PRESENTING

PARTICIPATING

PROTECTING

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MONITORING

MANAGING

SANCTIONING

ACPR 2017

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https://acpr.banque-france.fr

ANNUAL REPORT

ENTER

CONTENTS

The annual report reviews the activity of the *Autorité de contrôle prudentiel et de resolution* (ACPR – the Authority) and its departments.

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

It will also be supplemented by a statistical section in the third quarter of 2018.

EDITORIAL BY FRANÇOIS VILLEROY DE GALHAU, CHAIRMAN OF THE ACPR AND GOVERNOR OF THE BANQUE DE FRANCE

THE ACPR, A BENCHMARK IN SUPERVISION AT THE HEART OF EUROPE

Once again in 2017, the ACPR worked hard to make finance more secure. In line with its duty of transparency, it describes the results of its activities in this annual report. I wish to thank the women and men at the ACPR for their exceptional efforts in accomplishing this goal, and would also like to highlight some key achievements from the past year.

The ACPR has been heavily involved in the ongoing implementation of common international standards, capable of reinforcing financial stability

On the international stage, the ACPR made a decisive contribution to the finalisation of Basel III. Its teams participated actively in discussions, and succeeded in obtaining a balanced agreement that will help to reduce unjustified variability in banks' risk-weighted assets while also maintaining a risk-sensitive prudential framework. The agreement of 7 December 2017 is the best possible outcome for both France and Europe.

Within the European Banking Union, the ACPR is continuing to provide strong support for the work of the ECB-led Single Supervisory Mechanism on "significant" institutions. It is also helping to harmonise supervisory practices for so-called "less significant" institutions or LSIs, which remain the responsibility of national supervisory authorities. In the insurance sector, the ACPR is contributing to preparations by EIOPA for the review of Solvency II (due to be published in 2018), and for the review of the long-term guarantee package measures (2020). Its goal in these efforts should be to better reconcile prudential requirements with increased investment in equity and infrastructure.

In a European context marked by negotiations over Brexit, the ACPR has been closely involved in work relating to the United Kingdom's future loss of its "European passport". It will take particular care to ensure that all activities transferred to France are carried out by entities capable of managing the associated risks, and that all prudential regulations are properly observed.

In 2017, the ACPR was particularly active in the area of existing and emerging risks, and of new technologies

The ACPR remains especially alert to the risks posed to the financial sector by the current low interest rate environment. Business models need to be adapted to meet the expectations of customers, which for banks means finding new sources of profit, while insurers need to develop new products and adapt their remuneration policies for life insurance.

In parallel, the ACPR also monitors emerging risks, focusing in particular on those related to climate change. As part of these efforts, 2017 saw the creation of a Central Banks and Supervisors Network for Greening the Financial System, which is led by the Banque de France and ACPR and builds on the achievements of the One Planet Summit held in Paris.

In 2017, the ACPR concentrated on the risks and opportunities generated by new technologies, and is urging financial companies to stay one step ahead of the threats linked to cybersecurity and data protection. Its FinTech Innovation Unit increased its efforts to provide guidance to start-ups, notably by working closely with fintech incubators. It also maintains close ties with legacy players, as these are increasingly forging partnerships with newcomers and can thus contribute to the debate on the challenges of digitalisation.

The ACPR is also keeping a close eye on the rise of so-called "crypto-assets", the most prominent of which remains Bitcoin. The underlying technology (blockchain) offers enormous opportunities for the financial sector. However, as an investment, crypto-assets cannot be regarded as currencies and carry significant risks for private individuals due to their high volatility. The ACPR and the Banque de France are therefore calling for tighter regulation of crypto-assets and the intermediaries that provide them, in order to guarantee transaction security – especially with regard to the prevention of money laundering and of terrorist financing – and ensure the protection of customers. Under the aegis of the G20, the Banque de France and ACPR are both working towards the formulation of global regulations for crypto-assets.

Enduring priorities: customer protection, and anti-money laundering and counter-terrorist financing (AML/CTF)

With regard to customer protection, in 2017 the ACPR concentrated on ensuring that all industry players comply with the new regulations, in particular the text on unclaimed bank assets. It promoted best practices for the application of these rules, for example by issuing recommendations on the conditions under which borrowers can switch loan insurers, and by publishing a position on the reporting of default rates by crowdfunding intermediaries.

The prevention of money laundering and of terrorist financing remains a prime objective for the ACPR. In 2017 it was actively involved in discussions over the revisions to the 4th AML/CTF directive and the implementation of a risk-based approach.

In 2018: encouraging the consolidation of the European financial sector

We must keep up our efforts to complete the Banking Union, notably by making progress on the third pillar – the bank deposit guarantee scheme. This will foster greater convergence at the European level and help in the implementation of a Financing Union for Investment that includes a Capital Markets Union.

Conditions are currently ideal for the emergence of pan-European banking groups and/or pan-European savings and insurance products. However, collective efforts are needed to allow euro area cross-border consolidations to take place as securely as possible, as this will help to create a more unified financial system in Europe and ensure that savings are channelled more effectively into productive investment.

The ACPR has achieved recognition in Europe for both its results and its professionalism, and is a significant asset for France in this field.

François Villeroy de Galhau,
chairman of the ACPR and governor of the Banque de France

INTERVIEW WITH ÉDOUARD FERNANDEZ-BOLLO, SECRETARY GENERAL OF THE ACPR

WHAT WERE THE ACPR'S MAIN FOCUS AREAS IN 2017?

In 2017, the ACPR focused on analysing the overall health of the financial system as part of the work conducted by the *Haut Conseil de Stabilité Financière* (HCSF – High Council for Financial Stability). We **assessed and monitored the macroeconomic risks** posed by the weak growth outlook and by low interest rates, as well as looking at compliance risks (business practices, anti-money laundering and counter-terrorist financing), the risks associated with new technologies and cybersecurity (digitisation and the development of fintechs), and the risks linked to governance frameworks.

In insurance, the ACPR verified that industry players have properly assimilated the requirements of Solvency II. It also looked at how insurers are adapting their **business models** to the low interest rate environment, as well as monitoring the risks linked to the hunt for yield.

In the banking industry, the ACPR continued its examination of the risks **to the residential and commercial property markets.** It also paid specific attention to the impact of the implementation on 1 January 2018 of the new IFRS 9 accounting standard and the finalisation of Basel III.

At the individual bank level, the ACPR was closely involved in the **ongoing supervision** of the 11 major French banking groups subject to direct oversight by the ECB. It is important to remember that ongoing supervision is carried out by joint ECB-ACPR teams, which are more than 50%-comprised of ACPR staff.

In the case of banks qualified as "less significant", as well as investment companies, the ACPR collected and assessed the first **preventive recovery plans.**

Its teams helped in the implementation of the regulatory framework for **crisis management,** which covers issues such as cooperation and information exchange between the ECB and national authorities.

The ACPR also conducted a survey on **cybersecurity,** questioning a panel of 83 banking institutions subject to direct supervision and which are representative of a range of business models.

It checked that all banks and insurers have in place robust **governance frameworks** that meet the requirements of the new European CRD IV and Solvency II directives.

Lastly, the ACPR continued to exercise vigilance regarding all forms of behavioural risk, including:

- in the field of **customer protection:** the "de-linking" of insurance and home loans, the application of the law on dormant accounts, or other issues affecting vulnerable customers;
- in **anti-money laundering and counter-terrorist financing** (AML/CTF): issues relating to asset freezes, the time taken to report suspicious transactions and the verification of foreign operations.

WHAT ARE THE MAIN PRIORITIES FOR 2018?

The ACPR's priorities for supervision in 2018 can be broken down into **six main axes:**
In **prudential supervision,** our priority will be to maintain our current level of commitment to supporting the ECB's oversight of significant banks, while for less significant institutions, we will aim to align our practices and tools as far as possible with those of the ECB. In insurance, our supervisory priorities will be focused on the low level of interest rates and the risk of a rate rise, and on improvements to insurers' systems for ensuring data quality and for calculating and documenting quantitative requirements.

In **customer protection,** the ACPR will check that the market is implementing the key elements of the new European frameworks, in particular the notion of "product governance" which encourages industry professionals to place customer interests at the heart of their organisation. Another priority will be to conduct inspections and communication initiatives to assess what professionals are doing to recognise the needs of vulnerable customers.

In the field of **AML/CTF,** the focus will be to assess whether the risk-based approach is effectively being implemented, and to verify that all industry players are meeting their obligations vis-à-vis the freezing of assets.

Regarding **regulation**, the priority will be to foster European convergence in order to strengthen and complete the banking union, ensure the harmonised application of Solvency II in insurance and prepare for the forthcoming revisions to the directive. This regulatory convergence will also be important for the single EU capital market, notably to harmonise the market for retail and insurance-based investment products (covered by the PRIIPs Regulation) and the distribution of insurance policies (covered by the IDD directive). One of the central themes for 2018 will also be preparing for the consequences of Brexit.

The ACPR will also have to anticipate **emerging risks** – i.e. those linked to the rise of fintechs, cyber-risk and climate-related risk. These will be supervised through the maintenance of a "threat watch", and by conducting communication and awareness-raising campaigns throughout the financial industry.

In the case of **resolution,** the specific nature of the ACPR's missions and of its institutional and legislative framework means that its priorities in this area differ from those for supervision. For 2018 its work on resolution will focus on three main axes: planning and implementing resolution measures which will mean developing tools and procedures to enable optimal decision execution, and drafting resolution plans for each LSI; collecting the different contributions to the Deposit Guarantee and Resolution Fund, improving the quality of the data gathered and implementing controls; participating in key regulatory discussions at the EU level (transposition of the TLAC, revision of the Recovery and Resolution Directive and ongoing discussions on the creation of the European deposit guarantee scheme).

Édouard Fernandez-Bollo,
secretary general of the ACPR

HOW WILL THE ACPR CONTINUE ADAPTING IN ORDER TO MEET ITS FUTURE CHALLENGES?

Our supervisory model is robust and agile. It had a considerable influence on the organisation of the Single Supervisory Mechanism – in particular the decision to make on-site inspections an important part of the framework – and many of our staff still contribute actively to the SSM. The strength of our model lies, first and foremost, in our **affiliation to the Banque de France;** this gives us access to greater resources and facilitates our missions, notably by allowing us to combine a micro and macroprudential approach. Our organisation is becoming increasingly integrated and has successfully adapted to changes in the environment: prudential supervision of banks and insurers, customer protection, prevention of money laundering and of terrorist financing, crisis resolution, etc. The ACPR has also adopted an open approach to the development of fintechs and innovation. This highly integrated model unlocks synergies that are of benefit to our missions.

We need to increase our influence in the field of supervision and be a driving force for new proposals and action both in the European Union and within international fora. In the case of resolution, for example, we intend to capitalise on our experience in the banking industry in order to develop the resolution framework for insurers.

To achieve this, we want to establish a strong institutional identity - that of an ACPR that is increasingly integrated. Our fundamental mission is to **safeguard financial stability** and we have industry-wide expertise in this area – through our supervision of both banks and insurers and the conduct of cross-sectoral missions – which we are determined to bring to the forefront.

In line with this goal, we have launched a new series of publications focusing on issues that draw on our cross-sectoral expertise. The series, entitled *Discussion papers*, is designed to strengthen the ACPR's presence in the public debate, particularly at the European level. The first discussion paper is on IT risks and was published in April 2018.

Finally, I would like to draw attention to our efforts in the field of **training**. The ACPR's activities are extremely technical and are evolving constantly due to the highly innovative nature of the financial sector and the emergence of new risks. To meet these challenges, the ACPR has adopted an ambitious training strategy, designed to strengthen our expertise in bank and insurance supervision on an ongoing basis.

CHAPTER 1

OVERVIEW

Established in 2010, the *Autorité de contrôle prudentiel et de résolution* (ACPR – the Authority) ensures the stability of the financial system and the protection of customers, policyholders, members and beneficiaries of reporting entities. It also makes sure that the entities under its supervision comply with anti-money laundering and counter-terrorist financing (AML/CTF) rules.

The Authority has powers to prevent and resolve banking crises. In 2017, these resolution powers were extended to the insurance sector.

2017 KEY FIGURES

1,026
STAFF

48,000
TRAINING HOURS

1. STATUTORY OBJECTIVES

The ACPR supervises banks and insurers in France. It is an administrative authority which the French Monetary and Financial Code has made both independent in the performance of its tasks and financially autonomous. Operationally, the ACPR is attached to the Banque de France, which provides it with human, IT and other resources.

Since its establishment in 2010, the ACPR has been tasked with preserving the stability of the financial system to prevent future financial crises. The ACPR also has responsibility for protecting the customers, insurance policyholders, members and beneficiaries of entities under its supervision, as well as for making sure that reporting entities comply with AML/CTF rules. In 2013, the ACPR was given powers to prevent and resolve banking crises.

The ACPR's resolution powers were extended to the insurance sector by the Ordinance of 27 November 2017, which established a national resolution regime for the insurance sector. One of the first such regimes to be set up by a European Union (EU) country, it is designed to more effectively prevent potential failures by insurance entities or groups and to minimise the adverse consequences for policyholder rights, financial stability, the continuity of critical functions and public finances.

Since the European banking union was set up in 2014, the ACPR has discharged its banking-related prudential responsibilities in the euro area within the framework of the Single Supervisory Mechanism (SSM) and, since 2015, the Single Resolution Mechanism (SRM).

The 2017 Supplementary Budget Law of 28 December 2017 assigned the ACPR the new task of ensuring that financial institutions under its supervision comply with the obligation to set up an internal control system covering due diligence measures relating to the transmission to the tax authorities of information required by the European Directive on Administrative Cooperation in Taxation and agreements on the automatic exchange of tax information.

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

www

More information at: acpr.banque-france.fr

2. ORGANISATION

2.1 DECISION-MAKING BODIES

To discharge its statutory objectives, the ACPR relies on a number of decision-making bodies, including the Supervisory College and its various configurations (restricted sessions and sub-colleges for each sector), the Resolution College and the Sanctions Committee.

To provide it with further information on some of the topics it has to address, the ACPR's Supervisory College is supported by an Audit Committee, three consultative committees covering prudential affairs, AML/CTF and business practices respectively, and a Scientific Consultative Committee.

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More information at: acpr.banque-france.fr

THE ACPR'S SUPERVISORY COLLEGE
(AT 31 DECEMBER 2017)

Front row: Seated from left to right: Edouard Fernandez-Bollo, Martine Lefebvre, Christian Poirier, Robert Ophèle, Ariane Obolensky.

Second row: Standing from left to right: Philippe Mathouillet, Anne Epaulard, Bernard Delas, Monique Millot-Pernin, François Villeroy de Galhau, Denis Beau, Christian Duvillet, Jean-Louis Faure, Francis Assié.

Third row: Standing from left to right: Lionel Corre (representing the Director-General of the Treasury), Jean-Luc Guillotin, Henry Toutée, Emmanuel Constans, Patrick de Cambourg, Thomas Philippon, Christian Babusiaux. Not present: Jean-François Lemoux.

Chairman of the College: **François Villeroy de Galhau** or the designated Deputy Governor, **Denis Beau**

A vice-chairman with professional experience in insurance matters, appointed by the ministers with responsibility for the economy, social security and mutual insurance: **Bernard Delas,** Vice-Chairman, ACPR.

The other members of the ACPR's Supervisory College are as follows:
Chairman of the *Autorité des normes comptables* (ANC – National Accounting Standards Board): **Patrick de Cambourg**

Chairman of the *Autorité des marchés financiers* (AMF – Financial Markets Authority): **Robert Ophèle**

Appointed by the President of the National Assembly: **Anne Epaulard**
Appointed by the President of the Senate: **Monique Millot-Pernin**
Appointed at the recommendation of the Vice-Chairman of the *Conseil d'État:* **Henri Toutée,** member of the *Conseil d'État*
Appointed at the recommendation of the Chairman of the *Cour de cassation:* **Francis Assié,** counsellor
Appointed at the recommendation of the Chairman of the *Cour des comptes:* **Christian Babusiaux,** presiding judge at 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: **Emmanuel Constans, Thomas Philippon**

Appointed for their expertise in insurance, mutual insurance, provident institutions or reinsurance:
Jean-Louis Faure, Jean-Luc Guillotin, Jean-François Lemoux, Philippe Mathouillet

Appointed for their expertise in banking, payment services or investment services:
Christian Duvillet, Martine Lefebvre, Ariane Obolensky, Christian Poirier

The Director-General of the Treasury, ***Odile Renaud-Basso,*** *or her representative, sits on the College in all its configurations, and the Director of the Social Security administration,* ***Mathilde Lignot-Leloup,*** *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.*

THE RESOLUTION COLLEGE (AT 31 DECEMBER 2017)

From left to right:
Front row: Bernard Delas, François Villeroy de Galhau, Sabine Lemoyne de Forges (representing the Director-General of the Treasury).

Second row: Thierry Dissaux, Robert Ophèle, Denis Beau.

Not present: the representative of the Commercial, Financial and Economic Chamber of the *Cour de cassation.*

Chairman: François Villeroy de Galhau
Designated Deputy Governor: Denis Beau
Vice-Chairman of the ACPR: Bernard Delas

Chairman of the AMF: Robert Ophèle,

Director-General of the Treasury: Odile Renaud-Basso or her representative

Chairman of the Deposit Insurance and Resolution Fund: Thierry Dissaux

Presiding judge at the Commercial, Financial and Economic Chamber of the *Cour de cassation:* Agnès Mouillard

THE SANCTIONS COMMITTEE (AT 31 DECEMBER 2017)

Appointed by the Vice-Chairman of the *Conseil d'État:*
Rémi Bouchez, member of the *Conseil d'État,* Chairman, and Martine Jodeau, member of the *Conseil d'État,* alternate;
Jean-Pierre Jouguelet, member of the *Conseil d'État,* full member, and Denis Prieur, member of the *Conseil d'État,* alternate.

