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Statistics on “financial groups”

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Working Group’s report

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Contents

[1] *The developments of this part are taken from an article by Jean-Marie Fournier (INSEE) and Denis Marionnet (Banque de France) on "the measurement of the activity of banks in France", to be published in the Banque de France's quarterly Bulletin Banque de France.*

Introduction

The CNIS working group on “structural statistics for enterprise groups and their sub-groups”, which was chaired by Mr Edouard Salustro, was unable to examine the case of enterprise groups in the financial sector in its analysis and recommendations.

One of these recommendations called for a study to be carried out to examine how the recommendations concerning structural statistics for enterprise groups and their sub-groups could be applied to the financial sector. It was therefore suggested that an additional study to complement the “Salustro” report should be made.

On 27 March 2008 the Board of the CNIS issued a mandate to set up a working group to examine the specific issue of “financial groups”. This group is chaired by Mr Gilles de Margerie, who is a member of the Executive Board and director of private banking, capital investment and real estate at Crédit Agricole SA.

Foreword

The report by the working group on statistics for financial groups follows on from the “Salustro” report which focused on enterprise groups and their operational divisions.

1) The Salustro report and financial groups

The implicit approach used by the public statistical service when monitoring the activities of companies outside the financial sector is based on the premise that their activities can be comprehended by analysing these companies' operating accounts. Under the European regulations governing business statistics, variables must be provided, which in France are obtained from the operating accounts. In theory, the sectoral classification of a non-financial corporation (i.e. ascertaining its main activity) is mainly based on an analysis of its value added. In practice, the classification in France is based on an analysis of the company’s turnover.

The CNIS working group on “structural statistics for enterprise groups and their sub-groups”, which was chaired by Mr Salustro, published its report in January 2008. It concludes that the description of the activity of the companies is incomplete if only the corporate accounts of the legal units are analysed. The companies, in their capacity as real economic operators, are not a single legal unit in many cases. As regards enterprise groups, the “companies” (as economic operators) are often larger combinations of several legal units. The “Salustro” report established that the real companies are either the enterprise groups as a whole when there are no subsets within the whole that have a certain degree of managerial autonomy, or the “group operational divisions”, i.e. entities within the companies which have a certain degree of managerial autonomy and certain decision-making powers.

The “Salustro” report recommends that when it comes to compiling the various different business statistics of non-financial groups in the future, it is the “group operational divisions”, if there are any, that should be used to compile the main statistics and especially those relating to the function of production. When it comes to the financial aspects of non-financial groups, it is the group as a whole that will be examined. In order to understand a number of phenomena (such as the description of their development or establishment strategy), the group as a whole needs to be examined. In addition, in a number of cases (or even the majority of cases if we look at all the groups) the notions of “group” and “group operational division” are one and the same thing (in other words the group only has one operational division). INSEE has chosen to implement this recommendation and in the future, at enterprise level, it will use only the group operational division level when disseminating data on non-financial groups.

In light of these findings, the mandate of the working group I had the honour of chairing was to study the implications of applying these recommendations to an analysis of the financial sector. In particular, the working group was asked to examine whether at the group and/or operational division level the same method of analysis could be used for the financial sector.

Financial groups have at least three major characteristics that set them apart from non-financial groups:

- Generally speaking, their activities are subject to specific accreditation and supervision rules. Under the law, financial activities must be performed by companies that have been granted specific accreditation for the activity concerned. This means that only companies that have been accredited as credit institutions can engage in banking activities, only companies that have been accredited as insurance companies can engage in insurance transactions, and only companies that have been accredited as management companies can manage UCITS, which themselves can only be set up after obtaining the requisite authorisation. The financial sector is thus made up of a body of accredited companies, each of which is engaged in a very specific authorised activity and cannot engage in a financial activity that requires different accreditation via the same legal entity. In other words, banks or banking groups can only provide insurance services through a subsidiary that has been accredited as an insurance company; the same holds for banking services provided by an insurance group;
- Existing business statistics for the financial sector are reliable and abundant because these companies are subject to a whole range of controls carried out by the relevant supervisory authorities. Financial corporations have an obligation to provide them with regular accounting and prudential information, which is used as a basis for monitoring their financial situation and

their activities. This system has to a great extent shaped the production of statistics on financial activities (monetary and financial statistics –outside the usual framework of structural statistics– structural statistics, national accounts). The official classification of financial activities is based to a large extent on these considerations. Although this makes it possible to make a distinction between banking activities (under the supervision of the Commission Bancaire) and insurance activities (under the supervision of the *Autorité de Contrôle des Assurances et des Mutuelles);*[2] the description of the financial activities is not always sufficiently detailed. In particular, it would appear to be difficult to monitor, at a less aggregated level within the banking sector, activities such as consumer credit, retail banking and corporate and investment banking (CIB). And this difficulty has arisen at a time when, on the one hand, financial groups are increasingly organising their financial communication around such activities and, on the other hand, the financial crisis has shown that these areas of finance can be subject to different activity cycles and achieve very different results. Finally, it should be noted that data relating to financial auxiliaries is obtained through the usual framework for collecting national accounts data, rather than via prudential supervisory authorities;

- Lastly, as regards financial groups, the discrepancies between the consolidated accounts established according to international standards (IAS) and the corporate accounts established according to French standards for prudential supervision or statistical purposes can be considerable, especially when it comes to banking groups. The differences in the scope of activity, definition and especially the notion of the value created by financial corporations have led to sometimes very different opinions as regards recent developments in their activities depending on whether the activities are described by the financial groups themselves or by the public statistical service within the framework of the national accounts. Without a minimum level of detail and explanation, these discrepancies make it futile to even attempt to consolidate the aggregated (and consolidated) results of financial groups using accounting information that the public statistical service has at its disposal currently.

These characteristics, which are specific to the financial sector, led the working group to examine not only the question of the actual financial groups and the profiling of their operational divisions, but also the different datasets that can be used to gain an overall understanding of the sector.

2) Operational divisions within financial groups

While the issue of identifying and defining financial groups seemed straight-forward given the high level of concentration of their activities and the existence of robust and exhaustive sources of information, most of which are directly linked to state supervision of these activities, it quickly became apparent that the issue of identifying the main types of professions in the finance sector and the question of “operational divisions” were going to be the most difficult to understand and resolve.

The study established that the financial sector comprises three main categories of entities: “Financial institutions” (including the central bank and credit institutions), insurance companies and financial auxiliaries.

Insurance companies are classified according to their activity (life, non-life, reinsurance, etc.). Although no specific work was done on this point, the group was of the opinion that this classification reflects to a large extent the internal structure of insurance groups and thus makes it possible to produce satisfactory business structural statistics for insurance services.

The situation is different for banking groups. It is true that structural statistics for credit institutions can be produced in a satisfactory manner because they are based on solid accounting sources. However, banking groups have for many years now organised their activities by “profession”, such as retail banking, corporate and investment banking, consumer credit, factoring, leasing, etc. Our working group noted that this structure was not reflected in the classifications for structural business statistics and national accounts. The consolidated accounts published by banking groups, which also frequently include insurance activities, are, however, broken down by “profession”. These professions are defined very differently from one financial group to the next. The figures published often, but not always, reflect the operational structure of the group, which is based around the aforementioned professional categories and these figures are based on definitions that are specific to each group and

[2] French supervisory authority for the insurance sector.

which are not fully detailed in the publications. Thus, the distinction between corporate and investment banking and “retail banking” may differ considerably from one group to the next, as can groupings of certain other activities.

This can lead to several different legal units being grouped together under the same professional category, each with its own organisational and management structure, which is fairly easy to pinpoint, as the working group was able to verify via a detailed case study of the Crédit Agricole Group. But this approach can also lead to different professions being placed within the same legal entity, in which case the only available data allowing for the different professions to be identified is information from cost accounting conventions or instruments within this entity. Capturing this type of data would entail analysis at a more detailed level than that of the legal unit, which would have to be done outside the framework of structural business and national accounts statistics.

3) Accounting concepts

There are considerable differences between two concurrent approaches to banking activities: the first is based on the concept of value added in the national accounts and the second, which is favoured by bankers, emphasises the notion of net banking income. The extent of the discrepancies between the two approaches led the working group to refocus its work somewhat in relation to its original mandate. It first examined the difficulties encountered in describing homogenous financial activities at a detailed level (especially in the banking sector) using the source data and results that the public statistical system currently has at its disposal. It then attempted to reconcile, at a highly aggregated level, the perceptions of banking activities that professionals, on the one hand, and the public statistical system, on the other hand, have of banking activities.

It was thus possible to establish that the fact that the growth of the activity of credit institutions up until 2007, based on their net banking incomes, was far quicker than when based on the value added measurement in the national accounts could be explained by carrying out a detailed analysis of the accounting data that takes account of the detailed income statements which make a distinction between net banking income and value added.

The working group also noted the additional difficulty relating to the considerable differences that can be seen between accounts drawn up in accordance with international standards, which are used by financial groups, especially banking groups, in their consolidated accounts and accounts drawn up in accordance with French standards, such as those used to produce the national accounts. This point was not specifically examined.

4) Working group's recommendations

The characteristics specific to financial groups have led the working group to form the following opinions as regards the production of statistics on enterprise groups in the financial sector, as recommended in the Salustro report:

- Operational divisions

Given that the regulations governing financial activities are strict and precise, the collection of data on companies that are part of financial groups can be regarded as reliable and very comprehensive, especially as regards the compilation of structural business statistics. However, the data produced by the public statistical system does not allow for a more in-depth analysis of sub-sectors of activity or "professions" at a detailed level, which would better cater for the needs of professionals. This is particularly detrimental at a time when the crisis is exacerbating the performance gaps between activities and it appears that the risks being run are very different, as is their impact on the functioning of the rest of the economy. Against this backdrop, the identification of group operational divisions within financial groups entails a certain amount of work upstream. Firstly, the different activities in the finance sector, including at a detailed level, need to be identified via classifications that better reflect the actual situation. Once this has been achieved, it would be a good idea to look at the possibility of producing statistics at the level of sub-sectors of activity, especially for banks. This work could be carried out by an ad hoc working group, aided by the various different competent bodies in the field of accounting in the financial sector, as well as by representatives of the main trade associations (FBF, FFSA), etc).

- Overall monitoring of developments in the sector

The report highlighted and, for the first time to my knowledge, put a figure on the considerable discrepancies between the approach of statisticians, who look first and foremost at value added in the financial sector, and accountancy practices in the banking sector, which focus on "net banking income". This comes at a time when the share of GDP that the finance sector accounts for has become an important topic of public debate. It therefore seems desirable to give further thought to the work undertaken by the working group in this area. In this respect, it would be appropriate to recommend an operational objective, which would be to pursue this work with a view to publishing regular explanations of the discrepancies between these two approaches for the whole of the banking sector.

I would like to express my gratitude to the members of the working group, who took an active and committed part in the meetings, and particularly to Professor Jean-Paul Pollin and Mrs Eliane Beurienne, as well as my warmest thanks to the rapporteurs, Jean-Marie Fournier from INSEE and Sanvi Avouyi and Denis Marionnet from the Banque de France. All three of them enabled the intuitions of the working group to take shape and to be confirmed by the innovative studies and the supporting figures which will make an important contribution to collective thinking on measuring the importance of financial activities for the economy.

Gilles de Margerie

Brief reminder of the main recommendations of the “Salustro” working group

Observing and recording the activities of “companies” must no longer be done, as is the case at the moment, solely on the basis of the results of companies viewed independently of each other, but also on the basis of the results of the companies that make up the groups.

Therefore, the “Salustro” working group recommends that in the future the “operational divisions” of the groups, i.e. the way in which the groups are broken down into units of economic activity benefitting from a degree of decision-making and self-management powers, should be the new unit used for compiling business statistics.

In addition, although it is also important to ascertain the activity of the groups globally, without focusing on one particular geographical area, it is also necessary for the purposes of analysing the national economy to be able to look solely at the group’s transactions carried out on national territory, as well as the share of its activities in- and outside its country of origin.

Due to time constraints, the “Salustro” working group was not able to examine and make proposals on the specific issues of investment funds and the financial sector; as regards the latter, analysis should take account of the groups in the sector (and especially the non-financial corporations within these groups) as well as the companies in this sector that belong to groups outside the financial sector. The “Salustro” working group recommended that this analysis also be carried out for the financial sector, especially in conjunction with the competent statistical services. It was therefore suggested that an additional study to complement the “Salustro” report be made (*Recommendation* N°*19*).

Lines of thinking that were not followed up on

The working group’s first line of thinking involved analysing whether the approach adopted had already been used in other countries. Informal contacts with international bodies (Eurostat, OECD, ECB, etc) were held, but no tried-and-tested model for monitoring financial groups that could have been transposed to the French situation was found.

The ECB has access to aggregated data collected from national central banks relating to the main banking groups (large and complex banking groups). It periodically publishes this aggregated data by country (see report on the stability of the EU banking system –August 2009). Since this data is obtained from consolidated accounting documents, it is not in line with the logic behind the recommendations made by the Salustro working group.

Summary of the working groups's report

Part One: The organisational structure of financial activities in France makes it possible to monitor them and obtain almost exhaustive statistics for them using the corporate accounts of the companies operating in the sector. This monitoring's scope and relevance would, however, improve if it were backed up by an analysis of the activity and results of the main financial groups.

- Due to the fact that accreditation is required to carry out their activities, financial intermediaries in the broad sense of the term (i.e. banks, insurance companies, UCITS and their management companies) are known to and exhaustively monitored by the supervisory authorities (*Comité des Établissements de Crédit et des Entreprises d'Investissement, Comité des Entreprises d'Assurance and Autorité des Marchés Financiers*). These "agents" have an obligation to submit their accounts on a regular basis to their supervisory authorities (*Commission bancaire, Autorité des Marchés Financiers and Autorité de Contrôle des Assurances et des Mutuelles*).
- The organisational structure of the financial sector makes it possible to obtain information concerning the scope and activity of the entities operating inside it. It is on this basis that the public statistics for the French financial sector are produced.
- However, as well as using the corporate accounts of the financial corporations to produce public statistics in this area, which is the case currently, it could be advantageous also to take account of the phenomena of concentration and integration of these activities within large groups. Current analysis does not apply the general recommendations of the Salustro working group, which advocated that statistics for the largest companies be based not on the corporate accounts, but instead on the accounts of the operational divisions within the enterprise groups.
- Beyond the recommendations of the Salustro working group, the forthcoming merger of the accreditation and supervisory authorities for the banking and insurance sectors is likely to create favourable conditions for developing statistics on financial groups. The restructuring of the regulatory and supervisory arrangements for financial activities gives added justification, from the point of view of public statistics, to the deliberations undertaken by this working group.

Part Two: The public statistical system has the means of identifying the financial groups and distinguishing them from other groups (industrial and commercial as well as mixed groups). The company accounts have also pointed to the high level of concentration of financial activities in France: financial groups are both few in number and large in size.

- A financial group is a group of companies whose parent company is authorised to operate as a financial intermediary. It may also be a group whose parent company is a holding company. In this case, the "main" activity of the group must be carried out by companies that are accredited financial intermediaries or by financial auxiliaries.
- A mixed group is a group whose parent company has not been accredited by the supervisory authority, but which has at least one subsidiary which is an accredited financial corporation. In which case, the group must provide financial services as a secondary activity.
- Identifying all financial corporations does not cause any major problems provided the supervisory bodies for the financial sector provide lists of accredited companies with a single identification number, the SIREN number when there is one. In conjunction with INSEE, the Banque de France can thereby identify and monitor exhaustively the population of financial corporations operating in France.
- The lists of accredited companies (registered as financial intermediaries in the sector repository of financial corporations managed by the Banque de France) and the LiFi database provide a relevant and theoretically sufficient framework for defining financial and mixed groups operating in France providing this is done at an aggregated sectoral level (at the level

of the main professional categories in the finance sector) and the specific structure of certain networks (especially mutual fund groups) is taken into account.

- French financial groups and mixed groups can be identified without any major difficulty. It adds to the monitoring of banking groups carried out by the General Secretariat of the Commission Bancaire on the basis of the IFRS compliant consolidated accounts of these groups. It makes it possible to pinpoint precisely French financial or mixed groups, as well as identify when a financial corporation accredited in France belongs to a foreign group. These analyses also show that the largest groups are few in number.

Part Three: Currently it is easy to define the different operational divisions of the financial groups if this is limited to a description of the main categories of financial activities, as defined in legislation (banking activities in the broad sense of the term, the main categories of insurance activities). Monitoring of the external relations of financial groups is also being developed. The difficulty lies in finding a definition of the operational divisions of banking groups that is similar to those published by the main banking groups for the purpose of describing the main categories of professions within their groups.

- In particular, public statistics do not provide a breakdown of purely banking activities at the level of detail provided for by the official classification of activities and products. As regards the specific case of national accounts, the activities are given the broad classification of “financial intermediation services”. The classification of banking activities and services only reflects the requirements laid down in legislation. It is not broken down into homogenous “professional categories”, as is the practice of financial groups themselves. In their activity reports, banking services are usually broken down into “retail banking”, “corporate and investment banking”, “consumer credit institutions”, etc. We might well consider that these are the operational divisions of these groups that the Salustro report makes reference to.

- Accreditations by type of insurance (life insurance, non-life insurance, mixed insurance, reinsurance) make it possible to monitor insurance activities at the functional level defined under the French classification of activities and products. It is thereby possible to distinguish between life insurance, non-life insurance (indemnity insurance, possibly broken down into main risk types), reinsurance and additional private pensions insurance activities. Cross-checking of these activities by type of company can also be carried out. These comparisons are published regularly by the *Autorité de Contrôle des Assurances et des Mutuelles* (analysis of the insurance market) and the *Fédération Française des Sociétés d’Assurance (FFSA)*[3] for the insurance companies affiliated to this organisation.

- The activities of financial auxiliaries can be monitored at a fairly detailed level using INSEE’s Intermediate Enterprise System (*Système Intermédiaire d’Entreprises* –SIE) in the same way as for the activities of non-financial corporations.

- If the SIREN numbers of the companies making up a financial or mixed group are known, it would appear possible to obtain details of their external trade by using individual data recorded under balance of payments. However, in order for the data to be used at an individual level, the declarations must undergo a considerable amount of processing. In addition, this data can only be used within a strict regulatory framework.

Part Four: An attempt to identify the main professional categories at the Crédit Agricole Group highlighted the ability of the public statistical system to mobilise the information needed to produce statistics on financial groups. However, it did confirm the difficulty in defining a homogenous set of main banking professions that can be applied to all banking groups.

- An attempt to identitfy the main professional categories at the Crédit Agricole Group, which operates both in the banking and insurance sectors, confirmed the difficulties encountered when it comes to pinpointing the main professional categories present in a banking group. In particular, this work confirmed the lack of consistency between the declarations of the group in this respect and the official activity codes.

[3] French Federation of Insurance Companies.

- Although corporate and investment banking at the Crédit Agricole Group is performed by specialist subsidiaries, for which specific data is available, this situation does not apply to all French banking groups where this activity may be performed within the same legal units as other activities, such as retail banking. The choices of the CA Group, like those of other banking groups, do not exclude certain conventions in the demarcation of certain activities, for example business financing activities, which are also performed outside the corporate and investment banking division by LCL or the Regional Branches.

- In the case of the CA Group, it was difficult to distinguish between the different specialist credit activities (cash or investment) within the banks themselves. However, some very specialist banking activities, such as leasing, were identified without difficulty and in a homogenous manner.

- The same goes for insurance activities and the activities of financial auxiliaries, where the activities declared by the group are the same as the public statistical classifications.

- For the other non-banking entities of the group (financial auxiliary services and non-financial corporations), identifying "companies" in the economic sense of the term poses no particular problem.

Part Five: **Monitoring the activities of financial groups and especially banking activities poses a more general problem: that of measuring income from financial services. The analysis carried out by the working group showed that the income and profit sources of the banks vary considerably depending on the accounting conventions used and the point of view one adopts.**

- Monitoring the activities of financial groups and especially banking activities poses a more general problem: that of measuring income from financial services. This is not a new debate and the problem has still not been resolved.

- There are therefore different measurements of banking activity (and thus of the activities of the financial groups they belong to). In the credit institutions chart of accounts, net banking income, which is the main income statement in the accounts, includes financial revenues or even paper profits and losses as elements of wealth creation. Under national accounts, these elements must not be taken into account when calculating value added. These different concepts of accounting standards have led in recent years to discrepancies or even contradictions in company results. In addition, the crisis has exacerbated these discrepancies which should be well documented in the opinion of the working group.

- With a view to calculating the results of financial groups that are not made up of banks only (or those of mixed groups), it is desirable to have at one's disposal a measurement of income value that is as least biased as possible. This measurement could then be compared with others from other branches of activity (financial or non-financial). This point is particularly important when analysing the composition and nature of financial and mixed groups.

Part One: Organisational structure and monitoring of the financial sector

Before defining financial groups, we should first of all establish what we mean by the notion of financial corporation and financial sector and which activities are grouped under this category in order to avoid any ambiguity.

1.1. Definition and scope of the financial sector

A very general definition of the financial sector is provided by the national accounts: this sector includes all entities performing mainly financial intermediation activities or activities closely linked to financial intermediation.

In more precise terms, according to the national accounts,[4] financial intermediation is the activity in which an institutional unit acquires financial assets and at the same time incurs financial liabilities on its own account by engaging in financial transactions on the market, which it then makes available to other institutional units.

In economic literature, direct and indirect financing are often set in contrast to each other: when an operator with a net lending capacity makes a direct acquisition of a debt security (bonds, commercial paper, etc) issued by a operator with a net borrowing need (or *grants him a loan*), we talk about direct financing; when the balance between supply of and demand for financing requires the intervention of a financial intermediary, we say that the financing is indirect or intermediated.

Direct financing accounts for only a small share of the overall financing of the economy. Financing of the economy is therefore predominantly intermediated. Financial intermediation is at the source of specific activities of the financial sector. This stems from the fact that it is almost impossible for a borrower to find spontaneously a non-financial operator who is willing to lend him the sum needed for a period of time and at a cost that meets his needs.

The main characteristic of the activity of a financial intermediary thus lies in its ability to transform its financial assets into financial liabilities with different maturity periods and yields whilst reducing or even eliminating the risks linked to this transformation.

The national accounts are not limited to this fairly summary definition. They also include all auxiliary financial activities, i.e. all activities closely linked to financial intermediation, but which are not strictly speaking financial intermediation activities.[5]

As a result, although the sector of activity is of secondary importance when classifying a non-financial corporation, classification in the financial corporations sector (S12) is closely linked to the very nature of the activity being performed. It is therefore the main activity of the financial corporation which will determine its classification in the financial sector.

National accounts distinguish between three main categories of financial corporations, each defined according to a specific type of activity as defined by the official classifications of activities and products (*Nomenclatures d'Activités et de Produits Françaises* –NAF rév.2 ; *Classification de Produits Française* –CPF rév.2):

- **<u>Financial institutions</u>** (institutional sector S12A of the national accounts, the activities of which comprise those included in division 64 of NAF rév. 2).[6] They comprise all institutional units whose main activity involves creating, collecting and redistributing financial resources under their own responsibility. For the most part, this equates to banking activities (credit institutions and central banks), as well as to financial holding companies, investment trusts and similar financial entities – Undertakings for Collective Investments in Transferable Securities, etc.) and specialist financial activities (leasing, factoring, other credit services not providing deposit management, etc.). This

[4] Article 2-32 of the European System of Accounts (ESA) 1995.
[5] Article 2-39 of ESA 1995.
[6] Cf. *http://www.insee.fr/fr/methodes/nomenclatures/naf2008/pdf/naf2008_64.pdf*.

category groups together investment firms[7] (see Appendix 7 for the precise definition of these entities). In the rest of this report, this division of financial activities is defined generically as the "**financial intermediation sector**".

In addition, there are:

- **Insurance companies** (institutional sector S125 of the national accounts, the activities of which comprise those included in division 65 of NAF rév. 2)[8] whatever their category, as defined in legislation (life insurance, non-life insurance, reinsurance, etc.). National accounts regard insurance activities as part of financial intermediation services in the broad sense of the term. The main function of these institutional units is to provide risk pooling services and, for the most part, they undertake the related financial risks. Life insurance is financial intermediation between generations and indemnity insurance is financial intermediation between the insured and those who have suffered a loss. It should be noted that life insurance is the product most used by households in France to invest their savings. In the rest of this report, this division of financial activities is defined generically as the "**insurance sector**".

- **Financial auxiliaries** (institutional sector S124 of the national accounts, the activities of which comprise those included in division 66 of NAF rév. 2).[9] These units act as intermediaries, the main activity of which is made use of exclusively by one of the two previous categories. Their main activity involves facilitating the conclusion of financial intermediation transactions by acting on behalf of the units providing the financial intermediation services and belonging to the two previous categories. It should be noted that financial auxiliaries are not financial intermediaries as such because they do not take on risks and do not transform assets. This division comprises all services related or closely linked to the financial services provided by the companies classified under divisions 64 and 65 of NAF rév. 2. This category includes asset management companies (*companies that manage UCITS, but not the UCITS themselves)*, companies managing securitisation trusts, insurance brokers and assessors, financial corporations and economic interest groupings –EIG– such as group IT service providers, etc. In the rest of this report, this division of financial activities is defined generically as the "**financial auxiliaries sector**".

Thus, the term **financial corporation** applies to **all companies in the financial sector** whether they are **financial intermediaries** (a financial institution –activity code 64 or an insurance company–activity code 65) or **financial auxiliaries** (NAF rév. 2 activity code 66). It is different from the concept of **financial institutions**, which are the basic entities that constitute a financial corporation. This distinction is an important one in the case of the major bank deposit collector networks, whose activities are based around a large network of establishments, agencies and branches, etc (see below).

1.2. Organisational structure and regulation of the financial sector

Specific legislation governs the conditions under which most entities in the financial sector perform their activities. This is for the most part grouped under four legislative and regulatory codes:

- The Monetary and Financial Code (COMOFI) for the banking sector;
- The Insurance Code for the insurance sector;
- The Mutual Fund Code for mutual funds;
- The Social Security Code for provident institutions (including pensions funds).

Each code sets out, for its own particular field, the main principles governing the organisation of financial activities, as laid down in three major laws:

- **The Banking Law of 24 January 1984** unified legislation and regulatory provisions applicable to establishments that had been regulated up until then by operational rules laid down just after the end of the Second World War. This law defines a common legal status for "credit institutions" that applies to all financial institutions, except the Banque de France, the *Instituts d'Émission*

[7] According to the monetary and financial code – article L531-4: "Investment firms are legal entities, which are distinct from credit institutions, and which provide investment services as their main activity".

[8] Cf. *http://www.insee.fr/fr/methodes/nomenclatures/naf2008/pdf/naf2008_65.pdf*.

[9] Cf. *http://www.insee.fr/fr/methodes/nomenclatures/naf2008/pdf/naf2008_66.pdf*.

d'Outre-Mer,[10] the financial services of the French Post Office and the *Caisse des Dépôts et Consignations*,[11] whose services of general interest mean that they are governed by other regulations.

- **The Law modernising financial activities of 2 July 1996** transposed into French law a number of European Directives aimed at creating a single European financial market. This law lays down a more general definition of the professions involved in managing and issuing securities by creating the status of "provider of investment services", which is a broader category than that of "credit institutions" alone because it also includes "investment firms".

- Lastly, **the Law on Financial Security of 1 August 2003** redefined the supervision of all financial intermediaries, in particular by merging the financial market supervisory authorities into one single supervisory authority: The *Autorité des Marchés Financiers* (AMF), an independent public body with legal personality. This law streamlined and approximated the regulatory, accreditation and surveillance arrangements in the financial sector by also including *démarcheurs*,[12] brokers and consultants in the scope of the legislation.[13] In addition, it amended the system of prudential supervision in the insurance sector, which had been set up in 1989, by creating a single supervisory body which was responsible, on behalf of the state, for supervising and monitoring all operators on the French insurance market.

1.3. Accreditation of financial corporations

In order for an enterprise to be able to perform a financial intermediation activity regulated by one of the aforementioned codes, it must first have been accredited by a competent authority. In which case, it is authorised to carry out only those financial transactions for which it has been accredited. In addition, according to the provisions of the codes, the accreditation can only be granted to an entity that has legal personality, i.e. a company or corporation.

It should be noted, however, that the financial auxiliary sector is not made up only of companies. These entities also include individual enterprises which perform this activity and which, under the national accounts classification, belong to the households institutional sector (S14A– brokers of financial and insurance products, insurance assessors, etc).

Companies in the financial sector also include holding companies of financial groups which, when they are not accredited as financial intermediaries, cannot, due to a lack of information, be classified in the other sub-sectors (S12A or S 125). This population can be identified exhaustively, but there is a time lag (around two years).

The accreditation of companies as financial intermediaries is granted by the specific committees set up by the law:

- **The *Comité des Établissements de Crédit et des Entreprises d'Investissement*** (**CECEI**)[14] for financial institutions (excluding UCITS, see below). According to the monetary and financial code (Article L511-10); the CECEI is responsible for issuing accreditations to "credit institutions", which authorise them to perform "banking transactions" and which can be of a specific nature depending on the legal nature of the company. The CECEI also issues accreditations to "investment firms" –excluding asset management companies which come under the supervision of the *Autorité des Marché Financiers* (AMF) and which are authorised to provide specific financial services other than banking services (see Appendix 4). The CECEI issues opinions on authorisations to perform account management activities (custody and clearing of financial instruments). The CECEI also has the authority to withdraw the accreditation from those same credit institutions and investment

10 Bodies that issue legal currency in the overseas territories of France.

11 Deposit and Consignment Office.

12 People who are involved in unsolicited sales of financial products, e.g. cold calling, door-to-door sales etc.

13 Apart from these professions, the activities of financial auxiliaries are not subject to accreditation and/or supervision by an administrative authority.

