IMF Country Report No. 25/239

FRANCE

FINANCIAL SECTOR ASSESSMENT PROGRAM

August 2025

TECHNICAL NOTE ON SUPERVISION OF FINANCIAL CONGLOMERATES AND LESS SIGNIFICANT FINANCIAL INSTITUTIONS

This paper on France was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on July 31, 2025.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

FRANCE

FINANCIAL SECTOR ASSESSMENT PROGRAM

July 31, 2025

TECHNICAL NOTE

SUPERVISION OF FINANCIAL CONGLOMERATES AND LESS SIGNIFICANT FINANCIAL INSTITUTIONS

Prepared By
Monetary and Capital Markets Department

This Technical Note was prepared by IMF staff in the context of the Financial Sector Assessment Program (FSAP) in France. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP can be found at http://www.imf.org/external/np/fsap/fssa.aspx

CONTENTS

FIGURES

TABLES

APPENDICES

Glossary

ACPR	French Prudential Supervision and Resolution Authority
AIFMD	Alternative Investment Fund Managers
AMF	French Financial Markets Authority
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
AUM	Assets Under Management
BCBS	Basel Committee for Banking Supervision
BCP	Basel Core Principle
BdF	Banque de France
BIS	Bank for International Settlements
BNPP	BNP Paribas
BPCE	Groupe Banque Populaire and Caisse d'Epargne
BRRD	Bank Recovery and Resolution Directive
CA	Competent Authority
CAG	Groupe Crédit Agricole
CAR	Capital Adequacy Ratio
CDC	Caisse des Dépôts et Consignations
CET1	Common Equity Tier 1
CMF	Monetary and Financial Code (Code monétaire et financier)
CMU	Confédération Nationale du Crédit Mutuel
CRR/CRDIV	Capital Requirements Regulation/Capital Requirements Directive IV
EA	Euro Area
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EIOPA	European Insurance and Occupational Pensions Authority
ELA	Emergency Liquidity Assistance
EP	European Parliament
ESAs	European Supervisory Authorities
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
FGDR	Fonds de Garantie des Dépôts et de Résolution
FICOD	Financial Conglomerates Directive
FMFC	Code Monétaire et Financier
FSB	Financial Stability Board
GFC	Global Financial Crisis
GSIB	Global Systemically Important Bank
G-SII	Global Systemically Important Insurer
HCSF	High Council of Financial Stability

IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principle
ICO	Initial Coin Offering
IOSCO	International Organization of Securities Commissions
JF	Joint Forum
JC	EU Joint Committee of European Supervisory Authorities
KA	Key Attributes
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LSI	Less Significant Institution
LTV	Loan-to-Value Ratio
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MMF	Money Market Fund
MoF	Ministry of Finance
NCA	National Competent Authority
NFC	Nonfinancial corporation
NPL	Nonperforming Loan
NSFR	Net Stable Funding Ratio
O-SII	Other Systemically Important Institution
ORSA	Own Risk and Solvency Assessment
PD	Probability of Default
SG	Société Générale
SI	Significant Institution
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SSM	Single Supervisory Mechanism
UCITS	Directives on Undertakings for Collective Investment in Transferable Securities

EXECUTIVE SUMMARY[1]

Most systemically important French banks also head conglomerates. Financial conglomerates soundness is therefore crucial for France's financial stability. By integrating banking, insurance, and other services, conglomerate structures enhance business opportunities, provides diversification benefits for these groups but may also introduce further complexity and increased financial risks and induce risks that are not necessarily fully captured under applicable sectoral regimes**.** These conglomerates are mostly regulated under European Union (EU) rules and Single Supervisory Mechanism (SSM) standards, whose rulebooks determine the extent the financial stability risks arising from financial conglomerates' operations can be managed and mitigated, in a timely and effective manner, in France. Robust capital adequacy, governance, and risk management regulations, along with effective supervision, are crucial to accurately assess risks and ensure that sufficient capital is maintained to cover potential losses. For supervision, strong legal powers to implement and enforce necessary measures are critical to mitigate potential impacts on France's financial stability and protect the interests of stakeholders. Due to the supplemental nature of financial conglomerate supervision and the structure of financial conglomerates in France, it is essential to emphasize that the developments discussed in this technical note regarding financial conglomerates should be considered as complementing the assessments of the banking regulatory and supervisory framework outlined in the assessment against the Basel Committee for Banking Supervision (BCBS) Core Principles for effective banking supervision conducted within the Euro Area FASP and the Detailed Assessment of Observance of the International Association of Insurance Supervisors (IAIS) Insurance Core Principles in France.

The EU approach on financial conglomerates with the concept of supplemental supervision is largely effective to address risks that remained potentially unaddressed under specific sectoral regimes. In this sense, it provides policy tools to ensure the financial soundness of financial conglomerates but presents increasing complexities that have been effectively addressed by French supervisors. As financial conglomerates operate across various sectors, the interconnections among these activities can give rise to unique risks that are not always adequately addressed by sectoral regulations or their 'sum' but need to be tackled by financial conglomerate supervision, for instance, the monitoring of capital adequacy or concentrations on cross-sectoral group wide basis. The complementary nature of financial conglomerate regulation in France to sectoral regulations does not contradict the integration of its individual components, but rather reinforces the concept of financial conglomerate regulation as a strong steering element. While this approach is largely effective, it also contributes to the overall complexity of the regulatory framework. As regulation becomes increasingly complicated, the supervisory response also evolves in complexity, while gradually improving supervisory practices across the board and expanding supervisory toolkits to flexibly address emerging issues. Overall, L'Autorité de contrôle prudentiel et de résolution (ACPR)

[1] This Technical Note was prepared by David Lukáš Rozumek, Monetary and Capital Markets Department in the context of the 2024 France Financial Sector Assessment Program.

has cultivated substantial capacity to address both regulatory and supervisory challenges while simultaneously making significant contributions to EU frameworks.

Supervision of Less Significant Institutions (LSI) is effective in France. Similarly for LSI supervision, the ACPR builds on a solid knowledge base and extensive experience of the team of supervisors. The supervisory approach is both sufficiently intrusive and proportionate and supervisory practices adequately cover financial stability risks.

Since the 2019 FSAP, supervisors and regulators further developed already good practice.[2] Financial conglomerate supervision has seen significant enhancements in both regulatory and supervisory frameworks. French authorities have played a pivotal role in driving initiatives to improve these frameworks, including at the EU level, effectively capturing the unique characteristics of French conglomerates throughout the various layers of regulation and oversight. The supervision of LSIs in France benefits from a proportionate application of a regulatory framework that accommodates the unique characteristics of these entities. This adaptability allows for tailored supervisory approaches that align with the specific risks faced by LSIs. Moreover, the robust collaboration among the ACPR, other supervisory authorities, and EU institutions upholds high standards across regulatory frameworks and supervisory approaches, thereby significantly contributing to overall financial stability.

Table 1 provides the main recommendations to enhance the supervision of banking and insurance activities conducted in France with a direct bearing on its financial stability. These recommendations are focused on the supervision of financial conglomerates (FC) and less-significant institutions (LSI). The review underscores the necessity to ensure that the funding of the ACPR provides adequate resourcing while respecting their financial autonomy, through conducting a bottom-up review of supervisory resources and needs, with a forward-looking focus on adequate capacity for managing an increasingly complex regulatory environment. It is recommended that the practice of periodic benchmarking of supervisors' salaries against relevant industry peers be implemented, with findings summarized and presented to the ACPR General Secretariat and Supervisory College for review. Moreover, for financial conglomerate supervision and while supplemental financial conglomerate supervision is largely effective to compensate the blind spots that may remain under sectoral regimes, improvements—already initiated—shall be pursued further especially for making cross sectoral cooperation more effective. Enhancing collaboration among sectoral supervisors is vital, which should include timely sharing of work programs and conducting/coordinating joint supervisory actions to promote a coherent approach. Similarly, cooperation with European authorities is essential to develop a standardized methodology for identifying relevant competent authorities, enabling the Autorité des marchés financiers (AMF) to be appointed as a relevant authority, particularly for its roles in overseeing the increasingly significant asset management sector. To effectively address the unique cross-sector risks faced by financial conglomerates, it is imperative to elaborate a comprehensive regulatory framework with clearer integration of sectoral requirements for capital, governance, and risk management, coupled with

[2] See Appendix I for further details on the progress on the 2019 FSAP recommendations.

robust supervisory coordination to ensure that all risks are adequately managed and mitigated, with capital available at the conglomerate level. The development of automated tools for monitoring risk profile indicators will further support related supervisory analyses. While such recommendations, as further detailed hereafter, are made to the ACPR with respect to French Financial Conglomerates, it is acknowledged that the ACPR's means of action are limited where the SSM/ECB is a designated coordinator for supplemental supervision. Lastly, ensuring that the diverse business models of less significant institutions are adequately reflected in supervisory assessments will require a flexible yet robust governance framework for the supervisory process while also prioritizing targeted onsite examinations for less significant institutions will enhance oversight efficiency.

Table 1. France: Main Recommendations[1]

#	Recommendation	Addressee	Priority	Time-frame
	Organization of Supervision			
1.	To avoid any perception of a potential conflict of interest and facilitate operationally independent functioning, the government should recuse itself from all supervisory decision-making committees at the ACPR (¶ 20)	ACPR, AMF, MoEF,	H	MT
2.	Ensure that the funding of the ACPR provides adequate resourcing while respecting its financial autonomy based on a thorough review of the sufficiency of resources to meet future needs. (¶ 22)	ACPR, AMF, MoEF	H	ST
3.	Implement the practice of a periodic benchmarking of supervisors' salary levels against relevant peers in the financial industry; a summary report shall be discussed by the (APCR) General Secretariat and submitted to the Supervisory College for information. (¶ 24)	ACPR	M	ST
	Financial Conglomerates: Coordination of Supervision and Cooperation			
4.	Promote with relevant European authorities the development of a standardized methodology to identify FICOD relevant competent authorities, in particular for supervising asset management companies, to guide the decision on the AMF's appointment a relevant competent authority. (¶ 41)	ACPR, AMF	M	ST
5.	Promote and contribute to further enhancements in opportunities for collaboration between relevant sectoral supervisors, including the SSM, by (i) sharing work program proposals in a timely manner to facilitate coordination; (ii) conducting joint thematic deep dives; (iii) performing other collaborative supervisory actions to promote a consistent and comprehensive approach to supervision; (iv) contributing to the development of tools to enable the secure sharing of confidential data among financial conglomerate college members, thereby enhancing preconditions for their collaborative activities. (¶ 46)	ACPR	H	ST

Table 1. France: Main Recommendations (concluded)				
#	**Recommendation**	**Addressee**	**Priority**	**Time-frame**
	Financial Conglomerates: Supervisory Powers			
6.	Work with relevant European authorities to develop a strengthened framework for effective execution of supervisory powers according to Article 16 of the FICOD, including in relation to Articles 6 and 9 of the FICOD, to address conglomerate-wide risks and availability of capital at the conglomerate level while also incorporating a mechanism for coordinating supervisory actions, and work towards its implementation. (¶ 62)	ACPR	H	MT
	Financial Conglomerates: RC and IGT Monitoring			
7.	Contribute to the development of automated tools for processing RC and IGT data to enhance supervisory analysis and ensure consistency, facilitating the integration with the outcomes of capital adequacy calculations to deliver a comprehensive and granular perspective on the risk profiles of financial conglomerates. (¶ 71)	ACPR	M	MT
	Less Significant Institutions: Supervisory Practice			
8.	Further prioritize targeted onsite examinations to enhance onsite supervision coverage and allocate limited resources more efficiently. (¶ 80)	ACPR	M	I
9.	Ensure a consistent reflection of LSIs' diverse business models in supervisory assessments through sufficient flexibility surrounded by a robust governance of the supervisory process. (¶ 82)	ACPR	M	MT

[1] In terms of priorities, H, M, and L stand for high, medium and low. In terms of timeframe, I, ST, and MT stand for immediate (within one year), short-term (within 1–3 years), and medium-term (within 3–5 years).

INTRODUCTION

1. This technical note provides a review of supervision of financial conglomerates and less significant institutions building on various input and using international standards as benchmarks. For banking supervision, the Basel Committee on Banking Supervision recently published the Revised Core Principles for Effective Banking Supervision[3], while for financial conglomerate supervision, the Joint Forum issued the final report on Principles for the Supervision of Financial Conglomerates in 2012[4]. While these international standards were used as a basis for this review, the mission did not conduct a detailed assessment of these standards. The review is part of the France 2025 Financial Sector Assessment Program (FSAP) and is based on the regulatory framework in place and the supervisory practices employed as of November 2024. This note is based on a review of regulations, market analyses, and meetings with the French and European Union authorities, in particular L'Autorité de contrôle prudentiel et de résolution (ACPR) and European Central Bank (ECB). The FSAP team also met with representatives from the European Banking Authority (EBA) and the ESAs' Joint Committee (JC),[5] as well as the senior management of large financial conglomerates, less significant institutions, and external auditors. The work benefited greatly from their readiness to openly discuss critical issues and share information.

2. Financial conglomerates dominate the financial landscape in France and are a critical element of the financial system. By combining banking, insurance, and other financial services, conglomerates enhance their business opportunities while also creating complex structures that can pose specific risks not necessarily fully addressed under sectoral regulation and complicate regulatory oversight. Headquartered in France, these financial conglomerates operate and are regulated internationally, subject to the EU rulebook and SSM standards. While the French implementation of the Financial Conglomerates Directive (FICOD) is relevant, delegated EU regulatory acts which are directly applicable together with the EU level application guidance, increasingly define the regulatory landscape. Most systemically important French banks (which are supervised by the SSM) also head conglomerates for which the SSM is therefore the coordinating (lead) supervisor. Hence, EU regulation and supervision play a pivotal role in identifying and addressing the risks associated with financial conglomerates in France.

3. The rest of the note is divided into four sections: The first section, 'Market Landscape', provides an overview of the financial environment in France, emphasizing the current conditions and trends impacting financial institutions, notably financial conglomerates/banking groups and less significant institutions. The second section, 'Institutional Setting', details the regulatory and

---

[3] Core Principles for effective banking supervision.
[4] Principles for the supervision of financial conglomerates.
[5] The EU Joint Committee of European Supervisory Authorities (ESAs) is a collaborative body established to enhance the coherence and effectiveness of financial regulation and supervision across the European Union. It comprises the three main ESAs: the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA), and the European Insurance and Occupational Pensions Authority (EIOPA). The Joint Committee facilitates cooperation among these authorities to address cross-sectoral issues, promote consistent regulatory practices, and ensure a unified approach to financial stability and consumer protection within the EU. It also plays a key role in the development of common standards and guidelines, fostering effective oversight of the financial system as a whole.

supervisory frameworks governing financial conglomerates and less significant institutions. Following this, the third section, 'Financial Conglomerate Supervision', reviews the specific regulations and supervisory practices which are applied to financial conglomerates, including capital, risk management and governance requirements. Finally, the fourth section, 'Supervision of Less Significant Institutions', examines the supervisory approach for LSIs, highlighting their unique characteristics and the need for flexible supervisory framework that accommodates their diverse business models.

