



Governor's foreword

“The Banque de France,  
a trusted and outstanding  
public service provider”

François Villeroy de Galhau



ITS MISSIONS



This 2019 *Annual Report* does not, by definition, describe the measures adopted to combat the economic fallout of the coronavirus (Covid-19) pandemic, which has since had such a devastating effect on the world's health and economy. But it does show how invaluable our transformation strategy has been in enabling us to respond rapidly and powerfully to a challenge that, just a few months ago, would have been unimaginable. In the face of Covid, the Banque de France was able to serve our country thanks to the professionalism of its teams and missions, its foot on the ground – both at the national and European level – and the modernisation of its activities, notably through digitalisation. Close to 80% of our teams have been able to carry out their activities from home.

In hindsight, 2019 appears to have been the calm before the storm. Yet global growth had already begun to slow as a result of the uncertainties weighing on global trade. In Europe, euro area growth eased to 1.2% in 2019 from 1.9% in 2018, and inflation to 1.2% over the year. The unemployment rate nonetheless continued to decline, including in France, thanks to several years of reforms aimed at boosting jobs.

We celebrated the 20<sup>th</sup> anniversary of the euro, which is more popular than ever among euro area citizens: 76% of Europeans and 72% of French people support our single currency.

The Banque de France worked to deliver its three core missions: monetary strategy, financial stability, services to the economy and society.

Its operational staff and experts worked successfully to ensure Paris remains a secure and high-performance financial centre. Our **monetary strategy** contributed to the financing of the economy and the cohesion of the euro: we have purchased EUR 611 billion of securities since the launch of the European purchasing programmes. We printed increasingly secure banknotes, delivered 5.4 billion notes of all denominations, put euro banknotes into circulation and ensured they were of consistently high quality. We continued to innovate, enabling a diverse range of payment solutions to be rolled out in complete security.

The safety of French citizens also depends on the **stability of the financial system**: we supervised 671 banks within the European banking union, as well as 695 insurers and mutuals. The solvency ratio of France's six largest banking groups was strengthened to 14.4%. We remained vigilant in the face of the rapid growth in lending to businesses and households, and in particular in residential real estate lending. We took action on those crucial issues where our expertise and impartiality were most needed: artificial intelligence, digital currency and cryptoassets. The Banque de France hosted the first annual conference of the Network of Central Banks and Supervisors for the Greening of the Financial System (NGFS) and launched a "call for action" on climate-related threats, the urgency of which is now widely acknowledged.

Regarding our **services to the economy and society**, the Banque de France is in direct contact with the life forces of our country thanks to its nationwide network of local branches. Key highlights of our support for individuals, especially the most vulnerable, were our continued provision of help for the overindebted and the right to a basic bank account, the maintenance of banking and payment incident registers, and the monitoring of the fees and charges levied by banks.

Other illustrations of our country-wide presence, serving all members of society, were the provision of guidance to businesses, both VSEs and SMEs, and the major role played by the Credit Mediation service, which in 2019 celebrated its 10<sup>th</sup> year of existence. Our commitment to economic and financial education was illustrated by the opening of Citéco in 2019.

The Banque de France also transformed itself extensively from within. We enhanced our performance while at the same time cutting our costs – which are now more than 12% lower than in 2015 – and expanding our services. We attracted 16,600 visitors for the European Heritage Days and doubled our Facebook subscribers, demonstrating our prominent place in our country's history but at the same time our commitment to modernity. We shared our research work more widely and stepped up the activities of our Lab – our laboratory that works with start-ups to find innovative solutions. In March 2019, the Banque de France published its Responsible Procurement Charter. Our values of activism and solidarity, which are at the heart of our identity, were put into practice through numerous corporate and social responsibility initiatives, which we rolled out throughout the regions.

To achieve these results, the women and men of the Banque de France demonstrated a remarkable commitment. They all contributed to the solidity of our currency and to the smooth functioning of the economy. They rightfully feature on the front cover of this 2019 *Annual Report*, in a sign of their pride in their work and our gratitude.

Our mission and mandate as a central bank is this: to serve as a shield for confidence and stability, for the benefit of all. More than ever, in the current crisis, we shall continue to fulfil that role.





