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INTRODUCTION

Since the summer of 2008, the financial crisis has refocus the CNIS's attention on the quality of the financial information disclosed by bank's business lines. At the same time, a major debate has been initiated both in France and at an international level to achieve a clearer definition of the economic contents of corporate activities that are often inadequately described by a purely accounting financial analysis of the accounts of the legal entities concerned.

As a follow-up to the report produced by the CNIS working group chaired by Mr Salustro on "Structural statistics based on groups of companies and their subgroups" in January 2008, the report published in February 2010 by the CNIS working group chaired by Mr de Margerie provided a very comprehensive inventory of "Statistics concerning financial groups". This report nevertheless recommended that a technical team should be appointed to examine a certain number of areas.

The mandate of the present working group, set up in September 2011, called for the following lines of action:

1/ "To propose a definition of activities (or business lines) falling within financial and mixed groups for which it would be both beneficial and conceivable to gather consistent statistics, by examining whether it would be possible in practice to wholly or partially ignore the organisational and/or reporting specificities of the institutions or group concerned so as to allow the timely and affordable collection of the necessary data. At the same time the working group should assess exactly to what level the activity of an entity should be broken down to obtain a coherent analysis".

Despite the diversity of French banking groups' business scopes, the *Autorité de contrôle prudentiel* (ACP, French banks supervisor) already publishes certain income statement figures distinguishing between three major business lines: Retail Banking, Corporate and Investment Banking (CIB) and Asset Management. Thanks to its in-depth knowledge of banking activities, the ACP is able to adjust the documents published to present an aggregated and homogeneous presentation based on these three business lines. **The first recommendation, addressed to the ACP, is that its presentation under three major business lines should be more detailed than is currently the case.**

2/ "To consider the issue of consolidated information (for banking groups) versus statutory information (for credit institutions) and to seek - for each business line if necessary – the most appropriate solutions for achieving the stated objectives and which may most easily be implemented to achieve results within acceptable timeframes".

"To identify data sources that could be mobilised in order to meet the stated objectives. If such sources are found to be inadequate, explore avenues for collecting additional information."

The financial statements issued by banks under International Financial Reporting Standards (IFRS 8) provide consolidated data by business line, but, for the most part, without details on the geographical origin of the activity. Individual company balance sheets contain data on the activities of entities whose registered head offices are in France, but no breakdown of the activity per business line. The only activity with a clearly defined geographic scope is "retail banking in France". **In its second recommendation, the working group therefore suggests that Banque de France and the INSEE (French National Institute of Statistics and Economic Studies) examine the possibility of gathering the information necessary to draw up a sector account for "retail banking in France".**

3/ "To propose a list of desired information for each business area such that business areas can be analysed separately. The nature of the information requested will be determined by the working group bearing in mind not just the stated objectives, but also any legal constraints that could hinder the availability of such information; the primary target will be data that contributes to an assessment of business line profitability and risk exposure".

According to the users consulted by the working group, business line disclosures are generally satisfactory. Certain improvements could however be made to the breakdown of income and to certain items of the balance sheet that are detailed by other European banks. Moreover, while French banks already disclose information regarding their overall liquidity, analysts would also like them to provide information on the liquidity of each business line. **In its recommendations to the banks, the working group therefore proposes that they provide greater detail concerning their balance sheets and their liquidity (Rec. 3), their revenue (Rec. 4) and the activities of their sub-segments (Rec. 5), in order to comply with the best European standards.**

4/ "To define an appropriate level of aggregation between groups of the statistical data that can be obtained so as to respect confidentiality constraints. Should the data remain at a macroeconomic level or should it be divided into homogeneous groups of banks, and which banks should be concerned?; Would it be possible to create indicators expressing the dispersion of these data across the banks?".

"As the final definition of banking activities is likely to differ from the existing classification of economic activities (section 64 of the NAF Rev 2 – financial services activities, excluding insurance and pension fund), the working group's reflections could also result in a more appropriate classification being proposed. This classification could be presented at an international level".

At the international and European levels, this modification of the nomenclature could result from possible structural reforms that would draw a clearer distinction between retail banking activities and CIB activities. The working group therefore deemed it premature to initiate the last part of the mandate in light of the reflections launched on this matter by the European Commission Group of Experts led by Mr Liikanen, Governor of the Central Bank of Finland.

Regarding the latter point, in the framework of the deployment of the SIRUS statistical directory, the discussions between the Banque de France, the ACP and the INSEE will be continued in order to assess what levels of activity aggregation would be appropriate for financial groups.

I. Existing business line information produced by major French banks is quite detailed but heterogeneous

As part of the presentation of their consolidated accounts, the major French banking groups use, as their counterparts in other countries, financial information by major business lines. Such segment information has existed for at least as long as the practise of cost accounting, which was initially restricted to large industrial companies but has become widespread with the development of IT and the emergence of management software packages which have lowered the cost of collecting and processing detailed information by activity. These internal management systems enable the large banking groups to break down part of their overall result between their various decision centres and, by consolidation, for each major business line. This information forms a key component of a group's steering process, as it is used for analysing the contribution of the group's various activities to its overall result and draw conclusions for the definition of its strategic orientations. The information published in this area also enable outside observers – financial analysts, rating agencies, investors and regulators – to assess banking groups and monitor their activity.

This first section focuses on assessing the level of detail and consistency of financial information published by business line, notably in light of accounting rules governing the communication in this area.

1. An accounting framework on segment reporting that allows for great flexibility

Since 1 January 2005, large French banks have been bound by the requirement incumbent upon all listed or publicly traded European companies to apply IFRS international accounting standards to the public disclosure of their consolidated financial statements, in accordance with European Regulation EC 1606/2002 of 16 July 2002. This new harmonised framework aims at introducing greater transparency into company accounts and easier comparability between the financial statements of European groups. Although some standards (such as IFRS 9: Financial Instruments) are more specifically designed for financial companies, the benchmark standard for segment reporting covers all companies irrespective of the nature of their business.

Prior to 2005, large French banking groups already published financial information by business line so as to report on the main components of their income and profits. This type of disclosure became more uniform with the introduction of the IFRS standards, especially IFRS 8, which establishes a harmonised framework for financial information disclosure by business line. However, this standard leaves groups a great freedom both in the way they segment their activities and the content of the information they release.

A reporting format favouring a "through the eyes of management" approach and leading to an operating segmentation not homogeneous across banking groups

IFRS 8 (Operating Segments) was issued in November 2006 by the International Accounting Standards Board (IASB) and replaced IAS 14 (Segment Reporting). This new standard resulting from joint work by the IASB and its American counterpart, the Financial Accounting Standards Board (FASB), was intended to reduce divergences between the IFRSs, which had been widely adopted in Europe, and the accounting principles generally applied in the United States (US GAAP). The new IFRS 8, defined by EC Regulation 1126/2008 of 3 November 2008 and applicable to annual periods beginning on or after 1 January 2009, was thus aligned with the US standard SFAS 131, "Disclosures about Segments of an Enterprise and Related Information".

Although it improved certain aspects of segment reporting, this standard did not trigger any profound changes in listed companies' disclosure, except in so far as it adopted an internal reporting-based approach offering groups greater flexibility when breaking down their business lines. While IAS 14 distinguished a first and a second level of segment reporting (business segment and geographical area), IFRS 8 defines operating segments as segments of a company whose activities are intended to generate income and results regularly subjected to management's approval. External communication is based on internal management indicators used by key decision-makers within each company (the "through the eyes of management approach"), thus providing external observers with segment information based on the information defined and monitored by companies themselves.

Segment performance is not necessarily measured using the same parameters as those applied to the financial statements as a whole: some differences may exist between the sum of reported earnings and segment results and the consolidated financial statements' IFRS reporting. In practice, however, such differences are limited: on the one hand, the groups concerned are required to disclose all differences between the accounting rules used to prepare their consolidated accounts and those used for internal reporting purposes; on the other hand, it may be tricky for a group to have to justify some measurement differences.

Although the segment information disclosed by a group should be sufficiently representative of its overall activity, it should not necessarily cover all activities

IFRS 8 requires segment information to be disclosed whenever the corresponding business is considered to be sufficiently representative of a company's overall activity, which is considered to be the case where an operating segment is 10% or more of one of the following three indicators: combined revenue (operating income), combined profit and combined assets. As soon as an operating segment reaches or exceeds this threshold, it is considered an independent segment and thus become a reportable segment.

The total combined activity reported by operating segments must constitute at least 75% of total group revenue; if the combined revenue of operating segments is less than 75%, additional operating segments must be identified as reportable segments, even if they do not meet the quantitative thresholds set out above, until the 75% threshold is reached.

Information on other business areas and operating segments not requiring segment reporting (and which can constitute up to 25% of combined group revenue), must be grouped together and presented in a category entitled "Other segments", for which no detailed information is required.

A rather light information content requirement, focused on the income statement

The minimum quantitative segment information that must be included in financial reporting for each accounting period is limited to the amount of profit generated by each segment and the corresponding total assets. Information on liabilities is only required where it is available as part of internal reporting. Similarly, groups are also required to provide a certain amount of information if the specified figures are regularly provided to the company's key decision-makers: revenue, financial income and expenses, amortisation and depreciation, share of profit from equity-accounted companies, tax income/expense and significant items with no corresponding movement of cash.

IFRS 8 thus appears to be even less restrictive than IAS 14, which defined the concepts of expenses, income, assets and liabilities specific to each segment and required consistency between these items.

Nevertheless, IFRS 8 is a welcome step compared to IAS 14 in respect of qualitative information, as it requires groups to provide information about their organisational structure, the criteria used to determine operating segments and the types of products and services sold by each segment. Furthermore, the way each segment's profit, assets and liabilities are determined must be explained in the Notes to the Financial Statements.