4. **The mission maintained close coordination and consistency with the Euro Area FSAP.** The mission took place at the same period as the Euro Area FSAP was conducting a detailed assessment of the Basel Core Principle (BCP). Therefore, this FSAP does not assess the effectiveness of supervision of significant institutions (SI) conducted by the SSM. Regarding the ECB supervision of SIs, including consolidated supervision and cooperation arrangements, this note draws on the Euro Area BCP work. The BCP standard does not cover conglomerate supplementary supervision, which is discussed in this note to the extent it is relevant for the French financial system.

MARKET LANDSCAPE

A. Banking Sector

5. **The banking sector in France is relatively large compared to GDP, and it is highly concentrated, with stable market positions among the largest banks.** In terms of total assets, the banking sector amounts to approximately €9.1 trillion, which is roughly 3.23 times the GDP as of December 2023. The gradual improvement in the financial balance sheets of major French banking groups at the end of 2023 can be attributed to the robust financing of households and businesses, a notable increase in deposits, and a shift toward market refinancing as a replacement for Targeted Longer-Term Refinancing Operations (TLTRO). The market share of systemically important institutions (SI) is around 90 percent, and the market share of the top four banks is approximately 74 percent. The SI landscape has remained stable over the years, with no significant changes in the categorization of banks**.**

Table 2. France: Banks Key Financial Indicators

(In percent)

		2019	2020	2021	2022	2023
Return on equity	SI	7.90	4.24	7.16	5.99	6.01
	LSI	5.40	2.70	4.50	5.00	5.80
Return on assets	SI	0.40	0.20	0.38	0.42	0.39
	LSI	0.60	0.25	0.35	0.40	0.63
Net interest margin	SI	1.18	1.15	1.09	1.12	1.34
	LSI	1.05	1.00	0.96	1.05	1.08
Cost-to-income ratio	SI	52.00	48.00	50.00	48.30	49.12
	LSI	53.00	60.00	50.00	52.00	52.41
CET1 to RWA	SI	15.80	16.00	15.60	15.80	16.18
	LSI	21.50	20.00	19.00	20.50	23.35
Leverage ratio	SI	5.40	5.20	5.80	5.60	5.80
	LSI	9.50	9.00	10.00	9.80	9.18
NPL ratio	SI	1.45	1.80	1.75	1.70	2.39
	LSI	1.50	1.90	1.95	1.80	1.80
RWA density	SI	31.50	30.00	29.00	30.50	33.23
	LSI	45.00	39.00	38.00	40.00	40.16
Loan to deposit ratio	SI	106.00	104.00	103.00	105.00	108.04
	LSI	96.00	94.00	93.00	95.00	95.04

Source: ACPR.

6. Although the number of less-significant institutions (LSI) has remained largely stable, the sector has also remained very diverse in business and operational models. The LSI population in France includes 101 banks, with some new entrants emerging in recent years. The sector has seen a few mergers and acquisitions, as well as both voluntary and involuntary exits from the market. In relative terms, the French LSI sector is moderate compared to other European countries, with a market share of around 10 percent in terms of total assets.

7. The current ratio of nonperforming loans (NPL) is low. The NPL ratio in France is approximately 2.39 percent for SIs (1.8 percent for LSIs, respectively), reflecting a relatively benign economic environment, with a majority of assets categorized as Stage 1.

8. The majority of bank balance sheets in France are funded through customer deposits. Deposits of households and businesses comprise approximately 55 percent of the total balance sheet of French banks. A vital part of the French deposits is constituted by regulated (Livret A) savings, representing approximately 25 percent of household deposits, which reached €780 billion in early 2023, reflecting a year-on-year increase of approximately 6.4 percent.[6] Livret A deposits are guaranteed by the state, and a significant portion of all other deposits are covered by the deposit guarantee scheme, which ensures up to €100,000 of coverage for depositors in case of a bank's failure.

9. The profitability of French banks is based on diversified income from loans and fees/commissions driven businesses. For SIs, the average return on equity (RoE) shows significant resilience, fluctuating around 8.00 percent in 2018, peaking at 8.35 percent in 2021, before declining to 6.01 percent in 2023, while fees and commissions have been accounting for approximately 30 percent of total income, on average. Faced with largely fixed-rate assets but floating-rate liabilities during the recent period of rising interest rates, the contraction in net interest margins weighed on revenues, falling after historically high levels in 2022. That drop in net interest income is the main explanatory factor for the low levels of profitability indicators, given controlled operating costs and a low cost of risk. In the case of less-significant institutions (LSIs), the average RoE has exhibited positive trends, rising from 4.63 percent in 2018 to 5.80 percent in 2023, showcasing a steady improvement in profitability.

10. Capitalization of the French banking sector remains solid, and banks have shown resilience. Overall, the diversified universal business model of French banking groups—characterized by varied earnings streams and a robust domestic retail base—has enabled them to maintain resilience in the face of various shocks. As a result, their capital and liquidity positions have consistently remained above the minimum regulatory requirements. As of 2023, the Common Equity Tier 1 (CET1) ratio for systemically important banks (SI) is 16.18 percent, while for less-significant institutions (LSI), it stands at 23.35 percent.

11. French banks have ample liquidity and hold sufficient liquidity buffers. All French banks maintain liquidity coverage ratios (LCR) and net stable funding ratios (NSFR) exceeding 100 percent.

[6] Appendix V further elaborates on regulated savings.

As of March 2023, the average weighted LCR ratio for SIs is reported at 157 percent, indicating a strong liquidity position that ensures they can meet short-term obligations under stressed conditions, while the NSFR has similarly shown strong performance, with an average weighted ratio of 134 percent.

B. Financial Conglomerates

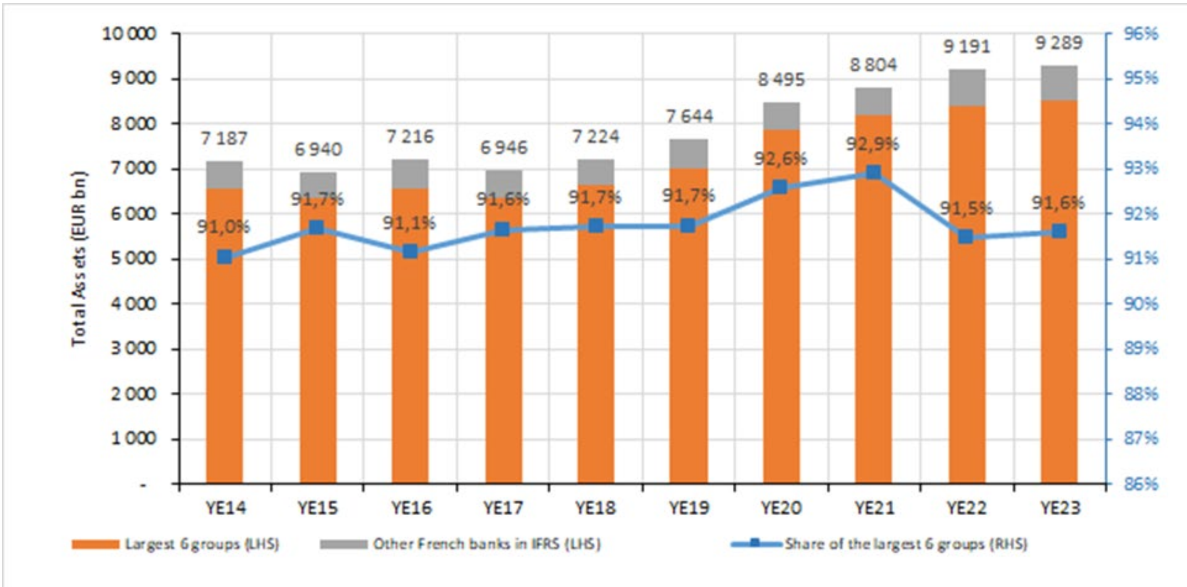
12. The French financial sector has witnessed the development of the bancassurance model over the past few decades, characterized by integrated institutions that cross-sell products and utilize shared distribution channels. The participation of financial conglomerates (FCs) within the financial system—primarily comprising major French banking groups—has remained stable over the last ten years, accounting for approximately 91 percent to 92 percent of banking assets. All FCs operating in France are led by a regulated entity, except for one, which is managed by a Mixed Financial Holding Company. Currently, there are 13 FCs operating in France. The ACPR acts as the coordinator for three of these: MNH, Milleis Banque, and AXA, while serving as the relevant competent authority for the other ten. Additionally, the coordinator for two FCs operating in France is located abroad (Allianz Europe BV and Generali).

Table 3. France: Financial Conglomerates

	1st Largest group	**2nd Largest group**	**3rd Largest group**	**4th Largest group**	**5th Largest group**	**6th Largest group**
Name of Group	Groupe BNPP	Groupe Société Générale	Groupe Crédit Agricole	Groupe BPCE	Groupe Credit Mutuel	Groupe La Banque Postale
Major controller	Listed company	Listed company	Mutualistic group	Mutualistic group	Mutualistic group	CDC
Home supervisor	ECB/ACPR	ECB/ACPR	ECB/ACPR	ECB/ACPR	ECB/ACPR	ECB/ACPR
Leading firm or bank	BNPP	Société Générale	Crédit Agricole	BPCE	Credit Mutuel	La Banque Postale
B/S share of banking business[1]	91%	90%	85%	83%	89%	44%
B/S share of insurance business	9%	10%	15%	7%	11%	56%

[1] Threshold number 2 of FiCoD (average of BS and capital requirement)

Figure 1. France: Share of 6 Largest Banking Groups on Total Banking Sector Assets



Source: APCR

INSTITUTIONAL SETTING

A. Overall Architecture

13. Since France is a member of the Single Supervisory Mechanism (SSM), significant banks and their associated banking groups are supervised by the SSM. The SSM is mandated with the supervisory responsibilities for significant institutions (SIs). Meanwhile, less significant institutions (LSIs) continue to be directly supervised by national authorities while the ECB monitors these activities. However, in practical terms, LSI supervision also benefits from the membership in the SSM, which offers shared supervisory approaches and tools. As of September 1, 2024, the ECB is responsible for the direct supervision of 113 SIs, which includes 12 French SIs, while the ACPR supervises 101 LSIs.

14. The ACPR is the primary supervisory authority for insurance companies. The ACPR is also tasked with the prudential supervision of financial service providers (excluding repayable public funds), such as investment firms.

15. The SSM is the lead supervisory authority for financial conglomerates that are headed by SIs. In the supervision of financial conglomerates coordinated by the ECB, the French specificities, such as the FICOD national transposition and other national rules, influence the supervisory approach, which may differ from the approach applied to financial conglomerates in other EU member states. These specificities include quantitative disclosure thresholds and limits on concentration and intragroup operations. There are 13 financial conglomerates operating in France, while the ACPR serves as the coordinating supervisory authority for 3 of them.

16. The architecture of regulatory and supervisory frameworks, as well as the distribution of responsibilities among supervisory authorities, necessitates that the assessment of financial conglomerates in France be based on frameworks specific to the country. Hence, the ACPR is also a relevant competent authority in any discussion of the effective oversight of a financial conglomerate, while discussions with the ECB contribute to an overall context.

B. Operational Independence and Resources

17. The ACPR's mission, anchored in the French Monetary and Financial Code (CMF), emphasizes key objectives aimed at ensuring the stability and integrity of the financial system. Central to this mission is prudential supervision, where the ACPR oversees financial institutions to ensure they maintain adequate capital, effective risk management practices, and sound liquidity. This supervisory function is crucial in preventing systemic risks that could jeopardize the financial system. Additionally, the ACPR is dedicated to maintaining overall financial stability by identifying and addressing potential risks arising from interconnectedness among institutions and market dynamics. In doing so, the ACPR fosters a resilient financial environment, protects consumers, and promotes transparency within the financial sector, ultimately contributing to sustainable economic growth and stability.

18. The governance structure of the ACPR ensures effective oversight and an adequate balance between responsibilities and accountability. The participation of the Ministry of Economics and Finance (MoEF) in the decision-making bodies of the ACPR is a specific feature of the governance of supervisory authorities in France, which has not been shown to compromise the independence of the ACPR so far. The ACPR operates independently, with a decision-making process in its Supervisory Board characterized by collegiality. The Board is tasked with determining whether to initiate enforcement or sanctioning proceedings. Some decisions to initiate enforcement proceedings can be delegated to the Secretary General or the President such as issuing formal notices, which is delegated to the President. In cases of non-compliance, the Board may take supervisory actions to enhance a firm's financial position or management practices. Additionally, the Sanctions Committee, which is separate from the Supervisory Board, handles disciplinary proceedings after reviewing cases referred by the Board. Decisions made by the Supervisory Board can be contested before the French Administrative Court, allowing for appeals by either sanctioned parties or the ACPR Chairperson.

19. Supervisory boards should operate free from the risk of political interference due to the presence of Government representatives,[7] and political representatives should recuse

---

[7] The Basel Core Principles on Effective Supervision, Principle 2, requires "sound Governance" that does not "undermine autonomy" which is further specified in Essential Criterion 1: "There is no government or industry

(continued)

themselves from supervisory meetings. The Director-General (DG) of the Treasury and the Director of Social Security (from the Ministry of Labor, Health, Solidarity and Families) are permitted to attend meetings of the ACPR's Supervisory College, including the Insurance College, and Restricted College. Although they do not have voting rights, they can request a second deliberation (which has not happened in practice). The DG also attends the Board of the AMF in a non-voting capacity. Improvements have been made in this regard since the previous FSAP, in particular Government representatives de facto no longer attend the ACPR Sanctions Committee, which authorities explained is expected to be legally codified in coming years. In addition, no political interference in supervisory boards was identified, and conflicts of interest seem to be effectively managed. However, current arrangements would not be found in compliance with the requirement of boards operating free from the risk of political interference. Alternative structures would better support the relationship and exchange of information between the government and the financial supervisors to support discussion on legislative or regulatory initiatives.

20. Recommendation #1: To avoid any perception of a potential conflict of interest and facilitate operationally independent functioning, the government should recuse itself from all supervisory decision-making committees at the ACPR.