14 Credit institutions and investment firms committee.

firms, either at their request or automatically when the conditions for accreditation are not longer being met.[15]

In addition, the CECEI grants authorisations required prior to the acquisition or loss of effective control, or of a third, a fifth or a tenth of the voting rights. This enables it to know exactly who the shareholders of credit institutions or investment firms are, and therefore what the capital links within a group are.

The processing of the requests submitted to the Committee and the secretariat of this body are carried out by the Credit Institutes and Investment Firms Directorate of the Banque de France under the responsibility of the secretary general of the Committee.

Through the accreditations that it grants, the CECEI determines the population of the banking sector and investment firms. We can say that it keeps up-to-date the "civil registry" of these sectors of activity.

As at 31 May 2009, the CECEI identified as credit institutions or investment firms[16] with an accreditation to perform their activities in France:

- **623 companies governed by French law and accredited as credit institutions,** of which:

  313 are accredited to perform banking transactions, of which:

  193 are banks, of which:
  - 170 are companies governed by French law and members of the Fédération Bancaire Française –FBF;
  - 16 are companies governed by French law and affiliated to central bodies;
  - 7 are companies governed by French law and affiliated to a professional body other than the FBF.

  102 are mutual savings or cooperative banks, of which:
  - 28 are establishments affiliated to the *Banque fédérale des banques populaires;*
  - 40 are establishments are affiliated to Crédit Agricole SA –Crédit Agricole Group;
  - 16 are establishments affiliated to the *Confédération nationale du crédit mutuel ;*
  - 1 cooperative bank is a member of the FBF;
  - 17 are savings banks and provident funds.

  18 are municipal credit banks

  305 are financial corporations, of which:

  - 18 are affiliated to the *Caisse nationale des caisses d'épargne et de prévoyance;*
  - 1 company is affiliated to Crédit Agricole SA;
  - 21 are companies with a specific status affiliated to the *Association française des sociétés financières*[17] *–ASF;*
  - 246 are financial corporations performing various activities and affiliated to the ASF;
  - 3 are financial corporations affiliated to the *Association française des marchés financiers;*[18]
  - 16 are financial corporations affiliated to the *Crédit Immobilier de France développement.*

  5 are specialist financial institutions:

  - *Agence française de développement*;
  - *Caisse de développement de la Corse;*
  - *Caisse de Garantie du Logement Locatif Social;*
  - *Euronext Paris SA;*
  - *OSEO Garantie.*

- **102 companies governed by French law and accredited as investment firms**

[15] However, issues relating to a company having its accreditation withdrawn for disciplinary reasons fall within the remit of the Commission Bancaire (see. § 1.5).

[16] Cf. *http://www.banque-france.fr/fr/supervi/telechar/popetscred/lisetcre.pdf*

[17] French Association of Financial Companies.

[18] French Financial Markets Association.

- **The *Comité des Entreprises d'Assurance* (CEA),** an independent collegial administrative authority,[19] issues the accreditations for companies in the insurance sector. These accreditations are granted for three categories of insurance services: life insurance, non-life insurance (indemnity insurance) and reinsurance. It is also responsible for welcoming insurance companies from other countries belonging to the European Economic Area which establish themselves in France (see below).

  Provident institutions, as "private" social insurance bodies, are granted accreditation by the Ministry in charge of Social Security. Mutual funds (entities regulated by the mutual fund code) are given accreditation by the ministry in charge of mutual associations, a power which in some cases is delegated to the *préfets.*

  The CEA manages the civil registry of accredited (or authorised, see below) insurance companies. On 1 July 2009,[20] the CEA had granted an accreditation to perform insurance activities (life, non-life or mixed) to **353 companies governed by French law,** of which 247 were non-life insurance companies, 68 life insurance companies and 38 "mixed" insurance companies, who had been authorised to manage both life and non-life insurance risks.

Financial corporations other than credit institutions, investment firms and insurance companies, i.e. for the most part "financial auxiliaries" (activity code 66 under NAF rév.2), persons or companies with close links to the financial sector are not all subject to notification and authorisation obligations.

The *Autorité des Marchés Financiers* (AMF),[21] an independent public authority with legal personality, oversees the protection of savings, investor information and the smooth functioning of the financial markets. In this respect, it authorises the setting up of UCITS (unit trust funds and investment trusts), which have the status of financial institutions (see Appendix 4). It grants authorisations to companies that manage these funds, which are "financial auxiliaries". It also oversees financial investment consultants working for management companies: credit institutions authorised to provide investment services, investment firms, management companies, financial investment consultants, *démarcheurs (see earlier footnote)*, etc. In total, a very small proportion of financial auxiliaries have accreditation to perform their activities. As a result, less is known about this sub-sector of activity.

1.4. Financial activities performed under the right of establishment or freedom to provide services

Financial activities are performed to a large extent on a global scale. Therefore, as well as the regulatory framework they are governed by, financial activities are also structured in accordance with the constituent principles of the opening up of markets within the European Union. According to the principle of the "European passport", authorisation to perform a financial activity which is granted to a company in a country belonging to the European Economic Area (EEA[22]) is valid in all other Member States of the EEA in accordance with the principle of mutual recognition of these authorisations and supervisory mechanisms. Providing they comply with the notification procedures of the supervisory body in the host country, European financial corporations with the requisite authorisation from their country of origin are entitled to perform these activities in another Member State under two procedures:

[19] For which the operating procedures are defined in Chapter III, Title I of Book IV, Articles L413-1 and following articles, R413-1 and following articles of the Insurance Code.

[20] Lists available at the following address *: http://www.ceassur.fr/sections/liste_des_societes_d/*.

[21] The AMF stems from the merger of the *Commission des opérations de bourse* (COB– Stock Exchange Transactions Commission), the *Conseil des marchés financiers* (CMF –Financial Markets Council) and the *Conseil de discipline de la gestion financière* (CDGF– Financial Management Discipline Council).

[22] The European Economic Area (EEA) is an agreement signed in May 1992 by the Member States of the European Community (EC), also party to the agreement, and the Member States of the European Free Trade Agreement (EFTA): Iceland, Norway; Liechtenstein and Switzerland.

- **Freedom of establishment,** i.e. by establishing a branch[23] headed by a general manager who has been given sufficient powers to represent the company and make him liable *vis-à-vis* third parties and courts in the host country;

- **Freedom to provide services,** i.e. from one's country of origin without being established in the host country, as regards both risks and commitments. As regards financial intermediation activities, this procedure has been broadly transposed into French law, and is provided for in the monetary and financial code (Article L511-21) and the insurance code (Articles L362-2, L362-3, R362-1 and A362-2).

It should be pointed out that the authorisation bodies (the CECEI and the CEA) monitor these procedures very closely and publish, as is the case for accredited French companies governed by French law, lists of companies operating on French territory under the principles of freedom of establishment or freedom to provide services.

According to the CECEI's last census,[24] on 31 May 2009 around 2,500 foreign companies had been authorised to perform the activities of a financial institution in France under the freedom of establishment or freedom to provide services systems.

<u>Financial institutions from a Member State of the EEA that have been authorised to operate in France:</u>

As at 31 May 2009	Freedom of establishment (branches in France)	Freedom to provide services
Credit institutions	71	503
Investment firms	52	1,836
Total	**123**	**2,339**

Source: CECEI

On the website of the CEA[25] the following lists are also published:

– French and foreign non-Community companies with CEA accreditation;
– European companies that have been authorised to operate in France through a branch;
– European companies that have been authorised to operate in France under the freedom to provide services system.

<u>Insurance companies from a Member State of the EEA that have been authorised to operate in France:</u>

As at 1 July 2009	Freedom of establishment (branches in France)	Freedom to provide services
Life insurance	17	179
Non-life insurance	87	767
Mixed	6	41
Total	**110**	**987**

Source: CEA

The CECEI and the CEA examine, in line with their respective aforementioned powers, projects submitted by French credit institutions, investment firms and insurance companies to set up branches in other EU Member States or parties to the agreement setting up the European Economic Area.

[23] The branches of third-country companies, i.e. those not belonging to the European Economic Area (EEE), must be accredited by the ad hoc Committee of the host country and must therefore submit their accounts to the competent supervisory authorities of this country for inspection purposes.
[24] To be found at the following address *: http://www.banque-france.fr/fr/supervi/agrement/popetscred/1i.htm*.
[25] To be found at the following address: *http://www.ceassur.fr/sections/liste_des_societes_d/*.

Since they require authorisation to perform their activities, financial intermediaries in the broad sense of the term (i.e. financial institutions and insurance companies) are known to and exhaustively monitored by their authorisation bodies (CECEI, CEA and AMF). The public statistical system uses these lists to define the scope of financial and non-financial corporations.

1.5. Monitoring and supervision of financial corporations' accounts

Companies performing financial intermediation activities in the broad sense of the term (financial institutions and insurance companies) must regularly submit their accounts to their supervisory authorities using a harmonised format which is often different from the one used by the company when drawing up its corporate accounts.

Information collection by the supervisory bodies is based on a regulatory vision that is different from the economic and financial vision on which private accounting standards are based. These discrepancies between the information submitted can be attributed to the difference between the two approaches (a description of activities on the national territory only in accordance with French standards on the one hand, and the company or group's consolidated results based on its global activities on the other). In part five of this report, using the example of the calculation of value added for banks, we show how considerable the discrepancies can be and to what extent they can lead to differing observations, even though the discrepancies can be explained.

The organisational structure of the supervision and surveillance of financial activities in France is based on a sectoral model that is closely linked to the organisational structure of the authorisations system. Just as authorisation is granted by specialist authorities by branch of activity (banking, insurance, investment services), under current legislation the supervision and surveillance of financial corporations is also carried out by specialist bodies.

- The **Commission Bancaire** (CB) for credit institutions and investment firms. It is responsible for checking the banks' compliance with the rules applicable to them under the law. As well as credit institutions, the CB oversees supervision and surveillance of investment firms that have been authorised to perform that activity by the CECEI. In this sphere, the CB shares its responsibilities with the AMF, especially as regards supervision of asset management companies under the authority of the AMF. The CB is regarded as an independent administrative authority.

- The **Autorité de Contrôle des Assurances et des Mutuelles** (ACAM) for insurance companies, mutual funds and provident institutions. The law of 1 August 2003 amended the organisational structure of prudential supervision in the insurance sector, which had been set up in 1989, by merging the *Commission de Contrôle des Assurances* (CCA) and the *Commission de Contrôle des Mutuelles et des Institutions de Prévoyance* (CCMIP) into a single supervisory body with responsibility for supervising all operators on the French insurance market on behalf of the State. The ACAM is an independent public authority with legal personality.

  As with the Commission Bancaire which oversees financial institutions, the ACAM is responsible for prudential supervision and surveillance of the insurance, mutual associations and provident institutions sector. It ensures that insurance companies subject to the insurance code, the mutual funds subject to the mutual fund code and provident institutions subject to the social security code comply with the "legislation and regulations applicable to them as well as with their contractual commitments to the insured and their affiliates" (Article L310-12 of the Insurance Code). ACAM must ensure that companies subject to its supervision are at all times able to meet the commitments they have made to the insured and that they comply with the solvency margin laid down under legislation.

The AMF can carry out inspections and investigations and, if it identifies practices that breach its rules or professional obligations, it can also impose penalties. This supervision applies to asset managers, *démarcheurs* or financial investment consultants, but does not require regular submission of accounting information to the AMF. Although this body has wide-ranging and broad powers in the field of financial supervision, it does not have priority access to the accounts of the entities under its supervision, unlike the CB or the ACAM.

Finally, we can mention the existence of the ORIAS (*Organisme pour le Registre des Intermédiaires en Assurance*) register which lists the natural or legal persons authorised to perform auxiliary activities in the field of insurance and reinsurance (brokers, general insurance agents, insurance representatives etc.). Supervision of the activities of these agents is, however, the responsibility of the ACAM.

As regards accounting, "financial auxiliaries" are covered by the same types of data source as those used to monitor the activities of non-financial corporations. They differ from the latter only in terms of the activity they perform. Their data is collected together within INSEE's *Système Intermédiaire d'Entreprises* (SIE) in accordance with the same accounting formats as those used for non-financial corporations.

In terms of prudential supervision, the monitoring of the transactions made on French territory by a foreign company authorised either under the freedom of establishment or freedom to provide services systems is the responsibility of the supervisory body of the country in which the company's head office is located rather than the French supervisory body. Conversely, where a French company operating in another EEA country is concerned, it is the regulatory authorities (i.e. the bodies which granted the authorisation to operate on French territory) and the supervisory authorities it is accountable to which should provide notification of the validity of the authorisation and compliance with legal obligations to the supervisory body in the country concerned.

The organisational structure of the financial sector makes it possible to obtain precise accounting information on the scope of the activities of the companies in the sector, especially as regards financial intermediaries, starting with credit institutions, investment firms and insurance companies.

1.6. Moving towards supervision of the activities of financial groups rather than only of financial corporations thanks to the reorganisation of the supervision of financial activities

The regulation and supervision of financial activities have traditionally been based on the monitoring of the accounts of those companies in the same financial sub-sector. This purely sector-based model is soon to be changed:

– due to the concentration of financial activities arising from the development of financial conglomerates, which are increasingly multi-national integrated (banks-cum-insurers) groups of financial corporations most of which are made up of large groups that were originally banks;

– and due to lessons learned from the financial crisis which highlighted the systemic risk (liquidity, solvency, valuation of assets owned) that these developments could cause.

The gradual merging of regulatory and supervisory bodies has commenced with:

- **The monitoring of financial conglomerates,** which has been underway for several years now, and the development of exchanges of information between supervisory authorities. A charter signed by the financial supervisory bodies (CECEI, CB, CEA, ACAM and AMF) defines the implementing provisions for the so-called "financial conglomerates"[26] (2002) directive which brought in procedures for consultation[27] between supervisory authorities in the event of an authorisation procedure affecting a company belonging to a cross-sector financial group or an authorisation to buy a stake in or take control of such a company. It strengthens their cooperation on issues relating to the supervision of financial groups performing their activities in the insurance, banking and investment services sectors.

- **The implementation of the recommendation in the Delétré report to merge the regulatory and supervisory authorities in the financial intermediaries sector (CECEI, CEA, CB and**

[26] Directive 2002/87/EC of the European Parliament and the Council on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate of 16 December 2002.
[27] Articles L631-1 and L632-2 of the Monetary and Financial Code.

ACAM) into one single regulatory and supervisory body under the auspices of the Banque de France,[28] whose mission it would be to oversee the solidity and solvency of financial groups. This last aspect is particularly important as European directives (Basel II for banks, Solvency II for the insurance sector) "*place the emphasis progressively on supervision of financial groups on a consolidated basis"*.

It is also states (p. 23 of the Delétré report) that "*the collapse of a systemic global player (such as Lehman Brothers) will have considerable repercussions for the stability of the financial system of most countries*. *As a consequence, the objective of "financial stability", which must be one of the objectives of the prudential supervisors, cannot be pursued from a merely national perspective. .../... This obligation is strengthened at European level due to the mutual recognition mechanisms, the freedom to provide services and the role given by the European system to the national supervisor on a consolidated basis*". This conclusion echoes those of the Larosière report[29] which advocate the strengthening of the supervision of financial activities at European level.

The recommendations of the Delétré report were picked up on: on 27 July 2009 the Minister for Economic Affairs indicated that the government would launch this reform before the end of the year (see Appendix 5).

However, as well as using the corporate accounts of the financial corporations to produce public statistics in this area, which is the case currently, it could be advantageous also to take account of the phenomena of concentration and integration of these activities within large groups. Current analysis does not apply the general recommendations of the Salustro working group, which advocated that statistics for the largest companies be based not on corporate accounts, but instead on the accounts of the operational divisions within the enterprise groups.

Above and beyond the recommendations of the Salustro working group, the merging of the regulatory and supervisory bodies for financial intermediation activities will very probably create suitable conditions for developing structural statistics on financial groups.

The restructuring of the regulatory and supervisory arrangements for financial activities gives added justification, from the point of view of public statistics, to the deliberations undertaken by this working group.

28 The Delétré report also recommends that the AMF should exercise its authority beyond its current remit in the field of financial market supervision and protection of savings, ensuring compliance with professional obligations towards customers of financial services to cover the whole of the financial sector.

29 The Larosière group, set up by the President of the European Commission, reported its conclusions at the beginning of 2009. They aim to strengthen European banking supervision with the creation of a European system of financial supervisors in the form of a decentralised network.

Part Two: Identifying financial groups and mixed groups

Producing structural statistics for financial groups requires precise definitions of their structure and how they differ from industrial and commercial groups.

2.1. Defining financial groups and mixed groups

The monetary and financial code (Article L511-20) and the insurance code (Article L334-2) provide almost the same definition of a financial group (banking or insurance group).

A financial group is first and foremost a group of companies which has a similar structure to that of an industrial or a commercial group. It comprises:

- A parent company;
- At least one subsidiary over which exclusive control (either through owning a sufficient proportion of the capital stock or a specific decision-making power provided for in a regulatory text), is held directly by the parent company or indirectly via another subsidiary of the group;
- Stakes in other companies (financial or non-financial) equating to 20% of the voting rights, thus enabling the group to bring considerable influence to bear on the management of the company (see IAS/IFRS accounting standard 28).

The monetary and financial code and the insurance code do, however, make mention of a specific condition: in order to be regarded as a financial group, the parent company must have been authorised to operate as a financial intermediary (credit institution, investment firm or insurance companies) by the competent body (CECEI or CEA).

For the members of this working group, the category of financial groups should include those groups whose parent company's main activity is the provision of financial auxiliary services (see part one).

The monetary and financial (COMOFI– section III of Article L511-20) and insurance codes state that capital links alone are not sufficient to define a financial group. They also regard as financial groups (using the same wording in both codes) “establishments that are affiliated to a network and the central body of the network[30]…/… The same holds for entities belonging to cooperative (or mutual) groups regulated by similar provisions in the legislation applicable to them”. Establishments affiliated to a network and the central body of the network, as well as entities belonging to cooperative (or mutual) groups should therefore also be regarded as financial groups. This form of organisational structure is fairly common in French banking groups (Crédit Agricole, Banques Populaires-Caisses d’Épargne, Crédit Mutuel …). This is in line with the thrust of the recommendation of the Salustro working group which stated that networks of companies could be regarded as statistical units comparable to groups).[31] This approach is in fact used by some mutual fund groups in the declarations made for the purposes of monetary and financial statistics produced by the Banque de France.

In these codes, the regulation of financial activities defines two types of financial groups, distinguished by the fact that their parent company is or is not a company under the supervision, on a consolidated basis, of a competent supervisory authority (Commission Bancaire or *Autorité de Contrôle des Assurances et des Mutuelles*).[32]

[30] Article L511-31 of COMOFI states that the central bodies represent credit institutions affilated to them in their dealings with the Banque de France, the *Comité des Etablissements de Crédit et des Entreprises d'Investissement* (CECEI) and, without prejudice to the rules pertaining to disciplinary procedures, the Commission Bancaire. In addition, the central bodies have an obligation to take all measures needed to guarantee the liquidity and solvency of each affilate, as well as of the network as a whole.

[31] See recommendation 8 of the report by the Salustro working group.

[32] Financial intermediation activities are those activities carried out by credit institutions, investment firms or insurance companies (life, non-life, mixed and reinsurance).

Thus:

- **A financial group (banking or insurance) is a group whose parent company is a financial corporation that has been accredited by a competent authority;**

- **A mixed group is a group whose parent company has not been accredited by a supervisory authority, but which has at least one subsidiary which is an accredited financial corporation.** This category includes industrial and commercial groups which have set up purely financial subsidiaries (for example, La Poste group, in which La Banque Postale is a wholly financial subsidiary that is authorised to operate as a credit institution).

In fact, the definition of a mixed group appears to be fairly vague. Some mixed groups can be regarded as "real" financial groups. This is the case with groups headed by holding companies[33] which, although not accredited by an authority, are involved solely in the financial management of the group and can therefore be regarded as financial corporations performing financial auxiliary services. Two large French insurance groups have adopted this specific structure (AGF-Allianz and AXA) and should be regarded as fully-fledged financial groups. These two holding companies are in fact classified in the insurance company sector (S125) for the purposes of national accounts.

It would therefore appear necessary to regard as fully-fledged financial groups those groups whose parent company is a holding company that does nothing else but manage the group and whose activities are, to a large extent, financial services.

A financial group is a group of companies whose parent company is authorised to operate as a financial intermediary. It may also be a group whose parent company is a holding company. In which case, the "main" activity of the group must be carried out by companies that are accredited financial intermediaries or by financial auxiliaries.

A mixed group is a group whose parent company has not been accredited by the supervisory authority, but which has at least one subsidiary which is an accredited financial corporation. In which case, the group must provide financial services as a secondary activity.

2.2 Financial corporations and the business register, 2007 results

All companies must be registered in the business register (*Registre du Commerce et des Sociétés* –RCS). Financial corporations are therefore registered in the administrative register SIRENE.[34]

This source lists around **57,000 financial corporations** (i.e. those with an activity code under the financial sector)[35] regarded as economically active in 2007 (i.e. owning at least one active ordinary establishment). In addition, it lists around 100,000 local establishments (agencies) which belong to networks of large deposit and savings banks.

The SIRENE register lists, for 2007, around **5,900 companies that have indicated that their main activity is a financial intermediation activity** (financial institutions defined as credit institutions or investment firms), while only 850 financial institutions are accredited or authorised to perform such activities by the CECEI (see part one). This discrepancy exists because the SIRENE register lists a little over 5,000 entities which belong to large banking groups that are structured like mutual savings banks; the register includes the local branches of the Crédit Agricole, the Credit Mutuel and the BPCE Group, which, unlike the regional branches, are not accredited as credit institutions by the CECEI. According to the SIRENE register, they are distinct units that are regarded not as mere branches or agencies but as companies in their own right.

33 Activity code NAF rév.2 6420.

34 Set up by the decree of 14 March 1973, and laid down in articles R.123-220 to R. 123-234 of the Code of Commerce, the *Répertoire National d'identification des entreprises et des établissements* lists units established on national territory. It is managed by INSEE through the SIRENE IT system (Système Informatique pour le Répertoire des Entreprises et des Établissements).

35 Activity code under NAF rév 2, 64 to 66 –see Appendix 6.

The SIRENE register also regards as financial institutions (NAF rév. 2 activity code 6420) **6,700 holding companies** (companies whose purpose is to obtain sufficient stakes in various companies to be able to control their management), whether the groups under their control are financial, mixed or non-financial.

The SIRENE register contains a little over **10,000 investment trusts and similar financial entities** (NAF rév 2 activity code 6430) registered in 2007. The Banque de France databases contained a little over 12,000 active UCITS in 2008. However, these two figures are not directly comparable as not all UCITS have a SIREN identifier.[36] Only investment trusts created in the form of unit trust funds are companies and need therefore to be registered in the business register (RCS). Unit trust funds which come in the form of investment trusts are not companies: these funds are identified by their ISIN[37] number.

The SIRENE register lists only those insurance companies that have received CEA accreditation, i.e. around 450 entities at the end of 2007. The **970 mutual funds** (private social security bodies) do not appear either in the SIRENE register or on the lists of insurance companies that have been accredited or authorised to perform an activity by the CEA (see part one). We can therefore estimate that there are a little over 1,500 insurance companies in the broad sense of the term (i.e. including mutual funds, as well as provident institutions and other supplementary work pensions funds) operating actively on French territory on the basis of the accounting information published by the ACAM as part of its analysis of the French insurance market.[38]

In 2007, the SIRENE register listed around 34,000 companies performing an auxiliary financial activity[39] as its main activity, of which around two thirds provide auxiliary insurance services (brokering, claims adjustment, risk analysis…). A large majority of individual companies (around 13,000) provide this type of service as their main activity.

A 2005 study (Perrot Report)[40] demonstrated that the business register seemed to provide consistent information in terms of the breakdown of financial corporations by legal category and the cross-checking of the activity codes of the financial corporations and the activity code of their establishments (branches). The breakdown of the units by legal category shows that there is good consistency between them and the main activity of the companies. The legal categories which correspond to precise company types (savings banks, *banques populaires*[41] *Crédit Agricole,*[42] unit trust funds, mutual funds, etc.) are grouped in the categories of the classification of activities assigned to them.

With the *Système Intermédiaire d'Entreprises* (SIE), which is managed by INSEE, this consistency has been further consolidated since the names of the companies accredited by the CECEI and the CEA have been transmitted to the administrators of the SIREN numbers database, which are fed into the National Accounts' Sector repository of the Banque de France (see below). In addition, the SIE has recently inputted the identifiers from the list of mutual funds published by the ACAM. Similarly, the company lists for the financial auxiliaries sector are transmitted on a regular basis to the services of the Banque de France for the purposes of updating its National Accounts' Sector repository.

2.3. Identifying financial corporations using the National Accounts' Sector Repository

Earlier we mentioned that the administrative supervisory authorities draw up and keep updated the lists of companies that have been authorised to perform financial intermediary activities. These lists use one or several identifiers (interbank code –IBC– for credit institutions and investment firms and an internal code for the insurance companies, for example). In these databases, the SIREN N° is sometimes not given.

36 Activity codes according to NAF révisée 2, from 64 to 66 – see Appendix 6.
37 ISIN : International Security Identification Number.
38 See *http://www.acam-france.fr/chiffres2007*.
39 2-digit activity code under NAF rév 2 : 66.
40 Working document (INSEE-*Direction des Statistiques d'Entreprises*) on: "the feasability of surveys in the banking and insurance sectors", July 2005.
41 Mutual banks.
42 Mutual farm credit institution.

The Banque de France keeps updated a “National Accounts’ Sector Repository” (SCN), which makes it possible to provide for each entity of the financial sector, which is identified by the SIREN number, its IBC or ISIN code and its classification in a specific sub-sector of the financial sector for the purposes of producing statistics using databases containing at least one of these identifiers. Examples include: Aggregated data on the issuing of negotiable debt securities by issuer, aggregated data from security-by-security data from custodian account keepers for the purposes of producing statistics on stockholding, etc. This repository is inputted with information on CECEI authorisations, which are listed in the BAFI[43] which is managed by the Commission Bancaire and contains information on credit institutions and investment firms, as well as with the list of accredited UCITS and the list of insurance companies provided by the ACAM.

Thus, as at September 2009, for the financial sector (S12), the repository thus constituted enables the classification of 34,015 establishments in 7 sub-sectors (see Table 2.0).

The methods and the frequency of updating of this referencing vary according to the data collection sources (see Appendix 16 –Classification of financial corporations in the National Accounts’ Sector Repository).

For monetary financial institutions (sub-sector S122), the lists of accredited entities can be consulted on a daily basis and homogenously directly within the Banque de France (BAFI data and money market funds).

As regards the other financial intermediaries and financial auxiliaries (sub-sectors S123 and S124), the diversity of source information does not enable homogenous data collection methods to be adopted. The repository must be built using specific methods and needs the regular adjustment of processing operations.

As regards insurance companies (sub-sector 125), data is collected in a homogeneous manner with the ACAM automation procedures are being developed.

Table 2.0: status of the repository by financial sub-sector –data collection sources and number of companies classified as at September 2009

	Sectors in the National Accounts						
	S121 Central bank and IEDOM	S122AE Credit institutions and related entities	S122F Money market UCITS	S123A Financial institutions and related entitties	S123B Other UCITS	S124 Financial auxiliaries	S125 Insurance companies and pension funds
Data collection sources	- Banque de France	- Banque de France	- Banque de France	European Central Bank - Banque de France - INSEE - ANPEEC	- Banque de France - INSEE	- Banque de France - INSEE - AMF	- ACAM
Number of authorised companies	2	694	845	473	12 351	18 266	1384

NB: ANPEEC - *Agence Nationale pour la Participation des Employeurs à l'Effort de Construction*
National Agency for employers' participation in the building effort

Source : Banque de France – Directorate General Statistics

Adding some entities in the financial sector[44] to the “SCN repository” does not come without difficulties due to the lack of a SIREN number (or another unique identifier) on some lists. The same goes for many UCITS or for securitisation bodies which do not have legal personality and which, in this case, can only be identified by their ISIN code. Similarly, the list of management companies managed and published by the AMF does not contain SIREN numbers.

In order to improve the management and consistency of these lists of financial corporations, the accreditation bodies (including the AMF) would have to incorporate the SIREN number or another identifier which has a bijective relation with the SIREN number into their system of managing the lists of accredited companies.

43 Base des agents financiers – financial agents database.

44 The repository only lists financial corporations and entities that belong to the public administrations sub-sectors. In the databases using the Repository for statistical purposes, since the criteria that distinguish resident agents (sector S1) from non-resident agents (sector S2), and households (sector S14) or associations (sector S15) from enterprises (sectors S11 or S12) are available, the non-financial corporations sector (sector S11) is built by default (i.e. from data related to declarations by resident enterprises that do not belong to the sector of financial corporations or to the general government sub-sectors).

Identifying all financial corporations does not cause any major problems provided the accreditation and supervisory bodies for the financial sector provide lists of accredited companies with a single identifier. INSEE and the Banque de France would therefore be in a situation to better monitor financial corporations which have been authorised to operate in France.

The working group recommends that the accreditation authorities in the financial sector use INSEE's SIREN number, when there is one, to identify the companies on its accreditation lists.

2.4. Identifying French financial groups

As well as having precise knowledge (or almost exhaustive knowledge for financial intermediaries) of companies in the financial sector, it is also necessary to be able to access a database detailing the links that these companies have to groups.

In this respect, INSEE has its LiFi (*Liaisons Financières entre societies* –financial links between companies) database which makes it possible to reconstruct these links. The General Secretariat of the Commission Bancaire has for a long time been developing analysis of homogenous groups of credit institutions[45] using statutory accounting documents that are addressed to it.