In conclusion, accounting regulations leave groups considerable latitude as to how they present their results by segment. Groups are not required to standardise the way they divide up their businesses, as this division must reflect the internal view of management. Moreover, the required level of transparency is fairly low.

In order to analyse banking sector practices in light of this regulatory framework, the working group examined segment financial reporting published by a sample of large French banking groups (BNP Paribas, Société Générale, Crédit Agricole and BPCE). It assessed the degree of homogeneity and comparability between business lines presented in financial reports, as well as the level of detail and the quality of the information provided. It also consulted different users of financial information to find out their opinions on the segment information published by large listed French banks and their views on improvements that could be made (section 2).

2. *Although business lines appear to be similar from group to group, reported performance is difficult to compare*

Large French banks are structured into business lines that are similar in shape, but which present some differences

Large French banks operate as universal banks, with a highly diversified range of activities i.e. consumer and SME lending, large-scale infrastructure project financing, collective investment, private wealth management, trading activities and M&A advisory services. As the risk and return profiles of each of these businesses are very different, segment reporting is useful since it enables performance to be compared between different business areas while taking into account different risk profiles.

So-called universal banks traditionally consist of three major business areas: Retail Banking, Asset Management (AM) - encompassing both collective investment and private wealth management - and Corporate and Investment Banking (CIB).

Historically, Retail Banking is the core activity of banks. It includes taking deposits from the public, lending activities and payment services for both personal customers and small businesses.

AM covers four types of business: private banking, asset management, securities services and brokerage. Private banking offers investment solutions and asset management advice to high net worth clients. Portfolio management, whether through collective investment via investment funds or covered by an investment management agreement between a management company and a client, offers investments covering all asset classes to a wide range of investors. The "Securities Services" business includes services designed to support customers wishing to trade on the financial markets: clearing, custody and custodian banking, fund administration and valuation, middle office services, securities borrowing and lending, etc.

CIB covers three major types of activity: corporate banking, which is similar to commercial banking but whose services are offered to institutional and large corporate customers; investment banking; and capital markets. In particular, corporate banking includes investment project financing, corporate acquisitions, structured finance, syndicated lending, capital raising (in the form of either debt or equities) and the hedging of market risk. Capital markets includes the origination of financial products (flow products and derivatives), structuring, trading and research covering all

classes of financial assets, thus offering a wide range of financial products to institutional investors to meet their asset-liability management, risk management and revenue optimisation needs. Finally, investment banking covers advisory services: mergers and acquisitions, debt and equity issuance and restructuring.

On average, large French banking groups dedicate around ten pages of their annual registration documents to setting out their structure by business unit or business line, describing in detail the various activities that fall into each area in accordance with the regulatory requirements to which they are subject as listed companies. This makes for a relatively high level of visibility as to the content of each operating segment. Each major business line is broken down into sub-segments, providing a precise understanding of the scope of each business area and making it relatively straightforward to compare analogous segments between different groups. The business line with the highest number of sub-segments is Retail Banking: networks are broken down geographically (France/foreign countries), and usually correspond to distinct brands belonging to legally independent entities (e.g. Société Générale, Crédit du Nord and Boursorama for SG's French network; Banques Populaires, Caisses d'Épargne, Crédit Foncier and Banque Palatine for BPCE's main domestic networks; the Regional Banks and LCL for Crédit Agricole group; etc.).

The table below shows a summary of the operating segmentation used by each banking group in the sample under review, together with the scope of activities within each business line. The three major operational areas set out above are reflected in the table. Three of the four major banking groups reviewed include a fourth business area in their published information: specialised financial services, which, for all the groups concerned, encompasses consumer lending, lease finance, factoring (activities that traditionally fall into Retail Banking) as well as, depending on the group, other business segments – insurance, equipment finance, securities services (which correspond to different business areas – commercial banking/investment), etc.

Given the heterogeneous nature of these practices, the way banks divide up their main business areas, as analysed above, appears less consistent.

Summary table of business lines within four major French banking groups

	BNP Paribas	Société Générale	BPCE	Crédit Agricole
Retail banking	- French network - Italian network - Belgian and Luxembourg networks - Europe-Mediterranean network - US network - Specialist financing businesses: consumer lending and real estate lending - Equipment finance	- French network - International networks	- French network - Insurance and foreign networks - Real estate finance	- French network - Foreign networks
Asset management	- Asset management - Insurance - Private banking - Online investment and brokerage - Securities services - Real estate services	- Private banking - Asset management - Investor services and online investment - Brokerage	- Asset management - Insurance - Private banking - Private equity	- Asset management - Insurance - Private banking
CIB	- Structured finance - Large corporate finance - Advisory services - Cash equities and commodities - Fixed income, currencies and credit	- Cash equities - FICC (fixed income, currencies and commodities) - Advisory services - Structured finance and large corporates - Legacy assets	- Project finance - Large corporate finance - Capital markets - Credit portfolio management	- Large corporate finance - Equities and equity derivatives brokerage - Fixed income, currencies and credit - Structured finance
Specialised financial services		- Consumer lending - Equipment finance - Insurance - Vehicle fleet leasing and management - IT equipment leasing and management	- Consumer lending - Lease finance - Sureties and guarantees - Factoring - Securities services	- Consumer lending - Lease finance - Factoring

Source: registration documents

The three major business lines, as set out in the registration documents of the major banks under review, do not cover identical scopes, even after carrying out some basic reclassification (i.e. including “specialised financial services” into “retail banking”).

- The insurance business is treated differently by each group: BNPP and Crédit Agricole include it in their asset management divisions, while Société Générale incorporates it into retail banking (via specialised financial services). Within the BPCE group, it is split between more than one business unit: life insurance falls within asset management, while other insurance forms part of retail banking.
- BNPP group and Société Générale each put securities services within their Investment divisions, while BPCE group places it within specialised financial services and Crédit Agricole group partly includes it in CIB.
- Credit risk management in relation to own debt is located within CIB at BPCE (“Credit portfolio management”), while for other groups this activity is a central function falling within the “other activities” business area.
- Legacy assets are recognised within CIB for Société Générale, while BPCE separates them out into its “other activities” segment.
- In its 2011 results by business unit, BPCE classifies two thirds of its private banking activities within retail banking for its French, Italian and Belgian networks.

We therefore note that the segments in question are not completely “watertight”: some activities can be covered by several business areas, and the effective breakdown does not totally reflect the economic reality. Indeed, segmentation is usually the result of a historical legacy, depending on the way the group has evolved over time and is highly dependent on legal structures (i.e. whether or not businesses are formed into subsidiaries). The scope of an operating segment is easier to define if that segment corresponds to an independent legal entity for which reporting is already available. For example, foreign networks usually correspond to independent foreign subsidiaries. While retail banking is most often their primary business, they also carry out peripheral activities that correspond to different business areas. For example, BNL Banca Commerciale, Italy’s sixth largest bank, owned by BNPP group and attached to the retail banking business line, also operates within the large corporate segment as well as in project finance and structured finance.

The “other activities” segment represents a small proportion of combined group revenue

As stated above, in addition to the major operating areas, banks report “other activities”, a non-homogeneous group whose nature is fairly similar across banks: this segment encompasses groups’ central finance functions (asset-liability management) and proprietary asset management (management of the portfolio of equity interests and real estate assets). It may also include various accounting effects, such as revaluation differences on debts arising from own credit risk or revaluation differences on credit derivatives used to hedge portfolios of loans and receivables. It may also include exceptional items arising outside the normal course of business, i.e. resulting from the acquisition of new entities or intra-group restructuring (goodwill, restructuring costs, etc.).

One of the criticisms that can be levelled at IFRS 8 is that it overlooks segments representing less than 10% of combined group revenue, while total revenue from such peripheral activities can, from a regulatory perspective, represent up to 25% of combined revenue. Even though this does not affect strategic activities, these residual activities can, taken together, represent a non-negligible proportion of group revenue and profit. In such a case, a lack of information is unfortunate. In reality, however, this segment does not account for a significant proportion of total revenue in any of the four major French banking groups under review, representing only between zero and 10% of their 2010 revenue, as shown in the table below.

Summary table of "other activities" within the four major French banking groups

	BNP Paribas	**Société Générale**	**BPCE**	**Crédit Agricole**
Activities included in the "Other activities" segment	- Group central functions - Management of portfolio of listed and unlisted investments and sovereign debt on emerging countries - Real estate development and management	- Group central functions - Group's industrial equity and real estate investment portfolios - Debt revaluation differences	- Legacy businesses - Central functions - Contribution from group investments - Impairment losses on goodwill	- Central functions - Management of financial liabilities linked to acquisition of subsidiaries and financial investments - Private equity and other group companies
Proportion of net banking income generated by segment in 2010*	4.8%	0.2%	10.6%	5.1%

Source: Registration documents * Absolute values

A wide variety of internal conventions: another factor of heterogeneity between groups in banking statistics by business line

In addition to this difficulty in comparing business scope, there is a second factor of heterogeneity in the segment information produced by banks: each group has a multitude of internal conventions governing transfer pricing and, accordingly, the allocation of income and expenses between operating segments.

The net revenue by business line includes both the revenue generated by its activities and the return on notional capital allocated to it. Major players in the sector adopt a relatively standardised approach to reallocating income generated by capital: they assign each business area's return on accounting capital to group central functions and allocate each business area a "theoretical" return on capital based on the amount of regulatory capital allocated to it.

Each group uses the same method to allocate capital to each business area based on the risks incurred. This method complies with European solvency requirements (the current Basel II regulations), leading banks to apply a ratio of 7% to their weighted assets. However,

inconsistencies can arise from the way market and operational risks are covered by regulatory capital; as either the "standard approach" or "advanced measurement approaches" may be used for the calculation, with the choice varying by group and operating entity. Furthermore, each group may use its own specific methodology to calculate its weighted assets: weighted credit and counterparty risk exposure is multiplied by internal ratings derived using either the "standard approach" or "advanced measurement approaches", depending on the entity or the activity of the group in question.