21. The ACPR's funding structure and financial management are critical to its operational effectiveness and regulatory responsibilities, yet it faces persistent challenges that threaten its long-term sustainability. The ACPR operates with budgetary autonomy, constrained only by the allocations provided by the Banque de France (BdF), as outlined in Article L.612-18 of the FMFC. Its funding primarily comes from levies imposed on supervised entities, with insurance companies contributing a levy set as a percentage of their premium income, which is fixed at 0.23 percent for 2023 by the MoEF within a legislative range of 0.15 to 0.25 percent, according to Article L.612-20 of the FMFC. These levies are remitted to the BdF and subsequently allocated to the ACPR, subject to an annual cap established by Parliament, with any excess directed to the State budget. The ACPR's financial dynamics have revealed that total levies have surpassed the parliamentary cap, leading to substantial transfers to the State budget, amounting to EUR 31 million from a total of EUR 231 million in 2023. Additionally, the ACPR's expenditures exceeded total income after the cap by EUR 22 million in the same year, necessitating the depletion of most of the reserve held at the BdF. Although the cap was increased by Parliament for 2024 and spending constraints are in place, the ACPR anticipates ongoing deficits and the complete exhaustion of the BdF reserve by 2026. Previously, the ACPR was also subject to a cap on its total headcount, which was eliminated by Parliament in the 2024 Budget Act, although headcount remains under the oversight of the BdF.

22. Recommendation #2: Ensure that the funding of the ACPR provides adequate resourcing while respecting its financial autonomy based on a thorough review of the sufficiency of resources to meet future needs.

---

interference that compromises the operational independence of the supervisor. The supervisor has full discretion to set prudential policy and take any supervisory actions or decisions on banks under its supervision."

23. As the ACPR competes in the labor market for a similar range of experts as financial institutions, the competitiveness of the authority's salaries should be measured against comparable positions in the financial industry. The ACPR sets salary levels based on the salary grades of the BdF. Although the ACPR has limited autonomy in determining these salary levels, it remains essential for the authority to assess its competitiveness relative to the industry and to communicate this information to the BdF. This feedback can serve as valuable input for the BdF's salary policies. It is crucial that the overall compensation package continues to retain and attract experts with specialized skill sets. Since financial institutions are significant competitors for talent in the labor market, not all positions within these institutions provide appropriate benchmarks. Therefore, only those roles requiring the same level of expertise as supervision should be considered for regular comparisons.

24. Recommendation #3: Implement the practice of a periodic benchmarking of supervisors' salary levels against relevant peers in the financial industry; a summary report shall be discussed by the General Secretariat and submitted to the Supervisory College for information.

FINANCIAL CONGLOMERATE SUPERVISION

25. The EU rulebook largely determines the extent the financial stability risks arising from financial conglomerates can be managed and mitigated, in a timely and effective manner, in France. The EU capital adequacy regulation for banks regulates the capital ratios at the consolidated level of a banking group. The financial conglomerate regulation seeks to address the outcomes by a supplemental requirement, which further reflects the group level risk and capital levels, is largely effective. Specifically, conglomerate regulation aims to ensure that risks are accurately measured across a conglomerate and that sufficient capital is available at the appropriate entity level to cover these risks. To achieve this, the definitions within the regulation must be robust and clear, and the approaches well-calibrated, which the current framework largely achieves. However, given the complexity of the underlying sectoral regulations and the heterogeneity of conglomerates, the regulatory framework faces a substantial challenge of establishing precise and sufficiently comprehensive definitions. The regulatory toolbox cannot rely on a single tool, it rather needs to consist of a set of interrelated regulatory tools that complement and reinforce one another (for instance, the monitoring of risk concentrations in addition to the capital ratio), which reflects the direction of the current approach. It is recognized that the overwhelming majority of these rules and approaches are set at the EU and SSM level with a critical impact on France.

26. Under the EU rules, the insurance activities are not consolidated in the banking regulatory perimeter, as subject to their own rules and supervision specifically designed to address insurance sector risks.[8] While this approach avoids supervisory overlaps, it is of critical

[8] A specific example from France illustrates that the capital adequacy ratio under banking regulation may not be a comprehensive reference for measuring financial conglomerate solvency situation: LBP-creditupdate-moodys-2023 (La Banque Postale): "However, we consider that LBP's solvency is overstated in its consolidated CET1 ratio of 18.3percent. This ratio benefits from the Danish compromise, which allows financial conglomerates to include their equity stakes in insurance subsidiaries in their risk-weighted assets (with a risk-weight of 100percent in the case of

(continued)

importance to have comprehensive and effective supplementary conglomerate frameworks which—among others—eliminates the intra group creation of own funds. Specifically, it is essential to have a robust framework in place to address capital adequacy at the conglomerate level, with the support of accurate information on risk concentrations and availability of capital across the conglomerate. However, it is equally important that supervisors are equipped with a range of powers to implement additional measures in the areas of risk management and governance, addressing financial risks in a forward-looking manner. Due to the systemic nature of these challenges, supervisors must possess a legally strong position to enforce these measures. For France conglomerates, it is essential that these powers can integrate both French specific and EU level requirements and apply them across EU member states where these conglomerates are active.

A. Regulatory Landscape

27. The Joint Forum (JF)[9]**, composed of supervisors from the banking, securities and insurance sectors, issued "Principles for the supervision of financial conglomerates" in 2012.** This work updated previous iterations of the principles and was informed by experiences in the global financial crisis. The 2012 Principles provided guidance relating to powers, resources and authority to perform effective group wide supervision of FCs as well as guidance on corporate governance, capital adequacy and liquidity and risk management. As with the Basel Principles for Effective Banking Supervision issued by the Basel Committee on banking supervision (BCBS), the JF acts as the international benchmark to consider supervision of complex FC groups.

B. European Union—The "Supplementary" Principle

28. The central concept of the FICOD is that of supplementary supervision. While the FICOD is complementary to sectoral regulations, its intent was primarily to add a layer of oversight rather than to change the regulations and practices at the sectoral level—which should not contradict the idea of integrating its individual pieces. In this sense, the FICOD provides major integrating elements, to foster sectoral approaches, addressing five areas: Own Funds Adequacy, Intragroup Transactions, Risk Concentration, Internal Control Mechanisms and Risk Management Processes and Stress-Tests. The FICOD was last amended in 2023 (Directive 2023/2864/EU).

29. While the core requirements of the FICOD anticipate national transposition by the EU member states, directly applicable delegated regulations (DR) further limit their room to

LBP) instead of deducting them from their regulatory capital. Hence a large portion of the capital allocated to its insurance subsidiaries (mainly CNP) is also allocated to cover the bank's own risks, implying double-counting of capital which boosts LBP's regulatory solvency ratio. The benefit of the Danish compromise is particularly high at LBP because of the materially higher weight of insurance relative to its banking operations than at French peer bancassurers. Owing to the fact that LBP calculates its risk-weighted assets (RWAs) under the standardized approach, its stakes in insurance subsidiaries are 100percent risk-weighted as per current rules (Danish compromise), whereas its peers that are subject to the advanced internal risk-based approach (A-IRB) must apply a higher risk weight of up to 370percent."

[9] The Joint Forum was established in 1996 under the aegis of the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) to deal with common issues including the regulation of financial conglomerates.

maneuver. A consistent application of the FICOD is supported by one DR on the capital required at the level of the financial conglomerate (No 342/2014) and one DR on risk concentration and intra group transactions (2015/2303). Furthermore, based on the advice by the EU Joint Committee,[10] the European Commission issued implementing technical standards on supervisory reporting of risk concentrations and intra-group transactions (2022/2454) while technical standards on uniform capital reporting are expected to be introduced soon.

30. The practical implementation of the FICOD has been steered by guidance issued by the European Supervisory Authorities (ESA). The primary objective is to achieve convergence of supervisory practices relating to the consistency of supervisory coordination arrangements for FCs. The guidance addresses: mapping procedure,[11] cooperation structure[12] and coordination including information exchange, supervisory planning and coordination of activities in both going concern and emergency situations, supervisory assessment of FCs and decision-making processes.

Box 1. Main Precepts of FICOD

The FICOD addresses certain group risks through imposing a series of requirements on the groups identified as financial conglomerates:

- **Capital**—To avoid double gearing a FC must have adequate capital at the level of the conglomerate. The supervisors must check on the capital adequacy and the calculation methods are set out in the directive –building on sectoral own funds requirements and avoiding double gearing.
- **Governance and risk management**—FCs must have sound risk management and internal control mechanisms in place to ensure that risk monitoring systems are well integrated into their organization. Sound reporting, and accounting procedures must be in place. Further, the FC must submit information on their legal structure and governance to the competent authority.
- **Intra-group transactions and risk concentrations**—FCs must report significant intra-group transactions and risk concentrations on a six-monthly basis. Supervisory authorities may set quantitative limits on intra-group transactions and risk concentrations but are not obliged to.
- **Supervision**—Supervisory coordination and cooperation is set out in the FICOD. There are criteria for identifying the "coordinator" which is the competent authority with the responsibility for exercising the supplementary supervision as well as the tasks that the coordinator must perform.

31. In 2016, the European Commission decided to compile the experiences related to the application of the FICOD through a survey conducted among relevant stakeholders. The 2017

[10] The EU Joint Committee of European Supervisory Authorities (ESAs) is a collaborative body established to enhance the coherence and effectiveness of financial regulation and supervision across the European Union. It comprises the three main ESAs: the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA), and the European Insurance and Occupational Pensions Authority (EIOPA). The Joint Committee facilitates cooperation among these authorities to address cross-sectoral issues, promote consistent regulatory practices, and ensure a unified approach to financial stability and consumer protection within the EU. It also plays a key role in the development of common standards and guidelines, fostering effective oversight of the financial system as a whole.

[11] Refers to the systematic categorization and classification of financial entities and their activities to ensure proper regulatory oversight and compliance.

[12] Refers to the mechanism established for collaboration among regulatory authorities involved in the oversight of financial conglomerates.

European Commission Staff Working Document[13] which summarizes the relevance, effectiveness, efficiency, coherence and EU added value of the FICOD found several weaknesses and deficiencies in the legislation, when comparing it to more recently developed standards. Issues identified by the EC which are still relevant include:

- Challenges in maintaining coherence across sectoral legislation, including given its changes;
- Lack of detailed articulation for calculation of capital;
- Enforcement powers–missing at conglomerate level;
- Recovery and resolution–missing both at conglomerate level and for the insurance sector.

32. While recognizing a large effectiveness of the supplementary framework for ensuring the soundness of a financial conglomerate, long expected comprehensive review could modernize the overall format of the law, introduce some conceptual changes, and prevent interpretation challenges. Ongoing discussions by regulators and supervisors mark application difficulties associated with the FICOD. The mentioned Commission's survey informed about these challenges quite comprehensively. A significant progress has been made at supervisory and regulatory level, especially for harmonizing supervisory practices and interpretations but no follow-up actions were taken at legislative level to date. More recently, the necessity for this review has been underscored by the revision of the Solvency II provisions, which propose an assessment of the need to review the FICOD by December 2027 concerning specific items.[14] Even though, certain components of the FICOD require transposition to national laws, EU member states have limited options to address fundamental flaws at the national level. Additionally, any such attempt could lead to further fragmentation of the EU framework, potentially undermining stability objectives at the EU level and subsequently also for France. Taking into account the aforementioned 'review clause,' France is not expected to anticipate further developments at the EU level.

C. Legal Definition of Financial Conglomerates

33. Overall, the EU regulatory framework for FC, i.e., the FICOD is well-suited to address the bancassurance model.[15] The prevalent model of FCs in France, which are headed by a regulated entity, has potential advantages with respect to supervisory intervention: FCs, whether headed by a credit institution or insurance company have a clear "point of supervisory intervention" and, from a stability perspective, this is a highly positive feature of the French system.

[13] https://ec.europa.eu/info/sites/info/files/ficod_swd_2017_272_en.pdf.

[14] By 31 December 2027, the Commission shall report on the functioning of Directive 2009/138/EC and Directive 2009/138/EC, focusing on the prudential treatment of cross-sectoral participation ownerships concerning a level playing field. The report will assess: (i) whether financial services undertakings under sectoral rules, but not listed in Directive 2009/138/EC, create an uneven playing field among financial conglomerates; (ii) if all financial conglomerates implement capital adequacy rules, including those in Commission Delegated Regulation (EU) No 342/2014, consistently and comparably, regardless of their main financial sector; (iii) whether the clarity and harmonization of supervisory processes and mandates between coordinators and sectoral supervisors ensure effective enforcement of capital adequacy requirements across the Union; and (iv) whether the lack of a clearly identified responsible undertaking for compliance poses level-playing field issues."

[15] Commission Staff Working Document: on Directive 2002/87/EU on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate (FICOD).

34. The identification of a financial conglomerate involves two key regulatory processes. Given that changes in group structure may affect the classification of a group as financial conglomerate, supervision has implemented both ad hoc and regular reviews. At inception, the authorization process for acquiring a qualified holding in a credit institution or insurance undertaking requires reviewing shareholders to determine if the parent company qualifies as a Financial Holding Company, Insurance Holding Company, or Mixed Financial Holding Company. Ongoing reassessments occur annually for groups with both banking and insurance activities to ensure they meet the definition of a financial conglomerate, assessing the significance of each activity according to the criteria and waivers. [16]

Box 2. Identification of Financial Conglomerate

A group is classified as a financial conglomerate:

- If **at least one regulated entity** is the head of the group or if one entity in the group is regulated; If a regulated entity is the head, it must be the parent company of a financial sector entity or linked to one; if not, the group's activities must primarily occur in the financial sector;
- At least one entity in the group or subgroup must belong to **the insurance** sector, while another must be in the **banking** or **investment services** sector;
- The consolidated or aggregated activities within both sectors must be significant, meeting the quantitative **thresholds**:
  - **Financial sector threshold (> 40%);** applicable if the head is not a regulated entity
  - *For the purposes of determining whether the activities of a group mainly occur in the financial sector, within the meaning of Article 2(14)(b)(i) the FICOD, the ratio of the balance sheet total of the regulated and non-regulated financial sector entities in the group to the balance sheet total of the group as a whole should exceed 40 %.*
  - **Relative threshold (>10%)**

Banking / investment services sector

$$AVG = \left[\frac{\text{Balance sheet (B)}}{\text{Balance sheet (B)} + \text{Balance sheet (I)}} + \frac{\text{Capital requirements (B)}}{\text{Capital requirements (B)} + \text{Capital requirements (I)}} \right] > 10\%$$

Insurance sector

$$AVG = \left[\frac{\text{Balance sheet (I)}}{\text{Balance sheet (B)} + \text{Balance sheet (I)}} + \frac{\text{Capital requirements (I)}}{\text{Capital requirements (B)} + \text{Capital requirements (I)}} \right] > 10\%$$

[16] in articles 1 to 3 of the Arrêté du 3 novembre 2014, which transposes the FICOD. Articles 1 and 2 of the 'arrêté du 3 novembre 2014' establish the quantitative elements for determining thresholds related to financial conglomerates (FCs).

Box 2. Identification of Financial Conglomerate (concluded)

- *Asset management companies shall be added to the sector to which they belong within the group*
  - **Absolute threshold for the smallest sector > 6 billion EUR.**

Furthermore, regulatory provisions offer flexibility to either include or exclude specific groups or their parts from regulation. Overall, supervisors have a sufficient discretion to recognize a group as a financial conglomerate (FC) even if not all thresholds are met, or conversely, to refrain from recognizing a group as an FC due to its limited supervisory relevance. Additionally, the supervisor can identify subgroups within the larger financial structure.

