The ACPR will ensure that strategic work to identify institutions' responses and accurately assess accounting impacts is taken further in 2016 through ORSAs, continuing dialogue with the supervisor and EIOPA's 2016 stress tests.



In 2015, the ACPR worked on a variety of projects to attempt to assess the impact of rate cuts on the insurance sector.

Adapting business models to the economic and regulatory environment

The entry into force, on 1 January 2016, of the national cross-industry agreement of 11 January 2013, transposed in an Act of 14 June 2013, changes the supplementary health insurance market. Of the 4 million employees potentially affected, 3.6 million are already covered and may therefore have to change their policies. As a result, some institutions that only sell individual policies could see a decline in contributions while being unable to adjust their fixed costs proportionately. Meanwhile, institutions in the market for group policies might be tempted to underprice their products to meet increased competition, thus damaging their claims-to-premiums ratios and, ultimately, their profitability. The censure of designation clauses by France's constitutional court also contributes to the shake-up in the health, death and disability insurance market⁴⁰.


Individual and group supplementary pension schemes, whose long-term liabilities often attract higher capital charges under the new Solvency II regime, also suffer significantly in the current low

interest rate environment, which is detrimental to their profitability. In conjunction with the ACPR and the industry, the directorate general "Treasury" is currently exploring a variety of options to better take into account the specific features of such pension products and protect policyholders' interests as effectively as possible over the long term, notably through the creation of institutions for occupational retirement provision, as provided for by the European Directive on Institutions for Occupational Retirement Provision.

The reconfiguration currently taking place in the various sectors of the insurance industry, particularly in mutual insurance and the social sector, also points to the need to rationalise structures so as to control internal costs in the medium term. In some sectors, such as health and death and disability insurance, there are questions over the sustainability of costs, given the observed increase in competition.

The ACPR will closely monitor the effects of these various shifts in 2016, in particular to ensure that institutions address these issues when putting together strategic plans for their entities and take them into account in their ORSAs.

⁴⁰ Historically, various collective bargaining agreements required health and/or death and disability insurance cover for all employees within a given industry to be centralised with one or more designated institutions. Companies in the relevant industry were thus required to take out their insurance cover with the institution(s) in question for a certain period. Alternatively, trade unions and employers' organisations can opt simply to recommend one or more institutions to meet the industry's health and/or death and disability insurance needs. In response to an a priori question in June 2013 in connection with the Job Security Act (*loi sur la sécurisation de l'emploi*), which amended Article L.912-1 of the Social Security Code establishing the framework for such designations and recommendations, the constitutional court said that the first type of clause was disproportionately detrimental to freedom of contract and freedom to trade. As a result, the corresponding policies are no longer allowed to include such clauses upon renewal.

A professional portrait of Pauline Geismar, a woman with long, wavy brown hair, wearing a white blouse. She is smiling and has her arms crossed. The background is dark.

Pauline GEISMAR,
first direction
of insurance supervision.

“ During 2015, the ACPR helped the insurance market **prepare for Solvency II implementation,** in particular as regards the identification of prudential groups and governance aspects”.

Creation and compliance of prudential insurance groups

The transposition of Solvency II provided a definition of prudential groups and, in particular, clarified the regime applicable to non-ownership-based structures. The latter are characterised by central coordination, the effective exercise of dominant influence by the group parent over the other members, and the establishment of strong and lasting financial relationships. They take the form of group mutual insurance companies (SGAMs), group social protection insurance companies (SGAPS) or mutual insurance union groups (UMGs).

The transposition also extended the principle of “flexible” structures whose purpose is to coordinate their members’ activities. Under no circumstances may such structures exert a dominant influence over their members or establish a relationship of financial solidarity. They take the form of mutual insurance groups (GAMs), social protection insurance groups (GAPS) or unions of mutual groups (UGMs).

Insurance institutions’ affiliation to prudential group structures (SGAMs, SGAPS and UMGs) is subject to prior authorisation by the ACPR. A transitional process has been put in place to allow SGAMs and UMGs created before April 2015, together with provident groups created before end 2015, an adjustment period that runs until 31 December 2017 to set up their organisational structures without being subject to the associated regulatory constraints (putting place group functions, group reporting, etc.). Given the long lead times that such compliance work can require, institutions have been encouraged not to wait for the end of the transitional period before identifying their belonging to a group under Solvency II, and to complete the group reporting exercises as a preparatory step. At 31 December 2015, the ACPR had identified around 30 SGAMs, SGAPS and UMGs that will either be created during 2016 or adapted to comply with the new regulations by the end of 2017.

C. SPECIFIC INSTITUTIONS AND BUSINESSES

Systemically important insurance groups

In November 2015, the Financial Stability Board (FSB) updated the list of nine insurers considered systemic (Global Systemically Important Insurers or G-SIIs) – i.e. insurers whose failure would have a major impact on the global financial system (see Chapter 6). In particular, this list includes French group Axa and European groups Allianz and Aviva, both of which have French subsidiaries. Dutch group Aegon was added, while Italian group Generali was removed. The total number of systemic insurers thus remained unchanged relative to 2013 and 2014.

A Crisis Management Group (CMG) has been put in place for each of the G-SIIs identified, consisting of the group’s supervisor and the main local supervisors. The role of a CMG is to prepare a coordinated strategy to wind down the group in question in an orderly manner – known as a resolution plan – in the event of an extremely severe crisis, with the aim of neutralising the impact on financial stability and taxpayers. Each G-SII must also submit an annual systemic risk management plan, liquidity risk management plan and crisis recovery plan to its CMG for approval.



Medical liability insurance

Act 2007-127 of 30 January 2007 on the organisation of certain health professions and the repression of identity theft and the illegal exercise of such professions requires insurance firms providing medical liability cover in France to provide the ACPR with data on which the supervisory authority “reports to the ministers with responsibility for the economy and social security”. The objective of

this analysis is to assess the current status of medical liability insurance for the market as a whole, both at aggregate level and within certain “high-risk” specialities. In the 2014 report, the ACPR noted a sharp rise in the number of European companies operating under the freedom to provide services, offering aggressive pricing in order to capture market share. This development represents a risk to policyholders, insofar as such companies are not obliged to pay into the medical liability mutual guarantee fund, while the individual risks covered are high and persistent over a long period, and their value has increased by an average of 10% a year for the past ten years.

“Euro-growth” policies

Following the April 2013 report by the Berger-Lefebvre parliamentary taskforce on household savings and the financing of the economy, two new types of policies came onto the market in autumn 2014:

- ▶ “Euro-growth” policies: individual or group policies incorporating a euro guarantee at maturity and diversification units. These policies require special attention from a prudential perspective (management of a complex provisioning and cover mechanism) and from the perspective of commercial practice (specific duty to advise);
- ▶ “Vie génération” policies, which are subject to specific tax arrangements and raise fewer prudential issues.

The ACPR is closely monitoring the development of such policies through a survey of institutions set up in 2015. Business in force remains limited for the time being (EUR 1.75 billion at end 2015), mainly due to the current interest rate environment. To facilitate the development of euro-growth policies, which could constitute a middle way between traditional euro-denominated policies and unit-linked products, in 2015 public authorities initiated a review of various mechanisms designed to make such policies more attractive to the public; a public consultation on this subject was held in October 2015⁴¹.



THE CONSULTATIVE COMMITTEE ON PRUDENTIAL AFFAIRS IN 2015

The Consultative Committee on Prudential Affairs, instituted by Decision 2010-C-20 issued by the ACPR College on 21 June 2010, is tasked with providing opinions on ACPR instructions prior to adoption, as well as on standard templates for licence and authorisation applications. Draft notices and explanatory guides that include an analysis of prudential regulations or describe ACPR licensing or supervision procedures are also submitted to the committee for opinion. In 2015, the committee met five times and reviewed around 50 draft texts covering various topics:

- ▶ implementation of Solvency II: European Insurance and Occupational Pensions

Authority guidelines, instructions and notices;

- ▶ compliance with European Banking Authority guidelines laid down in the BRRD and the DGSD;
- ▶ introduction of licensing forms and management appointment forms in the insurance sector;
- ▶ changes to the questionnaire on business practices;
- ▶ update to the notice on prudential ratio calculation methods under CRD IV;
- ▶ changes to instructions on reporting by credit institutions.

4. Resolution banking crises

In 2015, the ACPR's Resolution College adopted general measures linked to the entry into force of the BRRD⁴² and DGSD 2⁴³ and the texts transposing them.

Since these two directives entered into force, the EBA (European Banking Authority) has published guidelines on their terms of application. In France, the Resolution College ruled on the intention to comply with the regulations and the Supervisory College rules on deposit guarantees.

Furthermore, on 24 November 2015, the Resolution College adapted a decision on the methods of calculating ex ante contributions to resolution financing arrangements for 2015⁴⁴.

As regards work on individual cases, the ACPR continued with the exercise assessing the capacity of major French banking groups to be subject to resolution measures and identifying potential obstacles to the implementation of such measures⁴⁵. The Resolution College signed off the conclusions of this assessment, which were formalised in a letter from the Governor of the Banque de France and Chairman of the ACPR to the Chairman of the Financial Stability Board.

Finally, the Resolution College signed off draft transitional preventive resolution plans for major groups.

4.1. TRANSPOSITION OF THE BRRD

Act 2014-1662 on various measures to bring French law into line with European Union law in the areas of the economy and finance, adopted by Parliament on 30 December 2014, authorised the government to issue ordinances adopting the legislative measures necessary to transpose the BRRD and bring the provisions of the Monetary and Financial Code into line with those of Regulation (EU) 806/2014, within the framework of the Single Resolution Mechanism.

In close cooperation with the directorate general "Treasury", the ACPR was heavily involved in this work in the first half of 2015. In

addition to market meetings with banking industry bodies and the main French banking groups to present its work on the transposition of the BRRD and discuss draft legislation, the ACPR took part, alongside the directorate general "Treasury", in a number of working sessions at the Conseil d'État to finalise the draft legislation.



42. Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive).

43. Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (Deposit Guarantee Schemes Directive).

44. Decision 2015-CR-01 adapting, for 2015, European Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 supplementing Directive 2014/59/EU of the European Parliament and of the Council as regards ex ante contributions to resolution financing arrangements.

45. The RAP (Resolvability Assessment Process), launched in 2014 by the Financial Stability Board (FSB).

Ordinance 2015-1024 of 20 August 2015, which also transposes the directive known as DGSD 2⁴⁶, substantially supplemented the arrangements put in place by Act 2013-672 of 26 July 2013 separating and regulating banking activities⁴⁷ (the Banking Separation and Regulation Act), which had established the key principles of the framework for preventing and managing banking crises and, in anticipation, had laid down the main national options provided for by the directive. The Banking Separation and Regulation Act had anticipated certain provisions of the BRRD by establishing the French framework for bank resolution, responsibility for whose implementation was entrusted to the ACPR through the creation of a Resolution College.

As such, as well as the main French banking groups, which are already subject to the requirement to draw up preventive recovery and resolution plans, the following now fall within the scope of the ordinance, pursuant to Article L.613-35 of the Monetary and Financial Code:

- ▶ credit institutions supervised directly by the European Central Bank and credit institutions and investment firms that constitute a significant proportion of the financial system;
- ▶ credit institutions and investment firms that are not part of a group subject to consolidated supervision⁴⁸;
- ▶ parent undertakings in the European Union.

In accordance with the provisions of the ordinance, these entities are subject to crisis prevention and management measures that may be adopted by the ACPR's Supervisory College and/or Resolution College.

Crisis prevention measures require entities to draw up and submit to the Supervisory College annually a preventive recovery plan aimed at detailing what measures they would be likely to adopt if their financial position were to deteriorate. However, some of these entities may be subject to simplified requirements depending on their characteristics and the degree of risk they represent or, for entities belonging to a group, the requirement will be met for the group as a whole by its European Union parent, unless decided otherwise by the ACPR, together with other supervisory or resolution authorities as the case may be.

Crisis prevention arrangements also include early intervention measures that can be implemented by the Supervisory College whenever an entity falling within the scope of the ordinance infringes, or is likely in the near future to infringe, the prudential requirements that apply to it. In such cases, the Supervisory College can require the entity in question to adopt a number of measures such as implementing its preventive recovery plan or an action plan, changing its commercial strategy or negotiating a debt restructure with its creditors. Furthermore, the Supervisory College may dismiss the entity's senior managers and appoint a temporary administrator under the conditions laid down in Book VI of the Monetary and Financial Code. Lastly, the ACPR may ask for a shareholders' general meeting to be convened, with the agenda set by the Authority.



Finally, crisis prevention measures are also within the ambit of the Resolution College. For entities subject to the requirement to draw up a preventive recovery plan, the Resolution College must prepare a preventive resolution plan setting out what measures the ACPR plans to adopt if those entities should fail, while ensuring, as far as possible, the continued operation of “critical” functions, i.e. functions necessary to the continuity of operations which, if they were to halt, would have an adverse effect on the economy and financial stability.

The Resolution College must analyse the “resolvability” of such entities, or their ability to be subject to resolution measures. If the College considers that there are obstacles to the implementation of

46. Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes.

47. Ordinance 2015-1024 of 20 August 2015 on various measures to bring French law into line with European Union law in the area of finance.

48. Including subsidiaries and branches of third country institutions.

such measures, it may ask the entity to take corrective action. If such action is not satisfactory, the Resolution College may direct the entity to adopt measures up to and including reorganisation of the group or the cessation of certain activities deemed excessively risky.

Concerning crisis management measures, the Resolution College has powers beyond the scope of ordinary law. If the Resolution College considers that an entity is failing or likely to fail, that there is no alternative private sector funding solution (such as recapitalisation) and that the public interest requires a resolution measure to be adopted, the entity in question is placed under a resolution procedure. When these three criteria are met, the College first takes control of the entity under resolution; it may appoint a special administrator acting under its responsibility and having all the powers attributed to the entity's corporate bodies, including those delegated to the shareholders. The Resolution College has four main resolution tools that it can decide to apply individually or jointly, depending on the situation: disposal of business lines, creation of a bridge entity, transfer to an asset management structure or bail-in⁴⁹.

In the specific case of the failure of cross-border groups, the transposing ordinance stipulates that the Resolution College, if it is the consolidated resolution authority, must cooperate closely, through colleges of resolution authorities, with the resolution authorities of other States in which significant subsidiaries and branches are established. Furthermore, the implementation of the "SRB Regulation"⁵⁰ transferred jurisdiction from the ACPR's Resolution College to the Single Resolution Board on 1 January 2016.

4.2. CREATION OF THE SINGLE RESOLUTION MECHANISM

Following the creation of the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM), which constitutes the second pillar of the Banking Union, was defined in 2014 by the "SRM Regulation".

The SRM Regulation provides for the sharing of jurisdiction between:

- ▶ the Single Resolution Board (SRB), which has jurisdiction with effect from 1 January 2015 to draw up resolution plans and with effect from 1 January 2016 to adopt resolution decisions concerning significant credit institutions supervised directly by the ECB within the framework of the SSM, investment firms when they are subsidiaries of a credit institution falling within the scope of the SRM, and cross-border institutions; and
- ▶ national resolution authorities, which retain exclusive jurisdiction to adopt decisions concerning other institutions.

However, national resolution authorities continue to be directly involved in the SRB's work preparing resolution plans for institutions falling within the scope of the SRB. They also participate in the adoption of resolution decisions made by the SRB concerning such

institutions. Responsibility for implementing such decisions lies with national resolution authorities.

In 2015, the SRB recruited significant numbers of new staff, notably to form joint teams with national authorities (Internal Resolution Teams or IRTs) to develop resolution plans for institutions and groups falling within its jurisdiction. The ACPR contributed significantly to the SRB's methodological work to define a working framework and to prepare, as a priority, preventive resolution plans for major European banking groups (see below).

In particular, the ACPR participated in a pilot exercise on the IRT of a major French group, aimed at defining working and organisational arrangements between national resolution authorities and the SRB.

Finally, four expert committees involving the SRB and national resolution authorities were set up in 2015. One of these committees is tasked with defining the terms of cooperation between the members of the SRM, as well as between the SRM and the SSM and other European authorities such as the Commission or the Parliament. A second committee works on contributions to the Single Resolution Fund (see box on the SRF). A third committee is tasked with clarifying arrangements for managing a banking crisis and implementing resolution tools. The final committee establishes methodologies for analysing resolvability and drawing up resolution plans. These committees provide for efficient cooperation between the SRB and national resolution authorities and help create a shared culture within the Single Resolution Mechanism.



49. Entry into force of the bail-in provisions was postponed until 1 January 2016.

50. Regulation (EU) 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) 1093/2010.

THE SINGLE RESOLUTION FUND (SRF)

The Resolution Board manages the Single Resolution Fund, established by the regulation on the Single Resolution Mechanism. SRF funds can be called upon once the shareholders and creditors of a failing institution have absorbed losses in excess of 8% of that institution's total liabilities.

Initially consisting of national compartments dedicated to bailing out domestic banks, the SRF will gradually be pooled to reach 1% of deposits covered, equating to almost EUR 55 billion in 2024. Forty percent of the fund will be pooled with effect from 2015, rising to 60% in 2016 and 70% in 2017. The French and German portions will represent 55% of the SRF's funds. The total amount of contributions from French banks is estimated at EUR 15.5 billion.

The fund is financed via a contribution paid by credit institutions and their subsidiary investment firms in

the euro area. If it should run out of funds, the SRF can raise contributions on an ex post basis or borrow from other funding schemes. During the SRF's ramp-up phase, a safety net was put in place with first-demand credit lines made available to Banking Union member States. In France, Article 111 of the Supplementary Budget Act for 2015 authorises the minister with responsibility for the economy to guarantee issues carried out by *Société des prises de participation de l'État* in response to a call for liquidity by the Single Resolution Fund.

French institutions falling outside the jurisdiction of the Single Resolution Board continue to pay into the national resolution fund managed by the *Fonds de garantie des dépôts et de résolution* (deposit guarantee and resolution fund).

4.3. WORK ON INDIVIDUAL INSTITUTIONS

In 2015, the ACPR undertook numerous workstreams on individual institutions, with the focus on continuing the Resolvability Assessment Process (RAP) kicked off by the Financial Stability Board (FSB) in 2014 as well as establishing the first preventive resolution plans in connection with the entry into force of BRRD and the SRM Regulation.

3 questions to Olivier Jaudoin

Resolution Director.



WHAT DID THE ACPR DO TO IMPLEMENT THE RAP EXERCISE IN THE FRENCH BANKING SECTOR?

The RAP was initially applied to just one major French banking group before being extended to France's other three systemic banking groups. Its aim is to assess a banks' resolvability as well as to identify potential obstacles to the implementation of resolution measures.

HOW DID YOU INVOLVE BANKING GROUPS IN YOUR APPROACH?

Under the banner of international cooperation and in keeping with the FSB's key attributes, the ACPR organised crisis management groups for each of these major banking groups. These crisis management groups bring together the supervisory and resolution authorities for the banking group in question and share and discuss the results of the assessment.

WHAT LESSONS DID YOU LEARN?

The findings of the RAP for each banking group were formalised in a letter sent to the FSB Chairman by the Governor of the Banque de France, who chairs the ACPR's Resolution College.



With effect from 1 January 2015, the SRB has authority to draw up, with the involvement of national resolution authorities, preventive resolution plans for institutions falling within its jurisdiction. Given the workload involved in preparing these plans for all relevant institutions, the SRB focused its work in 2015 on major European banking groups. Furthermore, drawing up a preventive resolution plan requires a huge amount of work to analyse the institution's structure, businesses and critical functions – i.e. those functions whose interruption would have a substantial adverse effect on the real economy and financial stability. Since 2015 was a transitional year between national resolution regimes and the SRB, it was agreed that preventive resolution plans drawn up jointly by the SRM and national resolution authorities would be transitional (Transitional Resolution Plans or TRPs).

The ACPR was heavily involved in preparing TRPs for major French banking groups by organising regular dialogue with the groups in question and drafting the reports.

In 2016, in the context of the work of the SRB, the ACPR will help further flesh out TRPs so that they comply with the BRRD. It will

also develop preventive resolution plans for other institutions falling within the SRB's jurisdiction.

4.4. INTERNATIONAL AND EUROPEAN INITIATIVES

At the **international** level, the ACPR is at the forefront of negotiations over international principles on resolution in the context of the Financial Stability Board. Work in 2015 mainly related to defining the new TLAC requirement (see box), funding for institutions under resolution operational continuity.

To improve cross-border recognition of resolution actions, in 2015 the ACPR helped draw up an additional protocol to the ISDA (International Swaps and Derivatives Association) master agreement on derivatives. This additional protocol facilitates the recognition by non-defaulting member counterparties of the primacy of temporary suspension measures adopted as part of a resolution procedure over their early termination rights (universal resolution stay protocol).

At the **European** level, the ACPR is involved in the preparation and adoption of European Banking Authority technical standards and guidelines on recovery and resolution. As such, it has helped draft general guidelines and technical standards on deposit guarantee schemes and new requirements on resolution such as the MREL (Minimum Requirement for own funds and Eligible Liabilities – see box below).

THE TLAC REQUIREMENT

As part of the Financial Stability Board's work on systemic banks, the ACPR played a very active role in defining the new total loss-absorbing capacity (TLAC) requirement, the final version of which was published at the G20 summit in Antalya on 16 November 2015. In the event of a banking crisis, resolution authorities can mobilise liabilities meeting specific criteria to absorb losses and recapitalise global systemically important banks so as to maintain critical functions while minimising the impact on public finances. The work on TLAC is aimed at requiring institutions to issue sufficient debt – mainly subordinated – to bear the cost not only of losses but also of any recapitalisation needed to maintain their economically beneficial activities.

The ACPR is also involved in defining the terms of application of a requirement with a similar aim (Minimum Requirement for own funds and Eligible Liabilities or MREL). Its composition and level will be determined on a case-by-case basis (i.e. it is a "Pillar 2" requirement) by the Single Resolution Board under the terms of a technical standard drawn up by the European Banking Authority. The first general guidelines on MREL were presented to banks by the Single Resolution Board in January 2016.

CHAPTER 3

Protecting

CUSTOMERS IN BANKING AND INSURANCE

1. Complaints handling	78
2. Lessons learned from inspections performed in banking and insurance	80
3. Consumer protection: taking action on best practices and preparing the market for the new regulations	86
4. Consumer protection and the European Union	88

Protecting customers in banking and insurance: the challenge is to build confidence in financial sector professionals.