Each group is free to set its rate of return on capital. For example, one of the registration documents analysed stipulates that "the rate of return is determined each year by reference to the estimated return on group equity during the period".

With regard to the allocation of expenses, business units' management costs include their direct costs, overheads and the share of group overheads allocated to them, with the latter, as a rule, allocated across virtually all business units.

In addition to these costs, each group's central function also allocates a share of the group's cost of funds. This cost appears to be a decisive factor in determining the contribution to group profit made by each profit centre. The French banking sector is characterised by a highly centralised approach to managing the allocation of funding. This approach aims at controlling the main financial risks and optimising the relationship between return on capital and the level of risk incurred (the role of asset-liability management). The conventions setting up funding costs' allocation (average cost of funds, marginal cost, etc.) can vary greatly across groups. They also take into account the maturity profile of each group's assets.

Banks disclose very little information about their internal conventions; they generally state that transactions between operating segments are settled according to market conditions. Opportunity interest rates – i.e. the interest rates at which operating units borrow from or lend to their finance divisions to fund themselves or invest their surplus cash – are determined by each group's asset-liability management unit. In theory, they should reflect market prices – i.e. the interest rates the business unit in question would have to pay if it raised funds directly from the markets rather than via the internal unit responsible for balance sheet management. Internal pricing policy does indeed take into account the external funding costs incurred by a bank, which are passed on to each different unit. However, such policy is primarily an internal steering tool that is used to manage commercial strategy by influencing the pricing of products sold to customers.

These internal conventions – which are at the core of banks' commercial strategies and remuneration policies – are thus shrouded in a high degree of opacity. Internal transfer pricing is negotiated between segments and is driven by power struggles, with each segment's profitability playing a decisive role in determining both variable remuneration and bonuses. This makes it a sensitive subject.

These conventions differ from group to group and may diverge from normal market conditions. An oft-quoted example is the case of UBS, where a "subsidy" from the bank's asset management division enabled its CIB division to enter into huge positions (with the bank drawing on its broad deposit base to fund trading activities at production cost). In France, similarities between business models lessen the possibility of such distortions, which would cause profitability indicators to reach unusual levels. Indeed, the conventions used cannot, in theory, remain arbitrary or artificial over long periods: if a segment makes a loss or an unusually high profit for several years, one might infer that the allocation of capital or costs is incorrectly calibrated. Furthermore, such a situation would be liable to result in external customers being charged very different prices by each bank – something that would be untenable in a competitive environment.

Internal methodological differences thus make it tricky to compare performance between the various banks' business lines, even though the conventions adopted cannot be radically different from one group to the next.

Analysing business line performance over time within a given group is also difficult

The key principles and conventions which govern the way a given group allocates performance between business lines are generally fairly stable over time. In theory, this should make it possible to consistently monitor a given group's activities over time. However, used as an internal steering tool, transfer pricing is driven by management decisions, which in turn depend on commercial policy and group strategy. Furthermore, regulatory changes can sometimes trigger methodological developments. For example, most groups raised their capital allocation ratios to business lines from 6% to 7% in anticipation of stricter prudential requirements: BNPP and Crédit Agricole did so in 2008, while Société Générale and BPCE followed suit in 2010.

Moreover, given the growing number of mergers and acquisitions in the banking sector since the start of the crisis, which has substantially changed both the size and business areas of banking groups, it has become very difficult to analyse changes within a bank, using a constant structure and over a medium-term period. For example, BNPP's takeover of a bank with a significant retail banking business (Fortis) and the merger of Caisses d'Épargne and Banques Populaires have boosted the weighting of retail banking within each of these groups.

The crisis has also acted as a catalyst for major restructuring within groups. Such restructuring generates significant one-off costs, thus skewing any analysis of each business area's normal business activities.

The more restrictive nature of the new capital and liquidity rules introduced by Basel III has also forced banks to rethink their business models and adjust their business scope: some non-core businesses have been jettisoned, and banks have refocused on their strategic activities. This reassessment has been driven by the level of capital required by each activity, as well as the amount of liquidity that it consumes or generates.

In addition, even assuming a constant overall business scope and normal circumstances, groups regularly adjust the content of the activities undertaken by each business unit, either – as is usually the case – when management changes take place (every four of five years) or by decision of the existing management team. Several recent examples are worth noting:

- Within Société Générale group, Boursorama, which was previously attached to the group's asset management business, was merged into the "French retail banking" business with effect from 1 January 2010.
- Société Générale transferred its alternative investment platform, Lyxor Asset Management, from its investment business line to its CIB division following the creation of Amundi, an entity that arose from the merger of CAAM and SGAAM.
- In 2010, two entities within SGAM, which were previously attached to the "other activities" segment, joined the CIB division.

In their financial reporting, groups restate prior year information to reflect segment changes; however, these changes make it impossible to build up a consistent historical series.

3. The scope of segment financial reporting varies from bank to bank

A relatively large amount of income statement information is available

As IFRS 8 requires segment information to be provided in respect of each period for which an income statement is presented, large banks provide information about key income statement items both in their annual registration documents and quarterly reporting.

The key published indicators and the resulting intermediate operating totals are as follows:

Income statement items	Intermediate operating totals
Net revenues - General operating expenses	
	= Earnings before interest and tax
- Cost of risk	
	= Operating income
- Non-operating items	
	= Pre-tax income
- Tax expense	
	= Net income
General operating expenses / Net revenues	
	= Cost/income ratio

Segment reporting by banking groups on their income statements is not limited to providing a profit indicator (which is the minimum requirement under IFRS 8), but consists of presenting key income statement items ranging from revenue to profit generation.

The banks within our sample appear to publish a relatively standard level of income statement information by major business line (see summary table above), though with a few differences: for example, only the BNPP and SG groups publish a breakdown of net revenues into net interest income and fees, though they only do so for the French retail banking segment; meanwhile, BNPP only publishes pre-tax profit by business line, while each of the three other groups also reports profits net of tax.

The level of detail provided varies by business line. The retail banking segment offers the highest level of sub-segment detail, while the presentation of other business lines varies more widely from group to group: the indicators published by BNPP and SG for their asset management businesses each cover three sub-segments, while BPCE and Crédit Agricole publish only aggregate information for this business line. The BNPP and Crédit Agricole groups also each report on two sub-segments within their CIB divisions.

Annual and quarterly income statement information provided by four major French banks

	BNP Paribas	Société Générale	BPCE	Crédit Agricole
Indicators available by business line				
Net revenue, of which:	✓	✓	✓	✓
Net Interest income	✓ (*)	✓ (*)	-	-
Fee income	✓ (*)	✓ (*)	-	-
Management fees	✓	✓	✓	✓
Earnings before interest and tax	✓	✓	✓	✓
Cost of risk	✓	✓	✓	✓
Operating income	✓	✓	✓	✓
Non-operating items, of which:	✓	✓	✓	✓
Net gains and losses on other assets	-	✓	✓	✓
Share of net profit from equity affiliates	✓	✓	✓	✓
Changes in goodwill	-	✓	✓	✓
Income before tax	✓	✓	✓	✓
Tax expense	-	✓	✓	✓
Net income	-	✓	✓	✓
Cost/income ratio	✓	✓	✓	✓
Number of sub-segments for which information is provided				
Retail banking	7	7	4	3
Asset management	3	3	0	0
CIB	2	3 (**)	3 (**)	2
Specialised financial services		5 (**)	0	0

(*) Data available for the French retail banking sub-segment only
(**) Sub-segment information for the net revenue indicator only
Source: annual registration documents and quarterly financial reports

Balance sheet information by segment is less precise and varies from group to group

Under IFRS 8, banks and other entities are required to provide relatively basic balance sheet information by segment. This is limited to total assets and liabilities, where such information is provided to the company's key decision-makers.

Published information is therefore generally limited to total assets, liabilities (excluding equity) and allocated capital. Asset and liability information is reported annually (in the registration document), while allocated capital is disclosed quarterly.

A sub-segment breakdown of this segmented asset and liability information is reported less frequently than is the case for income statement information. For example, BNP Paribas only segments its assets and liabilities into sub-segments for its retail banking business, providing only aggregate information for its other business lines.

SG and BNPP also report their risk-weighted assets and credit exposure for each major business line on a quarterly basis.

Every group in the sample provides more detailed sub-annual information on retail banking: outstanding loans and deposits, broken down by purpose of loan (consumer/real estate), by type of deposit (overnight deposits/term deposits) or by customer type (personal/business).

Balance sheet information by business line disclosed by the four major banking groups

	BNPP	SG	BPCE	CA
Total segment assets	✓	✓	✓	✓
Total segment liabilities	✓	✓	✓	✓
Capital allocated to segment	✓	✓	✓	✓
Segment outstanding loans	✓	✓	-	-
Segment risk-weighted assets	✓	✓	-	-
Total retail banking outstanding loans and deposits	✓	✓	✓	✓

II. The diversity of user needs and the limitations encountered by information's producers

The working group conducted a series of interviews with a wide range of users of financial information produced by banks (banks, rating agencies, management companies, authorities, representatives of professional and retail investors, etc.) in order to compare their analytical approaches, issues and concerns in relation to information published by banks on their business lines (see interview notes in the Appendices).