35. In practice, supervisors in France have sufficient tools and powers to identify financial conglomerates and their structures. It includes the identification of offshore operations performed by the French FCs which must also be disclosed. The size of offshore activities differs across FCs; however, offshore entities are typically subsidiaries of a banking group and, hence, fully consolidated.

D. Coordination of Supervision and Cooperation

36. While a specific supervisory authority is designated by law to make decisions on supervisory matters at the individual or consolidated level, supervision of financial conglomerates in the EU is based on the principle of cooperating supervisors. To facilitate this cooperation, a single coordinator[17] is appointed to ensure that adequate supplementary supervision of the regulated entities within a financial conglomerate is effectively conducted. Cooperating 'relevant competent authorities' are assigned specific roles by legislation. While some financial institutions constituting a financial conglomerate are under direct supervision of the SSM, others fall under the oversight of national supervisory authorities, typically including insurance and securities regulators.

37. The FICOD requires the designation of a coordinating authority for each FC.[18] The coordinator has a range of tasks including gathering and disseminating information between relevant competent authorities, overseeing and assessing the financial situation of the FC, assessing compliance with rules on capital adequacy, risk concentration and intra-group transactions, and planning and coordinating supervisory activities together with the other authorities. For financial conglomerates supervised by the SSM, the ECB also considers the FC dimension of a group in its continuous Supervisory Review and Evaluation Process (SREP).

[17] For major French financial conglomerates, it is the ECB/SSM. It is because the task of a coordinator is transferred to the ECB/SSM for the financial conglomerates headed by a systematically important institution (SI), a bank, supervised by the ECB/SSM. A full list of financial conglomerates and their supervisors can be found at https://www.esma.europa.eu/sites/default/files/2023-12/JC_2023_82_-_List_of_identified_Financial_Conglomerates_2023_.pdf.

[18] The ECB is a coordinating authority for all French financial conglomerates.

38. The first task, in practice, is the decision to identify a FC taken by the ACPR College/ECB Supervisory Board. For group headed by a significant credit institution, the determination is based on an assessment performed by the Joint Supervisory Team (JST) in conjunction with the insurance supervisor and the Legal department of the ACPR. A yearly reassessment is carried out by the authorization Division/JSTs of the ACPR/ECB to update the list of FCs. In practice, cooperation and coordination is needed for the major groups. It should be noted that the list of identified FCs is discussed with all national competent authorities (NCA)/national central banks (NCB) prior to publication by the Joint Committee.[19]

39. The ECB as a coordinating supervisor for major French financial conglomerates entered cooperation agreements with relevant supervisors for these groups. While the initiative to establish cooperation originates from the ECB, the designation of competent authorities is governed by the FICOD and its national implementation. Although the cooperation agreement lays a solid foundation for coordinating practical tasks, the status of 'relevant competent authority' offers greater legal clarity regarding the roles and responsibilities of specific supervisors.

40. In the case of France, the AMF serves as a counterpart in cooperation but is not recognized as a relevant competent authority for certain financial conglomerates. However, the activities overseen by the AMF are already significant for the financial conglomerates in question and could significantly contribute to FC supervisory tasks, including to further understanding of the interconnectedness and risk spillovers across conglomerates or potential regulatory arbitrage practices. The designation of relevant competent authorities stems from the French implementation of the FICOD, which utilizes the provided flexibility. Further guidance on identifying relevant competent authorities would be beneficial (potentially across the EU,[20] considering the pan-European nature of financial conglomerates), given the growing significance of activities in capital markets, among others. Consequently, the AMF could be appointed as a relevant competent authority involved in supervising conglomerates with significant activities in capital markets.

41. Recommendation #4: Promote with relevant European authorities the development of a standardized methodology to identify FICOD relevant competent authorities, in particular for supervising asset management companies, to guide the decision about the AMF's appointment as a relevant competent authority.

42. In next stages, supervisory cooperation for France headquartered conglomerates largely concentrates in financial conglomerate 'colleges'. The idea of 'colleges' arose from the need to create a structure akin to banking or insurance colleges, serving as a platform for exchanging supervisory views and experience, while also potentially coordinating supervisory actions, although the institute of supervisory college is not recognized by the FICOD. From the coordinator's perspective—which is the ECB for France conglomerates—the main objectives are to promote supplementary supervision from a horizontal standpoint, enhance coordination with relevant authorities, and further develop capacity building on FC-related issues. This platform is a

---

[19] JC 2024 103 List of Financial Conglmerates 2024

[20] The EU-wide solution would provide necessary coherence in approaches for the benefit of France.

vital concept although it lacks a solid and comprehensive legal foundation[21] and a primary task,[22] which typically involves the SREP or Own Risk and Solvency Assessment (ORSA) for sectoral colleges, surrounded by a guiding framework. However, it is acknowledged that these colleges are in their early stages, and organic development has the potential to transform them into effective tools for cooperation. Finally, various workshops and policy meetings are being organized at the EU level to further harmonize supervisory practices.

43. For French conglomerates, the AMF and ACPR/SSM have established collaborative arrangements at various levels, yet these do not specifically focus on conglomerate issues. The FICOD addresses prudential matters, including capital adequacy and risk concentration, generally positioning the ACPR/SSM in a central role for supplementary supervision. However, establishing specific arrangements for concrete joint supervisory activities between the ACPR/SSM and the AMF would enhance supervisory efforts regarding financial conglomerates. This would not only improve the efficiency of processing available information but also enable coordinated actions toward financial institutions. Such arrangements can be developed gradually through a sequenced approach, beginning with timely sharing of work program proposals to facilitate coordination, conducting joint thematic deep dives, and potentially engaging in other collaborative supervisory activities. These efforts would promote a consistent and comprehensive supervisory approach and convey a strong message to financial institutions the supervisory efficiency.

44. The FICOD, as transposed into French law, provides a robust framework for information gathering by the authorities. Regulated entities within a FC must provide the ACPR/SSM with details on a consolidated basis of their legal structure, governance system and organizational structure including all regulated entities, subsidiaries, unregulated entities and significant branches. There is also a requirement on regulated entities to publish annually, at the level of the FC, a description of their legal structure, their governance system and their organizational structure. For the major FCs, these disclosure documents are substantial, and while they benefit from the EBA's Guidelines on disclosure requirements and meet the legal obligation.

45. Furthermore, regulation establishes a solid framework for regulatory reporting of French conglomerates, with opportunities for further enhancements. While the unified frameworks for capital adequacy reporting are still under discussion (Section K), the frameworks for collecting comparable data on intragroup transactions and risk concentrations have recently shown opportunities for enhancing analytical tools for conglomerate supervision (Section L). Initial experiences with this reporting indicate a potential for further harmonization of methodologies to

[21] Although, there is a regulatory foundation – specifically, the Joint Committee's Guidelines on Consistency of Supervisory Practices for Financial Conglomerates mentions in paragraph 17 that "The coordinator should decide, based on the results of the mapping exercise, whether, in order to fulfil its tasks and to achieve the necessary degree of cooperation between competent authorities [….] to establish other procedural arrangements such as separate meetings dedicated to the supplementary supervision of financial conglomerates." Furthermore, paragraph 50 elaborates: "Where there are specific procedural arrangements described in paragraph 17, the coordinator should organize at least one physical meeting of the college per year.".

[22] In addition to p 17 of the Joint Committee's Guidelines on Consistency of Supervisory Practices for Financial Conglomerates, the SSM has developed an internal guidance with a template of a standardized agenda for the financial conglomerate college.

refine the granularity and scope of data reported to supervisors, thereby facilitating more efficient processing on a large scale. The next step in enhancing efficiency should involve defining the reporting formats (likely in XBRL), which would enable the development of automated analytical tools and promote further integration with other supervisory analyses. In addition to enhancing the analytical capabilities of supervisors, all these steps would significantly strengthen the foundations for cooperation and coordination of supervisory activities, on condition that they would be supported by an effective tool to enable the secure sharing of confidential data among financial conglomerate supervisors.

46. Recommendation #5: Contribute to further enhancements in opportunities for collaboration between relevant sectoral supervisors, including the SSM, by (i) sharing work program proposals in a timely manner to facilitate coordination; (ii) conducting joint thematic deep dives; (iii) performing other collaborative supervisory actions to promote a consistent and comprehensive approach to supervision; (iv) contributing to the development of tools to enable the secure sharing of confidential data among financial conglomerate college members, thereby enhancing preconditions for their collaborative activities.

E. Supervisory Tools and Techniques

47. As headed by significant banking groups, supervisory tools for major French financial conglomerates are grounded in the SREP methodology and its extension for supplemental supervision through an operational guidance dedicated to financial conglomerates.[23] From the financial conglomerate coordinator perspective, and although many features specific to conglomerates can be aligned with traditional bank-style supervisory assessments (for instance, the expectation to have in place comprehensive risk management systems, the risk appetite defined at the financial conglomerate level), the considerations pertinent to supplemental supervision must be analyzed with a special focus, beyond the SREP framework, and are supported by an extension of the SREP methodology through a dedicated section in SREP evaluation.

Box 3. Supervisory Review and Evaluation Process

The annual SREP, from the banking group perspective, is meant to assess the risk profile of a credit institution coming from the banking or banking-like activities which have to be considered under the CRD/CRR provisions. It is meant to consider both the potential impact of non-banking activities and cover the supplementary supervision. For the former this assessment should take place for each SREP element (business model, internal governance, capital and liquidity).[1] While appropriate consideration should be given to the financial conglomerate dimension, overlaps with supplementary supervision should be avoided as well as the risk that financial conglomerate matters are addressed through sectoral (banking) prudential dimension. The fact that financial conglomerates operate across multiple sectors, combining banking, insurance, and investment activities, introduces distinctive challenges to risk assessment at the banking

[23] The Euro Area BCP assessment provides a detailed analysis of the SREP. The following text discusses it only from the perspective of financial conglomerate supervision.

Box 3. Supervisory Review and Evaluation Process (concluded)

group level.24 By concentrating on these specific risks, the SREP seeks to ensure that the capital position of a banking group accurately represents the complex nature and inherent risks associated with financial conglomerate activities while considering the importance of a robust governance and risk management arrangements.

[1] See Appendix II for further details

48. Additional supervisory analyses aim to ensure the transferability and availability of own funds across various legal entities within conglomerates based in France, while preventing regulatory arbitrage and circumvention of sectoral rules. These efforts highlight the necessity of effective application of sector-specific prudential rules, including to prevent regulatory arbitrage associated with allocating assets and transactions to the entities that receive the most favorable capital requirement treatment. In this context, analyzing intragroup transactions becomes essential, as it allows for the identification of potential attempts to bypass sectoral regulations and enhances the understanding of additional risk exposures that may arise from financial interactions between different entities within the conglomerate. Moreover, evaluating risk concentrations—whether through asset holdings, liabilities, or counterparty relationships—is crucial for comprehensively assessing the overall risk profile, ensuring that no single exposure poses a threat to the financial stability of the conglomerate. These efforts should be further distilled and organized at the supplemental conglomerate supervision level into a compact supervisory tool that could support further actions, including effective enforcement at the ACPR/ECB level (Section K).

49. While engagements with French banks' management are frequent, there is room to deliver more explicit messages regarding specific conglomerate risks. Regular engagement with management and internal control functions is essential for supervisors overseeing financial conglomerates. This ongoing dialogue enables supervisors to gain insights into emerging risks and operational changes directly from responsible persons, leading to more informed supervisory decisions. By understanding the effectiveness of risk management processes, supervisors can address concerns proactively and promote transparency and accountability of key function holders. Based on the analyzed information and insights gathered from interviews with supervisors, these interactions are integral to their practice; however, it appears that the awareness of conglomerate-specific requirements among bank management is comparatively low, highlighting

[24] For instance, Insurance Risk necessitates a nuanced understanding of policyholder claims and reserve adequacy, as these factors can significantly impact the overall capital position of the conglomerate. Similarly, Credit Risk poses a threat that transcends traditional banking operations, requiring a comprehensive evaluation of exposure to various counterparties across different financial lines. Moreover, Market Risk must also be carefully analyzed, as price volatility can have cascading effects on the conglomerate's financial stability, particularly when diverse business units are interlinked. Additionally, Interest Rate Risk in the Banking Book (IRRBB) holds particular relevance for financial conglomerates, affecting earnings due to interest rate fluctuations across multiple segments. Operational Risk is equally critical, as the complexity of conglomerate structures may lead to vulnerabilities in internal processes. Lastly, Liquidity Risk is paramount; the conglomerate must be able to navigate the liquidity needs arising from both banking and non-banking operations.

the need for more assertive and explicit communication of conglomerate-specific issues from the ACPR/ECB supervisors.

F. Governance and Risk Management

50. The FICOD outlines a foundational framework for governance and risk management that are implemented by the French regulation which aligns the requirements for conglomerates with those applied banking or insurance groups. The French implementation generally aligns with the FICOD which requires regulated entities to establish effective risk management processes and internal control mechanisms at the financial conglomerate level, incorporating sound administrative and accounting procedures. Key components of risk management include strong governance with regular review of strategies by governing bodies, capital adequacy policies to assess business impacts on risk profiles, and well-integrated risk monitoring systems across all supervised undertakings, while internal controls should encompass mechanisms to identify and measure material risks relative to capital, alongside reporting procedures to manage intra-group transactions and risk concentrations effectively. French regulations[25] imposes specific requirements on financial conglomerates regarding their governance and risk management, including the obligation to establish a comprehensive risk management framework that addresses the complexities of operating across various financial sectors, supported by effective systems and a robust internal control to mitigate systemic risks. Moreover, it emphasizes the importance of maintaining adequate capital buffers to withstand potential financial shocks. Finally, it introduces requirements related to supervisory reporting and disclosure. The conglomerate-level requirements on governance follow the regulation for banks.

51. Regulatory requirements concerning governance and risk management are viewed as complementary to sectoral regulations, which may introduce some complexities. While the core requirements are established in various sectoral regulations issued at the EU level, further clarification regarding their interplay is desired in the form of a regulation and in certain aspects also anticipated by the FICOD. While most of the mentioned issues are not French specific but are based on EU regulation, clarification is needed at the EU level, which effects the supervision of French FCs. In this regard, a technical standard anticipated by the FICOD to establish governance and risk management requirements could provide responses to these issues. France is therefore not expected to anticipate further developments at the EU level.

Box 4. Article 49.1 of CRR

For French conglomerates, which are typically bank-led, the primary role of banking regulation may alleviate many practical application issues. However, some questions would still deserve further clarification, including how conglomerate regulation incorporates the requisite levels of integrated management, risk management, and internal control outlined by article 49 of the Capital Requirement Regulation (CRR),[1] and how these requirements should be implemented in practice. While supervisors

[25] Mostly Ordonnance n° 2014-158.