# IN 2019, THE BANQUE DE FRANCE COMPRISED ...

**95** BRANCHES

**9,857** FULL-TIME EQUIVALENT EMPLOYEES



# 4,638

ENTREPRENEURS ASSISTED  
BY OUR VSE CORRESPONDENTS

AS WELL AS...

# 205,121

HOUSEHOLDS HELPED WITH THEIR FINANCIAL  
DIFFICULTIES (RIGHT TO AN ACCOUNT,  
OVERINDEBTEDNESS)

# 18,165

SECONDARY SCHOOL PUPILS  
INSTRUCTED IN ECONOMIC, BUDGETARY  
AND FINANCIAL ISSUES

# 3.8%

REDUCTION IN ENERGY-RELATED  
GREENHOUSE GAS EMISSIONS  
COMPARED WITH 2018

# CONTENTS

<b>MONETARY STRATEGY</b>	<b>10</b>
Designing and implementing monetary policy	14
Innovating as the central bank for markets	22
Ensuring confidence in the euro in all its forms	24
<b>FINANCIAL STABILITY</b>	<b>32</b>
Protecting depositors and policyholders	36
Contributing to financial sector regulation	40
Managing risks and supporting transitions	43
<b>SERVICES TO THE ECONOMY AND SOCIETY</b>	<b>50</b>
Improving citizens' economic and financial literacy	54
Protecting private individuals	59
Helping businesses with their financing and development	63
The Banque de France acts as banker to the French government	69
Execution of the Public Service Contract	69
<b>TRANSFORMATION STRATEGY</b>	<b>72</b>
A more efficient Bank for the benefit of the community	76
An increased influence and visibility	77
Innovation is benefiting all activities and increasing our openness	79
For our management and staff: a simpler, more modern working environment	81

<b>CORPORATE ENVIRONMENTAL RESPONSIBILITY</b>	<b>84</b>
An educational and cultural commitment	87
An economic and civic commitment	88
An environmental commitment	92
A commitment towards Bank staff	95
<b>GOVERNANCE</b>	<b>100</b>
Executive bodies	102
Decision-making and control bodies	104
Internal audit and operational risk management	104
<b>FINANCIAL MANAGEMENT AND ACCOUNTS</b>	<b>108</b>
Annual financial statements of the Banque de France	110
<b>APPENDICES</b>	<b>136</b>
Organisation of the Banque de France as at 18 May 2020 and the Banque de France branch network as at 1 January 2020	138
The scope of the Banque de France	141
The recirculation of euro banknotes and coins by private operators in 2019	142
Summary of the household debt commissions' activity reports for the year 2019	145



# MONETARY STRATEGY

# THE BANK'S MONETARY STRATEGY IN 2019



## MISSIONS

The Banque de France's cutting-edge expertise consolidates its position as the central bank for markets and **ensures the Paris financial centre is efficient and secure:**

- secure financing environment
- increased capital market liquidity
- management of foreign exchange reserves

At the heart of the Eurosystem, the Banque de France designs and implements monetary policy with the **aim of safeguarding a major public good: monetary stability**

- participation in Governing Council monetary policy decisions
- implementation of exceptional measures to keep inflation and growth on track
- production of economic statistics and forecasts to provide valuable insight

The Banque de France **maintains confidence in the currency in all its forms:**

- printing of the Europa banknotes' series with innovative security features
- putting banknotes into circulation and maintaining the currency
- security and innovation in all payment instruments



€ **611.5** BN

of securities purchased by the Banque de France since the implementation of the CBPP3, ABSPP, PSPP and CSPP programmes (cumulated flows at end-2019)

