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Structural evolutions and reforms of the French banking and financial system since the 1980s: Relationship with the legal process of European integration

Christophe Blot (OFCE)
Jérôme Creel (OFCE & ESCP Europe)
Anne-Laure Delatte (CNRS & OFCE)
Fabien Labondance (OFCE)
Sandrine Levasseur (OFCE)

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Abstract

Since the 1980s, structural and regulatory evolutions and reforms of the French banking and financial system have been manifold. They have been influenced not only by the European integration process, but also by the historical worldwide context of deregulation and, more recently, by the crisis. The paper presents these three waves of regulation and their impact on the French banking and financial system.

Key words: banking system, financial system, regulation, financial crisis, France

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Contact details**:** All authors at OFCE, 69 quai d'Orsay, 75340 Paris cedex 07, France, emails: christophe.blot@sciencespo.fr; jerome.creel@sciencespo.fr; annelaure.delatte@sciencespo.fr; fabien.labondance@sciencespo.fr; sandrine.levasseur@sciencespo.fr

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1. Introduction

The objective of this report is to present the structural and regulatory evolutions and reforms of the French banking and financial system. Since the 1980s, structures have changed and reforms have been manifold, influenced not only by the European integration process, but also by the historical worldwide context of deregulation and, more recently, by the crisis (see e.g. Blot et al., 2012, for an extensive presentation) .

From the 1980s onward, three main periods can be distinguished in terms of regulations. First, the Banking Act of 1984 paved the way for a substantial regulatory overhaul of the French banking system. The Banking Act aimed at "unifying, renovating and streamlining the laws and regulations governing the banking industry, promoting competition within the banking sector and making banking a more widespread activity". Credit controls were eliminated, and all financial institutions were subject to the same regulatory and supervisory authorities (Commission bancaire, Comité de réglementation bancaire and Comité des établissements de crédit). The banking act entailed the adoption of the model of universal banking in France. A gradual removal of exchange controls started in 1985. This national regulation anticipated the implementation of the Single European Act (SEA) in 1986. The SEA, and more broadly all the European legislations since that, has constituted the second wave of legislation that frames the European banking and financial structures until the crisis, including the French one. Finally, the recent crisis forced the regulators to modify the regulation since 2008 . In this respect the project of banking Union is generated by both European integration and the crisis and have to take into account national perspectives. On this subject, the structure of the French banking system, based on universal and powerful banks reluctant to change their model, is crucial (see for example Gaffard and Pollin, 2013).

In the following, we present these three waves of regulation. Section 2 presents the situation during the 1980s. Section 3 shows how European integration influenced French regulation. Section 4 details the impact of the crisis on banking and financial regulation. In section 5, we present the French regulatory framework and we finally conclude.

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2. Historical, political economic and international background

2.1 Changes in the French banking and financial system up to the 1980s

The French banking regulations prompted by the crisis of the 1930s were not radical. The original legislation that set up the structure of the banking network in 1885 with the establishment of savings banks was further strengthened in 1941 with the adoption of the first banking law. In 1945, the banks were separated into three categories (i.e. deposit banks, investment banks and medium and long-term lending banks) with each category being specialized into specific activities. In the post-war period, the organization of the banking system was driven by the need to finance reconstruction. Alongside the nationalization process of banks, the French authorities multiplied the incentives for non-financial agents (households in particular) to increase their savings and tried to steer these, through the specialization and supervision of financial intermediaries, towards certain areas — e.g. housing and the productive investment of resident companies. In addition, from the 1970s, regulated interest rates and monetary controls were overseen by government supervisors. The extent of financial regulation by the State until the 1980s in France is interesting with respect to early-bird legislation about financial liberalization. The free movement of capital was included in Law n°66-1008 (known as Debré law) of 28 December 1966. It stated that "financial relations with foreign countries were free in due respect of international commitments signed by France". Nevertheless, article 3 authorized "temporary exceptions" to free movements of capital. "Temporary" measures, like exchange controls, continued until 1989!

To summarize, at the very beginning of the 1980s, the French financial system was relatively closed, highly regulated and compartmentalized. The State played a significant role in the organization and functioning of the system.

In the early 1980s, two phenomena posed a challenge to the French financial and banking system. First, the need for international openness pushed the French authorities to make fundamental changes to the structure of the country's financial system. In the 1970s, global interest rates rose more than the French rates, meaning that exchange controls became increasingly necessary to maintain low interest rates in France. This intensified the contradiction between the tighter controls needed to maintain the financial system and the openness required by European and global economic integration. Second, the French banking system was facing a serious crisis in this period. This crisis was due to international developments (with the US disinflation policy leading to higher real interest rates, along with the international debt crisis of the developing countries and the first Mexican crisis) and to the inconsistent structure and poor profitability of the banking system. The model of universal banking (recommended by the Mayoux report in 1979) had not yet been fully incorporated into the French banking practice, and it was not until the Banking Act of 1984 and deregulation allowed the French banking and financial sectors to undergo a major transformation.

2.2 The 1980s: a period of banking reform and of profound changes in the French financial system

The French financial system went through a profound transformation in the 1980s, following a wave of deregulation that, having originated in the United States in the mid-1970s, modified both its structure and its operating conditions. Two types of deregulation can be distinguished: the organization of the system ("structural deregulation") and the way they operated ("conduct deregulation").

2.2.1 Legal and regulatory changes introduced by the left-wing government

The nationalizations of 1982 represented the first step in the State's effort to radically overhaul the French banking system in order to deal with financial globalization. These nationalizations as part of a more sweeping reform by the Socialist government of the financial and banking systems, were intended (i) to finance priority investments, (ii) to improve the control of credit and (iii) to reduce the cost of bank loans. The French State thus nationalized 36 deposit banks and two investment banks (or compagnies financières). This gave the State control of virtually the entire banking sector, meaning that it could now steer investment and reform the financial system.

In seemingly contrast with the process of nationalization, the cornerstone of the French financial (de)regulation since 1980 has undoubtedly been the Banking Act of 1984, relative to the activity and control of the credit organisations, which has to be linked to the liberalisation context of the international financial system. The reforms introduced by Finance Minister Pierre Bérégovoy starting in 1984 aimed at establishing a unified monetary and financial market where interest rates were set freely (subject to the intervention of the Banque de France). This Banking Act, proposed by the government of Pierre Mauroy (PS), aimed at strengthening competition and improving efficiency of the entire banking system. It put a halt to the bank specialisation by creating the 'universal bank': every organization that received an agreement could carry out every type of operations peculiar to credit organisations and could choose its customers without restrictions. These "credit organisations" encompassed the AFB banks such as BNP-Paribas or Société Générale, the "mutualist" or cooperative banks (Crédit Agricole), the savings banks, the local credit banks, the financial societies (CETELEM, COFINOGA) and the specialized financial institutions. The Banking Act also created three collegial authorities, whose functioning is tightly linked to the functioning of Bank of France, to control for the banking sector's activities: the Banking Regulation Committee (CRB), the Credit Organisations Committee (CEC) and the Banking Commission (CB). The CB had to control whether the credit organisations respected the several enforceable legislative and regulatory clauses and to punish them if necessary. Last, the Banking Act introduced a liquidity and solvability constraint for the credit organisations. The latter had to abide by accounting norms and by a balanced financial structure in order to guarantee their liquidity and solvability, under the supervision of the CRB. This liberalisation had some quick effects on the securitisation movement through which France lived from 1986 to 1990. This market-oriented policy has been pursued through several measures like the lifting of the credit framework in 1987, the lifting of control on assets movements or the dismantling of the exchange control in 1989.

Additional important changes in the financial and banking landscape are as follows. In 1983, the creation of the monthly settlement market unified the stock exchange trading while the creation of a second market (second marché) gave smaller companies, mainly family firms, access to the stock market. In 1985, certificates of deposits were created, i.e. debt securities primarily intended for professional investors as very short-term investments (between 1 day and 1 year), and the money market was opened to non-banks. The MATIF futures market was created to allow trading in futures instruments, and then the MONEP market for (financial) options.