Box 4. Article 49.1 of CRR (concluded)

emphasize the importance of this requirement, including in their communication to French financial conglomerates, detailed regulatory requirements remain unclear.

Article 49.1 of the CRR, enables banking groups—under specific conditions—to mitigate capital requirements when investing in insurance undertakings when the supplementary supervision framework applies. These conditions include a "satisfying level of integrated management, risk management and internal control" which needs to be supervised on the continues basis. After meeting these conditions, rather than fully deducting these holdings in insurance undertakings from their regulatory capital, they may be risk-weighted as equity exposures, with risk weights varying from 100percent to 250percent, depending on whether the banking group employs a standard or internal rating-based approach for the capital requirement calculation. The actual impact on capital adequacy ratios in specific cases may vary, but it is generally limited to several basis points on the banking group level. This 'shortfall' is typically compensated on the conglomerate level.

This preferred treatment for an insurance subsidiary in the banking perimeter underscores the need for the establishment of clear and transparent regulatory requirements on integrated risk management.

[1] OJ: REGULATION (EU) No 575/2013

52. **In practice, supervisors for French financial conglomerates engage in discussions regarding specific governance and risk management issues.** The primary internal guidance stems from the SSM Operational Guidance, which is applied in practice, as demonstrated on concrete examples. Supervisors address various aspects of conglomerate supervision building on the SSM Operational Guidance and underlying regulation, including, for instance, elaborating the requirements for the risk appetite framework (RAF) and risk appetite statement (RAS): the RAF must articulate clear policies and controls that are integrated into decision-making processes and aligned with the institution's strategy, supported by robust IT and reporting systems; supervisors assess whether the RAS identifies material risks under both normal and stressed conditions, specifies actionable mitigation measures, and incorporates quantitative metrics for various business lines, etc. While the internal guidance and its implementation appear to be solid, enhancing external communication of supervisory expectations could further bolster supervision effectiveness and facilitate effective enforcement.

G. Capital and Liquidity

Capital

53. **The FICOD[26] outlines foundations for capital adequacy requirements for financial conglomerates establishing complex calculation methods, including for France based conglomerates, and delegates authority for directly applicable EU technical standards, to ensure regulatory consistency.** The level 1 text aims to ensure adequate capital adequacy by regulated entities within a financial conglomerate, which should be regularly assessed by

[26] In France, the capital adequacy requirements of FICOD are transposed in Articles 4 to 11 of the Arrêté du 3 novembre 2014 relatif à la surveillance complémentaire des conglomérats financiers.

supervisors. The own funds at the conglomerate level should meet or exceed the calculated capital adequacy requirements as outlined by the FICOD. Building on the sectoral regulation for banks and insurance businesses, the FICOD specifies three methods for calculating capital adequacy to avoid the multiple use of capital and ensure sufficient capital against financial risks. The calculation methods include:

- Method 1: *Accounting consolidation method*, based on consolidated accounts.
- Method 2: *Deduction and aggregation approach*, where individual capital requirements are summed and adjusted.
- Method 3: *Combination method*, which allows for a combination of the first two methods.

The implementation of the FICOD in France prescribes to bank-led financial conglomerates the application of Method 1. Because the FICOD capital calculation aggregates the sectoral solvency standards, it necessarily induces complexity and interpretative issues that should be tackled by the Commission's technical standards on capital adequacy.[27] These standards are essential for establishing a comprehensive and consistent regulatory framework.

54. While the delegated regulation under the FICOD, directly applicable to French conglomerates, addresses certain capital adequacy implementation issues, challenges remain in establishing a cohesive group level approach aggregating sectoral approaches. The delegated regulation provides additional details on the calculation methods as well as on specific underlying issues.[28] While these clarifications are helpful, practical application has uncovered various further challenges in the technical implementation of the FICOD.

55. The challenges associated with integrating capital requirements across different sectors and the deficiencies in clarity surrounding definitions by the EU framework are widely acknowledged; however, follow-up actions by legislators remain pending. A survey conducted by the Commission in 2017 revealed that supervisory authorities particularly noted a lack of clarity and insufficient detail necessary to promote harmonization of approaches, which can undermine the effectiveness of regulation. For instance, the absence of harmonized templates for capital calculation reporting and disclosure, which not only hampers the comparability of capital calculations across the EU but also decreases the credibility of frameworks on a national level, including in the case of France based conglomerates.[29] These deficiencies can lead to conflicting regulatory expectations, potentially complicating the ability of conglomerates to navigate their obligations effectively and supervisory to enforce them.

56. EU supervisors proactively strive to close legal gaps by implementing supervisory guidelines, as the only effective solution lies in a joint effort. Their primary goal is to ensure greater consistency in calculations while navigating the complexities of maintaining transparency and legal certainty. Differences in the interpretation of regulatory requirements, such as the treatment of minority interest and the application of sectoral own funds recognition limits on

[27] These challenges are relevant for all French financial conglomerates and are elaborated further in the text bellow.

[28] See Appendix III for further details.

[29] For other examples see Appendix II.

specific items at the financial conglomerate level or the determination of surplus own funds, may significantly influence a view on financial conglomerate's capital position.[30] As the regulation does not explicitly address these matters, supervisors are actively assessing their implications and working to harmonize approaches across the EU to ensure comparability and consistency while substantially benefiting from the expertise built in France—which in return also means that French specific issues will be reflected. However, despite these efforts, they cannot completely compensate for the gaps in the legislative and regulatory framework; nonetheless, they have inadvertently fostered a deeper understanding among supervisors of the risks associated with conglomerate structures.

57. While the method for calculating the capital adequacy ratio could be further refined and standardized to more accurately reflect the solvency position and enhance comparability, other supervisory efforts offer additional insights into understanding the risks and contagion channels across conglomerates. The existing frameworks serve as a valuable tool for comparing various outcomes of sectoral approaches and for capturing double-gearing on the financial conglomerate level. However, additional in-depth assessments to fully understand the risk profiles of conglomerates are necessary. To accomplish this, it is essential to gather additional information, including intra-conglomerate transactions and risk concentrations, and to situate this data within the broader context of business models, strategies, conglomerate structures and external conditions. Bottom-up and top-down system-wide stress tests on banks, insurance companies, and funds, engaging several bancassurance groups to explore the interrelationships within financial conglomerates—planned by the ACPR and the BdF—further underpins this direction of work.

58. Additional regulatory clarifications regarding the calculation methods for conglomerate capital ratios would be overall useful and especially necessary to develop reporting templates, including for French conglomerates. The FICOD[31] mandates the development of technical standards to "ensure a uniform format (with instructions)" of capital adequacy. However, these standards can be elaborated only with a better understanding of the underlying definitions. The Joint Committee has already made significant progress in establishing these technical foundations. Completing the work on reporting templates which would include further clarification on the capital adequacy calculation through related instructions and adopting the related regulation would represent a substantial advancement toward improving the outcomes of financial conglomerate capital regulation. However, France is not expected to anticipate further developments at the EU level.

59. The supervision of financial conglomerates in France is grounded in the SSM rulebook, which can convey further guidance. The SREP, along with the capital requirements established for insurance entities (Solvency Capital Requirement or SCR), serve as essential tools for supervisors to calibrate and ensure robust capital allocation within financial conglomerates, further fostering capital regulation. Developed by the SSM, with a significant French footprint the SREP framework is designed to assess and determine capital requirements for banks and banking groups

[30] See Appendix III for further details.
[31] Article 21a, paragraph 1 (d)

(proportionately applied for both, SIs and LSIs), reflecting the risks associated with financial conglomerates across various components of the assessment, while deducing corresponding capital charges. As part of this process, the SREP evaluates banks' Internal Capital Adequacy Assessment Process (ICAAPs) which incorporate insurance risk by examining the severity of stress events and the diversification benefits realized between the banking and insurance sectors, aiming to identify potential regulatory arbitrage.

60. Financial conglomerates face unique cross-sector risks typically not addressed by sectoral capital requirements, and while authorities can impose certain measures at sectoral level, these do not fully mitigate the need for a framework at group level. [32] As financial conglomerates operate across various sectors, the interconnections among these activities can give rise to unique risks that are not adequately addressed by sectoral capital requirements, or their 'sum', and the availability of capital to cover these risks may pose some challenges. These issues typically involve capital requirements related to risk management, governance and capital adequacy. Risks center around potential situations of financial stress or market volatility, where contagion across sectors may magnify individual sectoral risks.

61. Addressing these risks in a forward-looking manner requires a strong coordination of competent authorities led by a coordinating supervisor. The key concern is typically not the total level of capital *per se*, but rather its availability and transferability within the conglomerate. While the French implementation of the FICOD grants the authority to apply and enforce sectoral rules to address risks at the conglomerate level, the introduction of measures to prevent the circumvention of these rules—to mitigate arbitrage opportunities—may present complexities when involving several supervisory authorities. Additionally, the power to review and reject the recognition of sectoral capital at the financial conglomerate level can serve as a powerful tool for supervisors, however, coordination can be an issue. While these individual powers offer authorities some tools to address a broad spectrum of situations, a holistic and structured solution, well anchored in legislation is lacking, notably at the EU level.[33] The proposed comprehensive solution reinforces other recommendations outlined in this note as they require an integrated supervisory approach and strong enforcement. Finally, it would also foster the supervisory dialogue with financial conglomerates on specific financial conglomerate issues as it would provide a tool for clearly structured and unified messaging. While these measures may significantly benefit France, it is widely acknowledged that France has limited capacity to influence EU-level initiatives, and thus, its efforts are expected to align with the engagement of its authorities.

62. Recommendation #6: Work with relevant European authorities to develop a strengthened framework for effective execution of supervisory powers according to Article 16 of the FICOD, including in relation to Articles 6 and 9 of the FICOD, to address conglomerate-wide risks and

[32] This limitation is also acknowledged by many correspondents in the survey conducted by the European Commission who argue for the introduction of a Pillar 2-style regulation to consider cross-sectorial risks and foster the effectiveness of FICOD in addressing the specific prudential risks in financial conglomerates.
[33] This gap can become particularly pronounced when considering the diverse structures of financial conglomerates, beyond the structures which are typical for France at present.

availability of capital at the conglomerate level while also incorporating a mechanism for coordinating supervisory actions, and work towards its implementation.

Liquidity

63. The liquidity risks weighing on French FCs are multifaceted. This is based on the nature of their insurance products, the reputational linkage between banking and insurance subsidiaries and, in some cases, the use of deposit products of the parent bank by insurance subsidiaries. The most significant insurance product provided by the insurance subsidiaries of French FCs is what is known as the 'Euro Funds'. This product operates in some ways like a deposit product.

64. The 'Euro Funds' life insurance product is theoretically highly liquid but subject to tax incentives that undermine the liquid nature of the product. This is because the government provides tax incentives which require the funds to remain with the life insurer for at least 8 years to access those tax benefits. In normal times, this provides a strong incentive for French policyholders to maintain their funds in this product. Policyholders are able to demand withdrawal of their 'Euro funds' product immediately or at most with a 1 to 2-day delay with the only possible consequence being loss of tax incentives.

65. Banking and insurance products of FCs are clearly linked through the brand and reputation of the FC, the principal products of which are always banking products. Any liquidity stress caused by a loss of confidence in a bank or in the banking industry generally is highly likely to impact on the insurance products of a FC as well. However, while banks consider 'Euro Funds' within their deposit stock, liquidity intragroup transactions are captured by the intragroup transaction framework and therefore monitored under supplementary supervision. In practice, a significant scheme of transferring banking deposits to the insurance subsidiaries has not been identified.

66. The ACPR has the power to order a suspension of benefit withdrawals for an insurer which mirrors a similar power to limit withdrawals of deposits from banks. In discussions regarding the liquidity issue for insurers, this power was mentioned as a way of addressing liquidity risk for insurers. However, this power would have to be exercised with great caution because of the close ties within a FC between the insurance subsidiaries and the banking group. Also, the contagion effects across the banking sector would have to be considered when using this power with respect to any insurer within a FC.

H. Intra-Group Transactions and Concentration Risk

67. The monitoring and reporting of intra-group transactions as wells risk concentrations are anchored by the FICOD to ensure a robust risk management and adherence to the capital adequacy requirements. The FICOD requires supervisory authorities to oversee *intra-group transactions* to prevent conflicts of interest and ensure they do not compromise the conglomerate's capital adequacy or risk management. It emphasizes the importance of transparency and proper valuation, mandating financial conglomerates to report significant intra-group transactions to relevant authorities, which is also essential for maintaining the financial group's stability and preventing regulatory arbitrage. Additionally, the FICOD establishes reporting of *concentration risks* to ensure capital adequacy is assessed at the conglomerate level, reflecting the risks from all constituent entities. It defines key requirements for capital allocation, ensuring that conglomerate-level capital adequately covers all risks, and stresses the necessity for cooperation among supervisory authorities to effectively assess risks, promoting a cohesive supervisory approach across different sectors involved in the conglomerate.

68. Despite regulatory clarifications on reporting related to the FICOD, gaps persisted that were subsequently addressed by the ECB guidance, which also applies to French conglomerates. The 2015[34] and 2022[35] European Commission regulations lay the groundwork for a clearer definition of significant intra-group transactions and establishes criteria for identifying risk concentrations, thereby providing supervisory authorities with tools to better monitor and manage systemic risks. While the first one requires regulated entities and mixed financial holding companies to report detailed information about these transactions—fostering transparency and accountability within the financial sector—the latter establishes standardized reporting requirements and detailed disclosures across various templates that capture transaction types, counterparty exposures, and risk evaluations. Overall, regulations encourage consistent supervisory practices that aim to mitigate potential conflicts of interest within conglomerates. The regulations are complemented by the Joint Committee's Q&As clarifying operational aspects and by the ECB guide, which establishes the SSM positions on supervisory options offered by FICOD with a view of harmonizing practices among financial conglomerates for which SSM acts as coordinator, including the way the ECB intends to exercise the different competent authority options embed in the intragroup transaction/concentration risk framework.

Box 5. ECB Guide on Financial Conglomerate Reporting of Significant Risk Concentrations and Intragroup Transactions

The ECB has introduced a comprehensive guide aimed at enhancing the consistency and transparency of reporting significant risk concentrations and intragroup transactions:

- for significant *risk concentrations (RC)*, provides essential regulatory clarity for financial conglomerates. It establishes specific thresholds for reporting, including counterparty risk exposures that exceed 10percent of own funds or €300 million, alongside country and currency concentrations surpassing 5percent of own funds. Importantly, sectoral exposures must be reported without defined thresholds, thereby ensuring comprehensive oversight. The guide emphasizes the necessity of identifying and managing conflicts of interest and contagion risks related to these concentrations to enhance transparency and sound risk management practices.