The ACPR's customer protection objective is now an integral part of the French regulatory landscape, and the aim of the Authority's market supervision is the early detection of business practices that show little concern for customers' interests. In its inspections, the ACPR endeavours to account for both regulatory developments and the fast-changing technological environment in banking and insurance. The ACPR collaborates with all customer protection bodies domestically (AMF, DGCCRF (Competition General Directorate), and industry and consumer organisations) and internationally (European supervisory authorities, International Association of Insurance Supervisors, FinCoNet).



1. Complaints handling

Supervision of business practices in figures in 2015

3,400

advertisements analysed

80

inspections concerning business practices of which **2** were performed by the *Institut d'émission des départements d'outre-mer* (IEDOM, French overseas departments note-issuing bank)

28

companies investigated for unclaimed policies representing **90%** of the life insurance market, under the unclaimed policies action plan

7,383

requests and complaints received

1.1. REMINDER OF THE ACPR'S ROLE

As part of its customer protection objective, the ACPR receives requests and complaints from customers of banks, insurance institutions and their intermediaries.

It responds by providing information on the steps customers should take if they are dissatisfied, as well as general information on applicable regulations. Its task is not, however, to settle individual disputes.

Beyond the individual issue raised, the information provided by customers gives valuable clues as to the quality of business practices in the industry.

When it identifies poor practices, the ACPR may request more specific explanations from the entity in question, in particular about the extent of the practice and any corrective actions under consideration. It may also use this information to guide its supervisory or communications activities.

1.2. THE MAIN PROBLEM AREAS IN INSURANCE

In 2015, many of the complaints were from customers who were solicited to purchase health insurance policies. Claimants reported inaccurate or ambiguous information about the identity of the direct marketer, the extent of the coverage offered and the possibility of terminating their pre-existing policy. Some also denied having agreed to the policy in question. These difficulties, already identified in 2014, resulted in supervisory actions by the ACPR.

In life insurance, delayed benefit payments were once again a major source of complaints from the public. There were a variety of reasons for the delays: lack of due diligence by the beneficiaries, as well as by the management services of the insurance institution or its delegatee; repeated requests for documents despite their having been sent by registered letter, return receipt requested; piecemeal requests for documents rather than all at once; and excessive delays in sending documents from the delegatee to the insurance institution. The law on inactive bank accounts and unclaimed life insurance policies, known as the Eckert law, includes provisions aimed at banning these practices. Its recent entry into force should serve as an opportunity for the industry to revise its practices.

In non-life insurance, the complaints highlighted policyholders' lack of understanding of the limitations of the cover provided by their policy. This may stem from a lack of precision in the contractual provisions or indicate the inadequacy of the information policyholders received and retained about the conditions under which they may use this cover. The contractual definitions of the conditions of dependency, disability and accident are thus often poorly understood; accidents in particular require the existence of an external cause, which can sometimes be difficult for the policyholder to prove and should be more clearly explained when the policy is purchased.

1.3. THE MAIN PROBLEM AREAS IN BANKING

Complaints regularly concerned account closures. The time taken to close accounts may in practice exceed that allowed by regulation. Account closures may also be improperly billed. Banks were reminded of the regulations at a time when the public authorities are seeking to facilitate banking mobility for customers.

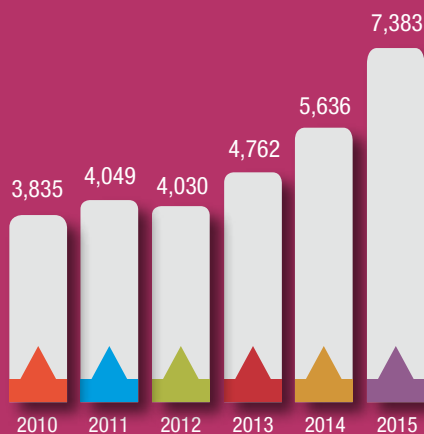
Disputes over unauthorised payment transactions were another source of dissatisfaction. Banks sometimes refuse to reimburse, in contravention of regulatory requirements, particularly when a PIN is entered or enhanced security measures are employed.

Due to low interest rates, mortgage renegotiations and repurchase requests increased and generated complaints. Response times for renegotiations were sometimes long and conflicting answers were given. With prepayments, some borrowers found it difficult to obtain the necessary itemisation. Furthermore, customers were sometimes charged prepayment fees despite their belief that they had negotiated a waiver when they entered into the contract. It is therefore important for professionals to respond to the customers involved in a timely manner.

The complaints showed that scams are on the rise. These include individuals posing as licensed institutions or intermediaries and offering loans. Before the alleged funds are released, the scammers require that consumers pay some money under various pretexts. Some of these scammers use the name or logo of the ACPR to solicit individuals who lost money in trading transactions through the same mechanism. The ACPR regularly warns the public about these issues and urges the utmost vigilance, in cooperation with the AMF (Autorité des Marchés Financiers) and the DGCCRF (General Directorate for Competition Policy, Consumer Affairs and Fraud Control).

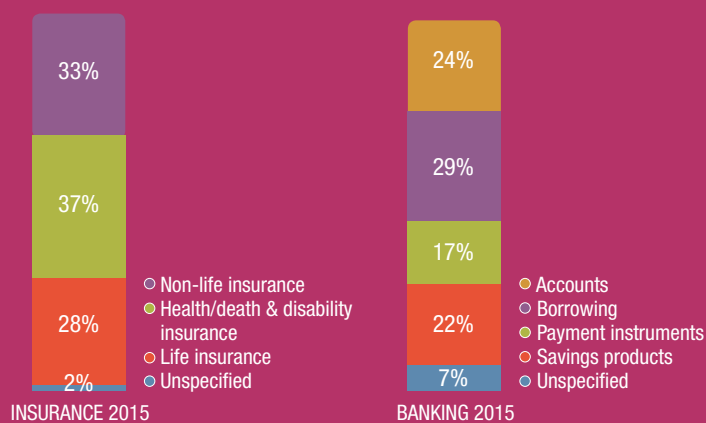
CUSTOMER REQUESTS RECEIVED BY THE ACPR IN FIGURES

In 2015, the ACPR received 7,383 written requests and complaints. This number increased sharply from 2014 (up 31%), particularly in relation to banking.



NUMBER OF WRITTEN REQUESTS RECEIVED BY THE ACPR

For more than 10% of the written requests that it processed in 2015, the ACPR asked institutions or intermediaries to provide explanations of their business practices.



BREAKDOWN OF REQUESTS BY CATEGORY AND SUBJECT

2. Lessons learned from inspections performed in banking and insurance

The ACPR's scope covers banking and insurance, as well as intermediaries in both sectors.

2.1. PROTECTING CUSTOMERS IN BANKING: INSPECTIONS AND LESSONS LEARNED

A. OVERDRAFT FEES AND APRC (ANNUAL PERCENTAGE RATE OF CHARGE)

The inspections showed that customers had been charged handling fees that did not meet the criteria defined by law or case law: when the account balance on the value date could cover the payment order, when a payment without sufficient funds was not likely to be rejected, or merely for general account monitoring. Handling fees are used to pay for a specific review service that must be justified by the banks. This is particularly true when the review is performed through automated processing, which makes it harder to identify the specific service. The Authority also found that certain institutions employed the questionable practice of charging customers fees when they opted to withdraw their consent to execute a series of payment transactions. Lastly, the ACPR notes that fees charged to vulnerable customers are subject to stricter control by institutions. In particular, basic banking services or rejections of withdrawals during the phase.

B. SPECIFIC-PURPOSE LOANS, REVOLVING CREDIT FACILITIES AND DEBT CONSOLIDATION

The marketing of payment cards associated with revolving credit facilities should remain consistent with the needs expressed by the customer. Any long-term non-use of a revolving credit facility should therefore raise questions about whether the product is truly suited to the customer's needs.



Inspections carried out on the subject of loans used specifically to finance the installation of solar panels confirmed that lenders need to carefully assess the potential income that can be generated from electricity production and to secure the process for releasing funds to ensure that it is never initiated before delivery of the service ordered. The selection and supervision of intermediaries in banking transactions and payment services involved in this area require further strengthening. As such, to assess the quality of these intermediaries and adjust their control systems accordingly, institutions must account for the economic advantage relating to the ability to offer a loan intended to finance the asset. The ACPR notes that institutions that appoint an agent to market their products and services remain responsible for the conditions under which this marketing is conducted.

In debt consolidation transactions, intermediaries act as non-exclusive agents and may have a distribution network made up of agents of intermediaries. The inspections showed that the description of the contracts is often skewed to emphasise the lower monthly payments and play down the increased length and higher cost of the transaction. The contracts and the consequences of the transactions



are not always presented clearly to customers. They may not, for example, be able to assess the impact of the additional cash component that is often included in the transaction, with no explanation or motive, and that can have a significant impact on the cost of credit. Other deficiencies relate to the substance of the mandate and to the method of compensation implemented by credit institutions.

Explanations from Patrig Herbert

**supervisor within the Oversight
of Contracts & Risks Division.**



I have been a business practices supervisor in the department for more than five years and have access to a broad range of tools.

I am in charge of on-site inspections at both credit institutions and insurance companies and, as such, I conduct document-based inspections. I might conduct individual interviews or closely monitor a specific group of stakeholders on a particular subject, or maybe process institutions' responses to a customer protection questionnaire.

At the same time, I take part in supervisory activities covering advertising, practices and contracts, and may have to intervene when I identify non-compliant entities.

I also participate in industry working groups, notably in collaboration with the AMF, and in legislative and regulatory developments for areas under my responsibility.

As a legal expert specialising in banking, finance and insurance, I am thus able to contribute to the customer protection objective entrusted to the ACPR by the legislature.



Our work within the European supervisory authorities seeks to promote balanced regulation to protect customers in banking and insurance.

Thomas MONTCOURRIER,
Supervision of Business Practices
Directorate.

2.2. PROTECTING CONSUMERS IN INSURANCE: INSPECTIONS AND LESSONS LEARNED

A. LIFE INSURANCE POLICIES: HONOURING COMMITMENTS IN THE LONG TERM

The ACPR continued with its inspections relating to firms' fulfilment of their current obligations through to payout of the life insurance policy.

In this regard, the ACPR notes that an insurance company's or insurance intermediary's duty to advise applies not just to the purchase of the policy but also for its entire term. In addition, the requirement to record policy changes in writing, pursuant to Article L. 112-3, subparagraph 5, of the Insurance Code, is critical to ensuring customers' informed consent to changes to any agreement on which they had originally been advised.

Along the same lines, the need to settle life insurance policies payable by reason of term or the death of the policyholder has led the ACPR to implement a far-reaching initiative targeting the industry's main life insurance companies. An action plan has helped to identify stocks of unclaimed life insurance policies and to clear this stock by locating beneficiaries. The initiative will continue in 2016.

This action builds on the on-site inspections the ACPR has carried out for several years on the subject of unclaimed life insurance policies and which in particular led the Sanctions Committee to impose four sanctions in 2014 and 2015. Pursuant to the law of 13 June 2014, the ACPR will submit a report to Parliament in April 2016



describing the actions taken on this subject in 2014 and 2015, as well as changes in outstandings and in the number of life insurance policies and guaranteed investment contracts that have not been paid out.

B. DISTANCE MARKETING OF HEALTH AND MOTOR INSURANCE POLICIES

Telephone marketing of individual health insurance policies targets students and, above all, retirees. Inspections of specialised intermediaries confirmed the significant risks to customers who did not solicit a call and are not necessarily aware that they are agreeing to an insurance transaction. The inspections also highlighted deficiencies in pre-contract disclosures specific to remote sales, in particular as regards customers who were not clearly informed in a timely manner whether or not they could cancel the policy within a certain period of time. Distance transactions are safe only when there is strict compliance with the obligations concerning the identification of the intermediary and the provision of information and advice.

AERAS AGREEMENT (“S’ASSURER ET EMPRUNTER AVEC UN RISQUE AGGRAVÉ DE SANTÉ” — “TAKING OUT INSURANCE AND BORROWING WITH AN AGGRAVATED HEALTH RISK”)

The harmonisation work of the Commission de suivi et de proposition (Monitoring and Proposal Committee) seeks to set a time limit for and oversee the formulation of questions about business interruption, medical treatment, disability and long-term illness.

However, the document-based inspections conducted by the ACPR in 2015, pursuant to implementation of the AERAS agreement (“Taking out insurance and borrowing with an aggravated health risk”), revealed that numerous risk questionnaires for payment protection insurance did not comply with these harmonisation projects.

The lack of precision in certain questions about health status and the existence of general exclusion clauses for pre-existing conditions may also be used to thwart the objectives of the Committee, which has endeavoured to minimise the number of applicants excluded and to limit questions about the past.

In parallel with the work to be done to implement the “right to be forgotten”, it therefore appears that these contractual questionnaires and notices require adjustment.



2.3. NEW DISTRIBUTION CHANNELS: TAKING DEVELOPMENTS INTO ACCOUNT

An intermediary is the interface between a supplier and a customer. In more concentrated markets and given the distance between these two parties, an intermediary may engage the services of several professionals or use innovative techniques such as remote sales or platforms. However, the use of these new marketing methods must be incorporated in compliance with regulations.

A. THE INTERMEDIATION CHAINS

The ACPR has identified chains involving up to five or six professionals in the distribution of insurance policies. In banking, the use of multiple entities is organised horizontally by the network heads, so that agents and business finders work together.

This increasing complexity can lead to a decline in the quality of the information provided to customers, as it may be incomplete or inaccurate due to the professionals' unfamiliarity with the product. The lack of clarity about each participant's role can result in an absence of accountability and a failure to consider the customer's needs.

These chains need to be structured contractually in order to ensure the provision of information and advice, and to identify and deal with potential conflicts of interest.

B. REMOTE SALES

In 2015, inspections were once again carried out on remote sales, which had already been identified as a customer protection challenge. This distribution channel too often appears to exhibit poor customer protection conditions. On the internet, requirement gathering for a potential customer must be adjusted and analysed. Consistency checks and freezes can ensure that the purchase is made in the context of the advice provided by the intermediary. Phone and mail channels also pose problems with respect to the timeline of the transaction. The intermediary must pay close attention to the pre-contract disclosures required.

C. CROWDFUNDING

The ACPR is closely monitoring the development of crowdfunding. In 2015, it ensured that the industry was taking the new regulations into account.

Over the long term, the ACPR will ensure that the innovative spirit of the FinTechs in question is consistent with customer protection provisions. In particular, it will make sure that all the information posted online, such as the identification of the parties and the description of the projects, is clear, accurate and easily understandable.

REQUIREMENTS FOR ACCESS TO AND PRACTICE OF THE PROFESSION OF INTERMEDIARY IN INSURANCE, BANKING TRANSACTIONS, PAYMENT SERVICES OR CROWDFUNDING

The access to and practice of the profession of intermediary in insurance, banking transactions, payment services or crowdfunding are strictly regulated. The ACPR verifies intermediaries' compliance with these provisions, which are the foundation of customer protection.


Consumers should work with a reputable contact who has been properly trained. All intermediaries should define their recruitment policy and determine the training needs to be

covered before new employees take up their sales duties.

Close attention must be paid to collection and management mandates and their impact on the financial guarantee calculation; the intermediary must show proof it has taken out such a guarantee. Lastly, when an intermediary is involved in several activities, its liability insurance policy must be consistent with all applicable regulations.

Explanations from Patrice Cartelier

deputy supervisor within the regional directorate of the Banque de France in Alsace.



For three years, the Strasbourg branch has participated in the inspections of intermediaries carried out by the ACPR. We have created a team made up of three agents with experience in the network's activities. For each inspection, we create a two-person team with an ACPR supervisor.

We participate in the on-site inspection, prepare the draft report with the assistance of the lead supervisor and then conclude the assignment with a feedback meeting with the reporting institution.

Our local knowledge has proved beneficial to the ACPR, as it helps our colleagues identify which companies to inspect. Our presence in the region also gives us an understanding of the impact the inspections will have on the local market. This cooperation, which reinforces the Authority's efforts on the ground, will continue in 2016.

3 Consumer protection: taking action on best practices and preparing the market for the new regulations



3.1. RECOMMENDATION ON LIFE INSURANCE ADVERTISING

Recommendation 2015-R-01, which entered into force in August 2015, promotes the principle of balance in advertising: the ancillary risks of the benefits promoted should be presented clearly and in the main body of the advertising copy, particularly the risk of capital loss and a statement warning that past performance is no guarantee of future returns. The text also sets out other best practices for presenting products. While the ACPR has already seen practices change for the better, improvements in the balanced presentation of the offerings are still expected.

3.2. LAW OF 13 JUNE 2014: IMPACTS AND OBLIGATIONS FOR PROFESSIONALS

The “Eckert” law, which entered into force on 1 January 2016 and affects the management of accounts and safety-deposit boxes, is expected to lead to changes in credit institutions’ information systems and internal procedures. The experience the ACPR gained in unclaimed life insurance policies helped it identify various areas of focus:

- ▶ the quality of the knowledge institutions have about their customers should ensure the effectiveness of the process for consulting the national register of natural persons (RNIPP) and of the information provided to holders of accounts or safety-deposit boxes and to their known beneficiaries;
- ▶ institutions must track the steps they take to identify inactive accounts and safety-deposit boxes, as well as the administrative actions they take in each phase of this new process;
- ▶ institutions must retain all documents and information about the holder of the account or safety-deposit box for the entire time the funds and assets are held by the Caisse des Dépôts et Consignations.

3.3. BUNDLING AND DE-LINKING OF HOME LOANS AND PAYMENT PROTECTION INSURANCE

All the implementing texts for the “de-linking” principle, which allows borrowers to freely choose their insurance policy as long as its cover is equivalent to that of the policy offered by the lender, have now been published. A market agreement was also signed to define the concept of equivalent cover. Against this backdrop, the ACPR will ensure that lending institutions inform customers of their detailed insurance requirements at the earliest possible stage, and that they make a fair comparison of the covers within a short time frame. The same rigour is required in their review of customer requests to change insurance within 12 months of the loan offer, an area where the ACPR has found that requests are still too often rejected without basis.



THE CONSULTATIVE COMMITTEE ON *BUSINESS PRACTICES* IN 2015

The Consultative Committee on Business Practices (CCPC) is made up of members from a wide variety of backgrounds, including representatives from the banking and insurance industry and from consumer protection associations. It meets periodically to provide its opinion on draft recommendations and to gather consumer protection information and suggestions from its members.

In 2015, the CCPC met three times and expressed an opinion on a variety of subjects, including on the draft position on the practice of combining a payment card with a revolving credit facility, on the draft recommendation on the advertising of life insurance policies and on several European Banking Authority (EBA) guidelines.

THE ACPR-AMF JOINT UNIT, ACTIVITIES IN 2015

Since 2010, the Autorité de Contrôle Prudentiel et de Résolution/Autorité des Marchés Financiers Joint Unit has taken joint action to protect investors and has furthered the discussion on business practice issues.

In 2015, the inspections carried out in a coordinated manner focused on four “traditional” subjects: marketing of savings products, remote sales, distribution channels and crowdfunding. The Joint Unit also continued to consider changes in business practices, their regulation and their supervision, both domestically and internationally:

- ▶ domestically, the discussion focused on remote sales and digitalisation, and on regulating the management mandate in life insurance;
- ▶ internationally, the conversation was about guidelines for product oversight and governance (POG) and the regulation on packaged retail and insurance-based investment products (PRIIPs).

The work of the Joint Unit is detailed in its annual report.

4 Consumer protection and the European Union

4.1. ORGANISATION OF THE EUROPEAN SUPERVISORY AUTHORITIES

The three European supervisory authorities — the EBA, EIOPA (European Insurance and Occupational Pensions Authority) and ESMA (European Securities and Markets Authority) — have established specific working committees to oversee consumer protection work and the monitoring of innovations in financial products.

Their role, among others, is to coordinate the development of the technical advice the European Commission uses to draft delegated acts (level 2 measure under European law).

The ACPR represents France at meetings of the EBA and EIOPA committees.

To facilitate the treatment of cross-sector subjects, the Joint Committee of the European Supervisory Authorities (JCESA) has also created a working group on consumer protection and financial innovation. This group is made up of representatives from the three European authorities, and the ACPR and AMF participate in its work.

4.2. MAIN TEXTS OF NOTE

Several texts were discussed or adopted in 2015. The European mortgage credit directive, adopted on 4 February 2014, is being transposed and led to the publication of EBA guidelines. It aims to create a Union-wide mortgage credit market with a high level of consumer protection.

The payment accounts directive, which entered into force on 18 August 2015, must be transposed no later than 18 September 2016. This is an important step in the integration of the European retail banking market.

The directive on insurance distribution was adopted in November 2015. It concerns the requirements for the access to and practice of the insurance intermediary profession and conduct-of-business rules for marketing. It proposes advances in information provided to customers, conflict-of-interest management and supervisory powers. The delegated acts will be drawn up in 2016. Other work included the delegated acts for the PRIIPs regulation, currently under discussion by the three European supervisory authorities. The regulation provides for the implementation of a key information document (KID) for investment products, including special purpose vehicles and insurance products, if their performance depends directly or indirectly on market fluctuations. The KID gives retail investors key facts about the product (risks, costs, performance) in a clear and understandable manner. The delegated acts should be adopted during 2016.





CHAPTER 4

Participating

IN ANTI-MONEY LAUNDERING AND COUNTER-TERRORIST FINANCING

1. ACPR supervision in 2015	92
2. Work on legal instruments in respect of AML/CTF	96



The ACPR ensures that entities under its supervision comply with requirements on anti-money laundering and counter-terrorist financing (AML/CTF).

It undertakes ongoing supervision (in particular by analysing responses to questionnaires) and carries out on-site inspections. In this way, the Authority ensures that anti-money laundering and counter-terrorist financing procedures put in place by institutions are compliant and that institutions fulfil their due diligence requirements in practice.



1. ACPR supervision in 2015

The ACPR is tasked with checking that all financial institutions under its supervision, including significant credit institutions under the direct prudential supervision of the ECB, comply with:

- ▶ preventive anti-money laundering and counter-terrorist financing (AML/CTF) measures;
- ▶ domestic and European asset freeze measures, including those proposed in the context of counter-terrorist financing.

