15 janvier 2010 - Response to the Questions in the European Commission's document on the Review of the FCD.

INFORMATION ON THE RESPONDENT
A) Name and address of the respondent

Fédération Bancaire Française-FBF (French Banking Federation)
18 rue Lafayette
75009 PARIS
FRANCE

B) The respondent is

An association of stakeholders

C) If the respondent is an association of stakeholders, how many members do you represent?

The FBF represents **all French banks and foreign banks that have established subsidiaries or branches in France,** whether they are from Europe or elsewhere. There are currently **450 banks** that are members of the FBF, including universal banks, online banks, investment banks, private banks, local banks, etc.

D) Do you object to the publication of your response?

No

Question 1

For which of the following a review with respect to the transparency of group structures would be justified? Please select all that apply and explain why:

Yes for all conglomerates
Yes for all conglomerates larger than 100 billion euro total assets
Yes for all groups, banks or insurers or conglomerates
Yes for all groups larger than 100 billion euro total assets
No, I don't think that a review of transparency of group structures is justified

Why?

Answer

We agree that the group structures of a financial conglomerate need to be transparent.

However, existing sectoral legislation already provides the competent authorities with sufficient tools to obtain a comprehensive picture of the structures of the group to which the bank, insurance company or investment firm belongs. Where banks are concerned, reference can be made in particular to the following provisions laid down in Directive 2006/48/EC.

- Article 7 : Member states shall require applications for authorisation to be accompanied by a programme of operations setting out, inter alia, the types of business envisaged and the structural organisation of the credit institution.
- Article 22 : §1. Home Member state competent authorities shall require that every credit institution have robust governance arrangements, which include a clear

organisational structure with well defined, transparent and consistent lines of responsibility , effective processes to identify, manage, monitor and report the risks it is or might be exposed to, and adequate internal control mechanisms, including sound administrative and accounting procedures.

§2. The arrangements, processes and mechanisms referred to in paragraph 1 shall be comprehensive and proportionate to the nature, scale and complexity of the credit institution's activities. The technical criteria laid down in Annex V shall be taken into account.

Against this backdrop, we do not believe that the Financial Conglomerates Directives needs to be amended to allow competent authorities to obtain transparency about the group structures of a financial conglomerate.

Nevertheless, if a new review were to be introduced, it should be applied to all groups (conglomerates or not) with total assets larger than 100 G euro to avoid creating an unlevel playing field between large groups.

Question 2

Do you think that a more in-depth investigation is justified with respect to the supervisory scope of supplementary supervision, especially in relation to the non-regulated parts of financial conglomerates? Please explain why.

Answer

Risks in FC are already well supervised by sectoral regulation, which includes all non regulated entities as the supervision is done on a consolidated basis, without any need to be further strengthened. Increasing the supervisory framework for regulated FC may lead to an unlevel playing field with non FC banks or insurance companies and non regulated entities that have no particular capital requirements.

Before amending FCD to widen the scope of supervision, we think that non-consolidated entities in a group as hedge funds, trusts, pension funds, which are currently not regulated, should be included in a type of supervision. We are of the opinion that they bear risks that are similar to those taken by banks or insurance companies. Therefore those activities should rather be covered by a sectoral supervision at their level than included in a process of supervision at a group level.

Question 3

In your opinion, would the debates on the definition of capital in the banking and insurance sector respectively, justify a more in-depth investigation of the cross-sectoral perspective? Please explain why.

Answer

Cross-sectoral differences in the area of definition of capital, which are not justified by sectoral specificities, create distortions of competition across sectors, or render the underlying conceptual framework of the sectoral Directives incoherent. The only differences in the capital definition that should be allowed would proceed from sectoral specificities and the nature of risks carried by either the banking industry or the insurance industry. The standardization of definition of capital may be counterproductive and lead to unforeseen and unintended consequences. The French “bancassurance” model of integrated banking and insurance businesses provides enhanced stability to the financial system as risks are correctly identified and managed. Moreover such a model provides better conditions to customers. That deserves to be taken into consideration.

Therefore, we are of the opinion that both Solvency 2 and Basel consultation should be harmonized to avoid very different definitions of instruments eligible in Tier one and deductions which will depend on the definition of capital the Basel Committee will finally recommend after the ongoing consultation.

Question 4

With respect to the group wide remuneration policies in financial conglomerates, would you regard it as useful to consider the compatibility of these policies across the banking and insurance sectors within the conglomerate?

Answer

The need for a level playing field requires all financial institutions to be made subject to similar rules in the area of remuneration policies.

Sectoral rules on remuneration policies apply to every entity in the scope of consolidation of regulated entity. Our impression is that this should be sufficient to capture all entities that are part of financial conglomerates.

Question 11

Do you want to share any other relevant information with the Services regarding the supervision problems at the top level?

Answer

While we support the objective of ensuring the transparency of financial conglomerates, as already stated, we think the main supervision is best done at the sectoral level by the competent authorities.
If it should nevertheless be deemed necessary to enhance cross-sectoral supervision at the level of the financial conglomerates, we think that the following considerations should be taken into account: Banking and insurance activities have different risk profiles that either are uncorrelated or compensate each other naturally. Property and Casualty insurance risks are not correlated to market risks and compensations exist between interest rates risks in both sectors. This natural hedging is reinforced by the complementarity of business cycles which are short in the case of banks and long in the case of insurances. All the more, integrating insurance and banking businesses allows increasing the efficiency of the risk management of the insurance by leveraging the deep knowledge that the bank has of its consumers. As a result, for a bank to have a dedicated insurance subsidiary is a significant factor of risk reduction and rating improvement. We therefore think that any supervision of financial conglomerates at the consolidated level should reflect this risk diversification.