Following an analysis of a sample of four large French banks and discussions with various experts in analysing bank financials and accounts, two types of needs emerged:

- the need for greater consistency between business lines to facilitate comparisons;
- the requirement for more information about business lines, particularly as regards information on stock data – the area where information was most often felt to be lacking

2.1. A need for greater comparability of information by business line

The lack of consistency in business line information provided by banks limits the potential usefulness of such information and can lead to flawed analysis

From both a microeconomic and a macroeconomic perspective, the ability to compare segment information published by banks is a critical factor in the relevance of such information, whatever the purpose for which it is used (analysis/research/investment); an institution's financials only making sense when analysed in their broader context. Indeed, investment and arbitrage decisions are based more on the relative than on the absolute performance of the securities under consideration, which presupposes that the indicators in question are comparable. Although the banking analysts we questioned were aware of this issue, they put up with it without necessarily making any adjustments. Indeed, they work with very short production deadlines (a few hours for analysts who have to make investment recommendations to fund managers once results have been published), and such adjustments cannot be done without incurring additional costs.

The media also generally make use of this information as published: since banking groups tend to apply the same labels to their business lines, it is tempting to directly compare published figures. For example, in its 17 February 2012 edition, the AGEFI compared operating profit for the retail banking and CIB segments published by the Société Générale and BNP Paribas groups (see below). As already mentioned, BNPP group is structured into three major divisions (retail banking, investment and CIB), while Société Générale group has a fourth division, "Specialised Financial Services", which, in particular, encompasses consumer lending, insurance and equipment finance. By nature, these latter activities fall into retail banking (at BNPP, they form part of the retail banking segment). In order to compare BNPP's and Société Générale's retail banking segments on comparable scopes, one would therefore have to add the latter's profit from Specialised Financial Services (EUR 768 million in 2011) to its retail banking profit, thus increasing Société Générale's retail banking profit by 26%. Such an adjustment would not change the overall diagnosis, since there remains a significant divergence between the two groups' performance. However, this situation could have led to flawed conclusions had the two institutions' performance been closer.

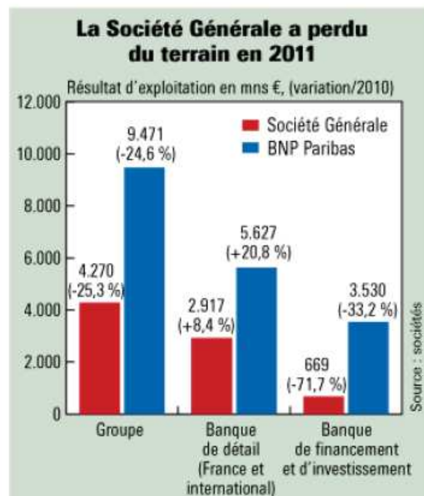
La Société Générale cède du terrain

La banque d'investissement n'est plus un relais de croissance. Les exceptionnels ont pesé

par ANTOINE LANDROT

Comparaison n'est pas raison. Mais le fossé n'a cessé de se creuser entre la Société Générale et BNP Paribas ces dernières années. Alors que les deux banques étaient encore au coude à coude en 2005, la comparaison des résultats 2011 parle d'elle-même. Les revenus totaux publiés hier par la Société Générale (25,6 milliards d'euros, en baisse de 2,5%) dépassent de peu ceux des seuls réseaux de détail de sa rivale, gonflés par les acquisitions de l'italienne BNL et de Fortis Banque en Belgique et au Luxembourg en 2006 et 2008.

Suite p.11



Source: AGEFI, 17 February 2011 edition

Reported information cannot be used as published for the purposes of analysing aggregate data: business scopes are dissimilar, and this prevents relevant macroeconomic analysis. For example, some groups allocate an activity such as local government financing to the retail banking segment, while others place it in CIB. Given the low commercial margins and the cost of risk associated with this type of activity, its allocation effective choice has a non-negligible impact on the risk/return profile of the segment chosen.

The ACP publishes aggregate figures in its annual report on key figures in relation to the French banking and insurance market (see Section 3). This involves significant painstaking work to restate data. This work draws on the supervisory authority's quite unique detailed knowledge of the institutions in question.

The segmentation of banks' business areas is the subject of international debate

The financial crisis has revived the debate on the appropriateness of separating retail banking and investment banking businesses, assuming that depositors and, more generally, the economy as a whole, should not have to accept the consequences of any losses incurred on trading activities. Even if in the case of universal banks, losses incurred by CIB could to be absorbed by revenue generated by retail banking; in extreme cases, such losses may cause the institution in question to go bust and thus endanger depositors' savings (in excess of a threshold amount protected by the deposit guarantee fund). Furthermore, losses incurred by certain high-risk banking activities resulted in a crisis of confidence which drove banks' funding costs up, making it harder for banks to obtain funds and thus risking a negative impact on the financing of the economy.

The principle of separating banks' business areas is inspired by an American law, the Glass Steagall Act, which was introduced in 1933, widely challenged in the 1980s and ultimately repealed in 1999. The Act, which was designed to protect retail deposits, provided for the creation of a deposit insurance fund – the Federal Deposit Insurance Corporation – and for strict separation between commercial banks and investment banks. It was introduced in the context of an

international economic crisis and a stock market collapse: fearing that their deposits might suffer the consequences of heavy losses incurred by banks, increasing numbers of depositors withdrew the funds they had deposited into their accounts. A deposit guarantee fund was created to reassure savers and put an end to this bank run, which was liable to trigger a string of bank failures. Alongside this guarantee scheme, banks were required to operate in one of the following two areas; it was prohibited for any bank to simultaneously operate in both areas, and existing banks had to opt and withdraw from one of the two:

- commercial banking, i.e. lending and deposit activity
- investment banking, i.e. trading in securities

Commercial banks managed household funds; as such, they had to be able to lend money under the most secure conditions. Investment banks, on the other hand, which raised funds on the markets, could engage in higher-risk activities. For more than 60 years, this legislation would shape the US banking landscape into two major categories of banks: commercial banks and investment banks. In the long term, it has limited the size of US banking groups which, in spite of the size of the economy in which they operate, remain smaller than their European and Asian counterparts.

The principles that inspired these regulations came back to the fore with the advent of the financial crisis. In December 2009, various US senators from both the Democratic and the Republican parties, together with former Federal Reserve governor Paul Volcker, advocated the idea of reviving the Glass Steagall Act by reinstating the original law (the 1933 Banking Act). The "Volcker rule" reforming the US financial system (Dodd-Frank Wall Street Reform and Consumer Protection Act), which was enacted in July 2010, was partly inspired by this proposal. It aims to prohibit banks that receive retail deposits from engaging in certain investment banking activities: proprietary trading and holding equity stakes in pension funds and private equity firms. However, the law differs from the Glass Steagall Act in that it does not directly institute a separation between commercial banking and investment banking activities.

The Vickers report, published in Great Britain on 12 September 2011, has revived discussions in Europe. The report aims to avoid governments being forced to provide further financial assistance to failing banks in the event of another financial crisis, by recommending that their retail banking activities be separated from their inherently more risky investment banking activities. This recommendation arises from the fact that a government's obligation to assist defaulting retail banks under the terms of public deposit guarantee schemes, which aim to protect depositors and ensure the continuing financing of the economy, would give rise to the risk of moral hazard for universal banks. The latter, whose CIB divisions are backed by their commercial banking arms, would be encouraged to take excessive risks on their trading activities. Unlike the Glass Steagall Act, however, the report did not recommend that the universal bank model be abandoned (i.e. total separation of retail and investment banking activities), but that the two areas be "ring-fenced" by legally housing them within separate subsidiaries with independent governance arrangements (i.e. separate boards of directors). Retail banks are prohibited from engaging in certain activities: derivatives trading (except for hedging purposes), trading in securitisation vehicles and lending to financial companies. Conversely, certain investment banking activities, such as project finance and asset management, can also be undertaken by retail banking divisions. Furthermore, the Vickers Commission's proposals also covered capital adequacy, the maximum allowed leverage and safety buffers ("primary loss absorbing capacity"). The required ratios depend on the size of each individual bank. The UK Government officially endorsed these recommendations in December 2011, and legislation to this effect is expected to be introduced by May 2015, for implementation by no later than 2019.

For its part, the European Commission has formed a working group on the subject, which is expected to deliver its report in September 2012. The group has nine members and is chaired by Erkki Liikanen, Governor of the Bank of Finland. The group's mandate is to "consider in depth whether there is a need for structural reforms to the EU banking sector or not and to make any

relevant proposals as appropriate, with the objective of establishing a safe, stable and efficient banking system serving the needs of citizens, the EU economy and the internal market".

The report also triggered debate in France in the context of the presidential campaign, with several candidates proposing various more or less radical measures to separate the activities of universal banks.

Opponents of such a categorisation – mainly representatives of the banking profession[1] point out that two major victims of the crisis, UK retail bank Northern Rock and US investment bank Lehman Brothers, each operated within only a single business area, while those banks that proved resilient were universal banks such as French banks and HSBC. They consider that the global consequences of the collapse of Lehman Brothers showed that the realisation of a systemic risk affects all banks, irrespective of their activity, and that ring-fencing would not limit contagion between the financial sector and the real economy.

They also claim that, in practice, activities would be difficult to separate given the widespread use of crossed services (e.g. CIB support for retail banking in connection with hedging fixed rate and foreign currency lending) and that such separation would reduce economic efficiency, as universal banking enables substantial synergies between the various business areas thanks to broad distribution networks providing access to integrated services.

In response to these last two arguments, partisans of ring-fencing counter that such synergies mainly relate to the distribution of services rather than their production, and that retail banks could continue to distribute hedging and investment services produced by specialised banks.

A less restrictive separation regime might consist of requiring banks to house their business lines in separate subsidiaries while regulating the content of those subsidiaries. This would solve the problems of differences in business scope and data consolidation. However, reference to the measures recommended in the Vickers report suggests that, in practice, it is difficult to separate business areas clearly, since they are not entirely watertight and cover non-homogeneous scopes.