AML/CTF is one of the ACPR's supervisory priorities. It is thus fully consistent with the action plans adopted in 2015 by the Finance Minister (on 18 March and 23 November 2015) and the FATF (Financial Action Task Force) for the purpose of enhancing CTF measures.

In the context of its ongoing supervision, as with its on-site inspections, the ACPR checks:

- ▶ the appropriateness of the AML/CTF procedures established by financial institutions based on their exposure to AML/CTF risks, given their customers, activities and locations, and the proper

implementation of due diligence measures appropriate to these risks to their customers, in particular the Tracfin reporting and disclosure requirements;

- ▶ the effectiveness of the systems for identifying individuals or entities subject to restrictive measures and asset freeze measures so as to comply with the results requirement laid down in the regulations and with the authorisation and reporting obligations vis-à-vis the directorate general "Treasury".

Ongoing supervision draws mainly on financial institutions' responses to AML/CTF questionnaires and annual internal control reports. Their analysis may lead, as needed, to follow-up letters and in-depth supervision meetings.

The annual AML/CTF questionnaire, which is the same for banking and insurance, was revised in 2015 — just after the 2015 responses were submitted — to include new questions on asset freeze procedures, among others.

In 2015, the ACPR carried out 22 on-site AML/CTF inspections.



ANNUAL AML/CTF QUESTIONNAIRE

Instruction 2015-I-14 amending Instruction 2012-I-04 which defines the joint questionnaires for institutions in the banking (excluding money changers) and life insurance sectors on AML/CTF was adopted on 22 June 2015 at the plenary meeting of the ACPR College. In addition to updating the regulatory references, this instruction expands the questionnaire to include the procedures for identifying funds, financial instruments and economic resources belonging to individuals or entities subject to asset freeze measures and the obligation to systematically disclose information to Tracfin (this obligation is known as COSI, for “communication systématique d’information”, and covers money remittances and payments, and cash withdrawals from/deposits to bank and payment accounts).

The section on statistical data was clarified for suspicious transaction reporting and instruments that encourage anonymity (the certificates and securities referenced in Article 990 A of the General Tax Code, i.e. guaranteed investment contracts for the insurance sector and *bons de caisse* (certificates of deposit) for the banking sector). The institutions must provide new statistical data on situations in which a business relationship was not established or was terminated, as well as on the number of cash withdrawal/deposit transactions of more than EUR 10,000 that led to a COSI (as from financial year 2016).

In the context of the enhanced cooperation with Tracfin, close attention was paid in 2015 to:

- ▶ the insurance sector, where responses to the questionnaire for 2014 showed that 62% of life insurers (as a percentage of institutions weighted by market share) have procedures that are broadly compliant with regulations, for 36% the procedures could be further improved, and for 2% they fall quite short. The ACPR’s inspections in this sector in recent years underscore the considerable progress made in implementing the legal requirements. There nevertheless remains significant room for improvement. The ACPR has distributed sector-specific typologies, provided by Tracfin (see 2 box on enforcement principles for the insurance sector). A supervision conference was held on 20 November 2015, with Tracfin’s participation, focused mainly on the reporting practices of life insurers and the joint expectations of Tracfin and the ACPR;
- ▶ the reports sent by Tracfin about AML/CTF, in accordance with paragraph I of Article L. 561-30 of the Monetary and Financial Code, concerning the new typologies to be used by financial institutions, the reporting practices of financial institutions, and the appropriateness of the due diligence measures implemented by certain institutions in individual cases.

During 2015, 22 on-site inspections were conducted in respect of AML/CTF. Close attention was paid in the banking sector, building on actions taken in previous years notably in private banking, to the procedures for verifying AML/CTF compliance implemented by parent companies for their foreign entities.

These inspections supplemented actions taken by the local authorities, which are responsible for verifying proper implementation of the AML/CTF procedures applicable to these entities. The ACPR’s inspections aim to ensure that the group is effectively managing the risks inherent in the businesses carried out by the foreign entities. Institutions that offer payment services were also inspected. The ACPR launched several inspections of institutions that offer money remittance services, thought to be high risk, particularly with regard to terrorist financing. These included firms that operate in France under the freedom of establishment, whether as a branch or through

agents. The ACPR also continued its on-site inspections of money changers.

In the insurance sector, the inspection priorities remained focused on large life insurers and specific brokers, particularly in light of Tracfin’s reports to the ACPR. The inspections paid close attention to the due diligence measures put in place by institutions for transactions involving guaranteed investment contracts in bearer form, which are considered high-risk products.

After the on-site inspections, the ACPR notified Tracfin, in accordance with paragraph II of Article L. 561-30 of the Monetary and Financial Code, of failures to disclose the suspicious transactions identified in the reports, and also informed the tax authorities of the existence of a tax evasion criterion.

Lastly, the ACPR reviewed the initial information submitted by the directorate general “Treasury” with respect to asset freezes in accordance with Article L. 562-8 of the Monetary and Financial Code on the delayed reporting of asset freezes. As such, measures were taken regarding the relevant institutions to ensure that corrective action would be implemented quickly. In particular, they were reminded that when the list of persons targeted by asset freeze measures is updated, the customer databases must be reviewed as soon as possible.

As part of its ongoing supervision programme, the ACPR processed the responses to the AML questionnaires. This led, in addition to written observations, to annual meetings with institutions to stress the need to implement procedures covering all AML/CTF obligations and to ensure they are updated and disseminated through ongoing training activities. The emphasis was on the need to develop sufficient resources to ensure effective AML/CTF procedures and ways to monitor them. These meetings provided an opportunity to remind the groups that the procedures should be rolled out with the same degree of diligence in the foreign entities as in the French subsidiaries and that the measures implemented by the foreign entities need be assessed on a regular basis.



The ACPR/Tracfin joint guidelines published on 19 November 2015 cover the entire chain of AML/CTF requirements that financial institutions must implement to fulfil their suspicious transaction reporting obligations.

Audrey SUDARA-BOYER,
Legal Affairs Directorate.



At the annual meetings with the management bodies of major groups and when attending meetings of boards of directors, the SGACPR underscored its AML/CTF expectations and the need for the executive and decision-making bodies to have the information required to verify the quality and effectiveness of the AML/CTF procedures.

Depending on the seriousness of the failings identified, on-site inspections may result in an action letter from the ACPR's Secretary General, in a formal notice, or, in the most serious cases, in the initiation of disciplinary proceedings by the Supervisory College. Ongoing supervision is conducted to ensure that the actions needed to remedy the shortcomings identified are taken quickly, without prejudice to an additional on-site inspection that may subsequently be carried out to verify the effectiveness of the correction action.

In addition to the above, an assessment of the various supervisory activities carried out in 2015 shows the need for institutions to:

- ▶ better identify the risks to which they are exposed because of their activities so they can define and implement appropriate due diligence measures based on effective monitoring tools;
- ▶ strengthen their know-your-customer due diligence by making sure they regularly supplement and revise their know-your-customer and beneficial owner data; this is critical knowledge for both AML and CTF;
- ▶ have robust internal controls for the procedures as a whole, including internationally.

In 2015, the ACPR's Sanctions Committee imposed five AML/CTF sanctions; the first two were against insurance institutions regarding life insurance matters, one was against an electric money institution, and one involved the cancellation of a money changer's



authorisation. This brings the number of sanctions imposed by the ACPR for AML/CTF to 16 since its creation in 2010. Four AML/CTF-related disciplinary proceedings were underway at end-2015.

EXECUTION OF AML/CTF OBLIGATIONS BY INSTITUTIONS ESTABLISHED OVERSEAS

At the request of the ACPR's Secretary General, the ACPR adviser to overseas note-issuing institutions carried out six on-site inspections (four money changers and two insurance brokers) in 2015. These inspections were dedicated in whole or in part to AML/CTF.

The ACPR sought to establish new forms of presence and action overseas. Accordingly, six meetings with banking institutions requested by the ACPR General Secretariat

were held by the ACPR adviser for the Indian Ocean, the Pacific and the Caribbean region. On-site visits helped give an overview of internal AML/CTF procedures, including through a review of on-site files (alerts processed, cases documented, suspicious transactions reported). They can be used to disseminate regulations more broadly and give institutions' management teams a better understanding of the concrete improvements needed in their procedures to make them fully effective.

2 Work on legal instruments in respect of AML/CTF

The ACPR's Supervisory College adopts instructions and explanatory documents (guidelines, sector enforcement principles and positions) in respect of AML/CTF, after discussions within the Anti-Money Laundering Consultative Committee. The instructions are mandatory, while the guidelines and sector enforcement principles are not binding in

and of themselves. In 2015, the ACPR completed its overhaul of the sector enforcement principles on AML/CTF for the insurance sector, as well as the ACPR-Tracfin joint guidelines on suspicious transaction reporting.

SECTOR ENFORCEMENT PRINCIPLES

The sector enforcement principles on AML/CTF for the insurance sector, adopted and published in February 2015, are an explanatory document intended for all insurance and banking institutions, particularly when they act as third parties at the time of purchase of the insurance policy or as parent companies to bancassurance groups.

The document is formatted as information sheets on the following subjects:

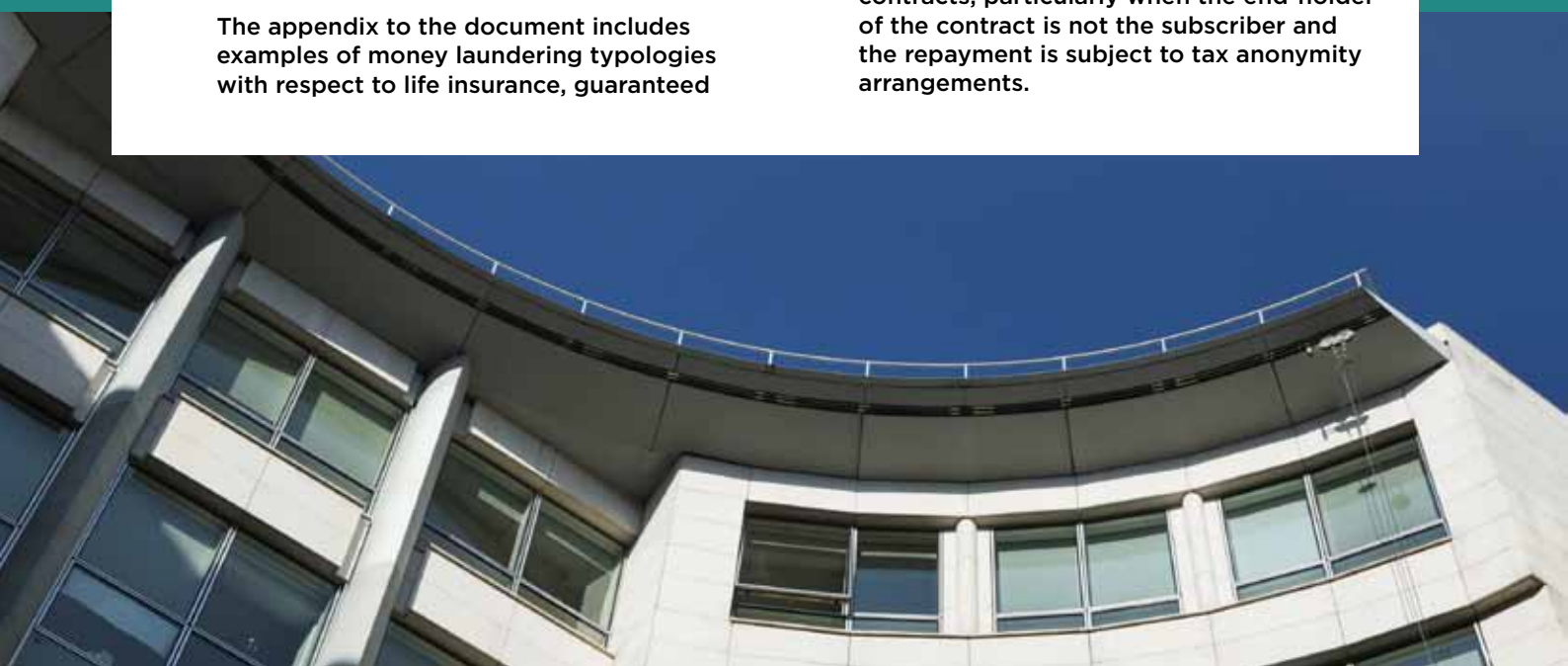
- ▶ risk-based approach;
- ▶ organisation of the AML/CTF and internal control procedures;
- ▶ due diligence in life insurance;
- ▶ use of third-party reliance in insurance;
- ▶ AML/CTF obligations in non-life insurance.

The appendix to the document includes examples of money laundering typologies with respect to life insurance, guaranteed

investment contracts and non-life insurance developed by Tracfin, to provide a concrete illustration of the risks.

The ACPR expects insurance institutions:

- ▶ to implement AML/CTF procedures appropriate to the money laundering and terrorist financing risks of their customers, products and distribution channels, and to monitor their effectiveness. For life insurance in particular, appropriate due diligence measures must be implemented by insurance institutions for transactions involving the purchase, payment, full or partial surrender or payment to the beneficiary of the policy;
- ▶ to implement due diligence measures appropriate to the high risks posed by the repayment of guaranteed investment contracts, particularly when the end-holder of the contract is not the subscriber and the repayment is subject to tax anonymity arrangements.





ACPR/TRACFIN JOINT GUIDELINES ON THE OBLIGATIONS TO REPORT AND TO DISCLOSE INFORMATION TO TRACFIN

Published in the ACPR's official register on 19 November 2015, the ACPR/Tracfin joint guidelines on the obligations to report and to disclose information to Tracfin were announced on 20 November in press releases issued jointly by Tracfin and the ACPR, as well as by the Finance Minister and the Governor of the Banque de France, who is the Chairman of the ACPR.

These guidelines are a compilation of best practices and of the joint expectations of the ACPR and Tracfin regarding implementation by financial institutions under ACPR supervision of the obligations to report suspicious transactions and systematically disclose information (COSI) to Tracfin.

They cover the entire chain of AML/CTF requirements that financial institutions must implement to fulfil their suspicious transaction reporting obligation: from identifying customers and business relationships and updating their know-your-customer information, to establishing an effective system for detecting and analysing unusual or suspicious transactions, to suspicious transaction reporting. They are accompanied by money-laundering typologies presented by Tracfin. Financial institutions are responsible

for immediately reporting to Tracfin any transaction that still raises doubts based on the due diligence conducted.

The terrorist financing risk was the subject of specific, tangible developments in order to encourage financial institutions to strengthen the procedures already in place and pay close attention to transactions involving small amounts, as well as to the use of the funds.

Lastly, the due diligence measures expected for transactions involving the repatriation of funds from abroad with a tax adjustment procedure have also been expanded. The guidelines also call attention to certain typologies of fraud, in particular against social agencies.

Unlike suspicious transaction reporting, COSIs do not require any analysis or investigation by the financial institutions. Once the transaction falls within the scope of the procedures, financial institutions are required to send the information to Tracfin. The transactions in question concern fund remittance and, since 1 January 2016, cash withdrawals from or deposits to an account of more than EUR 10,000.



In consultation with the industry, the Anti-Money Laundering Consultative Committee also began, at the end of 2015, to draft new ACPR-directorate general “Treasury” guidelines on asset freezes,

with the aim of specifying the joint expectations of both authorities regarding implementation of asset freeze obligations by financial institutions under ACPR supervision.

PARTICIPATION IN INTERNATIONAL AND EUROPEAN INITIATIVES

In 2015, **at the international level**, the ACPR actively contributed to the FATF’s initiatives, in particular those that led to the adoption of guidance for a risk-based approach to virtual currencies. The FATF’s recommendation on correspondent banking was also clarified with the publication of a press release on de-risking stating that due diligence should concern only the correspondent institution and not the customers of this institution, except in very high-risk situations.

At the European level, after adoption of Directive (EU) 2015/849 of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, known as the fourth anti-money laundering directive,

and of Regulation 2015/847 on information accompanying transfers of funds, the ACPR’s staff will continue its efforts, at the national level with the transposition of the directive⁵¹, but also on a European scale. The work will also concern the adoption and publication of the European supervisory authorities’ guidelines on risk factors and the risk-based approach (the respective drafts were submitted for public consultation at the end of 2015), the development of guidelines on the procedures for detecting missing information that payment service providers must implement for fund transfers, and the preparation of a European supervisory authority opinion on money laundering and terrorist financing risks in the financial sector across the European Union.

Lastly, at the national level and with respect to AML/CTF, in 2015 measures were implemented to strengthen counter-terrorist financing (cash payment cap lowered from EUR 3,000 to EUR 1,000 for residents, payment accounts to be entered in the “FICOBA” bank account register), and new measures were announced for 2016

(entry into force of the lower threshold (EUR 1,000 instead of EUR 8,000) for customer identification by money changers, cap on the monetary value stored on a prepaid card, elimination of anonymity for the issuance of electronic money).

THE CONSULTATIVE COMMITTEE ON ANTI-MONEY LAUNDERING AND COUNTER-TERRORIST FINANCING (CCLCB) IN 2015

The CCLCB is made up of industry bodies from the banking and insurance sectors and members appointed from entities reporting to the ACPR; the directorate general “Treasury” and Tracfin also participate. It provides an opinion prior to the adoption by the ACPR Supervisory College of binding legal instruments (instructions) and non-binding instruments (guidelines and sector enforcement principles), in respect of AML/CTF. The CCLCB met four times in 2015 and its work led to:

- ▶ an update of the instruction on information about anti-money laundering and counter-terrorist financing systems;

- ▶ an overhaul of the ACPR’s sector enforcement principles on anti-money laundering and counter-terrorist financing for the insurance sector;
- ▶ a revision of the ACPR/Tracfin joint guidelines on the obligations to report and to disclose information to Tracfin.

As part of the effort to step up the fight against terrorism, the CCLCB is responsible for developing the ACPR’s joint guidelines with the directorate general “Treasury” on asset freeze measures.



CHAPTER 5

Sanctioning

VIOLATIONS



1. Cases referred to the Committee in 2015	102
2. Decisions handed down in 2015	104
3. Information on appeals against Sanctions Committee rulings	108

The Sanctions Committee is tasked with sanctioning violations of the laws and regulations applicable to reporting institutions.

It issues independent rulings on cases referred to it by the Supervisory College after ensuring that due procedure is followed in accordance with the inter partes principle.



1 Cases referred to the Committee in 2015

11 rulings handed down in 2015

Average time taken to handle cases:

10 months

Eleven disciplinary cases were brought before the Sanctions Committee in 2015, as in 2014, compared with seven in 2013 and nine in 2012.

The following points may be made:

- ▶ similar to last year, most of the cases brought before the Committee in 2015 involved institutions in the insurance sector (eight cases); some of the complaints related to subjects it had not yet considered, such as compliance with rules of governance by several mutual insurers and a provident institution; they also, as in the past, related to anti-money laundering and counter-terrorist financing (AML/CTF), requirements to inform and advise customers, an insurance broker's compliance with the fitness and properness condition to which it is subject, and the marketing of insurance policies;
- ▶ two money changers and the French branch of a foreign bank were charged with AML/CTF violations;
- ▶ of the 11 cases handled by the Committee, three resulted from non-compliance with cease-and-desist orders.



THE SANCTIONS COMMITTEE



Appointed by the Vice-Chairman of the *Conseil d'État*:

1 Rémi Bouchez, member of the *Conseil d'État*, Chairman, and **2 Monique Liebert-Champagne**, member of the *Conseil d'État*, alternate;
3 Jean-Pierre Jouguelet, member of the *Conseil d'État*, full member, and **4 Denis Prieur**, member of the *Conseil d'État*, alternate.

Appointed by the Chief Justice of the *Cour de Cassation*:

5 Claudie Aldigé, counsellor at the *Cour de Cassation*, full member, and **6 Yves Breillat**, counsellor at the *Cour de Cassation*, alternate.

Appointed for their expertise in matters that are helpful for the ACPR to meet its statutory objectives:

7 Christian Lajoie, full member, and **8 Thierry Philipponnat**, alternate;
9 Patrice Ract-Madoux, full member, and **10 Christine Meyer-Meuret**, alternate;
11 Elisabeth Pauly, full member, and **12 Francis Crédot**, alternate.

2. Decisions handed down in 2015

2.1. NUMBER AND NATURE OF SANCTIONS

In 2015, the Committee issued 11 rulings, all of which were rulings on the merits. By comparison, in 2014, it returned nine rulings, seven of which were rulings on the merits⁵².

Two of these rulings targeted institutions in the banking sector and three were aimed at insurance firms. The others related to a mutual insurer, a payment institution, a money changer, an insurance broker and an insurance intermediary.

In seven cases the Committee imposed a reprimand, in two cases a warning, and in one case removal from the list referenced in Article L. 612-21 of the Monetary and Financial Code (hereinafter the “MFC”), as well as one 10-year ban on doing business as a money changer. These non-financial penalties were all accompanied by fines ranging from EUR 10,000 to EUR 5 million, giving a total amount of EUR 9.33 million (compared with EUR 102.13 million in 2014 and EUR 15.42 million in 2013). It should be noted that the very high total amount in 2014 was due to the fines of EUR 10 million, EUR 40 million and EUR 50 million imposed by the Committee on major firms in cases relating to life insurance policies not paid out. In 2015, the cases reviewed yielded a much lower total amount because of their nature and the institutions concerned.

The Committee dismissed one of the cases reviewed last year involving an insurance broker.

All rulings handed down in 2015 were published in non-anonymous form.

2.2. AVERAGE CASE TIME

The cases reviewed by the Committee last year gave rise to extensive discussions between the parties with frequent requests to be allowed additional time to submit their written observations. That said, and while the number of rulings issued in 2015 was slightly higher than in 2014, the average time taken to handle cases, which has improved slightly, stood at 10 months.



At 31 December 2015, ten cases were in progress: the oldest had been referred in December 2013, while the other nine were referred in 2015. Excluding the case opened in 2013, the average age of ongoing cases at that date was just under five months.

2.3. MAIN LESSONS FROM RULINGS HANDED DOWN IN 2015

A. GENERAL AND PROCEDURAL MATTERS

1. Compliance with the principle that offences and penalties must be defined by law

In its **Compagnie nantaise d'assurances maritimes et terrestres ruling of 24 February 2015 (case no. 2014-03)**, the Committee dismissed a procedural objection relating to the violation of the principle that offences and penalties must be defined by law: it judged that Article L. 322-2-2 of the Insurance Code, which states that insurance firms may engage only in activities for which they have been licensed, as carrying out other transactions is tolerated only if the "scope thereof is limited" in relation to the firm's entire business, established a rule that is neither unclear nor ambiguous, that is well known to the entire industry and that must be interpreted strictly. It nevertheless specified that, in the absence of regulatory provisions or previous decisions clarifying this rule to date, it could impose a sanction on this basis "*only on insurance firms that have manifestly disregarded the provisions of this article*".