To summarize, the Banking Act of 1984 has had a long-lasting influence on the French banking and financial system. Also noticeable is its seniority as regards many European directives. Such was the case in a wide array of legislative reforms that the Banking Act generated (see Blot et al., 2013, for details): liberalisation of capital movements (EU directive in 1988), cross-border competition and definition of permitted activities (EU directive in 1989 and 1993), capital requirements (EU directive in 1989), definition of investment services (EU directive in 1993), deposit guarantee (EU directive in 1994), and crisis management schemes (EU directive in 2001).

2.2.2 The partial reversal of nationalizations

The process of nationalization was partially reversed in 1986, with the arrival of a right-wing government. Société Générale, Compagnie Paribas, Compagnie Suez and Crédit commercial de France were privatized. However, despite these privatizations, the French State retained control of nearly 69% of the commercial banks and 42% of the banking sector in 1988. After the return to power of a left-wing government in 1988, the process of privatization was pursued (partial opening of the capital of Crédit local de France in 1991) due to the pressures of European Union's competition policy and to the needs of finding fiscal revenues (the proceeds from privatization helped reducing immediately public debt). In addition, the left-wing government was precocious in foreseeing how to take advantage of the benefits of the market economy, confirming their determination to make Paris an important financial centre. However, the Socialists' willingness to privatize must be nuanced by the fact that most of these operations were partial: the State continued to be the major shareholder of the formerly fully State-owned banks.

2.2.3 Concentration in the French banking sector

To generate productivity gains, to streamline activities and, ultimately, to be able to compete internationally, French banks had to intensify their process of concentration at the end of the 1980s, given rise to a sector dominated by a handful of institutions. Restructuring gained momentum in the mutual and cooperative networks (e.g. Crédit Agricole) but also among financial firms, as 104 establishments disappeared between 1991 and 1992. Restructuring was accompanied by the grouping of a large portion of banks into several powerful credit institutions: at the start of 1992, out of the 462 licensed banks, 106 belonged to one of the seven major non-mutualist groups (i.e. Banque Nationale de Paris (BNP), Crédit Lyonnais, Société Générale, Compagnie de Paribas, Compagnie de Suez, Compagnie financière du CIC et de l'Union européenne, Crédit Commercial de France). Suez and Paribas were very important players in the field of mergers and acquisitions (M&A), acting as strong private financial centres. Restructuring favoured the concentration of overall activity of the credit institutions, including specific activities like deposits and loans.

2.2.4 The "bancassurance"

The growing interlinkages between banking and insurance activities constitute another important development of the French financial sector. *Bancassurance*, a banking diversification strategy that consists of a credit institution engaging in insurance activities, has developed in France since the early 1980s either through the simple distribution of insurance products or through a more aggressive approach involving the acquisition or creation of insurance subsidiaries. In the first case, the bank simply provides its network with insurance services. In the second case, the bank conducts a more autonomous but riskier policy by engaging in activities that are not traditionally its own province, such as life insurance and capitalization, or property and casualty insurance. By the late 1980s, credit institutions had a 40% share of the market for insurance products, up from virtually zero at the beginning of the decade. Numerous mergers also took place between banks and insurance companies (Crédit Agricole and Prédica, Société Générale and Sogécap, etc.). These were different, however, from cross-shareholdings between banks and insurance companies (e.g. direct holdings between BNP and UAP, or between CIC and GAN).

2.2.5 The internationalization of the French financial system

Gradually, the French financial system opened up internationally. In 1989, the Commission des Operations de Bourse (COB – France's stock exchange watchdog) saw its power and independence strengthened, which enhanced its credibility and therefore the attractiveness of Paris to international investors. The dismantling of foreign exchange controls took place between 1985 and 1989, allowing the full integration of the French financial market into the world market.

Regulations governing the entry of foreign banks onto the domestic financial markets were considerably relaxed (lifting controls on capital movements in 1989). However, candidates for entry were required to have a minimum amount of capital and a thorough investigation had to be conducted in advance by the host country. Concerning other key variables for the banking and financial markets, the regulatory changes in the 1980s (described above) led to profound transformations in the competitive conditions on the banking and financial markets. Opening of the domestic markets to foreign banks, of the money markets to non-banks and of the financial markets to all non-financial agents increased the number of participants in these markets. To quote a few: Barclays created its life insurance subsidiary in France in 1992; the Crédit Suisse Group bought the French operations of the Hottinguer bank in 1997; and Deutsche Bank, which has operated on French territory since 1977, began its investment activities in Paris in 1992. In 1996, investments by foreign banks in France expressed in terms of flows represented 14.9% of all foreign direct investment in the country. In terms of stocks, their assets represented 9.2% of FDI in France, according to data from 1995.

2.2.6 The emergence of Paris as a financial centre

The structural changes in the French banking and financial landscape had a relatively rapid impact on the trend towards securitization and on capital inflow into France. Driven by the wave of privatizations, the stock market rose sharply between 1986 and 1987. The crash of 1987 was quickly followed by a recovery, and prices hit record highs in 1989, as the CAC 40 exceeded 2000 points for the first time in its history. The issue of new securities also picked up pace, in particular equities Trading volumes increased more rapidly than prices and new issues, at around 30% per year on average, reflecting the emergence of a market-based financial management. The MONEP options market alone had transactions involving 9 million contracts in 1995, and the number of individual holders of securities also rose massively, to about 14 million in the early 1990s.

2.2.7 The consequences of the new system of financing

Banking disintermediation took place in the 1980s and the role of the market was growing. Companies were financing themselves increasingly through financial instruments and less and less through intermediated bank loans. However, in a context of low investment and high profits (the share of profits in value added increased from 22% in the early 1980s to over 30% in the early 1990s), the French corporates favoured business self-financing, which rose sharply during the 1980s (from 59% in 1982 to 92% in 1987; Hautcoeur, 1999).

The strengthening of equity capital through equity issues (which enabled companies to shed significant debt) was a new assessment of firms' stability and investment capacity. French companies were in effect able to increase their equity capital by ten percentage points, from 26% in 1987 to 37% in 1995 (Sauve and Sheuer, 1999).

The changes in the system of corporate financing described above were accompanied by a more contrasting situation for SMEs, which suffered from the end of the subsidized loans and government guarantees that protected them from rising interest rates on loans. The banking system itself suffered from the direct recourse by corporations to the money and bond markets, with some large industrial groups taking advantage of the absence of regulations to engage in sophisticated financial transactions in order to deal with considerable losses. The development of SICAVs (Sociétés d'Investissement à Capital Variable, similar to US mutual funds) reduced the free resources of financial institutions (deposits in banks, deposits in savings banks), which meant an increase in the cost of resources. The banks were therefore obliged to convert partially from the lending business to financial services, an obligation that was even more difficult to handle in a situation marked by both the debt crisis of the developing countries, in which French banks were heavily involved, and stiffer competition from the older specialized networks created by the State and previously intended to segment the market (Crédit Agricole, La Poste, savings banks), but whose privileges were still maintained. For example, La Poste, which retained exclusive rights on livret d'épargne (i.e. savings accounts very popular among French households), had broadly diversified its financial activities, including *bancassurance*, thereby competing directly with the business of banks. These financial difficulties led French banks to take risks in activities in which they had insufficient experience (e.g. real estate) during periods of speculation (including the late 1980s), leading some into bankruptcy or requiring State bail-outs (e.g. Crédit Lyonnais).