Appointed by the Chairman of the *Cour de cassation:*
Claudie Aldigé, Counsellor at the *Cour de cassation,* full member, and 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:
Christian Lajoie, full member, and Thierry Philipponnat, alternate;
Claudie Boiteau, full member, and Christine Meyer-Meuret, alternate;
Elisabeth Pauly, full member, and Francis Crédot, alternate.

ACPR GENERAL SECRETARIAT (AT 1 APRIL 2018)

ACPR GENERAL SECRETARIAT

Secretary General
Édouard FERNANDEZ-BOLLO

First Deputy Secretary General
Sandrine LEMERY

Deputy Secretaries General
Patrick MONTAGNER
Frédéric VISNOVSKY

DELEGATION CHARGED WITH THE ON-SITE INSPECTION OF CREDIT INSTITUTIONS AND INVESTMENT FIRMS

Representative: Jérôme SCHMIDT
Deputy: Thierry FRIGOUT

- On-site Inspection Teams and Risk Modelling Control Unit

RESOLUTION DIRECTORATE

Director: Olivier JAUDOIN
Deputy: David BLACHE

- Cooperative Banks and International Affairs Division: Eric MOLINA
- Commercial Banks and European Affairs Division: Carine HENRY
- Public Banks and Financing Mechanisms for Resolution and Guarantee Schemes Division: Eric FONTMARTY-LARIVIERE

HUMAN RESOURCES AND SUPPORT FUNCTIONS DIRECTORATE

Director: François BARNIER
Deputies: Martine BODILIS and Jean-Marc SERROT

- Human Resources Division: Christine DECUBRE
- Operational Support, Functional and Application Management Division: Freddy LATCHIMY
- Financial Management Division: Muriel LECORNU
- Property and General Services Division: Françoise BOSSIER

CROSS-FUNCTIONAL AND SPECIALISED SUPERVISION DIRECTORATE

Director: Evelyne MASSE
Deputy: Mary-Cécile DUCHON

- Internal Models Division: Taryk BENNANI
- Supervision of AML Procedures Division: Patrick GARROUSTE
- On-site Inspection Team of Insurance Institutions

- Property Project Director: Michel BORD
- Quality Control Division: Béatrice ROBERT
- Communication Division: Dominique POGGI
- FinTech Innovation: Nathalie BEAUDEMOULIN

BANK SUPERVISION (DIRECTORATE 1)

Director: Violaine CLERC
Deputy: Ludovic LEBRUN

- Division 1: Anne-Laure KAMINSKI
- Division 2: Jérôme CHEVY
- Division 3: Sophie BÉRANGER-LACHAND
- Division 4: Laure QUINCEY

BANK SUPERVISION (DIRECTORATE 2)

Director: Philippe BERTHO
Deputy: Jean-Gaspard D'AILHAUD de BRISIS

- Division 5: Thomas ROS
- Division 6: Clémentine VILCOCQ
- Division 7: Isabelle BARROUX-REHBACH
- Division 8: Flor GABRIEL

INSURANCE SUPERVISION (DIRECTORATE 1)

Director: Bruno LONGET
Deputy: Claire BOURDON

- Brigade 1: Nathalie PAILLOT-MUHLHEIM
- Brigade 2: Jacky PHILLIPS
- Brigade 3: Marie-Lorraine VALLAT
- Brigade 4: Olivier DESMETTRE

INSURANCE SUPERVISION (DIRECTORATE 2)

Director: Bertrand PEYRET
Deputy:

- Brigade 5: Caroline ERAUD
- Brigade 6: Jacky MOCHEL
- Brigade 7: Didier POUILLOUX
- Brigade 8: David REVELIN

RESEARCH AND RISK ANALYSIS DIRECTORATE

Director: Olivier de BANDT
Deputies: Anne-Sophie BORIE-TESSIER
Bertrand COUILLAULT

- Insurance Risk Analysis Division: Anne-Lise BONTEMPS-CHANEL
- Statistical Studies and Publications Division: Denis MARIONNET
- Banking Risk Analysis Division: Emmanuel POINT

INTERNATIONAL AFFAIRS DIRECTORATE

Director: Frédéric HERVO
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: Sylvain CUENOT

LEGAL AFFAIRS DIRECTORATE

Director: Henry de GANAY
Deputies: Anne-Marie MOULIN
Barbara SOUVERAIN-DEZ
Board Services: Patricia AMINOT

- Institutional Affairs and Public Law Division: Laurent SCHWEBEL
- Private and Financial Law Division: Hélène ARVEILLER
- AML and Internal Control Division: Audrey SUDARA-BOYER

AUTHORISATION DIRECTORATE

Director: Jean-Claude HUYSSEN
Deputy: Geoffroy GOFFINET

- Banks and Investment Firms Division: Jacqueline THEPAUT-FABIANI
- Specialised Procedures and Institutions Division: Muriel RIGAUD
- Insurance Institutions Division: Julie BRIAND

SUPERVISION OF BUSINESS PRACTICES DIRECTORATE

Director: Olivier FLICHE
Deputy: Mark BEGUERY

- Oversight of Contracts and Risks Division: Patrig HERBERT
- Intermediaries Supervision Division: Anne de TRICORNOT-AUBOUIN
- Consumer Information and Complaints Division: Caroline de HUBSCH-GOLDBERG
- Coordination Division: Jean-Philippe BARJON

SANCTIONS COMMITTEE DIVISION

- Head of Division: Jean-Manuel CLEMMER

2.2 GENERAL SECRETARIAT

The operational departments are overseen by the General Secretariat.

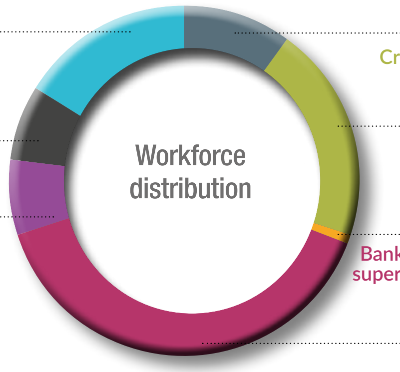
At 31 December 2017, the General Secretariat of the ACPR had 1,026 full-time equivalent (FTE) staff, all employed by the Banque de France, compared with 1,046 at the end of 2016. These employees, who have a wide range of backgrounds, are distributed as follows in the Authority's different areas of activity.

MANAGEMENT COMMITTEE

Sitting, from left to right: Philippe Bertho, Bruno Longet, Evelyne Massé.

Second row, from left to right: Olivier de Bandt, Olivier Jaudoin, Jérôme Schmidt, Violaine Clerc, Henry de Ganay, Frédéric Hervo, Michel Bord, Olivier Fliche, François Barnier, Bertrand Peyret.

Not present: Jean-Claude Huyssen.



In 2017, the ACPR kept up its intensive training effort, with staff receiving over 48,000 training hours, which went towards improving the business area expertise of insurance and bank supervisors and providing tailored training courses to new hires.

DEPUTY SECRETARIES GENERAL

Frédéric Visnovsky, Sandrine Lemery, Patrick Montagner.

CHAPTER 2

PRUDENTIAL OVERSIGHT

The ACPR ensures the stability of the financial system. It issues licences to institutions in the banking and insurance sectors, carries out ongoing supervision and performs on-site inspections.

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

2017 KEY FIGURES

347

LICENSING
and authorisation decisions

182 in banking and
165 in insurance

424

CREDIT INSTITUTIONS
licensed in France and Monaco

742

REGISTERED
Insurance institutions

1. SUPERVISORY COLLEGE ACTIVITIES

1.1 SUPERVISORY COLLEGE AND ACPR ACTIVITIES IN 2017

In 2017, the ACPR concentrated its activities on identified risks in the banking and insurance sectors, namely:

- macroeconomic risks linked to the prospect of weak growth and low interest rates;
- compliance risks relating to business practices, anti- money laundering and counter-terrorist financing;
- risks linked to new technologies (digitisation and the development of FinTechs) and cybersecurity;
- risks linked to governance arrangements.

The Supervisory College dealt with a number of **cross-sector issues** relating to these risks:

- In the banking sector, the College carried on with work to identify national and global systemically important institutions and continued its examination of the risks to residential and commercial property. It also paid specific attention to the impact of the implementation on 1 January 2018 of the new IFRS 9 accounting standard and work on finalising the Basel III framework.
- In the insurance sector, the College made sure that institutions had a proper command of the technical aspects involved in implementing the Solvency II regime, notably by issuing instructions detailing the nature of, and remittance procedures for, the prudential documents to be provided to the ACPR. It reviewed the arrangements for adapting insurers' business models to the low interest rate environment and the risks relating to the hunt for yield. The College also monitored legislative and regulatory developments, including reforms to the Mutual Insurance Code and the creation of a resolution regime for the insurance sector.
- The College adopted several decisions on general issues within the framework of its customer protection responsibilities, including recommendations on the freedom to choose loan insurance for property loans and the run-off management of crowdfunding intermediaries, and an instruction on the submission of a mandatory annual report on life insurance policies whose benefits are linked to the cessation of a professional activity.
- In the area of AML/CTF, the College paid particular attention to implementation of the provisions contained in the Fourth Directive.

The Supervisory College also adopted 375 **individual measures** (Annex 1) relating to licensing applications, applications to amend licences or the monitoring of prudential requirements. It issued 26 administrative enforcement measures or other binding decisions. Specifically, it issued 13 formal notices, in both the banking and insurance sectors, as well as four injunctions requiring credit institutions to hold capital above the regulatory minimum or adjusting the requirement set for these institutions. The Supervisory College also launched ten disciplinary proceedings, mostly relating to serious failures in the AML/CTF arrangements of banking and insurance institutions.

1.2 SUPERVISORY PRIORITIES FOR 2018

The ACPR will continue to perform its **prudential oversight** role in 2018. In the banking sector, the Authority will ensure that when supervising significant banking institutions, it maintains the current level of commitment in its support of the European Central Bank (ECB), while when supervising less significant institutions, it will endeavour to make sure that the procedures and tools used by the ACPR are aligned as closely as possible with those of the SSM. In the insurance sector, supervisory priorities will be focused on the effects of persistently low interest rates and the risk of a rate increase, and on improvements to institutions' arrangements as regards the quality of data, measurement and documentation for quantitative requirements.

In **customer protection,** the ACPR plans to check market implementation of key elements in the new European frameworks, especially the "product governance" concept, which encourages professionals to organise themselves to ensure that customer interests are recognised from the outset. Another priority will be to conduct inspections and communication initiatives to assess what professionals are doing to recognise the needs of vulnerable customer groups.

In **AML/CTF,** the focus will be to assess whether the risk-based approach is effectively being implemented, and to verify that all industry players are meeting their obligations regarding the freezing of assets.

On the **regulatory front,** the priority will be to promote European convergence in order to strengthen and complete the banking union, ensure uniform implementation of the Solvency II regime in the insurance sector and prepare for future revisions of the directive. Convergence will also be a focus within the framework of the single market for capital, particularly to unify the market for retail and insurance-based investment and insurance products (covered by the PRIIPs Regulation[1]) and the distribution of insurance policies (covered by the Insurance Distribution Directive[2]). Anticipating the consequences of Brexit will be another central theme in 2018.

Last but not least, the ACPR is working to anticipate **emerging risks,** especially those relating to the emergence of fintechs, cyber-risk and climate-related risk. These will be supervised through the maintenance of a "threat watch", and by conducting communication and awareness-raising campaigns throughout the financial industry.

[1] Since the start of 2018, the PRIIPs Regulation has harmonised the key information documents for packaged retail and insurance-based investment products marketed to retail customers.
[2] The Insurance Distribution Directive (IDD), which becomes applicable in October 2018, is intended to strengthen customer protection and harmonise the rules applicable to all insurance distributors, whatever their status.

2. LICENSING AND CHANGES TO THE STRUCTURE OF FRANCE'S FINANCIAL SYSTEM

In 2017, the number of decisions taken by the ACPR College, or its Chairman acting under delegated authority, was about the same as in 2016, at 347 compared with 355. To this must be added 1,259 decisions by the Secretary General acting under delegated authority from the College concerning the agents of payment services providers, as well as 1,510 decisions by the College, its Chairman or the Secretary General relating to the appointments of effective managers, directors in the banking sector and key function holders in the insurance sector respectively.

Summary of ACPR licensing and authorisation decisions	ACPR total 2017		
	Total	Banking	Insurance
Granting of licences, authorisations and registrations	40	35	5
Licence extensions	13	6	7
Waivers and exemptions from licensing and authorisation requirements	8	8	0
Amendments to licences and authorisations	8	8	0
Withdrawals of licences and authorisations	42	32	10
Risk transfer agreements	2	0	2
Administrative changes	87	30	57
Changes in ownership	66	55	11
Mergers, demergers and/or portfolio transfers – Insurance sector	35	0	35
Other	46	8	38
TOTAL	**347**	**182**	**165**

2.1 LICENSING

Insurance

Five licences were issued in 2017, to:

- Portman SE, following the transfer of its headquarters from the UK to France,
- Imhotep Assurances, a captive insurance company of the Geoxia group specialised in the construction of individual homes,
- Odyssé Ré Europe SA, the new reinsurance subsidiary of a US group,
- Cardif IARD, a joint venture specialised in non-life insurance owned by the BNP Paribas Cardif and MATMUT groups,
- Intégrance, a mutual insurer governed by Book II that previously had a larger partner assuming its risks, as part of its merger with APICIL.

Furthermore, seven institutions obtained licence extensions to develop new activities.

Banking

Unless a specific agreement is reached between the EU and the UK, institutions based in Britain are going to have to take steps to relocate their activities to the EU by 29 March 2019 if they want to continue doing business in the European Union. In 2017, the ACPR had numerous discussions on this matter with affected institutions.

The payments sector continued to grow, with licences issued to four new firms in 2017: Lyra Collect, Nouvelle Vague, CISPN and Perspecteev, which became the first company licensed in Europe to provide the new account information and payment initiation services introduced by the revised Payment Services Directive (EU 2015/2366, PSD2). Some firms continued to expand their networks of payment services agents, with 1,259 agent authorisations being reviewed in 2017.

Since the SSM was established, licences and acquisitions of qualifying holdings for credit institutions have been subject to common procedures by the ACPR and ECB, with the ACPR proposing decisions to the ECB. In 2017, 114 common procedures were handled.

2.2 CHANGES TO THE STRUCTURE OF FRANCE'S FINANCIAL SYSTEM

Insurance

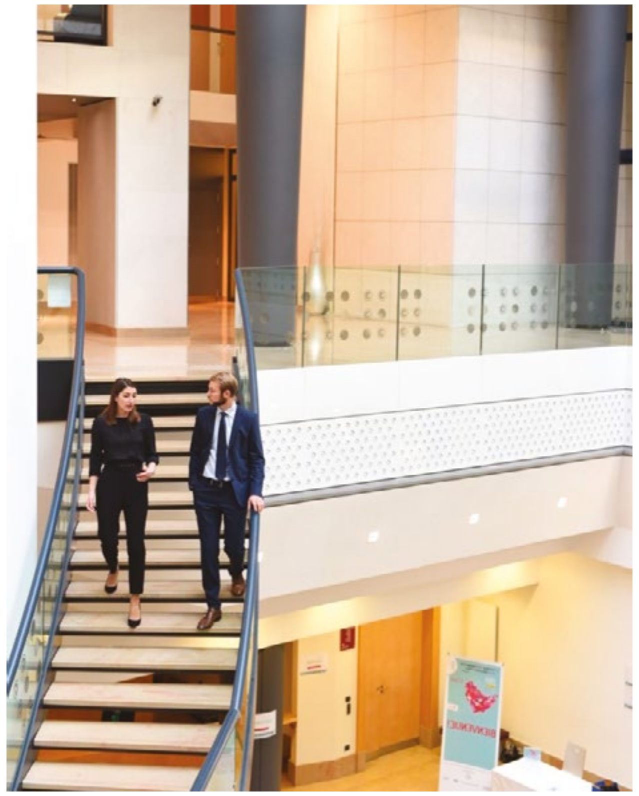
Insurance sector	31/12/2016	31/12/2017	Change 2016/2017
Insurance institutions			
Insurance companies	273	267	-6
Reinsurance companies	14	14	0
Non-EU country branches	4	4	0
Insurance Code	**291**	**285**	**-6**
Provident institutions	37	36	-1
Social Security Code	**37**	**36**	**-1**
Mutual insurers governed by Book II and not backed by larger partners	319	310	-9
Mutual insurers governed by Book II and backed by larger partners	127	111	-16
Mutual Insurance Code	**446**	**421**	**-25**
TOTAL LICENSED UNDERTAKINGS AND UNDERTAKINGS NOT REQUIRING A LICENCE	**774**	**742**	**-32**

The French insurance landscape continues to evolve. The entry into force of Solvency II on 1 January 2016 imposed increased capital requirements as well as new obligations in terms of governance and technical resources. These developments are driving a trend towards rationalisation in the industry, which is taking a range of forms, including combinations between institutions through mergers, portfolio transfers, and membership of non-ownership-based prudential groups such as group mutual insurance companies (SGAMs), mutual insurance union groups (UMGs) or group social protection insurance companies (SGAPS). The mutual and provident sectors are most affected. Non-ownership-based groups set up in 2017 included VYV (UMG), Malakoff Médéric (SGAM) and AGRICA Prévoyance (SGAPS).