With respect to anti-money laundering and counter-terrorist financing (AML/CTF), in its **Mutuelle d'Ivry-La Fraternelle ruling of 19 June 2015 (case no. 2014-08)**, the Committee considered that the provisions of Article R. 561-38 of the MFC, relating to the profile of the business relationship with the customer and the procedures to be applied to risk control and to compliance with due diligence and reporting obligations, define the obligations of supervised entities clearly enough for them to serve as the basis for disciplinary sanctions, while the ministerial order provided for in sub-paragraph h of Article R. 211-28 of the Mutual Insurance Code to clarify the conditions for implementing these procedures and measures has not been issued.

2. Compliance with the principles of personal responsibility and the individual nature of penalties

In the case opened against Vaillance Courtage, an insurance broker accused of various know-your-customer and customer information violations, the Committee, after reiterating that this company is subject to the supervisor's supervision for all policies taken out through its intermediary and regardless of its sales organisation, judged that the violations committed by the agents of Vaillance Courtage, acting in its name, on its behalf, under its control and with no real autonomy, could be attributed to Vaillance Courtage without disregarding the principles of personal responsibility and the individual nature of penalties (**ruling of 20 July 2015, Vaillance Courtage, case no. 2014-11**)⁵³.

3. Compliance with defence rights

The Committee considered, in its above-mentioned **Mutuelle d'Ivry-La Fraternelle ruling of 19 June 2015**, that the fact that not all the respondent institution's observations in response to the draft report were attached to the inspection report was not, in itself, an irremediable infringement of defence rights, provided the institution could, in the inter partes exchanges before the Committee, correct the presentation of the facts therein.



Moreover, in its **Generali Vie ruling of 24 July 2015 (case no. 2014-07)**, it again noted that compliance with the principle of defence rights was required only as from the notification of objections, while the inspectors were bound only by a duty of fairness and impartiality during the phase prior to its referral. In this same ruling, it dismissed a procedural objection relating to an infringement of the inter partes principle resulting from the submission, by the College representative, of a response to the rapporteur's report after the deadline had passed for the respondent itself to respond in writing. The Committee judged that the institution had had enough time to respond before the hearing, which it did in fact do, and that in any event it was able to respond during the hearing. The Committee clarified that the rule established for the ACPR's disciplinary procedures in point I of Article R. 612-48 of the MFC, which states that the respondent must have the last word, applies to the hearing and not to the investigative phase prior thereto.

53. Vaillance Courtage submitted an application for suspension of this decision, which was rejected by a ruling of the urgent applications judge of the Conseil d'État dated 14 October 2015. The appeal of this decision on the merits is under examination (see below).



In 2015, the
Committee sanctioned
**insurance
institutions** for
AML/CTF violations
for the first time.

Fabien PATRIS,
Service of the Sanctions Committee.

4. Compliance with rules governing the burden of proof in disciplinary law

In its **Ms M. A. Vilar da Lomba Meneses ruling of 18 November 2015 (case no. 2015-04)**, the Committee considered that, while the case file showed disorder and carelessness in the organisation and management of this broker, the ACPR College, the prosecuting authority, did not provide the evidence it is required to present of the alleged violations, which consisted of the diversion of insurance premiums and the creation of two forged documents, on which the challenge to the fitness and properness of this intermediary was based.

B. ON THE MERITS

1. Compliance with the principle of specialisation set out in Article L. 322-2-2 of the Insurance Code

In its **Compagnie nantaise d'assurances maritimes et terrestres ruling of 24 February 2015 (case no. 2014-03)**, the Committee had to determine whether this non-life insurance company governed by the Insurance Code had disregarded the principle of specialisation or exclusivity established in Article L. 322-2-2 of this Code, due to the importance of the real estate investments it had made. To make its decision, the Committee examined whether these investments and their management involved the direct pursuit of a non-insurance business taking into account (i) their amount and the extent to which they are intended to cover insurance obligations; (ii) the relative weight of the corresponding assets and the income they produce, directly or indirectly, relative to its other assets and other sources of revenue; and (iii) the share of debt in the financing of these assets, showing, where applicable, that they were acquired in order to develop a non-insurance business.

2. Compliance with prudential requirements by a payment institution

In its **ruling of 26 February 2015 (ruling no. 2014-05)**, the Committee sanctioned Cards Off, a payment institution licensed in 2011, for failure to comply with the applicable rules on own funds for the period from the first quarter of 2012 to the end of 2013. It considered that, while the violation was being remedied quickly, it had persisted, and escalated, over a long period of time. As this was an essential condition of the license, it called for a significant sanction, i.e. a reprimand and a fine of EUR 100,000, given the institution's financial position⁵⁴.

3. Compliance with anti-money laundering and counter-terrorist financing obligations by insurance institutions

In 2015, for the first time, the ACPR sanctioned insurance institutions for failing to fulfil the requirements arising from the third anti-money laundering directive.



In its above-mentioned **Mutuelle d'Ivry-La Fraternelle ruling of 19 June 2015 (case no. 2014-08)** it sanctioned this institution's failure to comply, at the time of the ACPR's on-site inspection in 2013, with some of its key AML/CTF obligations. The Committee judged that Mutuelle d'Ivry-La Fraternelle's risk classification was not appropriate to the current characteristics of its customers and its business and that its internal procedures ignored several important aspects. Moreover, this institution did not have sufficient knowledge of its customers and its transaction monitoring system was inadequate. The ACPR also observed breaches of the obligation not to execute a transaction when the conditions necessary for such execution have not been fulfilled, as well as deficiencies in compliance with the obligations to perform an in-depth review of certain transactions and to report suspicious transactions. When determining the sanction, the Committee nevertheless considered the steps taken by Mutuelle d'Ivry-La Fraternelle to address its deficiencies.

In its **ruling of 24 July 2015 (case no. 2014-07)**, the Committee judged that Generali Vie's AML/CTF procedures in place at the time of the ACPR's inspection exhibited very serious weaknesses that affected both its organisation and its monitoring tools, as well as the mechanisms for meeting its due diligence and reporting obligations. In particular, it stressed that the failures to report suspicious transactions concerned, in this case, particularly high amounts and that the institution's efforts to address the deficiencies, while indeed comprehensive, were nonetheless overdue.

4. Compliance with the obligation to protect funds collected in exchange for issuing electronic money

In its **ruling of 16 October 2015 (case no. 2014-10)**, the Committee sanctioned Ticket Surf International, an electronic money institution, in particular for failing to comply, for a very long time, with the obligation to protect funds collected in exchange for issuing electronic money, which is one of the key requirements of the regulations.

54. Cards Off has appealed this decision (see below).

3 Information on appeals against Sanctions Committee rulings

1. Conseil d'État ruling on *Société Générale* of 14 October 2015 (appeal no. 381173)

In its ruling of 11 April 2014, the Committee had sanctioned Société Générale for failure to implement the provisions of Articles L. 312-1 and D. 312-6 of the Monetary and Financial Code (MFC) governing the right to a bank account. It had also judged that, in several respects, its internal control system for this type of obligation did not meet the regulatory requirements applicable to this institution.

In its ruling of 14 October 2015, the Conseil d'État found first that it follows from the provisions of Articles L. 312-1 and D. 312-6 of the MFC that a credit institution designated by the Banque de France under the right to a bank account is required to offer to open a free deposit account that includes basic banking services. Until the Law on Banking Separation and Regulation of 26 July 2013 took effect, after the period under inspection, there was no time limit within which such an institution had to actually open the account; it was nevertheless expected to do so within a reasonable time. Furthermore, it is at liberty to offer to open, in addition to a free account, a fee-based account that includes additional services.

On the question of the burden of proof, the Conseil d'État ruled that, if there is information demonstrating that a credit institution probably failed to fulfil its obligation to offer to open a deposit account with the above-noted characteristics, the ACPR College is responsible for formally asking it to provide the proof, which this institution alone could have, necessary to determine, for the applicants for whom it was designated under the right to a bank account, what action was

taken on the account applications. The breach can, as applicable, be considered proven only based on the responses provided by the institution, or on the lack of response. The Committee was unable to consider the breach to have been proven by the prosecuting authority, which is responsible for providing evidence, as it was merely probable, as demonstrated by the difference between the number of applications and the number of accounts opened under the right to a bank account mechanism, without the credit institution in question having been asked to provide, for the relevant applicants, the evidence that it alone could have and that was necessary to determine the follow-up to the decisions made by the Banque de France on these matters.

This ruling sets aside the sanction in its entirety; the Conseil d'État specified that: *"this nullification does not, however, prevent the Sanctions Committee from reopening the inquiry into the case before it, on the basis of the objections of which it has been notified and taking into account, where applicable, the additional evidence the prosecuting authority is responsible for providing"*.

2. The *Vaillance Courtage* ruling of the urgent applications judge of the Conseil d'État of 14 October 2015 (appeal no. 393508)

In its urgent application regarding the decision of 20 July 2015, Vaillance Courtage raised the procedural and substantive arguments it had developed before the Committee. In particular, the company argued that the principle of the individual nature of penalties precluded the ACPR from imposing a sanction against it for breaches of the Insurance Code committed by its agents and by another company, Groupe Vaillance Conseil.

In a ruling of 14 October 2015, the urgent applications judge of the Conseil d'État, without deciding on the requirement of urgency, found that it was clear, in particular from the agreement setting out the relationship between Vaillance Courtage and its agents, that these agents were conducting business in accordance with the terms and conditions set by Vaillance Courtage, under its control and with no real autonomy. Furthermore, Vaillance Courtage and Groupe Vaillance Conseil have a very close-knit relationship, which creates some confusion about the role of these two intermediaries.



The urgent applications judge therefore considered that the argument to the effect that the Committee had violated the principle of the individual nature of penalties by attributing to Vaillance Courtage the breaches of the Insurance Code committed by its agents and Groupe Vaillance Conseil was not likely to raise serious doubts as to the legality of the contested decision. In this same ruling, the judge noted that the lack of a limitation period applicable to the prosecutions likely to be brought by the ACPR College was not contrary to any constitutional principle or to any other principles.

3. Conseil d'État ruling on *Caisse d'épargne et de prévoyance du Languedoc-Roussillon (CELR)* of 20 January 2016 (appeal no. 374950)

In this ruling, the Conseil d'État first noted that the principle of defence rights did not apply to the preliminary phase consisting of the inspections provided for in Article L. 612-23 of the MFC, which must simply take place under conditions which guarantee that the defence rights of the persons subsequently notified of objections are not irrevocably infringed. The Conseil d'État thus ruled that CELR could not claim, in support of its challenge to the lawfulness of the Authority's "administrative investigation", a lack of understanding of the stipulations of Article 6 of the European Convention for the Protection of Human Rights and Fundamental Freedoms and of paragraph 3 of Article 14 of the International Covenant on Civil and Political Rights, by arguing that the "investigators" did not notify its agents of their right to remain silent, as these stipulations do not apply to this type of procedure.

The Conseil d'État then made an important clarification concerning the lawfulness of on-site inspections. It found that, while the right to respect for the home, protected by the stipulations of Article 8 of the European Convention for the Protection of Human Rights and Fundamental Freedoms on the right to respect for private and family life, also applies, under certain circumstances, to the business premises where legal entities carry out their activities, it must be reconciled with the legitimate purposes of the monitoring, by the public authorities, of compliance with the rules applicable to those legal entities in the conduct of their business. The proportionate nature of the interference that a public authority's exercise of its powers to enter and inspect business premises represents results from the existence of effective and appropriate guarantees, given, for each procedure, the breadth and the purpose of these powers. For the ACPR, Articles L. 612-23 and R. 612-26 of the MFC only allow inspectors to enter the premises of supervised entities during normal business hours and in the presence of a manager. If the supervised entity's representatives interfere with the performance of the inspectors' duties, the inspectors, who have no physical means of enforcement, can only request application of the sanctions provided for in particular in Article L. 571-4 of the MFC. Consequently, the Authority's powers to enter business premises and access any types of documents found there are not on such a scale that this interference can only be regarded as proportionate to the purposes for which it was exerted if

authorised in advance by a judge or if it occurs after the supervised entity was informed of its right to object. Therefore, the fact that the supervised legal entity was not informed thereof has no impact on the lawfulness of the inspection procedure.



In addition, according to the Conseil d'État, neither the principle that offences and penalties must be defined by law, when applied to sanctions that are not criminal in nature, nor the principle of non-retroactivity of harsher criminal laws prevents, owing to the initial application of a rule applicable on the date of the disputed facts, the Committee from clarifying its scope and from applying it to the facts underlying the violations it is sanctioning, provided that, at the date of the disputed facts, the applicable rule was sufficiently clear, such that it appeared reasonably foreseeable by the professionals concerned, with regard to the rules laying down their professional obligations and to the interpretation previously given by the Authority or the Committee, that the actions at issue would constitute a breach of these obligations and as such were likely to be sanctioned (see also CE, 5 November 2014, Société UBS France SA, **appeal no. 371585**).

4. Ongoing appeals before the Conseil d'État

At 31 December 2015, four appeals against rulings issued by the Committee were pending before the Conseil d'État⁵⁵. They concerned the **Caisse d'épargne et de prévoyance du Languedoc-Roussillon ruling of 25 November 2013 (case no. 2013-01)**, the **State Bank of India ruling of 11 February 2015 (case no. 2013-07)**, the **Cards Off ruling of 26 February 2015 (case no. 2014-05)** and the appeal on the merits brought by Vaillance Courtage against the **ruling of 20 July 2015 (case no. 2014-11)**.

55. The appeal of the *Caisse d'épargne et de prévoyance du Languedoc-Roussillon* ruling of 25 November 2013 (case no. 2013-01) was rejected by a Conseil d'État ruling of 20 January 2016, discussed in point 3 above.

CHAPTER 6

Contributing

**TO THE DEVELOPMENT OF THE INTERNATIONAL,
EUROPEAN AND FRENCH REGULATORY FRAMEWORK**

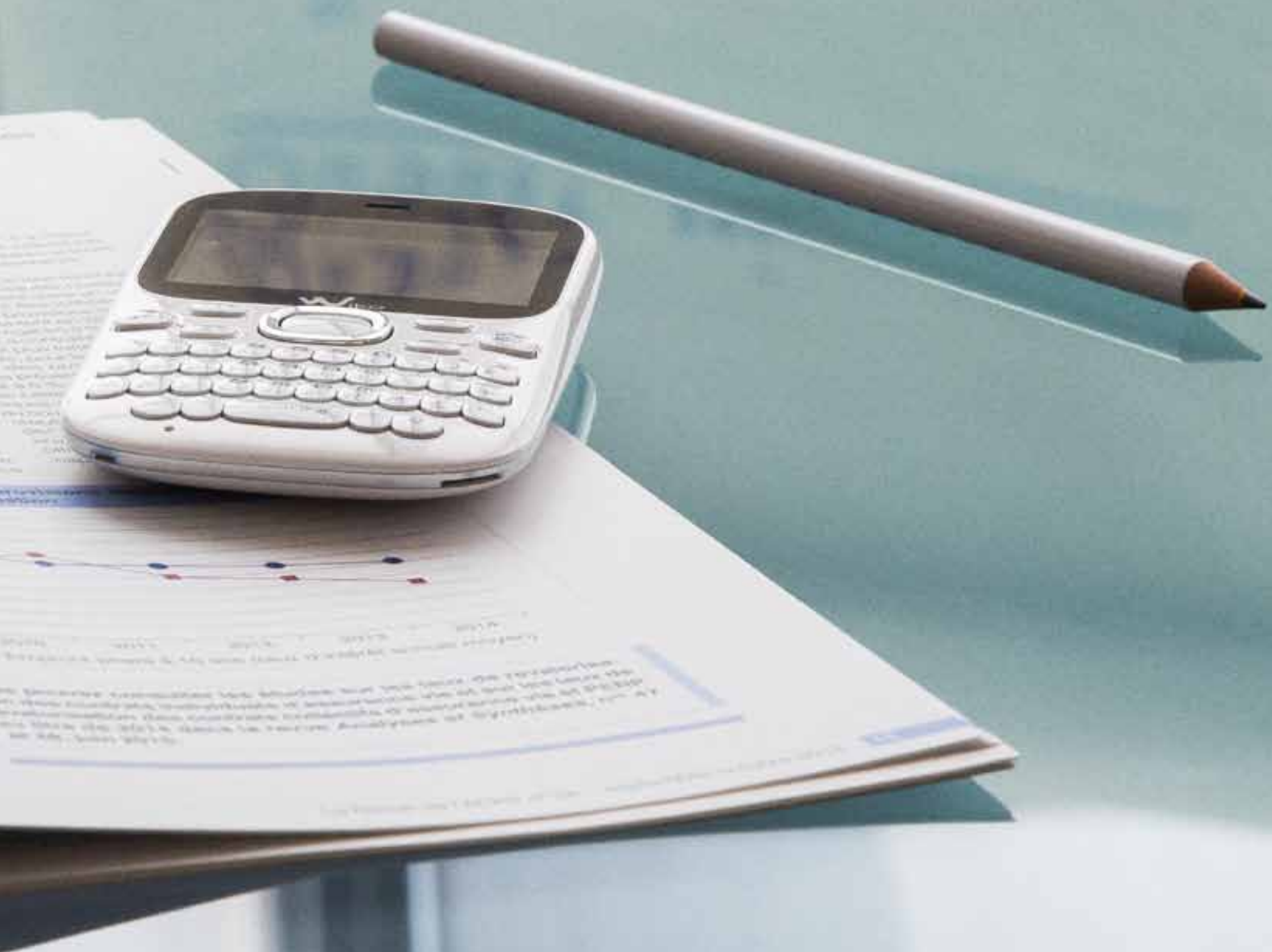


1. ACPR action in European and international bodies
2. Developments in laws and regulations

112
123

The ACPR represents France in international supervisory bodies. It plays an active role in international and European banking and insurance bodies dealing with prudential, accounting and customer protection questions.

The International Affairs Directorate is responsible for cross-cutting issues affecting the banking and insurance sectors in the areas of prudential and accounting regulations.



1 ACPR action in European and international bodies

ACPR representatives participated

337

working groups or sub-groups

ACPR representatives chaired

25

groups



1.1. BANKING

Represented in the decision-making bodies of the Basel Committee and the European Banking Authority (EBA), the ACPR has played an active role in numerous strategic issues linked to the definition of European technical standards and future international prudential standards. It is also involved in projects developed by the European Commission and in their implementation by the European Central Bank (ECB) and the Single Supervisory Mechanism (SSM). All in all, ACPR staff participate in more than 50 international working groups. These efforts involve regular discussions with banking industry representatives, particularly during public consultations.

A. IN THE EUROPEAN UNION

In 2015, the bulk of the work carried out by the ECB and the EBA on prudential regulation (excluding resolution) was linked to the mandate granted to it by legislation in the context of CRD IV and the CRR. This work included important developments relating to the framework for and assessment of internal models, as well as the implementation of liquidity requirements. The European Commission has also launched a series of initiatives under the Capital Markets Union project, some of which could lead to amendments to the existing prudential framework.

Credit risk

Several technical standards were drafted on modelled credit risks and were the subject of public consultations. The work involved the definition of default, specialised lending, the methodology the competent authorities use to assess the internal ratings-based approach and real estate risk (increase in the value-at-risk and weighting floors under the standard approach). A consultation paper on the future of the internal ratings-based approach was also published to communicate the work programme for the coming years and future changes to the modelled approach.

Securitisation

The European Commission published a legislative proposal aiming to implement the new Basel securitisation framework in Europe. Based on a report published by the EBA in July 2015, this text would make it possible to allocate less stringent capital requirements to banks that invest in securitisations that meet certain simplicity, transparency and standardisation criteria.

Market risk

The EBA continued its efforts to harmonise the methodology for measuring market risks. Two technical standards, one on the exemption of non-financial counterparties established in a third

country from the credit valuation adjustment (CVA) charge and the other on the assessment of internal models for market risk, were the subject of public consultations in 2015. A comparative analysis of internal models led to the publication of the EBA's report on the measurement of counterparty risk and the CVA.

Margin calls

The European draft technical standard establishing margin call rules for over-the-counter derivatives, prepared following publication of international rules issued jointly by the Basel Committee and the International Organization of Securities Commissions, was a major project. This technical standard is expected to enter into force on 1 September 2016 for those institutions with the largest derivatives portfolios. The more widespread use of transfers of collateral aims to significantly reduce counterparty risk and the systemic risk that materialised during the 2008 financial crisis.

Liquidity ratios

In January 2015, the European Commission published a delegated regulation that introduced the liquidity coverage ratio (LCR). After closely monitoring and commenting on the different phases of this project, the ACPR was involved in implementing the LCR, which has been binding for credit institutions since 1 October 2015. The EBA prepared a report on the appropriateness of introducing the Net





The ACPR helped draft a number of European technical standards.

Stable Funding Ratio (NSFR) in Europe, based on the Basel Committee standard adopted in October 2014. This report was submitted to the European Commission on 17 December 2015; by the end of 2016, the EC is expected to present, if appropriate, a legislative proposal introducing the NSFR.

Options and discretionary powers

One of the ECB's priorities in 2015 was to draft a proposal to harmonise the options and discretions that give supervisors some flexibility in applying prudential requirements. The ACPR in particular explained the reasons for France's positions at five meetings of a special high-level group within the ECB and assumed responsibility for a large section of the impact study underpinning the adoption of the proposal for a decision by the Supervisory Board submitted for consultation before publication in November 2015.

Remuneration and governance

The EBA published an update of its guidelines on sound remuneration policies in December 2015. These guidelines, which clarify the application of the CRD IV requirements to certain instruments, such as retention bonuses, describe in detail the implementation of other European texts (technical standard on the identification of staff whose remuneration is subject to prudential supervision, opinion on the use of allowances).

The ACPR was also involved in the EBA's work on supervisory authorities' practices with respect to assessing applicants for executive positions at banks ("fit and proper"). The report published in June 2015 states the need for harmonisation, which relevant future European texts will have to address.