2.4.1. Analysis by the Commission Bancaire of the activities of banking groups

In its annual reports, the CB publishes a study of developments in banking activities based on an analysis of the consolidated balance sheets of the eight largest French banking groups. In 2007 and 2008 these consolidated balance sheets, published in accordance with IFRS standards, were for the following groups:

– BNP Paribas,
– Société Générale,
– Crédit Agricole,
– Groupe des Banques Populaires,
– Groupe Caisses d'Épargne,
– Groupe du Crédit Mutuel,
– HSBC France,
– Dexia –Crédit Local de France.

An analysis of developments in the consolidated balance sheets of France's large banking groups enables the CB to make a precise assessment of their activity (developments in the modes of financing the economy,[46] refinancing conditions and the banks' financial policies[47]).

As stated by the CB (methodological Appendix to the 2008 annual report), the consolidated analysis of the main French banking groups based on an examination of their global transactions highlights both the level of concentration of these activities in France and the increasingly multi-national dimension of these large groups (based on an analysis of the global activities and performances, especially those of branches established abroad).

In a study published in its 2006 annual report,[48] the CB indicated that the consolidated balance sheets of the eight largest banking groups accounted for 93% of the total balance sheet for the French banking system established on a consolidated basis as at 31 December 2006.

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45 The structural characteristics of the homogenous groups chosen as well as the analytical procedure which made it possible to define them are described in the publication by the General Secretariat of the Commission Bancaire entitled "Comparative studies and analyses – the results of credit institutions in 2007".

46 Financing in all its forms: liquidity credit, real investments, mortgage loans, leasing, factoring, LBO transactions, etc.

47 Share of refinancing on the different financial markets, implementation of leverage, etc.

48 2008 Annual Report of the Commission Bancaire:
http://www.banque-france.fr/fr/supervi/supervi_banc/publi/rapcombanc08.htm.

Previous CB annual reports:
http://www.banque-france.fr/archipel/commission_bancaire/cb_ra.html.

An analysis of the accounting documents of the eight leading French banking groups, including accounting data for their foreign affiliates, points to an increasing presence of the leading French banking groups abroad, especially since the start of the 2000s. This trend towards the multi-nationalisation of banking activities is not specific to the French system.

According the CB's 2007 annual report, the eight largest French banking groups were, by the end of 2007, established in 87 countries and had around one thousand subsidiaries and branches. The three largest groups alone accounted for 83% of establishments abroad. An analysis of where their staff are located confirms this trend towards multi-national activities because, according to the CB, over a half of the staff of the groups BNP Paribas and Société Générale since 2006, and since 2007 for the Crédit Agricole Group, have been employed outside France, mainly in retail banking-related activities.

Another measurement of the level of concentration of banking activities in France is provided by a study of the *Groupes Économiques d'Appartenance (GEA).*[49] These indicators, which were developed by the General Secretariat of the CB, group together credit institutions which have capital links and which are controlled by the same entity: the biggest of these are banking networks grouped together under the same tradename, including their banking subsidiaries.

According to the CB (see part 2.2.2 of its 2006 annual report), in 31 December 2006 the five leading GEAs accounted for:

- 75% of bank deposits;
- 73% of bank loans granted in France. The level of concentration in this area of banking varies according to the counterpart: the five main GEAs managed 69% of loans to non-financial corporations, 79% of loans to private customers (82% for mortgage loans) and 89% of loans to individual entrepreneurs.

NB: the General Secretariat of the Commission Bancaire has for a long time been monitoring banking groups on the basis of the consolidated accounts of these groups.

2.4.2. Identifying French financial groups using INSEE's LiFi database

According the LiFi[50] database, and using as sole criterion the main financial activity of the group, in 2006 there were 458 groups, broken down as follows:

- 38 financial groups employing 500 staff or more;
- 17 employing at least 2,000 staff;
- And 9 groups with over 10,000 employees (see table 2.1), 7 of which are "banking" groups and 2 insurance groups.

These figures confirm the analysis of the General Secretariat of the Commission Bancaire pointing to considerable concentration within French financial groups. It is the largest financial groups (over 10,000 employees) that control most of the subsidiaries of the financial groups and account for most of the workforce in the sector (see tables 2.2 and 2.3).

49 literally, economic groups belonging together.

50 The rapporteurs would like to thank Dominique Francoz (INSEE– Direction des Statistiques d'Entreprises) for providing the information on financial groups from the the LiFi database, which are used as basis for the comments in this part of the report.

Table 2.1: Number of French financial groups by main activity

	Group headcount				Total
Group's primary activity	**< 500**	**500 – 1,999**	**2,000 – 9,999**	**> 10,000**	
Financial institution	159	5	1	7	**172**
Insurance	32	9	5	2	**48**
Financial auxiliaries	229	7	2	0	**238**
Total	**420**	**21**	**8**	**9**	**458**

Field: French groups with a primary activity in financial services

Source: LiFi survey (Insee), Suse (Insee)

Table 2.2: Number of subsidiaries of French financial groups by staff levels

	Group headcount				Total	o/w financial subsidiaries
Group's primary activity	**< 500**	**500 - 1 999**	**2,000 – 9,999**	**> 10,000**		
Financial institution	663	86	32	5,873	**6,654**	**3,142**
Insurance	121	135	284	513	**1,053**	**302**
Financial auxiliaries	757	75	111	-	**943**	**593**
Total	**1,541**	**296**	**427**	**6 386**	**8,650**	**4,037**

Field: French groups with a primary activity in financial services

Source: LiFi survey (Insee), Suse (Insee)

Table 2.3: Staff levels of French financial groups

	Group headcount				Total	o/w financial subsidiaries
Group's primary activity	**< 500**	**500 – 1,999**	**2,000 – 9,999**	**> 10,000**		
Financial institution	5,063	6,432	2,843	422,803	**437,141**	**392,329**
Insurance	3,156	10,403	32,703	71,961	**118,223**	**100,781**
Financial auxiliaries	8,171	5,246	4,501	-	**17,918**	**16,310**
Total	**16,390**	**22,081**	**40,047**	**494,764**	**573,282**	**509,420**

Field: French groups with subsidiaries in financial services

Source: LiFi survey (Insee), Suse (Insee)

As regards staff levels, financial groups account for around 70% of employment in the area of financial activities (total estimated at 730,000 in 2006 for the activities of financial, insurance and financial auxiliary institutions). Lastly, although there are more non-financial subsidiaries of financial groups than there are financial subsidiaries (4,613 compared to 4,037, see table 2.2), the staff levels in non-financial subsidiaries only account for 11% of all jobs within these groups (see table 2.3).

2.5. Identifying financial subsidiaries of French and foreign non-financial groups

The LiFi database makes it possible to identify the subsidiaries of "mixed groups" which have a financial arm operating on national territory (2.5.1). This database can also be used to identify the French subsidiaries of foreign groups that are involved in financial activities (2.5.2). The latter are also included in European statistics on the activities of foreign affiliates (see below, part 3.3 on FATS).

2.5.1. Financial subsidiaries of French non-financial groups

- Using the LiFi database it also possible to measure the relative share of financial activities within non-financial groups. In 2006 there were a little over 5,500 financial subsidiaries (see table 2.4.) belonging to small non-financial groups (fewer than 500 employees), mainly in the form of investment firms (3,500 financial institutions) or companies performing auxiliary financial services (around 1,900 companies).

- The data in the LiFi database also highlights the small share of the overall activities of non-financial groups accounted for by financial activities. Overall these activities account for 26,000 staff, or 3.6% of all employees involved in financial activities (see table 2.4).

Table 2.4: Employees of financial subsidiaries of non-financial groups (in 2006)

	Subsidiary headcount			Total
Subsidiary's primary activity	**< 500**	**500 – 1,999**	**2,000 – 9,999**	
Financial institutions	8,177	4,955	-	**13,132**
Insurance	399	-	4,725	**5,124**
Financial auxiliaries	5,234	2,744	-	**7,978**
Total	**13,810**	**7,699**	**4,725**	**26,234**

Field: French groups with subsidiaries in financial services
Source: LiFi survey (Insee), Suse (Insee)

2.5.2 French financial subsidiaries belonging to foreign groups

- In terms of the nationality of enterprise groups, the LiFi database contains data making it possible to identify the French financial subsidiaries of foreign groups (table 2.5).

- Foreign groups which own financial subsidiaries have a fairly small presence in France: in 2006 there were 14 foreign groups of this type with 500 employees or more (10 of which are financial groups) and only 2 groups employing over 10,000 staff, even though the numbers of French financial subsidiaries listed (see table 2.6) and the staff levels in these subsidiaries (see table 2.7) are fairly high. French financial subsidiaries of foreign groups would appear to account for a little over 9% of employees working in the financial sector in France.

Table 2.5: Number of foreign groups which have at least one financial subsidiary in France (in 2006)

	Group's headcount				Total
Group's primary activity	**< 500**	**500 - 1 999**	**2,000 – 9,999**	**> 10,000**	
Financial institutions	88	0	2	1	**91**
Insurance	17	0	3	1	**21**
Financial auxiliaries	44	3	0	0	**47**
Other	388	3	1	0	**392**
Total	**537**	**6**	**6**	**2**	**551**

Field: foreign groups for which the primary activity of one or several subsidiaries in France is financial services.
Source: LiFi survey (Insee), Suse (Insee)

Table 2.6: Number of French financial subsidiaries of foreign groups which have at least one financial subsidiary in France (in 2006)

	Group's headcount				Total
Subsidiary's primary activity	**< 500**	**500 – 1,999**	**2,000 – 9,999**	**> 10,000**	
Financial institutions	530	40	58	79	**707**
Insurance	23	2	34	23	**82**
Financial auxiliaries	241	43	44	43	**371**
Total	**794**	**85**	**136**	**145**	**1,160**

Field: foreign groups for which the primary activity of one or several subsidiaries in France is financial services
Source: LiFi survey (Insee), Suse (Insee)

Table 2.7: Number of staff employed in French financial subsidiaries of foreign groups (in 2006)

	Subsidiary's headcount				Total
Subsidiary's primary activity	**< 500**	**500 – 1,999**	**2,000 – 9,999**	**> 10,000**	
Financial institutions	6,630	3,818	9,692	29,054	**49,194**
Insurance	1,570	-	9,274	-	**10,844**
Financial auxiliaries	3,493	3,927	-	-	**7,420**
Total	**11,693**	**7,745**	**18,966**	**29,054**	**67,458**

Field: foreign groups for which the primary activity of one or several subsidiaries in France is financial services

Source: LiFi survey (Insee), Suse (Insee)

2.6. Comparison of data from the LiFi database with the lists of financial corporations authorised to perform their activities in France (or in the European Union)

By comparing the data from the LiFi database with the lists of financial corporations that have been accredited by the CECEI, the CEA and the AMF, it is possible to estimate the reliability of the numbers of financial groups identified on the basis of the methods described above. Table 2.8 charts the consistency between the lists of accredited financial corporations and the lists of financial groups contained in the LiFi database. A comparison of the Banque de France's National Accounts' Sector Repository with the LiFi data for the purposes of verifying the pertinence of the financial and mixed groups, as previously defined, could also be envisaged.

As regards insurance companies, the problem of identifying mutual funds (and mutual fund groups) still remains as these entities are not listed in INSEE's business register. Mutual funds are therefore not included in the field of financial groups in the LiFi database.[51]

Financial auxiliary activities do not necessarily require accreditation. Such activities can only be identified on the basis of administrative files (SUSE,[52] SIE, etc).

These comparisons also highlight the considerable share of non-accredited financial subsidiaries belonging to financial groups, especially "banking" groups (i.e. groups whose parent company is a financial institution), a large proportion of which (5,000 entities, see above) are local or regional branches of mutual savings or cooperative banking groups. We can therefore assume that in 2006 there were around 2,500 non-financial corporations or companies providing financial auxiliary services (without an accreditation) which appear to be subsidiaries of French banking groups.

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51 Even though the mutual fund sector has, in recent years, seen a trend towards an organisatinal structure based on mutual fund groups.

52 Système unifié de statistiques d'entreprises –unified system of business statistics.

Table 2.8: Comparison of the lists of accredited financial corporations (National Accounts' sector repository) with the LiFi database of financial subsidiaries of French or foreign groups in 2006:

		Groups' primary activity according to LiFi database					
		Financial institutions	Insurance	Financial auxiliaries	Excl. financial sectors	Not groups but listed in other Insee records	Not listed in Insee records
Accredited companies	Financial institutions	N°of subsidiaries: 630 (headcount: 384.058)	0	72 (5.498)	22 (1.484)	188 (5.628)	63
	Insurance	1 (0)	322 (127.056)	6 (107)	28 (9 355)	185 (3.406)	2067 (mainly mutual funds)
	Financial auxiliaries	77 (1,223)	0	666 (30.014)	24 (338)	368 (8.555)	10
	Not accredited companies	7,468 (110.324)	239 (14.557)	2 774 (18.046)			

NB: The columns entitled "Groups' primary activity according to the LiFI database" include companies (by activity type) that are regarded as subsidiaries of French or foreign financial groups broken down by major categories of activity and identified on the basis of the APE[53] codes of the parent company. The "Not groups …" column lists accredited financial corporations that are regarded as not belonging to a group (according to the LiFi database). The "Not listed in INSEE Records" lists accredited financial corporations that are not registered in the SIRENE database. The names of accredited companies by competent authority can be found online.
The last line entitled "Non-accredited companies" lists financial corporations that are classified as such in the SIRENE database and belong to a group (according to the LiFi database), but are not listed as accredited financial corporations.
The figures in brackets are the staff numbers for the companies under consideration.

Sources: INSEE, Banque de France and ACAM.

2.7. The Euro Groups Register (EGR)

To deepen our analysis still further, reference should be made to other projects designed to demarcate and identify French financial and mixed groups.

Eurostat has a project to establish a register of the largest European multi-national financial and non-financial groups. This database is currently in the initial development phase.[54] The total number of multi-national groups operating in Europe is estimated at 80,000. Eurostat has set as an operational threshold for its database of the 10,000 largest groups. A pilot survey (based on a sub-sample of 600 multi-national groups) pointed to the feasibility of such a project.

Moreover, the ECB has over the last few years been developing, in conjunction with the national central banks of the Member States of the Euro zone and of the European Union, a database containing aggregated country data broken down into broad categories of bank size[55] (large, medium or small) as well as information concerning establishments owned by foreign entities. The data

53 Activité Principale Exercée – main activity performed.

54 The EGR project has a number of phases:

- Eurostat collects and consolidates information from private databases on the structure and main characteristics of multinationals operating in Europe;
- The Member States of the European Union will complete and validate the information before transmitting it to Eurostat;
- Eurostat will consolidate the data on European enterprise groups, which can then be used for study purposes at European and/or national level.

55 The sizes of establishments are defined by referring to total EU banking assets in the year n-1. For example, for the year 2007, total consolidated EU banking assets used stood at EUR 31,555 billion (referring to end-2006). Big banks are defined as holding total assets of over 0.5% of this consolidated total (i.e. over EUR 158 billion), medium-sized institutions have total assets of between 0.005% and 0.5% of the aggregate amount (between EUR 1.6 and 158 billion) and total assets of the category of small credit institutions stands at less than 0.005% of this threshold, i.e. less than EUR 1.6 billion.

collected on banking groups refers to information on balance sheets and consolidated income statements, as well as on solvency. In France, this data is taken entirely from the financial statements in the BAFI database, which are collected by the General Secretariat of the Commission Bancaire. This database can only be accessed by central banks and European supervisory bodies for the banking sector.

Lastly, it should be noted that in light of its future role on the European Systemic Risk Council, the ECB is currently looking to develop a list of the main banking and financial groups in the Euro zone,[56] which will be fed into the EGR.

The lists of accredited companies which are available in the National Accounts' Sector Repository, the SIRENE register and the LiFi database provide information which should in theory be sufficient to make it possible to identify financial groups, providing this is done at an aggregated sectoral level (at the sector or sub-sector level in national accounts) and the specific structure of some networks (especially mutual fund or cooperative groups) is taken into account.

Using INSEE’s LiFi database it is possible to identify the make-up of French financial or mixed groups and whether a financial corporation governed by French law belongs to a foreign group or not. These analyses also show that the largest groups are few in number (17 French financial groups with over 2,000 employees).

INSEE and the Banque de France also identify French financial subsidiaries or branches of foreign groups. INSEE can obtain an overall picture via its LiFi database. More precise information could be obtained by making use of the exhaustive data that the Banque de France and the ACAM have at their disposal.

[56] Development of the RIAD system (Register of Institutions and eligible Assets Database).

Part Three: Analysis of financial activities: current state of play

After proposing a definition for financial groups and attempting to identify their presence using existing databases and repositories, this section of the report presents the analyses currently being made of financial activities using the following data:

- National Accounts data,
- Structural business statistics,
- European statistics on the activities of financial subsidiaries or affiliates,
- Balance of payments data.

3.1. In the area of national accounts, sectoral analysis of financial corporations is the main focus while analysis by branch of activity is limited

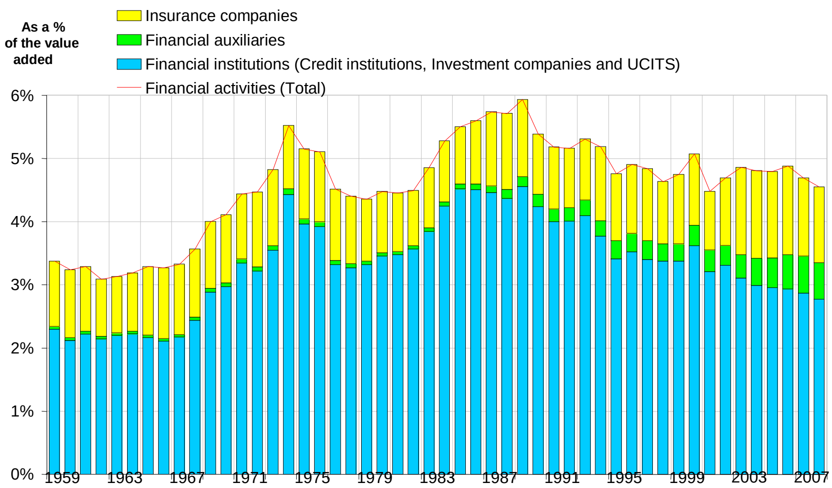
Statistical monitoring of financial activities is to a great extent determined by the sector-based organisational structure of the French supervisory system.

As was said in the second part, it is possible to identify financial groups on the basis of their main activity and the classification of activities and products NAF rev 2 at an aggregated level. It would seem justified to attempt to define the detailed branches of activity using as a basis the broad categories of financial institutions (NAF rév 2: 64), insurance companies (NAF rév. 2: 65) and financial auxiliaries (NAF rév. 2: 66).

This is the approach that is also used in national accounts, which attempts to measure the behaviour of these entities in their income-generating activities and functions, as well as their contribution to the economy. For the purposes of examining the financial and non-financial accounts of financial intermediaries, national accounts uses the aggregated income statements and financial balance sheets of the financial corporations that are authorised to operate in France within the scope of the activities they perform on national territory.

According to national accounts data, the value added of the financial sector has been fairly stable, but this masks the falling value added produced by financial institutions, which is an institutional sector that includes banks, since the end of the 1980s (see Chart 3.1).

Chart 3.1: Financial activities as a share of total value added (by main branches of activity)



INSEE, National Accounts

Other macro-economic analyses of the activities of the financial sector are carried out by the supervisory authorities or trade associations. These analyses do not cover all activities in the financial sector, but instead are usually restricted to one of the three main categories of finanical activities or one of their sub-categories.

The implementation of the new classification of French activities and products (NAF rév. 2), which will enter into force in 2011 as part of the next rebasing of the national accounts, will introduce few changes to the monitoring of financial activities. The only major innovation will be the creation of an extended category for holding companies within the “financial institutions” category. Currently only financial holding companies are classified as financial corporations. This extended category for holding companies will not include the activity of the head office.

National Accounts data mainly provides information on the accounts for the financial sectors (aggregated company accounts), but provides little information about the sub-sectors of financial activities. Compulsory accreditation (or authorisation) to perform financial intermediation activities enables identification of financial corporations (sectoral approach) and financial activities (financial branches and products[57]) by bijection.

However, financial auxiliary services are only provided by specialist companies. Brokering of savings products or life insurance products may be performed by financial intermediaries (bank branches or branches of insurance companies) or even by non-financial corporations. Large supermarket chainstores may also offer consumer credit loans to their customers. In this case they are not performing a banking activity, but instead they are engaged in brokering, bringing “business” to an accredited financial institution (often a subsidiary), but in such cases this is a secondary activity for these companies.

However, it should be noted that financial corporations can provide non-financial services, but only as an ancillary activity.

3.1.1. Level of detail for financial intermediation services

In the French national accounts (which are in compliance with the European System of Accounts –1995 ESA), the “financial institutions” sector (S12A) groups together three sub-sectors comprising five main categories (see Appendix 7 for details[58]) :

1. **Central banking (S.121);**

2. **Other financial and monetary institutions (S.122) comprising:**
– Banks and other specialist financial institutions (S122AE);
– Undertakings for Collective Investment in Transferable Securities (S122F).

3. **Other financial intermediaries, excluding insurance companies (S.123), comprising:**
– Various financial and finance-related institutions (S123A);
– Other UCITS (S123B).

The structure of this classification reflects two criteria: a) the role of these institutions in the financial system b) the type.of accreditation their activity is subject to. These criteria are not completely distinct. In fact, the publications of the results of the financial accounts (equivalent to the financial part of the balance sheets in private accounting) of financial corporations contain information at this level of detail.

57 Bank and financial intermediation services are only performed by accredited financial institutions ; similarly, insurance services are only performed by accredited or authorised insurance companies.

58 For further details about this classification, readers can consult the website of the Banque de France (*http://www.banque-france.fr/fr/stat_conjoncture/telechar/comptefi/methode.pdf*).

However, when it comes to non-financial accounts (equivalent to income statements), the publications do not include this level of detail. The results published within the framework of the national accounts are those for the whole of the “financial institutions” (S12A) sector.

3.1.2 Level of detail for insurance services

In the financial year 1995 a new chart of accounts for insurance companies was put in place, under which income and expenditure (mainly in the form of commissions paid out) are recorded by purpose rather than by nature.

The purposes correspond to the main existing functions: acquisition and management of contracts, settling claims, managing investments and other technical overheads.

Therefore, in order to ensure comparability of insurers’ accounts, regardless of their level of own resources, **accounting rules in the insurance sector provide for a technical result by type of insurance.** Own resources, exceptional income and expenditure, as well as taxation are not included in the technical results, but rather in the net profit or loss of the insurance company. The specific nature of the accounts of insurance companies enables the ACAM to measure the “true” result of the different categories of insurance based on the aggregation of these “technical” and non-technical (other income and company operating costs) accounts.

The ACAM publishes an annual report on the activities of insurance companies during the preceding calendar year based on the aggregated technical accounts drawn up in accordance with the rules of the chart of accounts for the different insurance categories (life, non-life, reinsurance, etc.) and broken down by the different categories of insurance company. This aggregation, which is in theory exhaustive, is the main source used to establish the national accounts for insurance companies and to monitor the insurance market.

By aggregating the specific “technical” accounts it is possible to identify the main insurance activities, which can be broken down into four main risk categories:

- Life insurance;
- Non-life insurance;
- Reinsurance;
- Supplementary pension schemes.

Insurance market in 2007 (source: ACAM): direct business in France

	Enterprises (number)	Premiums and contributions received in 2007 (€bn or % of total per risk)		
		Life risk (a)	Non-life risk (b)	Total (a) + (b)
TOTAL	1,522	151.0	74.0	225.0
French insurance companies accredited by CEA (1) = (i) + (ii)	**389**	**96.3%**	**73.3%**	**88.7%**
o/w life insurers and mixed (i)	117	96.3%	8.4%	67.4%
o/w non-life (incl. reinsurers) (ii)	272	0%	65.0%	21.4%
Private social insurance (2) = (e) + (ee)	**1,133**	**3.7%**	**26.7%**	**11.3%**
o/w mutual funds (e)	1,070	1.5%	17.8%	6.8%
o/w provident institutions (ee)	63	2.2%	8.9%	4.4%

Sources: ACAM – Analysis and summary of the French insurance market in 2008

ACAM reports show that there is a trend towards concentration in the insurance company sector, especially in the private social insurance sector. For 2008 ACAM listed 386 insurers under ACAM's supervision (compared to 482 in 1995) and 1,034 private social insurance bodies (973 mutual funds and 61 provident institutions).

The transposition of European directives into the mutual fund code meant that mutual funds had to comply with stricter solvency criteria as of the financial year 2003, the main consequence of which was the progressive and increasingly marked trend towards concentration in the sector.

In particular, the least robust mutual funds financially speaking have been absorbed by other mutual funds or have had other mutual funds take on their financial commitments or have affiliated themselves to mutual fund groups, unions or federations.

In addition, these figures are derived from information that bodies governed by French law, performing insurance transactions in France and under the prudential supervision of ACAM must communicate to the latter each year. As already mentioned, these figures do not reflect the activities of European insurers which, since 1995, have been entitled to perform their activities in France (the host country) under the systems of freedom of establishment or freedom to provide services and which are subject to the prudential supervision of the authorities in their country of origin (home country). According to estimations made by ACAM, this form of activity performed within the framework of the "European passport" system accounts for less than 2% of total activity in France, a figure which is estimated on the basis of the amounts of premiums and insurance contributions collected.

In its analysis of the insurance market in 2008, ACAM also states (p.16) that:

> *"In practice there is very little direct cross-border insurance take-up, apart from insurance for client companies for their business dealings abroad, such as transport insurance, or credit/bond transactions. Insurance companies usually opt to set up subsidiaries (and therefore few choose to set up a branch with an authorisation to operate under the principle of the freedom of establishment), the activities of which are under the supervision in the first instance of the authorities in the country of establishment".*
>
> *"However, ownership of subsidiaries in France by multi-national groups, most of which are based in other EU Member States, is more extensive. Around one fifth of insurance activities in France are accounted for by subsidiaries of European groups, the most established of which are Generali (Italy), Allianz (Germany) and Aviva (UK)".*

The French Federation of Insurance Companies (FFSA) also publishes, as part of its monitoring of the economic situation on the insurance market, aggregates and structural data for insurance companies, excluding mutual funds, and for private social security institutions.

Insurance activities can be analysed at the functional level of detail set out in the French classification of activities and products. It is thereby possible to distinguish between life insurance, non-life insurance (indemnity insurance, possibly broken down into main risk types), reinsurance and supplementary private pensions insurance activities. Cross-checking of these activities by type of company can also be carried out. These are published on a regular basis by ACAM or by FFSA for insurance companies affiliated to it.

Accreditations by insurance type make it possible to identify branches of activity at the most detailed level (life insurance, non-life insurance, mixed, reinsurance).

3.1.3. Level of detail for financial auxiliary services

It is this category of companies which is closest to being a standard case: they do not have to submit their accounts to a supervisory body and do not have to keep their accounts in accordance with a specific chart of accounts. As a result, in terms of their inclusion in structural business statistics (and national accounts), they are tretaed in the same way as non-financial corporations, even though their activities are regarded conceptually as belonging to the financial sector.[59]

It would thus seem possible to provide a fairly high level of detail for the different professions relating to the auxiliary financial services that are declared by the companies of their own volition, and at any rate a level of detail corresponding to the definitions of the classification of activities and products.

– Financial market administration (code NAF_rév2: 6611);
– Brokering of securities and goods (code NAF_rév2 : 6612);
– Other auxiliary services, except insurance and pension funds (code NAF_rév2 6619);
– Insurance auxiliaries: Risk and damage assessment (code NAF_rév2 6621);
– Insurance auxiliaries: Agents and brokers (code NAF_rév2 6622);
– Other insurance auxiliary activities (code NAF_rév2 6629).

The activities of financial auxiliaries can be monitored at a fairly detailed level using the SIE, in the same way as for the activities of non-financial corporations.

3.2. Structural business statistics on the financial sector

Structural business statistics (SBS) are covered by Regulation EC 295/2008 of 11 March 2008, which established "a common framework for the collection, compilation, transmission and evaluation of Community statistics on the structure, activity, competitiveness and performance of businesses in the Community". These statistics, which are transmitted to Eurostat on an annual basis, are grouped into financial and non-financial modules.

INSEE produces SBS for the different modules relating to non-financial corporations (industry, trade, construction, business services...) and publishes the results on the dedicated website ALISSE (Accès en Ligne aux statistiques structurelles d'entreprise)[60].

The Regulation establishes three financial modules:
- A detailed module on the structural statistics of **insurance services** is defined in AppendixV;
- A detailed module on the structural statistics of **credit institutions** is defined in Appendix VI;
- A detailed module on the structural statistics of **pension funds** is defined in Appendix VII.

As regards the production of financial modules, the organisation of the production of these data for Eurostat is as follows:
- The production of SBS on insurance services, previously entrusted to ACAM, became the joint responsibility of ACAM and the Banque de France, as of 2009 (for the reference year 2008);
- The Banque de France has been producing the SBS on credit institutions for several years now;
- France does not produce SBS on pension funds at the moment.

3.2.1. Structural business statistics on the insurance sector

The module on insurance services aims to improve understanding of developments in the insurance sector at national, Community and international levels.