[1] See **interview with FBF Chairman Frédéric Oudéa in the 20 December 2011 edition of *Les Echos*: "It is unrealistic to think that there are healthy activities on one hand and risky activities on the other:** separating retail banking and investment banking activities, with the laudable intention of limiting systemic risk and thus avoiding potential recourse to taxpayers' money, is not a good solution. Examples demonstrate this: most of the banks that have collapsed were not very diversified. Conversely, French banks, with their diversified universal banking model, have proved highly resilient to the crisis. Thanks to the stable revenue streams delivered by their business model, they have not cost the French taxpayer a penny. Separating activities and forcing operators to specialise would not in itself provide increased protection. […] The best protection lies first and foremost in high-quality risk management and effective regulatory supervision."

If business areas cannot be separated, segmentation should be homogenized

In theory, cost accounting should make it possible to group together homogeneous areas of businesses within a single analytical framework and to harmonise the segmentation used by banking groups. Banks apply very detailed segmentation by profit centre for cost accounting purposes. This data feeds into the segment information that is monitored and published by each group. For example, while BNP Paribas identifies approximately 25 business areas for cost accounting purposes, external reporting covers only around 15 of these. The provision of more granular accounting information by business line would make it possible to reconstruct segments in a way that is better defined and more consistent.

In particular, the banking analysts interviewed by the working group mentioned the CIB segment's issue: a major grouping combining very different business areas whose sub-segmentation is not consistent from group to group. This makes it very difficult to compare performance across the various different activities that form this business line. For example, BNP Paribas combines advisory services with investment activities, while other groups gather advisory services with financing activities. The insufficient granularity of published information makes it impossible for outside observers to make the adjustments needed to construct comparable sub-business lines. CIB segmentation appears, however, to be more standardised elsewhere in Europe and in the United States; with advisory services and financing activities on one side, and, on the other side, trading activities, which, in turn, are usually split in two depending on product type: equities versus other products (fixed income, currencies and commodities).

However, the disclosure of more granular analytical data, so as to alleviate the lack of homogeneous segmentation, would give rise to significant difficulties.

Significant limitations encountered by producers

Attempts to introduce more homogeneous segmentation would face numerous obstacles at both an operational and a conceptual level.

Requiring banks to adopt a standard analytical framework would imply additional reporting costs, since the banks would, at the same time, be required to continue to publish segment information in line with their internal segmentation so as to comply with international accounting standards. Furthermore, this additional reporting would be out of step with groups' operational management, giving rise to an artificial monitoring process that would be difficult to maintain over time and whose economic relevance could not be guaranteed. Moreover, IFRS 8 was designed to avoid this kind of pitfall.

Neither are supervisory authorities able to carry out the work required to achieve homogeneous segmentation based on the cost accounting data by profit centre provided by banks: the scale of the adjustments required would be too cumbersome and expensive.

Finally, such an approach would not entirely overcome the issue of comparability of business lines between banks:

- Some activities specific to each bank would not fall within the common core of predefined segments.
- Inconsistent internal transfer pricing rules skew business line performance comparisons between different banks.

2.2. A need for additional information on business lines

Identifying the contribution of each business line: a factor in assessing banks' performance and their degree of vulnerability

The working group met with three types of users of financial information published by banks: credit analysts, equities analysts and rating agency analysts. These professionals, who make day-to-day use of accounting and financial information produced by banks, considered indicators by business line as being important for identifying those activities that generate performance and factors that give rise to vulnerability. They represent valuable tools for analysing the quality of banks' business models and their diversification in terms of both activities and geography.

Rating agencies take into account the nature of a bank's business model when assessing the stability of its earnings and its risk exposure: a bank whose retail business is dominant will, on the face of it, be assumed to be more stable than one whose main business area is CIB. Moody's recently incorporated this dimension into its analysis by defining four criteria to identify institutions that undertake substantial trading activity and are therefore more exposed to the risk of a downgrade within the next three months:

- annual fees for financial advisory services and in relation to the primary equity and bond markets in excess of USD 1 billion;
- annual trading revenue in excess of USD 5 billion, with positions of at least USD 100 billion;
- net exposure to derivatives in excess of USD 25 billion;
- VaR (value-at-risk)[2] in excess of USD 50 million.

Not all banking groups publish this information. French banks provide little information on the sub-divisions making up their CIB divisions. Yet, this segment encompasses very different activities in terms of risk and performance (e.g. advisory services versus trading activities). As a result, it is not currently possible to strictly measure all the major banks' trading activities, except for rating agencies, which have access to this type of information by virtue of their special status, as well as additional information obtained under bilateral agreements.

In spite of their differing perspectives, those professionals interviewed by the working group expressed converging opinions, believing that business line information published by banks is, on the whole, satisfactory in respect of income statement information (though with some room for improvement) while clearly needing improvement in relation to balance sheet information.

A need for a more detailed revenue breakdown within each segment

Quarterly results tend to be aimed more at shareholders, and therefore focus on short-term performance. Quarterly reports break key income statement items down by operating division so that the performance of different business lines can be analysed. Furthermore, published information on the amount of capital allocated to each segment can be used to calculate profitability ratios. This information is highly valued by equity analysts, who use it to produce profitability projections for the various business lines. However, some income statement information is considered insufficiently detailed. This is the case of the different types of earnings that make up net revenue: intermediation revenue and billed services. French banks do not make this distinction for all segments, with the exception of retail banking, in which interest income is generally separated out from fee income.

[2]A risk indicator that measures the maximum loss at a 95% probability on a given day.

The “other activities” segment is characterised by its relative opacity. While information is provided on the content of this segment, published information is aggregated in line with IFRS 8, which does not require activities to be broken out separately unless a segment exceeds a given level of contribution to revenue or profit (10%). While this segment’s weighting within major French banks is relatively low (see table in section 1), it nevertheless appears to be highly heterogeneous and volatile. It would therefore be interesting to have a detailed understanding of the revenue it generates. BNPP serves as a useful illustration: its “other activities” division posted a EUR 1.3 billion loss in the first nine months of 2011 after generating a EUR 1.2 billion profit over the same period in 2010. To make it easier to interpret, published information on the performance of this segment should be broken down into the various types of constituent activities:

- asset-liability management
- proprietary activities (financial investments, real estate assets, etc.)
- accounting effects

A request for more transparent balance sheet information by business line

Given their long-term perspective, credit analysts are traditionally more interested in a group’s balance sheet and financial strength. The crisis, the shortage of liquidity and the increased funding costs have heightened their interest. This information can be used to assess asset quality, non-performing asset coverage ratios (provisions/doubtful debts) and funding and liquidity positions. Information on these subjects by business line would help provide a better understanding of each group’s balance sheet as a whole.

In relation to asset quality, the cost of risk – as measured by the amount of provisions for credit losses and losses not covered by provisions – is generally widely available on a segmented basis. Conversely, doubtful debt exposure by segment is much harder to obtain from French banks, most of whom publish only a consolidated amount or the amount of associated provisions.

While the registration document contains more balance sheet information, it is little used by analysts, who have to produce investment recommendations within very short timescales (a few hours after results are published). This document nevertheless remains the leading source for observers, who can use it to carry out in-depth analysis of the annual financial statements and find, in particular, details of funding structure and risk management.

Credit analysts highlighted the lack of business line information on liquidity and funding, as well as the fact that key information such as total loans and deposits is not always available by operating division, with additional balance sheet information usually presented at consolidated level. For example, the loan-to-deposit ratio, a standard liquidity ratio that is widely used in banking, cannot be calculated for all business lines using published information as it currently stands.

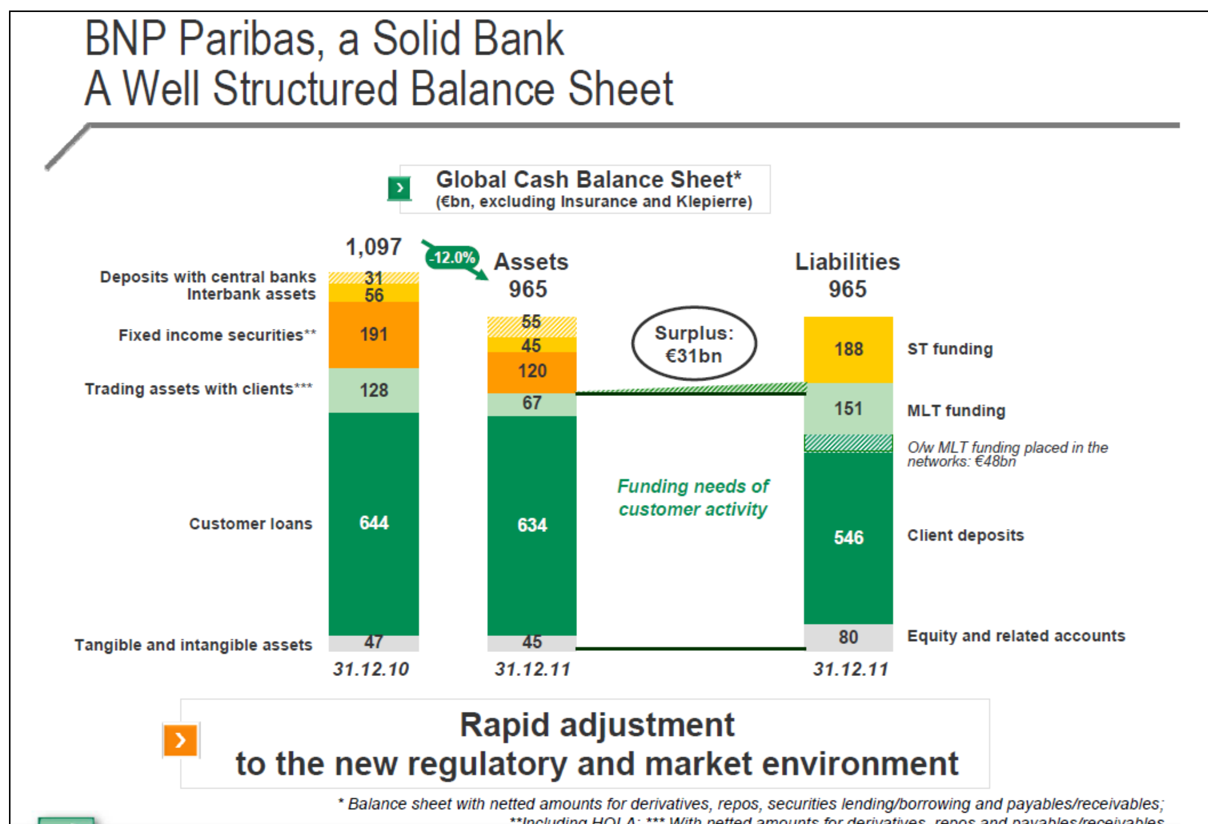
This means that the liquidity position can only be assessed at group level. Since last summer, banks have been making an effort to produce liquidity indicators by business line. However, there is still room for improvement in this area: the duration of assets and liabilities is only available on an annual basis in the registration document, and information on very short maturities is not sufficiently detailed (for example, there is no information on maturities less than three months). Thus, it is not currently possible to estimate future LCRs (liquidity coverage ratios),[3] while calculating NSFRs[4] is a difficult exercise that relies on a number of assumptions.