Leverage ratio


Within the Basel Committee and EBA working groups, the ACPR continued to monitor the leverage ratio, which banks have had to publish since January 2015. The work concerned both the calculation methods and an analysis of the calibration of the requirement, with a view to the finalisation of the ratio in 2016 recently announced by the Committee. The EBA is preparing a report on the impact of the leverage ratio, which should be published in June 2016.

Large exposures and the shadow banking system

The EBA has developed guidelines to fulfil its mandate under the CRR with the aim of limiting institutions' individual and aggregate exposures to shadow banking entities. The guidelines set out a primarily qualitative approach, based on the obligation to have accurate information about counterparties' activities and risks. If this due diligence is not completed, the aggregate exposure to these counterparties will have to be limited to 25% of eligible capital.

B. INTERNATIONAL

The Basel Committee continued its reform of the international prudential framework with the introduction and reform of several major standards. These subjects were a priority for ACPR staff, which strives to find a common European position whenever possible. The resources made available to the Basel Committee to conduct impact studies were also strengthened.

A professional portrait of Alexandre Garcia, a man with dark hair, wearing a dark blue suit jacket, a white shirt, and a blue striped tie. He is looking directly at the camera with a slight smile. The background is dark and out of focus.

Alexandre GARCIA,
International Affairs Directorate.

“ Under the Basel Committee and the EBA, the ACPR **continued to monitor the leverage ratio**, which banks have had to publish since January 2015.

Credit risk

At the end of 2015, the Basel Committee published a second consultative document on the reform of the standardised approach for credit risk. This document presented new methods for calculating weightings which seek to increase comparability with internal ratings-based approaches and improve the risk sensitivity of coefficients. In 2016, a second quantitative impact study will be kicked off to measure the effect of this reform on banks' capital requirements.

Review of internal models

The Basel Committee finalised the fundamental review of the trading book; the ACPR chaired the relevant working group and the sub-group responsible for the standard approach. The final text calls for an overhaul of the boundary between the trading book and the banking book, as well as a new modelled approach and a new standardised approach.

The Committee prepared a consultative document on the review of the CVA charge, with the aim of taking better account of the credit adjustment risk factors and practices for hedging this risk, and conducted a quantitative impact study during the summer of 2015.

Lastly, activity was marked by efforts to reduce the excessive variability observed in risk-weighted assets (RWA). Options for reform will be put out to consultation in 2016.



Contagion risk

A consultative document on the measurement of the risk of contagion from entities in the shadow banking sector to the banking system (step-in risk) was published in December 2015. The objective is to incorporate this risk into the prudential framework to avoid the procyclical effects caused a bank's support of a shadow banking entity. An initial list of indicators used to identify this risk has been developed and will be tested in a quantitative impact study in 2016.

Interest rate risk in the banking book

The Basel Committee continued to work on the standards for interest rate risk in the banking book, the aim of which are to ensure that banks have sufficient capacity to absorb potential interest rate shocks, and to limit the possibilities for arbitrage between the banking and trading books. In June 2015, the Committee published a consultative document while also conducting a quantitative impact study. Based on their results, the Committee is expected to publish a final standard on interest rate risk in 2016.

G20 POST-CRISIS AGENDA IN LINE WITH THE WORK OF THE BASEL COMMITTEE

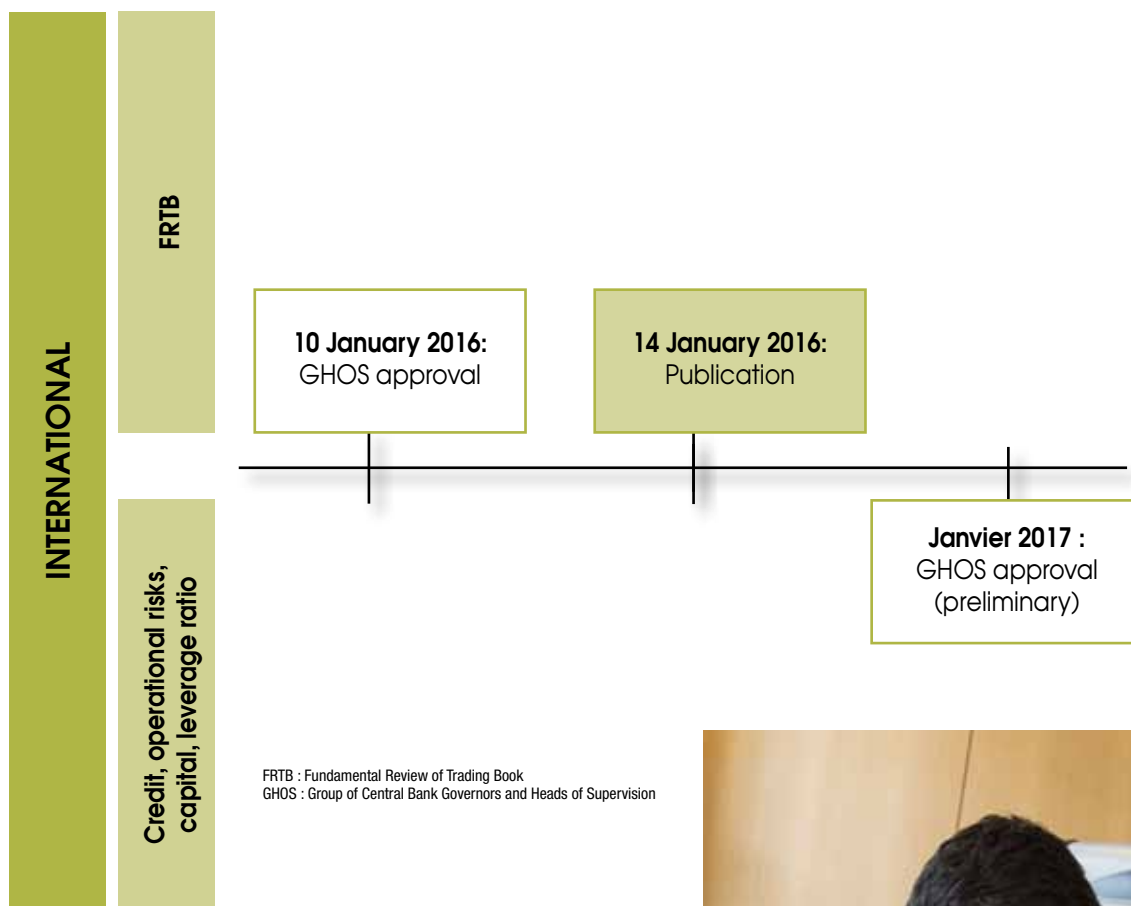
In response to the 2008 financial crisis, the Basel Committee undertook a thorough review of international banking regulation. This work resulted in the "Basel III" reform of 2010, which includes a set of measures intended to strengthen the soundness of the banking system.

The Committee is now finalising the last components of this reform, through various actions on the denominator of the solvency ratio and on risk-weighted assets (RWA). The Committee first undertook a thorough review of all the components of the denominator, namely the internal and standardised approaches to assessing market, credit and operational risk. The implementation of capital floors is also under discussion.

Lastly, the Committee is also working on the calibration of the leverage ratio and the treatment of interest rate risk in the banking book.

The Basel Committee presented these various initiatives in a report to the G20 in November 2015. At that time, the Committee pledged to complete all the above-referenced work by the end of 2016, in order to ensure a stable regulatory foundation as of that date. The treatment of sovereign risk will be considered over a longer time horizon. The various options for improving the existing framework are being reviewed and a consultation should be launched in 2016.

Timetable for the main ongoing Basel Committee initiatives



1.2. INSURANCE

The ACPR continued to play an active role in key workstreams undertaken by the European Insurance and Occupational Pensions Authority (EIOPA). This work was linked, on the one hand, to the finalisation of the Solvency II regulatory framework and, on the other, to the monitoring of consumer protection issues and the analysis of questions relating to financial stability, crisis management and occupational pensions.

As well as participating in all EIOPA working groups, and more specifically those dedicated to building the Solvency II prudential framework, the ACPR served as chair or deputy chair of two committees:

- ▶ the Financial Requirements Committee (FinReq), responsible for aspects linked to Pillar 1 (quantitative requirements) of Solvency II;
- ▶ the Insurance Groups Supervision Committee (IGSC), which focuses on issues specific to the application of the Solvency II standards to groups.

The Authority has also stepped up its involvement in a number of sub-committees (notably by chairing four sub-groups).





In 2015, EIOPA continued to draw up technical standards and guidelines. These mainly related to the implementation of Solvency II and consumer protection.

Amendment to the delegated regulation

In the context of the Capital Markets Union, the European Commission undertook to amend the Solvency II delegated regulation published in January 2015. This amendment, adopted by the European Commission on 30 September 2015, was based on EIOPA's work and technical advice. The aim of the amendment to the delegated regulation was to promote the financing of the economy by facilitating long-term investment, such as investment in infrastructure projects, while preserving a prudential framework that ensures financial stability and investor protection.

Implementing technical standards for Solvency II

On 30 June 2015, EIOPA adopted a series of Solvency II Implementing Technical Standards (ITS), which entered into force after being approved by the European Commission and are directly applicable. They cover factors relating to the calculation of the solvency capital requirement (SCR), risk management, the procedure for adopting additional capital requirements, and transparency in relation to both national supervisors and the public. Two other ITS will be adopted in 2016.

EIOPA guidelines and recommendations on Solvency II

EIOPA has developed a series of guidelines that were put out to public consultation. These guidelines and recommendations relate both to quantitative requirements and to aspects of governance and disclosure of information to the supervisor. The ACPR has made sure to comply with these guidelines, notably by adopting specific instructions and publishing notices on its website.

Finalisation of the transposition of Solvency II

At the domestic level, the ACPR made every effort to support the directorate general "Treasury" in the final work on the Solvency II transposition. The transposition was thus finalised within the deadline through the ordinance of 2 April 2015 and the transposition decree and order of 7 May 2015.

The Authority continued to take steps to communicate with institutions, by organising conferences and holding working meetings with the industry on the specific national reports and bimonthly meetings between the Secretary General and the industry bodies.

Occupational pensions

The ACPR lent its technical support to the directorate general "Treasury" in the negotiations over the proposed revision of the Institutions for Occupational Retirement Provision Directive (the draft IORP 2 Directive). This revision, which only relates to the qualitative aspects of the prudential framework (governance and disclosures), was agreed by the European Parliament. Negotiations will therefore

continue in 2016, as part of the trilogue .ment européen. Les négociations se poursuivront donc en 2016, dans le cadre du trilogue⁵⁶.

At the same time, EIOPA continued to work on areas of revision relating to solvency requirements, in order to improve transparency and promote harmonisation at the European level. Technical specifications were published at the beginning of 2015 and a quantitative impact study was conducted. This should make it possible to analyse the impacts of the proposed changes and to issue recommendations, by the second half of 2016, to the European Commission,

the European Parliament and the Council of the European Union for a subsequent revision of the IORP directive. Negotiations on the content of the opinion to be provided to the European institutions are still underway.

Lastly, the ACPR will participate in 2016 in the discussions initiated by the directorate general "Treasury" to change the rules applicable to additional occupational retirement activities in France, in particular the advisability of creating institutions dedicated to carrying out these activities.

2 questions to Laurent Voignac

policy officer within the International Affairs Directorate.



WHAT ARE THE TAKEAWAYS FROM THE ONGOING INTERNATIONAL WORK ON GLOBAL SYSTEMICALLY IMPORTANT INSURERS?

Stronger international prudential regulation entails the development of specific requirements for global "systemic" financial institutions. To that end, the International Association of Insurance Supervisors (IAIS) was mandated by the Financial Stability Board (FSB) to identify insurers that could be regarded as systemic. The FSB published the first list of nine insurers identified as such (G-SIIs) in 2013, confirmed it in 2014 and updated it in 2015⁵⁷. These G-SIIs are subject to enhanced supervision under the Crisis Management Groups.

The designation methodology for this list is currently under revision and is expected to be finalised by 1 April 2016. This methodology relies heavily on the proportion of activities regarded as "non-traditional non-insurance" (NTNI) in the insurer's portfolio. The list of products included in this category is itself being revised.

Insurers identified as systemically important will not only be subject to enhanced supervision and have to develop recovery and resolution plans, but will also be subject, starting in 2019, to the Higher Loss Absorbency (HLA) requirement, which is a specific additional capital requirement. The formula for calculating this requirement has been developed, with the initial version published in the fall of 2015, but will be revised before the final version in 2019.

WHAT IS THE HORIZON FOR THE OTHER INTERNATIONALLY ACTIVE INSURANCE GROUPS?

The HLA was developed after the creation in 2014 of the common Basic Capital Requirement (BCR) standard: the HLA requirement supplements the BCR, which is not a risk-sensitive standard.

This lack of common standard will soon be remedied with the development of an international quantitative requirement, the Insurance Capital Standard (ICS), which will apply to internationally active insurance groups (IAIGs). The ICS will be implemented in 2020 and will include three components that will be developed simultaneously during the year:

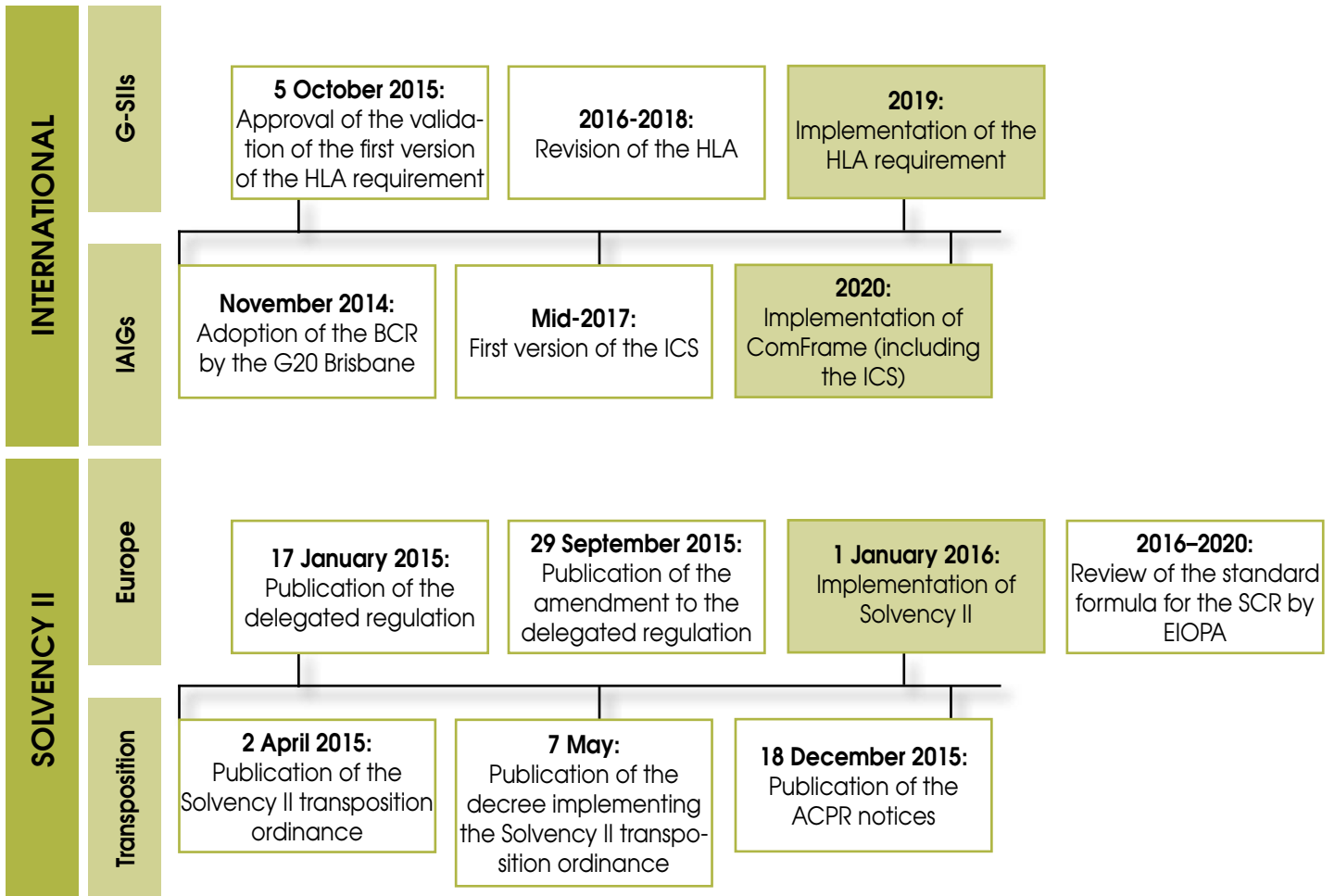
- ▶ a valuation component, a large part of which concerns technical provisions;
- ▶ a capital requirements component;
- ▶ a capital resources component that aims to define the quality of the own funds to be held.

The development of this capital requirement will rely on the results of the field tests that have been designed with volunteer IAIGs since 2015.

The ICS will replace the BCR in the HLA calculation for systemic insurers.

56. Trilogue: informal tripartite meeting between representatives of the European Parliament, the Council and the Commission.
57. In 2015, the nine systemic insurers were as follows: Aegon, Allianz SE, American International Group, Inc., Aviva plc, Axa S.A., MetLife, Inc., Ping An Insurance (Group) Company of China, Ltd., Prudential Financial, Inc., and Prudential plc.

Key international and European insurance deadlines



1.3. CONSUMER PROTECTION

The ACPR helped draft the EBA's delegated acts and guidelines, transposing the 2014 directive on credit agreements for consumers relating to residential immovable property (Mortgage Credit Directive, MCD), which represents a turning point for home loans.

With respect to product governance, this work also involves projects developed by the European Commission and their implementation by the ECB and the Single Supervisory Mechanism. The EBA has published guidelines similar to those prepared by the European Securities and Markets Authority (ESMA) and in close cooperation with the European Insurance and Occupational Pensions Authority (EIOPA), in the interest of harmonising regulatory frameworks across financial sectors.

Lastly, regarding bank accounts, the EBA has begun work on the format of the information documents to be provided to customers, in the context of implementation of the Payment Accounts Directive (PAD) adopted in 2014.

1.4. ACCOUNTING, REPORTING

For several years, the ACPR's activities in the areas of accounting, reporting and audit have taken into account the work of the International Accounting Standards Board – IASB –, as well as multiple workstreams initiated both in France (mainly through its contributions to the work of the French accounting standards board – ANC) and internationally.

A. ACCOUNTING STANDARDS

The international work has centred mainly on the consequences of publication of IFRS 9, Financial Instruments, by the IASB. IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, is mandatorily effective for periods beginning on or after 1 January 2018.

Basel Committee guidance on implementation of new accounting provisioning models based on expected loss concepts

In 2006, the Basel Committee published guidance on best practices for credit risk assessment⁵⁸. This document, based on the incurred loss model for impairment, had to be updated following publication of IFRS 9, as the new impairment methodology relies on the principle of provisioning some or all of the expected losses based on the change in credit quality. The efforts led in December 2015 to the publication of a guide *to implementation of new provisioning models based on expected loss concepts*, which aims, above and beyond

the required update, to present what the Basel Committee views as high-quality implementation of the principles of expected loss provisioning. The body of the text applies to all accounting principles based on impairment of expected losses and the guide includes a specific appendix dedicated to IFRS 9. While the scope of application of the initial version of the guide has been maintained, i.e. focus on loans and exclusion of debt securities, the guidance has been substantially revised and in particular details supervisors' demands on banks with respect to assessing credit risk and impairments (governance, use of judgment and forward-looking information, level of impairment, etc.).

ISSUES WITH THE ADOPTION OF IFRS 9 IN EUROPE AND INTERACTION WITH IFRS 4

As part of the European Commission's process for adopting IFRS 9, the European Financial Reporting Advisory Group (EFRAG) launched a consultation in April 2015. The ACPR played an active role as a member of the college of the French accounting standards board (Autorité des normes comptables – ANC), the EBA and EIOPA.

In September 2015, EFRAG, judging that IFRS 9 will improve financial reporting and meet the G20's demands with respect to financial stability, published its endorsement advice on adoption of IFRS 9 and its application in 2018, except for insurance sector entities. For these, EFRAG noted the work undertaken by the IASB, including a conversation on the possible deferral of IFRS 9 for insurance firms, and conditioned its position for these entities on the outcome of these discussions.

In December 2015, the IASB published another exposure draft on applying IFRS 9 with IFRS 4 Insurance Contracts (before the revision of IFRS 4 is finalised) with the aim of addressing the concerns raised by various insurance industry stakeholders:

- ▶ the risk that the financial statements of insurers could be difficult to understand due to the volatility that could arise in profit or loss after application of IFRS 9;

- ▶ difficulties for some entities that issue insurance contracts in classifying and measuring their financial assets under IFRS 9 before the effects of the future version of IFRS 4 can be fully evaluated;
- ▶ two sets of major accounting changes in a short period of time could result in significant cost and effort for both users and preparers of financial statements.

The exposure draft proposes to introduce two new approaches in IFRS 9:

- ▶ the "overlay" approach: optional and applicable to all entities that issue insurance contracts, it would permit them to adjust profit or loss for the additional accounting volatility arising from application of IFRS 9 to certain financial assets;
- ▶ the "deferral" approach: this optional and temporary approach would offer groups whose predominant activity is issuing insurance contracts (based on criteria specific to this exposure draft) an exemption from applying IFRS 9 until implementation of IFRS 4 (phase 2) and no later than 1 January 2021. This option is available at the highest level of consolidation and is applicable to the entire group.

58. Sound credit risk assessment and valuation for loans.

Draft standard on insurance contracts

The IAIS is continuing its work on the draft standard on insurance contracts, intended to replace the current IFRS 4 (phase 1). In 2015, apart from the planned amendment on application of IFRS 9 with IFRS 4 Insurance Contracts (see box above), the IASB's deliberations and work mainly related to the specific accounting treatment that would be applied to certain participating contracts.



Work of the French accounting standards board (ANC)

Insurance sector: as part of the transposition of Solvency II, the architecture of the accounting regulations was overhauled: the different insurance codes were reorganised and some of the provisions in the codes were transferred to an ANC regulation. The ACPR made a significant contribution to this major undertaking, which was accomplished without changing existing law.