Non-ownership-based groups that existed before Solvency II came into application continued making changes to be in compliance with Solvency II requirements by the close of 2017, which marked the end of the transitional period. Other groups set up resource pooling structures, which do not meet the criteria to be treated as prudential groups and are not subject to ACPR supervision.

Overall, at end-2017, there were 28 non-ownership-based groups subject to Solvency II.

The College or its Chairman, acting under delegated authority, made 165 licensing and authorisation decisions in 2017, compared with 160 in 2016. Ultimately, the number of insurance institutions fell from 774 at end-2016 to 742 at end-2017.



Banking

Banking sector	31/12/2016	31/12/2017	Change 2016/2017
CREDIT INSTITUTIONS (licensed in France and Monaco)			
Credit institutions licensed in France (a + b)	**354**	**339**	**-15**
a. Institutions licensed for all banking activities	**274**	**263**	**-11**
Banks	169	163	-6
o/w branches of institutions having their registered offices in non-EU countries	20	18	-2
Mutual and cooperative banks	87	82	-5
Municipal credit banks	18	18	0
b. Specialised credit institutions (formally financial companies or specialised financial institutions at end-2013)	**80**	**76**	**-4**
Branches of EEA credit institutions operating under the freedom of establishment	68	66	-2
Credit institutions licensed in Monaco	**21**	**19**	**-2**
TOTAL CREDIT INSTITUTIONS (licensed in France and Monaco)	**443**	**424**	**-19**
INVESTMENT FIRMS			
Investment firms licensed by the ACPR	76	75	-1
Branches of investment firms operating under the freedom of establishment	55	57	2
TOTAL INVESTMENT FIRMS	**131**	**132**	**1**
FINANCING COMPANIES			
Financing companies	158	156	-2
o/w mutual guarantee companies		42	
Dual status: financing companies and investment firms	4	4	0
Dual status: financing companies and payment institutions	21	21	0
TOTAL FINANCING COMPANIES	**183**	**181**	**-2**
TOTAL THIRD-PARTY FINANCING COMPANIES	**0**	**1**	**1**
PAYMENT INSTITUTIONS			
Payment institutions licensed by the ACPR	26	29	3
Branches of payment institutions operating under the freedom of establishment	12	16	4
TOTAL PAYMENT INSTITUTIONS	**38**	**45**	**7**
ELECTRONIC MONEY INSTITUTIONS			
Electronic money institutions licensed by the ACPR	7	8	1
Branches of electronic money institutions operating under the freedom of establishment	1	4	3
TOTAL ELECTRONIC MONEY INSTITUTIONS	**8**	**12**	**4**
TOTAL MONEY CHANGERS	**180**	**178**	**-2**
TOTAL LICENSED BANKING INSTITUTIONS	**748**	**737**	**-11**

The concentration trend is also continuing among credit institutions, and especially within mutual groups such as BPCE, with several mergers of *banques populaires* (popular banks) and *caisses d'épargne* (savings banks). The Crédit Immobilier de France network continued restructuring, which led to licence withdrawals for several of the group's institutions. In the investment and private banking sector, meanwhile, the Rothschild and Martin-Maurel groups merged.

At the regulatory level, the Markets in Financial Instruments Directive 2014/65/EU of 15 May 2014 (MiFID 2), which came into force on 3 January 2018, provides for the creation of organised trading facilities (OTF), a new kind of trading platform for the non-equity universe. In this setting, the ACPR authorised licence extensions to include OTF operation for investment firms with significant roles in securities intermediation, namely AUREL BGC, KEPLER CHEUVREUX and TSAF OTC.

Two new financing companies were licensed in 2017, including Agence Française de Développement (AFD), which was previously licensed as a credit institution but changed status because it does not receive repayable funds from the public. The ACPR also granted authorisations to the first two third-party financing companies, as defined in Article L. 381 2 of the Construction and Housing Code, pursuant to Article L. 511 6 of the Monetary and Financial Code, amended by the Law of 17 August 2015 on energy transition for green growth.

In the area of licence exemptions, following the regulatory amendment in 2016, whereby only entities whose payment volume exceeds EUR 1 million per year are required to submit applications to the ACPR for licence exemptions for payment or electronic money institutions, seven new companies obtained exemptions in 2017.

The College or its Chairman, acting under delegated authority, made 182 licensing and authorisation decisions in 2017, compared with 195 in 2016.

Overall, the number of banking sector institutions fell from 748 at end-2016 to 737 at end-2017.

- Assessing the experience, expertise and reputation of senior executives, directors and key function holders.

In all sectors, effective managers must be assessed by the ACPR, which can object to their appointment if the requisite criteria are not satisfied. The same applies to directors of credit institutions, investment firms and financing companies and to the four key function holders in the insurance sector.

In 2017, the ACPR processed 2,299 appointment and reappointment applications. Among credit institutions and investment firms, there was a marked increase in applications to renew the appointments of directors who, subject to certain conditions, have been covered since end-2016 by a streamlined procedure (726). Assessments of applications submitted by significant institutions under direct ECB supervision (811) were performed using the SSM's common framework whose main provisions are set out in the "Fit and Proper" guide published by the ECB. Conditions relating to additional training or changes to appointments were issued in a number of cases.

GETTING READY FOR BREXIT

The UK's decision to leave the EU, which it will do on 29 March 2019 unless a specific agreement is reached before that date, will end the issuance of "European passports" between the UK and EEA[3] member countries.

A European passport is a mechanism that allows certain financial institutions, including credit institutions, insurers, investment firms, payment institutions and electronic money institutions, to carry on their business in EEA countries other than the one where they are based, either under the freedom to provide services or through a permanent base such as a branch.

To continue the activities that they currently perform under European passports, UK institutions must assign these activities to an entity holding the requisite licences in an EEA member country. If they do not already have such a structure, institutions must apply for a licence for a regulated entity from at least one EEA country. Accordingly, UK institutions operating in France under a European passport have presented their post-Brexit plans to the ACPR. Some are making applications to licence a new entity, some are opening non-EU country branches, while others have applied to transfer an existing branch to another group entity that is based in the EEA. Likewise, French institutions have presented their plans to the UK supervisor, the ACPR or the ECB, as applicable.

The ACPR's approach in this area, like that of other European supervisors, is guided by the need to ensure that activities moved to France are transferred to structures that are properly able to supervise and manage them, particularly from the perspective of the risks that they generate and compliance with prudential rules.

In this regard, the European Supervisory Authorities (ESAs), namely the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), reiterated in opinions published in 2017[4] that new licensed entities should not be empty shells or letter boxes. The ECB has adopted a similar attitude in its capacity as credit institution supervisor within the SSM.

[3] *The European Economic Area comprises the EU, Lichtenstein, Iceland and Norway.*
[4] *EBA Opinion EBA/op/2017/12, EIOPA Opinion EIOPA-BoS-17/141 and ESMA Opinion ESMA35-43-762.*

3. SUPERVISION OF THE INSURANCE AND BANKING SECTORS

3.1 INSURANCE SECTOR

The low interest rate environment and its implications for insurance institutions

Over the 2012-17 period, the average interest rate on French government ten-year bonds fell by 200 basis points. This environment exerts a drag on institutions offering long-term guarantees (life insurance or professional indemnity insurance for example), because about two-thirds of their assets are made up of fixed rate amortising bonds, whose returns are eroded as portfolios are renewed, by approximately 20 basis points per year. These institutions are thus exposed to three types of risk: life insurers are exposed to surrender risk in the event of a sharp increase in interest rates; firms guaranteeing their customers high technical rates or offering overly generous profit-sharing terms relative to the recurring return on their assets are exposed to the risk of financial loss; meanwhile, institutions that charge insufficient loading fees to cover their expenses over time and that have to use a portion of their net financial income to balance their results are exposed to a cost-related risk.

The ACPR took wide-ranging action to raise awareness within the insurance market about these risks, which require business models to be adjusted to make the sector more resilient amid the continuing low interest rate environment. This action, which was backed by cross-sector and individual analyses (statistical analysis of reports filed with the ACPR and ORSA reports, meetings with the most significant or vulnerable institutions, on-site inspections), prompted the ACPR College to recommend that life insurers show restraint in their immediate revaluation policies in order to maintain the return on insurance contracts over the long run, and adjust their product and service ranges and management to reflect the new environment.

Affected firms responded by taking several types of action, including the following: steering net inflows into unit-linked instruments to limit dilution of the return on general assets (negative net inflows of EUR 19.4 billion for redeemable non-unit-linked instruments in 2017 compared with positive net inflows of EUR 24.4 billion into redeemable unit-linked products); reviewing policies to align the guarantees offered on new payments more closely with expected financial income and the structure of real expenses; setting aside a portion of financial income for profit-sharing (which reached 3.5% of outstanding amounts in non-unit-linked instruments at end-2016); and educing the returns paid immediately (1.96% on average paid in 2017 in respect of 2016, or 36 points less than the previous year). A vigilant attitude will be required in 2018, however, particularly in the event of a rapid run-up in interest rates, and institutions must continue adjustment efforts while at the same time taking care to fulfil their duty to provide advice in life insurance.

Investment oversight and implementation of the prudent person principle

In the current environment of persistently low interest rates, overseeing the steering and management of investments takes on even greater importance than usual, both in terms of the asset/liability match and in terms of investment choices, since the hunt for yield cannot be at the expense of control over financial risk. Accordingly, these aspects were the focus of special attention through ongoing supervision and on-site inspections.

In this regard, in 2017 the Authority launched a series of thematic inspections covering a sample of mutual insurers and provident institutions. The aim was to examine their governance arrangements and particularly operational implementation of the prudent person principle in the management of their investments. After assessing how well the governing bodies of individual institutions worked (general meeting, board of directors, senior management and key functions), the on-site inspections looked specifically at whether these bodies had properly taken stock of the profound changes resulting from the prudent person principle, which stems from the new Solvency II regulatory framework. The idea is no longer to apply a framework based around investment ceilings per asset category, but to adopt an analytical and documented decision-making and control approach that seeks to address two questions: in what way are the investments suited to the institution's commitments to its customers, and do customers have an adequate knowledge and command of the risk factors in order to understand the price and potential developments? As with previous thematic inspections, the initial findings on these points quickly turned out to be extremely meaningful.

Regulatory developments and mergers in the health, death and disability sector

The health, death and disability sector has faced several major reforms in recent years, including the introduction of the *Accord national interprofessionnel* (ANI – national cross-industry agreement), which extended mandatory supplementary health insurance to all employees, the prohibition on clauses naming an insurer in collective agreements, changes to the framework applicable to "responsible" policies with tax benefits for employers, and the 2017 introduction of the *déclaration sociale nominative* (DSN), a new electronic reporting system designed to standardise and automate the transmission of information from employers to different welfare entities.

These reforms entailed swift and structural adjustments by insurance institutions with a long-standing presence in these areas, such as mutual insurers and provident institutions, not just to product line-ups but also to marketing and management methods, and involved sizeable IT investments. However, these institutions have limited room to pass on these additional costs to prices, since many participants have now joined the market. At the same time, the market has been weakened at the technical level by the decline in interest rates, the 2010 pension reform, demographic patterns and changes in economic conditions, which have all played a part in pushing up the cost of claims.

The ACPR therefore made the major challenges facing the health, death and disability sector a supervisory priority in 2017. Special emphasis was placed on the assessment of commitments, monitoring of technical ratios, cost control, and the identification and forward-looking management of commercial, technical and financial risks. While affected institutions now seem fully aware of these challenges, the process of implementing corrective measures, such as raising prices, renegotiating or terminating policies, improving technical management and lowering expenses, is a gradual one and, from a commercial perspective, with inertia playing its part, the market has likely not yet reached its equilibrium. Strategic discussions and efforts by affected institutions must therefore be kept up in 2018.

The overall trend towards concentration in the sector continued in 2017, with many institutions working actively to unlock synergies, particularly at the commercial level in the case of entities that have a long track record in individual health but that now want to position themselves in group policies following the introduction of the ANI. Meanwhile, mutual and jointly governed institutions, which are particularly concerned by the need for insurance groups and their central structures to comply with Solvency II before 1 January 2018, mostly established formal ties by creating (or adapting) a SGAM, SGAPS or UMG. The combination of these mergers and the regulatory deadline kept the ACPR busy once again in 2017. The Authority reviewed some 15 files, as related affiliation and withdrawal applications must be submitted to it first. In this framework, the ACPR paid special attention to the effectiveness, scope and speed of financial solidarity mechanisms, including their preventive aspects, and the manner in which affiliation agreements effectively enable the head of the group to exercise a dominant influence over its affiliates through centralised coordination (establishment of shared framework policies, group-level coordination of strategic decision making, establishment of shared governance arrangements, particularly for key functions, oversight and enforcement powers and so on).

Command of the technical aspects involved in implementing Solvency II (assessments, internal models, steps to make filings more harmonised and reliable)

The Solvency II regime gives institutions greater freedom to model activities to assess their organization or determine their capital requirements, thereby allowing them to measure and manage risk more realistically and effectively. But the increased freedom has to be accompanied by stronger governance arrangements (documentation, evidence, comparisons against actual experience with reference to observations and real-life business situations, sensitivity tests, internal control, and so on) as well as enhanced transparency vis-à-vis stakeholders, including governing bodies, the public and supervisors, to ensure that the specific modelling approach adopted by each institution is appropriate and properly understood. In 2017, ACPR staff worked actively, conducting documentary audits and on-site inspections to examine this chain, which covers all the technical aspects of Solvency II.

As regards prudential balance sheet and risk assessments, the 20 or so on-site inspections found that, as a rule, the documentation provided on calculation methods, assumptions and underlying data needed to be supplemented to demonstrate the appropriateness of simplifications used and to ensure their traceability. This applied in particular to the calculation of the SCR[5] and technical provisions, both in life insurance (future management actions and behavioural assumptions, expense modelling, contract boundaries, economic scenario generators and the look-through approach for UCITS) and in non-life insurance (segmentation into homogeneous risk groups, data quality, premium risk). The supporting documentation for methods used to calculate deferred tax likewise needs to be significantly strengthened. Activity relating to internal models for assessing risks and commitments (including ten or so on-site inspections) was also sustained, owing to new requests to approve models and especially to review amendments to existing models. As with users of the standard SCR calculation formula, the Authority will carefully monitor institutions, ensuring that they have a proper command of the many underlying assumptions, as well as model governance arrangements (system of approval, policy for changing models, etc.).

The ACPR also continued to supervise institutions to assess their maturity in terms of information systems and data quality. Despite some advances, progress has been insufficient, and inspection results highlighted the need to step up the effort over the long run. As regards data quality, governance systems need to be strengthened further with information identifying the most significant data for institutions, required quality levels for these data, and the channels for passing assessments on to the relevant bodies. These observations are even more germane to cybersecurity aspects. Here again, a proper grasp of the challenges and risks still has to be demonstrated, with many institutions continuing to be overly bullish about their ability to stand up to multiple potential cyberattacks. Supervisory work in this area was extended to include a cybersecurity survey similar to the one on the broader theme of information systems conducted in 2016. The results of the survey, to which many institutions replied, were broadly consistent with the observations described here.

Regarding the new reporting and communication obligations under Pillar 3, the most recent filings (which have been significantly enhanced and supplemented since May 2017) revealed several areas for improvement, again dealing with data quality across the entire production chain. The ACPR pays particularly close attention to the consistency of the data sent to it and the data made available to the public. An analysis of the first round of solvency and financial condition reports (SFCRs) in 2017 showed moreover that while the vast majority of institutions had fulfilled their formal obligations, there was still room to improve reports' online accessibility and content quality (description of the undertaking's specific features, clarity for non-experts). Similarly, not all the institutions applying, either directly or through their investments, a volatility adjustment or a transitional deduction on technical provisions explained or sufficiently explained the solvency impact of these measures, which are from the Solvency II long-term guarantees package.

[5] *Solvency Capital Requirement.*

GOVERNANCE IN THE BANKING AND INSURANCE SECTORS

Strengthened governance, understood to mean including recognition of risk aspects at all levels of the decision-making process, is crucial to the controlled development of banking and insurance institutions. Accordingly, in 2017, the ACPR endeavoured both to clarify its expectations in this area and to ensure, through targeted inspections, that undertakings in both sectors had set up robust governance arrangements in compliance with the new regulatory requirements introduced by Europe's CRD IV and Solvency II Directives, as well as the main recognised international standards.

In the banking sector, the ACPR conducted an in-depth review into the functioning of governance arrangements at a sample of around ten small and mid-sized institutions. The review, which will be extended to other institutions in 2018, highlighted various positive developments, including greater involvement by oversight bodies in risk management and monitoring, thanks in particular to the creation of dedicated risk committees and efforts to improve the substance and form of risk information provided to directors.

While progress has been made, the action taken so far should be continued and supplemented in a number of areas. For example, the process for recruiting directors would be improved by a formal framework, while permanent training programmes for directors should be introduced across the board. In numerous instances, the formal record of the risk policy had too many gaps, sometimes being confined to a set of restrictions and not being incorporated within an overall risk appetite framework. Moreover, when it was defined, the risk appetite framework was not always integrated in cross-cutting processes, such as budgeting, preventive recovery planning or the ICAAP.[6] While the periodic control officer generally had adequate access to the supervisory body, access was often overly restricted in the case of other people in charge of control functions. It also seems that, as things stand, only a minority of supervisory bodies have performed regulatory assessments of their own effectiveness and that of their institution's overall governance framework.

In the insurance sector, the ACPR included a governance component in over 50% of inspections in 2017, which made it possible to check whether the roles assigned by the directive to each of the three stakeholders in the governance system were being correctly performed. Specifically, the board of directors or supervisory board is supposed to determine the strategic guidelines and make sure they are implemented, the effective managers implement them from an operational perspective, while the key function holders supervise the operational functions from a variety of angles to make sure that risks are under control.