BNPP’s Finance department specified that the group had recently introduced an indicator measuring the balance between sources and uses of funds (“Net Funding Balance”) within each

[3] Liquidity Coverage Ratio: the stock of high-quality liquid assets divided by net cash outflows over the following 30 days must be greater than 100%.

[4] Net Stable Funding Ratio = stable, long-term funding divided by stable assets must be greater than 100%.

business area to help it manage the amount of liquidity consumed by its various divisions. However, this information is intended for internal use and is only published in financial reports at group level (see report excerpt below).



Source: investor presentation (Q4 and full year 2011)

Some European banks stand out as models in terms of financial reporting, with our interviewees making numerous references to them. Paradoxically, the banks held up as examples were those that had been hardest hit by the crisis, such as ING and RBS.[5] The Dutch bank publishes a very detailed balance sheet by business line and sub-segment every quarter. Similarly, since the British Government became its majority shareholder, RBS has been considered a model of financial reporting. Its quarterly investor presentation is accompanied by a more than 150-page document (not counting appendices) that provides very detailed and standardised information on the bank's seven business lines, with a particular focus on asset quality. This relative abundance of information is explained, in particular, by the fact that these institutions are under restructuring and severe market pressure, thus forcing them to be transparent. Similarly, Santander, which is under market scrutiny due to the prevailing macroeconomic environment in Spain, is trying to satisfy investors by issuing more comprehensive financial reporting.

The business line information published by these European banks, which set the benchmark for transparency, could serve as an inspiration for French banks as regards reporting by business line.

The working group identified a few items of segment information published by certain European banks but not usually disclosed by French banks (or at least not systematically for all business lines).

[5] http://www.investors.rbs.com/download/announcements/announcement_23feb2012.pdf
http://www.ing.com/Our-Company/Investor-relations/Results-Interim-Accounts/Latest-Quarterly-Results.htm

Income statement	Balance sheet
Net interest income	Weighted assets
Fees and other income	Outstanding credit
Interest margin	Outstanding deposits
Employee expenses	Loan-to-deposit ratio
	Outstanding non-performing loans
	Provisions
	Coverage ratio

The interviews conducted by the working group were dominated by a recurring theme: banks' funding structures and liquidity positions. On the face of it, French banks do not publish this type of information by business line. Citigroup presents an asset and liability structure for each of its divisions (see box below), making it possible to identify funding surpluses and requirements at segment level, though it does not provide any indication as to the maturity of its resources and assets. This information can, however, be used to identify the bank's various sources of funding (personal/corporate deposits, interbank funding, debt, etc.) and analyse the stability of each division's funding.

A more ambitious indicator would be a funding structure by business line combined with a liability maturity schedule (e.g. as a percentage of total funding). Assets could be broken down by maturity (e.g. less than three months, less than one year, one to five years and more than five years). This type of information would make it possible to identify which business areas consumed and contributed the most liquidity. The amount of assets eligible for refinancing operations by segment could also supplement the information on banks' liquidity profiles by business line.

Another useful piece of information would be the funding cost by business line. This would throw light on how groups pass on their finance costs and take this factor into account when assessing performance. In combination with the funding structure, such an indicator could be used to calculate an average cost of funds by business line.

Segment reporting by US banks

US companies set the benchmark in terms of transparency and financial reporting; this was confirmed by the banking sector analysts we interviewed, who cited the very detailed quarterly information published by US banks.

US listed companies and those whose balance sheet or number of shareholders exceeds a certain threshold (balance sheet assets of USD 10 million or more or 500 or more shareholders) are required to publish quarterly and annual reports which they must submit to the regulatory authority, the Securities and Exchange Commission (SEC). These documents are known as the 10K (annual report), 10Q (quarterly report) and 8K (an ad hoc report that must be submitted upon the occurrence of various significant events predefined by the SEC).

The 10K report is the equivalent of the annual registration document in France. The distinctive feature of the quarterly report submitted by US companies (the 10Q) is that it contains virtually the same amount of information as the annual report, the only notable difference being that the financial statements are unaudited. These quarterly reports are very substantial (containing several hundred pages) and contain very detailed information on the balance sheet, income statement, risk management, valuation methods, asset quality, etc.

Reports are centralised by the SEC, which makes them available to the public via a shared

platform managed by it.

In terms of business lines, US banks are subject to more or less the same rules as French and European banks.

As stated in section 1, SFAS 131, "Disclosures about Segments of an Enterprise and Related Information", which entered into force in 1998, is very similar to IFRS 8, which was largely inspired by the former. Segment information, based on internal decision processes, is only required for indicators that are provided to management: "an operating segment is a component of a business, for which separate financial information is available, that management regularly evaluates in deciding how to allocate resources and assess performance". The minimum required information is limited to each segment's profit and total assets. The quantitative thresholds above which a segment must be presented separately are also the same as for French banks.

In practice, an analysis of financial disclosures published by two major US banks[6] (Bank of America and Citigroup) shows that they publish segmented income statement information that is comparable to that published by major French banks, though with income further broken down into net interest income and non-interest income.

They also publish more income information by sub-segment – for example, Bank of America publishes a breakdown of CIB revenue between the following:

- trading revenue
  - from FICC (fixed income, currencies and commodities)
  - from equities
- fees
  - from advisory services
  - from equity issues
  - from debt issues
- investment banking revenue

As regards balance sheet information, the two major US banks publish their total assets, loans, deposits and economic capital allocation for all operating segments on a quarterly basis (see table below).

Global Commercial Banking

	Three Months Ended September 30	
(Dollars in millions)	2011	2010
Net interest income (1)	$ 1,743	$ 1,853
Noninterest income:		
Service charges	563	589
All other income	227	191
Total noninterest income	790	780
Total revenue, net of interest expense	2,533	2,633
Provision for credit losses	(150)	556
Noninterest expense	1,018	1,061
Income before income taxes	1,665	1,016
Income tax expense (1)	615	372
Net income	$ 1,050	$ 644
Net interest yield (1)	2.65%	2.61%
Return on average equity	10.22	5.95
Return on average economic capital (2)	20.78	11.52
Efficiency ratio (1)	40.19	40.31
Balance Sheet		
Average		
Total loans and leases	$ 188,037	$ 199,320
Total earning assets	261,422	281,740
Total assets	299,542	318,404
Total deposits	173,837	148,605
Allocated equity	40,726	42,930
Economic capital (2)	20,037	22,223

[6] The sample was deliberately small as a result of short report submission timescales. We selected two universal banks to facilitate comparisons with French banks.

Source: Bank of America 10Q – CIB segment

Citigroup publishes a detailed balance sheet for each of its divisions, making it possible to identify any mismatch between each division's uses and resources, and thus intra-group funding patterns.

As regards asset quality, the two US banks provide detailed information on outstanding non-performing loans, credit losses and provisions set aside for various types of loan portfolio (personal/corporate, residential property, commercial property, credit cards, student loans, etc.). Although the level of detail is very high, information is set out by product or customer type rather than by segment.

In spite of this wealth of information, anyone seeking to use segment information produced by US banks is also faced with the issue of comparability of business scope: segments, as presented, are difficult to compare. Bank of America group is structured into six divisions: three for retail banking (Deposits, Card Services and Consumer Real Estate Services), two for CIB (Global Commercial Banking and Global Banking and Markets) and one for asset management (Investing and Wealth Management). Citigroup is structured into three major business lines: retail banking (Regional Consumer Banking), CIB (Institutional Clients Group) and a heterogeneous third division (Citi Holdings) encompassing businesses intended for sale, including in particular the asset management division, certain retail banking businesses and a portfolio of legacy assets.

This example also highlights the effects of structural trends in banking groups, particularly in a crisis period, and the limitations inherent in any cross-cutting analysis of bank business lines, whatever the country in question.

Limitations referred to by producers

Since the onset of the crisis, French banks have reacted swiftly by increasing their financial transparency and providing more detailed information in response to market concerns. After focusing on exposure to complex structured products and sovereign debt, observers' attention has now shifted to banks' US dollar funding needs and the amount of assets eligible for monetary policy operations. Thus, the information requested by the market evolves quickly, while banks, as information producers, need time to improve their financial reporting.