**949** M

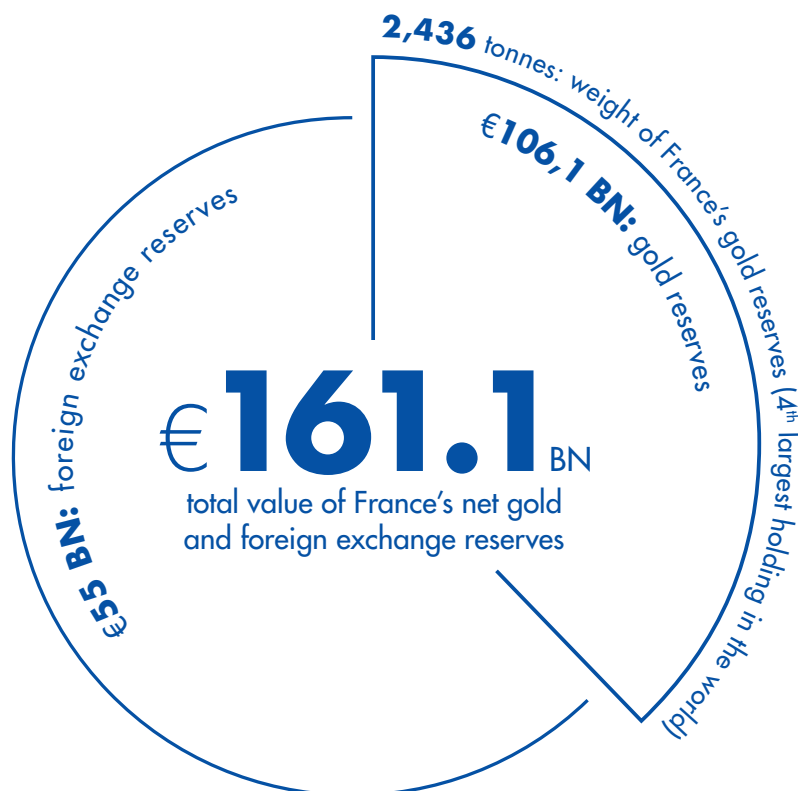
items of data accessible via the Open Data Room

**1** BN

euro banknotes manufactured and distributed

**5.4** BN

banknotes distributed at Banque de France counters



# A MONETARY STRATEGY TO ACHIEVE THE INFLATION TARGET AND ENSURE CONFIDENCE IN THE EURO

**The monetary policy of the Eurosystem aims at ensuring price stability (defined as a rate of inflation below, but close to, 2% over the medium run)**

**The Banque de France contributes to drawing up and implementing the Eurosystem's decisions, thus working towards a stable and trustworthy currency**

## 1

### Designing and implementing monetary policy

The mandate of the European Central Bank (ECB), the Banque de France and the other national central banks of the Eurosystem is to ensure price stability and, without prejudice to this primary objective, to support the economic policy objectives of the European Union.

In 2019, through its analyses of economic and financial conditions in the euro area and France, the Banque de France participated in monetary policy decisions. Thanks to its market expertise, it contributed to their implementation under the best possible conditions.

**Economic forecasts on growth and inflation guide monetary policy decisions**

**The year 2019 was marked by the resilience of French economic growth, dynamic job creations and gains in household purchasing power**

In 2019, GDP growth in France stood at 1.3%, despite

a decline in output at the end of the year due to factors that were at least partly transitory. The French economy thus showed resilience even though the external environment continued to deteriorate throughout the year, in particular as a result of the rise in protectionist measures and uncertainties over Brexit. The output growth achieved is slightly below expectations (1.5% expected in December 2018) but in a context where the forecasts for some of our partners such as Germany and Italy have been halved or even more. This economic resilience has resulted in an improvement in the overall situation of French households, even if the average figures cover different situations.

Labour market trends were highly positive, with more than 250,000 net new jobs created during the year, bringing the cumulative total over the last four years to more than one million. French people's purchasing power gains were also significant on a global scale, with an average increase of 1.8% per capita over the year, the highest rate since 2007. These purchasing power gains were driven by the improved health of the labour market and by the major measures to reduce taxes on households (reduction in housing tax and employee social security contributions, tax exemption and exemption of social security charges for overtime, increase in the activity bonus).



← Speech by Olivier Garnier, Director General of Statistics, Economics and International, at the press conference on the *Macroeconomic Projections France* in September 2019

### For the euro area, the outlook has shifted from a temporary strengthening of growth to a more uncertain environment

GDP growth in the euro area stood at 1.2% in 2019, down from 1.9% in 2018 and 2.7% in 2017. This slowdown mainly reflects the protracted weakness of international trade, in a context of persistent global uncertainties (Brexit, trade tensions, in particular between the United States and China), which continues to weigh on the euro area manufacturing sector and is holding back investment growth. At the same time, the services and construction sectors remain resilient. Moreover, euro area growth is still supported by favourable financing conditions, further employment gains and wage growth that support household purchasing power, and the slightly expansionary fiscal stance in the euro area.