Banking sector: the work aimed at expanding the compendium of accounting standards for banks continued in 2015. It led to the publication by the ANC, in December 2015, of the *Recueil des normes comptables françaises du secteur bancaire* (compendium of

French accounting standards for the banking sector) which incorporates, without changing existing law, policy elements that might be based on positions of the accounting standards board and texts from the ACPR (or the Banking Commission). The ACPR also monitored the work on transposing Directive 2013/34/EU of 26 June 2013 on annual financial statements, consolidated financial statements and related reports.

B. FINANCIAL REPORTING

The Basel Committee launched a process to revise prudential disclosure requirements (Pillar 3). After publishing the first phase of revised Pillar 3 in early 2015, focused chiefly on improving the transparency of risk-weighted assets for the capital requirement calculation, the Basel Committee is preparing to publish a consultative document on the second phase of its work, which will complete the revision of the international regulatory framework for prudential reporting. Additionally, through a group chaired by the ACPR, the EBA prepared a report assessing the information published in 2015 by a sample of major European banks (including three major French banks) under Pillar 3 for 2014.

C. REPORTING

The EBA worked to bring FINREP in line with IFRS 9 with the publication, at the end of December 2015, of proposed amendments for industry consultation. Meanwhile, the ECB is seeking to improve reporting harmonisation at the European level, in particular in the definition of new supervisory data quality controls and in the implementation of regulation 2015/534 on subjecting institutions to FINREP under local accounting standards on a parent-company and consolidated basis.

D. AUDIT

Following the adoption of the two instruments on which the European audit reform is based⁵⁹, activity in 2015 focused mainly on the work begun by the EBA and EIOPA to draft guidelines to facilitate effective dialogue between the statutory auditors of public-interest entities⁶⁰ and the authorities responsible for prudential supervision. The aim of these guidelines, intended for supervisors of credit institutions and insurers, will be to facilitate communication under different circumstances, with a higher intensity for systemically important institutions. The EBA published draft guidelines for consultation in October 2015 and aims to have a final version by June 2016, when the provisions of the new texts take effect. EIOPA is also expected to publish its draft, which should not differ significantly from the EBA's.

In addition, on 12 July 2015 EIOPA published a note stressing the importance of the quality of the data published under the new Solvency II prudential regime. This note presents the performance of an audit of these data as a best practice.

59. Directive 2014/56/EU amending statutory audit and Regulation (EU) 537/2014, which applies only to public-interest entities.

60. Public-interest entities include: listed undertakings, credit institutions and insurance firms, as well as entities designated by Member States as public-interest entities, for example, undertakings which are of significant public relevance because of the nature of their business, their size or the number of their employees.

2 Developments in laws and regulations



2.1. PROVISIONS FOR THE BANKING SECTOR

A. FOR THE CRD IV/CRR PACKAGE ADOPTED ON 26 JUNE 2013, CRD IV TRANSPOSITION NOW COMPLETED AND FRENCH LAW ALIGNED WITH CRR

For France-based branches of credit institutions having their registered office in a state that is not party to the agreement on the European Economic Area, ordinance 2015-558 of 21 May 2015 completes the transposition of the CRD IV package. The main provisions concern the licensing, management ratios and

governance of these branches of third-country credit institutions. Their licensing by the ACPR as a credit institution is now expressly provided for in the Monetary and Financial Code. It is conditioned on the head office's commitment to perform comparable duties, for said branch, as those assigned by the Monetary and Financial Code to the board of directors, supervisory board or body performing comparable supervisory functions. Regarding management ratios, the ACPR may fully or partially exempt these branches, under certain conditions and subject to reciprocity for French credit institutions, from solvency, liquidity, leverage and large exposure requirements. **The order of 11 September 2015 on the prudential regime** states that these branches are required to comply with the provisions applicable to credit institutions under the CRR, with various adjustments for capital and governance and transitional measures for certain provisions.

The prudential regime for financing companies was clarified in the order of 11 September 2015 amending the order of 23 December 2013. It subjects these entities to the provisions for credit institutions set out in certain regulations and decisions of the European Commission pursuant to CRD IV and the CRR. The order maintains the principle that these texts do not automatically apply. It lists the relevant regulations and decisions with the aim of expanding them to financing companies.

B. TRANSPOSITION INTO FRENCH LAW COMPLETED FOR THE BANK RECOVERY AND RESOLUTION DIRECTIVE (BRRD) AND FOR THE SECOND DIRECTIVE ON DEPOSIT GUARANTEE SCHEMES OF 16 APRIL 2014 (DGSD II)

Law no. 2013- 672 of 26 July 2013 on Banking Separation and Regulation proactively addressed some of the provisions of the BRRD by establishing a French banking resolution regime. This law laid down key principles for preventing and managing banking crises and exercised in advance the main national options offered under the BRRD. The ACPR and the Fonds de garantie des dépôts et de résolution (FGDR — Deposit Insurance and Resolution Fund) were tasked with implementing this framework.

Ordinance 2015-1024 of 20 August 2015 requires, in particular, that the relevant institutions and groups develop preventive recovery plans describing the measures they will take should their financial position deteriorate. The ACPR will also have to develop preventive resolution plans for these institutions, when they are under its supervision, and assess the institution's or group's resolvability, i.e. its ability to be resolved under the resolution plan. Should obstacles arise, and if the institution or group in question does not submit measures to address them, it will be possible, for example, to force it to change its legal or operational structure to facilitate its resolution.



A minimum requirement for own funds and eligible liabilities (MREL) is stipulated to deal with resolution proceedings. A national resolution fund was created, and will reach 1% of covered deposits of the relevant institutions no later than 31 December 2024.

The ordinance also brings the deposit guarantee rules in line with DGSD II. The deposit insurance limit, already applicable in France, is EUR 100,000 per depositor and per banking institution. An order of 27 October 2015 nevertheless provides for an exception,

with an increase in the limit to EUR 500,000 for “temporary exceptional deposits”. The payout shall be made in seven days. The ordinance amends the rules applicable to the FGDR, in particular those governing the operation and powers of its supervisory board and the mechanisms for member contributions. The powers of the ACPR have been strengthened, as decisions involving the financing of the Fund cannot be made without its assent.

Lastly, the ordinance adjusts, where necessary, the provisions of the Monetary and Financial Code to account for the Single Resolution Mechanism (SRM) establishing a uniform procedure and rules for the resolution of credit institutions and certain investment firms under the SRM and the **Single Resolution Fund (SRF)**. Powers are shared between the **Single Resolution Board (SRB)**, which is competent from 1 January 2016 to develop resolution plans and adopt resolution decisions for significant institutions and cross-border institutions, and the national resolution authorities, which are still competent to adopt all decisions for other institutions. The SRB will also be competent to adopt resolution decisions once the resources of the SRF are available. For states participating in the Banking Union, the SRM regulation institutes the SRF, funded by contributions from the institutions subject to the SRM. Contributions collected from institutions falling within the scope of the SRM regulation will be transferred by the FGDR to the SRF starting in January 2016.

Decree no. 2015-1160 of 17 September 2015 completes the transposition of the BRRD. It provides for several organisational measures relating to the ACPR (delegation of powers to the chairman of the resolution college, sharing of information with the other authorities that are members of the college of supervisors). It establishes the enforceability of the decisions of the resolution college, as well as the deadlines for approval of the preventive recovery plans; these plans shall be deemed authorised if the college does not respond within four months. It also sets out the procedures for the supervisory college's adoption of decisions on intragroup financial agreements, the procedures for loss measurement and the procedures for implementation of resolution measures.

C. DECREE NO. 2015-564 OF 20 MAY 2015 COMPLETES THE ALIGNMENT OF FRENCH TEXTS WITH THE SINGLE SUPERVISORY MECHANISM FOR CREDIT INSTITUTIONS.

In particular, it brings the procedures for licensing credit institutions and authorising the acquisition of qualifying holdings in credit institutions in line with the powers conferred on the ECB by the SSM regulation, as well as the procedures for withdrawing credit institution licenses. The ACPR has the option of suggesting to the ECB that a credit institution's license be withdrawn.

D. BANKING MONOPOLY PROVISIONS

A new exemption to the banking monopoly on the granting of loans was established by Law no. 2015-990 of 6 August 2015, the “Macron” law. Article 167 of the law authorises limited companies and limited liability companies (*sociétés par actions* and *SARL*), whose financial statements are certified by a statutory auditor, to extend interest-bearing loans with a maturity of less than two years to other companies (micro-enterprises, SMEs, midmarket companies), as an ancillary activity to their main business, when justified by their economic relationships.

Third-party financing companies may carry out lending activities, subject to ACPR authorisation and under the conditions set out in Decree no. 2015-1524 of 25 November 2015. To that end, the ACPR assesses the adequacy of the third-party financing company’s programme of operations, organisation, governance and management rules. It verifies implementation of an internal control system appropriate to the credit transactions set out in the decree. The ACPR also monitors, on an ongoing basis, compliance with certain provisions relating to the security of borrowers.

E. ORDINANCE NO. 2015-1682 OF 17 DECEMBER 2015 ON THE SIMPLIFICATION OF CERTAIN PRIOR AUTHORIZATION AND REPORTING REGIMES FOR COMPANIES AND PROFESSIONALS

The ordinance abolishes the procedure requiring the ACPR to give its opinion prior to the appointment or reappointment of statutory auditors of banking firms. However, the procedure enabling the ACPR to appoint an additional statutory auditor, when warranted by the institution’s situation, was maintained.

F. LAW OF 17 AUGUST 2015 ON THE ENERGY TRANSITION FOR GREEN GROWTH

The law supplements the disclosure requirements for institutional investors regarding their procedures for taking criteria on meeting social, environmental and governance quality objectives into account in their investment policy. A decree will define the standard format for the information that must be published under these criteria and specify the information that can be provided on climatic aspects.

ACPR staff were involved in aligning French texts.



The ACPR will ensure consistency in the application of these new requirements for entities under its supervision.

2.2. PROVISIONS FOR THE INSURANCE SECTOR

A. ORDINANCE NO. 2015-378 OF 2 APRIL 2015 AND DECREE NO. 2015-513 OF 7 MAY 2015

Ordinance no. 2015-378 of 2 April 2015 and decree no. 2015-513 of 7 May 2015 transpose the Solvency II directive. Prudential provisions are now consolidated in the Insurance Code, to which the Mutual Insurance and Social Security codes refer. The decree comprises various measures for adapting the rules applicable to the insurance and reinsurance institutions governed by the three codes. It also ensures the accounting provisions are consistent with the legislative provisions, which task the French accounting standards board with defining the rules applicable to the accounting, under parent-company standards, of insurance and reinsurance transactions. The need to have at least two “effective managers” is included in the three codes.

The decree clarifies the concept of effective managers depending on whether the institution is subject to the Insurance Code, the Mutual Insurance Code or the Social Security Code. Effective managers are therefore:

- ▶ the chief executive officer and the deputy chief executive officer for institutions subject to the Social Security Code;
- ▶ the chairman of the board of directors and the chief operating officer for institutions subject to the Mutual Insurance Code;
- ▶ the chief executive officer and the deputy chief executive officers or all members of the management board for institutions subject to the Insurance Code.

Furthermore, when he or she has the powers and the capacity to perform the duties of effective manager, the chairman of the board of directors of an institution subject to the Insurance Code may be designated as such. To that end, he or she must, pursuant to Article R. 322-168 of the Insurance Code, (i) have an area of expertise and sufficiently broad powers over the undertaking's risks and operations, (ii) be able to dedicate the time required to serve as effective manager, and (iii) be involved in decisions that have a material impact on the undertaking with respect to strategy, budget and financial matters.

B. REGISTER OF GUARANTEED INVESTMENT AND LIFE INSURANCE CONTRACTS (FICOVIE)

The register will be active as from 1 January 2016. Insurance undertakings and similar institutions will have to disclose to the tax authorities the purchase and settlement of guaranteed investment contracts and other similar investments, such as life insurance policies. Decree no. 2015-362 of 30 March 2015 defines the content



of and procedures for these new reporting requirements aimed at implementing Article 1649 ter of the General Tax Code.

2.3. CUSTOMER PROTECTION PROVISIONS

A. ORDINANCE NO. 2015-1033 OF 20 AUGUST 2015 TRANSPOSING THE DIRECTIVE OF 21 MAY 2013 ON ALTERNATIVE DISPUTE RESOLUTION FOR CONSUMER DISPUTES

Ordinance no. 2015-1033 of 20 August 2015, transposing the directive of 21 May 2013 on alternative dispute resolution for consumer disputes, introduces the consumer dispute mediation regime into the Consumer Code. There are two possibilities: mediation relating to a specific area of economic activity and to which the professional must always give the consumer access when it is available, and mediation set up by the professional. The different types of mediation to which the consumer has access (industry mediation, company mediation) are clarified. The ordinance establishes a competent authority to assess and monitor ombudsmen and the conditions under which they perform their duties. The ACPR and the *Commission d'évaluation et de contrôle de la médiation de la consommation* (Commission on the Assessment and Supervision of Consumer Mediation) are expected to cooperate on the designation and assessment of bank ombudsmen.

Decree no. 2015-1382 of 30 October 2015 sets out the rules on the consumer mediation process, the requirements of independence and impartiality associated with consumer ombudsman status and the consumer ombudsman's reporting and disclosure obligations. **Decree no. 2015-1607 of 7 December 2015 on the terms for the appointment of company ombudsmen** establishes the principle of equal representation on the collegial body that appoints

company ombudsmen, put in place either by the company or under the jurisdiction of a national sector-specific or consumer consultative body. It also sets out the procedures for appointing company ombudsmen under the *Comité consultatif du secteur financier* (Financial Sector Consultative Committee, CCSF) for banking and insurance institutions which may submit requests to the chairman of this committee.

B. LAW OF 13 JUNE 2014, ON INACTIVE BANK ACCOUNTS AND UNCLAIMED LIFE INSURANCE POLICIES, SUPPLEMENTED BY DECREE NO. 2015-1092 OF 28 AUGUST 2015

The law of 13 June 2014 on inactive bank accounts and unclaimed life insurance policies was supplemented by decree no. 2015-1092 of 28 August 2015. In particular, it sets out a framework for the fees applicable to these bank accounts and life insurance policies, as well as the post mortem revaluation rates for life insurance policies. It details the procedures whereby banking and insurance institutions transfer unclaimed accounts and policies to the Caisse des dépôts et consignations (CDC), and the terms under which policy- or account holders, claimants or beneficiaries may recover the amounts depos-

ited with the CDC, or under which they may be transferred to the government (by the CDC or the institutions) on expiry of the limitation period. The text requires that interest be paid on the amounts deposited with the CDC. The 2014 Supplementary Budget Act introduced an ad hoc levy for instances when accounts are inactive or policies are unclaimed due to the death of the taxpayer. The aim is to avoid having to resettle the estate in order for the inheritance tax to apply. This new levy is assessed when the CDC pays back to the beneficiaries any amounts transferred to it by the relevant institutions.

2.4. AML/CTF PROVISIONS

The Franco-American agreement on implementation of the Foreign Account Tax Compliance Act (FATCA) provides for the automatic exchange of banking information. **Decree no. 2015-907 of 23 July 2015 on the procedures for collecting and transmitting this information**, provided for in the General Tax Code, defines the reporting institutions, the conditions and the deadlines for these reports. The concepts of reportable account, specified U.S. person and non-U.S. entity are those defined in Article 1 of the FATCA agreement.



CHAPTER 7

Budget

AND PERFORMANCE MONITORING

1. Budget of the ACPR	130
2. Activity monitoring	137

The ACPR has specific budgetary resources in the form of contributions for supervision costs collected by the Banque de France from reporting institutions and allocated in full to the Authority. These contributions may be supplemented by additional funds allocated by the Banque de France.

Since 2011, the Authority has used indicators to monitor its activities so as to measure the effectiveness of its actions in fulfilling its statutory objectives.

1. Budget of the ACPR

1.1. THE BUDGET

In accordance with Article L.612-18 of the Monetary and Financial Code, the ACPR is financially independent within the limits of the contributions paid by institutions under its supervision. The Banque de France may allocate additional funds to the Authority.

The Authority's budget, consisting of all of its receipts and expenses, is an annex to the budget of the Banque de France, in accordance with the above-referenced provisions of the Monetary and Financial Code.

Pursuant to Article L. 612-19 of the Monetary and Financial Code, the ACPR has resources provided by the Banque de France. It relies on support functions provided by the Banque de France in order to benefit from the pooling of certain costs (property management, IT, personnel management, accounting, etc.). It also relies on certain operational functions of the Banque de France, especially as regards the use of databases needed to fulfil its statutory objectives.

The services that the Banque de France provides to the ACPR are valued on the basis of the central bank's cost accounting and are charged out in accordance with the financial agreement it has with the ACPR⁶¹. The ACPR recognises these services as an expense and the Banque de France recognises them as income in its general budget. The services that the ACPR provides to the Banque de France are also valued on the basis of cost accounting. The ACPR recognises them as income and the Banque de France recognises them as an expense. Lastly, the Banque de France also incurs capital expenditure on behalf of the ACPR; the ACPR budget includes the associated depreciation and amortisation expenses.

The ACPR's budget outturn report for 2015, which was put together based on the above-noted principles, was submitted to the Audit Committee, which approved it at its meeting of 25 February 2016. It was then validated at the plenary meeting of the College on 11 March 2016.



The budget outturn report for 2015 shows profit at break-even, with receipts at EUR 189.8 million and expenditures at EUR 189.7 million. From one year to the next, the budget balances were virtually unchanged (EUR 0.1 million versus EUR 0.2 million). The increase in contributions, which nevertheless remained below the ceiling set out in the Budget Act (EUR 195 million for 2015), offset the rise in personnel expenses following the change in the discount rate applicable to pension obligations and the smaller rise in overheads.

Muriel Lecornu,
Quality and Management Directorate.

1.2. SUMMARY OF THE BUDGET

Summary of 2015 expenses and income

RECEIPTS AND EXPENSES <i>(EUR millions)</i>	2014 RECEIPTS AND EXPENSES	2015 UPDATED FORECASTS	2015 RECEIPTS AND EXPENSES	2015/2014 CHANGE		DIFFERENCE VERSUS UPDATED FORECASTS	
				AMOUNT	%	AMOUNT	%
Contributions from reporting institutions	184	188	188.3	4.3	2.3%	0.3	0.2%
Other receipts	2.5	2.2	1.5	-1	-40%	-0.7	-31.8%
Total receipts (A)	186.5	190.2	189.8	3.3	1.74%	-0.4	-0.2%
Personnel	102	103	104.5	2.5	2.5%	1.5	1.5%
IT	23.8	24.4	24.2	0.4	1.7%	-0.2	-0.8%
Buildings	28.1	27.3	27.1	-1	-3.6%	-0.2	-0.7%
Other expenses	32.4	35	33.9	1.5	4.6%	-1.1	-3.1%
Total expenses (B)	186.3	189.7	189.7	3.4	1.8%	0	0%
Budget balance (A) - (B)	0.2	0.5	0.1	-0.1	-50.0%		

A. RECEIPTS OF THE ACPR

Receipts from contributions for the cost of supervision totalled EUR 188.3 million

Receipts from contributions for the cost of supervision totalled EUR 188.3 million in 2015, excluding cancellations in respect of prior years and provisions set aside for the risk of non-collection. This amount, which was EUR 4.3 million higher than the 2014 figure (a 2.3% increase), relates primarily to contributions from **institutions in the insurance sector**. It reflects the sharp rise in life insurance premium inflows (up 6.7%), which forms the calculation base for these supervised entities. The amount of contributions from **credit institutions and investment firms** rose at a slower pace (up 0.4%).

The amount of the contribution from **money changers** was stable. In contrast, the growth in the number of **insurance and reinsurance brokers** and in **intermediaries in banking transactions and payment services**, up 4.2% and 15.15%, respectively, resulted in an 8.6% increase in the amount collected from these groups, with the collection process benefiting from the implementation, since 2013, of the principle of voluntary registration with the Organisme pour le registre unique des intermédiaires en assurance, banque et finance (the insurance, banking and finance intermediary register, ORIAS), and from the reconciliation of the register with the FIBEN databases, which have improved the reliability of the data. The number of disputes in these two categories of reporting institutions therefore declined in 2015.

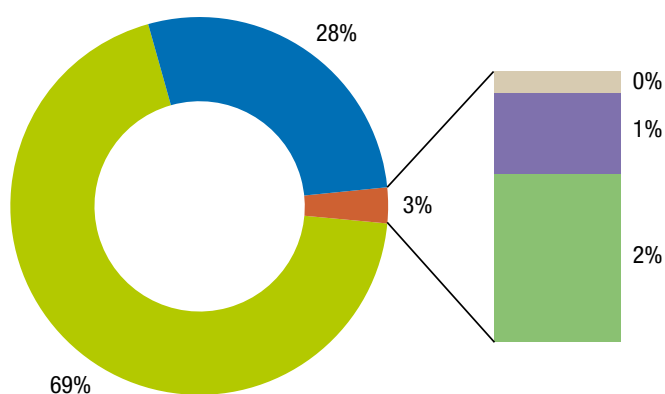


Detailed breakdown of contributions for supervision costs by category of reporting institution

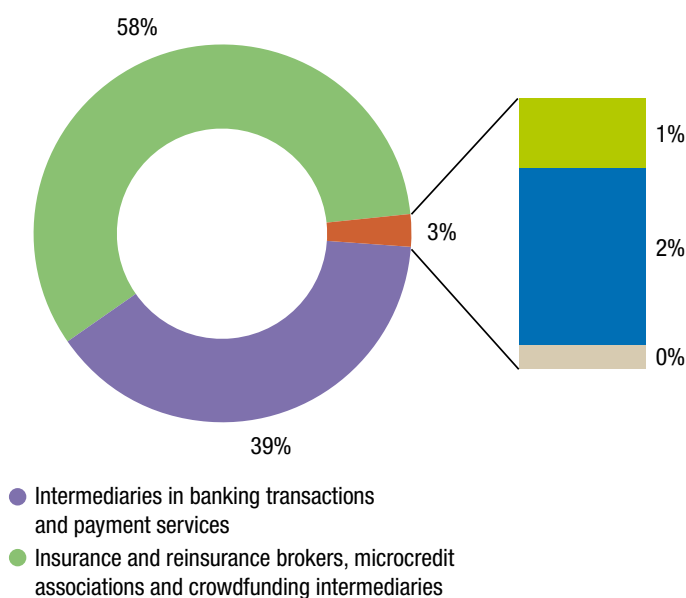
CONTRIBUTIONS BY CATEGORY OF REPORTING INSTITUTION (EUR thousands)	2014	2015	2015/2014 CHANGE	
			AMOUNT	%
Credit institutions and investment firms	126,975	127,447	472	0.4%
Insurers, mutual insurers and provident institutions	48,884	52,172	3,288	6.7%
Money changers	176	176	0	0.0%
Intermediaries in banking transactions and payment services	1,861	2,150	289	15.5%
Insurance and reinsurance brokers and microcredit associations	3,080	3,213	133	4.3%
Subtotal of contributions	180,976	185,158	4,182	2.3%
Caisse des dépôts et consignations	3,200	3,604	404	12.6%
Total of all contributions	184,176	188,762	4,586	2.5%
Provision for risk of non-collection and cancelled contributions	205	494	289	141.0%
Contributions net of provisions and cancellations	183,971	188,268	4,297	2.3%

Respective share (excluding the *Caisse des dépôts et consignations*) of income under Article L. 612-20 of the Monetary and Financial Code

AS AMOUNT CALLED (EUR 185,158,000)



AS NUMBER OF CONTRIBUTIONS (37,066)





Collection rates for 2015 were similar to the 2014 rates at the same date (brokers at 93.3% compared with 93.2%; intermediaries in banking transactions and payment services at 89% compared with 88%). They are expected to improve in 2016 due to the reminders sent out at the end of 2015.