For example, representatives of banking groups interviewed by the working group referred to a maturity issue (lack of experience) in the monitoring by banks of liquidity data for each business line. Such a relatively new issue requires new indicators to be put in place. Such indicators have been deployed across BNP Paribas group since 2010, and the group representative considered that an appropriation period was needed before they could be published by business line.

Another argument put forward: some information of this type may not be relevant. For example, in CIB, balance sheet information is difficult to interpret as it is very fluid in this segment and snapshots are not meaningful.

Producers of financial information also shared their difficulties in publishing information by business line on outstanding non-performing loans and the level of provisions as a result of difficulties in reconciling such information with group-level data. There would be a risk of publishing incorrect information.

Meanwhile, the disclosure of funding cost indicators by business line entails confidentiality issues: opportunity interest rates are an internal management tool, and publishing such data would amount to revealing a group's commercial strategy to its competitors.

Finally, the flip side of the advantage, in terms of transparency, of publishing a large volume of information is that it can end up being counter-productive by drowning the most relevant items in a sea of information that is not always of much interest to financial analysts. Furthermore, it entails the risk of encouraging some users to draw erroneous conclusions. Given the speed at which rumours circulate, this could be harmful both to individual banks and to the sector as a whole. The wealth of information contained in US banks' quarterly reports is subject to this type of drawback, as are – according to some of the analysts we interviewed – the very substantial annual registration documents published by French banks.

III. Outlook and recommendations

3.1. An international will on the part of regulatory authorities to increase transparency

A will that has been reaffirmed since the crisis began

One of the prerequisites for restoring and maintaining a climate of confidence on the financial markets is transparent financial reporting. Since 2008, regulatory authorities have taken both international and domestic action in this area. These efforts have to some extent been renewed in response to the sovereign debt crisis.

The Financial Stability Board (FSB) will continue its actions to further improve the quality and consistency of financial reporting

In April 2008, the FSB published a report calling on financial institutions to step up disclosures on their exposure to structured credit products – including CDOs – and securitisation vehicles. The report also set out best practice as regards the content and presentation of information and called upon institutions to align their financial reporting with this best practice.[7] In France, this best practice gave rise to the publication of indicative models of financial information jointly drawn up by the banking industry and regulators (the ACP and the AMF). Banks were encouraged to use these models for their financial reporting from 30 June 2008 onwards. The models were recently simplified in response to a reduction in French banks' exposure to these so-called sensitive assets.

In its Peer Review Report published in March 2011,[8] the FSB noted that, while the risks faced by banks had changed significantly since 2008, there was still room to improve information in some areas. The FSB is planning future action to ensure that published information is aligned with risks as well as recommending that public and private players work together to jointly develop best practice covering, in particular, restructured loans, sovereign exposure and liquidity.

The European Banking Authority (EBA)[9] is placing the emphasis on compliance with the requirement to publish accounting and prudential information

Since 2008, the EBA and its predecessor, the Committee of European Banking Supervisors (CEBS), have been publishing reports on the quality of financial reporting (financial statements) and prudential information (Pillar 3 of the Capital Requirements Directive/CRD) published by European credit institutions. From 2010 onwards, the requirements of this annual exercise were stepped up in relation to prudential information. The next report is due to be published in October 2012.

The report published by the EBA in October 2011 highlights the following points:

- Out of a sample of 20 banks, including three major French banking groups (BNP Paribas, Crédit Agricole SA and Société Générale), all have made an effort to improve their

[7] FSF: "Enhancing Market and Institutional Resilience" <http://www.financialstabilityboard.org/publications/r_0804.pdf>.

[8] FSB Thematic Review on Risk Disclosure Practices <…>.

[9] Source: Follow-up review of banks' transparency in their 2010 Pillar 3 reports. http://www.eba.europa.eu/cebs/media/Publications/Other%20Publications/Others/2011/EBA-BS-2011-132-(Follow-up-review-of-banks--transparency-in-their-2010-Pillar-3-reports)---FINAL.pdf

published information and disclose their risk profiles to all market players, though there is still room for improvement among a small number of institutions;

- Effort is required on correlations between IFRS and the requirements of Pillar 3 so as to provide markets with clear and comprehensive information about banks' risk profiles; as such, the EBA recommends that the period between the dates on which the Pillar 3 report and the financial statements are published be shortened;
- Identified areas for improvement include, in particular, a detailed breakdown of capital, a description of the relationship between remuneration practices and the overall risk management framework, and specific CRD requirements in relation to credit risk and counterparty risk.

On the latter point, the recommendation is that detailed information be provided by credit portfolio, which can be cross-referenced against bank business lines (mainly for retail banking portfolios). Conversely, providing more segmented information or accounting information on bank business lines is not required.

This is why the *Autorité de contrôle prudentiel* (ACP) draws solely on registration documents, and not on prudential information, to produce information on the three major business lines.

Furthermore, the EBA published in April 2010 guidelines on financial information to be provided by financial institutions in times of stress. These guidelines include general principles underpinning sound reporting as well as a number of suggestions on the content and presentation of financial reporting (timely and comprehensive information, including the impact of a stressed situation on institutions' business, focusing on high-risk areas, comparable over time and with other institutions).

When the EBA carried out stress tests in July and November-December 2011, institutions published very detailed information on their capital, revenue and exposure to banks and sovereign debt in various European countries. This information[10] provides a good understanding of the way in which stress has affected banks, and aims to provide observers with the data they need to carry out and update their analyses in line with changes in the economic and risk environment. This information did not provide a detailed view by bank business line, but by portfolio type (banking vs. trading portfolios).

In January 2012, the Securities and Exchange Commission (SEC) recommended greater clarity in the publication of euro area sovereign debt[11]

In January 2012, the SEC noted a lack of consistency in the content and presentation of information published by supervised entities (including foreign institutions issuing securities on US markets) on the nature and amount of their exposure to euro area countries.

[10] Available by institution.

[11] Source: European Sovereign Debt Exposures.
http://www.sec.gov/divisions/corpfin/guidance/cfguidance-topic4.htm

Periodic reports produced by financial institutions in 2011 actually gave the following information:

- total exposure by country;
- aggregate exposure to sovereign debt, corporate debt and personal loans for each identified country, or a single exposure figure;
- gross and net exposure;
- the effect of CDS based on notional market value or fair market value.

The SEC subsequently recommended that, alongside qualitative information, the following quantitative information be published for each country currently experiencing significant economic, fiscal and/or political difficulties:

- gross sovereign exposure by type of holder (separating out financial institutions from other non-financial agents);
- quantitative information describing the coverage of gross exposure;
- information on the circumstances in which any losses would not be covered by credit protection mechanisms.

While this US recommendation is, for the time being, non-binding, it is likely to lead to greater consistency in financial reporting by banks supervised by the SEC.

The AMF[12] has placed the emphasis on more comprehensive information on sensitive segments (whether geographical areas or operating segments) and on risk factors

Information in results presentations on sensitive geographical areas and operating sub-segments

To ensure that the market is provided with relevant information, the AMF has recommended that listed companies disclose -notably when publishing their results- a detailed overview of their activities, performance and outlook in geographical areas and operating sub-segments that are sensitive or are characterised by very diverse situations. Recommendations to this effect were issued in 1998 (at the time of the Asian and Russian crises) and from 2008 onwards.

This additional information should make it possible to measure the risks and opportunities associated with certain countries and sub-segments considered significant by issuers. In particular, the AMF recommends that financial reporting be adapted to reflect any political, economic and social environment that might affect banks' performance and outlook.

Depending on individual circumstances, these principles may lead banks to:

- report individually on certain European countries;
- present separately businesses or geographical areas with contrasting growth prospects (e.g. some countries in Asia);
- provide appropriate information on countries affected by high levels of political instability.

It should be noted that the AMF recommends that any information supplied by country or operating sub-segment be consistent with the aggregate operating segment information set out in the financial statements. This means that information will not necessarily be comparable between institutions, the aim being to achieve greater clarity rather than greater comparability.

This information may also be supplemented, if necessary, with specific aggregates relevant to the particular issues facing the country or sub-segment in question.

[12]Source: **AMF Recommendation 2011-18 on certain components of financial reporting, particularly in the context of results presentations** http://www.amf-france.org/documents/general/10261_1.pdf

Presentation of specific risk factors in registration documents

The AMF recommends that listed companies include in their registration documents one or more sections dedicated to appropriate risk factors whenever sensitivity in key assumptions underpinning the approved financial statements is liable to have a material impact on the company's financial position and outlook.

This/these section(s) on risk factor(s) should reiterate and summarise key figures from the financial statements and provide a clear and comprehensible explanation of the risk identified.

Such information on risk factor(s) seems necessary, notably in the following cases:

- where the recoverable amount of goodwill and other intangible assets is close to their net carrying amount;
- where assumptions used to determine either the recoverable amount in the context of impairment tests or the amount of deferred tax assets to be recognised are very sensitive or reflect a trend that might appear to be out of line with past performance;
- where significant losses arising from operational difficulties or difficulties in assessing and forecasting development were recognised in the period.

This recommendation aims to ensure that the most important risk-related information set out in the financial statements is made clearer and more accessible. Here again, this request for greater transparency does not adhere to an approach by business line.

3.2. Publication by the ACP of information on the three major business lines

The ACP's annual report on key figures from the French banking and insurance market[13] contains aggregate information on changes in main income statement figures for major French banks by business line

The analysis is based on a sample representing around 95% of the French banking sector.

It covers the consolidated income statement and key indicators by business line, at aggregate level: net revenue, management fees, cost/income ratio, earnings before interest and tax, total operating income (including non-banking income), cost of risk and net income.

Three major business lines are identified: corporate and investment banking (CIB), retail banking and asset management. Although the ACP produces internally a more detailed breakdown of CIB (into corporate banking and investment banking) and retail banking (into France, other countries and specialised finance), this breakdown is not currently published.