The long-term consequences of this new system of financing are more difficult to determine. On the one hand, the operating costs of the financial system per se fell sharply, the allocation of capital was facilitated and businesses were no longer constrained in their quantitative funding requirements, since integration with the international capital markets now enabled them to seek outside funding. On the other hand, economic fluctuations originating abroad were no longer cushioned in the way they could be earlier, which was reflected in particular in the greater intensity of financial and economic crises. The French financial system thus became more vulnerable to the changing international environment, to the multiplicity of international investors and to interactions with subsidiaries in order to provide itself self-financing. Cross-shareholdings among the large corporations and the subsistence of family-style capitalism did not give the system a strong enough foundation to deal with this vulnerability.

3. The impact of European integration on the French financial system

In this section we briefly review the impact of European integration on the French financial system, with respect to the financialization of the French economy, the organization of banking and financial services, the development of financial markets and the payment system. Needless to say, France has gone through an extended process of globalisation and has conformed to the process of European integration. The French financial system is no exception to these trends, though the State has long tried to limit the incidence of globalisation on the nature of French capitalism.

3.1 The structural crisis of the 1990s

The 1990s decade was marked by the continuing internationalisation of the financial markets and actors. In concrete terms, that meant (i) an acceleration in the cross-border activities of financial institutions, (ii) many financial innovations like complex financial instruments that cannot be classified in a specific financial sector (banks, investing societies or insurance societies?) and (iii) the setup of financial conglomerates. These evolutions have led to reflections on the needs for new regulations which would tackle prudential rules and the organisation of supervisory authorities. The 1996's Act about the "modernisation of the financial activities" has translated in French law the 1993's European directive relative to the investment services in real estate. These investment services were able to be proposed by some new providers which are the "investment firms". The latter are now able to establish a subsidiary in every European country they want to and to supply services from a distance (what we call "free service"). The 1996's Act about the investment services has created a European financial go-between status. The 1999's Act relative to savings and financial security has instituted a guarantee fund for banks. It has been the first blanket system which covers every credit organisation for their essential activities (bank deposits, equity deposits, guarantees), even if insurance on bank deposits was already provided. Preventive interventions have now a legal foundation with the Deposits Guarantee Fund (FGD) which brings all of the banking organisations together. The cooperation between the FGD, the CB and the CEC is reinforced to carry out a better regulation.

During the 1990s, fears that had emerged in the late 1980s were materialized: the system plunged into a deep and unprecedented crisis. In 1993, provisions and losses on bad debts reached 127 billion francs. In 1994, net banking income decreased in volume for the first time in history. Although the position of French banks improved in 1996, they were less profitable (in terms of financial profitability, i.e. the ratio between net income and equity) than their international competitors. This relative weakness had three major consequences: a handicap for growth; a downgrade in ratings by the international agencies, which translated into higher refinancing costs.

The roots of the crisis were structural and not the result of competitive distortions. Indeed, the structural reforms implemented during the 1980s (market deregulation, expanded range of intermediaries, internationalization) resulted in a significant increase in competitive pressures. But the adjustments needed to deal with these pressures, especially within the banks' structures and operations, but also from the regulatory point of view, failed to take place (see Lambert, Le Cacheux and Mahuet, 1997). Facing competitive pressures and unable to adjust, the banks made both tactical errors (collective blindness on real estate forthcoming bubbles) and strategic errors, including blind faith in the universal banking model. Three exogenous factors, however, acted as a catalyst, transforming what had been difficulties into a crisis: the downturn in the housing market; the inversion of the interest yield curve between 1989 and 1994 (which prevented the banks from realizing gains on conversion, i.e. using interest rates to make a profit on the conversion of a portion of their assets into shorter-term maturities); and the over-taxation of the banking sector (in particular the payroll tax in lieu of VAT, which represented 9 billion francs in 1994).

The role of the State, perceived as an ambivalent shareholder and poor manager, was roundly condemned: the 1996 Senate report on the health of the French banking system called into question both its handling of the banking crises by a systematic recapitalization of unviable lending institutions and the system for the prevention of banking risks. This led to debate about reforms to pull the State out of the banking sector.

3.2 The impact of the transition to the single currency

Starting in 1997, the French banks benefited from the economic recovery and a renewed dynamism in the financial markets. They built up their international activities by expanding their presence abroad, especially in expectations of the larger market in 1998 (see the reports of the Commission Bancaire, 1997 and 1998). Moreover, their cost-control policies allowed them to deal with the transition to the euro in relatively good conditions.

These developments set the framework for restructuring the banking sector at the turn of the Millennium. First, the advent of the euro accelerated the trend towards concentration, in particular in the field of investment banking. This took the form of either national acquisitions (acquisition of Crédit du Nord by Société Générale, acquisition of about 25% of Natixis by Caisse centrale des banques populaires) or foreign acquisitions (acquisition by Société Générale of the English bank Hambros and of the American investment bank Cowen Securities).The increase in the size of potential market caused a search for an optimal size as well as for economies of scale to generate higher levels of profitability. Moreover, the modernization and liberalization of capital movements associated with the deregulation of financial and banking activities resulted in widening the institutions' field of action in a context of more harmonized regulatory and prudential standards. The result was an intensification of international competition on the French market, leading the country's banks to diversify into other regions and into the major foreign financial centres.

After the transition to the euro, French banks showed some resilience in the face of harsh international economic and financial environment. Despite geopolitical factors and sectoral problems in the early 2000s (impact of the burst of the Internet bubble; persistent difficulties in telecommunications, transport and energy; risks in Latin America; increased international tensions in the Middle East), a high level of business failures and a slowdown in the demand for financing from credit institutions, the annual results of French credit institutions highlighted their ability to face up to the deteriorating economic situation. How can this be explained? With the active encouragement of French, European and international prudential supervisors, not only had the credit institutions diversified and chosen their risks more carefully but they had also improved their operating profitability, which helped to reduce their overall exposure to cyclical risks. Indeed, the major French banking groups had tier one capital ratios (a measure of a bank's ability to pay its debts, or the gross operating surplus) that were well above the regulatory minima. Moreover, the overall immediate credit risk facing French credit institutions fell by 4.8% in 2005 and, the market risks as calculated by France's Commission bancaire declined by 11% in the same year (see Report of the Commission bancaire, 2006).

3.3 The overall situation today

Up to 2008, French banks saw a steady increase in business that was related to a period of sustained global economic growth and a good situation on the financial markets. At end 2004, fifty French banks were operating in 85 countries or regions, and the foreign subsidiaries of the three main groups accounted for between 17% and 25% of their total assets (see Bulletin of the Bank of France, 2006).

The 2000s saw the large corporates relying on abundant, cheap funding. In this respect, French banks played a role in the development of a strong syndicated loan market, especially in Europe, and the share of leveraged loans (LBO) experienced unprecedented growth. In a context of high competition, French banks were forced to accept lower margins on their most important activities, highlighting how syndicated loans were increasingly resembling tendered products. LBO funds were themselves accompanied by an increase in leverage and a reduction in debt quality, posing a medium-term threat of a possible downturn in the credit cycle. In addition, the 2000s saw the emergence of a strong recovery in commercial property and sustained growth in the housing business. Foreign markets served as a source of growth for the major French banking groups, which were often engaged in increasingly diversifying their risks. Similarly, in order to counteract fluctuations in consumer credit, the banks increased their investments in local government. Finally, the 2000s saw a renewed interest from major French banking groups in the emerging economies like Russia. The Russian market became the second-largest market after the French market for the Société Générale Group. Société Générale, which acquired Rosbank in 2008, has nearly 25,000 employees and three million individual customers, 6000 SMEs and 2000 large corporations over the world.

Since 2008, the deterioration of the financial environment and its resulting impact on the real economy has severely tested the strength of the French financial system. The financial turmoil arising from the subprime crisis and from its spread to all segments of the financial market created a more difficult operating environment for the banks, which also faced a generalized crisis of confidence. The French banking system has been strongly hit by the financial crisis. Table 1 illustrates that the net banking income (NBI) ratio dropped to a mere 1.08 % in 2008 while the cost-to-income ratio increased sharply to 84.4 %. Since then, both indicators have improved. However, these positive outcomes cannot hide unfortunate developments. In particular, non-performing loans are on an upward trend since the beginning of the financial crisis.