Around 50 on-site inspections were carried out to assess the effectiveness and efficiency of the organisations adopted by different entities, particularly in the light of the principles reiterated in the ACPR notice of 2 November 2016. As part of these exercises, ACPR inspectors sat in as silent observers on a number of board meetings to assess the quality of discussions during the session as well as the quality of the documents provided to members to enable them to take informed, risk-conscious decisions. Inspections also assessed the extent to which key function holders had actually taken ownership of their responsibilities as well as the quality of the work carried out under their leadership. Finally, a number of organisations following approaches whereby individuals combined key or senior executive functions, thus deviating from the target structure set out in the ACPR's November notice, were inspected to make sure that there were no conflicts of interest and to check that the people in question genuinely had the availability to discharge their various duties.

3.2 BANKING SECTOR

Assisting the ECB in supervision

The ACPR is heavily involved in the ongoing supervision of the 11 major French banking groups, or significant institutions (SIs), that are directly supervised by the ECB. This ongoing supervision is performed by Joint Supervisory Teams (JSTs), which are more than 50% made up of ACPR employees (110 people). In fact, 55% of ACPR staff responsible for the ongoing supervision of banking institutions are assigned to this area. The Authority's staff are also involved in the work of eight other JSTs in charge of supervising French subsidiaries or branches of European significant financial institutions under direct ECB supervision.

Reporting to the JST coordinator at the ECB and the local coordinator at the ACPR, the ACPR's supervisory staff implemented the annual supervision programme, which was designed to reflect the size and risk profile of each banking group and SSM priorities for 2017.

As in past years, the supervisory work done in 2017 was organised around the annual Supervisory Review and Evaluation Process (SREP). Under this approach, each institution is assigned an overall score, which may give rise to additional Pillar 2 capital requirements (P2R).

www **More information at:** SSM SREP Methodology Booklet

The French contingent of the JSTs is responsible for analysing and ensuring the reliability of the data in regulatory accounting and prudential reports. Note should be taken in this regard of the importance of the quality of these reports. Not only do these documents provide the starting point for the periodic monitoring reports compiled for different risk categories, they also make a big contribution to assessing the risk profile of each institution.

This exercise was supplemented by cross-cutting thematic reviews decided on and executed based on SSM priorities. Specifically, the reviews covered business models and profitability drivers (including the consequences of the low interest rate environment and Brexit), credit risk (in addition to the level of non-performing loans at some banks, IFRS 9 implementation was also closely analysed) and risk management (covering, among other things, the targeted review of internal models (TRIM) and the internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP).

These cross-cutting reviews will continue in 2018. Specific in-depth analyses for each institution were also conducted. Combining these various initiatives offers a comparative insight into sector-wide issues while capturing the individual situation of each institution.

Adjustments to business models and profitability drivers

On the specific issue of business models and profitability drivers, banks in 2017 kept up their adjustment efforts of recent years. These adjustments include diversifying income sources into activities with high growth potential and restructuring retail banking branch networks. Despite the progress made so far, French banks continue to face structural challenges and must maintain their efforts in an unsupportive economic environment for bank profitability. These efforts include steps to improve operating efficiency, tap into the opportunities offered by digitisation of banking services, and enhance systems to guard against cyberattacks. The impact of interest rates on profitability is not entirely clear, if we control for the macro-environment to which monetary policy is responding (see recent ECB Working Paper by Peydró).

Sensitivity to interest rates

In 2017, in the absence of a Europe-wide stress test by EBA, the ECB conducted an assessment of institutions under its direct supervision to look at the sensitivity of their banking books (i.e. assets and liabilities not linked to market activities) to interest rate risk. The exercise sought to analyse the impact on banks of an interest rate shock by focusing on changes in the economic value of the assets and liabilities recorded in these books and on the change in net interest margin generated by these positions. The exercise was also used to examine how the models of customer behaviour developed by banks influence their assessments of interest rate risk, given that this behaviour may vary following changes to interest rates.

The results of the sensitivity test were then integrated into the calibration exercise used to establish Pillar 2 guidance (P2G) for each institution. To recall, P2G sets out the supervisor's capital expectations, which address specific risks and are therefore in addition to the previously mentioned P2R and regulatory capital buffers. P2G is not taken into account when calculating the maximum distributable amount (MDA).

On-site inspections

In accordance with the decision by the Supervisory Board, 48 on-site inspections were undertaken on the ECB's behalf at the largest institutions. Of these, 20 concerned the approval and/or review of internal models, particularly within the framework of the TRIM project launched in 2015. Themes reviewed as part of general inspections included business models and profitability, management of interest rate risk in the banking book, systems for managing and controlling IT, credit, counterparty, market and operational risk, and governance.

Supervision of less significant institutions

In 2017, the ECB pursued its aim of developing uniform standards for the supervision of smaller institutions that remain under the direct supervision of national authorities. *Known as less significant institutions* (LSIs), there are 103 such entities in France and about 3,000 in the SSM as a whole.

Specifically, work in this area included finalisation of the SREP for LSIs, which was formally approved by the SSM Supervisory Board in early 2018. This involved a test exercise for nine French LSIs as well as significant work by the ACPR staff responsible for their supervision. Derived from the methodology applicable to SIs, the LSI SREP incorporates the proportionality principle and includes more room for supervisory judgement in order to recognise the specific nature of the activities carried on by some LSIs. The SREP will be applied to "high-priority" LSIs beginning in 2018, with national authorities encouraged to extend application to other LSIs by 2020.

ACPR staff provided input to work on drafting and implementing Joint Supervisory Standards (JSS). The new standards tackle various aspects of crisis management, such as the procedures governing exchanges between the ECB and national authorities in these situations. The ECB completed work begun in 2016 on the options and discretionary powers relating to LSI prudential requirements, by publishing guidance and a recommendation in April 2017 to make sure that the provisions implemented by national competent authorities form an effective and consistent supervisory mechanism at the level of the euro area. The ECB also conducted a detailed study of LSIs applying international accounting standards, examining their preparations for IFRS 9 and the impact of implementing the new standard, following the same approach as it did during similar work on SIs.

[6] *Internal Capital Adequacy Assessment Process.*

Supervision in the ACPR's areas of responsibility

As regards LSIs and investment firms, in 2017, the ACPR collected the first preventive recovery plans submitted by institutions under the provisions of Article 613-35 of the Monetary and Financial Code. Introducing simplified obligations, the Supervisory ACPR College decided to spread the filing of these initial plans over 2017, taking account of institutions' individual characteristics, including deposit-taking volumes. ACPR staff assisted the 115 affected institutions in meeting the new obligations by conducting work to raise awareness within the industry as a whole and by communicating individually with institutions to detail specific expectations, often by organising meetings. Once plans are filed, the ACPR indicates which sections need to be improved, based on the analysis that the Authority is required to perform within six months of filing. The overall finding, based on the plans that have already been assessed, is that while improvements are needed, institutions have made a significant effort in drafting their plans, a process entailing an internal approach involving multiple participants and an in-depth review of the entity's activity, governance and risk control system.

The ACPR paid attention to developments in the situation of investment firms, many of which had to rethink their business models ahead of the entry into application in January 2018 of new market rules as a result of the transposition of MiFID 2. The new rules forced firms to redefine their cost and invoicing bases, adjust processing chains and, where need be, apply for licence extensions to set up OTFs. Some investment firms also took a hit from the historically low level of volatility observed across all financial markets.

The ACPR's supervisory teams continued to closely monitor payment institutions and electronic money institutions, some of which are struggling to break even in an increasingly competitive environment, as many new participants and major banking networks enter their market.

In this rapidly evolving setting, in addition to supervising prudential ratios, the ACPR paid special attention to the implementation of rules to protect customer funds by making sure that the segregation or third-party guarantee procedures established by investment firms, payment institutions and electronic money institutions provided exhaustive and constant coverage of customer assets.

Cybersecurity-themed inspection

As part of its supervisory priorities for 2017, the ACPR carried out a cybersecurity-themed inspection of institutions under its direct supervision.

To this end, the ACPR prepared a self-assessment questionnaire designed to improve its understanding of the risk profiles and control systems in place, while raising awareness among institutions and supporting the development of robust cybersecurity systems. The questionnaire was sent to 83 institutions representing a wide spectrum of business models, including smaller credit institutions, non-EU country branches, Monaco credit institutions, financing companies, investment firms, payment institutions and electronic money institutions.

The self-assessment questionnaire on cybersecurity drew on the methodology developed in 2014 by the US National Institute of Standards and Technology (NIST). Care was also taken to ensure substantive consistency with the ECB questionnaire sent to SIs in 2015, while adopting an approach based around proportionality and a simplified method.

The questions were used to identify different levels of control in terms of the ability of institutions to protect themselves effectively during the various stages of a cyberattack. To do this, the questionnaire covered six key analytical areas that need to be a focus for institutions: governance, identification of physical and logical assets, protection of sensitive and critical assets, ability to detect and analyse cybersecurity events, ability to react and the recovery phase.

On average, institutions scored below two, with a score of four indicating the highest level of control. Levels were lowest in the detection, reaction and recovery phases, reflecting a disconnect compared with the situation observed among SIs.

After processing the questionnaire data, the ACPR issued requests to set up action plans, with a view to continuing to raise awareness among the lowest-scoring institutions and encouraging them to strengthen their arrangements in this area. In addition to asking some institutions to provide clarification to better understand the overall consistency of their cybersecurity arrangements, the Authority also informed participating institutions of areas requiring attention. In 2018, the ACPR will dialogue with institutions to learn about developments in their cybersecurity risk management systems. The questionnaire is expected to be extended gradually to all entities under direct ACPR supervision.

REAL ESTATE RISK

Real estate markets grew vibrantly again in France in 2017, helped by persistently low interest rates and the hunt for yield by investors.

- The residential market registered a record number of transactions in the existing homes segment (968,000) with a 14.7% year-on-year increase, compared with 4.9% in 2016, and a surge in prices (3.9% on average in the third quarter, including an 8.6% increase in Paris).
- The commercial market reported elevated levels of activity, with investments on a par with those of 2016 at over EUR 25 billion, while demand among end users remained sustained overall; the ongoing rise in prices continues to squeeze yields, however.

Against this backdrop, business at French banks also followed an upward trajectory.

- New home loans reached record levels at the mid-point of the year, with a cumulative total of EUR 334 billion in the 12 months to June and EUR 272 billion for full-year 2017. While buybacks and renegotiations are partly responsible for the trend, they have been declining swiftly since peaking in May 2017 (EUR 175 billion over 12 months). New lending remains sustained in other segments.
- In the commercial segment, provisional statistics show that new lending to commercial real estate professionals came to around EUR 76 billion in 2017, an increase of 10%, with 13% growth in France.

This trend is being accompanied by lending policies that remain prudent overall, despite the interest rate environment, which is encouraging growth in household debt.

- In home finance, the average loan amount increased by 4.9% year-on-year to EUR 161,400, while the loan-to-value (LTV) ratio recorded an average increase of 1.1 percentage points to 87%; the loan-to-income (LTI) ratio, which shows the number of years of income needed to pay back a loan, also went up, by 2.3 months, to 4.9 years. Developments in the economic situation of borrowers thus remain an area to watch, even if banks have solid guarantees.
- By contrast, lending conditions are improving for real estate professionals. According to provisional statistics for 2017, the share of loans for which the LTV ratio during the life of the loan[7] was below 60% (i.e. for which banks can hope to recover their entire claim as long as real estate prices do not fall by more than 40%) was 75%, an increase of 1.7 percentage points compared with end-2016. Furthermore, the ratio of gross non-performing exposures continued to fall, declining by 59 basis points over the year to 4.4%).

Commercial real estate stress tests carried out by the ACPR at the request of the *Haut Conseil de la stabilité financière* (HCSF – High Council for Financial Stability) in late 2016 and early 2017 and whose results were published on 31 March underlined the relative resilience of the main French insurance institutions and banks to severe market shocks.

[7] *As opposed to at origination.*

4. ACTIVE PARTICIPATION IN WORK ON THE INTERNATIONAL AND EUROPEAN REGULATORY FRAMEWORK

In 2017, the ACPR continued to play an active role in European and international working groups handling banking and insurance-related prudential questions.

Banks

Within the Basel Committee, the ACPR assisted in finalising the Basel III accords. The aim of the new framework is to reduce the variability of risk-weighted assets across banks and countries, which is deemed to be excessive. In practice, the new accords offered an opportunity to overhaul the methods for measuring credit and operational risk in order to determine solvency requirements for banks. The initial proposals, which were formulated in 2016, could have had an unjustified impact on French banks, threatening the use of internal models to calculate risks. The ACPR therefore worked hard in partnership with national authorities to secure a balanced agreement that helps to reduce the variability of risk-weighted assets between banks while leaving space for internal models, in order to maintain a risk-sensitive prudential framework. The ACPR also endeavoured to ensure that features specific to France, such as guaranteed property loans, were properly taken into account. In the end, an accord that met these different objectives was reached on 7 December 2017. It marks an important step forward, closing the cycle of regulatory reforms that began in 2009 as a response to the financial crisis. The challenge now is to ensure that the accord is fully and completely implemented by all stakeholders.

Within the EU, the European Banking Authority (EBA) kept up a sustained level of activity in 2017. The EBA sent the European Commission 21 draft technical standards and published 18 sets of guidelines, 17 opinions and 26 reports. The ACPR contributed to this work and has sat on the EBA's management board since 2016. Regulatory work in 2017 was heavily focused on harmonising practices and clarifying rules and conditions for implementing the new Capital Requirements Directive (CRD IV) and Regulation (CRR). Major developments covered, in particular, internal risk assessment models, governance arrangements, assessments of senior executives and the prudential regime applicable to investment firms. On this last subject, the ACPR lobbied on behalf of a new regime that would be proportional and more risk-sensitive for the majority of participants and that which would also preserve a level playing field with banks for investment firms dealing on own account. The European Commission drew on the EBA's work to publish a legislative proposal in December 2017.

Meanwhile, negotiations on the legislative proposal to update the CRD IV and BRRD[8] Directives and the CRR, published by the European Commission in November 2016, formed a key component of the European regulatory agenda in 2017. The proposal, which seeks to integrate several international standards adopted since the entry into force of the CRD IV package (particularly for market risk, leverage and the net stable funding ratio (NSFR)) and the BRRD (especially for total loss-absorbing capacity (TLAC)), as well as a number of European objectives (proportionality, maximum harmonisation, pillar 2), represents a major step forward for the prudential and resolution framework. Working closely alongside the French Treasury, the ACPR lobbied for European regulatory changes that would increase risk-based supervision while also enabling the deepening of the banking union.

ESA REVIEW

The three-year review of the European Supervisory Authorities (ESAs), namely the EBA, EIOPA and ESMA, is underway. Following a public consultation, to which the ACPR responded, on 20 September the European Commission published a legislative proposition that is currently being discussed by the EU Council and the European Parliament. Broadly speaking, without calling into question the existing architecture, the draft legislation looks to strengthen the authorities' role and powers, which should support the goal of increased convergence in supervisory practices, in turn promoting improved effectiveness. Accordingly, the proposal represents a positive step forward for Europe, and the ACPR plans to provide its full support in the current negotiations, while keeping a close eye on the place given to national supervisors and providing proposals to take consolidation of the European banking sector further still.

[8] *Bank Recovery and Resolution Directive, Resolution Directive.*

Insurance

The ACPR was again involved in several major international and European workstreams.

As part of the drive to **develop an international capital standard** (ICS), which is being led by the International Association of Insurance Supervisors (IAIS), the ACPR made sure that an impact study of the French market was properly carried out – a vital step in assessing the effects of the proposed change in standards as closely as possible. It also took part in the negotiations that led in November 2017 to a plan to get ready for introduction of the ICS in 2024, preceded by a phase beginning in 2019 when the standard, though not binding, will provide statistics for analysis by the Colleges of Supervisors.

Work on the methodology for assessing the systemic importance of international insurance groups also continued. The aim is both to better reflect the sector's specific features, which calls for a focus on a few activities rather than a legal entity-based approach, and to ensure greater consistency with the methodology used in the banking sector. The list of systemically important insurers, which comprises nine groups, did not change.

Within the EU, the ACPR took part in work by EIOPA, on whose board it sits. EIOPA sent the European Commission two opinions on the **Solvency II revision** scheduled for 2018. The first opinion, issued in October 2017, sought to simplify the standard formula, a goal backed by the ACPR. The second opinion, which is scheduled to be published in the first half of 2018, will propose preferential treatment, subject to conditions, for unrated debt securities and unlisted equities, in order to lower the capital requirement applicable to holding them. Meanwhile, work connected with the review of the measures contained in the long-term guarantees package scheduled for 2020 continued with the publication of an assessment report by EIOPA in December 2017.

Developments in international accounting standards

2017 was a pivotal year in the introduction of **IFRS 9** on financial instruments, which took effect on 1 January 2018. Given the importance of this development to French banks, the ACPR contributed to a range of European and international workstreams set up to properly measure the standard's impacts (an in-depth study was carried out under the EBA's supervision) and ensure proper articulation with the solvency ratio. The ACPR will of course continue monitoring to check that the new standard is properly implemented.

Similarly, the ACPR continued to be involved in monitoring work relating to **IFRS 16** on leases, which will come into force in January 2019, and **IFRS 17** on insurance contracts.