This information is obtained by going through registration documents and adjusting figures in line with the ACP's selection of indicators. These highly detailed adjustments, which are based on case-by-case analysis, in-depth knowledge of each institution and a critical reading of reports, are intended to facilitate comparisons between banks. It should be noted that, since the make-up of the various business lines can change from one year to the next, retroactive adjustments are frequently made.

However, this effort to provide a more homogeneous view does not correct differences arising from the large number of internal conventions specific to each group. Groups apply transfer pricing

[13] *The French banking and insurance market in figures, 2010, ACP (pp. 14-17)*

between cost and profit centres, and this can significantly influence the way in which income and expenses are allocated between the various business areas.

Furthermore, the ACP has to ensure that this report maintains statistical confidentiality and, in particular, that the publication of overly detailed or granular information does not accidentally reveal the situation of individual groups.

3.3. Recommendations by the working group

For public authorities

<u>Recommendation 1</u>: flesh out in more detail the aggregate information by business line

Notwithstanding the various comparability limitations referred to in the report, the ACP strives to maximise the consistency of the aggregate data it publishes. This involves painstaking work to restate data and draws on the ACP's detailed knowledge of institutions. For editorial reasons, the only indicators that are published are net revenue and cost of risk, while other indicators published by banks are available.

In order to make the best possible use of the expert work undertaken by the ACP, while complying with the constraints listed above, **the working group recommends that the ACP include, either in its annual report or in an ad hoc publication, aggregate information on all available income statement items by business line. This would provide for a greater degree of granularity and more detailed segmentation by business line, for example by separating corporate banking from investment banking within CIB and separating out the French, foreign and specialist financing business lines within retail banking. It also recommends that consideration be given to providing dispersion indicators alongside aggregate data.**

<u>Recommendation 2</u>: examine the option of drawing up a sector account for retail banking in France

The current methodology used to draw up national accounts for the banking sector, for the purposes of producing statistics by business sector, is based on the classification for financial companies (S12) and financial institutions (NAF (*Nomenclature d'activités françaises*) Rev 2, section K, division 64). Financial sector activities are not split into business lines within these nomenclatures. The classification for financial companies divides institutions into various categories depending on their licence (credit institutions and equivalent; other financial institutions, including in particular investment firms; financial auxiliaries, including management firms authorised by the AMF; etc.). Division 64K of the NAF classification distinguishes various types of activity (monetary intermediation, lease finance, other credit distribution, other financial services, etc.) which are not very finely segmented and which do not, once again, include any breakdown by business line. In any event, plans to amend this classification, which have recently been the subject of international discussion, could only come to fruition in the long term.

Drawing up a sector account for each business line would require each business area to be aligned with a corresponding legal scope, for example within a group's subsidiaries, and would require each subsidiary to operate within a single area of activity. However, in most cases, some of the activities of such business units cut across functional lines, and business lines do not reflect legal structures.

Furthermore, producing national statistics by business line would mean overcoming the obstacle that consolidated segment reporting published by banks also includes the activities of foreign subsidiaries. In addition, for the CIB and asset management business lines, French business

cannot be separated out from foreign business based on information contained in company registration documents. Moreover, dividing businesses up geographically in this way would not make much sense, since most of the business areas in question are run at an international level.

Only in retail banking, where the location in which transactions take place is more clearly defined due to the local nature of this business, are activities separated out by geographical segment. Subject to a more in-depth examination of the available information, this could pave the way for drawing up a segment account for this business line.

The working group therefore recommends that the Banque de France and the INSEE lead discussions on the possibility of creating a retail banking account within French national accounts.

For banks

In recent years, French banks have made major efforts to increase transparency and expand the information they make available to analysts, encouraged by recommendations by the authorities and financial market pressure. However, such information is not always accompanied by a sufficient level of segmented detail, while there is strong demand among users for such a breakdown. The working group has identified a number of indicators considered as being relevant by the interviewed users, and which it proposes should be added to the financial information published by banks on their business lines.

Recommendation 3: develop balance sheet information in relation to business lines

The interviews undertaken by the working group highlighted the need for more comprehensive information on liquidity and funding within banks' various operating divisions, in an environment characterised by a shortage of liquidity and increased funding costs, as well as for more detailed data on asset quality and coverage policies in light of deteriorating economic conditions.

3.1. In accordance with observed European best practices in terms of financial reporting by business line, the working group recommends that French banks publish more balance sheet information on their business lines, including in particular total loans, deposits and doubtful debts, doubtful debt coverage ratios (provisions divided by doubtful debt) and risk-weighted assets.[14]

3.2. In order to increase transparency in relation to funding and liquidity, **the working group recommends that certain relevant indicators be developed and published at business line level in connection with funding structure (maturity schedule of liabilities as a percentage of total funding), cost of funds and liquidity (duration of assets by maturity range and amount of assets eligible for monetary policy operations) within each business area.**

[14] An indicative list of information not published – or at least not systematically published – by certain banks.

Recommendation 4: provide a more detailed revenue breakdown within the income statement

Although income statement information by business line appears satisfactory overall, income information is felt to be insufficiently detailed, particularly when compared with the standard of information published by major European and American banks. The only business line for which interest and fee income are generally shown separately is retail banking.

The working group recommends that banks provide more detailed income information by breaking down net banking income into interest income, fee income and, where applicable, other types of income for each of their business lines.

Recommendation 5: provide more sub-segment information

Registration documents published by major French banks include detailed explanations of the methodology used to segment activity into business lines and the composition of each of the segments making up those business lines. However, the corresponding data is provided in much less detail. Activity figures for the various segments, which can have very different risk and return profiles (e.g. project financing vs. trading activities within CIB), would be very useful to analysts.

The working group recommends that banks publish more detailed figures on the sub-segments within their business lines.

Appendix 1: Working group mandate

Mandate of the Technical Group on Bank Statistics by "Business Line"

In concluding its work, the Working Group on "Statistics for Financial Groups", chaired by Gilles de Margerie, recommended that discussions continue with the aim of reaching a better understanding of the various areas of activity or "business lines" within such groups. Indeed, it had become apparent that official statistics, constrained by the structure arising from regulatory arrangements (banks/insurance/markets), do not at this time fully meet the need for more granular information. Furthermore, the business structures upon which groups base their published information are not consistent from group to group. Incidentally, such information is only published by listed groups, thus restricting the scope of information. It should, however, be noted that the activities of the main French banking groups represent a clear majority of the activities of credit institutions as a whole, and may thus form a worthwhile statistical base.

The Working Group considered that this imperfection could raise problems as it prevents analysts from measuring performance separately in each of these business areas. The working group notes the specific responsibilities of the Banque de France and the *Autorité de contrôle prudentiel*, conferred upon them by French and European legislation, in respect of financial stability and prudential supervision. That being said, for the purposes of statistical analysis, the working group wishes that an analysis be undertaken that might initially lead to a typology/definition of the various business lines that could be applied to all operators, together with an exploration – taking into account the relevant professional secrecy constraints laid down in law – of data held by the INSEE and the Banque de France as well as that published by groups themselves, in cooperation with industry representatives.

In light of these recommendations, the "Financial System and Financing of the Economy" Committee has decided to form a Technical Group with the following objectives:

- To propose a definition of businesses (or business lines) falling within financial and mixed groups for which it would be both beneficial and conceivable to gather consistent statistics, by examining whether it would be possible in practice to wholly or partially ignore the organisational and/or reporting specificities of the institutions or group concerned so as to allow the timely and affordable collection of the necessary data. At the same time the working group should assess exactly to what level the activity of an entity should be broken down to obtain a coherent analysis.

- To consider the issue of consolidated information (for banking groups) versus statutory information (for credit institutions) and to seek - for each business line if necessary - the most appropriate solutions for achieving the stated objectives and which may most easily be implemented to achieve results within acceptable timeframes.

- To propose a list of desired information for each business area such that business areas can be analysed separately. The nature of the information requested will be determined by the working group bearing in mind not just the stated objectives, but also any legal constraints that could hinder the availability of such information; the primary target will be data that contributes to an assessment of business line profitability and risk exposure.

- To identify date sources that could be mobilised in order to meet the stated objectives. If such sources are found to be inadequate, explore avenues for collecting additional information.

- To define an appropriate level of aggregation between groups of the statistical data that can be obtained so as to respect confidentiality constraints. Should the data remain at a macroeconomic level or should it be divided into homogeneous groups of banks, and which banks should be concerned?; Would it be possible to create indicators expressing the dispersion of these data across the banks?.

As the final definition of banking activities is likely to differ from the existing classification of economic activities (section 64 of the NAF Rev 2 – financial services activities, excluding insurance and pension fund), the working group's reflections could also result in a more appropriate classification being proposed. This classification could be presented at an international level.

Membership and operation of the Technical Group

Subject to their agreement, the Technical Group will consist of representatives from the INSEE, the Banque de France and prudential authorities, together with those industry bodies wishing to take part in the work of the group. The group will, as it sees fit, consult individuals who could help it clarify its approach and refer to relevant information sources. In particular, this will include financial analysts and researchers with expertise in this area as well as representatives of employee associations.

Calendar

The Technical Group will begin its work in September 2011. It will present a draft report to the relevant CNIS Committee at its meeting scheduled for spring 2012.

Appendix 2: Working group members

Chairman of the working group:

Alain DUCHATEAU (Banque de France)

Working group rapporteurs:

Daniel GABRIELLI (Banque de France)

Emilie CRETE (Banque de France)

Other members of the working group:

Henry CHEYNEL (FBF)

Marie-Dominique KERSUZAN (ACP-Banque de France)

Geoffrey LEFEBVRE (Insee)

Jean-Paul POLLIN (University of Orléans)