[34] COMMISSION DELEGATED REGULATION (EU) 2015/2303 of 28 July 2015 supplementing Directive 2002/87/EC of the European Parliament and of the Council with regard to regulatory technical standards specifying the definitions and coordinating the supplementary supervision of risk concentration and intra-group transactions.

[35] COMMISSION IMPLEMENTING REGULATION (EU) 2022/2454 of 14 December 2022 laying down implementing technical standards for the application of Directive 2002/87/EC of the European Parliament and of the Council with regard to supervisory reporting of risk concentrations and intra-group transactions.

Box 5. ECB Guide on Financial Conglomerate Reporting of Significant Risk Concentrations and Intragroup Transactions (concluded)

- In parallel, the guide *addresses intragroup transactions (IGT)* by mandating that such transactions be conducted at arm's length to prevent regulatory arbitrage and mitigate associated risks. Transactions involving equity or debt transfers that exceed 5percent of capital adequacy or €300 million must be reported, with the same thresholds applicable to derivatives, off-balance sheet liabilities, insurance and reinsurance, and profit and loss transactions surpassing 5percent of total revenues. Moreover, two or more transactions between group entities that contribute to the same risk, serve the same purpose, or are temporally connected in a plan will be regarded as a single economic operation. The guide also requires detailed reporting on governance structures managing these transactions, ensuring that adequate measures are in place to oversee their impact on the financial conglomerate. This dual focus aims to promote effective supervision and enhance the resilience of significant credit institutions and their conglomerates.

69. Building on these methodological foundations, the ECB has initiated reporting and is gathering initial experiences. In 2024, French banks, along with their EU peers, reported risk concentrations (RC) and intragroup transactions (IGT) for the first time through a newly harmonized format at the EU level. The experience for supervisors mirrored that of other instances involving newly established reporting requirements. The processing of the required data raised additional questions, and the ECB's initial analysis of the reporting highlighted the need for further consistency checks and possibly additional guidance, particularly regarding the granularity of reporting. Furthermore, the type of transactions to be reported and thresholds for significance could be revisited, in medium term, after gaining sufficient experience.

70. Going forward, the establishment of automated processing of RC and IGT data is essential. While the initial phases of reporting can effectively enhance methodology and data quality, the next steps involve standardizing the reporting format and developing automated tools to support supervisory analysis and integrate it into the overall assessment framework. These sequential steps are necessary to achieving the regulation's primary objective of reporting RC and IGT—to complement capital adequacy requirements' outcomes by a nuanced and granular perspective on conglomerate-level risks.

71. Recommendation #7: Contribute to the development of automated tools for processing RC and IGT data to enhance supervisory analysis and ensure consistency, facilitating the integration with the outcomes of capital adequacy calculations (in a next step) to deliver a comprehensive and granular perspective on the risk profiles of financial conglomerates.

SUPERVISION OF LESS SIGNIFICANT INSTITUTIONS

72. LSI supervision in France is integrated into the EU regulatory and supervisory system. The ACPR adheres to the EU regulatory framework outlined in the EU Single Rulebook and the SSM regulation for banking supervision. The ACPR combines the robustness of the EU framework with its own methodologies, drawing on extensive experience in supervising large, internationally active banks. It actively participates in the SSM and EBA structures as a key contributor. The ACPR has gathered evidence that common SSM methodologies, processes, and procedures are effectively applied by supervisors and enhanced by proprietary frameworks that align with SSM best practices.

A. Organization of Supervision

73. The ACPR has established a clear and robust organizational structure and governance framework designed to effectively fulfill its mandates and strategic priorities in LSI supervision. The supervisory framework precisely delineates the responsibilities of specific units, featuring a logical hierarchy that complies with SSM requirements for separating significant institution supervision. This structure promotes the appropriate allocation of expertise and fosters the sharing of supervisory experiences. The ACPR develops and executes a comprehensive strategy and planning process that aligns with its core objectives. Each year, the ACPR initiates a process to collect proposals for supervisory priorities through collaboration among various organizational units. These priorities are reviewed and established by relevant committees, which rely on comprehensive risk analyses to identify and assess the various risks facing the banking sector, considering the economic environment and anticipated changes. This collaborative approach ensures that the supervisory priorities are informed by a thorough understanding of the current and emerging risks within the financial landscape. Simultaneously, the ACPR incorporates the strategic priorities presented at the ECB level for the SSM. Consequently, this system represents an optimal blend of top-down and bottom-up approaches. The ACPR publishes its objectives, outcomes, actions undertaken, and resources utilized in its annual report, which is communicated to the President of the Republic, Parliament, and made available on its website.

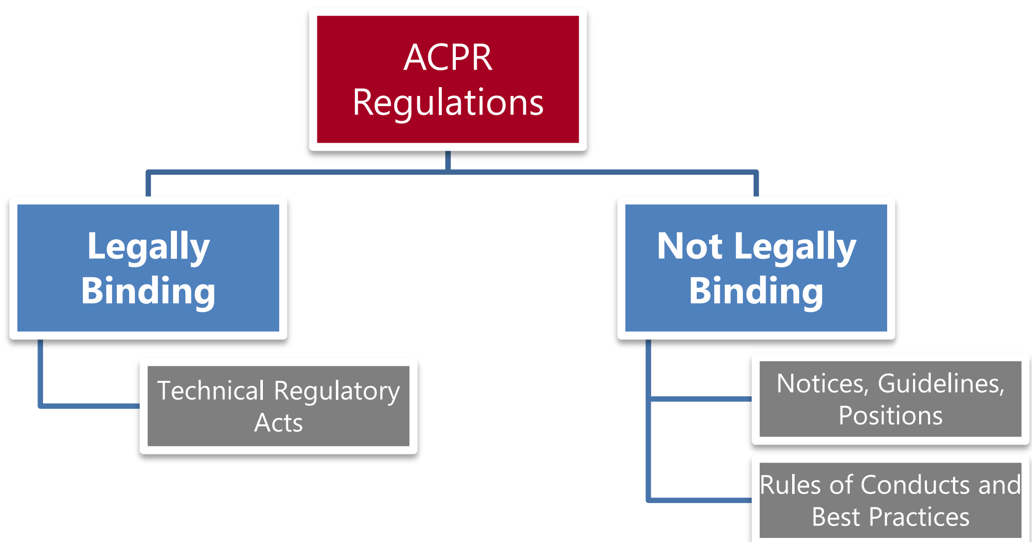
B. Regulatory Framework

74. The French regulation is aligned with EU regulatory frameworks—with the majority of standards embedded in the directly applicable EU laws—while the ACPR aims to adapt them to meet national needs. Since 2017, France has experienced the EU's introduction of several laws[36] aimed at elevating prudential standards while implementing Basel III, with the CRDVI/CRRIII package standing out as a key initiative to complete these efforts. The ACPR ensures that the EU's framework applies uniformly to all LSIs operating in France, incorporating the proportionality principle to create a robust and consistent regulatory landscape. The EU's delegated acts and EBA guidelines have had a profound impact on the regulatory framework in France, with the ACPR diligently transposing these guidelines without substantial modifications. While the ECB plays a limited role in the day-to-day supervision of LSIs, its guidance significantly informs ACPR practices. The ACPR actively participates in EU regulatory initiatives, ensuring that the framework is tailored to the specific needs of the French financial system while enhancing supervisory effectiveness through collaboration and knowledge exchange with European peers.

[36] See Appendix IV for further details.

75. The Minister of Economics and Finance plays a pivotal role in establishing the regulatory framework in France. The French Constitution distinguishes between law and regulatory power, with the latter exercised by the Prime Minister and ministers, particularly the Minister of Economics and Finance, who regulates the banking sector. This regulatory authority encompasses specific areas governed by orders, with the Minister receiving support from the Advisory Committee on Financial Legislation and Regulation (CCLRF), which reviews draft legislative texts in the banking, insurance and broader financial sectors. The Minister's regulatory power extends to market infrastructure managers and investment service providers, ensuring that regulations are effectively implemented to maintain stability within the financial system. The ACPR has the authority to publish legally binding instructions that outline the list, template, frequency, and deadlines for the periodic submission of documents and information. In contrast, other guidelines issued by the ACPR are non-binding and include flexible legal acts such as interpretative texts, notices, guidelines, positions, rules of conduct, and best practices. While instructions carry legal weight, the ACPR's normative powers are generally residual, as they either do not impose binding obligations on flexible acts or are confined to delegated technical regulatory powers.

Figure 2. France: ACPR Regulatory Powers



Source: ACPR

76. The regulatory framework for French LSIs is capable to reflect recently identified issues while additional tools introduced by the French administration can support its effective implementation. In 2020, the ACPR released a guide on governance and climate risk management for licensed French banks, promoting good practices and outlining expectations to help institutions prepare for future supervisory assessments. To further support the implementation of the broader objectives of ESG regulation, French institutions work on various projects which can inspire international practices. For instance, the Banque de France (BdF) initiative to incorporate climate risk into the company ratings process while the BdF provides rating for over 300,000 companies is quite a substantial contribution, widely appreciated by financial institutions and investors.

Box 6. BdF: Transition Progress Indicator

Banque de France has developed an in-house climate indicator to assess where French non-financial corporates stand with respect to the transition to a net-zero economy and physical risks. This assessment covers where firms stand regarding their planned GHG emissions compared to their sectoral target, an estimate of their exposure to severe weather events in the region where they are operating and an evaluation of the maturity of their transition and adaptation strategies. The results are communicated to the company for free. This initiative derives from Banque de France long-time commitment to address climate risk and its consequences on financial stability

C. Supervisory Practice

77. The ACPR employs a proportionate, risk-based approach to supervising LSIs, monitoring them continuously throughout the year. Following the EBA's guidelines on SREP, the ACPR defines the frequency of supervisory activities based on the classification of each entity, which allows for adjustments in supervision intensity. The supervisory program considers both classification and risk profile, assessing risks as part of the SREP process in accordance with the SSM SREP methodology. This assessment begins with a thorough analysis of various documents, including prudential reports and internal audits, and may involve thematic reviews on specific topics. The outcomes can result in additional requirements for solvency, leverage, or liquidity ratios, communicated through a formal notification letter.

78. The planning and execution processes for on-site and off-site activities concerning French LSIs align with the SSM's supervisory planning standards. All planned supervisory activities are captured in the Supervisory Examination Program (SEP), which includes details on mission timing, scope, priority, and staffing. Annually, off-site supervisors draft a list of planned on-site inspections, which is reviewed with on-site units to ensure resource consistency, taking into account ECB requests. A senior management meeting chaired by the Deputy General Director for supervision finalizes the proposed inspections program, which is then approved by the ACPR General Secretary. Off-site activities are guided by Minimum Engagement Levels, taking into account the size of institutions (principle of proportionality) and an analysis of prudential risks, reflected in the RAS score derived from the SSM methodology. The finalized SEP is submitted to the ECB, and monitoring through dedicated dashboards aims to ensure effective coordination between off-site and on-site efforts throughout the inspection process.

79. Onsite activities typically cover a small portion of the sector through full-scope examinations, presenting an opportunity to adopt a more targeted approach. Each year, the ACPR conducts around 5 to 6 on-site examinations of LSIs. These inspections encompass a broad range of risks, including credit risk, operational risk, governance, and internal control, which are considered in the assessment of governance and risk management frameworks. For instance, in evaluating credit risk, inspectors review a sample of credit files to ensure that the institution has conducted thorough credit analyses of customers and regularly updates these files. Banks undergo regular inspections for Anti-Money Laundering (AML) compliance, and emerging areas such as climate risk and IT risk[37] are also integrated into supervisory programs. Depending on the nature and severity of any identified deficiencies, remedial actions may be required, communicated in a follow-up letter, through a formal notice, or by initiating disciplinary procedures. While these comprehensive programs provide numerous benefits, the ACPR acknowledges the value of targeted examinations and has initiated pilot programs in this area.[38] The targeted visits can further enhance the coverage of examined institutions while optimizing the ACPR's resources. They can also take deeper dives at specific issues and importantly shorten the time for the supervisory feedback.

80. Recommendation #8: Further prioritize targeted onsite examinations to enhance onsite supervision coverage and allocate limited resources more efficiently.

81. The SREP process is fundamental to supervisory activities and outcomes.[39] It adheres closely to EU and SSM frameworks, with qualitative and quantitative assessments that are sufficiently comprehensive to verify the robustness of LSIs' governance and risk management, while building on a wide variety of inputs. The final result is communicated to senior managements, both in a written and oral format. Grounded in the SREP, supervisory evaluations incorporate supervisory judgment and leverage the inherent flexibility of the SSM framework to accommodate the diverse business models within the French LSI system, which includes retail banks (such as Caisses de Crédit Municipal), wholesale lenders, and asset managers. However, the common methodology's constraints may be still too rigid for the heterogeneous LSI sector. While the ACPR recognizes the advantages of a uniform approach, such as consistency and comparability, it also acknowledges the limitations of current frameworks in addressing the unique characteristics of individual LSIs.[40] For example, the lack of flexibility can have consequences for capital requirements in relation to business model analysis or the methodology can mislead supervisors in focusing their analyses. Enhancing the embedded flexibility, while ensuring adequate safeguards, would significantly improve the effectiveness of this supervisory tool.[41]

[37] In addition to the SSM manual, the ACPR has developed its own IT methodology, focusing on information systems governance, functionality, and security, supported by a dedicated team of inspectors for IT-related examinations.
[38] Two targeted onsite inspections were undertaken in 2024, several targeted onsite examinations are planned in 2025. Looking forward, the enhanced risk-based supervision currently under development will include a principle imposing targeted onsite examinations every year.
[39] See Appendix II for further details.
[40] The use of the common methodology is recommended by provisions of the EU legal framework. Article 97(4a) of the CRD suggests competent authorities to tailor their supervisory evaluation by taking into account institutions with a similar risk profile. This has been transposed in French law in Article L. 511-41-1-C of the Financial and Monetary Code.

[41] The enhanced LSI risk-based supervision is currently under development. Staggering implementation is planned, starting from 2025. This enhanced approach will take into account the size and the "impact' of each LSI on the market and the financial system to determine the intensity of supervision. Supervisory judgment will also be considered to ensure that qualitative aspects related to the business model are factored in. This new approach will be endorsed by the College of the ACPR.

(continued)

82. Recommendation #9: Ensure a consistent reflection of LSIs' diverse business models in supervisory assessments through sufficient flexibility surrounded by a robust governance of the supervisory process.

83. Credit risk supervisory practice is comprehensive while building on a rich combination of the EU and French frameworks. The framework for credit risk in France requires credit institutions to implement robust internal systems that effectively detect, manage, monitor, and report associated risks, including the internal control system. Institutions must establish comprehensive procedures tailored to their size and operational structure, ensuring they can identify and assess various forms of risk. Additionally, credit decisions must be based on precise, formalized criteria that reflect the characteristics of the client and the nature of the credit operation.[42] Supervisors actively monitor compliance with these requirements, reinforcing the integrity of the credit risk management processes within LSIs while considering their various business and operational models and other concrete circumstances.