Average annual HICP (Harmonised Index of Consumer Prices) inflation in the euro area dropped from 1.8% in 2018 to 1.2% in 2019, reflecting lower food and energy prices. Core inflation indicators remained moderate, while inflation expectations were low. While pressures on labour costs have increased against the backdrop of a tightening labour market, the slowdown in growth is delaying their pass-through to inflation (*see the box on low core inflation in the euro area*).

### Recalibration of non-standard measures

#### Monetary policy adjusts to economic conditions but cannot do everything

Following the publication of improved business indicators in the second half of 2018, global uncertainties weighed on euro area economic developments and price dynamics in the first half of 2019. In a context where inflation, both actual and expected, was consistently below the Eurosystem's price stability objective (defined as a rate of inflation below, but close to, 2% over the medium term), the ECB Governing Council adjusted the set of monetary policy instruments in September 2019. Despite initial signs of a stabilisation of the slowdown and a slight acceleration in underlying inflation towards the end of the year, substantial monetary support remains necessary to ensure the long-term convergence of inflation towards the target and to support economic activity.

In recent years, monetary policy has effectively contributed to supporting growth and reaching the euro area inflation target, but it is not all-powerful. For example, it has no control over the structural changes that have led to the exceptionally low level of the natural interest rate, such as the slowdown in labour force growth linked to demographic ageing, the slowdown in productivity, or

## LOW CORE INFLATION IN THE EURO AREA

Core inflation, which excludes the most volatile components of inflation (energy, food), is a standard measure of the inflationary pressures at work in the economy. However, core inflation has been particularly weak over the recent period, averaging between 0.8% and 1.1% per year between 2013 and 2019, despite the improvement in the macroeconomic environment, particularly in the labour market. This level is low compared to the pre-crisis period: core inflation averaged 1.6% between 2000 and 2007. We are therefore witnessing a new disconnection between unemployment (which is declining) and inflation excluding energy and food (which is not picking up). Yet, wage developments have been fairly consistent with their historical relationship with unemployment. Indeed, average wages rose by 2.1% year-on-year in 2019, after 1.4% in 2014.

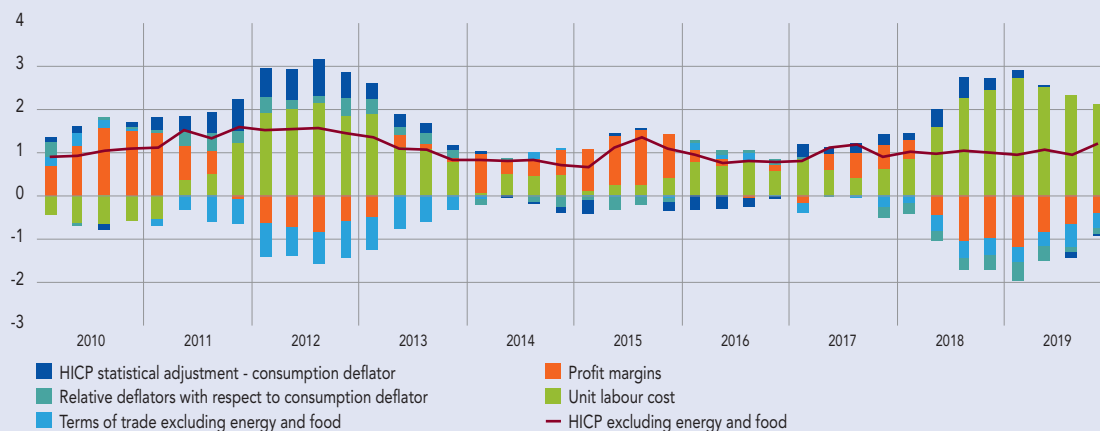
By using an accounting breakdown, it is possible to highlight the factors underlying the absence of pass-through of wage increases to core inflation.<sup>1</sup>

Four main factors explain the evolution of core inflation: (i) compensation per employee adjusted for productivity, or unit labour cost (ULC); (ii) companies' profit margins; (iii) terms of trade excluding energy and food, or core terms of trade; and (iv) price differentials between household consumption and government consumption, investment and exports.