EUROPEAN WORK ON NON-PERFORMING LOANS

The continuing high ratio of non-performing loans (NPLs) at banks in some countries, notably Greece, Italy and Spain, is a source of persistent and in some cases acute difficulties for these institutions. With this in mind, in summer 2017 the EU Council adopted an ambitious plan to address the factors at the root of the situation. In particular, the plan seeks to make recovery procedures more effective, develop the secondary market in NPLs, strengthen loan origination practices and encourage banks to adjust their provisioning policies. The plan supplements steps already taken by the ECB and based around close monitoring of the most exposed institutions along with guidelines, which, under pillar 2, should help to encourage banks to provision their oldest NPLs more effectively. The guidelines were put out to a public consultation at end-2017 and are expected to be finalised in the early part of 2018. Although French banks are not greatly affected by this problem, the emerging solutions can be applied generally, which explains why the ACPR played an active part in these efforts.

CHAPTER 3

CUSTOMER PROTECTION

The ACPR is tasked with protecting customers in the banking and insurance sectors, including policyholders, members and beneficiaries of reporting entities. It supervises the implementation by the industry of rules intended to protect customers and makes sure that the resources and procedures used for this purpose are adequate.

2017 KEY FIGURES

6,300
LETTERS AND EMAILS received from customers of banks and insurers

81
ON-SITE INSPECTIONS

2,700
ADVERTISEMENTS ANALYSED

1. ORGANISATION OF BUSINESS PRACTICE MONITORING

The ACPR is tasked with supervising business practices in a market comprising several hundred credit, payment and insurance institutions, along with tens of thousands of banking and insurance intermediaries. To effectively guide its supervisory activities in order to concentrate on priority topics, the Authority therefore has to identify business practices that carry the greatest risk for customers. To do this, it has introduced extremely effective monitoring tools.

For example, the ACPR analyses letters received from members of the public and issues identified on social media, checks advertisements, monitors key innovations and tracks advertising trends. It harnesses information from the customer protection questionnaire that it sends to banks and insurers. It is in regular contact with the AMF and the DGCCRF[9] and periodically meets with consumer associations, industry groups and ombudsmen.

Within this framework, the ACPR keeps a close watch on the quality of information provided to customers. This led it to analyse over 2,700 advertisements last year. In life insurance, for example, with many advertisements urging people to invest in unit-linked products, the ACPR reiterated the need for balanced messages that clearly show the risks associated with this kind of investment. It also spotted non-compliant loan advertisements on social media and found that some institutions' websites provided incomplete pricing information or made it hard to get information on banking mobility or complaints handling arrangements. In each case, the Authority asked the firm in question to improve its practices.

In 2017, the ACPR received 6,300 letters or emails from members of the public, and replied by providing guidance on the appropriate steps to take, such as to contact the firm's complaints department or the ombudsman, for example, along with more general information about applicable regulations. It also deals with over 400 questions every year from intermediaries.

This monitoring activity provides valuable insight into actual business practices and the difficulties encountered by customers, enabling the ACPR to steer its supervisory and communication activities more effectively.

As part of this, the Authority sent more than 550 requests to firms asking for explanations about identified practices and, where applicable, proposed corrective measures. Many of these requests covered issues surrounding account closures, dormant accounts, creditor insurance changes and payout periods for death benefits. Several topics were singled out for inspections in 2017, including payment transaction disputes and unsolicited marketing of health, death and disability insurance policies.

The ACPR uses intelligence gathered from its monitoring activities to provide better information to the general public. It has published two "what to do" videos[10] and regularly updates its blacklist of entities that are not authorised to offer credit. It has teamed up with the AMF to co-publish several press releases about dubious crowdfunding websites and scams, particularly involving cryptoassets. On a general note, the ACPR encourages people to be very careful when faced with offers that are purported to be risk-free and that offer returns well above the usual levels. It also recommends that people exercise special vigilance given the many cases of identity theft.

The Authority additionally published press releases about failures affecting insurers that were located in other European countries but that had sold policies in France under the freedom to provide services. This is an issue that it is following closely. In these releases, the ACPR reiterated that every professional involved in an insurance distribution chain is responsible for selecting the partners, whether these be intermediaries or insurers, that it uses in its activity targeting the French public.

ABEIS: A WEBSITE FOR THE GENERAL PUBLIC

www abe-infoservice.fr

A new version of the "Assurance Banque Épargne Info Service" (ABEIS) website was put online in late 2017. The site is run by the ACPR, the Banque de France and the AMF.

Aimed at the general public, the new website contains Q&As that provide simple and practical information about banking and insurance products and financial investments. It aims to provide customers with guidance on the steps to take before engaging in a transaction (what to do, licensed entities, etc.) and on how to submit complaints.

ABEIS warns the public about unauthorised practices and participants and gives people the opportunity to ask questions or share information or experiences with the ACPR.

The site has been simplified and its search engine has been improved. It uses a variety of communication media, including news stories, articles, alerts and videos, in an effort to continually improve the information provided to the public.

9 Directorate General for Competition Policy, Consumer Affairs and Fraud Control.
10 One explains what to do when receiving an unsolicited call offering insurance, while the other shows how to protect against and respond to bank card fraud.

2. INSPECTION THEMES

2.1 THE DUTY TO PROVIDE ADVICE IN LIFE INSURANCE

In an environment of declining yields, the ACPR identified products offering only a partial capital guarantee net of front-end loads for non-unit-linked funds owing to substantial management expenses. Accordingly, the ACPR emphasised the need to provide customers with clear, accurate and non-misleading information so that they fully understand the partial nature of their guarantee and the effect of the expenses charged to them. Furthermore, the rise of offers encouraging people to invest in unit-linked products prompted the Authority to stress the need to provide advice tailored to products and their level of complexity.

At a time when the quality of information-gathering from customers is rising, inspections of intermediaries showed that there is still room for improvement as regards acting on **ACPR Recommendation 2013-R-01.** They also revealed that, in many cases, the use made of information gathered to identify customer risk profiles and make recommendations suffers from insufficient consistency or a lack of formal record-making.

2.2 INSPECTION OF INTERMEDIARIES: IDENTIFICATION, FINANCIAL GUARANTEES, PROFESSIONAL COMPETENCE

Whether online or face to face, customers need to be sure they are dealing with duly registered professionals. This trust factor is important not just for customers but also for the industry itself. Yet all too often the ACPR sees insufficient rigour in legal information disclosures as well as a lack of information about claims handling and mediation.

Intermediaries are subject to professional competence requirements, which cover areas ranging from training to experience, to ensure they are capable of meeting customer needs. This competence must be acquired before the position is accepted, and any training should be tailored to the products actually being marketed. With this in mind, intermediaries would be wise to carry out a mapping exercise to identify the competence levels associated with different positions.

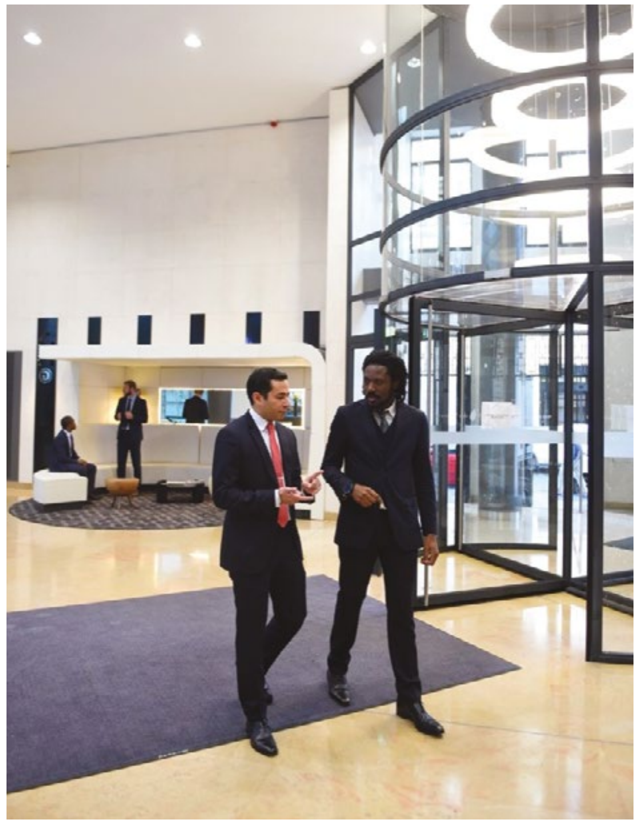
Insurance intermediaries must be covered by a financial guarantee that protects customer funds in the event of failure. The ACPR notes that these guarantees are often too small and wishes to reiterate that when an intermediary collects funds destined for customers or insurers, and in the absence of a written mandate from the insurer stating otherwise, financial guarantees should be sized to reflect the average amount of money collected.

2.3 MARKETING OF INDIVIDUAL HEALTH POLICIES

Aggressive practices ill-suited to customers' needs, particularly involving cold calling techniques, are often noted in this area. After continuing its inspections, the ACPR noted that the process used to identify requirements and needs is too often governed by vague concepts. Some firms provide insufficient explanations or no explanations at all for policy payout levels or waiting periods, while others inadequately or inaccurately record the formal reasons for recommending one policy over another.

COLD CALLING: WHAT TO DO

The ACPR released a video to raise public awareness about what to do if you get a cold call. First, check who is calling and why. Next, ask to get documentation about the policy before signing up and be on your guard if a cold caller asks you to repeat a phrase or give a verbal code received by text message, as this could constitute agreeing to a policy. This issue has affected many individuals, who have found that they signed up for a policy unintentionally or without understanding its terms. In all circumstances, the Authority recommends that you never provide your bank details or payment card number over the phone.



2.4 RULES FOR INCLUDING/REMOVING NAMES IN BANKING SECTOR REGISTERS

The National Register of Household Credit Repayment Incidents (FICP) and the Central Cheque Register (FCC) record the names of people who have experienced credit repayment or cheque or card payment incidents. Names are entered in these registers at the request and under the responsibility of credit institutions, in accordance with strict criteria. Institutions are required to check the registers before opening accounts, issuing payment instruments or granting loans.

The presence of a person's name in one of these registers is an important factor in a bank's decision. For this reason, it is important to comply with the rules for adding/removing people to/from the registers as well as with the rules for informing affected persons.

During its inspections, the ACPR identified and instructed corrections to be made to shortcomings in disclosures made to customers prior to their inclusion in a register. It also found instances of insufficient transparency about the fees charged or the criteria used to characterise improper use of a bank card, as well as situations where institutions forgot to take people off a list or added names inappropriately. It noted the need to improve staff training, as well as some internal control systems.

ACPR/AMF JOINT UNIT: THE SHARED GOAL OF PROTECTING RETAIL INVESTORS

The joint unit is the forum within which the two authorities coordinate the supervision of business practices. In addition to offering a single gateway for members of the public **(www.abe-infoservice.fr)**, this cooperation has given rise to coordinated communication and coordination in shared supervisory themes. Projects were carried out in numerous areas in 2017, from crowdfunding and non-face-to-face sales to discretionary management mandates and self-investment. Special attention was paid to the subject of vulnerable sections of the population: a study on protected adults showed that this group enjoys broadly satisfactory relations with financial institutions, but some areas need to be improved, particularly staff knowledge of specific protection measures. In 2018, this work will be continued to include the theme of older people.

3. NEW RULES AND THE ACPR'S EXPECTATIONS FOR THE MARKET

Several new or upcoming regulations are being introduced to protect customers more effectively. Most are European initiatives, such as the PRIIPs[11] Regulation, the Insurance Distribution Directive, the Second Payment Services Directive and the Payment Accounts Directive. Others have been issued by French lawmakers, including the Eckert Law on dormant bank accounts and unclaimed insurance policies.

The ACPR's objective is for firms to implement these new rules in a concrete and efficient manner. It has published recommendations on best practices and positions to clarify its expectations regarding the practical implementation of existing rules.

In 2017, the Authority pursued its work on crowdfunding, which included updating its Q&A for professionals and the public.

In late December 2017, the ACPR published a recommendation on run-off management[12] arrangements, which are designed to ensure that financing transactions are conducted through to maturity in the event that a platform stops operating, and a position detailing the methodology for calculating and publishing failure rates. These disclosures are required by law to enable customers to assess the quality of project selection by platforms over the three previous years. More generally, the ACPR is continuing to dialogue with the industry to make sure that customers are better informed about the nature of the projects they are funding and the risks they are taking on.

Ahead of the entry into force of the Insurance Distribution Directive, the ACPR began educational initiatives to support the industry in meeting the new obligations, such as product oversight and governance requirements (see box). Based on a survey of insurance institutions and intermediaries conducted in summer 2017, which revealed a wide spread of interpretations, the ACPR stressed the need to implement these provisions in a concrete and pragmatic manner. It reiterated that product oversight and governance requirements are designed to ensure that customer interests are factored in from the product design stage and in distribution policies, and should be broadly applied.

[11] Packaged Retail and Insurance-based Investment Products.
[12] This recommendation clarifies the conditions under which the ACPR expects crowdfunding intermediaries to implement the regulatory run-off management requirements. This follows on from the introduction by France's legislature of an obligation for crowdfunding intermediaries to define and organise the procedures for monitoring financing transactions and managing transactions through to maturity, even in cases where intermediaries themselves stop doing business.

The exemptions provided for by the directive must be strictly interpreted. To ensure effective implementation, the ACPR called on manufacturers and distributors to work together and is continuing its discussions with the marketplace on this topic.

In banking, the ACPR published two opinions on the EBA's guidelines on product governance and oversight and remuneration practices related to the sale of retail banking products and services. It also conducted inspections to examine implementation of the Eckert Law on dormant bank accounts. The Authority found that institutions had made significant progress in this area, but that considerable challenges remain given the number of accounts and outstanding amounts still affected (approximately 17 million accounts and EUR 18.9 billion). Accordingly, the ACPR continues to insist on the implementation of clear, usable procedures that support transaction traceability and that are included in internal control systems.

Based on inspection findings, the ACPR also clarified its expectations by publishing recommendations on best practices to facilitate processing of requests to obtain credit insurance from a provider other than the lending institution. It recommended improvements to the information provided to customers, particularly on the institution's expectations in terms of guarantees, quick and efficient handling of requests, and traceable answers.

PRODUCT GOVERNANCE AND OVERSIGHT: TAKING CUSTOMER INTERESTS INTO ACCOUNT THROUGHOUT THE SALES AND MARKETING PROCESS

Product governance and oversight requirements apply to the entire financial sector. The end goal is to ensure that customer interests are taken account from when products are designed right through to when they are marketed. Specifically, each product needs to be covered by an approval process that identifies the target customer group and distribution strategy associated with the product, based on its characteristics and the needs it addresses. Distributors must be aware of these elements and conduct their business accordingly. These elements must be revised periodically, with adjustments made where required to reflect customer interests.

CHAPTER 4

ANTI-MONEY LAUNDERING AND COUNTER-TERRORIST FINANCING

The ACPR makes sure that reporting entities comply with their anti-money laundering and counter-terrorist financing (AML/CTF) obligations. As well as conducting ongoing supervision, it carries out on-site inspections to check the compliance of arrangements put in place by entities.

2017 KEY FIGURES

24
ON-SITE INSPECTIONS

15
DISCIPLINARY PROCEEDINGS OPENED

1. INDIVIDUAL SUPERVISION

The ACPR checks compliance with anti-money laundering and counter-terrorist financing (AML/CTF) obligations by all the entities under its supervision, including significant credit institutions that are directly supervised by the ECB as regards prudential aspects. Through its ongoing supervision and on-site inspections, the Authority verifies the compliance and effectiveness of the preventive arrangements set up by institutions, the effective implementation of due diligence obligations commensurate with AML/CTF risks and the effectiveness of arrangements to identify people or entities subject to restrictions and asset freeze measures, as well as flows of money on behalf of such persons.

In 2017, the ACPR continued inspections initiated specifically to assess management by groups of the AML/CTF risks inherent in business undertaken by their foreign entities, especially in private banking and also in life insurance in some cases. Recognising the exposure of banking groups, the ACPR carried out a number of specific on-site inspections and additional checks as part of pre-scheduled on-site inspections. The ongoing supervision teams also did work on due diligence by banking groups to check customer tax compliance and identify the beneficial owners of structures used to designate assets for specific purposes. These inspections offered an opportunity to reiterate that groups with foreign operations must deploy their AML/CTF systems within these businesses just as carefully as in their French entities, that the intra-group information sharing required for the parent company to perform due diligence and internal control must be efficiently organised, and that the measures implemented by foreign entities must be regularly assessed, in particular to check that due diligence measures are equivalent to French regulatory requirements and consistent with group procedures.

Special attention was also paid to the implementation of asset freeze obligations in 2017, particularly following the publication in 2016 of guidelines drawn up jointly by the ACPR and the French Treasury, which is the national competent authority for economic and financial sanctions. Ongoing supervisory work drew on the feedback provided by financial institutions to the annual AML/CTF and asset freeze questionnaires. These efforts were extended by on-site inspections, which in 2017 mainly targeted large banking institutions in order to test the management and robustness of systems to manage sanction lists, the effectiveness of filters and alert processing arrangements, and the interaction between these mechanisms and CTF systems. On-site inspections in the insurance sector, including inspections of non-life institutions, also looked at detection and asset freeze systems.

In terms of CTF arrangements, ongoing supervision teams began work in the second half of 2017 to examine how reporting entities are incorporating the financing typologies issued by national and international competent institutions in their risk classifications and oversight arrangements for business relations and transactions.

On-site inspections were also initiated, either following notifications from Tracfin to the ACPR, most of which involved the banking and payment services sectors, or according to a sector-based approach, by targeting the industries most exposed to AML/CTF risk. As regards the latter, money remittance and electronic money distribution services continue to be the focus of specific attention, and several inspections were carried out at entities that are licensed in other EU countries and operate in France through payment service agents or electronic money distributors. In the insurance sector, inspections in 2017 covered a variety of institutions, including insurance undertakings, mutual insurers and brokers. In all, 24 on-site AML/CTF inspections were carried out in 2017, four of which were performed overseas by the ACPR advisor to overseas note-issuing institutions.