Table 1: Simplified description of the French banking system income situation

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net banking income (in % of total assets)	2.08	2.00	1.84	1.50	1.08	1.49	1.39	1.33	1.38
Cost-to-income ratio (in %)	63.9	64.3	62.4	68.4	84.4	60.2	64.4	65.4	61.5
Gross non-performing loans (in € billions)	62.3	59.3	56.3	58.9	67	90.7	97.4	100.3	101.7
Gross non-performing loans (in % of total loans)	5.1	4.5	3.8	3.5	3.7	4.9	5.1	5.0	5.1

Source: ACPR (2013)

3.4 Disentangling the European influence

According to Coriat (2008), the financialization of the French economy came both from the US, as a driving example for the privatization process, and from the EU, as a reform catalyst. The on-going change in the capital accumulation mode dominated by finance was introduced by the EU in 1986, under the implicit influence of the US capital accumulation mode. Indeed, following the phase of disintegration in Europe in the 1970s, with a slowdown in trade flows within the European Economic Community (EEC), the Delors Commission in 1984 decided to boost European economic integration with the Single European Act of 1986 (ratified in 1987) in order to establish a Single market in 1993. European liberalisation was a by-product of globalisation.

The Single European Act allowed the establishment of a European integrated financial and monetary market under the aegis of the four fundamental freedoms of movement (i.e. people, goods, services and capital). Competition was fostered and, because harmonization of national standards remained a tricky issue, the principle of mutual recognition was imposed. For all EU countries, it meant trust in the standards of other European partners, recognition of the validity of their technical and social standards; hence, it led to minimum standards all over Europe. A higher competition has had strong implications on monopolies and utilities, as well as on public procurement. The privatization processes and the change in cross-holdings of French companies are a consequence of globalisation and European integration processes.

In addition, the implementation of the Single market, joint with EU directives of 1979 and 1989, fostered French banking reforms of the 1980s and 1990s. These reforms were meant to open French banking industry to international competition and to ensure equal and competitive access to banking services. Financial integration stated by the Single European Act was deepened with various treaties, directives and regulations that have succeeded in promoting a large unified market for European currencies and finance. The integration of the European financial sector accelerated in 1999 with Financial Services Action Plan (FSAP), launched by the European Commission and the White Paper of the European Commission published in December 2005.

Coriat (2008) also recalls that there has been an intense haggling and lobbying, to enable Europe to provide financial services on a "broader" basis, with the introduction of the single passport which allows extra-European banks and financial institutions to exercise automatically in the European Economic Area insofar as they have a subsidiary in at least one EU country. For example, in France, "under the principle of mutual recognition of authorizations, credit institutions, investment firms and authorized payment institutions in the form of a French company are empowered to offer banking services and/or financial and payment services in another Member State when they have completed the required formalities and the ACP (Control and Prudential Authority) has informed the competent authority of the host state." (Coriat, 2008)

3.4.1 Development of financial markets

As shown by Goyeau and Tarazi (2006), France has witnessed increased competition and a radical change in financial markets, joint with a movement of technological cooperation and concentration that established a competitive European market.

With regard to technological and market organization, we have to mention the movement of mergers and clustering of European stock markets, leading notably to Euronext. It was meant to increase economies of scale by attracting a larger number of issuers, on the one hand, and investors and financial intermediaries, on the other hand. The Law of 22 January 1988 cancelled the monopoly of brokers, hence allowing to open their capital to financial intermediaries. It gave rise to the development of trading companies which were authorized to perform operations for their own account as well as for third parties. Founded in 1990, the "Société des Bourses Françaises" (French SBF-Bourse de Paris) was first transformed into a limited company: Euronext NV, before merging in September 2000 with the stock markets of Amsterdam and Brussels to become a listed company in 2001. Then, in 2002, the Lisbon Stock Exchange and the international derivatives market based in London, Liffe, joined Euronext. The group existed independently from 2000 to 2006 before combining with the New York Stock Exchange (NYSE) in 2007. In 2012, NYSE – Euronext merged with another US network: IntercontinentalExchange (ICE).

Meanwhile, the on-going revolution of information and communication technology spread to France: the stock market adopted the CAQ system (Continuous Assisted Quotation) in 1986 to enhance the competitiveness of the Paris stock exchange against other markets, especially London's. Since then, financial transmissions of orders, executions, payments and stocks and bonds deliveries have been automated.

3.4.2 Payment systems

As far as payment systems are concerned, there are two interbank payment systems in France, stemming from European-wide initiatives: a high-amount payment system ('wholesale') and a retail one.

The 'wholesale' payment system is TARGET2-Banque de France, a component of the European system TARGET2 (Trans-European Automated Real-time Gross settlement Express Transfer) of the Eurosystem. It relies on a single technical platform that is shared between European financial institutions and national central banks to smooth the establishment of business relationships between the TARGET2 participants (the involved financial institutions have an open account vis-à-vis their central bank) and national central bank. The relationships between the national central banks and the banking community are completely decentralized. At the end of 2011, the ECB reported a total number of almost 60,000 participants in TARGET2, i.e. credit institutions which had access to the payment system.

As for the retail payment system, the SEPA (Single Euro Payments Area) system is managed by the ECB which states that it is meant at enabling customers to make cashless euro payments to anyone located anywhere in Europe, by credit transfer, direct debit or debit card. SEPA hence creates a single market for retail payments in Euros, not only in the Euro area, but also in the EU and beyond. As a country using Euros in its retail payments, France is obviously an active participant in this system.

3.4.3 Competition policy

As part of European influence on the French banking and financial system, it is also worth mentioning competition policy. However, two important features need to be kept in mind: first, despite European impetus in favour of competition, it has to be recalled that the French banking system remains highly concentrated; second, France has long had its own legislation favouring competition to a broader set of economic activities, including banking and financial ones.

As a matter of fact, the 1st December 1986 Order, codified in the Code of Commerce, established a Competition Council (Conseil de la Concurrence), which replaced the Competition Commission established in 1977, and affirmed the principle of self-determination of prices by competition. Economic operators were free to set their own pricing policies according to their business strategy; the goal was to let the market regulate itself the level of prices of goods and services through the interplay of supply and demand. However, competition can be expressed only if the operators do not engage in conducts designed to distort, restrict or prevent competition; since then, the Code of Commerce prohibited anti-competitive practices. The practices in question stem from collusion between operators, abusive practices from companies in a dominant position, or excessively low prices. The Order extended the possibilities of referral, transferred the power of sanction from the Minister to the Council and implemented a procedure which guarantees the rights of the concerned party.

The 15th May 2001 "New Economic Regulations" law amended competition law in order to strengthen the effectiveness of the fight against anti-competitive practices (introduction of leniency and transaction procedures, rise in punishment ceiling), to ensure compliance to the principle of equality of arms (between firms), to improve international cooperation and to control concentrations in a more systematic and transparent way.

Under Community impulse, French competition law underwent a profound modernization movement: regulation EC/1/2003 which entered into force on 1st May 2004 in France organized the decentralization of Community law and the "networking" of national competition authorities; it also increased the Council's powers. In this movement, the 4th November 2004 order completed the decision-making powers of the Council by bringing them into line with those of other European competition authorities.

The 4th August 2008 "Modernization of the Economy" law created the Competition Authority, transferred to it the powers of the former Competition Council and granted it a new one: the Competition Council controls M&A operations to ensure that they will not produce anti-competitive consequences and distortions. The Authority took over from the Minister of Economy in the control of concentrations. In addition, it is now able to conduct its own investigations and has the opportunity to make recommendations to the Minister in charge of the sector in order to improve the functioning of competitive markets.