Several factors have had an impact on core inflation since 2017: despite a strong acceleration in ULCs, companies' profit margins have declined, reflecting a downward phase in the productivity cycle, which has dampened the price response. In addition, the underlying terms of trade have improved following the appreciation of the euro between end-2016 and end-2018, causing an imported disinflationary effect. Finally, construction investment prices have increased significantly faster than consumer prices, in particular in Germany: the rise in domestic prices (taken as a whole) concerns more construction investment prices than consumer prices.

### Breakdown of the year-on-year change in core inflation in the euro area

(in percentage points; in % and year-on-year change for the HICP)

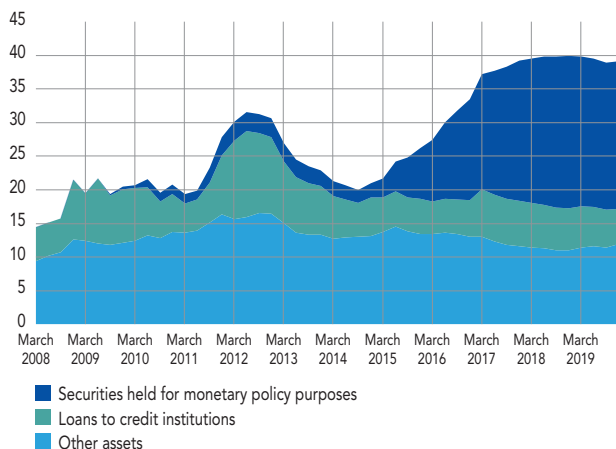


Sources: Eurostat and Banque de France calculations.

<sup>1</sup> See Diev (P.), Kalantzis (Y.), Lalliard (A.) (2019), "Why have strong wage dynamics not pushed up inflation in the euro area?", *Banque de France Bulletin*, No. 225/6, September-October (<https://publications.banque-france.fr/en/>).

## Changes in Eurosystem assets

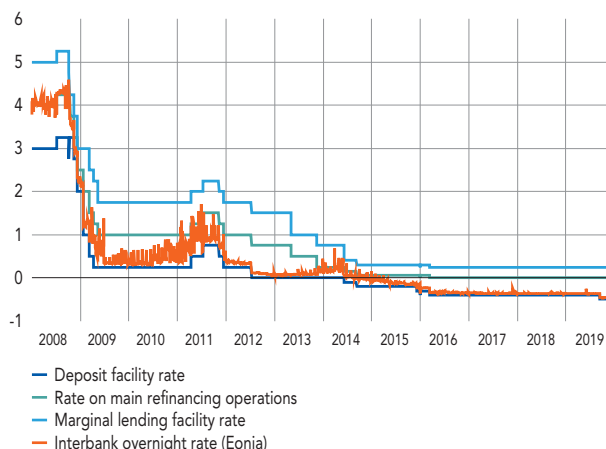
(as a % of annual GDP)



Source: European Central Bank.

## ECB key rates

(in annualised percentage points)



Source: European Central Bank.

the global savings glut. Other policies would therefore be needed to complement an accommodative monetary policy, such as structural growth policies aimed at spurring innovation and productivity, and targeted fiscal policies, which, in the current low interest rate environment, would make it possible to finance investments in ecological transition, digitalisation, education and research in a cost-effective manner.

### Monetary policy measures in 2019: resumption of net APP purchases and TLTRO III

After being discontinued in January 2019, the asset purchase programme (APP) was relaunched at end-2019, with the Eurosystem targeting a net purchase volume of EUR 20 billion per month from November 2019 onwards. The reinvestment of the stock of assets purchased by the Eurosystem is expected to continue for an “extended” period after the first increase in key interest rates. Similarly, in order to reinforce the accommodative effects of net purchases, their duration is now linked to the evolution of key interest rates.

In 2019, the Eurosystem continued to provide liquidity and loans to banks on very accommodative terms.

In September 2019, a third series of targeted longer-term refinancing operations (TLTRO III) was launched, with a three-year maturity and favourable interest rate conditions. Together with the fixed rate full allotment (FRFA) procedure, which is still in force, this measure contributes to the transmission of monetary policy and low rates to bank lending.