Following the on-site inspections, the ACPR notified Tracfin of any suspicious transaction reporting deficiencies and also informed the tax authorities if tax evasion criteria were found. Depending on the seriousness of the breaches, on-site inspections gave rise to an action letter from the ACPR's Secretary General, a formal notice, or, in the most serious cases, the initiation of disciplinary proceedings by the Supervisory College. In 2017, the ACPR Sanctions Committee imposed and published six AML/CTF sanctions, bringing to 28 the total number of sanctions imposed by the ACPR in this area since 2011. The six sanctions imposed in 2017 included fines of between EUR 80,000 and EUR 10 million.

Deficiencies in systems to detect and analyse unusual transactions and report suspicions, involving such issues as timeliness, human resources, access to information for Tracfin reporting officers and the quality of information provided to Tracfin, regularly featured among the complaints upheld by the Sanctions Committee, as did failures to meet "know your customer" obligations, particularly in the payment services sector. Nine other disciplinary proceedings including AML/CTF complaints were in process at the end of 2017. The ACPR also issued ten formal notices and 24 action letters.

2. ADJUSTING AND MONITORING RULES AND REGULATIONS

In 2017, the ACPR was involved in implementing the new AML/CTF framework created by the Fourth Anti-Money Laundering Directive and the European Regulation on information accompanying transfers of funds (the AML package). It also contributed to negotiations surrounding the revision of the Fourth Directive (the Fifth Directive) begun in the wake of terrorist attacks in Europe and the Panama Papers scandal.

2.1 IMPLEMENTATING THE AML PACKAGE AND THE RISK-BASED APPROACH

Within Europe, the ACPR took part in drafting the regulatory technical standards and guidelines published by the European Supervisory Authorities (ESAs) in 2017, aimed, respectively, at (i) improving the effectiveness of the AML/CTF framework and the supervision of financial institutions or groups conducting cross-border business,[13] (ii) specifying the AML/CFT risk factors that financial institutions must take into account,[14] and (iii) improving the effectiveness of systems to detect and monitor missing or incomplete information accompanying fund transfers.[15] It also contributed to the ESAs' opinion on AML/CTF risk in the EU financial sector, which provided the basis for the European Commission's June 2017 supranational risk analysis.

At home, as part of efforts to strengthen the risk-based approach and support transposition of the AML package, the ACPR took the following steps:

- In summer 2018, it provided the national AML/CTF Guidance Committee with a report on the vulnerabilities of financial products, transactions and participants under its supervision.[16] This report provides a framework for the ACPR's risk-based approach.
- It worked closely with affected professionals within the AML/CTF Consultative Commission to overhaul its annual joint questionnaire for the banking and life insurance sectors[17] to reflect measures to strengthen the risk-based approach (terrorist financing, tax evasion, new payment instruments) and do a better job of measuring the effectiveness of institutions' AML/CTF and asset freeze systems.
- It developed a risk-based approach for its documentary-based and on-site inspection activities, in accordance with ESA guidelines on risk-based AML/CTF supervision.[18]
- Within the framework of the AML/CTF Consultative Commission, it began work to overhaul or revise its AML/CTF guidelines (joint guidelines with Tracfin on Tracfin reporting and disclosure obligations, politically exposed persons (PPPs), and sector enforcement principles for correspondent banking services[19]).

2.2 MONITORING INITIATIVES TO STRENGTHEN THE FOURTH DIRECTIVE

The ACPR provided its expertise to France's authorities during negotiations to revise the Fourth Directive, which resulted in a political agreement at end-2017.[20] The revision features a number of advances including the following elements:

- The imposition of AML/CTF obligations on intermediaries that are active in what the draft Fifth Directive calls virtual currencies. This measure is accompanied by the introduction of a registration framework for custody service providers and platforms used to convert these cryptoassets.
- Measures to strengthen the consolidated supervision of group AML/CTF arrangements, consistent with the approach in France, as called for by the ACPR particularly following the Panama Papers scandal. The draft directive also strengthens the requirement for cooperation between home and host country authorities.
- A reduction of the threshold for anonymity in electronic money to EUR 150.
- Customer ID checks in digital or non-face-to-face relationships, using electronic identification methods offering an elevated level of assurance as defined by the eIDAS Regulation, thus supporting European harmonisation based on a high level of security and a single standard, to be coupled in the future with interoperability.
- Clarification of the scope of correspondent banking services covered by enhanced due diligence measures, along with different levels of due diligence requirements depending on the level of AML/CTF risk in business relations and the services offered.
- The harmonisation of enhanced due diligence measures to be implemented with regard to business relations or transactions involving countries presenting major AML/CTF deficiencies and appearing on the European Commission's blacklist.[21]

[13] *Draft Regulations (EU) relating to (i) the permanent representatives of European PSPs and EMIs doing business in another Member State through agents or electronic money distributors and (ii) measures to implement in groups with branches or subsidiaries in non-EU countries whose regulations make it impossible to implement the group's requisite AML/CTF policies and procedures.*
[14] *Guidelines on risk factors ("comply or explain" procedure open until 5 March 2018).*
[15] *Guidelines on the measures payment service providers should take to detect missing or incomplete information on the payer or the payee, and the procedures they should put in place to manage a transfer of funds lacking the required information ("comply or explain" procedure open until 16 March 2018).*
[16] *Contribution to the National Risk Assessment, in conjunction with the other competent public authorities and on the basis of a prior consultation of industry organised within the AML/CTF Consultative Commission.*
[17] *Through Instruction 2017-I-11 of 4 July 2017, see article in the Revue de l'ACPR No. 34 (November- December 2017).*
[18] *With which the ACPR was declared to be compliant in June 2017; applicable in April 2018.*
[19] *In conjunction with international work by the FATF and Basel Committee on correspondent banking services, to which the ACPR contributed.*
[20] *Expected to be adopted by the end of the first quarter of 2018. Aside from a few specific provisions, an 18-month period is scheduled for transposition.*
[21] *Delegated Regulation (EU) 2016/1675 supplemented by Delegated Regulation (EU) 2018/105, which is in the process of being amended by the Commission Delegated Regulation of 13 December 2017.*

CHAPTER 5

ADAPTING TO NEW TECHNOLOGIES

In June 2016, the ACPR set up a Fintech Innovation Unit to take account of the impact of digitisation and support the digital revolution in the financial sector.

Technological innovation and the arrival of new players in the market are creating new challenges. These represent risks but also opportunities for the sector, which the ACPR is factoring into the performance of its tasks.

2017 KEY FIGURES

200
INDIVIDUAL MEETINGS WITH INNOVATIVE FINANCIAL FIRMS

3
E-LEARNING SESSIONS PROVIDED

10
PROPOSALS SENT to the European Commission in response to its fintech consultation

1. ACTIVITY OF THE FINTECH INNOVATION UNIT

The impact of digitisation and a determination to support the digital revolution that is transforming the financial sector spurred the ACPR to create a specific unit for fintechs and financial innovation in June 2016. In 2017, the unit stepped up its initiatives to assist new and existing players.

After a sustained first year in 2016, the unit kept up a similar pace of meetings with innovative financial firms, talking to companies with projects at various stages of maturity to answer their regulatory questions and help them to integrate regulatory aspects in their development. In total, it met with over 200 firms from areas including payment, crowdfunding, automated financial advice and technological fields such as blockchain, electronic signatures, biometrics and artificial intelligence. The nimble unit can provide swift responses thanks to its stripped-down approach and support from the ACPR's network of innovation experts, who include specialists in legal questions, prudential oversight and business practices, big data and artificial intelligence.

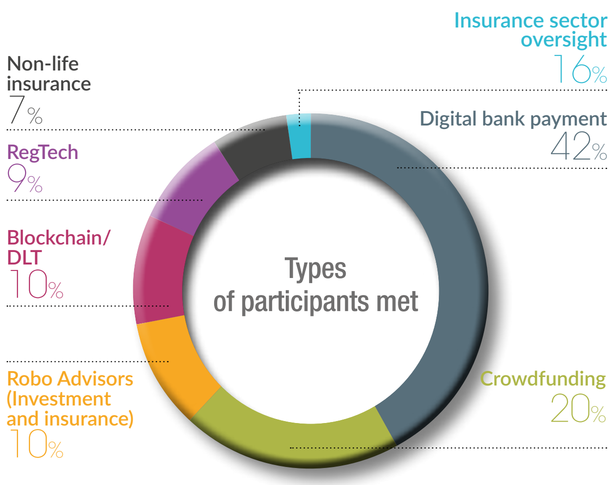
The unit embarked on a series of new educational activities targeting professionals. The first session of the *Matinées Fintech* meetings organised in autumn 2017 attracted over 90 start-ups and sought to launch a dialogue on best practices in the area of licensing in the payment field. Several e-learning videos were posted on the ACPR website and other online venues. The ACPR Fintech Innovation Unit is also working with fintech incubators, which are dedicated hubs for meeting and exchanging with start-ups.

To more effectively recognise the challenges of the digital revolution in its work, the Fintech Innovation Unit also maintains numerous ongoing exchanges with established players. These firms have highlighted difficulties encountered in non-face-to-face identification of customers, which they believe require changes to the French regulatory framework and implementation of a national digital identity scheme. The ACPR also conducted an in-depth cross-sector study of the challenges associated with the digital revolution in the financial sector, which will be published.

The unit continued to provide impetus to marketwide work on innovation and regulatory issues within the Fintech Forum, which it leads alongside the AMF. The forum met twice in 2017. Discussions again covered non-face-to-face identification of customers and the question of a digital identity, areas in which forum members are calling for rapid changes. The forum also took part in discussions about the entry into application in January 2018 of the revised European Payment Services Directive. With the increasing emergence of multi-service financial intermediation platforms, innovators often struggle to deal with the multiple layers of statutory regulation and potential conflicts between rules. The FinTech Forum has begun discussions about overhauling some regulatory provisions governing intermediation activities.

A number of other authorities teamed up with the Fintech Forum over the course of 2017 with a view to recognising the cross-sector challenges raised by the digital revolution. The *Agence nationale de la sécurité des systèmes d'information* (ANSSI – the French national cybersecurity agency), the *Commission nationale de l'informatique et des libertés* (CNIL – the French data protection agency) and Tracfin (the French financial intelligence agency) are all now permanent members of the forum.

The experience gained by the unit with innovative firms is lending support to its position as it lobbies for proportionate regulation within European and international bodies, which are devoting a growing share of their work to fintechs and innovation. At the European level, the unit provided feedback to the European Commission's fintech consultation by offering ten proposals. At the global level, it took part in the Financial Stability Board's[22] assessment of the financial stability implications of artificial intelligence and machine learning. The FSB believes that artificial intelligence could be a catalyst for profound change in the financial sector. The report draws attention in particular to "black box" aspects, i.e. the risk that certain algorithms cannot be understood.



[22] http://www.fsb.org/2017/11/artificial-intelligence-and-machine-learning-in-financial-service/.

TEN KEY PROPOSALS BY THE ACPR TO THE EUROPEAN COMMISSION IN RESPONSE TO THE FINTECH CONSULTATION

1) Ensure the harmonised and secure implementation of the revised European Payment Services Directive to prevent regulatory arbitrage and facilitate the European expansion of French fintechs.
2) Launch an overall reflection on the European regulation of multi-service financial intermediation platforms.
3) Implement a common EU regulatory framework for alternative financing models such as crowdfunding.
4) Develop a common EU approach for peer-to-peer insurance to avoid disparities between countries.
5) Further assess, based on market needs, the merits of adopting a sequenced approach in the licensing of credit institutions, to facilitate the creation of new banks.
6) Harmonise regulatory requirements for remote customer identification due to the rise in online and telephone banking and differences in regulations between EU countries.
7) Apply EBA recommendations on the use of cloud computing to the entire financial sector, to ensure that financial service providers have effective control over cloud service providers.
8) Ensure the consistent application of EU regulation on the protection of personal data, as the proper exploitation of data is vital in finance in today's digital era.
9) Set up a sound EU regime for testing disruptive projects that do not fit with the existing regulatory framework.
10) Define a common EU taxonomy for cyberincidents to facilitate information-sharing between public authorities in the face of rising cyber-risks.

2. ANALYSING AND SUPERVISING NEW RISKS GENERATED BY DIGITISATION AND AUTOMATED DATA PROCESSING

The development of new technologies has increased IT risk. To respond to this, institutions must take measures to ensure that their information systems:
- are more effectively organised;
- operate properly at all times;
- are protected.

In 2017, the ACPR continued cooperating with European and international partners to enhance its resources for supervising IT risk.
- Supervision of IT risk forms part of the overall supervisory approach, and notably the supervision of operational risk. ACPR inspectors are made aware of this risk through specific training courses. The ACPR also took steps last year to made sure it was in compliance with EBA guidelines on this issue, which it helped, moreover, to draft.[23] The new approach included an additional cybersecurity questionnaire for a panel of less significant institutions (LSIs), which conducted self-assessments.
- IT risk continues to occupy a growing place in the work of the international and European financial regulatory bodies in which the ACPR participates, and is becoming a financial stability issue. Efforts are being made in particular to take stock more effectively of risk assessment approaches across jurisdictions,[24] define shared assessment principles[25] and harmonise supervisory practices.[26]

www **More information at:** acpr.banque-france.fr

WORK RELATED TO CLIMATE RISK

The ACPR has identified challenges related to climate risk as among the emerging risks that could have a growing impact on the situation of financial institutions, including banks and insurers, and on long-term financial stability more generally. The novel nature of these issues for supervisory authorities creates the need to act now to think more deeply about and more effectively identify risk components (physical and transition risks), the mechanisms through which they spread and tools to measure them accurately.

In 2017, the ACPR continued work begun in 2016 in the banking sector as part of implementing the Law on energy transition for green growth. It widened the discussion on these questions to the insurance sector and organised three marketplace meetings with banking institutions and/or insurance entities to identify and share the various initiatives taken within the industry to better identify climate change-related risks. These meetings provided an opportunity to talk about initial risk measurement methodologies and to begin examining the issue of the interdependence of climate-related risks borne by banks and insurers.

2017 marked the first year in which insurers published disclosures about how they are integrating environmental, social and governance aspects in asset management, in accordance with Article 173 of the Law on energy transition for green growth.

At the international level, working closely with the Banque de France, the ACPR contributed to European and international discussions on climate-related risks and organised a research seminar to promote exchanges between supervisors and the academic world on these questions. The year-end highlight came on 12 December, when, as part of the *One Planet Summit* held in Paris, the Governor of the Banque de France announced the creation of an international Network of Central banks and Supervisors for Greening the Financial System. The network, in which the ACPR plans to participate actively, was immediately put in place.

[23] EBA guidelines on the assessment of Information and Communication Technology (ICT) risk in the context of the Supervisory Review and Evaluation Process (SREP): https://www.eba.europa.eu/documents/10180/1954038/Guidelines+on+ICT+Risk+Assessment+under+SREP+%28EBA-GL-2017-05%29_FR.pdf/d1f4f9c9-b22b-400c-92f6-8ff8cfbd62dd.
[24] See stocktake published by the Financial Stability Board in October 2017: http://www.fsb.org/2017/10/fsb-publishes-stocktake-on-cybersecurity-regulatory-and-supervisory-practices/.
[25] See "Fundamental elements for effective assessment of cybersecurity in the financial sector" published by the G7 in October 2017.
[26] Since this work is under the jurisdiction of the European authorities , in addition to EBA guidelines on ICT risk assessment mentioned above, the ACPR was extremely active in drafting EBA recommendations on cloud outsourcing published in December 2017: https://www.eba.europa.eu/documents/10180/1712868/Final+draft+Recommendations+on+Cloud+Outsourcing+%28EBA-Rec-2017-03%29.pdf.

CHAPTER 6

RESOLUTION

The ACPR plays an essential role in preventing and resolving banking crises in order to limit the impact of bank failures on financial stability, protect depositors and avoid the need for public assistance.

In November 2017, the ACPR also became the resolution authority for insurers with the creation of a nationwide resolution regime for the insurance sector.

2017 KEY FIGURES

30

PREVENTIVE RESOLUTION PLANS
submitted to
he Resolution College

1. CONTINUING AND EXTENDING PLANNING EFFORTS

1.1 INSTITUTIONS UNDER THE JURISDICTION OF THE SINGLE RESOLUTION BOARD

In 2017, acting within the Single Resolution Mechanism (SRM), the second pillar of the banking union, the ACPR continued to play a driving role in planning efforts and work on establishing an operational definition for the operating framework applicable to the resolution of banking crises. In practice, Internal Resolution Teams (IRTs), including staff from the Single Resolution Board (SRB) and National Resolution Authorities (NRAs), prepared updated and supplemented versions of the preventive resolution plans for the largest credit institutions, cross-border groups and other institutions subject to direct ECB supervision. The purpose of these plans is to draw up preferred resolution strategies. They are required to be supplemented with the Minimum Requirement for own funds and Eligible Liabilities (MREL), which corresponds to the loss-absorbing and recapitalisation capacity of affected institutions or groups in a crisis. Plans must also be accompanied by a resolvability assessment, which seeks to identify obstacles to the proper execution or effectiveness of the proposed resolution plan in the event of a crisis.