The 13th November 2008 Order on modernization of competition regulation gave the Competition Authority increased resources. The General Directorate for Competition, Consumer Affairs and Fraud Control (DGCCRF) contributes to the detection of anticompetitive practices through the spatial distribution of its investigators. Micro anticompetitive practices do not justify a treatment by the Authority but may be subject to an administrative process by the minister services; this jurisdiction is limited to practices affecting local markets and companies whose individual turnover is less than 50 million €.

4. Financial crisis and reform of financial regulation

4.1. Banking regulation

The financial crisis revealed fundamental weaknesses in the operation and regulation of the banking system. The contraction of world economy has pulled the French economy into a severe recession and put its financial sector under stress. Government recapitalization and liquidity measures were required to support the sector. By publishing Basel III in 2010, the Basel Committee on banking supervision has set new international standards on capital adequacy and liquidity of banks. Most of these standards constitute a revision of existing rules, but some others are completely new and are about areas not previously covered. In France particularly, further actions are required to fully uncover and address underlying vulnerabilities in the banking sector (French banks' net earnings have dropped sharply and their leverage remains relatively high) (van Rixtel & Gasperini, 2013).

First, the financial crisis has revealed that the setup of (international) standards has encouraged credit institutions to disguise risk they take. In particular, solvency requirements and risk management have led them to transfer a large share of the risks they generate through securitization transactions, which have increased in France since 1980. Moreover, the 2000s gave birth to a rising type of asset: credit derivatives and financial structured products. It is worth noting that securitization has reduced the risk from an accounting perspective. It modifies the treatment of asset risk: after securitization, the risk generated by the asset is no longer considered as a credit risk but as a market risk. The asset is no longer counted in a bank holding (or "banking book") but in a trading portfolio (or "trading book"). The problem remains that capital requirements to cover market risk are lower than those required to cover the risks of the assets before securitization. From a regulatory perspective, securitization helps to reduce the risk although it has no incidence in macroeconomic terms. Then, securitization transfers risk off the balance sheet or to other players that are not facing the same regulatory requirements as banks (pension funds or investment funds for instance).

Second, the (international) standards have neglected the existence of a liquidity risk. The financial crisis has indeed shown that credit standards were insufficient to prevent bank failures because of the possibility of a liquidity crisis. In France, the latest regulation applicable to liquidity dated back to 1988 and subjected banks to a liquidity ratio of at least 100% between their short-term assets and liabilities. Institutions were also required to calculate three "observation ratios" reflecting their forecast liquidity status (quarterly, biannually and annually). The requirements, defined in terms of liquidity of stock, do not sufficiently address the developments in banking and markets, particularly with regard to the growing impact of market liquidity. Banks have indeed ceased being mere suppliers of liquidity and have become dependent on market liquidity, which has a major impact on their balance sheets. However, market liquidity has a direct impact on solvency through the valuation of securitized assets. The effect of uncertainty (the inability to assign probabilities to different situations) on markets development are increased by information asymmetries between issuers and buyers of securities. Moreover, with the valuation at market value, any uncertainty about asset values turns into uncertainty about the solvency of financial institutions. This results in some tensions at the heart of the system, i.e. the interbank markets.

Finally, (international) standards themselves have generated a systemic risk because of their procyclicality. Solvency ratios are indeed criticized for their procyclicality: in times of economic downturn, the weights applied to commitments in light of the risks are increasing, which increases capital requirements. To continue to meet the existing standards, banks are then forced to reduce their credit supply which induces a credit crunch. Conversely, in periods of high growth, lower risk encourages banks to lend more, which can have the effect of feeding speculative bubbles. Prudential standards are then suspected to exacerbate the economic cycle. Moreover, as the principle of "fair value" accounting means taking into account the unrealized gains and losses; it increases the variability in the value of capital and hence the capital adequacy ratio of banks. This procyclicality is particularly damaging as the measure of fair value is not completely reliable when estimated from models at the discretion of individual institutions.

The French authorities (following the "Pauget recommendations" in the 2010 report ordered by the Minister of economy and finance Christine Lagarde) have been active in supporting the European regulatory reform and has proposed a series of steps, namely (i) to strength the supervision of EU-wide financial groups, (ii) to harmonize the regulatory frameworks, (iii) to undertake a joint supervision of cross-border banks and insurance companies, (iv) to enhance the transparency and surveillance of non-regulated market, credit rating agencies and compensation.

Nevertheless, the closeness between political power and the French banking industry is worth noticing. Numerous banks' CEOs previously worked in the administration. It gives them an easy access to political and regulatory power, allowing the banking industry to exercise strong lobbying strategies. These actions undermine the effectiveness of new regulations when the latter intend to minimise the size of this specific and systemic industry. The recent controversy in France about the Barnier proposal on banking regulation is a good example. While this initiative only tries to separate the banking activities, in accordance with many recent reports on the question like the Liikainen report, the French banking lobby quickly bashed this proposition to get rid of it (see e.g. Gaffard and Pollin, 2014).

4.2. Financial markets regulation

As for the European regulation of financial markets, a post-crisis emblematic action has undoubtedly been the regulation of Credit Default Swaps (CDS) market, which takes part of a more global regulation process, the EMIR (European Market Infrastructures Regulation).

Similarly to most financial derivative products, transactions in the CDS market are traded "over-the-counter" (OTC). A new regulation on short selling and naked CDS came into effect across the European Union in November 2012. First, the regulation sets out a temporary restriction in uncovered short selling of bonds and shares in the case of a significant fall in price (the European text actually expands to European Union a German restriction on sovereign bonds and major financial shares in effect since 2010 and it catches up on a regulation already existing in the US). Second, to increase market transparency, investors are required to disclose major net short positions to regulators and the general market (a goal that will be difficult to reach as this regulation does not cover corporate CDS, which introduces regulatory arbitrage). Last but not least, the European specificity concerns the ban of naked sovereign CDS (a ban proposal that was debated in the US in 2009 but finally abandoned). From November 2012 on, investors willing to

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trade sovereign CDS in a EU country must hold the underlying bond or hold a portfolio of assets correlated to the value of the sovereign debt.

In total, this regulation has the advantage to harmonize the regulation about short selling across the EU. Beyond that, its relevance is questionable in the context of the EMIR, the new European regulation on over-the-counter derivatives currently implemented. Indeed, EMIR aims at increasing transparency in the opaque OTC market along similar moves in the US through the Dodd-Franck act, whereas this CDS regulation cannot reach this goal.

Beyond this EU regulatory move, France has had its own two post-crisis emblematic regulations on financial markets: the tax on financial transactions (which came into force on 1st August 2012) and the bill on bonuses controls and prohibition of stock options.

The tax on financial transactions provides for a 0.1% tax on shares exchanges of companies whose market capitalization exceeds € 1 billion and which are headquartered in France. With a rate ten times lower (at 0.01%), it also targets certain products or transactions charged to foster speculation: the "naked" CDS on EU sovereign bonds and the "high-frequency trading" based on an automated processing system any nanosecond. This French tax aims to cause a ripple effect on its European neighbours.

The bill on bonuses controls and prohibition of stock options is one of the strong measures directly affecting the remuneration of traders. The first step in this direction was made in April 2009 when the French right-wing government (under Sarkozy's presidency) decided to ban stock options and free shares for enterprises having received State support (through loans and/or guarantees). Then, the successive governments battled to either cap bonuses (e.g. Nicolas Sarkozy in November 2009 at G20 in Pittsburgh) or to ban bonuses and stock-options (e.g. François Hollande, who included a commitment to legislate on this issue in his presidential programme). In each case, the goal of French initiatives was to launch a European impetus even if it did not always fully succeed. In Pittsburgh, Nicolas Sarkozy (together with Angela Merkel) failed to cap bonuses. Instead, the G20 countries opted for measures requiring banks to defer many bonuses for at least three years and to distribute the bulk of top executives' remuneration in shares. That was transmitted into the French legislation as soon as end-December 2009 through an "Arrêté", then going ahead the European Directive amending the Capital Requirement Directive ("CRD") in several directions, including the remuneration policies within banks. However, the legislation was unable to curb bank bonuses. In 2012, in his presidential programme, François Hollande then stated he will suppress stock options (except for start-ups) and will control bonuses. To date, the government under Hollande's presidency have capped the full remuneration of CEO in public companies: their remuneration should no longer be more than 20 times the smallest (full-time) wage of the company. Moreover, since July 2012, taxes on stock options and free shares have been increased. By constrast, the idea of suppressing the stock options seems to have been abandoned by the left-right government: probably, it would be politically unsustainable.