The low interest rate policy continued in 2019. While the rate on main refinancing operations remained at 0%, the rate on the deposit facility was lowered from –0.4% to –0.5% in September 2019. This change was accompanied by enhanced forward guidance. The Governing Council’s communication evolved to state that “*key ECB interest rates will remain at their present or lower levels until the inflation outlook robustly converges to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.*”

To support bank-based transmission of monetary policy, a two-tier system for reserve remuneration was introduced on 30 October 2019. Under this system, part of credit institutions’ excess liquidity holdings (i.e. reserve holdings

**4<sup>th</sup>** ranking among Eurosystem central banks, by number of listed publications, on RePEc; ranked in the top 1% of global institutions for the quality and quantity of research work and publications

**30** *Banque de France Bulletin* articles

**40** working papers published on various research topics

**50** posts published in the economic blog of the Banque de France  
(<https://blocnotesdeleco.banque-france.fr/>)

**9** research partnerships with French foundations and universities

**35** economic conferences open to the public, of which 3 organised in the framework of the French presidency of the G7

## BANK PROFITABILITY AND TIERING: A MEASURE ADOPTED TO PARTIALLY NEUTRALISE THE EFFECT OF NEGATIVE RATES

Strong banks are essential for the smooth transmission of monetary policy. Current monetary policy results in lower financing costs and reduces borrowers' debt burden; however, the prolongation of the low interest rate environment, combined with high excess liquidity holdings, also weighs on the profitability of financial players, both banks and insurance companies. These players must therefore adjust their digitalisation and consolidation strategies in order to maintain their profitability, which is essential for the stability of the financial system.

Excess liquidity holdings averaged EUR 1,802 billion in 2019, i.e. a balance well in excess of the EUR 132 billion of minimum reserves to be held by credit institutions with the national central banks of the Eurosystem. Minimum reserves are remunerated at the main refinancing operations rate, which is currently 0%, whereas excess liquidity or reserves are usually remunerated at the deposit facility rate, i.e. -0.50% since September 2019.

In September 2019, the Governing Council decided to introduce a two-tier system for remunerating excess liquidity holdings (or tiering). It exempts part of credit institutions' excess liquidity holdings from negative remuneration. Such systems are already being applied in jurisdictions with negative policy rates (Sweden, Japan, Switzerland), in order to preserve the effectiveness of the transmission of monetary policy to the real economy.

More specifically, the share of excess liquidity holdings remunerated at 0% is set at six times the minimum reserve requirements (i.e. EUR 792 billion). The remaining excess liquidity holdings (around EUR 1,010 billion) continues to be remunerated at the deposit facility rate.

The "exempt tier" will be determined as a multiple of the minimum reserves that all euro area banks are required to hold with the Eurosystem. Each bank's minimum reserve target depends on the size of its liabilities vis-à-vis non-financial agents with a maturity of less than two years.

By construction, tiering benefits banks with a high minimum reserve target (deposit banks) and excess liquidity holdings with the Eurosystem, up to the amount of the exempt tier. Germany, France and Italy are thus the main beneficiary jurisdictions.

The multiplier was chosen so as to meet several constraints. On the one hand, it does not penalise banks that finance themselves mainly by collecting deposits, as this method of financing is generally low-risk. On the other, it lowers the adverse impact of negative rates on banks' profitability. Finally, it also ensures that short-term euro money market rates remain close to the deposit facility rate. The multiplier and the rate of remuneration on excess liquidity holdings not subject to the deposit facility rate may change over time.

European banks rapidly applied this new system. During the first period of application of tiering (30 October to 17 December 2019), euro area banks used 95% of their defined exemption rights. Tiering thus results in significant cost savings for the banking system. If banks were to use their full exemption rights, these savings could reach a maximum of EUR 4 billion per year. For French banks, the annualised savings would amount to around EUR 800 million.