The statistics to be drawn up relate to a detailed analysis of the structure, activity, competitiveness and performance of insurance companies, as well as the development and distribution of global activity and activity by product, international activity, employment, investments, capital and technical provisions. The statistics to be transmitted are broken down into the following eight areas:

[59] The information from INSEE's SIE does not always make it possible to break down the financial transactions of financial auxiliaries to a detailed level.
[60] See. *http://www.alisse.insee.fr*

Type of data	Number of variables produced (list of "total" datasets excluding the breakdowns request by Eurostat)	For information: Number of additional variables calculated by Eurostat (using the data transmitted to them)
Structural data	6	0
Accounting data: profit and loss account	72	8
Accounting data : balance sheet	37	3
Data by product	6	0
Data on international activity	5	0
Data on employment	2	0
Residual data	5	0
Additional macroeconomic data	4	1
Total	**137**	**12**

The compilation of statistics will cover the following enterprises:
- Non-life insurance enterprises (code NAF_rév2 : 65. 12);
- Life insurance enterprises (code NAF_rév2: 65.11);
- mixed insurance enterprises (code NAF_rév2:65.10): all those with life and non-life insurance activities;
- Reinsurance enterprises (code_NAF_rév2: 65.20).

In France, the insurance sector includes insurance companies (governed by the insurance code), mutual fund (mutual fund code) and provident institutions (social security code and rural law). The structural business statistics on insurance companies are mainly drawn up on the basis of data reported by insurance companies that cover 94% of the sector (on the total of these companies' balance sheets).

In total, if we combine the number of variables requested by Eurostat (137) with the compulsory breakdowns by type of insurance, products, size classes of the data measured and geographical areas, around 3,490 annual time series have to be compiled.

The complete list of the variables can be found in Appendix 15.

These statistics had not been transmitted to Eurostat for a number of years due to changes in data source collections for insurance companies. At the end of 2008, an automated data exchange system between ACAM and the Banque de France was set up, under which ACAM transmits to the Banque de France master and accounting data on insurance companies without increasing the notification burden of these bodies. Therefore, since October 2008, ACAM has been transmitting automatically and on a quarterly and annual basis to the Banque de France the accounting statements (balance sheet, technical and non-technical income statement, statement of provisions and reserves, notes on the accounts) and prudential statements (statement of investments, breakdown of results by contract and by country, etc.), aggregated by type of insurance and on an individual basis for each company.

In this context, the takeover of transmissions to Eurostat of SBS on insurance services is planned on the basis of close co-operation between the two institutions. At the Banque de France, the Institutional Investors Analysis and Statistics Division (DGS-DSMF) was responsible, in conjunction with the Directorate for Market Surveillance of ACAM, for producing these statistics for the reference year 2008 before the end of 2009, in accordance with the deadline laid down in the Regulation (12 months after the reference year).

Structural statistics in insurance are the joint responsibility of ACAM and the Banque de France, who work together closely on the basis of accounting and prudential data. The breakdown by type of insurance makes it possible to identify activities at the level of detail required under the European Regulation.

3.2.2. Structural business statistics on credit institutions

This module provides a detailed list of the characteristics used to compile the statistics with a view to improving knowledge of the national, Community and international development of the credit institutions sector.

These statistics are produced by the Banque de France, which transmits them to Eurostat and INSEE. However, these statistics are not published by the Banque de France. It is planned to make them available on the Banque de France's website by the end of 2010.

Currently these statistics cover 31 variables, broken down into 8 dimensions[61] and 3 NACE (*Nomenclature statistique des activités économiques dans la Communauté européenne* –Statistical Classification of Economic Activities in the European Community) activity classes,[62] giving rise to the production of over 800 annual time series (since 1995). As of the reference year 2008, 12 additional variables will have to be transmitted.

Type of data	**Number of variables produced**	**Additional variables calculated by Eurostat**
Structural data	8	0
	26	2
Accounting data: balance sheet	6	0
Data by product	0	4
Data on internal market and international activity	3	3
Data on employment	6	0
Residual data	1	2
Regional statistics: structural and accounting data and data on employment	2	1
	52	**12**

The compilation of statistics applies to:

- central bank services (code NAF_rév2: 64.11);
- monetary intermediation services (code NAF_rév2: 64.19);
- other credit sevices (code NAF_rév 2: 64.92).

In practice, the share of "other monetary intermediation services" (which corresponds broadly to banking activities and deposit and consignment offices) far outweighs that of "other credit services" (which reflects the activities of "financial corporations" as per the monetary and financial code and those of "specialist financial institutions").

The complete list of the variables can be found in Appendix 14.

This data is to be transmitted at the latest 10 months after the end of the reference year.

61 The 8 dimensions are as follows: general annual business statistics, by legal status, country of residence of the parent company, size, by category of credit institution, income, geographical breakdown, and annual regional statistics.

62 Despite the title of Appendix VI of the SBS Regulation, the scope covers a larger area than that of credit institutions as defined in the Monetary and Financial Code because these classes cover central banking services, with the activities of credit institutions being spread out among monetary and financial intermediation services.

These SBS are drawn up from the database of the Credit Institutions and Investment Firms Directorate (*Direction des établissements de crédit et entreprises d'investissement* - DECEI) and information from the Banque de France's database of financial agents (*Base des agents financiers* – Bafi) for balance sheets and income statements, and from the Commission Bancaire for SBS on credit institutions. As regards SBS on the central bank, accounting information is drawn from the Banque de France's Accounting Division.

The production of structural business statistics on credit institutions, based on hard accounting data, is satisfactory to the extent that the breakdown requested by the European regultion may be provided. Nonetheless, the classification laid down in the European Regulation, which is broken down into sub-classes, does not make it possible to identify activities at a detailed level and is a poor reflection of the real organisational structure of the credit institutions sector.

In their activity reports, banking services are more often than not listed as "retail banking", "corporate and investment banking" and "consumer credit" activities. In contrast, the classification of banking activities and services only reflects the requirements laid down in legislation. It is not broken down into homogenous "professional categories", which is what financial groups do.

3.3. Monitoring the activities in France and abroad of the affiliates of French and foreign financial groups[63]

The report has thus far focused on the monitoring of the activities of financial corporations (and by extension financial groups) on national territory. However, financial activities are not limited to this alone, but instead are becoming increasingly globalised.

For this reason, it is also important to envisage implementing recommendation 4 of the Salustro working group, which is to set up a permanent information system to monitor the foreign activities of French groups. This recommendation aims to create statistical tools that can measure the international dimension of the activities of these groups and the economic ties that they forge outside France with foreign affiliates and branches.[64]

The ongoing development of *Foreign AffiliaTes Statistics* (FATS) at European level, pursuant to Regulation EC 716/2007 of 20 June 2007 on Community statistics on the structure and activity of foreign affiliates, meets this objective.[65]

The regulation is a common framework which is in line with the general rules for compiling comparable international statistics on foreign affiliates as defined by the United Nations' manual on statistics of international trade, the IMF's balance of payments manual and the OECD's benchmark definition of foreign direct investment and manual on economic globalisation indicators.

The aim is to improve Community statistical monitoring on the structure and activity of companies in the European Union. In particular, there are plans to produce regular information on activities of "foreign"[66] affiliates depending on whether the focus is on the activity of the French affiliates of a non-resident group ("Inward" Foreign AffiliaTes Statistics –IFATS) or the activity of the foreign affiliates of a French group ("Outward" Foreign AffiliaTes Statistics - OFATS).

63 The rapporteurs would like to thank Dominique Francoz (INSEE), Julia Guérin (Banque de France) and Bruno Longet (Banque de France) for their suggestions and proof-reading of this part of the report.

64 Second part of recommendation 4: "The future European obligations (FATS) should be met with the aid of such an information system. As well as the usual structural statistics relating to activities in a particular territory, the Salustro working group recommends that statistics on the activities of companies under the supervision of national authorities should also be produced".

65 *http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:171:0017:0031:EN:PDF*.

66 A foreign affiliate is defined as follows: "an enterprise resident in the compiling country over which an institutional unit not resident in the compiling country has control, or an enterprise not resident in the compiling country over which an institutional unit resident in the compiling country has control".

For the financial sector, these statistics concern credit institutions, insurance companies and financial auxiliaries.

3.3.1 Activities of resident affiliates of non-resident groups (IFATS)

Monitoring of these foreign-controlled affiliates is carried out in a satisfactory manner using the databases of the Banque de France and the Commission Bancaire. A foreign-controlled affiliate established in France must obtain accreditation from the competent supervisory authority,[67] ACAM for insurance companies and CECEI for credit institutions. These entities are therefore subject to the same accreditation procedures and the same supervisory arrangements as French companies.

The European Regulation stipulates that the following statistics, broken down by categories of activities, must be produced: **number of enterprises, turnover, production value, value added, total purchases of goods and services, personnel costs, number of persons employed or, if this is not possible, the number of employees, total expenditure on Research and Development** *(R&D),* [68] total number of *R&D staff.*

In the case of financial affiliates, the statistics produced are limited to the number of companies, the production value and the number of persons employed. INSEE is responsible *vis-à-vis* Eurostat for the smooth implementation of the FATS regulation in France. However, an agreement between INSEE and the Banque de France sets out the arrangements for calculating these statistics for financial intermediaries.[69] For credit institutions, these statistics are taken from the database of financial agents ("Bafi") and from the nationality of the capital in the *Direction des Établissements de crédit et des Entreprises d'investissement* (DECEI) database. This last item of information, updated by the DECEI subsequent to every relevant event, makes it possible to fully comply with the UCI definition laid down in the FATS Regulation. Statistics on insurance companies are produced by ACAM and the Banque de France, who work together closely on the basis of the sector's accounting and prudential data.

INSEE is responsible for the part relating to statistics on companies performing financial auxiliary services only.

At the end of 2007 these statistics made it possible to determine the number of credit institutions under national control (two thirds) and the number under foreign control (one third) as a share of all accredited credit institutions in France.

Number of accredited credit institutions in 2007	**768**
under French control	*511*
under foreign control	*257*

Source: Banque de France.

On the basis of these statistics it is also possible to calculate the number of employees of credit institutions under foreign control.

67 It must also be registered in the trade register (registre du commerce et des sociétés –RCS) as a company if it transmits its accounts to the tax services.

68 Only relates to activities in sections C to F of the European Classification of Activities (NACE). Financial intermediation activities are classified in section J.

69 Within the Banque de France, the Monetary and Financial Statistics Directorate (DSMF) is in charge of compiling these statistics.

Total number of employees of credit institutions accredited in France in 2007	**424,829**
number employed by institutions under French control	*387,548*
number employed by institutions under foreign control	*37,281*

Source: Banque de France.

3.3.2. Foreign activities of affiliates controlled by a resident institutional unit (OFATS)

Here, access to information is in theory more complicated. It can be noted that France has obtained a derogation for the implementation of this regulation until 2011 (for the 2009 reference data). As a consequence, reporting is less burdensome for the foreign affiliates of French groups, but at the end of the day is the same as that for IFATS relating to financial activities: **number of enterprises, turnover, number of persons employed or, if this is not available, the number of employees.**

INSEE's LiFi survey would theoretically be an incomplete response because it only looks at the front line affiliates and does not take account of indirect participation.

In the case of financial institutions (credit institutions and investment firms), the use of Bafi data managed by the General Secretariat of the Commission Bancaire will enable the foreign affiliates (direct or indirect) of French financial groups to be identified and for the regulatory obligations for the aforementioned variables to be met.

For insurance groups, the information is not available and can only be obtained from surveys (see Appendix 13). As a result, some group structures are not recorded. This is the case when the foreign affiliate is itself a holding company.

Avenues are already being explored for the enhancement of FATS. A pilot survey carried out in the framework of a Eurostat bid for tenders is currently underway. All French groups with affiliates outside the EU are being surveyed. The scope of the survey covers all sectors of activity (except banks and agriculture, but including insurance).

This survey aims to test the feasibility of collecting additional information to the three compulsory items. It is a first step towards the establishment of a permanent procedure which will aim to survey French groups on the activities of their foreign affiliates (intra and extra EU) on an annual basis. In particular, it aims to supply information on imports and exports of services of foreign affiliates (French groups and foreign groups) as well as intra-group trade of goods and services. his is exactly what recommendation 5 of the Salustro working group advocates.[70]

In the case of financial groups, this seriously restricts the coverage of the analysis. The very concept of trade in services is restricted by the definition of its value according to the accounting standard chosen (see part 5 of this report) because a significant part of the economic relationship between companies comprising a financial group consists of the income flows that are not considered as a service but as the overall proceeds drawn from these financial activities.

As the pilot survey is only in its initial phase, the questionnaire could be adjusted to take account of the specific nature of trade in services between financial corporations belonging to groups, which as a consequence would entail adjusting the standards laid down under the agreement with Eurostat.

[70] Recommendation 5: "Having noted the significant share of external trade that intra-group flows account for, the working group recommends that figures on both components of this share of French external trade (imports and exports) be published on a regular basis".

Recommendation 4 of the Salustro working group – "to set up a permanent and regular information system to monitor the foreign activities of French groups" is in the process of being implemented within the framework of European FATS on the financial sector. For credit institutions, the use of the Banque de France's databases should enable this objective to be met. For insurance companies, pilot surveys are currently being used (a permanent system will be set up by INSEE).

Recommendation 5 of the Salustro working group, which advocates the regular dissemination of information on intra-group external flows, is currently being tested out.

However, in its current form, this information system designed for trade in services only is incomplete as regards financial groups. Modifying the OFATS questionnaire is one possible option to overcome this problem.

3.4. Monitoring the external trade of French financial corporations and groups

Similarly, using individual data from the balance of payments data could be a way of achieving the objectives of recommendations 4 and 5 of the Salustro working group.[71]

It should be noted that balance of payments data records all external trade between resident and non-resident operators in accordance with a detailed accounting system. Each transaction between a resident operator and a non-resident operator contains a financial compensation in the form of a change in holdings or debts between residents and non-residents. In this framework, financial intermediaries (credit institutions and investment firms) play a key role: they provide the very source of the data, as they record in their accounts what amounts to the majority of financial compensations for market economic relations between resident and non-resident agents.

In order to establish the balance of payments, financial intermediaries have an obligation to report all settlements with non-residents, whether they arise from trading for their clients (excluding transactions with the direct declarants) or proprietary trading.

In practice, these reporting obligations are not exhaustive: although they have been made compulsory for currency settlements outside the EU, they are only compulsory above a certain threshold for current transactions relating to intra-EU settlements in euros. This fairly low threshold (EUR 50,000) means that it is possible to monitor the biggest financial transactions (direct investment[72] or asset investment, including transactions relating to market financial instruments). Under the current system for collecting declarations by resident financial intermediaries, it is sometimes difficult to distinguish between proprietary trading and trading for a third party. This is why, as of 1 January 2011, financial intermediaries will have an obligation to report their proprietary transactions with non-resident operators as of the first euro.

In addition, since balance of payments has been further incorporated into the more general framework of national accounts, its purpose is no longer to account for payments (approach based on recording the payment at the actual time of disbursement), but rather to record the transactions (on an accruals basis).[73] As a consequence, the results should better reflect the accounting results of the operators under consideration, especially those of financial corporations.

Reporting to the balance of payments is either carried out directly by the financial intermediaries concerned (i.e. those who manage transactions with non-resident agents) or directly by other agents (residents), under the direct reporting system.

[71] The rapporteurs would like to thank Pierre Sicsic, Vichett Oung and Corinne Devillers (Balance of Payments Directorate –Banque de France) for their suggestions, remarks and comments.

[72] In particular, securities transactions (issuing, purchase or disposal) are regarded as direct investments as soon as the declarant reaches or exceeds a 10% stake in the capital of a non-resident company.

[73] Transition from statements of payments to statements of transactions.

According to the figures in report N° 100 by the CN IS working group on the measurement of international trade in services, which was published in February 2006, these declarations relate to:

- 140 financial intermediaries reporting international activities for proprietary trading or trading for one of their 25,000 corporate clients;

- 425 companies which make a general direct declaration (as of the first euro). These companies, which complete financial transactions with non-resident operators amounting to over EUR 30 million annually, should include the other main financial corporations (insurance and financial auxiliaries).

This individual data makes it possible to identify the companies concerned, whether on the basis of an identifier (IBC) that is specific to the financial institution in question or the SIREN number of the corporate client on behalf of which the bank completes a transaction with the non-resident agents, or if the company concerned is the direct declarant. Moreover, in the case of an enterprise group, each company (parent company and/or affiliates) must make a declaration (or be declared) under its own SIREN number.

With the SIREN number of companies comprising a financial or mixed group at their disposal, it would appear to be possible to obtain the details of a company's external trades by using the individual data of the main entities that comprise the group as recorded by the balance of payments.

In the case of banking groups (mainly comprising credit institutions and investment firms), all financial services, transaction s on derivatives and direct investment flows carried out for propriety trading could in theory be known exhaustively.

In the case of insurance companies or companies providing financial auxiliary services, the current situation is less encouraging: if the companies concerned do not fill in the declarations to the balance of payments, their relationships with non-resident agents cannot befully traced (declaration threshold).

In order to be able to make use of the declarations at an individual level, they must undergo a considerable amount of processing.
Furthermore, it is worth noting that the provision of these data may only be made within a strict regulatory framework.

Introduction to parts 4 and 5

As regards the "structural statistics based on the enterprise groups and their sub-groups", the "Salustro" working group recommends the creation of a new statistics unit: the "groups' operations divisions ". The groups' operations divisions are defined as the partition of groups into organised sub-units which enjoy a certain degree of autonomy for decision-making and management. A group's operations division is therefore an "enterprise", in the economic sense of the term, which may be identified within a group. In many cases, especially for the smaller groups, the group is only composed of a single operations division.

The first three parts of the report have shown that in view of the complete correspondence between a given financial activity and the associated financial sector on the one hand, and the wealth of the databases in the financial sector on the other, it is possible to identify the main activities of the groups, whether financial or mixed, at the relatively aggregate level of the main categories of financial activities *(banking, insurance and financial auxiliary services)* which may be assimilated to the groups' operations divisions. For insurance activities, it would even be possible to identify the groups' operations divisions at an even more detailed level, by distinguishing, in the same way as for the regulation and organisation of the sector, life insurance and non-life insurance (property and casualty insurance).[74]

The banking financial groups present their results in their activity reports in compliance with the main business lines that could be assimilated to banking groups' operations divisions at a detailed level. Whereas, given that the banking intermediation activities are closely interlinked, this breakdown is often conventional. In fact, while the main services of retail banking consist in handling deposits and granting loans, the latter are generally subject to hedging transactions on the financial markets. These transactions are, most of the time, carried out by corporate and investment banks. As these conventions vary from one banking group to another, the working group consequently rapidly ran into problems for the description and aggregation of banking activities.

The analysis of this difficulty, which was judged essential by the working group, led to the feasibility analysis of the "profiling" of financial groups being relegated to a lower level. In doing this, the working group changed to some extent the orientation of its work *de facto* with respect to its mandate. It sought to highlight in priority the difficulties in describing homogenous financial activities at a detailed level in banking, when using data sources and results that are currently available from public statistics (see part 4).

Subsequently, the group has tried to reconcile, at a highly aggregated level, the visions of banking activities held by professionals and public statistics. There are in fact two rival approaches to the banking activity: the first is based on the concept of value added to the national accounts and the second, preferred by bankers, focuses on the notion of net banking income (see part 5).

74 In this context, the re-insurance activities should be distributed according to their destination with the life insurance and non-life insurance group operations divisions from the technical accounts of the companies.

Part Four: the difficulty involved in isolating homogenous "banking" professions

The French banking system has changed significantly in recent decades. The banking law dated 24 January 1984 favoured the emergence of a universal banking model. By ending the principle of specialisation and by creating a single legal framework that encouraged competition, it removed the distinction between deposit banks and commercial banks in particular.

Therefore, regardless of its legal status, all credit institutions are henceforth subject to the same rules and regulatory constraints, and may also have access, providing they are accredited, to all financial and/or banking intermediation activities.

In the current situation, whilst it is easy to distinguish the financial institutions, whether they be credit institutions (commercial banks, mutual savings banks, savings banks, etc.), investment enterprises, UCITS, etc., it is difficult (see below) to isolate "professional categories" at a detailed level.

4.1. The main difficulty lies in an adequate classification of banking activities

In general, it is always difficult to identify the activities of an enterprise accurately and to classify them in the statistical classification. The professional designations do not always match the categories of the official activity classification (NAF iss. 2). This is especially true for services provided by the specialised financial institutions, investment enterprises, venture capital companies, etc.

Moreover, an enterprise may be accredited for several banking or financial activities. It may have a corporate name that is irrelevant for the classification of its main activity; it may be a member of several professional organisations and be on several accreditation lists. The census of financial institutions by type of accreditation confirms this: the CECEI accredited 353 credit institutions which are also accredited as Investment Service Providers (from the 489 Investment Service Providers accredited in total).

Within a credit institution, it is often difficult to distinguish between the following activity sub-categories:

- **banking, distribution of credits,**
- **investment bank,**
- **intermediation in financial markets,**
- **portfolio management companies.**

It must be possible to distinguish between these activities or services within the financial corporations in order to identify the contour of the group and its main companies which form its subsidiaries.

4.2. The specific case of mutual savings banks and the classification of their activities: case study of the Credit Agricole Group (CA Group)

The French financial sector has several large mutual savings banking networks (following the recent mergers and affiliations), which are among the largest financial groups in the world.

The different activities of the mutual savings banks are difficult to define due to the specific nature of their organisation.

A study of the Credit Agricole group was launched to evaluate what could be a micro-economic analysis of the "professions" of the group, which is present in both the banking and insurance sectors. The purpose was to study the conditions for the feasibility of identifying at a fine level the main professions within a bank-insurance group and to study if a systematic approach could be envisaged based on this experience.

A technical sub-working group of the "Financial groups" working group was thus formed and carried out several missions in the fourth quarter of 2008.[75]

The result of this experience was presented in the plenary meeting of the working group on 8 December 2008.

This work confirms the possibility of using and confronting different sources of information for the accounts of companies forming a financial group. On the other hand, it highlights the difficulties that would be encountered in defining the structural statistics of a banking group with a fine level of detail in its main "professions".

The structure of a mutual savings bank may be envisaged as the superposition of 3 different networks (associative, financial and banking) that need to be distinguished.

Thus, for the Credit Agricole group for example, the local units at its base have legal personality and are formed on an associative (or cooperative) basis. They are grouped at the associative level within regional federations and national federations.

At the financial level, each of these local units or **local branches,** holds part of the capital of the **regional branches,**[76] wherein the former hold virtually all of the shares of the latter. The regional branches in turn have a majority holding in the capital of the **central branch**, which is "Credit Agricole SA". Some 39 regional branches and 2,549 local branches have been identified.

At the banking level, the units which exercise fully are the regional branches, accredited as credit institutions by the CECEI. Their accounts are aggregated at the central level with those of "Credit Agricole SA".

Thus in the SIRENE register, for the specially dedicated legal category "Credit agricole mutual branch" (CJ 6595), there are just over 2,500 "active" units, which include the central branch (Credit Agricole SA), the regional branches which also have the accreditation of credit institutions and the majority of the local branches.

A comparison test on the accounting data of the CA Group and the information on the set-up of the public statistics system was carried out in a short period of time. It was decided to limit this work to the study of a sample only containing the main subsidiaries of the group.

Study perimeter used together with the Credit Agricole Group (CA Group)

Main entities forming the sample:

- 17 credit institutions including CA (Credit Agricole SA + Regional branches)[77] and LCL;
- 2 investment enterprises;
- 2 insurance companies;
- companies providing auxiliary financial services;
- 2 non-financial corporations.

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75 The working group rapporteurs would like to thank Mrs Tissot of the Credit-Agricole group as well as the members of the Financial accounts Division (*Service d'Études et de Statistiques des Opérations Financières* - SESOF) at the Banque de France, especially Denis Marionnet, Gaëlle Proust, Benoît Bourges, Martine Pinon and Jocelyne Lornois for their contributions to this work. The rapporteurs would also like to thank Sylvie Larrasquet of the General Secretariat of the Commission Bancaire. The technical sub-group was co-chaired by Gilles de Margerie and Pierre Olivier Cousseran.

76 In fact they are an infra-regional breakdown.

77 In the accounts submitted to the Banque de France, the accounts of Credit Agricole SA and those of the Regional branches are aggregated.

Total number of salaried employees in the sample: slightly over 100,000 employees.

Net result: the 28 entities selected represent a little over 80% of the CA Group's turnover according to IFRS standards (including the consolidated results of foreign affiliates).

The accounts of these 28 entities were identified within public statistics, using the following databases:

- INSEE's LiFi database on group structure;
- Banque de France's Bafi database: financial statements harmonised for control purposes for credit institutions, investment enterprises and other financial corporations accredited by the CECEI;
- ACAM database: financial statements harmonised for supervision purposes for insurance companies accredited by the CEA;
- INSEE's Intermediate Enterprise System (*Système Intermédiaire d'Entreprises* –SIE) for the results of financial auxiliaries and financial corporations which form the CA Group;
- Banque de France's "National Accounts' Sector Repository".

It is possible to determine the basic information which allows the large entities that form the CA Group to be identified from the data within public statistics. From this point of view, the test is satisfactory.

On the contrary, the problems related to the "dispersion" of the company accounts between the different institutions should not be under-estimated. Consequently, the situation is not as favourable as that of the industrial and commercial groups for whom only the INSEE has all of the information.

4.3. The difficulty involved in comparing the CA Group's results and those from public statistics

The members of the technical group worked using the analysis models and data used in the framework of the national accounts alone, which makes it difficult to compare the results with those of the CA Group due to:

- **Difficulties in isolating expenses according to their nature from administrative files**, (financial expenses for the banks or technical expenses for insurance companies on the one hand, general operating costs other than wages and taxes on the other), which make it difficult to compare intermediate balances calculated using private accounting principles or those of the national accounts;

- **Conceptual differences**, especially as concerns the consideration of financial revenues, for example, those obtained from the active management of securities for transactions (capital gains or losses on debt securities held). For this purpose, the difference in the measurement of the activity of one of the investment banking subsidiaries is a limited case.[78] Part five of this report provides details on this point;

- **Differences in scope:** reconstructing the accounts of the CA Group in the "national" format is especially difficult. In particular, it is difficult to distinguish the results of Credit Agricole SA, Calyon and LCL, and those generated by their foreign branches;

[78] According to the national accounts, several billion euro of expenses and income from one of the banking subsidiaries of the CA Group are not taken into account in its net result but as elements of variation in the assets of this company. In return, according to the principles of the accounting plan applicable to banks, they are taken into consideration in the calculation of its Net banking income (NBI, see part five).

- **The absence of consolidation of intra-group flows in administrative data.** This is especially the case for dividends (received) which may also falsify the measurement of the aggregated result of the CA Group based on the results of the corporate accounts of the subsidiaries forming the group on which the analysis is based.

It should be determined whether these difficulties may be overcome by using other data than that used solely for the construction of national accounts (see the work and the publications of the Commission Bancaire) which would enable an aggregated account of the group to be calculated.

4.4. The problems related to the identification of the main professions in the CA Group

This involves testing the feasibility of one of the main recommendations of the "Salustro" report: forming a group statistic to improve the monitoring of its activity from a consolidated point of view and/or according to its different professions ("enterprises" in the economic sense of the term). In other words, the purpose was to try to identify a banking or financial group in order to pinpoint its main and subsidiary professions precisely.

The exercise consisted in comparing the activities of the 28 entities of the CA Group selected in the sample, on three points: the declaration by the group itself of its main financial or non-financial activities, the type of company (according to its sector of activity using the national accounts criteria, i.e. financial Institutions, insurance companies, financial auxiliaries or non-financial corporations) and its activity as it appears in the SIRENE register.[79]

In tables 4.1 and 4.2 below, it appears that, apart from insurance activities[80] and*, a priori*, non-financial corporations, it is difficult to reconcile these analyses, especially for banking activities declared by the CA Group using the following allocation:

- **"corporate and investment banking –CIB"** (5 companies according to the CA Group), a branch of activity which includes banks, an investment enterprise and even a non-financial corporations[81] according to the national accounts classifications;

- **"asset management"** where four of the ten companies mainly exercising this profession are classified as non-financial auxiliary service companies (and *a priori* are not obliged to be accredited as financial corporations) and six of them are accredited as credit institutions, investment enterprises or other financial corporations;

- **"own account"** which includes the group's parent company, Credit Agricole SA as well as the Regional branches of Credit Agricole. These entities are accredited as credit institutions and should be classified as retail banks in the same way as LCL which is the group'sonly French entity of this type according to the definition provided by the CA Group.

There is not an exact correspondence either between the main professions defined by the CA Group itself and the main activity codes (the APE code controlled by INSEE)[82] of the group's main companies.
The APE code is a fundamental piece of information for enterprise statistics as it is the basis of the classifications of enterprises by sector of activity (and by extension business line). Consequently, the quality of the studies on the economic situation and that of the files made available to the public largely depend on the correct attribution of an APE code to each enterprise.

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79 (French official classification of activities and products– NAF rév. 2).

80 For which, the data of the ACAM permit to go further by distinguishing within these companies the activities of damage insurance and life insurance.

81 As this company is not accredited by the CECEI, it may not be considered as part of the "banking" sector (S122AE) or as a "financial institution" (S123A) by national accountants.

82 All enterprises and each of their establishments are attributed by the INSEE, when registered in the SIRENE register, a code which characterises their main activity by reference to the French official classification of activities and products (NAF rév. 2).

In this case, the APE code should permit the identification of a certain number of financial activities at the same level of detail as that provided by the CA Group. This involves insurance activities (broken down into sub-categories) as well as certain specialised banking activities (such as leasing).[83]

Table 4.1: Cross-referencing of the main professions declared by the CA Group with the sub-sector to which its companies belong according to the national accounts

	Type of company (source: national accounts)						
	Insur. S125	Fin. auxil. S124	Banks S122A	Invest. enterprise S122b	Other comp. Fin. S123A	SFS S11	Total
Main business lines (source: national accounts)							
Insurance	2						2
Corporate and investment banking			2	1	1	1	5
Retail banking			1				1
Proprietary trading		1	1		1	1	4
Asset management		4	3	1	2		10
Specialised Financial Services (SFS)			1		5		6
Total	**2**	**5**	**8**	**2**	**9**	**2**	**28**

The rows show the main activities of the largest companies of the CA Group, as defined by the group itself. The columns show the institutional sectors of these companies as defined by the national accounts.