5. The present regulatory framework and authorities in France

The international and European contexts have deeply modified the French regulatory framework since the 1980s: the reading grid of the actual French regulation is both international (in light of the proposals of the Basel committee for instance) and European (in light of a requirement for a Community regulation). Since the crisis, time has come to reach European and international harmonization, in order to avoid the regulatory costs due to fragmentation and potentially leading to regulatory arbitrage (traders go where regulation is more lax). Thus, if the supervision and coercive authorities are national, the applied rules and regulation result from international norms and practices.

The French regulation is based on two major authorities, the ACPR (Autorité de Contrôle Prudentiel et de Résolution) for the supervision of the banking and insurance sectors and the AMF for the supervision of financial markets. They coordinate their policies via the "Pôle Commun". With a view to harmonization, the AMF is part of the ESMA, a European organisation that brings together all the European authorities in charge of financial markets. Its role is primarily dedicated to data collection or supervision of the European financial market.

5.1 The ACPR's role

The ACPR delivers banking licenses; it has a supervision power as it orders stress tests, controls for the compliance to regulatory constraints, etc. It has also the power to sanction if necessary. This authority was created in 2010 by the merger of four banking and insurance authorities (CB, ACAM, CEA and CECEI). The fact that the ACPR leans back on the Banque de France could have been a drawback because it raises the issue of a target conflict at the central bank that has to pursue monetary policy. However, this situation is an important advantage to guarantee the stability of the entire financial sector because ACPR receives therefore the economic and financial expertise from the central bank. Furthermore, this situation favours coordination and thus strengthens of French regulatory policy. The issues relative to different sub-sectors are tackled by sectoral sub-colleges. The Authority looks after the quality of the financial situation to guarantee the financial sector stability and the customers' protection and includes an enforcement committee (CS) in case of breach of those principles. In legal terms, the Authority's College "examines every general question common to banking and insurance sectors and analyzes the risks of those sectors under the economic situation. It deliberates on control priorities". This prudential control can take the form of permanent control or in-place inspection and is run on both banking and insurance sectors.

As for the banking sector, the ACPR ensures that credit organisations, investment firms and financial companies respect the legal and regulatory clauses. For this purpose, it runs on a quarterly basis an inquiry about the accounting and prudential states of the credit organisations and analyzes precisely their governance operations. All the information collected by the ACPR during its permanent and in-place inspections leads it to express some recommendations with a view to improving management operations and risk profile of the organisations. This information is also useful for possible additional requirements of prudential equity (e.g. 2d mainstay of Basel II). Thus, the ACPR has imposed equity requirements above the regulatory minimum for 82 institutions that represent 97% of the national banking system risks. Finally, the ACPR has contributed to the "stress tests" coordinated by the European Banking Supervisors Committee (CECB) and pays attention to the liquidity risk.

The ACPR conducts the same supervision and regulation for the insurance sector, which encompasses insurance societies and mutual companies. It pays an additional attention on sovereign risks facing the French insurance organisations and their beneficiaries. Insurance societies invest indeed generally a great part of their assets in sovereign bonds.

Finally, the ACPR attaches great importance to the protection of the customers. Until its inception, the mission of consumer protection in the banking and insurance sector was exercised mainly by regulating the solvency of financial institutions. It thus allowed having the certainty that the insurers had means to fulfil their commitments and that bank deposits were not jeopardized by an excessive risk taking. Henceforth, ACPR's customers' protection includes the control of business practices.

5.2 The AMF's role

The AMF is "committed to ensuring the promotion of effective financial regulation to ensure safety and market integrity" (AMF Annual Report, 2010). From this perspective, the AMF has to protect investors, regulate and control the investment services, regulate the market infrastructure and the market discipline.

First, the issue of investor protection is a central concern for the Authority. In this context, the Directorate for relations with investors (DRE) has been created: its objective is to inform investors, to analyse their behaviour and their marketing practices and assist them in resolving disputes. For instance, the marketing of financial products to retail investors is part of mediation cases: some subscribers complained that they had been pressured to invest without having received clear and complete information or being alerted about potential risks. In some cases, the subscribers may be compensated by the wrongdoers. Similarly, the devaluation of shares acquired at the time of their placing on the market raises many claims and takes part in the AMF mission of investor protection.

Second, the AMF authorizes, regulates and controls the OPCVM and other collective savings products, management companies, investment services providers, and market infrastructures while ensuring the development and innovation in the financial services industry. It supervises the functioning of the market, the quality of financial reporting and the compliance by financial intermediaries of their professional obligations. To this end, the AMF is in close collaboration with other national and foreign authorities responsible for supervision of banking and financial professions (Banque de France, ACPR, H3C and ANC).

The AMF is one of the few European regulators that exercise direct supervision of the order book on its national regulated market. It then develops automated alerts on suspicious behaviour and it devotes a part of its monitoring workforce to process that data.

When the AMF observes that some behaviour may fall within the jurisdiction of other authorities (judicial, administrative or professional), it transmits to them information in its possession and reports it has established. Finally, it has a penalty procedure for noncompliance with the regulation.

The AMF is part of the ESMA that brings together all European financial markets authorities. Its role is essential through data collection. An example of such a role emerges from the Greek debt crisis: during debt restructuring, creditors and negotiators had to know precisely the amounts of Greek debt that European banks had in their balance sheets and to what extent they could be affected by debt restructuring. These data were present in banks' balance sheets but were of course non-public; they have been made available through these authorities and were pooled by a supervisor.

5.3 Articulation of supervisory authorities

The Prudential Control Authority (ACPR) takes individual decisions for approval of credit institutions, mutual, insurance, market and investment firms after an authorization of the Financial Markets Authority (AMF), except for decisions referring to portfolio management companies that depend only on the AMF. It also has a double function of control and punishment: it supervises compliance with legislation or regulations and penalizes infractions. The ACPR has a look on the quality of the financial situation of credit and investment institutions, especially in terms of solvency and liquidity. Finally, the ACPR is responsible for the protection of customers of mutual insurance and credit institution.

The Financial Markets Authority (AMF) is an independent administrative authority which regulates and supervises all financial transactions that involve listed companies. It delivers the approvals for portfolio management companies and controls the exercise of activities of investment services and market structures.

Besides these authorities, there are advisory bodies like the Advisory Committee of the legislation and financial regulation (CCLRF), the Advisory Committee of the Financial Sector (CCSF) and the Higher Council of mutuality (CSM).

The Minister of Economy and Finance appeals to the Advisory Committee of Financial Legislation and Regulation in order to deliver an opinion about projects on normative acts with a general purpose in the banking, financial and insurance sector. There can be some exceptions for some normative acts that depend solely on the Financial Markets Authority.

The Advisory Committee of the Financial Sector is responsible for studying issues referring to relations between financial institutions and their customers. It can refer a matter itself, be seized by the Ministry of Economy and Finance or representative organizations for professionals and consumers.

The Higher Council of Mutuality is in charge of Mutual Insurance Company.The Prudential Control Authority, the Advisory Committee of Financial Legislation and Regulation and the Advisory Committee of the Financial Sector are all affiliated to the Banque de France. The chart below helps to summarize the extent of the role of these different institutions.