Point VIII of Article L. 612-20 of the Monetary and Financial Code moreover allows matters to be referred to the public accounting officer to collect unpaid contributions by legal means. To that end,

an agreement with the Directorate General of Public Finance (DGFIP) was signed in April 2013; it states that all requests for collection shall be sent to the Treasury's special receivables division (DCST) and sets out the procedures for handling delinquent payments. In early 2016, of the 7,083 cases of outstanding receivables referred to the Treasury (for 2011 to 2014), 88.31% had been handled. Contributions considered unrecoverable were recognised as a loss for 2015.

THE LEGISLATIVE AND REGULATORY FRAMEWORK GOVERNING CONTRIBUTIONS FOR THE COST OF SUPERVISION

In 2015, there were no changes in the legislative and regulatory framework governing contributions for the cost of supervision due from entities supervised by the *Autorité de Contrôle Prudenciel et de Résolution*.

Contribution rates applicable to entities in the banking sector and the insurance sector were unchanged relative to 2014, at 0.066% and 0.021% respectively (cf. the Orders of 29 March 2013 on rates of contributions for the cost of supervision).

Contributions are calculated based on minimum capital requirements for the previous year for the banking sector and on premiums written net of cessions and cancellations for the insurance sector. In any case, the contribution called cannot be less than EUR 500.

The flat-rate contribution applicable to other categories of supervised entities also remained unchanged: EUR 100 for microfinance organisations and crowdfunding intermediaries; EUR 150 for brokers and intermediaries in banking transactions and payment services; and EUR 1,000 for money changers.

Other ACPR receipts

In addition to contributions for the cost of supervision, EUR 1.5 million was recognised in "Other income". This line item consists primarily of billings for services provided to the Banque de France. As the resources dedicated to these services have been significantly reduced, income was down 42% from 2014.

B. EXPENSES

Since the ACPR is an offshoot of the Banque de France, its operating expenses are either incurred directly by the General Secretariat or charged out by Banque de France units providing services.

Expenses charged out by the Banque de France mainly relate to salaries of permanent staff, rental and maintenance of operating premises, and IT and training-related services. With the exception of personnel expenses, they are charged out at their full cost based on the Banque de France's cost accounting model and in accordance with the terms of the financial agreement, which was renewed in December 2013.

The ACPR's expenses in respect of 2015 totalled EUR 189.7 million, up 1.8% relative to 2014.

Summary of 2015 expenses

EXPENSES (EUR millions)	2014 EXPENSES	2015 EXPENSES	2015/2014 CHANGE
Personnel	102.0	104.5	2.5%
IT	23.8	24.2	1.7%
Buildings	28.1	27.1	-3.6%
Other expenses	31.3	32.9	5.1%
Amortisation and depreciation	1.1	1	-9.1%
Total expenses (B)	186.3	189.7	1.8%

Personnel expenses (EUR 104.5 million)

PERSONNEL EXPENSES BY CATEGORY (EUR millions)	2014	2015	2015/2014 CHANGE	
			AMOUNT	%
Basic pay, special allocations and performance bonuses	45.7	45.2	-0.5	-1.1%
Other components of compensation and other personnel expenses	19.3	20.0	0.7	3.6%
Tax and social security expenses	37.0	39.3	2.3	6.2%
Total	102.0	104.5	2.5	2.5%





The collection rate for contributions for 2015 was 93.3% for brokers and 89% for intermediaries in banking transactions and payment services, **virtually identical to the 2014 figures for the same period.**

Aude MASSON,
Quality and Management Directorate.



The overall increase in personnel expenses of 2.5% relative to 2014 was mainly due to the sharp increase in social security contributions following the decrease in the discount rate used to calculate the pension obligations for Banque de France staff.

Remuneration was stable relative to 2014. The increase in remuneration for permanent and contract staff offset the decrease in that of other categories, including public-law staff which made up a smaller share of the workforce.

The major drive to recruit contract staff and the placement of staff selected through the competitive exam at the end of the year helped reverse the net leavers/new hires balance (positive net variance of 12 employees). In addition, the ACPR General Secretariat has accepted work-study students for the last three years. This programme falls within the scope of the intergenerational agreement in force at the Banque de France and the recruitment policy intended to encourage registration for the competitive exams.

The breakdown of General Secretariat staff is set out in section 2.5 of Chapter 1.

Overheads (EUR 83.260 million)

CATEGORY OF EXPENSE	2014 ACTUAL	2015 ACTUAL	2015/2014 ACTUAL	
(EUR millions)			AMOUNT	%
Purchasing	0.342	0.319	-0.023	-6.7%
IT expenses	23.795	24.169	0.374	1.6%
Expenditure on buildings	28.089	27.083	-1.006	-3.6%
Banque de France billings	15.203	16.314	1.111	7.3%
Various rental and maintenance expenses	0.495	0.464	-0.031	-6.3%
Travelling expenses	3.418	3.758	0.340	9.9%
Mailing and telecommunications costs	0.349	0.316	-0.033	-9.5%
Other overheads	10.718	10.837	0.119	1.1%
Total overheads	82.409	83.260	0.851	1.0%

Overheads rose 1% with some line items increasing and others decreasing. These changes reflect:

- ▶ an increase in billings of services provided to the ACPR General Secretariat by the Banque de France. The different format used to charge out the services provided to the ACPR by the Banque de France at their full cost shows variances in certain lines. It represents the impact, based on cost accounting rules, of the sharing of common costs among all directorates general of the Banque de France;
- ▶ the partial renegotiation of leases which led to a sharp reduction in rents;
- ▶ an increase in travelling expenses for the units supervising the banking and customer protection sectors, which was not offset by the decrease in expenses in the insurance sector which is actively involved in implementing Solvency II.

Regarding IT expenses, the services provided by the Banque de France have, since 2014, been billed on a flat-rate basis, which helps avoid significant variations between the initial budget forecasts, the updated forecasts and the final cost. This flat rate, set for the current year, is revised annually based on the actual costs incurred by the Banque de France.

Efforts to manage other current expenses have yielded savings on certain operating costs (purchasing, mailing costs, etc.).

Amortisation and depreciation (EUR 1 million)

The amortisation and depreciation expense, which corresponds to the ACPR's share of amortisation and depreciation expenses recognised by the Banque de France, declined relative to 2014.



2. Activity monitoring

Supervise business practices: call centre service rate

- target: **80%**
- result: **90%**

Process applications for licenses, authorisations and changes to operating conditions: authorisation application rate or time frame

- target: **100%**
- result: **100%**

Contribute to cross-functional supervision of risks: number of statistical products published

- target: **19**
- result: **41**

Manage the resources in place to perform the tasks: time frame for recruiting contract managers

- target: **less than 100 days**
- result: **70 days**

In 2011, the ACPR initiated a process to adopt tools to evaluate its activity and performance with respect to achieving its statutory objectives. This system changed in 2015.

1) Map the Authority's activity through nine processes

The processes identified cover ongoing supervision and on-site inspections in banking and insurance, licenses, participation in developing the regulatory framework, cross-functional supervision of risks, supervision of business practices, College activity, resolution and support functions.

2) Prepare a quarterly report that is structured around these processes and measures their performance through indicators

A management review is issued quarterly, in the form of a dashboard consisting of a one-page summary that provides an assessment, with comments, of how each process is working, along with an alert, if applicable. The key performance indicators for each process are then described in detail; they are accompanied by a description of the efforts underway or the action plans under consideration for performance management.

3) Factor in the institution's strategic directions

Performance monitoring indicators for the processes have been selected. The choice was guided by the strategic objectives adopted in the 2012-2015 strategic roadmap:

- ▶ prevent systemic risks;
- ▶ strengthen protection for financial consumers;
- ▶ increase the ACPR's influence in the European Banking Union;
- ▶ contribute to financial system regulation and its implementation;
- ▶ provide the best service at the lowest cost, harness the human potential of the ACPR.

DEFINITION OF PERFORMANCE INDICATORS

The performance indicators were developed based on the methodology for implementing the Constitutional Bylaw on Budget Acts. They measure the socio-economic efficiency of the ACPR's activities, the effectiveness of its management and the quality of the service provided. The indicators for the socio-economic efficiency of the ACPR's activities are used to ensure implementation of the on-site inspection programmes, verify that the prudential situation of all reporting institutions is assessed at least once a year,

assess the Authority's activities, and evaluate the ACPR's influence in the international supervisory system. The indicators that measure the quality of the ACPR's service and activities are used to ensure compliance with the applicable deadlines for licenses and complaint handling, as well as the dissemination of information to financial institutions and the public under the communication and transparency policy that the Authority endeavours to promote.



At the end of the year, a **Quality Control division was created** to supplement the ACPR's performance management process. Its objectives are as follows:

- ▶ promote a continuous improvement programme for the performance processes by uniting all stakeholders under a common framework;
- ▶ guarantee the users of the services of the ACPR General Secretariat a high level of quality in the rulings handed down, work performed and information published.

The performance measurement for 2015 has been broken down by process:

• Execute the inspection programmes

This process covers on-site inspections from their inclusion in the inspection programme through to the handling of the findings (action letter, delegated enforcement measure, disciplinary procedure). It concerns all inspections performed in the banking and insurance sectors with respect to prudential risks, anti-money laundering and counter-terrorist financing, and business practices.

Performance is measured at various stages in the process:

- ▶ initiation of the inspection programmes, as all inspections must be underway by the end of the year;

To adjust the programme to the available resources, the original programme was scaled back, particularly with respect to supervision of business practices (93 inspections instead of the 103 planned) and with the postponement or cancellation of 9 anti-money laundering inspections and 12 prudential inspections in banking and insurance.

This had been the case in 2014 as well. At that time, the number of inspections conducted fell sharply mainly due to the ad hoc exercise carried out by the ECB which engaged many of the ACPR's resources.
- ▶ status of the inspections in progress, as the time between the start of the inspection and submission of the draft report should not exceed the time projected when preparing for the inspection or the standard time calculated on the basis of observed practices;

The number of inspections that lasted longer than the targeted time frame remained stable during the year (20 inspections); the length of the inter partes phase may be one reason for a longer inspection time.



- ▶ monitoring of inspections pending follow-up, to ensure that the processing time does not exceed one year.

While at the end of 2014, 97 inspections that had been in process for more than one year were pending follow-up, this number dropped to 26 at the end of 2015 following an effort to clear this backlog.

• Carry out ongoing prudential supervision

This process covers ongoing supervision work and, more specifically, the annual assessment of the risk profile of reporting institutions. A distinction is made between institutions under direct or indirect ECB supervision and other institutions.

- ▶ For “significant” banking institutions under direct ECB supervision, the risk profile assessment refers to the minimum level of prudential inspection work required by the Single Supervisory Mechanism: it involves profitability; governance; credit, market, interest rate and operational risk; and compliance with capital requirements and liquidity ratios. The work is overseen by the coordinators of the joint supervisory teams and the activity is rated using the ECB’s information system dedicated to monitoring supervisory activities. The year 2015 was the first to be supervised by the ECB coordinators; measurement of the targets is not yet fully harmonised, so results may sometimes vary from one institution to another.
- ▶ For less “significant” banking institutions that are supervised by the ACPR, an indicator is used to ensure that, over the course of the year, all institutions active at 1 January have undergone a risk profile assessment according to the ORAP (organisation

and enhancement of preventive action) methodology. The corresponding rate ranges between 71% and 90% depending on the banking supervision directorate units. Another indicator measures the rate at which a meeting is held with managers once a year. Here as well, the 100% target was not met at 31 December for all divisions.

- ▶ For other banking institutions not subject to the Single Supervisory Mechanism, 47% underwent an ORAP assessment at the end of the year, as the priority was on work relating to the SSM. For the same reason, the rate at which meetings were held with the managers of these institutions was below expectations.
- ▶ In insurance, the assessments based on the annual returns received in the first half of the year were not fully completed at the end of the year.

• Supervise business practices

Performance is measured through the development of consumer information for the banking and insurance sectors, sector coverage of the inspections carried out and the number of advertisements checked.

In 2015, the rate of response to requests received over the Assurance Banque Épargne Info Service platform or the Banque de France’s SATELIS platform reached 90% compared with the target of 80%. The target of 3,800 advertisements checked was also met and the various forms of marketing by banking and insurance institutions and by intermediaries were subject to review.

• Process applications for licenses, authorisations and changes to operating conditions

For this process, a distinction is made between applications processed on the ECB's behalf and applications received by the ACPR.

A decision must be proposed for cases handled for the ECB 15 days before expiration of the regulatory deadline for acquisitions of ownership interests and 20 days before this deadline for authorisation applications. An indicator assesses the percentage of applications for which this deadline is met.

For applications that fall under the ACPR's responsibility, a performance indicator is calculated based on cases presented to the College or for which a decision is made under its delegated authority.

For both types of cases, the regulatory deadlines for processing applications are routinely met.



• Contribute to cross-functional supervision of risks

This process covers insurance and banking research activities. Two indicators track, first, the number of reports and analyses published in ACPR or Banque de France communications media (*Banque de France Bulletin, Financial Stability Review, Analyses et Synthèses, Economic and Financial Debates*) and, second, the number of statistical series published that are intended for institutions outside the ACPR General Secretariat and the Banque de France. The 2015 targets were met.

Another indicator focuses on research on the market's capacity to absorb the new capital instruments that banks will need to issue to meet their total loss-absorbing capacity (TLAC) requirements. This work consisted of one report, for the Financial Stability Board (FSB), on the macroeconomic impact of TLAC implementation and one report on the impact of the cost of debt subordination based on market data. The report on the macroeconomic impact of TLAC implementation was published in November by the FSB and the market study was prepared using banking stocks identified in the *Supporting schedules to the statements of investment*. This indicator is used to measure the ACPR's active participation in analysing the impact of this future requirement, particularly as regards systemic banking institutions' ability to comply and the market's ability to underwrite the new instruments issued by the banks.

Lastly, an indicator was developed to assess the ACPR's involvement in the work on the rules governing interest rate risk which are intended to improve banks' resilience to interest rate shocks. It identified the ACPR's contribution to the consultation launched in June under the Basel Committee and to the implementation of the quantitative study coordinated by the Basel Committee.

• Participate in the development and implementation of the regulatory framework

For this process, the performance indicators assess the ACPR's ability to contribute to the development and implementation of financial system regulation. An indicator quantitatively assesses France's influence in the international regulatory framework by keeping a record of ACPR staff members assigned to director or department head positions or who chair European working groups and those posted to institutions considered essential to prudential supervision (EBA, BIS, IAIS, EIOPA, FSB, ESMA). The ACPR's representation remained at the same level in 2015.

Other indicators focus on the promotion within international bodies of positions deemed essential by the ACPR. For example, in the banking sector, the ACPR's involvement in the calibration of the NSFR (Net Stable Funding Ratio) and, in the insurance sector, its involvement in drawing up the new standards on additional capital requirements for systemically important insurers.

• Ensure the legal certainty of the College's actions

This process concerns the preparations for the meetings of the ACPR College.

Its performance is measured by the percentage of cases submitted to members of the supervisory college within the stipulated deadline (five business days before the meeting is held). In 2015, despite the College's often very full agendas, the deadline was always met, although additional information on the cases was sometimes sent after the main file.

The authority of the decisions is measured with an indicator of compliance with specified deadlines within which the College must approve the minutes of the meeting (no later than the second meeting following the meeting of the College). This indicator did not raise any alarms in 2015. Another indicator tracks the number of cases where the Sanctions Committee dismissed a procedure initiated by the College or where the Constitutional Court or Conseil d'État ruled against a decision by the ACPR College or Sanctions Committee (three cases in 2015).

• Manage the resources in place to perform the tasks

This process consists of a quality component and an HR component.

The performance of human resources management is measured by several indicators:

- ▶ the reduction in the resource gap for core activities;
- ▶ staff turnover;
- ▶ time frame for recruiting managers.

In 2015, recruitment time frames were reduced after the recruitment process was revised with that aim in mind. Nevertheless, the turnover rate, which remained high despite falling from 21% to 17.7%, was compounded by recruitment difficulties. The target of reducing the resource gap was therefore not met.

A quality control division was created during the year. The aim is to roll out a system that will hold the ACPR accountable for the quality of its practices and that will be included in the initiative implemented by the ECB's quality assurance division. Seven staff members were thus recruited; they contributed in particular to the ECB's quality network and began the work of identifying and describing the Authority's processes.

• Guide the banking crisis resolution work

In 2015, the steps in the transposition into French law of resolution regulations and the submission of eight resolution plans to the Single Resolution Board were subject to monitoring.



Directive 2014/59/EU on the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive, or BRRD) was transposed by the ordinance of 20 August 2015.

Regarding the operational implementation of the Single Resolution Mechanism (SRM), the ACPR Resolution College decided at its meeting of 9 July 2015 to refocus the ACPR's priority on systemic groups by providing the Single Resolution Board with the resolution plans for four systemic banking groups.

Conclusion

In 2015, a process-based approach was rolled out for the management control system. The overhaul of the quarterly management review, which now measures the ACPR's performance through its key processes, is a concrete example.

Work is ongoing in 2016 to supplement the system through the use of data taken from cost accounting and the generation of synergies between management control and the quality initiative.

List of ACPR publications in 2015

The ACPR's research is published in a review titled **ANALYSES ET SYNTHÈSES** (containing analysis and comment on research carried out into risks in the banking and insurance sectors).

In 2015, 17 issues were published and five were translated into English:

- ▶ *Analyse de l'exercice 2015 de préparation à Solvabilité II (Analysis of the 2015 Solvency II preparatory exercise)*, December 2015
- ▶ *La situation des mutuelles du code de la mutualité en 2014 (Performance in 2014 of mutual insurance companies governed by the Mutual Insurance Code)*, November 2015
- ▶ *Enquête affacturage 2014 (2014 Factoring Survey)*, October 2015 (jointly with the DCEGGS (general and specialised credit institution supervision directorate))
- ▶ *Suivi de la collecte et des placements des 12 principaux assureurs-vie à fin juin 2015 (Premium income and investments of the 12 largest life insurers to end June 2015)*, October 2015
- ▶ *La situation des principaux organismes d'assurance en 2014 (Status of the main insurance institutions in 2014)*, July 2015
- ▶ *Le financement des professionnels de l'immobilier par les banques françaises en 2014*, July 2015
 - **English version:** *French banks' lending to the professional real estate sector in 2014*
- ▶ *Le financement de l'habitat en 2014*, July 2015
 - **English version:** *Housing finance in France in 2014 et Historical data*
- ▶ *Suivi de la collecte et des placements des 12 principaux assureurs-vie à fin mars 2015 (Premium income and investments of the 12 largest life insurers to end March 2015)*, June 2014
- ▶ *Étude sur les taux de revalorisation des contrats collectifs d'assurance-vie et PERP au titre de 2014 (Study of revaluation rates for group life insurance policies and retirement savings plans in 2014)*, June 2015
- ▶ *Étude sur les taux de revalorisation des contrats individuels d'assurance-vie au titre de 2014 (Study of revaluation rates for individual life insurance policies in 2014)*, June 2015
- ▶ *La situation des grands groupes bancaires français à fin 2014*, May 2015
 - **English version:** *French banks' performance in 2014*
- ▶ *Situation d'un échantillon de groupes d'assurance actifs en France à fin 2014 (Performance of a sample of active insurance groups in France at end-2014)*, May 2015
- ▶ *Stress test EIOPA 2014 : échantillon européen, situation domestique et benchmarkings (EIOPA stress test 2014: European sample, domestic performance and benchmarkings)*, April 2015
- ▶ *Suivi de la collecte et des placements des 12 principaux assureurs-vie à fin décembre 2014 (Premium income and investments of the 12 largest life insurers to end December 2014)*, April 2015
- ▶ *Comment les pondérations de risque diffèrent-elles parmi les banques ? Étude comparée sur les portefeuilles « Entreprises » des banques françaises*, March 2015
 - **English version:** *How may risk weights differ across banks? Evidence from the corporate portfolios of French banks*
- ▶ *Analyse de l'exercice 2014 de préparation à Solvabilité II*, February 2015
 - **English version:** *Analysis of the 2014 Solvency II preparatory exercise*
- ▶ *Comparaisons internationales (EBA-ECB Stress Tests 2014 – International comparisons)*, January 2015

DÉBATS ÉCONOMIQUES ET FINANCIERS are articles that solely reflect the views of their authors and may not express the position of the Authority. They encourage debate on economic issues in banking and insurance, regulation and prudential policy.