NB: the grouping together of Credit Agricole SA and the regional branches is classified by the group itself as an own account activity.

<u>Table 4.2</u>: Cross-referencing of the activities declared by the group (source: CA) and the main activity codes of its companies according to the official classification (NAF code)

	Main business lines (source: CA)						
Activity (NAF code)	Insur.	CIB	Retail banking	Proprietary trading	Asset Management	Specialised Financial Services	Total
3220 – Foreign company or not registered at the RCS					1		**1**
6419Z : Other monetary intermediaries		2	1	2	4	3	**12**
6420Z : Holding company activities		1					**1**
6430Z : Investment funds and similar financial entities					1		**1**
6491Z : Leasing						1	**1**
6492Z : Other credit distribution						2	**2**
6511Z : Life insurance	1						**1**
6512Z : Other insurance	1						**1**
6612Z : Securities and commodities brokerage		1					**1**
6619B : Other financial auxiliary services activities		1		1	1		**3**
6630Z : Fund management					3		**3**
7490B : Other specialised activity				1			**1**
Total	**2**	**5**	**1**	**4**	**10**	**6**	**28**

The columns show the main activities of the largest companies of the CA Group, as defined by the group itself. The rows show the main activities of these companies as defined by the official classification NAF rév. 2.

Furthermore, the analysis and monitoring of the CA Group's non-financial activities do not pose a problem. This is due to the small number of large companies according to size criteria (turnover, workforce and/or the mass of the balance sheet).

[83] Consequently, the leasing activities may only be performed by financial institutions accredited by the CB as credit institutions (Article L515-2 of the Monetary and Financial Code), which as specialised financial corporations "may not receive from the public sight funds or funds for a fixed term of less than two years, unless they authorised to do so incidentally (Article L 511-9 of the Monetary and Financial Code).

The study carried out in order to identify the main professions of the CA Group has show the extent to which the definition and the delimiting of the banking activities of the group could be difficult.

The "banking" activities declared by the CA Group do not correspond to the breakdown of activities that it would be possible to make using the official classification of activities (NAF codes). Indeed, due to its low relevance for the banking activities, this classification is not used by public statistics.

Although corporate and investment banking at the Crédit Agricole Group is performed by specialist subsidiaries, for which specific data is available, this situation does not apply to all French banking groups where this activity may be performed within the same legal units as other activities, such as retail banking. The choices of the CA Group, like those of other banking groups, do not exclude certain conventions in the demarcation of certain activities, for example business financing activities, which are also performed outside the corporate and investment banking division by LCL or the Regional Branches.

In the case of the CA group, it was difficult to distinguish specialised credit activities (cash or investment), within the banks themselves. However, certain highly specialised banking activities, such as leasing, were identified without any difficulty and in a homogenous manner. The same was true for insurance activities and financial auxiliaries' activities, where the activities declared by the group are the same as the public statistical classifications.

For the other non-banking entities of the group (financial auxiliary services and non-financial corporations), the definition of enterprises in the economic sense of the term poses no particular problem.

4.5. The financial activities of mixed groups: the case of La Poste group

The analysis of the economic relations of a mixed group with its financial subsidiaries also seems difficult but highly useful to understand the relationships between the different "enterprises" which form this type of group.

The example of La Poste group (LP in the following description) allows this point to be clarified. The change in the accounts of La Poste and La Banque Postale companies may only be understood from the wider analysis of the consolidated accounts of La Poste group.

4.5.1. Nature of the financial activities of La Poste up until 2005:

Up until 2005, the financial activities of LP group[84] created a net banking income (NBI –see part five), of around EUR 4.1 billion which was broken down as follows.[85]

- **<u>Invoiced banking and financial services (for services provided):</u>** Provision of services invoiced directly to the customers in relation to the holding of bank accounts (Postal Cheque Accounts: CCP) and financial accounts (shareholding accounts, financial transaction fees, etc.). The remuneration of these activities also included the provision of means of payment (bank cards, money orders) and bank charges on overdrawn accounts. These services represented a NBI of EUR 0.9 billion in 2005.

- **<u>Investment of credits from Postal Cheque Accounts (*Comptes Chèques Postaux* –CCP), remunerated in the form of the balance of interests received and paid (financial intermediation):</u>** up until 1999, the collection of the CCP was made for the Public Treasury which paid La Poste for this work. The contract related to the year 2000 plan organised, from this date, the progressive transfer of the management of the CCPs' credits from the Treasury to Efiposte, a 100% owned subsidiary of LP, a credit institution accredited by the CECEI created

84 Excluding the activities of SOGEPOSTE, a shareholding management subsidiary (UCITS) for third parties, jointly owned with the CDC prior to 2006, which became Banque Postale Asset Management, a 100% owned subsidiary of the Banque Postale in 2006.

85 *Source: financial report of the La Poste group, 2006.*

on this occasion.[86] The transfer of the complete management of the CCP credits by Efiposte was made progressively and was completed on 1 January 2004.

In fact, the remuneration of the collection and the management of the CCP changed during the period 1999-2004: up until 1999, the Public Treasury paid LP in the form of a commission by applying to the credit outstanding collected the rate of interest on short-term State bonds (BTF over the most recent period); from 2000 to 2003, this remuneration was broken down into two parts, that still paid by the Treasury and that obtained by Efiposte from the investment of the share of credits placed directly under its responsibility. From 2004 to 2005, the remuneration of the investment of the CCP only came from investment activity by Efiposte. The (net) remuneration of this activity represented a NBI of EUR 1.5 billion in 2005 (see 2006 financial report of LP group). It then adopted the form of interest margins and must thus be considered as the output of financial intermediation services, in the same way as that obtained from the management of deposits by any other retail bank (Sifim –see part five). Up until 2005, this profit made by the company Efiposte was entirely paid to LP in the form of interest received and paid, and the balance was nil in the account of the Efiposte company.

- **Real estate loans and management of the home ownership savings plan, also remunerated in the form of the balance of interest received and paid (financial intermediation):** granting real estate loans on the condition that they be accompanied by the home ownership savings plan (PEL and/or CEL). This activity, which has been authorised since 1974 even though LP did not have the status of a bank, generated NBI of EUR 0.4 billion in 2005 (source: 2006 financial report of LP Group)**.** This is a profit that is net of interest related to financial intermediation transactions (credits).
- **Management of savings books and savings accounts other than PEL and CEL, remunerated in the form of an auxiliary financial commission:** this collection of savings (livrets A savings plan, sustainable development savings plan formerly CODEVI and *Épargne Populaire* savings plan) is carried out as part of the financing of major priorities (public housing, sustainable development, etc.) by "the regulated savings funds" managed by the *Caisse des depôts et consignations* (CDC). For the collection and the management of this savings income, LP receives from the CDC commissions that are proportional to the credit outstanding collected. Net of expenses incurred by LP, these commissions represented NBI of EUR 0.9 billion in 2005.
- **Miscellaneous financial income (financial results not detailed):** represented net banking income of around EUR 0.4 billion in 2005 for LP.

In 2005, EUR 4.1 billion in net banking income was registered in the accounts of LP group as an element of the output (and value added) of LP, a non-financial corporation whose main activity consisted in providing postal services. The financial activities underlying the NBI were considered as the turnover (output) of an ancillary branch (financial services) of LP.[87]

[86] As of the year 2000, Efiposte was also placed in charge of the management of LP's treasury.

[87] In the national accounts, the results of EFIPOSTE, a financial corporation in charge of the management of the funds deposited in postal current accounts were retraced in the account of the financial corporations sector (S12) and in its financial activity branch (L01: financial intermediation). The results of this company were relatively modest in terms of income and value added in 2005 (EUR 0.01 billion), the greatest part of the income from its activity were made in the form of a net balance of revenue from interest, which was paid to LP (see above).

4.5.2. Modification of the structure of LP group as of 2006:

The law[88] modified the legal framework applicable to the financial activities of LP requiring that as of 1 January 2006, its banking activities must be exercised through a specialised subsidiary with the legal status of a credit institution, accredited by the CECEI.

To comply with this new legal framework, as January 2006 LP transformed Efiposte into La Banque Postale (LBP) and transferred all of its financial activities to it, apart from those which were already exercised by Efiposte or other specialised financial subsidiaries. Once the provision of assets from LP's banking and financial activity[89] and the capitalisation equity were made, LBP, under its new corporate identity, was accredited to perform all banking activities (including granting loans to legal entities and consumer credits as from 2009). This new status also allowed LP group to provide, with no other constraints, mortgages to private individuals. The group's financial intermediary activities have thus been considerably developed in recent years.

Since 2006, LBP has traced in its accounts the banking activities previously integrated into those of LP. In 2005 and 2006, financial services output remains measured by La Poste group in the same way in the form of a "net banking income", defined according to the accounting standards applicable to credit institutions. The output from banking services generated by LBP is estimated at EUR 4.3 billion in 2006, an increase of EUR 0.2 billion in comparison to the "equivalent"[90] financial activity of LP in 2005[91] (EUR 4.1 billion).

In terms of LP's consolidated results, the transfer of activities from one company to another is neutral in the context of the analysis of LP group. This is not the case, however, if the results of the companies forming the group are analysed on their own.

4.5.3. Creation of new financial flows within LP group from 2006

In addition to its own resources (especially its head office), LBP largely uses LP post offices to exercise its activity, either through "dedicated" personnel, which is to say paid directly by LBP (financial advisors) or by the provision of services by LP employees on behalf of and in the name of LBP.

To avoid the LBP set-up from distorting competition between banks, the European Commission demanded that LBP effectively pay the actual costs incurred by LP for the activity of its banking subsidiary. Conventions for the supply of personnel or provision of services were drawn up between LP and LBP stipulating the invoicing conditions for the services provided by LP.

Consequently, LBP paid EUR 3.5 billion to its parent company for services invoiced (see the 2006 activity report).[92]

Although the internal flows within LP group are not taken into consideration, the measurement of the relative contributions of the different sectors of activity and institutional sectors to economic growth may be severely biased.

Indeed, up until 2005, the financial activity of LP group (non-financial corporation) was only considered to represent financial auxiliary services. As of 2006, these services, essentially generated by LBP, an accredited credit institution belonging to the financial corporations sector, should be considered as part of the activity of the financial intermediation branch, the only branch of financial activity associated to the sector according to the 2000 base.

88 Law n° 2005-516, for the regulation of postal acti vities.

89 Apart from the activity and the elements of the balance sheet of the ex-EFIPOSTE, LA BANQUE POSTALE received all of the assets and liabilities related to the financial services of La Poste as well as those of the Caisse Nationale d'Épargne related to the collection of the CCP, the outstanding credits of the livret A savings book collected by the post office network of La BANQUE POSTALE remain however managed by the CDC.

90 Which is not really the case, since the banking accreditation granted to LBP extended the scope of its credit activity, especially in terms of granting mortgages.

91 See the financial report of La Poste group for 2006.

92 P. 65 LBP activity report, available at the following address: *http://www.labankpostale.fr/fr/index/lbp/Communication_financiere.html.*

Furthermore, measuring the value added on the basis of the companies' financial statements alone, like in the national accounts, the invoicing flow from LP to LBP, introduced as of 2006, led to the transfer of EUR 3.5 billion of value added from the financial corporations sector to that of the non-financial corporations sector between 2005 and 2006. Consequently, certain ratios that are significant for economic analysis (rate of profit, rate of investment, etc.) may be markedly affected between these two years.

4.5.4. Impact on the economic analysis of LP group's branches of activity

In the same way, the invoicing between LP (in resources) and LBP (in jobs) which are at the origin of new flows in the accounts of the sectors of financial corporations (LBP inputs) and non-financial corporations (additional output and turnover for LP due to the invoicing of services) must also appear as "new" output from different branches of activity.

In this case, these flows, which are explained in the report on the financial statements of La Poste, could be assimilated in finer detail to different branches of activity of LP, for example as:

- Making available personnel from the regional centres of the financial departments;
- Cost of the commercial activity (renting of offices, etc.);
- Activity of the counter staff of La Poste for LBP and the provision of automatic counters;
- Holding activities (management fees), etc.

The example of La Poste group shows that it is necessary to isolate precisely the financial activities within mixed groups in order to correctly understand the relationships between the different operational divisions of the group.

Part Five: How should the activity of financial intermediaries be measured?[93]

Apart from the problems of defining homogenous branches of activity, compiling statistics on a financial group supposes that it is possible to aggregate the results of the companies that form it in a straightforward and reliable fashion.

Whereas, in the case of financial activities, especially banking intermediation, the measurements of output, value added and profit are entirely specific and vary according to the point of view adopted (public statistics and the national accounts on the one hand, private-sector accounting on the other).

This part does not cover the measurement of the activity of financial auxiliaries that are not financial intermediaries and for which the chart of accounts is generally not different from that of non-financial corporations.

5.1. Measurement of the value of services rendered by financial intermediaries according to national accounts and private-sector accounting

National accounts measure the value added (VA) of a service as the profit made by the company producing it. This is the choice of:

– The United Nations (SNA93) to ensure the consistency of the concepts at international level;

– Eurostat, in co-operation with the EU Member States, as part of the transposition of the System of National Accounts (1993 SNA), i.e. the European System of National and Regional Accounts (1995 ESA).

1995 ESA thus excludes the measurement of value added of financial intermediaries (Article 3.63):

- **Revenue generated by the investment of equity** [*which is not supposed to be related to the activity of financial intermediaries*]. As for the other institutional sectors, these flows are registered in the income accounts, "lower down" in the accounts than those used to calculate the VA and the gross operating surplus (GOS);

- **Holding gains and losses** The ESA does not consider these as elements of output or income, but as elements of a variation in the assets of economic agents. They are consequently never registered in the production or income accounts but in the revaluation accounts (in the form of changes in the value of financial assets and liabilities) for non-financial agents as for financial corporations. As stated by the ESA, it should be noted that "*these gains are generally positive and considered by these professionals as part of their normal income*"). This is true for all types of financial assets, including foreign exchange (foreign exchange gains and losses).

As a global accounting framework, the national accounts ensure the consistency of the concepts used, regardless of the sector concerned. This constraint also applies to the accounts of financial corporations. If, from the point of view of the party that pays, the interest charges or dividends are considered as distributive transactions, they may not be considered as elements of output or VA, but indeed as income related to these distributive transactions.

[93] *The developments of this part are taken from an article by Jean-Marie Fournier (INSEE) and Denis Marionnet (Banque de France) on "the measurement of the activity of banks in France", published in the quarterly Bulletin of the Banque de France number 178, December 2009.*

5.1.1. For insurance companies, the concepts of the national accounts and those of private-sector accounting seem quite similar

As a profit, output is schematically measured as the premiums acquired, to which are added the investment incomes, and from which are deducted the indemnities due and the net changes of provisions. In the national accounts, the value added of insurance companies is calculated on this basis.

Output =

+ premiums actually received (including management fees)

+ investment income (mathematical reserves)

- services actually provided

- net charges to provisions

As regards life insurance, this definition concerns an indirect measurement of the profit effectively made and must consequently not be too far removed from the technical profit defined according to the rules imposed by the life insurance chart of accounts. Indeed, an insurance company must always allocate reserves for the changes in value of the contracts in its results; by doing so, it simply equalises the value of its financial liabilities (rights acquired by the policy holders) and the value of the corresponding financial assets. Furthermore, according to law, the income from the investment of mathematical reserves is supposed to belong to the policy holders.

It is therefore the accumulation of the technical and/or mathematical reserves in the balance sheet of an insurance company (including any capitalised interest period after period) that forms the "counterpart" of the services actually provided at the end of the contract. The payment of these services gives rise to a recovery of reserves (reduction of the liabilities and reduction at the due level of the assets of the insurance company's technical account to pay these sums to the policy holder). Without taking into account the technical profit of the insurance company for the amount of the premiums actually paid, the output of these companies would be nil. In fact, there would be a balance between the net amount of the allocations to reserves and the premiums paid by the policy holders (which are the subject of a provision for future repayment), the services actually provided (which are the subject of a reversal of reserves) and the investment income of the mathematical reserves.

In the case of property and casualty insurance (or non-life), the same logic applies, on the understanding that the profit of the insurance company depends more on the random nature of the amount of the services that must be eventually provided (variability of the total losses) and on the income from investment of the technical reserves.

There consequently do not appear to be any fundamental conceptual differences between the measurements of the output from insurance services and the profits actually made by the insurance companies, as measured in their technical accounts. Nevertheless, the working group was unable to compare the results of the national accounts with those of insurance groups (and bank-insurance groups). Similarly, the working group was unable to study the way in which these groups consolidated their life insurance and non-life insurance results or their 'insurance profit' results and net banking income.

5.1.2. The measurement of the banking activity in the national accounts is different from that of banking sector accounting

As the measurement of the banking activity in the national accounts is more complex than that of the other sectors due to its intangible nature, it has always been the subject of debate between national accountants and/or with the banks, especially when the latter present dynamic results in their publications based on banking sector accounting

Banking sector accounting measures the activity of the banks using an income statement intermediate balance: net banking income (NBI). This indicator measures the net income generated by a bank from its banking operations. This is a balance equal to the difference between the interest, fees received and other income from banking on the one hand, and the interest, fees paid and other banking operating expenses on the other. It is therefore calculated before taking into consideration operating overheads (wages and social contributions, real estate expenses, etc.), reserves for outstanding payments, non-recurring items and taxes. The interest on non-performing loans is excluded but allocations and reversals of reserves for depreciation of the investment securities are included in the calculation of the NBI.

From its perspective, the **national accounts** measure the activity of the banking sector according to the same principles as the other sectors of the economy, using VA, but with a few specific considerations due to the nature of banking activities themselves. Value Added is a balance of the national accounts which measures the profit made by the producer: it is therefore the value of the product minus the input (material and labour costs) for its output. As banks' output cannot be measured in terms of a turnover, it is calculated as the sum of the services explicitly invoiced to its customers and the financial intermediation services indirectly measured (FISIM). The latter represents the profits made by the banks on their deposit and loan transactions with their customers. As they are not directly known, they are estimated in compliance with a method of calculation defined by European regulation (see Appendix 8).

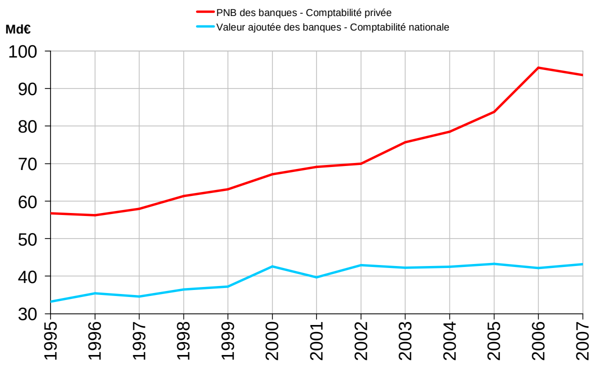
The difference in measurement of banking activity between NBI and VA is recurrent and has tended to increase since around the year 2000.

Indeed, since 1995, banks' NBI enjoyed sustained and regular growth until 2006: from approximately EUR 53 billion at the start of the period, it increased to EUR 81 billion and EUR 94 billion respectively in 2005 and 2006 before falling to approximately EUR 75 billion in 2008 (see Chart 5.1).

In contrast, banks' VA has only increased by around EUR 10 billion in 13 years: from EUR 33 billion in 1995, it increased fairly regularly and gradually to approximately EUR 43 billion at the end of 2007.

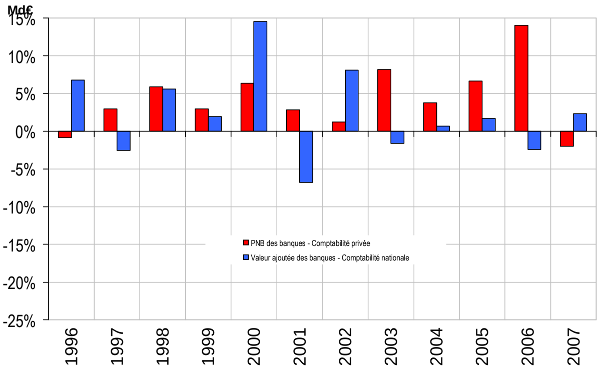
The difference between these two measurements of banking activity has always existed, but it has increased in recent years, rising from approximately EUR 25 billion at the start of the period, it reached EUR 50 billion in 2007, with a peak of EUR 53.5 billion in 2006 (see Chart 5.1).

Chart 5.1: NBI and VA in levels



sources: NBI of the EC and the CDC: Financial Agents Base
VA = National accounts (INSEE)

Chart 5.2: NBI and VA, annual changes



sources: NBI of the EC and the CDC: Financial Agents Base;
VA = National accounts (INSEE)

Moreover, the annual changes in NBI and VA also appear to diverge considerably, as shown by Chart 5.2. Consequently, in the period under review, the rates of growth have opposite signs in six years out of twelve and, when they have the same sign, the difference may be substantial. This shows that in view of these developments and the publications of the banks and of the Commission Bancaire,[94] banks' VA does not reflect the same shifts in banking activity in France.

94 See in particular the annual reports of the Commission Bancaire available at the following link: *http://www.bank-france.fr/fr/supervi/supervi_banc/publi/rapcombanc08.htm.*

Within the financial activities sector, the share of banks' value added has decreased over the long term in favour of other financial institutions (see Chart 3.1 page 33).

This decrease has continued since 2000 and has been partially offset by the development of financial and insurance auxiliaries' activities. Changes to financial law undertaken in the 1980s allowed insurance companies to become major players in the collection of household savings (life insurance). This change in the legal and statutory environment led to the development of asset management activities for customers, particularly through companies specialised in financial auxiliary services.

Banking groups have been active in these segments of activity, especially via the acquisition of specialised subsidiaries or shares in insurance companies or financial auxiliaries which has allowed them to sell insurance products. Furthermore, in their financial reports, the banking groups which control insurance companies or financial auxiliaries generally communicate on the basis of consolidated accounts including non-banking entities.

5.2 Analysis of the differences between value added (VA) and net banking income (NBI) NBI: what are the causes?

The accounting data used to calculate banks' VA in the national accounts and their NBI in the Commission Bancaire's annual reports or other publications come from the same source of information: the income statements provided by banks for banking supervision and public statistics requirements. It therefore would appear possible to analyse the causes of the differences between VA and NBI in greater depth.

5.2.1 The differences between value added and net banking income related to the differences in accounting standards and territory chosen

There are two possible sources of differences that may be mentioned:

i. On the one hand, listed banks that produce consolidated accounts have been obliged to publish their accounts to the IFRS standards since 2005.[95] However, the income statement used by the national accounts to calculate the VA or by the Commission Bancaire to calculate the NBI that it publishes (and which is used in this study) continue to use French accounting standards. Apart from the fact that the IFRS standards are not obligatory for unlisted banking establishments *(which does not permit macro-economic aggregations)*, the national accounts manuals do not use in their principles many conventions of private-sector accounting (capital gains or losses in the results for example).

   When the changeover to IFRS standards was made, banks' publications showed a positive difference between NBI under IFRS and NBI under French standards for certain establishments and a negative one for others. Nevertheless, in 2005, the examination of the consolidated accounts of several large French banking groups revealed a 12.8% increase in NBI, compared to growth rates of around 4 to 5% in previous years.[96] In total, the general implementation of NBI calculated under IFRS standards could lead, all other things being equal, to an increase in the divergence with VA.

ii. On the other hand, a number of French banking groups present in other countries, via branches or holdings in local banks, communicate on the basis of NBI generated in France and internationally. And yet, the national accounts only measure the VA generated in national territory alone, which is to say metropolitan France and the overseas departments (excluding overseas territories). The share of the NBI generated in other countries (in the NBI of all zones included) has changed from a little under 6% in 1995 to around 10% between 2001 and 2006 then started to drop in 2007 with the start of the financial crisis.

[95] The application of the new international accounting standards became obligatory on 1st January 2005 for companies producing consolidated accounts; under the European regulation of 19 July 2002, European companies whose securities are traded in a European regulated market are required to use these standards.

[96] See Gouteroux, 2005.

5.2.2 The differences in perception of the value created by banking activity according to NBI and VA

Schematically, banks' activities may be grouped into three main categories according to the type of income they generate:

- financial intermediation on loans and deposits, remunerated in the form of interest margins;
- provision of financial services, sources of commissions;
- market and investment activities, which produce capital gains, dividends and trading profits.

This presentation may however appear conventional, in the absence of a clearly established conceptual corpus. The notion of the output from banking services remains a subject of debate (see Appendices 9, 10 and 11).[97] This very simplified typology of banking activity has the advantage of highlighting the differences in the treatment between NBI and VA.

5.2.2.1 Financial intermediation on deposits/loans

This activity largely corresponds to banks' traditional role as financial intermediary. Economic agents with the financial capacity (households) deposit their excess funds in a bank account, which may or may not be remunerated. The bank's activity consists in granting loans to agents with financing requirements, at an interest rate that is defined contractually. The bank thus incurs debts and acquires credits, and thus transforms resources with short term maturities (overnight deposits, savings book accounts, fixed-term deposits, etc.) into resources with longer term maturities.[98] By remunerating the deposits which it receives at rates below the interbank rate at which it may invest its excess liquidities (at no risk) with its banking counterparts, the bank generates an interest margin. Similarly, granting a loan at a higher rate than that at which it may borrow from the interbank market allows it to generate an interest margin on its credit transactions.

These interest margins on deposits/loans are retraced by NBI and VA, but using very different methods of calculation. NBI directly measures a total interest margin: interests received minus interests paid for all types of interest and with regard to all of its counterparts, with the exception of interests on doubtful loans and related debts (see Appendix 1). The national accounts measure these margins indirectly in the item "Financial intermediation Services Indirectly Measured" (FISIM) in compliance with the means of calculation defined by European regulation[99] (see Appendix 8).

The application of these methods thus provides very different results. The VA posts lower margins *vis-à-vis* non-financial customers, whilst the margins of the French banks on their Treasury and interbank transactions tend to diminish the NBI (the interest received net of that paid on these transactions was negative by EUR 5.3 billion on average between 1995 and 2008). It should be pointed out that the national accounts show even lower interest balances excluding SIFIM in the sequence of accounts in the allocation of income accounts.

5.2.2.2 Provision of financial services

This activity was strongly developed in the latter half of the 1990s. Banks sought to diversify their income sources in a very competitive context, leading to a steady erosion of their interest margins on loans. The services provided to customers are directly invoiced, notably in the form of:

- providing means of payment to private or business customers, holding managed accounts or carrying out transactions such as foreign exchange, trading in securities, rental of safety deposit boxes, etc.);
- advisory and assistance services (funding applications, investment of securities, sale of life insurance or UCITS contracts, etc.);
- specialised services (factoring, leasing, operating leases, etc.);
- off-balance sheet transactions: hedging, financing commitments, guarantee agreements (sureties), undertakings to supply securities or foreign currencies, etc.

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97 The rapporteurs would like to thank Jézabel Coupey-Souberan, Dhafer Saidane and Daniel Szpiro for their contributions (see Appendices 9 to 11).

98 Doing so, the bank carries the risks (default of the debtors, downward shift or inversion in the yield curve, etc.) on its balance sheet.

99 Regulations 448/1998 and 1889/2002.

These services provided to customers generate financial income registered under the various "fees" items of banks' income statements.[100] NBI includes all of the fees received. The same goes for VA, which records them in the "services invoiced" item.

Furthermore, to provide these services as well as those of deposits/loans or market activities, banks incur a certain number of expenses and costs within the context of their relations with other financial intermediaries for example. These costs are also recorded as fees, in the income statement expenses. NBI takes account of all of the fees paid, as does VA, which records them as "inputs".

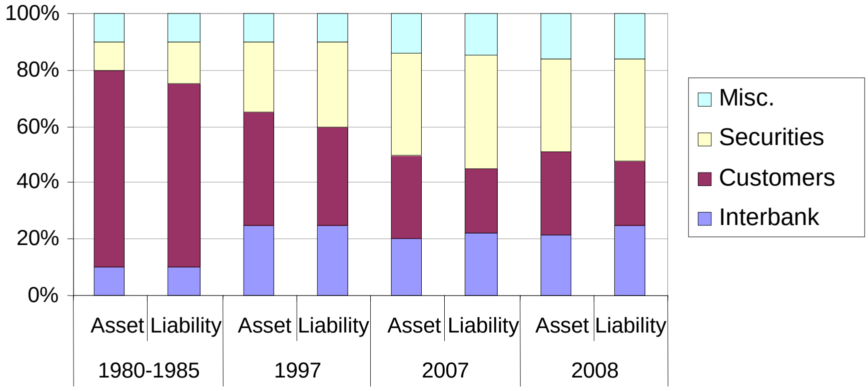
The fees paid or received are therefore not an underlying cause for difference between NBI and VA.

5.2.2.3 Market and investment activities

In a context where banking and financial activities exercised in France have gradually become commonplace since the middle of the 1980s, the increasing recourse to direct financing by the issuance of government and corporate securities (to the detriment of the banks) and the rise in the financial markets have substantially modified the structure of banks' balance sheets as well as their role as financial intermediary.

Whilst the financing of the economy has remained largely intermediated,[101] it is the form itself of this intermediation which has tended to alter: traditional banking finance, which is to say based on the collection of deposits and the granting of loans to customers has tended to decline in favour of interbank transactions and an activity of market intermediary on securities (Chart 5.3).

Chart 5.3: Structure of the balance sheets of the French credit institutions over a long period



Source: Annual reports of the Commission Bancaire; calculations: Banque de France – DSMF.
NB: Balance sheet on corporate base of the credit institutions (excluding CDC).