84. The treatment of interest rate risk in the banking sector involves a comprehensive framework for assessing and managing interest rate risk in the banking book (IRRBB). LSIs must implement robust internal control systems to monitor and evaluate their exposure to interest rate fluctuations, ensuring that appropriate measures are in place to mitigate potential financial impacts. Regular assessments of the risk control framework are conducted to determine the adequacy of strategies and tools used for managing IRRBB. Institutions are required to provide detailed internal control reports, which include information on risk measurement systems and capital allocation for interest rate risk, enabling effective oversight and compliance with regulatory expectations. During the SREP assessment, the supervisor reviews the entity's annual internal control report and reflects the outcomes of the review in the SREP score.

85. The framework for liquidity risk management in French credit institutions entails all relevant features of international standards and good practices. The regulatory requirements emphasize the establishment of comprehensive methodologies for identifying, measuring, managing, and monitoring funding positions. Institutions are required to assess their liquidity situation regularly, considering various factors such as current and projected cash flows from assets and liabilities, as well as potential reputational risks. Supervisors evaluate whether institutions have implemented appropriate funding strategies and policies for ongoing measurement of funding requirements, while also considering the impacts of other risks on overall liquidity strategies. The

---

The approach should lead to a more flexible allocation of supervisory resources, through a larger scale of supervisory intensity. Work plan of the division in charge of the LSI supervision will consider this enhanced approach. The ACPR senior management will periodically review the LSI classification while the College will be able to express its comment in the context of the discussions on the Pillar 2 measures.

[42] Decisions regarding credit classifications must involve multiple stakeholders and independent evaluations to ensure oversight and prevent conflicts of interest, while regular assessments of exposures and clear criteria for identifying non-performing or forborne loans are crucial for making informed credit decisions based on borrowers' repayment capacities. Regulations establish criteria for classifying exposures into different categories: (a) problem exposures, (b) non-performing exposures, characterized by unlikely full repayment or being 90 days past due, (c) performing exposures, which are reclassified when repayments are timely and the borrower's situation has improved, and (d) forborne exposures, which require specific treatment under regulatory guidelines.

assessment process incorporates both quantitative and qualitative approaches, ensuring that institutions can effectively anticipate and respond to adverse liquidity conditions. Regular reporting and scrutiny of liquidity metrics are essential components of this supervisory practice.

86. The supervisory framework for operational risk management requires institutions to develop comprehensive plans for business continuity and disaster recovery. Institutions must ensure these plans cover critical functions, including those that are outsourced, to maintain ongoing operations and mitigate losses during disruptions. Supervisors evaluate these plans through off-site and on-site assessments, utilizing a range of tools and methodologies tailored to the specific needs of institutions. Regular assessments involve analyzing emergency and business continuity plans, ensuring they are tested and updated as necessary. Additionally, institutions must provide detailed internal control reports, which include information on risk management practices and the effectiveness of their liquidity strategies, to support thorough oversight and compliance with regulatory expectations. The assessment of operational risk is integral to the periodic comprehensive risk evaluation conducted through the SREP, utilizing various approaches while incorporating the principle of proportionality and informed by internal control reports and supervisory interactions.

87. The integration of climate-related financial risks into banking supervision highlights the ACPR's commitment to fostering sustainable practices within the financial sector to ensure financial stability. The banking supervision incorporates climate-related financial risks into Pillar 2 approach as mandated by CRR3/CRD6. The ACPR also collaborates with the EBA to define regulatory requirements transition plans while overseeing their implementation in next steps. Additionally, the ACPR conducted a thematic review of approximately sixty institutions to assess their integration of climate-related risks into governance and risk management in 2023. Finally, the ACPR and AMF produce annual joint reports to evaluate trends and commitments in climate change control, including financial institutions' exposure to fossil fuels.

D. Authorizations and Fit & Proper Assessments

88. The ACPR conducts authorization activities in conjunction with the ECB which ultimately adopts any final decision. When assessing an application for the banking license, the ACPR and the ECB focus on the applicants' capital/liquidity levels, their program of operations (with a special focus on the first 3 years of operations also considering an adverse scenario), the structural organization also with respect to the business to be carried out, the suitability of their managers and relevant shareholders and money laundering or terrorist financing risk.[43] Approval of qualifying holdings requires prior authorization by the ECB/ACPR,[44] which assesses (i) the reputation of the proposed acquirer's shareholder(s), (ii) the reputation, knowledge, skills and experience of any manager to be appointed in the target, (iii) the financial soundness of the proposed acquirer, (iv)

[43] See the ECB's Guide to assessments of license applications and the EBA's Guidelines on a common assessment methodology for granting authorization as a credit institution under Article 8(5) of Directive 2013/36/EU.

[44] See the ECB's Guide on qualifying holding procedures and the EBA and ESMA's Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the banking, insurance and securities sectors (JC/GL/2016/01).

whether the target will be able to comply and continue to comply with the prudential requirements and (v) whether there is an increase in AML risk. License withdrawal can occur if the institution obtained authorization through false declarations, fails to meet prudential requirements, or does not comply with capital requirements. Additional grounds include failure to fulfill commitments or inactivity within specified timeframes, which jeopardizes the security of depositor funds and the institution's obligations to creditors.

89. The ACPR assess the suitability of management and key function holders, utilizing established ECB guidelines[45] and requiring comprehensive self-assessments and documentation to ensure fitness and propriety.[46] The ACPR evaluates the suitability of all members of the management body and key function holders in relation to qualifying holdings, new license applications or ex-post in case of the existing entities. The ACPR utilizes the ECB Fit and Proper Handbook for Supervisors (internal SSM guidance) and the ECB Guide to Fit and Proper Assessments (public guidance), which outline the assessment criteria including the nature of any charges or accusations, the time elapsed since the alleged misconduct, personal involvement, and the appointee's conduct following the incident. Additionally, the appointee is required to submit a self-assessment regarding the facts and their implications for their fitness and propriety, which must be reviewed and endorsed by the relevant governance committee of the supervised entity, such as the nomination committee. In this context, all legal and internal documentation may be requested to support our assessment. On a case-by-case basis, the ACPR may also conduct a fit and proper interview in collaboration with the ECB, in accordance with the SSM Methodology for Fit and Proper Interviews.

E. Enforcement

90. The ACPR, with the leading role of the Secretary General, utilizes a flexible framework of enforcement tools and escalating measures to enforce compliance and deter misconduct, including in a forward-looking manner. As mentioned previously, supervisory actions are conducted under the authority of the Secretary General, who oversees both on-site and off-site supervision, with the Supervisory College having the option to delegate decision-making authority to its chairman or the Secretary General as per relevant articles of the CMF. In addition, the Supervisory College possesses the authority to implement temporary enforcement measures in emergency situations. The ACPR is equipped with a comprehensive array of tools that enable it to implement supervisory and enforcement measures, as well as impose effective, proportionate, and deterrent sanctions (Box 6). This framework ensures that the concerned bank adheres to prudential requirements while also discouraging misconduct by others, including addressing the supervisory concerns in a forward-looking manner. Supervisory measures are designed to prompt banks to take necessary corrective actions at an early stage. The ACPR employs its powers flexibly, taking into account various factors such as the firm's behavior and the broader institutional environment. Its strategy is built on an escalating response framework; however, in cases of serious violations, the

[45] As well as the EBA and ESMA Joint Guidelines on the assessment of suitability.
[46] See the ECB's Guide to fit and proper assessments.

ACPR may exercise its punitive powers directly. This escalation strategy does not adhere to any formal or internal policy thresholds or triggers.

Box 7. Enforcement Measures

When the ACPR detects a potential breach of regulatory requirements, it can use several enforcement tools, including:

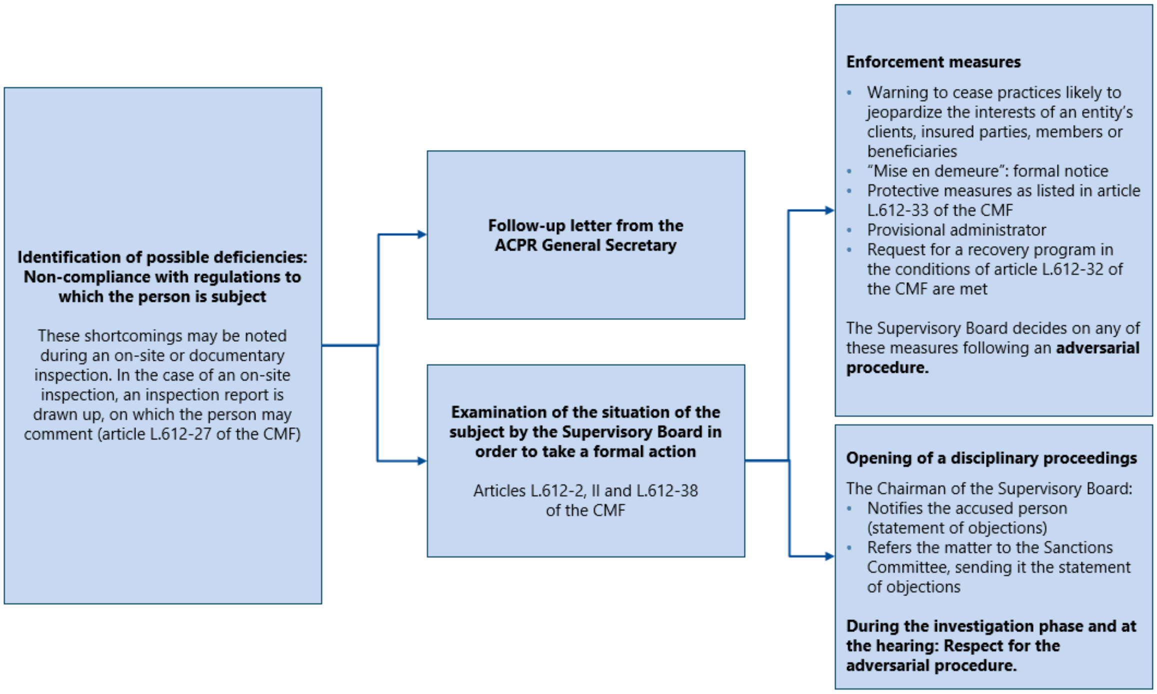
- Injunctions to restore financial or liquidity stability under Article L. 511-41-3 of the CMF.
- Warnings to cease practices jeopardizing client interests under Article L. 612-30 of the CMF.
- Formal notices (*mise en demeure*) ordering compliance within a specified timeframe under Article L. 612-31 of the CMF.
- Recovery program requirements to improve financial conditions under Article L. 612-32 of the CMF.
- Protective measures if solvency is at risk, such as placing the entity under special supervision or limiting transaction execution under Article L. 612-33 of the CMF.
- Appointment of provisional or temporary administrators to oversee management under Article L. 612-34 of the CMF.
- Initiation of disciplinary proceedings, with cases referred to the Sanctions Committee for further action.

91. The ACPR has a robust process in place to frame the enforcement actions while choosing from a variety of tools and measures. After conducting an on-site inspection, the ACPR issues a final report, which details the findings and is directed to the institution's management following an adversarial procedure. Based on the seriousness of the findings, the ACPR typically implements one of several follow-up actions:

- A follow-up letter, signed by the Secretary General, which outlines required corrective measures that the institution must address.
- A formal notice (*mise en demeure*) issued by the President of the ACPR, demanding swift rectification of identified material shortcomings.
- The initiation of a disciplinary procedure by the Supervisory College in cases of severe violations that warrant sanctions.

92. Furthermore, the ACPR has the authority to adopt protective measures when specific conditions are met (Box 6). The range of available enforcement measures encompass: the suspension of senior executives or appointment temporary administrators to assist or replace effective directors, requiring directors to consult or seek approval for certain decisions; compelling a bank to alter its organizational structure or divest business units if there is a rapid deterioration in its financial situation leading to potential regulatory breaches; or temporarily restricting a bank's activities when its solvency or liquidity is compromised, or if it is likely to breach regulatory obligations. The Sanction Committee of the ACPR can also withdraw a bank's license with ECB approval, as outlined in the CMF. To ensure compliance, the ACPR may schedule additional on-site visits or request internal audit missions to verify the implementation of corrective actions. Continuous monitoring is conducted to assess the effectiveness of these measures and to ensure the institution adheres to the stipulated timelines for compliance.

Figure 3. France: ACPR Enforcement Process



Source: ACPR

Appendix I. Actions Taken by the Authorities to Address 2018 Recommendations

2018 Recommendation	Actions Taken
1. Report intragroup exposures and transactions within conglomerates on a flow and stock basis at quarterly or regular frequency. Develop guidance to address direct and indirect, and common exposures of entities in the conglomerate.	**Addressed.** Conglomerates report on intragroup exposures and transactions within conglomerates on a flow and stock basis at regular frequency, i.e. semi-annual basis for the most significant conglomerates. An enhanced reporting has been developed by the European Joint Committee in Financial Conglomerate and was formally adopted by the European Commission in December 2022.
2. Develop with the ECB and other EU agencies liquidity risk management requirements and stress testing at the conglomerate level.	**Addressed.** The FICOD, article 9 as transposed in France requires to implement adequate risk management, including liquidity risk. SSM further clarified its expectation on liquidity monitoring and management through the adoptions of a dedicated annex to SREP methodology in 2020 procedure. ACPR is carrying out ad hoc research projects on liquidity analysis and the conduct of stress testing at the conglomerate level, recently presented to the ACPR Scientific Committee.
3. Strengthen conglomerate oversight and work with the Joint Committee of the ESAs to finalize common reporting templates, and with the ECB on common supervisory guidance for conglomerates.	**Largely Addressed.** The ACPR maintained a high level of engagement in both arenas in order to strengthen conglomerate supervision. The reporting templates for intra group transactions and risk concentrations have been implemented. The work on financial conglomerate capital adequacy resumed with harmonizing practices in the calculation of capital adequacy. The ECB has developed an internal guidance for the assessment of financial conglomerate issues (SREP).
4. The ACPR and AMF should have autonomy to determine their resource levels based on a forward-looking review of supervisory and monitoring needs.	**Not Addressed.** The current arrangement with a vote on a resource threshold is guaranteeing a stable funding of the NSAs.