Five issues were published in 2015:

- ▶ Claire Labonne, Cécile Welter-Nicol, "*Cheap Credit, Unaffordable Houses?*" December 2015
- ▶ Boubacar Camara, François-Daniel Castellani, Henri Fraise, Laure Frey, Jean-Cyprien Héam, Claire Labonne and Vincent Martin, "*MERCURE: A Macroprudential Stress Testing Model developed at the ACPR*", October 2015
- ▶ Henri Fraise, Johan Hombert and Mathias Lé, "*The Competitive Effects of a Bank Megamerger on Access to Credit*", October 2015
- ▶ Fabrice Borel-Mathurin, Pierre-Emmanuel Darpeix, Quentin Guibert and Stéphane Loisel, "*Main determinants of profit sharing policy in the French life insurance industry*", August 2015
- ▶ Pierre Pessarossi and Frédéric Vinas, "*Banks' supply of long term credit after a liquidity shock: Evidence from 2007-2009*", February 2015

BANQUE DE FRANCE WORKING DOCUMENTS are papers which have gone through a referral process but which do not necessarily represent the opinion of the Banque de France or Eurosystem. ACPR researchers regularly publish within this framework.

One paper was published in 2015:

- ▶ Philippe Andrade, Christophe Cahn, Henri Fraise and Jean-Stéphane Mésonnier, *La fourniture de liquidité à long terme peut-elle contribuer à juguler un effondrement du crédit ? Une évaluation à partir des opérations de refinancement à long terme de l'Eurosystème (Can the Provision of Long-Term Liquidity Help to Avoid a Credit Crunch? Evidence from the Eurosystem's LTROs)*, No. 540, March 2015



PUBLICATIONS IN PEER-REVIEWED JOURNALS

Four articles were published in 2015:

- ▶ Henri Fraise, Francis Kramarz and Corinne Prost, “*Labor Disputes and Job Flows*”, *ILR Review*, vol. 68, No. 5 1043-1077, October 2015
- ▶ Pierre Pessarossi and Laurent Weill, *Les exigences de fonds propres influencent-elles l’efficacité des banques ? Leçons d’une expérience naturelle en Chine (Do Capital Requirements Influence Bank Efficiency? Lessons from a Natural Experiment in China)*, *Revue économique*, No. 3, May 2015
- ▶ Michel Dietsch and Joël Petey, “*The credit-risk implications of home ownership promotion: The effects of public subsidies and adjustable-rate loans*”, *Journal of Housing Economics*, No. 28, 2015
- ▶ Olivier de Bandt, Jean Cyprien Héam, Claire Labonne and Santiago Tavoraro, *Mesurer le risque systémique après la crise financière (Measuring Systemic Risk in a Post-Crisis World)*, *Revue économique*, No. 3, May 2015

ACPR seminars

The Authority organises research seminars under the banner of the “Regulation and Systemic Risks” research initiative, known as La Chaire ACPR, the main goal of which is to organise research activities, facilitate contact between academia and the ACPR and create a space for discussion and ideas, with an international outlook, in relation to the management of systemic risk.

La Chaire ACPR organised TEN RESEARCH SEMINARS in 2015:

- ▶ On 6 January, Xavier Milhaud (ENSAE) presented on “*Mass lapse scenario in insurance, an alternative to Solvency II stress tests*”
- ▶ On 3 February, Elia Berdin (University of Frankfurt) presented on “*The Effects of a Low Interest Rate Environment on Life Insurers*”
- ▶ On 3 March, David Martinez-Miera (Universidad Carlos III de Madrid) presented on “*Comparing Flat and Risk-based Capital Requirements*”
- ▶ On 7 April, Christophe Pérignon (HEC Paris) presented on “*The Political Economy of Financial Innovation: Evidence from Local Governments*”
- ▶ On 5 May, Carole Bernard (ESC Grenoble) presented on “*Risk Management of Policyholder Behavior in Equity-Linked Life Insurance*”
- ▶ On 2 June, Darrell Duffie (Stanford University) presented on “*Reforming LIBOR and Other Financial-Market Benchmarks*” and “*Benchmarks in Search Markets*”
- ▶ On 1 September, Jean-Édouard Colliard (HEC) presented on “*Strategic Selection of Risk Models and Bank Capital Regulation*”
- ▶ On 6 October, Olivier Loisel (ENSAE-CREST) presented on “*Efficient Risk and Bank Regulation*”
- ▶ On 3 November, Marcus C. Christiansen (Heriot-Watt University) presented on “*Decomposing Life Insurance Liabilities into Risk Factors*”
- ▶ On 1 December, Guillaume Vuillemeys (HEC) presented on “*Wholesale Funding Runs*”

The Authority also organised FIVE OTHER SEMINARS open to outside attendees, on the following themes:

- ▶ On 26 January, Dominique Dron (mining engineer, member of the Conseil général de l’économie (French General Council for the Economy)) “*Quels apports des régulations écosystémiques à l’analyse des systèmes financiers ? (What contributions do ecosystem regulations make to financial system analysis?)*”
- ▶ On 12 February, Henri Fraise (ACPR) “*The Competitive Effects of a Bank Megamerger on Access to Credit*”
- ▶ On 25 March, Mathias Dewatripont (vice-Governor of the National Bank of Belgium) “*Comment protéger les passifs des banques ? (Which Protection for Bank Liabilities?)*” as part of the series of Sciences-Po - Banque de France seminars
- ▶ On 3 September, Henri Fraise (ACPR) “*The Macroprudential Stress Testing Tools at the ACPR*”
- ▶ On 30 October, Claire Labonne (ACPR) “*Cheap Credit, Expensive Houses*”

The Authority also organised TWO INTERNATIONAL CONFERENCES

- ▶ Jointly with the Banque de France, on 28 September, an international conference on the prudential regulation of non-bank financial intermediation entities and activities (insurance companies, asset managers and market infrastructure), titled “*Financial Regulation – Stability versus Uniformity, a focus on non-bank actors*” brought together central bankers, international regulators and supervisors, top-level academics and representatives from the financial industry.
- ▶ The ACPR’s second international academic conference, on 2 December, on the theme of “*Financial institutions after the crisis: facing new challenges and new regulatory frameworks*”, brought together regulators, supervisors and top-level international academics to discuss a series of innovative research articles selected by its scientific committee.

ACTUARY

A specialist who applies statistics and probability calculations to financial and insurance operations. In life and non-life insurance, actuaries analyse mortality patterns and use probabilities to assess risks and calculate premiums and technical and mathematical provisions.

ADD ON

An additional requirement. In insurance, under Solvency II, an add-on is an additional capital requirement that may be imposed on an insurer or reinsurer in exceptional circumstances by reasoned decision of the supervisory authority. In practice, there are two types of additional capital requirement:

- ▶ “Pillar 1” capital add-ons linked to the quantitative requirement: these serve to correct the amount of the capital requirement when the risk profile diverges from the calculation assumptions used (standard formula or internal model);
- ▶ “Pillar 2” capital add-ons linked to governance: these serve to adjust the capital requirement when the quality of governance diverges from required standards such that risks can no longer be adequately measured or controlled.

ANC (*Autorité des normes comptables*)

The French accounting standards authority, responsible for setting accounting standards applicable in France. Ordinance 2009-79 of 22 January 2009 merged the CNC (Conseil national de la comptabilité) with the CRC (Comité de la Réglementation Comptable) to form the Autorité des normes comptables (ANC), the accounting standards authority.

AQR

See Comprehensive Assessment

AREAS agreement (*S'assurer et Emprunter avec un Risque Aggravé de Santé*)

An agreement that aims to offer solutions to facilitate access to insurance and credit for persons who have, or have had, serious health problems.

BANKING BOOK

A set of assets or off-balance sheet items not belonging to the trading book.

BANKING UNION

A set of legislative measures aimed at enhancing financial stability in Europe. They include the Single Supervisory Mechanism, under which, with effect from 4 November 2014, the European Central Bank assumes responsibility for supervising euro area banks in liaison with national authorities. This supervision is direct in the case of large groups and indirect for others. Other measures include a Single Resolution Mechanism (SRM) with effect from 1 January 2015 and, in the longer term, a common deposit guarantee scheme.

CAPITAL (*accounting definition*)

All capital resources available to a company.



CAPTIVE

An insurance or reinsurance company set up by an industrial or commercial group exclusively for the purpose of covering its own risks. By creating a captive, the parent group is able to pool its insurance and reinsurance programmes to obtain better cover at more competitive prices in the international insurance market.

CCSF (*Comité Consultatif du Secteur Financier*)

A consultative committee that addresses issues relating to how credit institutions, payment institutions, investment firms and insurance companies deal with their customers. It adopts appropriate measures in these areas, notably through opinions or general recommendations.

CDS (Credit Default Swap)

A contract whereby an institution wishing to protect itself against the risk of non-repayment of a loan makes a series of regular payments to a third party in exchange for receiving a predetermined amount if an event of default occurs.

COMPREHENSIVE ASSESSMENT

An assessment conducted by the ECB in collaboration with the competent national authorities of Member States participating in the Single Supervisory Mechanism (SSM) to assess the risks of national banking systems. The Assessment began in October 2013 and was completed before the SSM entered into force in November 2014. The three main goals of the Comprehensive Assessment were: transparency, enhancing the quality of information available on the condition of banks; repair, identifying and implementing necessary corrective actions; and confidence-building, assuring all stakeholders that banks are fundamentally sound and trustworthy. The Assessment consisted of two parts:

- ▶ an Asset Quality Review (AQR) to increase transparency with regard to banks' exposure (focusing in particular on the adequacy of provisions and the measurement of collateral, complex instruments and other high-risk assets); and
- ▶ a stress test to examine the resilience of bank balance sheets to crisis scenarios.

COREP (Common Reporting Framework)

A standardised reporting framework for Basel II solvency requirements.

CRD IV

Directive 2014/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, which deals with capital requirements.

CROWDFUNDING

A method of raising funds – generally of small amounts – from large numbers of members of the public to finance an artistic project (e.g. in music, publishing or film) or an entrepreneurial project. Crowdfunding campaigns may support local initiatives or projects promoting certain values. Crowdfunding is usually carried out via the internet and takes various forms: donations with or without some benefit in return, loans with or without interest, and subscriptions of securities.

CRR

Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, which deals with capital requirements.

CVA (Credit Valuation Adjustment)

The estimated credit component of counterparty exposure to derivatives (e.g. via the counterparty's rating). The CVA is determined daily by taking into account changes in ratings and market prices, netting agreements and collateral. The higher the counterparty risk, the higher the CVA.

DELEGATED ACT

Under the terms of Article 290 TFEU, delegated acts are “non-legislative acts of general application to supplement or amend certain non-essential elements” of a legislative act. In order to be adopted, delegated acts require a delegation of authority, which is written into the legislative text and may be revoked by the Parliament or the Council at any time.

D-SIB (Domestic Systemically Important Bank)

In addition to Global Systemically Important Banks (see G-SIB), the Basel Committee has also looked at identifying Domestic Systemically Important Banks or D-SIBs. The CRD IV/CRR package calls for an equivalent category under EU law. This category will cover Other Systemically Important Institutions or O-SIIs.

EBA (European Banking Authority)

The supervisory authority for the European banking sector, established on 1 January 2011.

EFRAG (European Financial Reporting Advisory Group)

EFRAG was established in 2001 with the encouragement of the European Commission with the aim of participating in the development of IFRS published by the IASB and providing technical expertise and advice on accounting matters.

EIOPA (European Insurance and Occupational Pensions Authority)

The supervisory authority for the European insurance and occupational pensions sector, established on 1 January 2011.

EMIR (European Market Infrastructure Regulation)

A European regulation covering OTC derivatives, central counterparties and trade repositories.

ESRB (European Systemic Risk Board)

Organisation set up in the wake of the 2009 economic crisis and tasked with implementing macro-prudential oversight and early assessment of systemic risk.

EUROPEAN DIRECTIVE

An act of the European institutions intended to harmonise Member States' domestic legislation. European directives set objectives for Member States to meet while allowing them freedom as to the forms and methods used.

EUROPEAN ECONOMIC AREA

An association set up for the purpose of extending the European Union's internal market to member States of the European Free Trade Association (EFTA) that do not wish, or are not ready, to join the EU. The EEA aims to "remove all obstacles to the creation of an area of complete freedom of movement similar to a national market". As such, it is based on the four freedoms of the European Community: the free movement of goods, persons, services and capital among member countries.

EUROPEAN REGULATION

A law or regulation issued by European institutions that is mandatory and directly applicable in all Member States.



EUROPEAN UNION

The European Economic Community (EEC) was established by the Treaty of Rome in 1957 with the primary aim of creating a large common market with no internal borders. The Maastricht Treaty, which entered into force on 1 November 1993, replaced the European Economic Community with the European Community. The Lisbon Treaty, which entered into force on 1 December 2009, dismantled the pillar structure of the European Community by merging the pillars and transferring the Community's legal personality to a new entity, the European Union (EU). The EU's aim is to promote development, growth, employment, competitiveness and a high level of social and environmental protection throughout the Community in a manner consonant with solidarity between Member States. To achieve this aim, it prepares a range of sectoral policies, chiefly in the areas of transport, competition, fisheries and agriculture, asylum and immigration, energy and the environment. These policies are implemented via the decision process laid down in the founding treaties, including in particular the co-decision procedure.

FATF (Financial Action Task Force)

An intergovernmental organisation that aims to develop and promote national and international anti-money laundering and counter-terrorist financing policies.

FinCoNet

International Financial Consumer Protection Network, which brings together national supervisory authorities responsible for protecting consumers in the financial sector.

FREEDOM TO PROVIDE SERVICES

The right of an organisation having its registered office or a branch in a Member State of the European Economic Area to provide services in another EEA Member State. Thus, a company located in one Member State can insure a risk in another Member State.

FRTB (Fundamental Review of the Trading Book)

Fundamental review of the prudential treatment of banks' trading operations.

FSB (Financial Stability Board)

Established in 2009 as the successor to the Financial Stability Forum (FSF).

GHOS (Group of Central Bank Governors and Heads of Supervision)

This high-level group comprises central bank Governors and heads of supervision from the Basel Committee member countries. The GHOS provides guidance on the Basel Committee's work and approves the new standards it produces.

GROUP MUTUAL INSURANCE COMPANIES (SGAM)

Group of insurers whose main objective is to establish strong and lasting financial solidarity links between members, and which comprise at least two affiliated bodies, one of which is a mutual insurance company. An SGAM operates with no share capital, but rather with an initial capital.

G-SIB (Global Systemically Important Bank)

The G20 asked the Basel Committee to develop an identification method and supervision measures for Global Systemically Important Banks in order to eliminate the risks that "too big to fail" banks pose for the financial system. The Financial Stability Board now publishes an annual list of these systemically important banks. The EU has transcribed the Basel rules on G-SIBs into European banking law with the entry into force of the CRD IV/CRR package.



G-SII (Global Systemically Important Insurer)

The G20 asked the IAIS to develop an identification method and supervision measures for Global Systemically Important Insurers in order to eliminate the risks that “too big to fail” institutions pose for the financial system. The Financial Stability Board now publishes an annual list of these systemically important insurers.

HCSF (*Haut Conseil de stabilité financière*)

Established by the Law on the Separation and Regulation of Banking Activities of 26 July 2013 to replace the Conseil de régulation financière et du risque systémique (“Corefris”, Financial Regulation and Systemic Risk Board), the HCSF is responsible for ensuring financial stability in France and the ability to make a sustainable contribution to economic growth.

IAIS (International Association of Insurance Supervisors)

Organisation that aims to promote cooperation between its members, chiefly insurance supervisors or regulators, and to foster collaboration with supervisory authorities in other financial sectors, such as banking and securities markets. Such cooperation has become increasingly necessary due to the international expansion of insurance groups and their diversification into banking and asset management.

IASB (International Accounting Standards Board)

Organisation that draws up international accounting standards, ratified by the European Union, for consolidated financial statements.



IFRS (International Financial Reporting Standards)

International accounting standards proposed by the IASB, which are gradually replacing International Accounting Standards (IAS).

INTERMEDIARY

In insurance, an individual or entity on a restricted list that offers or helps to conclude insurance or reinsurance policies, in exchange for payment. Activities consisting solely in managing, estimating or settling claims are not considered intermediation.

JST (Joint Supervisory Teams)

Teams made up of personnel from the ECB and from the competent national authorities (CNAs) of countries in which credit institutions or significant subsidiaries of a given banking group are established. A JST is put in place for each significant institution, and is tasked with day-to-day supervision of that institution and implementation of the annual supervisory programme. Each JST is overseen by a coordinator within the ECB. Coordinators are appointed for three to five years and are responsible for the implementation of the supervisory duties and activities set out in the prudential supervision programme for each significant credit institution.

LCR (Liquidity Coverage Ratio)

One-month liquidity ratio (currently under observation; due to enter into force in 2015).

LONG-TERM GUARANTEE PACKAGE

A set of six measures discussed by the trilogue parties for the Omnibus II Directive. The measures are aimed at reducing the impact of financial market volatility on the capital of institutions engaging in long-term activities. The measures include a Volatility Adjustment, a Matching Adjustment, an extrapolation period for the risk-free rate curve, transitional measures for rates and technical provisions, and extension of the solvency capital requirement recovery period under exceptional circumstances.

MCR (Minimum Capital Requirement)

Under Solvency II, the minimum amount of regulatory capital below which an institution's authorisation would be withdrawn. The MCR is expected to be calculated in a simpler and more robust manner than the Solvency Capital Requirement and cannot be less than a fixed absolute amount in euros.

MPE (Multiple Point of Entry)

A resolution approach under which resolution powers and instruments are exercised at the level of the various parts of the group by at least two different resolution authorities, which coordinate activities between themselves (as opposed to the Single Point of Entry, or SPE, approach).

MREL (Minimum Requirement for own funds and Eligible Liabilities)

The minimum required level of liabilities eligible for bail-in under the terminology of the Bank Resolution and Recovery Directive (BRRD).

NSFR (Net Stable Funding Ratio)

One-year liquidity ratio for banks (currently under observation; due to enter into force in 2018).

OMNIBUS II

A Directive amending the 2009 Solvency II Directive. Its primary objective was to adapt the Solvency II Directive to the new powers of EIOPA, following the establishment of the new European financial architecture. Furthermore, Omnibus II was intended to confirm the Solvency II implementation delay and set transitional periods for a number of measures (equivalence assessments, discount rates, etc.). In reality, the Omnibus II Directive provided an opportunity to review certain quantitative issues, such as long-term guarantees ("Long-Term Guarantee Package"). The trilogue parties ultimately agreed to a joint draft on 13 November 2013 and the European Parliament passed the Directive at its plenary session on 11 March 2014. The postponement of Solvency II implementation until 1 January 2016 was ultimately included in an ad hoc Directive called Quick Fix 2, passed on 11 December 2013.

ORIAS (*Organisme pour le registre des intermédiaires en assurance, banque et finance*)

Non-profit organisation responsible for establishing, maintaining and updating the register of authorised insurance, reinsurance, banking and finance intermediaries in France.

ORSA (Own Risk and Solvency Assessment)

Internal assessment by an institution (or group) of its risks and solvency, defined in Article 45 of the Solvency II Directive. The ORSA must illustrate the institution's or group's ability to identify, measure and manage factors that could affect its solvency or financial position. As such, its operational application makes it a primary strategic tool.

OTC DERIVATIVES

Derivatives that are traded over the counter (OTC).

PROVISIONAL ADMINISTRATION

A legal procedure whereby the powers of administration, management and representation of a company are transferred to a designated administrator. This measure, which is a derogation from general corporate law, removes the authority of the existing corporate bodies.

PRUDENTIAL OWN FUNDS

Funds made up of different categories of own funds: Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital. As the case may be, capital requirements are expressed as a minimum level of Common Equity Tier 1 Capital, as a minimum level of Tier 1 Capital (the sum of Common Equity and Additional Tier 1 Capital) or as a minimum level of total capital (sum of Tier 1 and Tier 2 Capital).

QIS (Quantitative Impact Study)

The European Commission asked EIOPA to conduct quantitative studies to measure the impact of Solvency II on the evaluation of the regulatory balance sheet and capital requirements.

RWAs (Risk-Weighted Assets)

Risk-weighted assets are based on banks' exposures and their associated risk levels, which depend on counterparties' creditworthiness, measured using the methods provided for in the Basel III solvency ratio calculation framework (implemented in Europe by the CRR).

SINGLE SUPERVISORY MECHANISM (SSM)

See Banking Union





SOLVENCY II PILLARS

The three Solvency II pillars are:

- ▶ Pillar 1: quantitative requirements, particularly for capital and technical reserves;
- ▶ Pillar 2: qualitative requirements in respect of governance;
- ▶ Pillar 3: regulatory reporting and public disclosure requirements.

SOLVENCY CAPITAL REQUIREMENT (SCR)

Target amount of capital required under the European regulation, Solvency II. The SCR is the estimated amount of capital needed to absorb a shock produced by an exceptional loss. It is calculated based on the exposure to risk in connection with the activity of insurance companies, i.e. underwriting risk, credit risk, operational risk, liquidity risk and market risk. Companies should be able to choose between two different calculation models: a standard approach or an internal model.

SOLVENCY MARGIN REQUIREMENT

The regulatory capital that an insurance company must hold in order to meet the commitments resulting from its business. Under Solvency I, in life insurance, the solvency margin requirement will depend on mathematical reserves for unit-linked and non-linked contracts, as well as capital at risk. In non-life insurance, it will depend on the amount of premiums or claims. Note that the vocabulary is changing: Solvency II refers to “a level of equity” or “capital requirement”. The bases for calculation are also changing, becoming more granular and covering more risks.

SPE (Single Point of Entry)

A resolution approach under which powers and instruments are exercised at group parent level by the home country authority, with host country authorities adopting measures to support resolution actions if necessary (as opposed to the Multiple Point of Entry, or MPE, approach).

TLAC (Total Loss-Absorbing Capacity)

Requirements on holdings of capital or debt securities able to be converted in the event of liquidation.

TRACFIN (*Traitement du renseignement et action contre les circuits financiers clandestins*)

French financial intelligence unit, run by the finance ministry and responsible for preventing money laundering and terrorist financing.

TRADING BOOK

Set of positions in financial instruments and commodities held by an institution for trading purposes or to hedge other items in the trading book.

TRILOGUE

Tripartite discussions between the European Parliament, the European Commission and the Council of the European Union under the co-decision procedure.

VAR (Value at Risk)

The maximum potential loss caused by a change.

Glossary

Director of publication: Édouard Fernandez-Bollo
Photos: Pascal Assailly / Banque de France - Jean Derennes / Banque de France -
Marthe Lemelle / Banque de France - Philippe Matsas / Rézofoto

Design and production: *actifin* 01 56 88 11 11

Overview
Protect **Ensure**
Sanction **Participate**
Monitor **Action**



61, rue Taitbout, 75436 Paris Cedex 09