Consequently, in recent years, the banks have developed their financing and investment activities, progressively becoming major players on the financial markets.

Apart from the fees recorded in "services invoiced", the income obtained from these activities take on several forms: they may be capital gains made or not on securities held, dividends from portfolios or holdings, or trading margins[102] on market maker activities.

[100] These fees received may also come from deposits/loans or market/investment activities.

[101] See Boutillier and Bricongne, "Change in the rate of financial intermediation (1994-2004), Monthly Bulletin, Banque de France, n°146, February 2006. See also the regular publication of financial intermediation rates (*http://www.bank-france.fr/fr/stat_conjoncture/accountfi/page3.htm*).

[102] Even though the differences between the asking price and bidding price of the market makers are relatively low, these margins on securities trading ("bid-ask spreads") may generate significant gains.

NBI retraces all of these revenues with the exception of the allocations to reserves (net of reversals) for the depreciation of investment securities and securities from portfolio activity. In contrast, the national accounts do not consider these revenues as elements of banking income (see above).

5.3. Reconciling value added and net banking income: a transition table

As mentioned above, since the accounting data used to establish banks' VA and NBI come from the same source of information, it is possible to create a transition table in order to propose a reconciliation of these two concepts of measuring banking activity. Although the reconciliation of these two concepts has already been the subject of work in the past (Stauffer, 2004), this transition table of one measurement compared to the other has never previously been published in France.

Table 5.1: Reconciliation of value added and net banking income

(EUR billion)	2007
(+) Production	91.5
Of which: Services invoiced	*60.6*
Financial intermediation services indirectly measured (FISIM)	*30.9*
(-) Inputs	-48.3
= VALUE ADDED (1)	**43.2**
(+) Net income taken into account in NBI but excluding VA (2)	**29.4**
of which: interest margins not booked in SIFIM	0.8
dividends received and assimilated income	22.3
net gains and net capital gains on securities transactions	6.8
net income on forward financial instruments (off-balance sheet)	5.8
net income on leasing and operating leases *	-5.4
net gains on foreign exchange and arbitrage transactions	-0.9
(+) External service charges included in inputs but not included in NBI (3)	**28.2**
(+) Allocations to reserves (net of reversals) for the depreciation of investment securities and securities of the portfolio activity (4)	**-1.9**
(-) Miscellaneous non-banking operating income included in services invoiced (5)	**-4.2**
= RECONSTITUTED NBI (6=1+2+3+4+5)	**94.7**
NBI of the banks (including CDC) (7)	93.6
Initial difference between VA and NBI (7-1)	50.4
Difference between VA and reconstituted NBI (7-6)	-1.1

NB: * excluding rents (already taken into account in the VA).
Sources: Commission Bancaire, national accounts; Calculations: INSEE, SESOF.

For this purpose, for a given financial year (2007), it was necessary to analyse precisely all of the accounting items used in the calculations of NBI and VA by adopting the following approach and by using the following elements:

- o value added of the national accounts' "credit and assimilated institutions sector (S122AE)" , which includes the CDC,[103] is added **(1);**
- o net income, which is taken into account in the credit institutions' NBI but which is not recorded as part of their VA in the national accounts is added **(2);**
- o external service charges not taken into account in the NBI are added, but have a negative impact on banks' VA as they are integrated into the inputs **(3);**
- o net allocations to reserves for securities[104] are added (recorded as negative in NBI but not booked in VA) **(4);**
- o miscellaneous non-banking operating income is deducted (not taken into account in NBI but used in VA, in services invoiced) **(5);**

NBI thus calculated **(6)** is very close to NBI of the credit and assimilated institutions sector, CDC included **(7)**. Consequently, for 2007, the initial difference between VA and NBI (7 – 1) which was EUR 28.2 billion Euros, becomes EUR -0.8 billion with the reconstituted NBI (6 – 1) (see Table 5.1).

The elements that form the net income taken into account in NBI and not taken into account in VA may are as follows (element n°2 of Table 5.1):

- **interest margins not used in the SIFIM** (EUR 0.8 billion in 2007) include the interest received relating to the holding of securities net of the interests paid on the debt securities issued;
- **dividends received and assimilated income** (EUR 22.3 billion in 2007) from the securities portfolios, shares in related enterprises, equity securities and other fixed financial assets;
- **net gains and net capital gains on securities operations** (EUR 6.8 billion in 2007) from the management by the banks of their securities portfolio,[105] valued at market prices. Consequently, they also incorporate the capital gains on securities, whether realised or unrealised;
- **net income from financial futures** (EUR 5.8 billion in 2007), including the results of all off-balance sheet transactions for financial futures (derivatives) and loan commitment transactions, guarantee agreements and commitment on securities;
- **net income on leasing and operating lease transactions** (EUR -5.4 billion in 2007), exclude rents (as they are already factored into VA) and correspond to capital gains or reversals of reserves, which may not be used by the national accounts;
- **net gains on foreign exchange and arbitrage transactions** (EUR -0.9 billion in 2007) may not be recorded in VA in compliance with SEC95; they are particularly negative in 2008.[106]

The results obtained using this transition table seem satisfactory for the period under review (1995-2007), as is shown by Charts 5.4 and 5.5. In absolute value, the differences are on average below 0.5% except for the years 1995 (first year of calculation: difference of 6%), 2001 (-2%) and at

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103 CDC is a financial corporation (as defined in the national accounts) that does not have the status of a credit institution (as defined in the monetary and financial code); it is therefore not subject to the prudential supervision of the Commission Bancaire.

104 Allocations to reserves (net of reversals) for depreciation of investment securities and securities of the portfolio activity.

105 In contrast, the following are excluded from this item:

- movements of depreciations related to a counterparty risk of fixed income securities, classified according to banking regulations as an element for evaluating the cost of the risk and taken into account in the banks' operating income, in case of a proven risk of default of the counterparty;
- the charges or income from interest related to the financing of trading or investment transactions and related portfolios, which are classified as interest excluding banking operations in the national accounts (and therefore excluded from the SIFIM).

106 In the period 1995 to 2007, the net gains (excluding commissions) on foreign exchange and arbitrage transactions varied between –EUR 1.5 and +1.5 billion per annum.

the end of the period. It should be pointed out that the VA results are only semi-definitive at this stage for 2007 and are therefore still likely to be revised.

Chart 5.4: Observed NBI and reconstituted NBI of credit and assimilated institutions (activity in France) by level

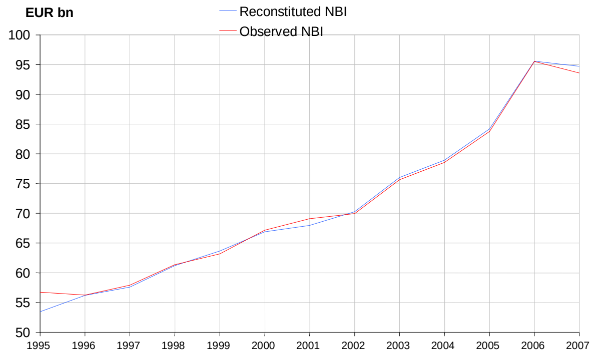
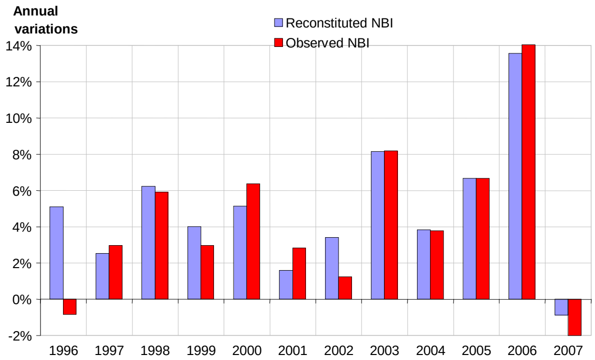


Chart 5.5: NBI observed and Reconstituted NBI of Credit and assimilated institutions (activity in France), change

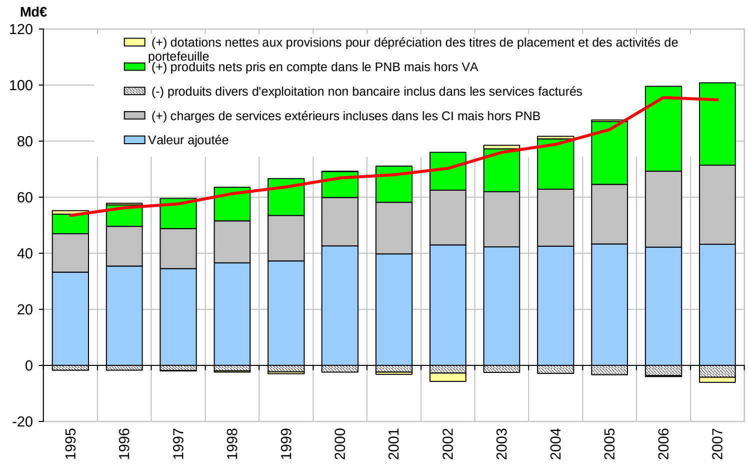


Interpretation of the charts: the observed NBI is calculated from the income statements of the credit institutions and the CDC, available in the BAFI database; the reconstituted NBI is calculated from the results obtained by the national accounts for the sub-sector of credit institutions, which integrates the CDC, to which are added or deducted elements that are the sources of the differences between VA and NBI.

NB: 2007* national accounts results are semi-definitive.

The contributions of the different items of the transition table over a long period are presented in Chart 5.6.

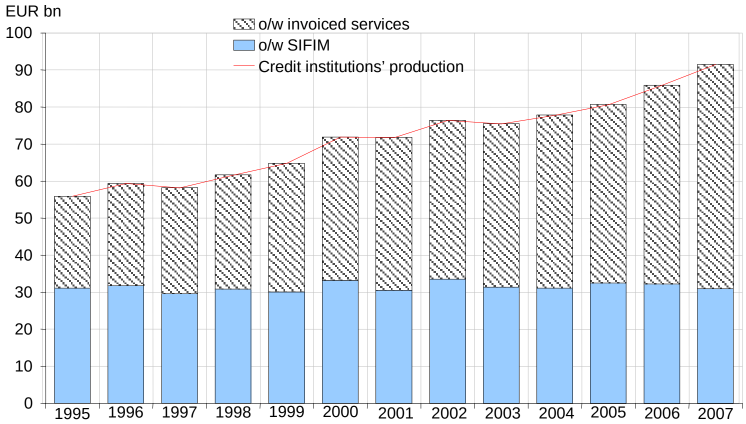
Chart 5.6: the VA to the NBI of French banks over a long period



Consequently, as the financial institutions develop their operations on the financial markets[107], the speed at which their output increases, according to the national accounts and according to "NBI", tends to diverge (Chart 5.2). Furthermore, the SIFIMs, which correspond to the measurement of the "traditional" banking intermediation activity, vary only slightly in value over the recent period (between EUR 30 and 35 billion per annum since 1995), whereas outstanding loans have significantly increased, especially loans to households and non-financial corporations. Consequently, the financing of the economy, based on the collection of deposits and the granting of loans, represents an ever-decreasing share in banks' results. This trend is also found in the national accounts' results (see Chart 5.7).

107 Especially through the development of market intermediation and via the acquisition of debt securities of agents with financing needs.

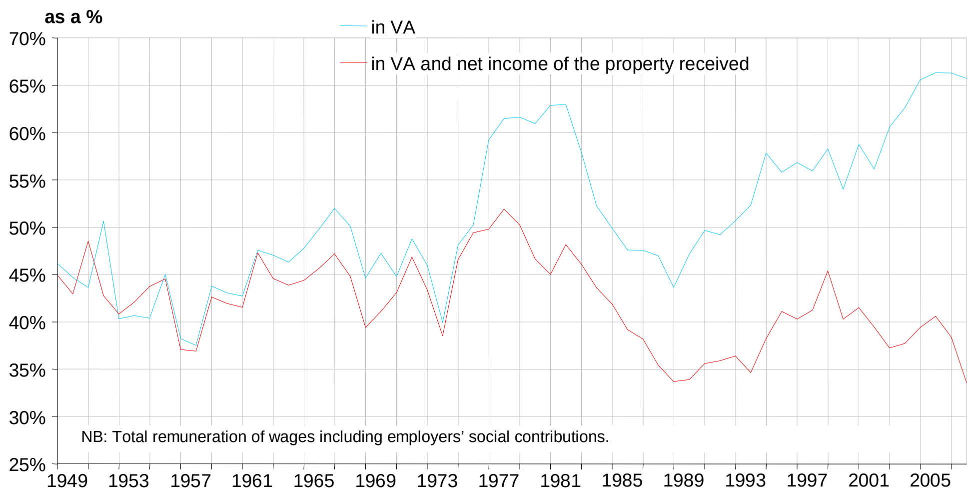
Chart 5.7: Distribution of the output of banking services according to the national accounts



Source: National accounts.

These divergences may be found in the measurements of the intrinsic profitability of financial institutions. In the national accounts, their gross operating surplus (= banking income minus inputs minus remuneration of employees minus taxes on production), has dropped consistently since 2002. It has thus diverged from trends in the profitability indicators taken from banking-sector accounts. Indeed, the gross operating income (equal to the NBI minus the operating charges including the remunerations of employees) increased on average by +6% per annum from 2002 to 2007.

Chart 5.8: Share of wages paid by financial institutions



Source: National accounts –INSEE

This difference in appreciation of the profitability of the financial institutions sector results directly from the different appreciation of the production value and from the share represented by the operating expenses, in particular the remuneration of employees. This share appears to be more stable after taking into account the net income received by financial institutions for their shareholdings (Chart 5.8).

These analyses show that the "productive" activity and the sources of profit of the banks vary considerably according to the accounting conventions used and the point of view taken.

5.4. Beyond these conceptual difficulties, other problems are raised when trying to establish consolidated accounts of the financial groups

5.4.1. Problems of homogeneity in the consolidated results published by listed financial groups

Once the list of financial groups has been defined, the problem of consolidating their accounts remains. Although, *a priori*, this information is available for listed groups (on the basis of private-sector accounting), it is in the form defined by IAS/IFRS, which may lead to problems in the homogeneity of the results (between the accounts of the financial and insurance companies for example).

A European directive in 2002 requires that listed companies soliciting public savings must present accounts consolidated at group level as of 1st January 2005 according to IAS/IFRS. The (parent) companies that draw up the consolidated accounts according to IFRS are then exempted from presenting them according to French standards. The institutional communication of the financial groups, most of which are listed, report consolidated accounts of the groups' activity, a large part of which is carried out abroad, whereas the national accounts consider the share of the activity of French companies and branches of foreign credit institutions in the national territory alone (metropolitan France + overseas departments).

In this capacity, the Commission Bancaire[108] underlines (see part 2) the strong development of French groups internationally, especially in retail banking and financial services in countries that have recently entered the European Union. By definition, the national accounts do not show this change.

Furthermore, defining the consolidation scope to be used is a crucial issue. According to the IFRS standards that listed groups must apply, their consolidated accounts must integrate the amounts of their holdings once they exceed a certain threshold, on the condition that these holdings are not held with the sole purpose of being eventually sold (portfolio of trading securities). The group is then considered to exercise a notable influence in terms of financial management and strategic decisions in the enterprise (activity of an investment company for example).

5.4.2. How to consolidate the results of the unlisted financial groups?

In addition, a huge task of consolidating the accounts needs to be carried out for unlisted groups, as they do not have any legal obligation to publish consolidated accounts. However, on the face of it, their relative weight is low (see recommendation 15 of the "Salustro" working group).

However collating the consolidated accounts of the financial groups is insufficient. According to the recommendations of the "Salustro" working group, it is also necessary to carry out the "deconsolidation" of the groups to determine the distribution of their activities by branch of activity. There is no guarantee that the results of the branches thus established would be comparable from one financial group to another.

The previous point showed that the results of the group should be consolidated without detailing the banking activities. This would then lead to difficulties in comparing the income and expenses of the various financial activities even at an aggregated level, as well as difficulties in aggregating balance sheets which use different asset –liability management standards.

Furthermore, it must be possible to consolidate the intra-group financial flows, which may not be achieved by constructing the consolidated account of a financial group solely from the accounting results of the companies which form it.

The accounting consolidation of the results of the companies which form a financial group appears difficult and above all sensitive as concerns the structure of the group itself and supposes that other considerations have been examined.

108 The development of French banking groups in other countries –Annual report of the Commission Bancaire 2007 –Box 2 (p. 25).

General conclusions and recommendations of the working group

Recommendation 1

At present, the public statistics system monitors the activities of the financial sector using the balance sheets and accounts of individual or aggregated results of the different companies of this sector. This framework, which groups the financial sector into large categories of institutions, does not permit a satisfactory understanding of financial groups and mixed groups.[109] In particular, it aggregates economic and financial flows between the entities in exactly the same way, whether they are affiliated or not to the same group. Consequently, the results obtained are sometimes difficult to interpret given how hard it can be to dissociate the economic relationships made by "enterprises" with decision-making autonomy, from the relationships between subsidiaries and parent companies.

On the other hand, every year the Commission Bancaire supervises the change in the activity of financial institutions (credit institutions and investment enterprises) based on the consolidated results (all zones included) of the main banking groups. This supervision highlights just how concentrated banking and financial activities are in France. It also allows for an assessment of the risks taken by the main French banking groups, especially within their international activities.

Following on from the recommendations of the "Salustro" working group, we recommend the development of a systematic analysis of the financial groups. These new statistics must be defined as a supplement to those already compiled and used by the public statistics system, particularly for the national accounts and for the enterprise structural statistics.

Recommendation 2

To develop the supervision and analysis of the activity of the financial groups, it seems necessary to develop data exchanges with the different institutions involved in the supervision of the financial groups.

The work carried out by this working group indicates that it is important to use the information contained in the different existing databases by developing the exchanges of information between the different institutions. These databases are at present managed by the INSEE as part of their analysis of the productive sector that it is responsible for (SIRENE, LiFi, SIE base), by the Banque de France due to its expertise in the banking and financial system and the special relationships it has with the control authorities (financial agents database –BAFI– updated by the General Secretariat's office of the Commission Bancaire and the Credit Institutions and Investment Firms Directorate) and by the other regulation authorities of the sector (Insurance Supervisory Authority –ACAM, and Financial Markets Authority –AMF). To this end, the introduction of the Prudential Supervision Authority (ACP) in 2010, which will be invested in the power to grant the accreditations and to control the enterprises in the banking and insurance sectors should help to structure this considerably.

The regulations already provide for the possibility of data exchanges between the Banque de France and the INSEE whilst respecting the rules on confidentiality of statistics. The development of these exchanges of information on the financial groups could be achieved by means of a convention between the institutions concerned: the Banque de France, the Commission Bancaire and INSEE, as well as any other competent organisation such as the ACAM and the AMF.

The working group recommends that a convention be drafted between the Banque de France, the INSEE and any other competent organisations in order to define the nature and the scope of the exchanges of information required to improve the supervision of the financial groups. It should stipulate the rules and means for the exchange of information in this field between the different institutions.

109 A mixed group is a group comprising companies accredited as financial intermediaries and which provide financial services accessorily.

Recommendation 3

The working group recommends that restrictions are not made on the supervision of the activity of a group itself but to define, as far as possible, the consistency of its different branches of activity (i.e. how its activities are organised by the main professions).

In the case of the financial groups and mixed groups, this may be introduced easily if the analysis is restricted to simply describing the main categories of financial activities as they are defined by the regulations (banking activities in the broad sense of the term, insurance by the main categories, mutual investment funds and financial auxiliary services for example).

From the comparison of the accounts of the Credit Agricole group and the data available from the public statistics system, it appeared difficult to isolate the sub-activities such as retail banking, corporate and investment banking or specialised activities (leasing, factoring, consumer credit, etc.). This is especially the case for intermediation activities which appear to be interlinked. Consequently, the traditional activity of deposits/loans may require the issuing of debt securities to balance supply and use or even risk hedging on financial derivatives markets.

Furthermore, whilst it seems relatively easy to identify the main categories of banking activities at group level, it appears more difficult to obtain homogenous "professions" for all of the groups (no standardisation of professions exists between and for a same group from one financial year to another). Work to define these professions must be carried out beforehand by the players of the public statistics system together with the professional associations and unions concerned.

The working group recommends that a study be carried on concerning the level of detail of the banking activities that it is possible to isolate. This operation must be carried out prior to any "profiling" of the financial groups.

Recommendation 4

The supervision of the activity of financial groups, and more precisely their banking activities, poses a more general problem: that of the measurement of output from financial services. This discussion is not new and has still to be resolved.

Consequently, different measurements of the activity of the banks (and thus of the financial groups they form) exist. Therefore, according to the credit institutions chart of accounts, the net banking income, the main management balance declared, includes the financial revenues or even capital gains or losses on securities as elements of wealth creation. According to the national accounts, these elements must not be taken into account to evaluate the value added. These different concepts of accounting standards have led in recent years to diverging or even opposing results. Moreover, the current crisis has accentuated these divergences which should be, according to the working group, extensively documented.

In order to establish the results of the financial groups which are not solely formed of banks (or in the case of mixed groups), it is preferable to have available a measurement of the income value that is as reliable as possible. This could then be compared to that of other branches of activity (financial and non-financial). This point is particularly important to analyse the composition and the very nature of financial and mixed groups.

The next revision of the rules for generating the national accounts should therefore include new elements such as "pure" margins (*i.e.* other than capital losses or gains) that banks generate in their management of securities portfolios. Discussion on these ideas has only just begun and will be the subject of international negotiations.

It is undoubtedly necessary to associate these ideas to those aimed at improving the definition of the level of detail applied to measuring the financial intermediation performed by the banks, which was the subject of the previous recommendation.

The working group recommends that the discussion on the definition of the main professions in the banking industry be accompanied by a discussion on how to measure them. This work

should be carried out beforehand and could be performed based on the data which the Commission Bancaire possesses, in co-operation with the Banque de France and the INSEE. The working group also recommends the differences between the different measurements of the banking activity be supervised regularly and that it be the subject of a publication to accompany the circulation of the national accounts.

Appendices

1: Mandate for the CNIS working group

2: Composition of the working group

3: Composition of the CA Group benchmark sub-working group

4: Regulatory control over portfolio management service delivery

5: MINEFE press release dated 27 July 2009 on the creation of a single prudential supervision authority for the financial business sector

6: Official classification of financial-sector trades and positions

7: Classification of financial corporations

8: Financial Intermediation Services Indirectly Measured (FISIM)

9: Extension of the range and globalisation of the services offered by banking firms

10: Discussion on the concepts of value added and proprietary trading in the banking sector

11: The concept of ‘product’ and measuring bank production –an industry-oriented approach

12: Recording insurance transactions in the balance of payments

13: Detailed breakdown of the information to be filed for insurance-sector Foreign AffiliaTes Statistics (FATS)

14: List of Structural Business Statistics (SBS) variables for credit institutions

15: List of Structural Business Statistics (SBS) variables for insurance companies

16: Classification of financial corporations in the National Accounts’ Sector Repository

17: Bibliography

Appendix 1: Mandate for the CNIS working group designed to extend financial sector-related discussion by the working group on "Structural statistics based on enterprise groups and their sub-groups"

Foreword:

The CNIS working group on "structural statistics based on enterprise groups and their sub-groups" and chaired by Mr. Salustro was unable to factor finance-sector enterprise groups into its case analysis and the resulting proposals submitted.

The two main conclusions sounded out in the initial "Salustro" working group advisory report statements, reacting to the fact that target focus is business groups, recommended that two new sample units be introduced into future business statistics planning: one for the group itself as a whole, and one for any operational group branches. This would negate the need to observe and integrate financial group activities solely based on the results posted by each independent company, as is current practice, instead bringing in an analysis based on the financial statements consolidated at the two new sampling levels.

Looking closer, Salustro working group advisory report recommendation 19 underlines that it is equally important to investigate the knock-on effects of applying these two conclusions to the financial sector, i.e. once to financial business groups, and once to finance-sector subsidiaries of non-financial corporations. An add-on to the Salustro working group advisory report will need to be drafted to discuss this issue.

Macroeconomic data from the financial sector and from financial group accounts present a number of specific features:

- the main components of financial-sector output in national accounts terms, i.e. financial intermediation services indirectly measured (FISIM) and insurance output, are built the conventional way based on the data institutions file with the regulatory authorities;
- the accounts published by finance-sector groups, especially those dealing in capital markets, can vary radically in response to the application of international accounting standards (IAS/IFRS), which are heavily axed towards 'fair value' financial instruments and thus fairly dislocated from the output measurement formats employed in national accounts;
- virtually all financial-sector enterprise is governed by sector-specific regulations placing them under the supervisory control of the French Banking commission (Commission Bancaire –CB), the French Supervisory authority for the Insurance and mutual funds sector ('ACAM') and finally the Financial markets regulator ('AMF'). This has shaped the standard practice of categorising companies according to their classification (credit institution, insurance company, investment services, etc.) under the national monetary and financial code or other financial-sector legislation;
- the Basel II (from 2008) and Solvency II regulatory requirements will logically lead financial groups to publish numerous non-accounting items that can be expected to offer a rich vein of sector analysis and research.

Moving forward from the Salustro working group advisory statements, and recognising the features specific to the financial sector as outlined above, the present working group will focus on the following key issues:

- **Identifying and investigating foreign experience on integrating financial-sector statistics**. This groundwork could help avoid certain stumbling blocks or enable the adoption of a tried-and-tested process approach. Furthermore, taking this approach could establish a cross-comparative basis in which to position the French financial sector, most importantly within the European system.

- **Mapping out the notion of a financial-sector business group** and defining what differentiates it from an industrial business group. Focus will be given to addressing whether there is a particular logic governing how different finance-sector businesses –conglomerate-owned or not– are integrated within the group. How should we handle different group entities that may not necessarily share financial ties? Is the principle of regulating financial conglomerates relevant from an economic analysis standpoint?

- **Assessing how the key guidelines of the Salustro working group could be distilled through the financial sector.** One of the key objectives is going to be studying the reception the financial sector would give to redefining enterprise-level sample units that are more relevant in economic terms than the (legal-level unit) corporation itself. The Salustro working group reached the conclusion that these sample units should be operational group branches, or possibly even extend to the groups themselves.

  Our analysis will therefore need to look into:

  - the reading given to the idea of operational divisions at financial groups, focusing on subsectors such as retail banking vs investment banking etc. plus the statutory classifications, banks vs insurance undertakings, etc.;

  - whether the finance-sector business of non-financial groups –conglomerate-owned or not– can and/or should be factored into the enterprise-based statistics system, under operational divisions.

- **Assessing the costs and methodology issues involved in building a database of financial-sector conglomerates.** There is currently no centralised system collecting accounts data from financial corporations. The collection of accounts data is essentially organised by –and for– the administrative authorities tasked with enforcing financial market regulatory control (CB, ACAM), and it therefore runs to different standard reporting and accounting practices. Consolidating this data to create group-wide accounts could therefore generate problems. A workaround solution could be to build a database, using the consolidated financial statements published by financial groups as direct input. The working group will likely be asked to issue a decision or at least take a stance on these two approaches that caters for the impacts of adopting IAS/IFRS standards, and to describe how the government statistics system should be organised in order to compile this database.

- **Determining the insight provided by an analysis of financial groups resident in France in terms of the contribution of their business to the nation's wealth and assessing the utility of producing statistics on financial conglomerates.** Would this finer-grained analysis of financial-sector conglomerates (numbers and aggregated income statements) offer a useful addition to the more or less conventional accounting measures of national income and output? Could it heal the split that has crept in between national accounts output and the institutional-level reporting from financial conglomerates? Could it also create a framework for reassessing the role of financial business in the national economy and revising the current boundary lines between financial and non-financial sectors? These are questions that warrant a review on the reasons pushing public authorities to assess the performances of the actors driving the financial sector. The working group could illustrate these issues using a real-world financial conglomerate as a concrete case-study to investigate the relationship between the quantified contribution to financial sector output as understood by the national accounts system and the reading given in the group's published financial statements.

- **Promoting the extension of data access to all potential end-users**: the European System of Central Banks for its analysis and research on the mechanisms underpinning the transmission of monetary policy; European institutional authorities to gauge the real degree of competition in the financial system; the financial groups' own analysts and research offices, as business indicators for management dashboards (market share, performance, productivity, profitability, etc.); financial economics and banking researchers for their analysis (industrial economics of the financial sector, emergence of system-wide risk, etc.). It may prove useful to shortlist the focuses for study.

Procedural strategy:

In order to lead this project, the working group will canvass the opinions of financial analysts and researchers working on the financial-sector. It will liaise with specialist statistics agencies and with a broader base of services and departments with prominent responsibilities in the delivery of official information on the financial sector, from professional and trade bodies through to the competent regulatory authorities.

Timetable:

It is proposed that the working group meet three times ahead of the autumn (May, September, early October) so as to be able to hand over an initial draft report to the competent CNIS panel at its autumn meeting.

The agenda for the first working group meeting will be to commission work assignments that will then be presented at the second meeting. The rapporteurs can then submit the working group members a draft project report. The agenda for the third and final working group meeting will include validating the report.