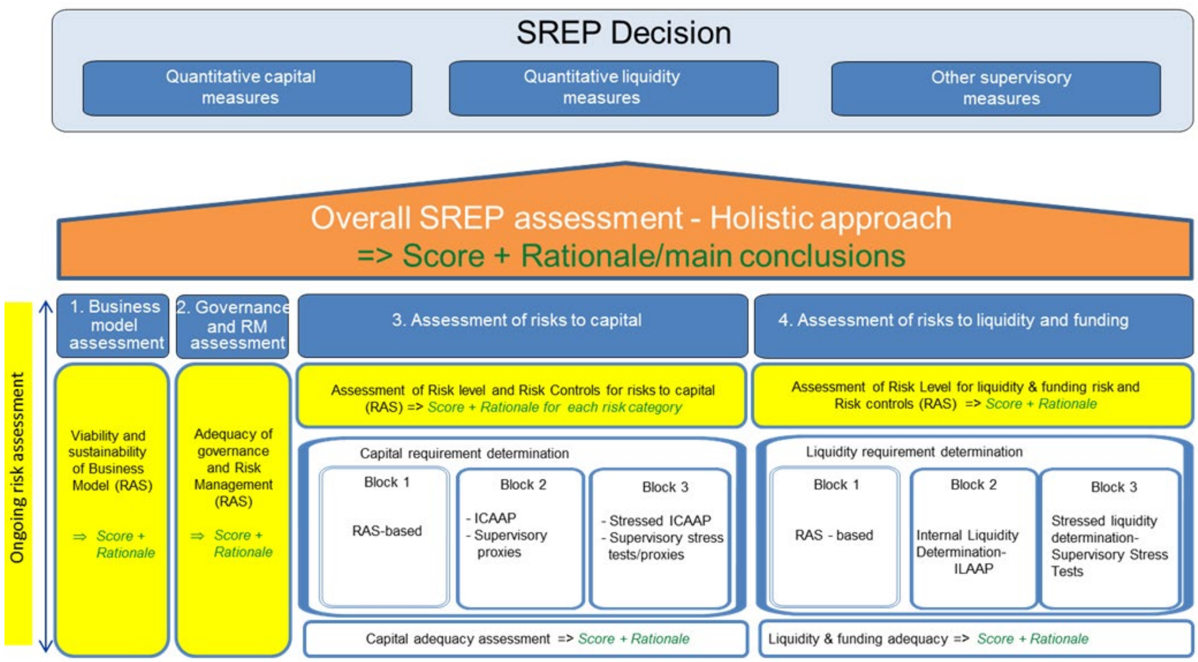
2018 Recommendation	Actions Taken
5. To avoid any perception of a potential conflict of interest and facilitate operationally independent functioning, the government should recuse itself from all supervisory decision-making committees at the ACPR and the AMF.	**Not Addressed.** The presence of the MoF as an observer at the NSAs' board does not prevent the decisions to be taken independently.
6. Reduce further the spread between market interest rates and the return on regulated savings products. Ensure timely and effective implementation of CDC governance reform under the Loi PACTE and undertake a full review of regulated savings framework at the appropriate time.	**Addressed.** Two decisions, taken in 2018 and 2023, have contributed to reducing the spread between market interest rates and the return on regulated savings products: In 2018, a new formula was established to calculate the return on Livret A and LDDS, removing the former « inflation floor » and replacing EONIA benchmark with the new €STR. Furthermore, under the Loi PACTE, the ACPR has become CDC's supervisor in its own right, thus bringing CDC closer to the framework of ordinary law in relation to financial institutions.
7. Enhance AML/CFT supervision of smaller banks rated as high-risk. Explore ways to provide systematic guidance on detection of potential terrorist financing activities.	**Addressed.** The majority of high-risk banks have been inspected between 2015 and 2020. ACPR/TRACFIN joint Guidelines criteria, including weak signals that oblige entities to have to take into account, have been implemented. The ACPR provides further guidance in the Sectoral Risk Assessment.

Appendix II. Overview of the SSM Supervisory Review Process

1. The SREP process is fundamental to supervisory activities and outcomes. It adheres closely to EU and SSM frameworks, with qualitative and quantitative assessments that are sufficiently comprehensive to verify the robustness of LSIs' governance and risk management, while building on a wide variety of inputs. Grounded in the SREP, supervisory evaluations incorporate supervisory judgment and leverage the inherent flexibility of the SSM framework to accommodate the diverse business models within the French LSI system, which includes retail banks (such as Caisses de Crédit Municipal), wholesale lenders, and asset managers.[1]

2. The SREP methodology relies on quantitative and qualitative assessments, overlaid with supervisors' expert judgement, to derive SREP decisions that are tailored to a bank's specific risk profile.

Table 1. France: Structure of SREP



Source: ECB

3. The methodology is built on four elements, which can be tailored for the specific situation of each institution:

[1] The use of the common methodology is recommended by provisions of the EU legal framework. Article 97(4a) of the CRD suggests competent authorities to tailor their supervisory evaluation by taking into account institutions with a similar risk profile. This has been transposed in French law in Article L. 511-41-1-C of the Financial and Monetary Code.

- *Business model assessment* – including an assessment of business model viability and sustainability.
- *Internal governance and risk management assessment* – assesses group structure, internal governance framework, risk management framework, internal control environment and risk infrastructure.
- *Capital assessment* - includes a risk-by-risk assessment of risks to capital i.e., credit risk, market risk, operational risk and Interest Rate Risk in Banking Book (IRRBB). This assessment also includes an Internal Capital Adequacy Assessment Process (ICAAP) outcome, encompassing ICAAP governance, capital planning, scenario design and stress testing, internal controls, independent reviews and ICAAP documentation, data and infrastructure, risk capture, management and aggregation.
- *Liquidity assessment* – includes a risk-by-risk assessment of risks to liquidity and funding, i.e., short-term liquidity, long-term funding sustainability and Internal Liquidity Adequacy Assessment Process (ILAAP) reliability assessment, encompassing ILAAP governance, funding strategy and liquidity planning, scenario design, stress testing and contingency funding plan, internal controls, independent reviews and ILAAP documentation, data and infrastructure, risk capture, management and aggregation.

4. **Consideration is also given to developments in the sector and the wider economic environment that may impact the longer-term risk profiles of the banks.** This is achieved through quarterly risk analysis packs (analytical reports of supervision), financial stability reviews, quarterly bulletins, internal 'policy bites' information sessions, SSM priorities, and SSM horizontal assessments. Frequency of engagement with each LSI is based on the risk profile of the bank, business model changes, and the nature, scale, and complexity of the institution.

Appendix III. Selected Issues of Conglomerate Capital Regulation

1. *The delegated regulation* under the FICOD addresses some capital adequacy issues for French conglomerates but still faces challenges in creating a unified group-level approach that integrates various sectoral methods. The delegated regulation provides additional details on the calculation methods as well as on specific underlying issues. Importantly, it clarifies that *own funds* which result directly or indirectly from intra-group transactions shall not be included in the calculation. It also stipulates that own funds must be fully transferable within a financial conglomerate, ensuring that capital can be effectively allocated to absorb losses where needed, and only such own funds can be considered for meeting capital adequacy requirements. Furthermore, the regulation emphasizes the necessity for sector-specific own funds to adequately reflect the distinct risks inherent in different financial activities, ensuring that each sector maintains sufficient capital to withstand potential financial stress.

However, there are other key issues that need to be further addressed on the level of regulation which include:

- *coherence between sectoral legislation and the FICOD capital definitions*, particularly concerning the treatment of capital add-ons, buffers, and tiering limits;
- *obstacles to the transferability of capital surplus* in the capital requirement at the financial conglomerate level; and
- *the absence of harmonized templates* for capital calculation reporting and disclosure, including the associated instructions.

Other issue where the FICOD does not provide answers is, for instance, the treatment of the non-regulated non-financial sector entities.

2. *EU supervisors are actively working to address legal gaps through supervisory guidelines* to achieve greater consistency in calculations while ensuring transparency and legal certainty, as differing interpretations of regulatory requirements—such as minority interest treatment and sectoral own funds recognition—can significantly impact assessments of a financial conglomerate's capital position.

- While, for instance, *full recognition of entities' own funds* at the financial conglomerate level promotes a comprehensive view of the conglomerate's capital position, it may also lead to overreliance on certain sectors' capital without adequately considering sectoral characteristics; in contrast, *sector-specific tiering limits* ensures that the recognized capital is proportional to the risks inherent in each sector, promoting a more cautious approach to capital adequacy.
- Similarly, *determining surplus own funds* is essential for ensuring that the conglomerate can absorb potential losses and maintain solvency in adverse economic conditions; while determining surplus of own funds by allocating the total own funds of the conglomerate to its various sectors based on their respective solvency requirements promotes a more accurate

picture of capital adequacy across sectors, the entity level approach is less complex, however, may obscure some risks.

Appendix IV. Overview of Key Regulations Adopted Since 2018

EU Major Legislative Initiatives

- CRR III (2021/558): intends to finalize the implementation of Basel III; introduces a further incorporation of environmental, social, and governance (ESG) factors into risk assessments; the establishment of minimum requirements for the leverage ratio; and enhancements to the framework for addressing exposure to crypto assets.

- CRR II (2019/876): implements binding Net Stable Funding Ratio (NSFR) & Leverage Ratio, with changes linked to Basel fundamental review of the trading book (FRTB), Standardized Approach for Counterparty Credit Risk (SA CCR), total loss absorbing capacity (TLAC) and a revised Pillar 2.

- CRD VI (2021/338): introduces a new framework for the supervision of third-country firms, enhanced provisions for the treatment of non-performing loans, and adjustments to the remuneration policies to align with long-term risk and sustainability objectives.

- CRD V (2019/878): requirements in relation to IPU, financial holding companies, systemic risk buffer and Pillar 2 Requirements & Guidance.

- COVID-19 “quick fix” (2020/873): modified implementation timelines for certain aspects of CRR II, along with additional flexibilities (e.g., extended IFRS transitional arrangements).

- PSDII (2015/2366): aims to payments more secure in Europe, boost innovation and open up payment markets to new nonbank entrants.

- BRRD II (2019/879): further strengthens the recovery and resolution regime as regards the loss-absorbing and recapitalization capacity of credit institutions and investment firms.

- Securitization (2017/2401; 2017/2402): amended capital requirements for securitization exposures.

- Covered Bonds (Directive 2019/2162): sets our requirements for national covered bond frameworks and the credit institutions operating within same.

- NPL Backstop (2019/630): introduced new minimum loss coverage provisioning requirements for exposures, originated after the Regulation and which subsequently turn non-performing.

EBA Major Regulations

- Guidelines on loan origination and monitoring[1] which specify the internal governance arrangements for granting and monitoring of credit facilities throughout their lifecycle.

- Guidelines on the application of the definition of default[2] prescribing additional criteria for the identification of non-performing and distressed credit, which includes aspects such as the days past due criterion for default identification or indications of unlikeliness to pay.

- Guidelines on management of non-performing and forborne exposures.[3]

- Report on Management and Supervision of ESG Risks for Credit Institutions and Investment firms.[4]

- Implementing Technical Standards on Prudential Disclosures on ESG risks[5] which put forward tables, templates and associated instructions that specify the requirement to disclose prudential information on environmental, social and governance (ESG) risks, including transition and physical risk.

ECB Relevant Guidance

- Guidance to banks on NPLs published in March 2017, whereby the ECB expects banks to set internal coverage thresholds for NPLs, depending on their risk profile.[6]

- The Addendum to the ECB Guidance to banks on non-performing loans published in March 2018, which clarifies the ECB's supervisory expectations for prudential provisioning of new NPEs (i.e., exposures classified as non-performing according to the EBA's definition, from 1 April 2018 onwards).[7] Where banks fell short of these expectations after a phase-in period the SSM could impose a deduction to CET1 capital under Pillar 2.

- Supervisory expectations for provisioning of NPE stock (i.e., exposures classified as NPE on 31 March 2018), with the starting point of 2/7 years vintage buckets for unsecured/secured NPEs, subject to supervisory coverage recommendations and phase-in paths.[8]

---

[1] EBA GL 2020 06 Final Report on GL on loan origination and monitoring.pdf (europa.eu) (May 2020).
[2] EBA in Guidelines on the application of the definition of default (September 2016).
[3] Final Guidelines on management of non-performing and forborne exposures (October 2018)
[4] Report on Management and Supervision of ESG Risks for Credit Institutions and Investment firms (June 2021)
[5] EBA draft ITS on Pillar 3 disclosures on ESG risks (January 2022)
[6] Guidance to banks on non-performing loans (March 2017).
[7] Addendum to the ECB Guidance to banks on non-performing loans: supervisory expectations for prudential provisioning of non-performing exposures (March 2018).
[8] ECB press release – "ECB announces further steps in supervisory approach to stock of NPLs" (July 2018).

- ECB Guide to Internal Models which aims of ensuring a common and consistent approach to matters related to internal models.[9]
- ECB Guide on Climate-related and Environmental Risks outlining the ECB's understanding of the safe and prudent management of climate-related and environmental risks under the current prudential framework; it describes how the ECB expects institutions to consider climate-related and environmental risks – as drivers of existing categories of risk – when formulating and implementing their business strategy and governance and risk management frameworks.[10]
- ECB report on good practices for climate stress testing which provides banks with examples and suggestions on how to improve their climate stress testing capabilities.[11]

[9] ECB guide to internal models (October 2019).
[10] Guide on climate-related and environmental risks (November 2020).
[11] ECB report on good practices for climate stress testing (December 2022).

Appendix V. Regulated Savings

Regulated savings constitute a vital part of the French financial system, representing approximately 25percent of household deposits as of 2023. By early 2023, regulated household savings reached €780 billion, reflecting a year-on-year increase of approximately 6.4percent. Originating from a historical initiative to fund socially beneficial projects, these savings products are well-organized. These savings are directed by the state to fund social projects, particularly social housing, and are appealing to households due to favorable tax treatment and government guarantees.

A variety of regulated savings products are accessible to the public in France, including Livret A, Livret de Développement Durable et Solidaire (LDDS), and Livret d'Epargne Populaire (LEP). These products come with specific conditions, such as maximum amounts and tax treatment, serving distinct purposes. A significant portion of these savings is centralized to the Caisse des Dépôts et Consignations (CDC), primarily to fund social housing projects.

Established in 1816, the CDC is a public financial institution accountable to the legislature and plays a key role in managing regulated savings. Its mandate includes funding social projects and managing public deposits. By the end of 2022, CDC's consolidated assets reached €280 billion, supporting various public policies. Although it operates independently of EU banking regulations, upcoming reforms will enhance its prudential oversight, requiring it to align more closely with banking standards. The CDC is subject to oversight from the ACPR, ensuring regulatory compliance and effective crisis management.

While some regulated savings remain on commercial bank balance sheets, others, such as Livret A, LDDS, and LEP, must be partially centralized to the CDC. Regardless of centralization, savings are subject to investment conditions; centralized funds are primarily directed toward social housing projects, while non-centralized portions must finance SMEs and social initiatives.

The prudential treatment of regulated savings is crucial, with banks required to centralize portions of these savings with the CDC if they choose to offer regulated accounts. The risks associated with these savings are mitigated by treating claims on the CDC as zero-risk weighted assets. Regulatory standards like the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), and the Leverage Ratio apply to these products, ensuring banks manage liquidity effectively.