The framework for cooperation between the SRB and the NRAs, which was adopted in June 2016, was supplemented in June 2017 by general organisational principles for the SRM and a target operating model, which organise the work of, and distribution of tasks between SRB and NRA staff (collection of contributions, resolution planning) while maintaining genuine organisational flexibility. NRAs remain the sole point of contact for regular exchanges with institutions. The clarity and fluidity provided to cooperation between authorities paved the way for some significant advances. For example, the French institutions under SRB jurisdiction now have resolution plans, and the four largest French groups will be assigned binding MREL targets in 2018.

1.2 INSTITUTIONS UNDER THE JURISDICTION OF THE ACPR

As regards institutions that remain under the jurisdiction of the national authority, the ACPR is tasked with drafting preventive resolution plans for 101 LSIs established in France, including in overseas territories outside the EU, 31 investment firms and ten Monaco-based entities.

Work on individually analysing these institutions resulted in late 2017 in the adoption of the first preventive resolution plans for investment firms and the first draft preventive resolution plans for LSIs. According to SRM rules, the LSI plans cannot be definitively adopted until after the draft has been sent to the SRB so that the board can give its opinion, particularly about the institution's resolvability analysis. A first round of plans covering about 30 entities was submitted to the Resolution College in 2017. The remaining plans for institutions under ACPR supervision are scheduled to be finalised by the end of 2018.

Among the institutions under the direct responsibility of the ACPR, LCH SA, a central counterparty (CCP), was the subject of a second meeting of the Crisis Management Group (CMG) in 2017. As a result, the ACPR ranks first in the banking union (second worldwide) in terms of work done on CCP resolution.

The ACPR took part in 2017 in negotiations concerning the regulatory framework for CCP resolution, both at international level, where it contributed to the finalisation of FSB guidance, and at European level, where it worked in collaboration with the French Treasury to advocate its positions on the draft regulation on CCP resolution. The ACPR was also involved in preparing guiding principles on bank resolution at the international level within the FSB (guidelines on internal TLAC, liquidity in resolution plans, bail-in execution). Within Europe, it worked alongside the French Treasury on the draft banking package regulation and was involved in standard-setting by the European Banking Authority (EBA).

2. SETTING UP CRISIS MANAGEMENT TOOLS

2.1 LESSONS FROM RECENT BANK FAILURES

A number of crises had to be managed in 2017, which saw the adoption of the first resolution decisions within the framework of the Single Resolution Mechanism. The resolution treatment of Banco Popular in Spain illustrated the importance of close and swift cooperation between supervision and resolution authorities, at both European and domestic levels. In this regard, in 2017 the ACPR continued to draft a national handbook that gathers together all the decisions and legal procedures applicable during resolution proceedings. Initially applicable to institutions under the ACPR's direct responsibility, the national handbook will be supplemented in 2018 to include information on resolution procedures resulting from an SRB decision, which the ACPR would be responsible for implementing at the domestic level.

2.2 MARKETWIDE WORK ON THE BAIL-IN MECHANISM

With this in mind, and following international and European work relating to execution of the bail-in mechanism, the ACPR set up a marketwide group to look at the sequence of steps required to ensure operational implementation at national level of a bail-in decision concerning a listed French bank, as well as a compensation procedure in the event of a valuation error. The parties involved in implementing this mechanism would include the ACPR's Resolution College, which is responsible for enforcing SRB decisions, the affected banking institution or group, the AMF, securities trading and settlement infrastructures and their authorities.

The main steps required to execute a bail-in were identified, and it was found that existing mechanisms, such as those governing securities swaps and early redemption of bonds, could be employed. The AMF may also use the European Suspension and Restoration Information System (SARIS) to ask fellow European regulators to suspend listings of securities. In addition, plans are in place to develop negotiable instruments that would allow injured creditors to get financial compensation while also facilitating identification of these creditors.

2.3 ONGOING EFFORTS TO STRENGTHEN FUNDING MECHANISMS FOR BANK RESOLUTION

To cover the costs of crises at banking institutions, the legal framework provides for a Single Resolution Fund (SRF) for institutions under SRB responsibility and a National Resolution Fund (NRF) for institutions that remain under French responsibility. Within the framework of its tasks relating to SRF and NRF contributions, the ACPR instructed affected institutions to provide EUR 1.9 billion and EUR 7 million respectively in 2017. The ACPR also asked institutions to provide EUR 269.3 million, EUR 23.4 million and EUR 11.87 million respectively in contributions to the guarantee schemes for deposits, securities and bank guarantees.

3. THE ACPR IS NOW THE RESOLUTION AUTHORITY FOR INSURANCE UNDERTAKINGS

Following the adoption and publication in November 2017 of Ordinance No. 2017-1608 on the creation of a resolution regime for the insurance sector, the ACPR is now the resolution authority for insurers, making France the first euro area country to set up a resolution mechanism of this kind for the insurance sector. The national regime, which forms part of work being done at international level (G20, FSB, IAIS[28], EIOPA), seeks to more effectively prevent failures by insurance institutions and to minimise the adverse consequences of those that do occur.

The mechanism, which is modelled on the resolution regime for credit institutions and investment firms, while taking account of the specific features of the insurance sector, allows the ACPR's Resolution College to quickly obtain enhanced powers over struggling insurers in order to prevent adverse consequences for insured parties, while safeguarding financial stability, critical functions for the economy and the public finances.

The regime, which applies to all institutions subject to the Solvency II prudential regime, has three parts:

- A governance component: the Resolution College now has responsibility for the insurance sector and is tasked with drawing up preventive resolution plans, analysing resolvability and implementing the resolution regime. The Vice-Chairman of the ACPR now sits on the Resolution College.
- A preventive component, which includes an obligation for institutions to prepare recovery plans (applies to institutions whose total assets have exceeded a threshold set by decree at least once in the past three financial years) and for the Resolution College to prepare preventive resolution plans.
- A resolution component: if the criteria for entry into resolution are met, the Resolution College may adopt resolution measures. Besides the resolution-specific administrative enforcement powers laid down in Article L. 612-33 of the Monetary and Financial Code, the main resolution measures introduced by the Ordinance include the power to appoint a resolution administrator and set up a bridge institution or liabilities management structure (in the shape of a trust to manage contracts on a run-off basis) to take over some or all of the commitments of an institution under resolution.

[28] IAIS: International Association of Insurance Supervisors.

CHAPTER 7

ACTIVITY OF THE SANCTIONS COMMITTEE

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

2017 KEY FIGURES

8
RULINGS HANDED DOWN

11.1
MONTHS TAKEN TO HANDLE AN AVERAGE CASE

1. OVERVIEW

Ten disciplinary proceedings were referred to the Committee in 2017, the same as in 2016. The ostensible stability was deceptive, however, as several of the new cases were linked to each other. Once again, most of the referrals involved AML/CTF breaches in the banking sector, underlining the fact that disciplinary activities are concentrated in this area.

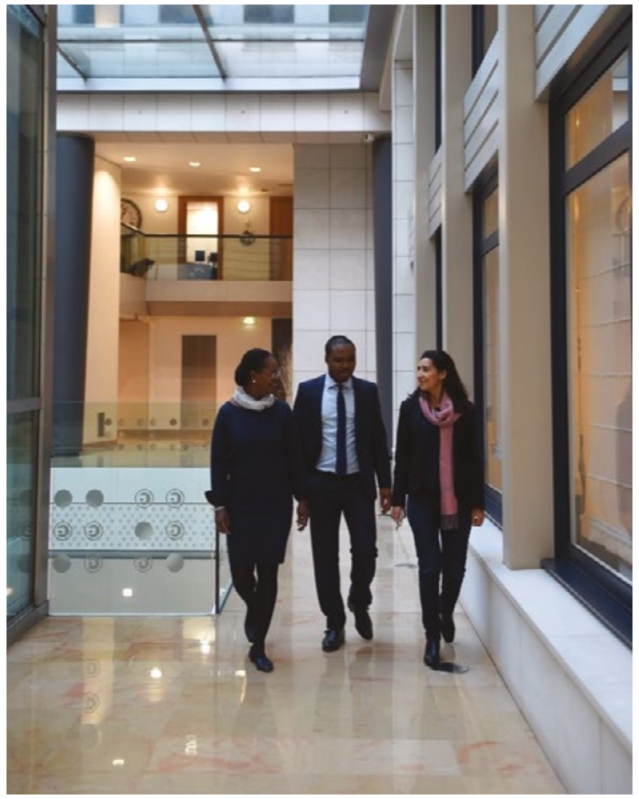
The Committee handed down eight decisions in 2017, all of which were rulings on the merits,[29] or three fewer than in the previous year. Of these rulings, six had to do with AML/CTF breaches, while the other two concerned customer protection. In these eight cases, the Committee issued reprimands together with fines ranging from EUR 80,000 to EUR 10 million.

Total fines came to EUR 25.86 million, considerably higher than the amounts seen in previous years, namely EUR 6.47 million in 2016 and EUR 9.33 million in 2015. While this total amount reflects a trend towards harsher penalties, particularly in the area of AML/CTF following the increase in the level of fines in recent years, the small annual caseload makes it hard to draw conclusions from these numbers. As has been the case now for several years, all these decisions were published in a form in which the institution was publicly named. The average time between when a case was brought before the Committee and when notification of the sanction ruling was provided increased slightly to 11.1 months compared with 10.3 months in the previous year.

2. MAIN LESSONS FROM THE 2017 RULINGS

2.1 PROCEDURES FOR MAKING CONTRACTUAL CHANGES TO LIFE INSURANCE POLICIES

In its ACMN Vie ruling No. 2016-02 of 7 February 2017 (reprimand and EUR 3 million fine), the Committee ruled for the first time on the procedures for making contractual changes to life insurance policies. ACMN Vie, a life insurer, had merged non-unit-linked funds with different investment guidelines, which it offered to policyholders without obtaining a signed rider from customers to indicate the parties' consent to the transaction,



in contravention of Article L. 112-3(5) of the Insurance Code. The Committee dismissed the argument that this provision established a rule of evidence rather than a substantive rule and could not therefore be used as grounds for an ACPR sanction: neither the Monetary and Financial Code nor the Insurance Code circumscribes the provisions of the code that are supervised by the ACPR as regards compliance by insurers and whose contravention thus offers grounds for a sanction. Likewise, the codes do not require the ACPR to wield its enforcement powers only in situations where insurers damage policyholder interests. In this instance, the Committee felt that the ability to have access to different investment styles was *"a substantive element of the policies on offer, even though it did not concern the capital guarantee, the minimum guaranteed rate or management expenses"*. For this reason, merging the funds constituted a contractual change requiring the signature of a rider.

2.2 INTERNAL CONTROL AND THE DUTY TO PROVIDE ADVICE

Beginning in 2005, La Banque Postale (LBP), a financial institution, sold FCP-type investment funds either directly or as underlying assets for unit-linked life insurance policies. These funds offered a guarantee covering the invested capital that kicked in after a holding period of eight years. Because the funds' net asset value fell by between 15% and 30% in 2011, LBP set up a specific internal procedure to warn customers about the risk of loss that they would face if they redeemed the units backed by the funds before the date on which the capital was fully guaranteed. Since the procedure was improperly applied, the Committee decided in its ruling No. 2016-04 handed down on 18 May 2017 with regard to LBP (reprimand and fine of EUR 5 million), that this createda non-compliance risk for LBP that was improperly managed. It also considered that LBP, in its capacity as an insurance intermediary, failed to meet a number of obligations under its duty to provide advice, particularly in terms of projections for surrenders of life insurance policies incorporating units backed by the funds in question before the date on which the invested capital was fully guaranteed.

2.3 COMPLIANCE WITH AML/CTF OBLIGATIONS

In its BNPP ruling No. 2016-06 of 30 May 2017 (reprimand and fine of EUR 10 million) and Société Générale ruling No. 2016-07 of 19 July 2017 (reprimand and fine of EUR 5 million), the Committee disciplined both institutions for breaches relating to the execution of their reporting obligations and, in particular, for unusually long lead times in reporting suspicious transactions to Tracfin.

Four other AML/CTF-related rulings were handed down: ruling No. 2016-05 of 30 March 2017 with regard to Lemon Way (payment institution - reprimand and fine of EUR 80,000); ruling No. 2016-09 of 30 June 2017 with regard to Crédit Agricole Mutuel Atlantique Vendée (reprimand and fine of EUR 2 million); ruling No. 2016-10 of 8 November 2017 with regard to Dirham Express France (payment institution – reprimand and fine of EUR 80,000); ruling No. 2016-08 of 6 December 2017 with regard to National Bank of Pakistan (Paris) (credit institution branch - reprimand and fine of EUR 700,000).

3. APPEALS AGAINST SANCTIONS COMMITTEE RULINGS

In 2017, the *Conseil d'État* issued two rulings pursuant to appeals against rulings by the Committee.

3.1 VAILLANCE COURTAGE RULING OF 7 JUNE 2017 (NO. 393509) – PARTIAL REVERSAL AND FINE REDUCED FROM EUR 20,000 TO EUR 15,000

The *Conseil d'État* (CE) recalled in this ruling that the principle of the rights of the defence set out in Article 6 of the European Convention on Human Rights does not apply during the inspection phase, and that only irremediable infringement of these rights during an investigation may be punished. Moreover, while there is no statutory time limit for ACPR disciplinary proceedings, ensuring a fair trial means among other things that the time between the offence and the sanction should not infringe the rights of the defence. The CE then ruled that the non-autonomy of insurance agents meant that the Committee was entitled to discipline Vaillance Courtage for breaches by its agents. Conversely, the intermediary ought not to have been punished for breaches that were exclusively attributable to a different and legally distinct company known as Groupe Vaillance Conseil *"solely on the grounds that the two companies had a close-knit relationship, causing some confusion about roles"*. For this reason, the CE reduced the size of the fine.

3.2 RULING CONCERNING UNION DES MUTUELLES ASSURANCES MONCEAU AS SUCCESSOR IN INTEREST TO MONCEAU ASSURANCES MUTUELLES ASSOCIÉS/MUTUELLE CENTRALE DE RÉASSURANCE OF 25 OCTOBER 2017 (399491 AND 399493) – BOTH APPLICATIONS REJECTED

The key lesson from this ruling was the clarification provided by the CE about the principles and procedure applicable in the event of the merger/acquisition of an institution under a disciplinary proceeding. Specifically, in the absence of a liquidation or spin-off, the personal nature of fines does not preclude the acquiring company from being the subject of such a proceeding. It is appropriate however to reflect the consequences of the acquired company's closure by sending the acquiring firm the entire disciplinary case file and procedural documents drawn up since the merger. However, it is not necessary to notify the acquiring company of the objections.

At 31 December 2017, just one appeal against a Sanctions Committee ruling (CREPA ruling No. 2015-11 of 19 July 2016) was pending before the *Conseil d'État.*

[29] *The Committee's rulings, which are published in the ACPR's official register, may also be consulted in the compendium of previous decisions posted on the Authority's website.*

CHAPTER 8

BUDGET AND ACTIVITY MONITORING

The ACPR has specific budgetary resources in the form of contributions for supervision costs collected from supervised institutions by the Banque de France 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.

2017 KEY FIGURES

196.95
MILLION EURO TOTAL BUDGET

77%
OVERALL COMPLETION RATE OF INSPECTION PROGRAMMES

1. BUDGET OF THE ACPR

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 ACPR's budget consists of all of its receipts and expenses, and is an annex to the budget of the Banque de France.

Pursuant to Article L. 612-19 of the Monetary and Financial Code, the ACPR relies on support functions provided by the Banque de France in order to benefit from the pooling of certain services (property management, IT, personnel management, etc.) whose costs to the ACPR are measured on the basis of the Banque de France's cost accounting.

The Banque de France also incurs capital expenditure on behalf of the ACPR; the ACPR budget includes the associated depreciation and amortisation expenses.

The report on the ACPR budget outturn for 2017 was submitted to the Audit Committee on 26 February 2018 and approved by the College at its plenary meeting of 5 March 2018, in accordance with the procedures set out in the Monetary and Financial Code (Article R. 612-15).

The Authority ended 2017 with a EUR 2.6 million deficit. After taking into account the deficit, the balance of contributions carried forward totalled EUR 20.5 million.

Summary of 2017 expenses and income

Expenses and income in EUR millions	2016	2017	2017/2016	
			Amount	%
Contributions from supervised institutions	189.30	190.00	0.70	0.4%
Caisse des dépôts et consignations	2.40	2.40	0.00	0.0%
Other income	1.60	1.92	0.32	19.8%
Income (A)	**193.30**	**194.32**	**1.02**	**0.5%**
Personnel costs	108.90	110.74	1.84	1.7%
IT	23.40	24.63	1.23	5.3%
Property	28.00	28.62	0.62	2.2%
Other expenses	33.20	29.74	-3.46	-10.4%
Amortisation and depreciation	0.90	3.22	2.32	257.2%
Expenses for the year (B)	**194.40**	**196.95**	**2.55**	**1.3%**
Budget balance (A) - (B)	**-1.10**	**-2.63**	**-1.53**	**139.0%**

1.1 RECEIPTS

Receipts from contributions for the cost of supervision were up 0.4% at EUR 190.5 million and were recorded in the amount of the tax allocation cap set by the 2017 Budget Law (EUR 190 million).

Contributions from the banking sector rose by EUR 1.6 million (1.3%) owing to the increased capital requirements base, while the contribution from the insurance sector fell by EUR 0.7 million (1.3%) because of base shrinkage (decrease in premium income, particularly in life insurance). The 2.5% increase in the number of insurance and reinsurance brokers and the 8.2% increase in intermediaries in banking transactions and payment services accounted for the increase in the assessed amount for this segment, which still made up just 3% of total contributions.