Appendix 2: Composition of the working group

Chair of the working group:

Gilles	DE MARGERIE	Crédit Agricole

Working group rapporteurs:

Sanvi	AVOUYI-DOVI	Banque de France
Jean-Marie	FOURNIER	INSEE
Denis	MARIONNET	Banque de France

Wider workgroup membership:

Éliane	BEURIENNE	CNIS
Henry	CHEYNEL	Fédération bancaire française
Jean	CORDIER	Banque de France
Olivier	COUSSERAN	Banque de France
Jézabel	COUPEY-SOUBEYRAN	Université Paris I
Michel	DIETSCH	Université Strasbourg III
Dominique	FRANCOZ	INSEE
Laurent	GRILLET-AUBERT	Autorité des marchés financiers
Esther	JEFFERS	Université Paris VIII
Carlos	PARDO	Association française de gestion financière
Élisabeth	PAULY	Banque de France
Jean-Marie	PIERONNE	Fédération française des sociétés d'assurance
Jean-Paul	POLLIN	Université Orléans
Dhafer	SAIDANE	Université Lille III
Daniel	SZPIRO	Université Lille I
Pierre-Jean	VOUETTE	Autorité de Contrôle des assurances et des mutuelles

Appendix 3: Composition of the CA Group benchmark sub-working group

Gilles	DE MARGERIE	Crédit Agricole
Olivier	COUSSERAN	Banque de France
Benoît	BOURGES	Banque de France
Jean-Marie	FOURNIER	INSEE
Julia	GUERIN	Banque de France
Denis	MARIONNET	Banque de France
Gaëlle	PROUST	Banque de France
Françoise	TISSOT	Crédit Agricole
Sylvie	LARRASQUET	Secrétariat général de la Commission bancaire

Appendix 4

Regulatory control over asset portfolio management service delivery

A first key point to highlight is that Article L321-1 of the national monetary and financial code (COMOFI) that inventories the investment services (known as 'MFI' [monetary and financial services]) governs asset portfolio management under the reference item "third-party portfolio management services".

Regulatory governance over the subsector essentially employs three types of rule sets:

- status of institutions authorised to offer this kind of service package (investment companies and credit institutions which together form the 'ISP' [investment services providers] population;
- organisational rule sets (including accreditation);
- market conduct rule sets.

Concerning accreditation for ISPs, Articles L531-1 and L532-1 to L532-9 of the COMOFI stipulate that:

- investment companies and credit institutions given accreditation by the CECEI (L532-1), although an accreditation to deliver the third-party portfolio management service requires AMF [French financial markets supervisory authority] approval on an activity programme (under the conditions stipulated in Article L532-4);
- portfolio management firms, which form the backbone of the principal third-party portfolio management service offer or manage one of more undertakings for collective investment, are licensed by the AMF (under the conditions stipulated in Article L532-9).

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Cross-referencing the concepts of 'investment services provider' and 'investment company'.

The following excerpt, taken from a study published in the Commission Bancaire's annual report for 1997 and entitled "The supervision of investment firms"[110], details how this framework is able to integrate the business activity of investment companies operating under an accreditation from the Credit Institutions & Investment Firms Committee and under prudential supervision from the Commission Bancaire.

The Commission Bancaire's regulatory framework governing investment services providers is shaped by the 'MAF' act [financial sector reform]. This legislation defines the missions of the various financial market supervisory authorities and frameworks the channels through which they are to co-operate. From a legislative standpoint, the MAF reforms introduce new provisions into the original 24 January 1984 banking law that redefine the competency scope of the Commission Bancaire, notably in relation to the investment companies for which it was made the governing authority, and essentially taking cues from the same set of instruments and sanctions that it already possessed *vis-à-vis* credit institutions.

The MAF reform, which was drafted to create a single regulatory framework to govern all the professional categories, is grounded in a broad notion of investment services provider that overarches these categories. It then goes on to restructure the competencies of the financial-sector authorities and the conditions shaping how they are to liaise together.

Investment services providers are either investment companies or credit institutions. Article 6 of the MAF reform defines investment services providers as investment companies and credit institutions that have been given the accreditation to deliver investment services.

.../...

110 Available in French online: *http://www.banque-france.fr/archipel/publications/cb_ra/etudes_cb_ra/cb_ra_1997_01.pdf.*

The text then goes on to define these services in Articles 1 to 4, which faithfully recycle the provisions set out in the investment services directive. The upshot is that the six activities inventoried under article 4 are all umbrellaed under ‘investment services’:

a) receiving and forwarding money transactions for third parties;

b) executing money transactions for third parties;

c) proprietary trading;

d) asset portfolio management;

e) underwriting;

f) investment.

When these activities mobilise the financial instruments listed under Article 1, the service involves:

a) shares and related securities;

b) debt securities (excluding commercial instruments and deposit securities);

c) stocks or undertakings for collective investment;

d) futures contracts, as inventoried in the non-exhaustive list given in Article 3.

Investment services providers may also freely and openly deliver the “related” services inventoried in Article 5.

As mentioned earlier, investment services providers are either investment companies or credit institutions. The MAF reforms created this second meta-category to cluster together previously disparate statuses. Article 7 states that investment companies are treated as legal entities, handling them differently to credit institutions whose principle mandated core activity is to deliver investment services. In practice, this new status reeled in companies that were already active in the sector before the MAF reforms were introduced, and who were able capitalise and claim entitlements as investment services providers:

- brokers (about sixty);
- risk transfer agencies (about sixty);
- OTC brokers (about fifty);
- interbank market traders (about twenty);
- goods brokers working through the MATIF [French futures exchange] (about ten).

The new investment companies that had gained their accreditation as the MAF reforms came into force were therefore only distinguishable through the content of their activity programme. An investment company accredited by an EU Member State –other than France– or one of the contracting parties to the European Economic Area (EEA) agreement can now freely set up branch agencies in France according the procedure set out in the directive, while remaining under home-country supervisory control. Their mandate thus enables them to freely conduct their services provider business.

Brokerage firms were able to opt for either investment company status or credit institution status. In the group of credit institutions listed above, the brokerage firms formed their own special subgroup, since they were licensed as specialists in the delivery of investment services. French experience is marked by the fact that brokerage firms, from the outset, were included in the scheme defined by the 1941 banking act. In1984, under Article 99 of the new banking legislation, they fell under the same rules as credit institutions before being re-integrated, in 1992, into the category of financial corporations in order to usher in the transposition of the second European banking directive. After a drawn-out parliamentary debate, the legislator finally opted to tailor the MAF reforms so that brokerage firms could opt for either investment company status or credit institution status. In practice, the options were relatively wide-ranging, with some brokerage firms leaning towards investment company statuses (in some cases as asset management firms) while others opted for financial-company status (a small handful opted for bank status).

Appendix 5: MINEFE Press release dated 27 July 2009

Creation of a single prudential supervision authority for the financial business sector

Christine Lagarde, French Minister for the Economy, Industry and Employment, has presented to the authorities and professionals concerned, the architecture of the reform designed to improve the supervision of the insurance, banking, and mutual benefit sectors. This meeting concludes several weeks of consultations to define the organisation and running of the future single authority created from a merger of the four authorities currently in charge of each licensing and supervision sector (ACAM: Insurance and Mutual Benefit Supervisory Authority, CB: Commission Bancaire, CEA: Insurance Companies Committee, and CECEI: Credit Institutions and Investment Firms Committee). As a logical extension to the authorisation granted by Parliament, a draft ordinance will be drawn up and submitted for consultations with a view to having it adopted by the end of the year.

The reform underway draws on lessons learnt from the financial crisis: although the resilience of financial firms in France shows that French supervision has played its role to the full, the challenges thrown down by financial globalisation call for tighter and cross-cutting supervision of the financial sector. The reform should also give the French authorities more of a voice in the international forums and give greater visibility to the French two-pillar supervisory model, with its prudential authority and its market authority.

The new authority will comprise a plenary committee and two sector sub-committees to guarantee the balanced representation of all the professionals concerned and mobilise all the expertise required for effective supervision.

In this regard, the new Authority backing to the Banque de France will be an asset for the stability of our entire financial system. The new authority will have real management autonomy and will draw up its own budget based on a contribution collected from all the businesses under its supervision.

The other purpose of the reform is to tighten supervision of the buying and selling of financial products. The decision has been made to set up structured co-operation between the new authority and the AMF (Financial Markets Authority) in this area and, at the same time, to clearly incorporate the supervision of terms of sale into the Prudential Supervision Authority's brief.

Appendix 6: Official classification of financial-sector trades and positions

Depending on the regulations and professions under study, the sector can be split into well-defined categories of companies according to business, legal structure and accreditation. These same categories can also be solidly cross-matched against the classification systems established with the governing bodies.

For the financial institutions sphere (roughly groupable under the umbrella term 'banks'), the activities and products classification system distinguishes 5 core activity clusters:

- **credit institutions**, which break down as:
  - central bank — NAF code 64.11
  - other monetary financial intermediaries[111] — NAF code 64.19
  - holding companies — NAF code 64.20
  - undertakings for collective investment and related financial entities (UCITS) — NAF code 64.30
  - leasing — NAF code 64.91
  - other credit issuers[112] — NAF code 64.92
  - other financial services (excluding insurance)[113] — NAF code 64.99

- **financial markets administrators**[114] (stock exchanges) — NAF code 66.11

- **security and commodity contracts brokerage** — NAF code 66.12

- **other activities auxiliary to financial services , including soliciting dealers, financial investment consultants (FIC)** — NAF code 66.19

- **mutual fund managers and asset management services** — NAF code 66.30

For the insurance sphere, companies are classified according to 3 core activity clusters:

- **insurance firms (or companies)** *(including mutual benefit companies)* which break down as:
  - life-insurance companies — NAF code 65.11
  - non-life insurance companies[115] (or liability and damages) — NAF code 65.12
  - reinsurance companies — NAF code 65.20

- **pension funds** and **retirement and contingency funds** — NAF code 65.30

- **activities auxiliary to insurance**
  - risk and damage evaluation — NAF code 66.21
  - insurance agents and brokers — NAF code 66.22
  - other activities auxiliary to insurance — NAF code 66.29

111 Credit institutions.

112 Loans granted by institutions that do not offer financial mediation (handling deposit accounts), credit granted in various formats (loans, mortgages, credit cards) for different end-purposes (consumer lending, homebuyers, backing for international transactions, etc.).

113 Other activities, essentially involving investment schemes other than lending, such as factoring, swap contracts, proprietary investment, etc.

114 Other than regulatory bodies and supervisory authorities.

115 Including mutual benefits governed under the Mutual Insurance Code.

Appendix 7: Classification of financial corporations (S12) - at 1st November 2009

<table>
<tr><td colspan="5">FINANCIAL INTERMEDIARIES, EXCLUDING INSURANCE COMPANIES AND FINANCIAL AUXILIARIES - S12A</td><td colspan="2"></td></tr>
<tr><td colspan="3">MONETARY FINANCIAL INSTITUTIONS</td><td colspan="2" rowspan="2">OTHER FINANCIAL INTERMEDIARIES,
except insurance companies and pension funds
S123</td><td rowspan="3">FINANCIAL AUXILIARIES
S124</td><td rowspan="3">INSURANCE COMPANIES
AND
PENSION FUNDS
S125</td></tr>
<tr><td rowspan="2">CENTRAL
BANK
S121</td><td colspan="2">OTHER MONETARY FINANCIAL INSTITUTIONS
S122</td></tr>
<tr><td>OTHER MONETARY FINANCIAL INSTITUTIONS
S122AE</td><td>MONETARY
UCITS
S122F</td><td>OTHER FINACIAL INTERMEDIARIES
S123A</td><td>OTHER COLLECTIVE INVESTMENT INSTITUTIONS
123B</td></tr>
<tr>
<td>- Banque de France [French central bank]
- IEDOM (French institute for overseas currency issuer)</td>
<td>- Commercial banks, including:
. BNP Paribas
. Calyon
. Crédit Foncier de France
. Crédit Industriel et Commercial (CIC)
. DEXIA Crédit Local
. HSBC France
. La Banque Postale
. LCL (Crédit Lyonnais) . Natixis SA
. Société Générale
- Cooperative or mutual savings banks:
. BPCE network (Banques Populaires - Caisses d'Épargne)
. Crédit Agricole Mutuel network
. Crédit Mutuel network
- Municipal credit unions
- Specialised financial institutions (SFI) :
. OSEO Garantie
. EuroNext Paris
. Credit union for social housing support ('CGLS')
. French Development Agency (AFD).
. Regional development groups ('SDR')
- Financial enterprises governed under specific legislative or regulatory frameworks:
. Financial affiliates of cooperative or mutual savings banks
. Leasing companies
. Mortgage companies
. Special-status mutual guarantee societies
. Sofergie
. French overseas credit
. Telecom financial services companies
- Financial groups operating different sector activities:
. Consumer credit
. Money transfer services
. Property leasing
. Closed-end leasing
. Real-estate leasing
. Real-estate financing
. Equipment credit
. Guaranteed refinancing agencies
. Principal investment companies
. Other services (including: factoring, funds for refinancing housing loans ('CRH'), financing business cash requirements, etc.)
- Caisse des Dépôts et Consignations [government-run general deposit office](CDC) - National savings bank (La Poste)
including financial institutions for French overseas départements</td>
<td>- Monetary ICVC - Monetary investment funds</td>
<td>- Investment enterprises - French toll roads system
- Motorways financing fund ('CNA')
- Inter-trade housing committees ('CIL')
- Credit unions offering loan splitting for non-banking agents
- Mutual securities and deposits funds ('SCM')
- Securitisation organisations
- French economy financing institution ('SFEF')</td>
<td>- Non-monetary ICVC and collective investment funds, principally engaged:
UCITS - "shares"
UCITS - "bonds"
UCITS - "formula-based funds"
UCITS - "hedge funds".
UCITS - diversified
UCITS - Monaco-based
- Incorporated investment funds
- Collective business investment schemes:
. UCITS on employee savings schemes (collective employee shareholding plan, open-ended variable-capital investment companies)
- Mutual funds for futures trading ('FCIMT')
- Risk-capital mutual investment fund including mutual funds for innovation investment ('FCPI')and local development investment ('FIP')
- Real-estate investment trusts ('SCPI')
- Collective real-estate investment trusts ('OPCI')</td>
<td>- Financial holdings not qualified as credit institutions and not under ACAM control
- Portfolio management firms
- EIG Carte Bleue debit cards
- EIG Credit cards
- Fonds de garantie des dépôts [Deposit guarantee fund]
- Stockbroker
- Finance companies</td>
<td>- Corporations:
. life assurance
. non-life assurance
. reassurance
- Mutual funds
- Pension funds institutions
- COFACE (French export receivables insurance agency)</td>
</tr>
</table>

NB: The European System of Accounts (ESA95) subdivides the financial corporations sector (S12) into 5 subsectors: S121, S122, S123, S124 and S125.

ACAM: Autorité de Contrôle des sociétés d'Assurance et des Mutuelles.
UCITS: Undertaking for Collective Investment in Transferable Securities.

Source : Banque de France - SESOF

Appendix 8: Financial Intermediation Services Indirectly Measured (FISIM)[116]

A substantial share of the income generated through financial intermediation services is billed as interest spreads. National accounting recognises two types: the margins generated on credit granted by financial institutions, and the margins gained on the bank deposits they handle. To free up this kind of margin, the financial intermediary has to lend at an interest rate higher than the interest rate at which they are getting the funds, and pay commissions on their clients' deposits at a rate below that at which he can actually reborrow. In microeconomic terms, the margin gained on each operation is gauged in relation to how certain resources are allocated to certain uses.

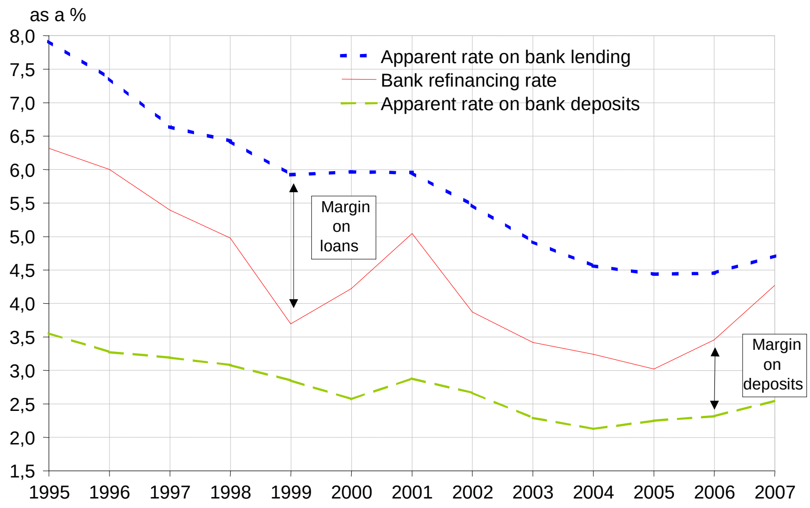
In practice, there is no simple solution for directly measuring these margins, since they fluctuate in response to interest rate change and are tightly tied to how the fund resources are allocated. National account systems therefore measure financial intermediation indirectly (as emphasised in the 'FISIM') as an estimate in relation to a single refinancing rate: the average interbank market rate.

FISIM on bank deposits are calculated as the difference between the interest implicitly paid on them through the money market (bank deposit payables X interbank refinancing rate) on one side, and on the other, the total amount of bank interest actually paid out by financial institutions on these same deposits. These margins are considered as one of the outputs of financial intermediation services delivered by financial institutions to the institutional sectors holding these bank deposits.

FISIM on bank lending are assessed using the same system as outlined above. These margins are measured as the differential between the interest pay-in actually received by financial institutions on loans to their clients on one side, and on the other, the refinancing costs they implicitly have to cover (outstanding loans X interbank refinancing rate). Like for bank deposits, these margins are considered as one of the outputs of FISIM delivered by financial institutions to borrower institutional sectors.

The chart below takes a highly aggregated stance,[117] illustrating how bank margins and FISIM on deposits and bank lending have trended since 1985.

Chart 1: Financial institutions' margins on loans granted and deposit banking

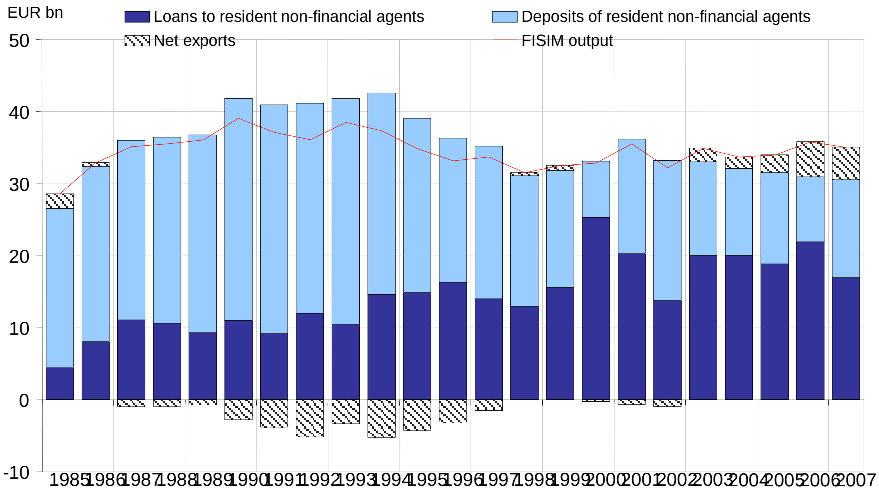


Source: National accounts.

116 The methods for calculating FISIM estimates have been harmonised at European level. These methods are defined by European Council Regulation 448/1998 and European Commission Regulation 1889/2002.

117 FISIM estimates for each class of non-financial agent.

Chart 2: Breakdown of FISIM income generated by resident financial institutions



Source: National accounts.

The downtrend of interest rates linked to the easing of inflationary pressures had the knock-on effect of cutting bank margins tied to deposit banking. Loan margins remained relatively stable up until the late 1990s, when the market became more volatile. The first effects felt as the financial crisis hit, driven by the market bubble on bank refinancing terms, was that bank loan margins nosedived –this drop was, however, mirrored by a rise in bank deposit margins. These trends had tangible repercussions on how gross domestic product (GDP) was determined, since FISIM use by businesses was posted under inputs (no impact on GDP: the corresponding output from financial institutions posted under input by business, with no change in overall value added) whereas FISIM use by households was essentially booked under their final consumption, which necessarily forces GDP up. Since households remain the principal source of deposit-holders, Chart 1 highlights how the rise in refinancing rates tends to inflate FISIM consumption by households and deflate FISIM consumption by business, which is more sensitive to loan margins.

Appendix 9: Extension of range and globalisation of the services offered by banking firms

Jézabel Couppey-Soubeyran

What does a bank produce?

This was already a divisive question polarising economists back when the range of banking firm services offered was relatively narrow, tightly centred around collecting deposits and issuing credit. One issue constantly being raised was whether the deposits banks were collecting should be handled:

- as inputs, alongside the bank's other factors of production (labour, fixed capital), based on the rationale that they are financial resources;

- or conversely, as outputs, as a straightforward reflection of the fact that even though the bank may see the deposit itself as a 'resource', the deposit collection process falls square within the framework of providing a payment methods handling service for which commissions are charged, and which is conducted at a rate that is generally less than what it would cost (earn) to get (invest) the same sum total of resources on the money market.

National accountants ran with the second option, insofar as the FISIM accounted for the interest margin gained on loans and the interest margin gained on deposits. That said, when the financial sector shake-up led by Europe started to take shape in the mid-1980s, the range of banking services offered expanded exponentially. The banks in fact rode the wave of booming financial markets and the concomitant surge in new financial intermediaries (investment funds, life insurance policies, etc.) by offering new investment and insurance products and leveraging their mandate as authoritative financial transactions experts to extend the consultancy activity to householders and businesses. In a nutshell: the bank business readjusted by aligning and realigning itself to the capital markets. This bank services range extension played a role in reshaping the bank income structure. Commissions earnings took on a greater share, and now represent around two-thirds of bank income. For national accountants assessing the contribution of financial services to the production account, the increasing income share taken by commissions does not pose a problem, quite the opposite in fact, since it is probably the bank income item that is easiest to book. Interest earnings generated on equity investment, though, is an altogether tougher proposition. These margins are in fact excluded from the FISIM posts, calculated solely from the interest margins gained on loans (interest rate billed to borrowers –interest rate on the money market) and the interest margin gained on deposits (interest rate on the money market– interest rate payable to depositors). Furthermore, accruing on top of this interest revenue is revenue derived from transactions on securities, which have boomed since the move towards balance-sheet securitisation and which are also excluded from the FISIM accounts.

A recap summary would break bank services down into the following lines:

- **traditional banking activities of collecting deposits and issuing loans**, the value of which is measured by an interest margin via FISIM;

- **related services and consultancy**, the value of which is measured based on the related commission charges billed;

- the booming **securities business** (or capital market business), which is only posted under the bank services production account, as measured under national accounting practice, through the commissions the bank may charge, and not through interest margins or capital loss/capital gain. Seen from this standpoint, national accounts remain aligned to a tight-bounded reading of the scope of banking activity (deposits, loans, related services) and consequently fail, at least in part, to correctly cover the creation of value in the securities business and, in a broader sense, in the investment banking activity.

Banking services output in national accounting:

Banking services output = FISIM + commissions

The FISIM integrate:

- the value created by the **payment methods handling service**, measured through the interest margin gained on deposits: Deposits × (money market rate - lender rate);
- the value created by the **financing service**, measured through the interest margin gained on loans: Lending × (borrower rate - money market rate).

The commissions measure:

- the full set of related financial services billed to customers.

Problem: The FISIM do not integrate the value created through the **securitisation business**, i.e. neither through interest margins nor capital loss/capital gain on securities transactions.

Suggestion: Integrate interest margin gains on securities into the FISIM: Securities × (capital market rate - money market rate).

Where does a bank produce?

Another major development defining the changing face of the bank business has been globalisation. Much of the trade conducted by French banks today runs through foreign affiliates that national accounts file as non-resident and consequently non-contributors to national financial services output. To recap, just over 50% of workforce at the major French banking conglomerates is employed at foreign affiliate branches.

	Total headcount	Employed at foreign affiliates
BNPP	162,700	60.6%
Société Générale	134,738	55.7%
Crédit Agricole	86,866	52.8%

Source: Commission Bancaire – 2007 Annual Report.

This means that measuring banking services output using production costs as opposed to the FISIM method would still not correct for the current underestimation of banking services output, since a major share of these costs (especially payroll and payroll charges) are settled abroad. Offshoring and outsourcing strategies can only further compound the trend, as again, any income revenue generated stays abroad. This point is well illustrated by the leading European universal banking groups, whose home-country revenue represents close to a half of the total profits while their domestic retail banking business racks up less than a third (Bellon 2007, *Revue d'économie financière* vol. 90, pp.186 and 194). There is obviously no going back over the residence criterion upon which national accounts are based, yet there is no dodging the fact that it is still patently ill-equipped for quantifying the real value of banking and finance business that is largely generated abroad.

Who does a bank produce for?

Banks produce services for their clients, but net worth leveraging and refunding imperatives force them to also engage in proprietary trading. This generates fresh difficulties (as underlined in Daniel Szpiro's memo).

Production for own final use recorded in the production account for financial corporations (account item 3201), which barely represents 1% (EUR 1.6 billion) of the total financial corporation production (EUR 170.6 billion in 2007), does not give a fair reflection of these combined operations. It is indexed exclusively to business generated through the IT infrastructures of the financial institutions, which may be led to develop software deployed for proprietary trading. To all intents and purposes, own-account production of financial services at financial corporations is ignored. Is the question as to whether own-account production of financial services creates value added a less complex issue for a bank than for a home-owning, home-resident household? If pushed, the quick answer is a yes, since it does entail costs. However, basic economics states that any activity that involves production costs is necessarily a value-creating activity since the productive input employed (whether labour or capital) is financially compensated by a revenue. If a bank's own-account production is deemed a support function to the bank's funding-intensive risk management activity, then any own-account revenues generated should be booked in the accounts.

How does a bank produce?

One of the features that sets banks apart as regards how they manages resources stems from the transformation process involved. The bank transforms short-term resources into long-term uses. This defining characteristic of the bank balance sheet escapes the national accounts when accounts officers come to assess the interest margin gained on deposits, since the rate applied in order to evaluate what investing the deposits would have earned (or what refunding would have cost if the bank had been unable to collect the deposits) is a money market rate. This leaves the implicit assumption that the bank does not transform its resources and therefore boasts zero asset-liability maturity mismatch. Here again, national accounts aggregators are out-of-step with what characterises the real-world techniques of bank output.

Furthermore, it is widely recognised that there has been a fairly radical shift in the banking business model over the last decade. Indeed, this shift is seen as one of the main drivers behind the current financial crisis. The bank has shifted from an *originate-to-hold* model to an *originate-to-distribute* model. In simple terms, banks have effected a radical policy shift towards securitising their debt and, more widely, outsourcing their credit risk management (drawing heavily on credit derivatives). Why? One −because it saves them money on capital expenditure. Two −because it makes them money! At a time when analysts and newspaper columnists alike are highlighting the huge losses triggered by rampant and irresponsible abuse of these practices (which, it has to be said, were pulling in huge profits for the banks before the crisis hit), we would be well-advised to measure their contribution to bank statements of revenue.

In conclusion, the national accounting valuation of bank services output is geared to a system of simple, domestic-scale banks, and not international conglomerates running wide-scoped securities business, transforming resources and securitising assets.

To account for bank services output in the report we are tasked with delivering, we are going to have to extend the notion of value added from national accounts to encompass:

- the interest spread associated with third-party asset management (the 'primary distribution of income account' for financial corporations);

- holding gains and losses (see the memo posted by Jean-Marie Fournier) which are registered as entries in the 'revaluation account' for financial corporations;

- the interest spread associated with proprietary asset management (the ‘primary distribution of income account’ for financial corporations);
- income (or losses) following asset securitisation;
- the share of revenue generated by foreign affiliates.

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Appendix 10: Discussion on the concept of value added and proprietary trading in the banking sector

Daniel Szpiro
Lille 1 University

Value-added is nationally aggregated to measure the wealth produced by the economy as a whole over a given timeframe. At the microeconomic level of the firm, output produced by others (inputs) has to be deducted away to leave only what was produced by the firm itself; the process also avoids duplicate account entries.

In national accounting, banking business is traced back by the 'value added', whereas banking accounting uses net banking income via a very different process, particularly when looking at how proprietary trading is handled. In fact, proprietary dealing is ignored by national accounting whereas banking accounting measures it through the revenue returned on investment funding.

Net banking income almost certainly overestimates banking business and its contribution to the creation of wealth. Imagine the extreme scenario where a bank does nothing other than choose its investments by pure chance, by rolling dice. Most of the time, since market diversification and averaged trends are positive, the bank will still get a positive return income. However, to what extent is a bank (un)managed this way actually *producing* something?

Another factor to be weighed up is that accounting for revenue on investments leads to duplicate counts: once on the banking business, and once again at the company that generated this profit (implicitly latent in the value-added, most visibly in operating surplus). Is this revenue down to the bank's business or the business of the company that generated the profit?

If there was only one security, the answer would be clear: the bank would have created zero value added. The value brought by the bank through its portfolio management performance is a 'better' allocation of financial resources. Therefore, logically speaking, it is only the *surplus* revenue generated though 'better' resource management than under the unmanaged investments scenario that should be integrated into the bank's production account, and not the total revenue cashed in.[118] The value contribution from banking business should therefore be measured as the difference between reported revenue and a benchmark figure for an un-managed financial investment (such as the random investing policy from our example above, or –from a theoretically more relevant standpoint– the revenue returned on a global policy of investing across all markets according to market capitalisation,[119] i.e. a performance index in the wider sense of the term).

Working to this framework, the bank's own-account production would be less than that aggregated by the net banking income.[120]

National Accounting, on the other hand, goes to the other extreme by completely ignoring any own-account production. This is not the expression of underlying principles in action: a company in the construction sector that decides to builds its own company headquarters would see this building included under its production and value-added accounts, while a homeowner produces a service and outputs a rent that they pay to themselves. It would therefore be appropriate to pull into line with these examples in order to integrate own-account dealing in the banking sector.