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Figure 1: The expertise fields of Supervisory authorities

<table>
<tr><th></th><th>Mutual</th><th>Insurance</th><th>Credit institution</th><th>Investment services</th><th>Market</th><th>Asset management</th></tr>
<tr><td>Regulation</td><td colspan="3">Ministry of Economy</td><td colspan="3" rowspan="3">AMF</td></tr>
<tr><td>Advisory competence</td><td>CSM</td><td colspan="2">CCLRF</td></tr>
<tr><td>Protection of customers</td><td colspan="3" rowspan="3">ACPR</td></tr>
<tr><td>Prudential supervision</td><td colspan="2" rowspan="2"></td><td rowspan="2"></td></tr>
<tr><td>Approval</td></tr>
</table>

Source: Revue Banque, n°723, april 2010, p. 14.

At the European level, the European System of Financial Supervisors (ESFS) was created in 2010 in response to the crisis (see figure below). First, the strengthening of macro-prudential supervision throughout the European financial system comes through the implementation of the European Systemic Risk Board (ESRB). The latter is responsible for monitoring and analyzing risks which could occur in the financial system in its entirety. To achieve this mission, the ESRB has to warn early against systemic risk, and if necessary makes recommendations for corrective actions and warnings to Member States, national and European supervisory authorities, which in turn must comply with recommendations or explain why they did/could not. The President and vice-president of the European Central Bank (ECB), governors of national central banks, a member of the Commission and the heads of the European regulatory authorities and national supervisory authorities take part in the ESRB. Second, the strengthening of micro-prudential supervision comes through the establishment of European Supervisory Authorities (ESA). These authorities are supposed to intervene rapidly with national supervisors. They enact technical standards for the implementation of the European legislation. The European Supervisory Authorities are made up of:

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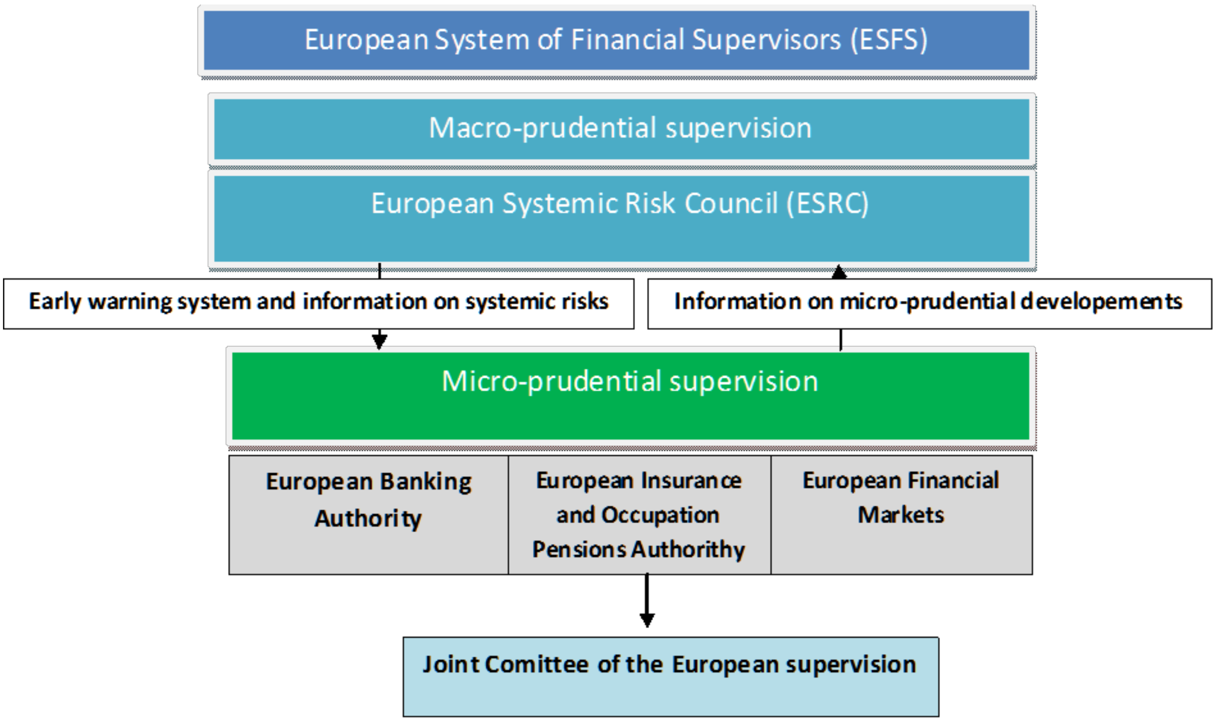
- The European Banking Authority (EBA), which is responsible for harmonizing the prudential rules, for ensuring coordination between national supervisory authorities and for playing a mediating role.
- The European Insurance and Occupational Pensions Authority (EIOPA), which is an independent advisory body for the European Parliament and the European Union Council. The EIOPA's mission is to support the financial system stability, the markets and financial products transparency and the protection of those who benefit from insurance and pension schemes.
- The European Securities and Markets Authority (ESMA) which is an independent authority from the European Union; it ensures the smooth functioning of markets (in terms of integrity, transparency and efficiency) as well as the investor protection.

This reform aims to implement the report of de Larosière (2009), a former governor of Bank de France.

Figure 2: Supervision at the European Level



Source: ACPR.

With respect to supervision at the European level, in France, the Committee on financial regulation and systemic risk (COREFRIS) aims to ensure the coordination of the various institutions concerned with financial stability. It is made up of the Banque de France (BDF), the General Committee of the Treasury, the Accounting Standards Authority (ANC), the Financial Markets Authority (AMF) and the Prudential control Authority (ACPR).

5.4 Prudential and accounting norms

Prudential rules and control methods are similar in major industrialized countries because of a movement of international harmonization driven by the Basel Committee. The EU has taken over the movement of harmonization, but created its own legislation that French authorities have translated in national terms.

As for the prudential norms, the Basel regulation aims at preventing bank failures by imposing a minimum level of capital to cover risks. In this perspective, Basel I (1988) has specified a solvability ratio (ratio Cooke) and Basel II (2004) has led to a new set of regulation aiming at taking better in account the diversity of risks (credit versus market risks). Basel III, signed in 2010, will impose a higher capital ratio in banks' balance sheets, a minimum "leverage ratio" and two liquidity ratios. Initially scheduled to be introduced from 2013 until 2015, the implementation of Basel III's ratios is extended until March 31, 2018.

Accounting norms are essential since the implementation of Basel II's ratio (the estimation of available capital depends on accounting rules). Capital requirements regulation is based on the idea that a bankruptcy will occur if cash that assets are likely to produce cannot cover all disbursements associated to liabilities. For this reason, the prevention of bank failures is based on a measure of their "economic" equity, which corresponds to the difference between the current value of assets and the current value of liabilities. This approach, which evaluates the balance sheet at market prices, is the one favoured by the international accounting standards (IFRS). It is opposed to a valuation at historical costs as recommended by traditional French accounting.

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6. Conclusion and summary of main findings

The objective of this report is to present the structural evolutions of the French banking and financial system. The historical context of deregulation, the European integration and, more recently, the crisis have all together shaped the structures of the banking system (Blot et al., 2012). Schematically, we can decompose the regulations' evolutions since the 1980s into three periods: the changes of national regulation with the Banking Act of 1984; the impetus caused by the European integration process (in particular, the single European Act and the single currency); and, finally, the influence of the crisis on financial and banking regulations.

Since the 1980s, both the international and European contexts have deeply modified the French regulatory framework. Consequently, the reading grid of the actual French regulation is international (in light of the proposals of the Basel committee for instance) but also European (in light of a call for a Community regulation). Since the crisis, time has come to reach European and international harmonization, in order to avoid financial and banking actors engage in regulatory arbitrage.