At the end of the period, the overall collection rate for contributions due in 2017 was 99.8%, the same as 2016 at the same period. For the first time, the amount of contributions due (EUR 190.5 million) could slightly exceed the tax allocation cap (EUR 190 million). However, the expected surplus, which would be paid back to the Treasury, is not yet definitive and could change depending on the amount of contributions actually collected. By the end of 2017, the total amount collected was still below the cap.

1.2 EXPENSES

The ACPR's expenses in respect of 2017 were 1.3% higher at EUR 196.4 million.

Despite the downside revision to forecasts in September 2017, the year-end headcount was below the initial target. While the number of people hired through competitive examinations or on contracts was close to the initial estimates, there were more departures than forecast. Furthermore, the rate of hiring was slower than expected, which affected the annual average. The ACPR also continued its drive to rationalise support functions. These efforts, which will be pursued in 2018, have lowered headcount by about ten FTEs. The bulk of the reduction in 2017 involved non-managerial staff, while the number of managerial staff was more or less unchanged when public law staff are counted. The decline in the proportion of non-managerial staff has been a significant trend in recent years. Even so, personnel expenses climbed by EUR 1.8 million (1.7%) compared with 2016, owing to a 3.2% increase attributable to the age and job skill coefficient, reflecting the ACPR's age pyramid (young average age), although this was largely offset by a 2.9% reduction attributable to a substantial noria effect (departure of employees earning more than the average remuneration paid to new hires, particularly those selected by competitive examination), as in previous years. In addition, 2017 featured the full-year effect of wage increases decided in July 2016 and February 2017 (0.6% each time, for a total impact of 0.9%).

Several spending items recorded material decreases, including amounts charged out for shared Banque de France services, inspection expenses and other operating expenses. However, the abovementioned increase in personnel expenses, and the growth in IT, property and amortisation and depreciation expenses, exceeded these declines. The increase in amortisation and depreciation expenses will be temporary and is linked to the move scheduled for mid-2018 (accelerated amortisation of installations and facilities of buildings that are currently rented). The ACPR's move to its new location at 4, Place de Budapest, Paris 75009 will lead to a sharp reduction in property expenses.

2. ACTIVITY MONITORING

The ACPR's strategy derives from its statutory objectives, which are to ensure the stability of the financial system and protect the customers of supervised institutions. The ACPR's Secretary General has broken this strategy down into five strategic themes:

- **Undertake prudential supervision aimed at preventing systemic risks** (Goal 1 below)
- **Strengthen protection for financial consumers** (Goal 2)
- **Strengthen the ACPR's proactive role in the area of AML/CTF** (Goal 3)
- **Help define and implement financial system regulations** (Goal 4)
- **Monitor the efficiency of the ACPR's actions** (Goal 5)

Goal 1: Undertake prudential supervision aimed at preventing systemic risks

Monitor the impact of changes in the risks of supervised entities, and more specifically those of the largest or most vulnerable institutions

	Multi-year target	2016 actual	2017 actual
Indicator 1.1: Completion rate of prudential inspection programmes in insurance	**100%**	**83%**	**77%**
Indicator 1.2: Completion rate of prudential inspection programmes in banking	**100%**	**82%**	**89%**

In fulfilling its domestic statutory objectives as prudential supervisor, the ACPR completed the bulk of inspections scheduled at the beginning of the year on the basis of the risk analysis resulting from ongoing supervision and the themes identified under the ACPR's supervisory priorities. **In the banking sector,** the Authority concentrated on the inspections requested by the ECB at the most significant institutions (48 in 2017 compared with 36 in 2016). The number of investigations looking at the risks and solvency of institutions under direct ACPR supervision was limited to 9 in 2017, after 11 in 2016. In the **insurance sector,** the ACPR carried out 70 investigations, compared with 79 in 2016, addressing all the themes covered by the ACPR's supervisory priorities, including low interest rates, governance and Solvency II.

Goal 2: Strengthen protection for financial consumers

Monitor the evolution of business practices

	Multi-year target	2016 actual	2017 actual
Indicator 2.1: Completion rate of inspection programmes in the area of business practices	**100%**	**93%**	**93%**

A total of 82 inspections were begun in 2017 compared with 78 in 2016, with the same completion rate. These investigations covered a wide range of themes and a large number of entities, including around 40,000 intermediaries. The main conclusions were presented at the conference organised by the ACPR on 22 November 2017.

Goal 3: Strengthen the ACPR's proactive role in the area of AML/CTF

Conduct inspections and introduce measures in support of new standards

	Multi-year target	2016 actual	2017 actual
Indicator 3.1: Number of sector enforcement principles and guidelines published by the ACPR	**3**	**1 principle, 1 set of guidelines**	**1 set of guidelines**
Indicator 3.2: Completion rate of inspection programmes in the area of AML/CTF	**100%**	**75%**	**86%**

The ACPR worked with Tracfin to draw up guidelines on Tracfin reporting and disclosure obligations. A total of 24 on-site inspections were carried out, including three after notifications to Tracfin or the *Office central pour la répression de la grande délinquance financière* (OCRGDF – Central Office for the Prevention of Major Financial Crime). Themes covered included asset freezes and central management of AML/CTF systems in major banking groups.

Goal 4: Help define and implement financial system regulations

Monitor regulatory developments and how well supervised institutions adapt to them

As part of its involvement in setting international standards or European regulations, the ACPR has given itself the goal of obtaining an impact study before adopting any major measure. It also plays an active role in working groups with a view to influencing the content of future regulations and standards.

In 2017, the impact of the new accounting standard IFRS9 (classification, measurement and impairment of financial assets) on entities in the banking sector was assessed by means of two studies covering a sample of 54 banks. As regards the content of standards or regulations, the agreement reached on 7 December 2017 on the Basel III reform resulted in revisions to prudential requirements for credit and operational risk, the introduction of a capital floor and extended implementation deadlines, consistent with the positions defended by France.

The FSB decided not to publish an updated list of systemically important insurers in 2017 pending new guidance, which will have to be closely followed, as well as work by the IAIS on defining an international solvency standard. The ACPR is mindful that these international standards must be effective and truly adopted by the main jurisdictions should an agreement be reached.

Goal 5: Monitor the efficiency of the ACPR's actions

Manage the time taken to undertake inspections

	Multi-year target	2016 actual	2017 actual
Indicator 5.1: Total time taken to undertake inspections	**< 1 year**	**405 days**	**359 days**

The total time taken to undertake inspections was shortened to below the target length of one year. Results were mixed, however, with continued efforts needed in the area of inspections of entities' prudential situations (risks and solvency).

ANNEXES

ANNEX 1

Decisions taken by the Supervisory College concerning individual entities in 2017

	TOTAL	*of which*	BANKING SECTOR	INSURANCE SECTOR
Licensing and authorisation	**192**		**92**	**100**
Supervision (monitoring of prudential ratios, exemptions)	**67**		**46**	**21**
Administrative enforcement measures	**15**			
Warning		0	0	0
Formal notice (issued by the Chairman acting under delegated authority)		13	10	3
Request for recovery programmes		1	0	1
Placement under special supervision		0	0	0
Limitation of activity		0	0	0
Placement under provisional administration		0	0	0
Reappointment of a provisional administrator		0	0	0
Other		1	0	1
Other binding measures	**11**			
Appointment of a liquidator		1	1	0
Reappointment of a liquidator		1	0	1
Injunction on capital requirements		4	4	0
Request for short-term funding plans		3	0	3
Injunction with coercive fines		0	0	0
Other		2	1	1
Initiation of disciplinary proceedings	**10**		**6**	**4**
Other measures concerning individual entities (including initiation of joint decision-making processes, opening of *inter partes* proceedings, etc.)	**80**		**66**	**14**
Total decisions concerning individual entities	**375**		**226**	**149**

ANNEX 2

List of decisions on general issues adopted in 2017 and published in the ACPR's official register or on its website

INSTRUCTIONS

Instruction 2017-I-01	on the form for appointing or reappointing an effective manager and the form for appointing or reappointing a member of a corporate body – Repealed by Instruction 2017-I-14.
Instruction 2017-I-02	on the submission of quarterly statements to the ACPR by insurance institutions falling outside the scope of the Solvency II regime.
Instruction 2017-I-03	on the annual prudential documents to be provided by institutions subject to ACPR supervision and falling outside the scope of the Solvency II regime.
Instruction 2017-I-04	on the submission of prudential documents to the ACPR by insurance and reinsurance institutions falling outside the scope of the Solvency II regime.
Instruction 2017-I-05	on the forms to apply for an exemption from the mandatory exchange of guarantees applicable to intragroup transactions covering OTC derivative contracts.
Instruction 2017-I-06	amending Instruction 2014-I-04 on the forms to provide notification of an exemption from the clearing obligation applicable to intragroup transactions covering OTC derivative contracts.
Instruction 2017-I-07	on the contents of applications for administrative licences, or changes to licences, for supplementary occupational pension funds, supplementary occupational pension institutions and mutual insurers.
Instruction 2017-I-08	replacing Instruction 2015-I-03 on the forms for appointing or reappointing an effective manager or key function holder at insurance and supplementary occupational pension institutions.
Instruction 2017-I-09	amending Instruction 2014-I-07 on the procedure for approving appraisers for appraisals of the realisable value of real estate and units or shares of unlisted real estate companies.
Instruction 2017-I-10	amending Instruction 2015-I-02 on the form for appointing or reappointing senior managers of insurance institutions.
Instruction 2017-I-11	on information about anti-money laundering and counter-terrorist financing arrangements.
Instruction 2017-I-12	amending Instruction 2015-I-18 on the electronic signature of documents submitted electronically to the ACPR (insurance sector).
Instruction 2017-I-13	amending Instruction 2015-I-19 on the electronic signature of documents submitted electronically to the ACPR (banking sector).
Instruction 2017-I-14	on the form for appointing or reappointing an effective manager and the form for appointing or reappointing a member of a corporate body and repealing Instruction 2017-I-01.
Instruction 2017-I-15	on the submission of a mandatory annual report on life insurance policies whose benefits are linked to the cessation of a professional activity.
Instruction 2017-I-16	on the submission of information needed to calculate contributions to guarantee schemes for deposits, securities and bank guarantees.
Instruction 2017-I-17	amending Instruction 2013-I-10 of 3 October 2013 on information about money changers' anti-money laundering and counter-terrorist financing systems.
Instruction 2017-I-18	amending Instruction 2013-I-15 of 12 November 2013 on monitoring flows in relation to life insurance policies.
Instruction 2017-I-19	on the submission of funding plans by credit institutions.
Instruction 2017-I-20	replacing Instruction 2015-I-16 on documents to be produced in connection with the carrying on of insurance business under the freedom of establishment or the freedom to provide services in another European Economic Area country.
Instruction 2017-I-21	on the business practices and customer protection questionnaire and repealing instruction 2015-I-22.
Instruction 2017-I-22	on the frequency with which regular reports have to be submitted to the supervisor.
Instruction 2017-I-23	on the notification of transactions concluded in connection with a securitisation transaction or a securitisation position.
Instruction 2017-I-24	on the submission to the ACPR of various accounting, prudential and disclosure documents (banking sector).

RECOMMENDATIONS

Recommendation 2017-R-01	on the freedom to choose loan insurance for property loans
Recommendation 2017-R-02	on the run-off management of crowdfunding intermediaries

POSITIONS

Position 2017-P-01	on the notions of a "limited network of accepters" and a "limited range of goods and services"
Position 2017-P-02	on the failure rates that crowdfunding intermediaries must publish
Repeal of Position 2014-P-06	on the implementation of EBA guidelines on retail deposits subject to different outflows

NOTICES

Notice of compliance with EBA guidelines 2014_14 ACPR
Official version of the 2017 notice on procedures for calculating and publishing prudential ratios under CRD IV.
ACPR Notice on the admissibility of unrealised capital gains when determining the solvency margin of supplementary occupational pension institutions (FRPS/MRPS/URPS/IRPS)

ANNEX 3

List of ACPR publications in 2017

1. List of published articles

- Borel-Mathurin F, Darpeix P-E and Guibert Q. "Main Determinants of Profit Sharing Policy in the French Life Insurance Industry" with S. Loisel, *Geneva Papers on Risk and Insurance: Issues and Practices* (CNRS classification: category 3). *ACPR Débats économiques et financiers No. 17.*
- Chrétien Edouard. **"Market microstructure, information aggregation and equilibrium uniqueness in a global game",** *European Economic Review* (CNRS classification: category 1). Publication forthcoming in *ACPR Débats économiques et financiers.*
- **De Bandt Olivier, B. Camara, A. Maitre and P. Pessarossi.** "Optimal capital, regulatory requirements and bank performance in times of crisis: Evidence from France", Journal of Financial Stability (CNRS classification: category 3). *ACPR Débats économiques et financiers No. 24.*
- De Bandt Olivier, B. Camara, P. Pessarossi and M. Rose. "Des banques mieux capitalisées peuvent-elles être plus profitables ? Analyse des grands groupes bancaires français avant et après la crise financière" ("Can better capitalised banks be more profitable? An analysis of large French banking groups before and after the financial crisis"), Économie et Statistique (CNRS classification: category 3). Revised version of *ACPR Débats économiques et financiers No. 12.* Article published in French and English.
- De Bandt Olivier and Frédéric Hervo. **"Faut-il plus de capital en assurance?"** ("Is More Capital Required for Insurance Companies?"), *Revue d'économie financière* (CNRS classification: category 4)
- Michel Dietsch. **"Prudential filters, portfolio composition at fair value and capital ratios in European banks"** with Isabel Argimón and Ángel Estrada, *Journal of Financial Stability* (CNRS classification: category 3). *ACPR Débats économiques et financiers No. 22.*
- Fraisse Henri. "Can the Provision of Long-Term Liquidity Help To Avoid a Credit Crunch? Evidence from the Eurosystem's LTROS" with P. Andrade, C. Cahn and J-S. Mesonnier, *Journal of the European Economic Association* (CNRS classification: category 1). *Banque de France Working Paper no. 540.*
- Fraisse Henri. "Household Debt Restructuring: The Re-Default Effects of a Debt Suspension", *Journal of Law, Economics and Organisation* (CNRS classification: category 1). *ACPR Débats économiques et financiers No. 29.*
- Fraisse Henri. **"Household Debt Restructuring: Evidence from the French Experience",** *Annales d'Economie et Statistiques* (CNRS classification: category 2). *Banque de France Working Paper No. 404.*

2. List of *Débats économiques et financiers*

- ***Débats économiques et financiers No. 26* (01/01/2017):**
  "Back-testing European stress tests" (January 2017), B. Camara, P. Pessarossi and T. Philippon
- ***Débats économiques et financiers No. 27* (10/05/2017):**
  "Banques traditionnelles et système bancaire parallèle en temps de crise" (Traditional and Shadow Banks during the Crisis), E. Chrétien and V. Lyonnet
- ***Débats économiques et financiers No. 28* (06/06/2017):**
  "Comment atteindre tous les ratios bâlois en même temps? (How to reach all Basel requirements at the same time?), Martin Birn, Michel Dietsch and Dominique Durant
- ***Débats économiques et financiers No. 29* (20/09/2017):**
  "Household Debt Restructuring: The Re-default Effects of Debt Suspensions", Henri Fraisse
- ***Débats économiques et financiers No. 30* (27/10/2017):**
  "Intergenerational Risk Sharing in Life Insurance: Evidence from France", Johan Hombert and Victor Lyonnet
- ***Débats économiques et financiers No. 31* (23/12/2017):**
  "Does 'Too High' Profitability Hamper Stability for European Banks?" Pierre Pessarossi, Jean-Luc Thevenon and Laurent Weill
- ***Débats économiques et financiers No. 32* (26/12/2017):**
  "Reevaluation of the capital charge in insurance after a large shock: empirical and theoretical views", Fabrice Borel-Mathurin, Stéphane Loisel and Johan Segers

3. List of *Analyses et Synthèses*

- ***Analyses et Synthèses No. 77* (01/03/2017):**
  "Stress tests EIOPA 2016 : situation domestique et analyses comparatives avec l'échantillon européen" (EIOPA 2016 stress tests: domestic situation and comparative analyses with the European sample)
- ***Analyses et Synthèses No. 78* (05/05/2017):**
  "Assurance vie en France et environnement de taux bas" (Life insurance in France and the low interest rate environment)
- ***Analyses et Synthèses No. 79* (10/05/2017):**
  "Situation à fin 2016 d'un échantillon de groupes d'assurance actifs en France" (Performance of a sample of active insurance groups in France at end 2016)
- ***Analyses et Synthèses No. 80* (30/05/2017):**
  "La situation des grands groupes bancaires français à fin 2016" (French banks' performance in 2016)
- ***Analyses et Synthèses No. 81* (30/05/2017):**
  "La situation des assureurs soumis à Solvabilité II en France au quatrième trimestre 2016" (Position of insurers subject to Solvency II in France in the fourth quarter of 2016)
- ***Analyses et Synthèses no. 82* (07/07/2017):**
  "Le financement de l'habitat en 2016" (Housing finance in France in 2016)
- ***Analyses et Synthèses No. 83* (10/07/2017):**
  "Le financement des professionnels de l'immobilier par les banques françaises en 2016" (French banks' lending to the professional real estate sector in 2016)
- ***Analyses et Synthèses No. 84* (16/07/2017):**
  "Revalorisation 2016 des contrats d'assurance-vie et de capitalisation – engagements à dominante épargne et retraite individuelle" (2016 revaluation of life insurance and guaranteed investment policies – focus on commitments relating to savings and individual retirement products)
- ***Analyses et Synthèses No. 84* (19/10/2017):**
  "Supplément : Revalorisation 2016 des contrats d'assurance-vie – engagements à dominante retraite"
  (Supplement: 2016 revaluation of life insurance policies – focus on commitments relating to retirement products)

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