As illustrated above, it would not be a good idea to count all revenue received as value added, since this would blur the lines between banking income and capital income (a very loose conceptualisation could interpret capital income as a sort of input from other enterprise). If we are looking to measure activity against utility, the previous measure (revenue reported – benchmark) has relevance; if we are looking to realign towards the more widely-integrated uses in national accounting, we have the option of using client

118 The efficient-market hypothesis (EMH) is a utopia, in that this value added would have to be nil. However, this utopia is not always as far away as market operators would like, although in reality this same criterion is regularly employed in the assessment base for calculating performance-indexed bonuses (which do however work to a floor threshold of 0, which contrasts with the value-added measure proposed here).

119 As stipulated in optimal portfolio allocation and capital market line theory.

120 This measurement of output should normally be offset across every agent in every country, since the sum total of investment funding equals the total market as a whole.

commissions paid for an equivalent activity to ‘price’ the service, i.e. client asset management, and apply a ratio to the total own-account equity figure in order to surface the ‘fictitious commission’ for the services produced by the company, for the company (along the lines of the ‘fictitious’ imputed rentals for housing).

In short, neither private-sector accounting nor national accounting measure proprietary own-account business –and thus banking-sector business as a whole– in a conceptually appropriate manner. Advances can be made on both fronts if efforts are made to integrate value-added as a *creation of wealth*, and consequently kept conceptually distinct from the allocation or straight collection of wealth.

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Appendix 11: The concept of 'product' and measuring bank production: an industry-oriented approach

Dhafer Saidane
EQUIPPE - Lille 3 University

1) Is today's bank a firm?

Banks have mutated away from the administrative-type organisation system that used to characterise them, and have now become competitive enterprises. They deploy business management techniques and commercial market strategies. A bank's core mandate now is as a company, since it has shareholders and its aim is to maximize profits by gearing its production processes to industry templates. Banks set flexibility as the means and profitability as the objective. Despite being governed by heavy regulatory constraints, today's banks are progressively sliding into the mould of the firm, responsive to the market forces that play a decisive role in its operating strategy. The onus is increasingly on adopting optimisation and value creation as strategy.

The bank has become an entity that now runs a variety of service packages spanning the broadest range of business sectors. From "money bazaar",[121] to "one-stop shop", "financial supermarket" to "banking firm"... there is a flurry of evaluative titles all highlighting the technical industry-oriented dimension of banking products available.

2) What does a banking firm produce?

There is no easy answer, as the regulatory governance characterising the banking sector makes it difficult to fit the banking market to industrial firm-specific concepts. Supply and demand in the banking marketplace are shaped by public authority measures designed to ensure more secure financial systems.

3) What defines bank products?

Bank products as an umbrella term would correspond to the full set of financial assets, instruments and services on offer. Industry terminology has only recently taken on in the banking sector. The term 'product', already, is being applied to a sector whose traditional mandate was to perform a certain number of administration-type tasks but that now runs and is run like any other fully-fledged industry.

4) Are financial products and services typified in ways that differentiate them from regular commercial and industrial products and services?

There is a school of thought that believes banking cannot be fully considered an industrial activity. Taking this stance, a close-up look at the characteristics of banking products reveals several sector-specific features.

- Its **intangible** properties are the first differentiating feature. Granting credit looks to be a straightforward bookkeeping task. However, the intangibleness of what is produced makes bank products fungible.[122]

- The bank production process is **a continuous flow**. The bank manager is powerless to shape the number of tasks to be performed. The number of cheques drawn per day is a random that depends entirely on the chequebook holders. Whatever the number, the bank manager has to keep processing cheques, day in, day out, with no way of shutting down the flow. With tangible goods, though, there is always the option of stopping the production line.

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[121] Expression coined by Martin Mayer in *The Money Bazaars*: *understanding the banking revolution around us*, Dutton, 1984.

[122] For example, you cannot demand that the bank hands you back the very same coins and banknotes that you paid in as your deposit.

- Banking products are **homogeneous**, especially since banking-sphere innovation is not patentable. For all legal and regulatory purposes, banking products are actually considered identical. This means there is nothing more like a savings deposit than another savings deposit. The main differentiational factor banks have introduced is given via branding. The focus is on how the product is 'packaged', involving factors such as the name and its purpose for the target audience.

- Banks reveal a functional **duality** that opens up two sources of value creation. In reality, the bank poses as an industrial company producing and handling methods of payment (chequebooks, payment cards, etc.) and as a financial enterprise through its financing, investment and consultancy activities. No industrial firm could hope to offer both functions in parallel. In short, a bank can be an industrial firm, but not vice versa.

- The banking product is **hybrid** since it is both collective-use (mass of money issued by the Central bank) and private-use (monetary amount held by a householder). Banking products are held individually by agents but their foundation is trust and consensus. They are tied to the national sovereignty, since the State acts as surety enabling them to be created and distributed. Subsequently, on a macroeconomic scale, "loans create deposits", whereas on the microeconomic scale, "deposits create loans". Once we adopt an industry stance, the financial intermediation process appears to blur the lines between output and input.

- Banking products are under stiff **regulatory control.** They first need authorisation. In France, licenses are issued by the *Comité des établissements de crédit et des entreprises d'investissement* [credit institutions and investment firms committee] (CECEI). The decision to award licensure hinges on the producer's respectability.[123] This bars attempts to spontaneously start producing banking products. This bank output is then subjected to rigorous controls, as the contagious adverse effects are quick to wreak wide-scale impacts. Indeed, the risks vehicled by bad financial management –as amply demonstrated by the financial crisis– have greater repercussions on the real economy than the risks observed in industry. This is why banking product prices are regulated through key interest rates, following the sequence key interest rate –base bank lending rate– borrowing and lending rates. The prices for bank products are therefore dependent on how monetary policy is led. This means that a bank cannot, like a factory producing industrial goods (such as shoes or beverages), produce in infinite volume of credit. While large-scale industrial production of a private good has no impact on the nation's inflation rate and is only controlled by the firm needing to avoid bankruptcy, large-scale production of credit has the capacity to threaten the monetary stability of the entire economy.[124] From this point on, while refusing a sale is unacceptable for most commercial trade and industry,[125] rationing out credit remains a wholly legal move from the bank manager to prevent endemic system risks.

5) How is a bank's production usually measured?

In national accounting, production-output in the services sector is gauged indirectly, i.e. via the aggregate values of the margins achieved. Banking and financial services production therefore corresponds to the total income on assets earned less the total interest paid out. This means we are talking net interest. Bank managers use the concept of turnover, but the 'turnover' metric has a slightly different meaning in financial institutions than in a regular industrial company. A financial institution's turnover would be the sum total of commissions and gross interest cashed in. However, bank managers generally reason in terms of commission and net interest. They therefore opt to work with the concept of net banking income. Net banking income corresponds to net interest and commissions plus revenues and capital gains on the portfolio together with gains on arbitrage and other operations on new financial instruments.

There are generally two schools of thought on how to measure banking output. The first is qualified as the 'production-end' approach, although volume-end would be equally appropriate since it attempts to gauge

[123] Article L. 511-10 of the national monetary and financial code. Legislative section; Appendix to decision 2000-1223 dated 14/12/2000. The committee may opt to refuse licensure if the persons cited under article L. 511-13 do not present the requisite respectability and experience in their function.

[124] Jean-Paul Pollin, writing in *La régulation bancaire face au dilemme du 'Too Big to Fail'* : *mécanismes et solutions* (Draft document, LEO, February 2006), asserts that "there is no prudential supervision on non-financial corporations, in contrast to banks. This alone is evidence that credit institutions must have self-specific features that make failure trigger even more serious, or at least different-scale consequences".

[125] Article. 30, decision dated 1st December 1986, of the French Code of Commerce.

banking output via physical indicators. The second is known as the 'intermediation' (or value-based) approach. It focuses in on intermediation, which is understood as the core sequence in the banking production chain.

The production-end approach

This approach[126] tackles bank production via a physical measurement. The metric is the number of operations handled. This output entails the use of two inputs, essentially capital and labour. The number of deposit accounts and the number of credit operations would be the best measures of banking output. However, the approach unfortunately skips over the financial dimension of banking output, and consequently slips into the "banking productivity paradox": banks would do better opening several accounts for someone very poor than just one account for someone extremely rich. Let's walk through an example. There are two people, client A and client B, both registered with the same bank. Client A opens three accounts:

- a current account, into which he deposits EUR 200;
- a CODEVI [business development] savings account, into which he deposits EUR 500;
- a home savings account, into which he deposits EUR 1,000.

Client B goes into the same bank and opens a sole current account, paying in EUR 100,000.

From an industry-oriented standpoint, client A gives a greater boost to the bank's productivity than client B. From the finance-orient standpoint, though, client B is more profitable for the bank than client A, especially since B costs less since more transactions means higher operating costs. In this light, physical indicators appear far too two-dimensional to fully capture banking output. However, an exhaustive, three-dimensional vision cannot afford to circumvent the intermediation factor.

The intermediation approach

This approach factors in the financial dimension of banking operations.[127] Banking output is measured using financial aggregates expressed in monetary units. The banking outputs are the amounts, expressed in monetary units, summed for deposits, loans and other financial assets. This perspective considers not just deposits but also labour and capital as inputs.

[126] See Benston G.J. (1965) "Economies of Scale and Marginal Costs in Banking Operations". *National Banking Review*. Vol. 2, June, p.507-549 and Bell F. W. & Murphy N. B. (1968) "Costs in commercial banking: A quantitative analysis of bank behavior and its relation to bank regulation", Research Report, n° 41, *Federal Reserve Bank of Boston*, pp.113-143.

[127] Sealey C. W. & Lindley J. T. (1977), "Inputs, Outputs, and a Theory of Production and Cost at Deposit Financial Institutions". *Journal of Finance*. 32, n°4, September, pp.1251-1266.

Appendix 12 — Recording insurance transactions in the balance of payments

PART 2 — FORM 23

SECTION 25 – INSURANCE - REINSURANCE

Index	Title	Content
250	**Insurance on goods: premiums and commissions**	♦ Premiums and commissions on goods insurance contracts: • from residents taking out policies with non-resident insurance companies (expenditure) • from non-residents taking out policies with resident insurance companies (revenue)
251	**Insurance on goods: fees and commissions**	♦ Fees (or exercising claims) and commissions relating to insurance on goods: • from residents taking out policies with non-resident insurance companies (revenue) • from non-residents taking out policies with resident insurance companies (expenditure)
252	**Other insurance: premiums and commissions**	♦ Premiums and commissions on non-goods insurance contracts (including contributions to pensions funds): • from residents taking out policies with non-resident insurance companies (expenditure) • from non-residents taking out policies with resident insurance companies (revenue)
253	**Other insurance: fees and commissions**	♦ Fees and commissions relating to non-goods insurance: • from residents taking out policies with non-resident insurance companies (revenue) • from non-residents taking out policies with resident insurance companies (expenditure) ♦ Pensions, retirement benefits and private income
254	**Reinsurance**	♦ All operations directly related to agreements or reinsurance contracts (including operations on provisions for deposit guarantees)

Appendix 13: Detailed breakdown of the information to be filed for insurance-sector Foreign AffiliaTes Statistics (FATS)

For companies operating in the **insurance sector,** turnover corresponds to the gross premiums written entry (reinsurance) in the technical income statement. It does not therefore include unearned premiums.

For companies operating in the **insurance sector,** intra-group turnover corresponds to the gross premiums written entry (reinsurance) in the technical income statement, as taken out by in-group affiliates (regardless of where they are headquartered).

For companies operating in the **insurance sector,** export turnover corresponds to the share of gross premiums written (reinsurance) in the technical income statement, as taken out by subscribers in the foreign national export market concerned**,** including by in-group affiliates and including in France.

For companies operating in the **insurance sector,** intra-group export turnover corresponds to the share of gross premiums written (reinsurance) in the technical income statement, as taken out by in-group affiliate subscribers headquartered in the foreign national export market concerned, including by in-group affiliates in France –and therefore also the parent company.

For companies operating in the **insurance sector**, the total imports of intra-group goods and services corresponds to the share of intermediate consumption expenditure, defined as the gross value of reinsurance services received plus other input expenditure, as transacted with in-group affiliates headquartered abroad (including by in-group affiliates in France –and therefore also the parent company).

A detailed breakdown of the accounting lines that form the overall intermediate consumption aggregate is given below.[128]

[128] Keynote: all the concepts presented below are defined in Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings, and are further detailed in the new EuroStat Methods handbook for insurance services statistics.

Input, or the total monetary value of goods and services consumed:

Calculation	Code (EuroStat)	Accounting line	Crossmatch to the insurance chart of accounts (Article A. 343-1 of the French Insurance Code)
1) Gross value of reinsurance services received:			
+	32 18 0	Reinsurance balance (reinsurers' share of the technical account = reinsurers' share of gross premiums written (32 18 1) +/- reinsurers' share of the gross change in provisions for unearned premiums (32 18 3) - reinsurers' share of gross claims payments (32 18 5) +/- reinsurers' share of the gross change in provisions for outstanding claims (32 18 6) - reinsurance commissions and net profit interests (32 18 7) +/- reinsurers' share of the gross amount of other items in the technical account +/- reinsurers' share of the gross change in life insurance provision	Premiums assigned (account 708) +/- reinsurers' share of the change in provisions for unearned premiums (account 7099) - reinsurers' share of claims payments (account 609) +/- reinsurers' share of the change in provisions for outstanding claims (account 619) - commission received from reinsurers (account 649) +/- reinsurers' share of the change in other technical provisions (including life insurance provisions) (account 629)
+		Estimation of reinsurers' investment income proportionally to their share of the technical provisions of the company = [(Gross technical provisions (37 30 0) - Net technical provisions (37 30 1)) / Net technical provisions (37 30 1)] * (Investment income (32 22 0) - Value re-adjustments on investments (32 71 5) - Gains on the realisation on investments (32 71 6) - Income from participating interests (32 71 1))	reinsurers' share in profit revenue (account 639)
2) Total commissions			
+	32 61 1	Total amount of commissions paid (direct business + business accepted)	
3) Other external expenses on goods and services (excluding personnel costs)			
+	32 61 4	External expenses on goods and services	
-		Depreciations on operating assets	

Appendix 14 — List of SBS variables for credit institutions

Code	Item heading	Notes
Structural variables		
11 11 0	Number of enterprises	
11 11 1	Number of enterprises broken down by legal status	
11 11 4	Number of enterprises broken down by residence of the parent enterprise	
11 11 6	Number of enterprises broken down by size classes of the balance sheet total	
11 11 7	Number of enterprises broken down by category of credit institutions	
11 21 0	Number of local units	
11 41 1	Total number of branches broken down by location in non-EEA countries	
11 51 0	Total number of financial subsidiaries broken down by location in other countries	
Accounting variables on the profit-and-loss account		
42 11 0	Interest receivable and similar income	
42 11 1	Interest receivable and similar income arising from fixed-income securities	
42 12 0	*Interest payable and similar charges*	
42 12 1	Interest payable and similar charges linked to debt payable in issue	
42 13 0	*Income from securities*	
42 13 1	*Income from shares and other variable-yield securities*	
42 14 0	*Commissions receivable*	
42 15 0	*Commissions payable*	
42 20 0	*Net profit or net loss on financial operations*	
42 31 0	*Other operating income*	
42 32 0	*General administrative expenses*	
42 32 2	*Other administrative expenses*	
42 33 0	*Other operating charges*	
42 35 0	*Value adjustments*	
42 36 0	*Other value adjustments*	
42 40 0	*Profit or loss on ordinary activities*	
42 50 0	*Extraordinary profit or loss*	
42 51 0	*All taxes*	
42 60 0	*Profit or loss for the financial year*	
12 12 0	Production value	
13 11 0	Total purchases of goods and services	
13 13 1	Payments to agency workers	New item introduced in 2008
13 31 0	Personnel costs	
13 32 0	*Wages and salaries*	
13 33 0	*Social security costs*	
12 15 0	Value-added at factor cost	
12 17 0	= Value-added at factor cost - Personnel costs = 12 15 0 – 13 31 0	New item introduced in 2008
15 11 0	Gross investment in tangible goods	
Accounting variables on the balance sheet		
43 30 0	Balance sheet total (credit institutions)	
43 31 0	Balance sheet total broken down according to residence of the parent enterprise	
43 32 0	Balance sheet broken down according to legal status	
43 11 0	*Loans and advances to customers*	
43 21 0	*Amounts owed to customers*	
43 29 0	*Total of capital and reserves*	

Code	Item heading	Notes
Variables by product		
44 11 0	Interest receivable and similar income broken down by (sub)categories of the CPA	New item introduced in 2008
44 12 0	Interest payable and similar charges broken down by (sub)categories of the CPA	New item introduced in 2008
44 13 0	Commissions receivable broken down by (sub)categories of the CPA	New item introduced in 2008
44 14 0	Commissions payable broken down by (sub)categories of the CPA	New item introduced in 2008
Variables on the internal market and on internationalisation		
45 11 0	Geographical breakdown of the total number of EEA branches	
45 21 0	Geographical breakdown of interest receivable and similar income	
45 22 0	Geographical breakdown of balance sheet total	
45 31 0	Geographical breakdown of interest receivable and similar income via the freedom to provide services business (in other EEA countries)	New item introduced in 2008
45 41 0	Geographical breakdown of interest receivable and similar income via branch business (in non-EEA countries)	New item introduced in 2008
45 42 0	Geographical breakdown of interest receivable and similar income via the freedom to provide services business (in non-EEA countries)	New item introduced in 2008
Variables on employment		
16 11 0	Number of persons employed	
16 11 1	Number of persons employed broken down by category of credit institution	
16 11 2	Number of women employed	
16 13 0	Number of employees	
16 13 6	Number of female employees	
16 14 0	Number of employees in full-time equivalent units	
Residual variables		
47 11 0	Number of accounts broken down by (sub)categories of the CPA	New item introduced in 2008
47 12 0	Number of loans and advances to customers broken down by (sub)categories of the CPA	New item introduced in 2008
47 13 0	Number of automatic teller machines (ATM) owned by credit institutions	
Variables for which a regional breakdown is compiled		
11 21 0	Number of local units	
13 32 0	Wages and salaries	New item introduced in 2008
16 11 0	Number of persons employed	

Appendix 15 — List of SBS variables for insurance companies

Code	Item heading	Notes
	Structural variables	
11110	Number of enterprises	
11111	Number of enterprises broken down by legal status	
11112	Number of enterprises broken down by size class of gross written premiums	
11113	Number of enterprises broken down byles size class of gross technical provisions	
11115	Number of enterprises broken down country of residence of the parent enterprise	
11410	Total number and location of branches in other countries	
	Accounting variables	
	Technical part of the profit-and-loss account (retracing insurance sector-specific operations)	
12110	Turnover (gross premiums written)	
32114	Gross direct premiums written, broken down by legal status	
12111	Gross direct premiums written	
32115	Gross direct premiums written, broken down by residence of the parent enterprise	
12113	Gross direct premiums written, individual premiums	
12114	Gross direct premiums written, premiums under group contracts	
12115	Gross direct premiums written, periodic premiums	
12116	Gross direct premiums written, single premiums	
12117	Gross direct premiums written, premiums on non-bonus contracts	
12118	Gross direct premiums written, premiums from bonus contracts	
12119	Gross direct premiums written, premiums from contracts where the investment risk is borne by policyholders	
12112	Gross reinsurance premiums accepted, written premiums	
32116	Gross reinsurance premiums accepted, written premiums broken down according to country of residence of the parent enterprise	
32112	Gross change in the provision for unearned premiums	
32120	Allocated investment return transferred from the non-technical account	
32131	Gross claims payments	
32132	Gross payments in respect of claims incurred in the current accounting year	
32134	Gross change in the provision for outstanding claims	
32140	Gross operating expenses	
32150	Change in the equalisation provision	
32160	Other items in the technical account, gross amount	
32161	Other technical income, net amount	
32162	Net changes in other technical provisions, not shown under other headings	
32163	Bonuses and rebates, net amount	
32164	Other technical charges, net amount	
32220	Investment income	
32230	Unrealised gains on investments	
32250	Gross change in life insurance provision	
32270	Investment charges	
32280	Unrealised losses on investments	
32290	Allocated investment return transferred to the non-technical account	
32170	Gross balance of the technical account (subtotal I)	
32180	Reinsurance balance (+/-)	
32181	Reinsurers’ share of gross premiums written	
32182	Reinsurers’ share of gross premiums written broken down according to the country of residence of the parent enterprise	
32183	Reinsurers’ share of the gross change in the provision for unearned premiums (+/-)	
32185	Reinsurers’ share of gross claims payments	
32186	Reinsurers’ share of gross change in the provision for outstanding claims	
32187	Reinsurance commissions and profit participations	
32188	Reinsurers’ share of the gross amount of other items in the technical account	
32334	Reinsurers’ share of gross change in life insurance provision	
32190	Net balance of the technical account (subtotal II)	
	Non-technical part of the profit-and-loss account	
32420	Investment income	
32430	Allocated investment return transferred from the life-insurance technical account	
32440	Investment charges	
32450	Allocated investment return transferred to the non-life-insurance technical account	
32460	Other income	
32470	Other charges, including value adjustments	
32480	Profit or loss on ordinary activities	
32490	Extraordinary profit or loss	
32500	All taxes	

32510	Profit or loss for the financial year	
	Additional variables related to the profit-and-loss account	
32611	Commissions for total insurance business	
32612	Commissions for direct insurance business	
32614	External expenses on goods and services	
13131	Payments to agency workers	
13310	Personnel costs	
13320	Wages and salaries	
13330	Social security costs	
32615	External and internal claims management expenses	
32616	Acquisition costs	
32617	Administrative expenses	
32618	Gross other technical charges	
32619	Investment management charges	
32711	Income from participating interests	
32713	Income from land and buildings	
32714	Income from other investments	
32715	Value re-adjustments on investments	
32716	Gains on the realisation on investments	
32721	Investment management charges, including interest	
32722	Value adjustments on investments	
32723	Losses on the realisation on investments	
	Variables by product	
33111	Gross premiums written in direct business, broken down by (sub)categories of the CPA	
33112	Gross reinsurance premiums accepted, broken down by (sub)categories of the CPA	
33121	Reinsurers' share of gross direct premiums written by (sub)categories of the CPA	
33131	Gross claims incurred, direct business, broken down by (sub)categories of the CPA	
33141	Gross operating expenses, direct business, by (sub)categories of the CPA	
33151	Reinsurance balance, direct business, by (sub)categories of the CPA	
	Variables on	
	General geographical breakdown	
34110	Geographical breakdown — in general — of gross direct premiums written	
34120	Geographical breakdown — in general — of gross reinsurance premiums accepted, premiums written	
34130	Geographical breakdown — in general — of reinsurers' share of gross premiums written	
	Geographical breakdown of insurance services in other Member States	
34311	Gross direct premiums written by CPA category and by Member State, geographical breakdown of the business written under the right of establishment	
34321	Gross direct premiums written by CPA category and by Member State, geographical breakdown of the business written under the right of freedom to provide services	
	Variables on employment	
16110	Number of persons employed	
16140	Number of employees in full-time equivalent units	
	Accounting variables on the balance sheet	
	Assets	
36110	Land and buildings	
36111	Land and buildings occupied by an insurance enterprise for its own activities	
36112	Land and buildings (current value)	
36120	Investments in affiliated enterprises and participating interests	
36121	Shares in affiliated enterprises and participating interests	
36122	Debt securities issued by, and loans to, affiliated enterprises and to enterprises with which an insurance enterprise is linked by the virtue of a participating interest	
36123	Investments in affiliated enterprises and participating interests (current value)	
36130	Other financial investments	
36131	Shares and other variable-yield securities and units in unit trusts	
36132	Debt securities and other fixed-income securities	
36133	Participation in investment pools	
36134	Loans guaranteed by mortgages	
36135	Other loans	
36136	Other deposits (including deposits with credit institutions)	
36138	Other financial investments (current value)	
36140	Deposits with ceding enterprises	
36200	Investments for the benefit of life-assurance policyholders who bear the investment risk	
36210	Investments for the benefit of life-assurance policyholders who bear the investment risk — land and buildings	
36220	Investments for the benefit of life-assurance policyholders who bear the investment risk — other financial investments	
36300	Balance sheet total	

Liabilities		
37100	Total capital and reserves	
37101	Total capital and reserves, broken down by legal status	
37110	Subscribed capital or equivalent funds	
37120	Share premium account, revaluation reserve, reserve	
37200	Subordinated liabilities	
37301	Total net technical provisions	
37310	Gross provision for unearned premiums	
37320	Gross life assurance provision	
37330	Gross provision for outstanding claims	
37331	Gross provision for outstanding claims, related to direct business	
37333	Gross provision for outstanding claims, related to direct business, by (sub)category of CPA	
37340	Gross provision for bonuses and rebates	
37350	Equalisation provision	
37360	Gross other technical provisions	
37370	Gross technical provisions for life-assurance policies where the investment risk is borne by the policyholders	
37410	Debenture loans	
37420	Amounts owed to credit institutions	
Other variables		
39100	Number of contracts outstanding at the end of the accounting year, relating to direct business for all individual life insurance contracts and for the following subcategories of the CPA: 65.12.1, 65.12.4, 65.12.5	
39200	Number of insured persons at the end of the accounting year, relating to direct business for all group life insurance contracts and for the following subcategory of the CPA: 65.12.1	
39300	Number of insured vehicles at the end of the accounting year, relating to direct business, for the following subcategory of the CPA: 65.12.2	optional
39400	Gross insured sum at the end of the accounting year for life insurance contracts	optional
39500	Number of claims incurred during the accounting year, relating to direct business, for the following subcategory of the CPA: 65.12.2	optional
Additional macroeconomic variables		
12120	Production value	
12150	Value-added at factor cost	
13110	Intermediate consumption: gross value of reinsurance services received and other intermediate consumption expenditure	
12170	Gross operating surplus	

APPENDIX 16 - CLASSIFICATION OF FINANCIAL CORPORATIONS IN THE NATIONAL ACCOUNTS' SECTOR REPOSITORY (sector S12)

FINANCIAL INTERMEDIARIES? EXCLUDING INSURANCE COMPANIES IN THE NATIONAL ACCOUNTS' SECTOR REPOSITORY- S12A						
MONETARY FINANCIAL INSTITUTIONS			OTHER FINANCIAL INTERMEDIARIES **Excluding insurance companies and pension funds** **S123**			
CENTRAL BANK **S121**	**OTHER MONETARY FINANCIAL INSTITUTIONS** **S122**					
	RELATED CREDIT INSTITUTIONS **S122AE**	**MONETARY** UCITS **S122F**	**FINANCIAL INSTITUTIONS AND RELATED ENTITIES** **S123A**	**OTHER UCITS** **S123B**	**FINANCIAL AUXILIARIES** **S124**	**INSURANCE COMPANIES AND PENSION FUNDS** **S125**
- Banque de France - IEDOM (French overseas departments note-issuing bank) **No movement in this sector**	- Commercial banks - Mutual benefit or co-operative banks - Municipal credit banks - Specialised Financial Institutions (SFI) - Financial companies governed in accordance with specific laws or regulations - Financial companies operating various types of activity - Caisse des Dépôts et Consignations (CDC) – Autonomous public institution in charge of certain deposits and consignments - French savings bank managed by the Post Office (La Poste) **Collection method: Banque de France / SGCB** **BAFI database application** **Daily update**	- Money market mutual funds - Monetary FCP mutual funds **Collection method: Banque de France (DGS)** **UCITS application** **Daily update**	- Investment enterprises - Mutual guarantee companies (SCM) **Collection method: Banque de France /SGCB** **BAFI database application** **Daily update** - Motorways financing fund (CNA) **Periodic updates** - Inter-trade housing committees (CIL) **Collection method: ANPEEC data** **Annual update** - Credit unions offering loan splitting for non-banking agents **Periodic updates** - Special purpose vehicles (SPVs) **Collection method: ECB and Banque de France data** **Quarterly update** - Securitisation vehicle **Collection method: INSEE data** **Annual update**	- Non-monetary ICVC and collective investment funds Principally engaged:: - Incorporated investment funds - Collective business investment schemes: - Mutual funds for futures trading (FCIMT) - Risk-capital mutual investment fund, including Mutual funds for innovation investment (FCPI) and local development investment (FIP) - Real estate investment trusts (SCPII) - Collective real estate investment trusts (OPCI) **Collection method: Banque de France (DGS)** **UCITS application** **Daily update**	- Financial holdings not qualified as Credit institutions and not under ACAM supervision **Collection method: INSEE data** **Annual update** - Portfolio management firms **Collection method: AMF data** **Annual update** - EIG Carte Bleue debit cards - EIG Credit cards - Fonds de garantie des depots (Deposit guarantee fund) **Periodic updates** - Financial companies **Collection method: Banque de France / SGCB** **BAFI database application** **Daily update** - Other (Bureaux de change, etc) **Collection method: INSEE data** **Annual update**	- Life insurance companies: . Non-life insurance companies . Reinsurance companies - Mutual funds - Pension fund institutions - COFACE (French export receivables insurance agency) **Collection method: ACAM data** **Quarterly update**
Entities classified: 2	**Entities classified: 694 (*)**	**Entities classified: 845 (*)**	**Entities classified: 473 (*)**	**Entities classified: 12,351 (*)**	**Entities classified: 18,266 (*)**	**Entities classified: 1,384 (*)**

(*) : entities classified by the Banque de France in September 2009

Acronymes:
ACAM: Insurance Supervisory Authority
AMF: Financial Markets Authorities
ANPEEC: National agency for employers' contributions to the construction effort
BAFI : Financial agents database
ECB: European Central Bank
DGFIP: Public Finance General Directorate
DGS: Statistics General Directorate
FCP: Mutual investment fund
FCPI: Mutual fund for innovation investment
FIP: Local development investment fund
UCITS: Undertakings for Collective Investment in Transferable Securities'
SICAF: Closed-end unit trusts
SICAV: Open-end investment companies
SGCB : General Secretariat of the French Banking Commission

Appendix 17
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