Nevertheless, one has to keep in mind that the French financial actors are also part of the political and institutional process and try to deeply influence the future regulations. The closeness between political power and the French banking industry is worth noticing. Numerous banks' CEOs previously worked in the administration. It gives them an easy access to political and regulatory power, allowing the banking industry to exercise strong lobbying strategies. These actions undermine the effectiveness of new regulations when the latter intend to minimise the size of this specific and systemic industry. Two examples are worth recalling. First, on 19 February 2013, the French Parliament passed a law on the separation of banking activities, making a distinction between speculative activities for own accounts and other bank activities. The former should be limited to a subsidiary and not mixed with bank customers' accounts. The "nuisance" of this Law for banks will be limited though: indeed, it is difficult to make a clear and practical distinction between hedging risk (which should not be mixed with "speculative" activities) and "pure speculation", or between activities to foster market liquidity and proprietary speculative activities. Legal vacuums in the clear definition of "speculative activities for own accounts" will help banks circumvent the Law. Second, the recent controversy in France about the European Commissioner M. Barnier's proposal on banking regulation is a good example. While his initiative only tries to separate banking activities (loans vs. market activities), in accordance with many recent reports on the question like the Liikainen report, the French banking lobby quickly bashed this proposition to get rid of it. As the moment we finish this deliverable, Barnier's proposal is no longer debated in France.

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Appendix 1 – Summary of the key events in the development of the French financial system, including political events

1885	- Establishment of the Caisses d'Epargne (savings banks)
1945	- Separation of banks into deposit banks, investment banks and lending banks
1981	- Election of François Mitterrand (PS) as President of the Republic, first Socialist president of the Fifth Republic
1982	- Wave of nationalizations in the banking sector
1984	- Banking Act
1985	- Creation of certificates of deposit, of the MATIF and the MONEP
1986	- First cohabitation of François Mitterrand with an RPR government led by Jacques Chirac - Development of mergers & acquisitions in the banking sector, wave of privatizations
1987	- Privatization of Société Générale, Compagnie Suez, Compagnie Paribas - Lifting of the credit framework
1988	- Re-election of François Mitterrand, Socialist government - Setup of an international solvability ration (ratio Cooke)
1989	- Creation of the Commission des Opérations de Bourse (COB) - Dismantling of exchange controls - Lifting of controls on capital movements
1990	- Opening of the domestic market to foreign banks
1991	- Restructuring and regrouping of the banking sector - Collapse of the property market
1993	- Crisis in the European Monetary System - Setup of the banking European single market -Directive about the investment services - Second cohabitation of François Mitterrand with an RPR government led by Edouard Balladur - Second wave of privatizations
1995	- Election of Jacques Chirac (RPR) as President of the Republic
1996	- Law on the modernization of financial activities
1997	- Dissolution of the Assemblée Nationale and cohabitation of Jacques Chirac with a Socialist government led by Lionel Jospin
1999	- Transition to the euro on the financial markets - Introduction of the euro
2002	- Re-election of Jacques Chirac as President of the Republic

2003	- Law for financial security - Creation of the Financial Market Authority (AMF)
2005	Setting up of the international accounting rules in the European Union
2006	- Implementation in the European Union of the Basel II international standards on 31 December
2007	- Election of Nicolas Sarkozy (UMP) as President of the Republic - François Fillon (UMP) as the Prime Minister. - Onset of the subprime crisis - Tax rebates under the "tax shield" (*bouclier fiscal*)
2008	- Collapse of Lehman Brothers - Bail-out plan for the French banks (through guarantees on loans and loans at interest rates granted by the State to the banks) - Implementation of Basel II standards in France
2009	- Reimbursement by a majority of French banks of State loans granted as part of the bail-out plan
2010	- Publication of the Basel III recommendations - Creation of the Prudential Control Authority (ACPR)
2011	- Suppression of the "tax shield"
2012	- Election of François Hollande (PS) as President of the Republic - Jean-Marc Ayrault (PS) as the Prime Minister
2013	- Phased implementation into the European Union of the Basel III standards, from 1 January 2013 to 1 January 2018

Appendix 2- Abbreviations of political parties:

EELV: Europe-Ecologie-Les Verts (the Greens)

MDC: Mouvement Des Citoyens

MDR: Mouvement Des Réformateurs

MRG: Mouvement des Radicaux de Gauche

NC: Nouveau Centre

PCF: Parti Communiste Français

PRG: Parti Radical de Gauche

PS: Parti Socialiste

RPR: Rassemblement Pour la République

UDF: Union pour la Démocratie Française

UMP: Union pour un Mouvement Populaire

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Appendix 3 – Summary of successive French governments since 1980

1981	Election of François Mitterrand (PS) as President of the Republic Government (PS-PCF-MRG) of Pierre Mauroy
1984	Government (PS-PCF-MRG) of Laurent Fabius
1986	Government (RPR-UDF) of Jacques Chirac, "First cohabitation"
1988	Re-election of François Mitterrand (PS) as President of the Republic Government (PS-MRG) of Michel Rocard
1991	Government (PS-MRG-MDR) of Edith Cresson
1992	Government (PS-MRG-MDR) of Pierre Bérégovoy
1993	Government (RPR-UDF) of Edouard Balladur, "Second cohabitation"
1995	Election of Jacques Chirac (RPR) as President of the Republic Government (RPR-UDF) of Alain Juppé
1997	Government (PS-PCF-PRG-Verts-MDC) of Lionel Jospin, "Third cohabitation"
2002	Re-election of Jacques Chirac (UMP) as President of the Republic Government (UMP) of Jean-Pierre Raffarin
2005	Government (UMP) of Dominique de Villepin
2007	Election of Nicolas Sarkozy (UMP) as President of the Republic Government (UMP-NC) of François Fillon
2012	Election of François Hollande (PS) as President of the Republic Government (PS-PRG-EELV) of Jean-Marc Ayrault

Appendix 4 – Set of acronyms used

ACAM	Autorité de Contrôle des Assurances et Mutuelles
ACPR	Autorité de Contrôle Prudentiel et de Résolution
AFB	Association Française des Banques
AMF	Autorité des Marchés Financiers
ANC	Autorité des Normes Comptables
CB	Commission Bancaire
CCA	Commission de Contrôle des Assurances
CCLRF	Comité Consultatif de Législation et de Réglementation Financières
CCSF	Comité Consultatif du Secteur Financier
CDS	Credit Default Swaps
CEA	Comité des Entreprises d'Assurances
CEC	Comité des Etablissements de Crédit
CECB	Comité des Contrôleurs Bancaires Européen
CECEI	Comité des Etablissements de Crédit et des Entreprises d'Investissement
CMF	Conseil des Marchés Financiers
COB	Commission des Opérations de Bourse
CRB	Comité de Régulation Bancaire
CS	Commission des Sanctions
DRE	Direction des Relations avec les Épargnants
DSP	Directive sur les Services de Paiement
EMIR	European Market Infrastructure Regulation
ESMA	European Securities and Markets Authority
FESCO	Forum of European Securities Commissions
FGD	Fonds de Garantie de Dépôts
H3C	Haut Conseil du Commissariat aux Comptes
IFRS	International Financial Reporting Standards
LSF	Loi de Sécurité Financière
OPCVM	Organisme de Placement Collectif en Valeurs Mobilières
PS	Parti Socialiste

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THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?'

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THE PARTNERS IN THE CONSORTIUM ARE:

Participant Number	Participant organisation name	Country
1 (Coordinator)	University of Leeds	UK
2	University of Siena	Italy
3	School of Oriental and African Studies	UK
4	Fondation Nationale des Sciences Politiques	France
5	Pour la Solidarite, Brussels	Belgium
6	Poznan University of Economics	Poland
7	Tallin University of Technology	Estonia
8	Berlin School of Economics and Law	Germany
9	Centre for Social Studies, University of Coimbra	Portugal
10	University of Pannonia, Veszprem	Hungary
11	National and Kapodistrian University of Athens	Greece
12	Middle East Technical University, Ankara	Turkey
13	Lund University	Sweden
14	University of Witwatersrand	South Africa
15	University of the Basque Country, Bilbao	Spain

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