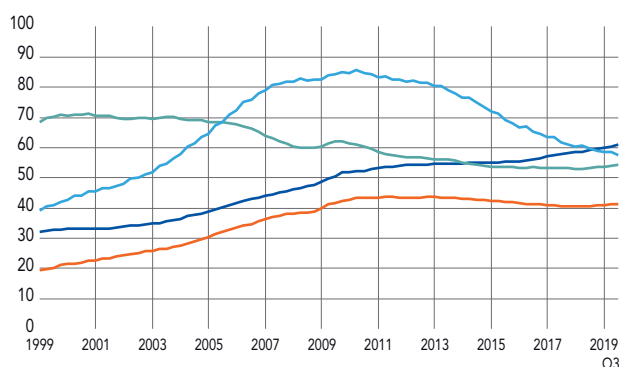
# 125.7

billion euro of private sector securities purchased by the Banque de France since the launch of the private sector asset purchase programmes (CBPP3, ABSPP, CSPP)



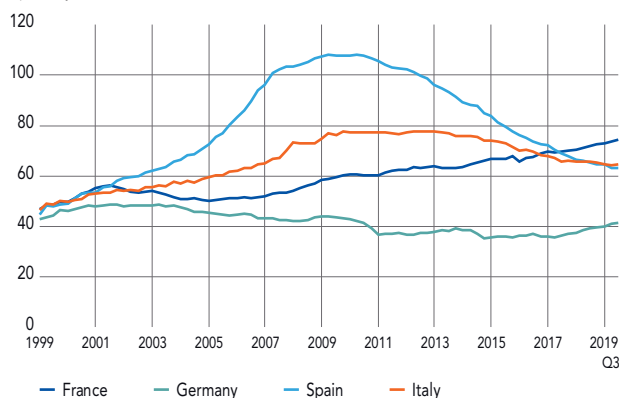
← Christine Lagarde, then Managing Director of the IMF, at the symposium “The Euro Area: Staying the Course through Uncertainties” on 28-29 March 2019 in Paris. Symposium organised by the Banque de France and the Société universitaire européenne de recherche en finance (Suerf)

## Household debt (quarterly data as a % of GDP)



## Non-financial corporation debt

(quarterly data as a % of GDP)



in excess of minimum reserve requirements) are exempt from negative remuneration at the rate applicable on the deposit facility (see the box entitled “Banking profitability and tiering”).

Statistics shed light on the country’s economic and monetary situation and contribute to the analyses on the euro area.

## The strong growth of business and household loans calls for careful monitoring

Thanks to its long-standing statistical framework, the Banque de France is able to monitor household debt – both housing and consumer loans – as well as that of companies. These data are finely segmented by company size, by type of financing – loans or securities – and by maturity. This framework also includes detailed data on interest rates, including, for household debt, overall effective rates. It enables the Bank to rapidly provide the information needed to prepare monetary policy decisions and those taken by the Financial Stability Board – whether for corporate financing or housing loans to households – and to measure their effects on the economy.

The quality of these statistics, based mainly on banks’ reporting, is of prime importance in a context of





**44,300**  
statistical series disseminated  
via [webstat.banque-france.fr](http://webstat.banque-france.fr)



← Banque de France business surveys:  
interviews of business leaders

sustained debt growth, which calls for careful monitoring. The Banque de France's statistics departments are strongly involved in a dialogue with the financial centre in order to provide high-quality data that reflect financial innovation. The year 2019 was also marked by the full implementation of the "AnaCredit" statistics (collection on a line-by-line basis of data on loans over EUR 25,000 granted within the euro area), which will contribute to the macro and microeconomic analyses in support of monetary policy decisions and other central bank tasks (financial stability, supervision).

The Bank's statistics departments have also been involved in developing measures of debt and financing related to energy transition and sustainable growth, such as green bonds<sup>1</sup> and green and socially responsible funds.<sup>2</sup> The Banque de France has also played a leading role in promoting, within the Irving Fisher Committee on Central Bank Statistics, the development of work on green finance statistics.

### Business surveys attest to the resilience of French growth

In the framework of its monthly business survey, the Banque de France surveys over 13,000 companies in industry, services and construction regarding their

economic situation and outlook. A quarterly survey is also carried out in the public works sector. Finally, a survey of the retail sector is conducted every month. The results of these surveys are made available rapidly, just ten days after the end of the period under review. They provide a comprehensive overview of the French economy, which is useful both for guiding monetary policy decisions and for informing economic players. The corresponding series, collected by the Banque de France's branch network across France, are disseminated via the Webstat portal.<sup>3</sup>

In 2019, the Banque de France's surveys attested to the resilience of the French economy despite the international slowdown. Thus, the business climate indicator in industry, after falling in the first half of the year, stabilised in the second half. Service sector activity posted positive growth throughout the year, at a rate close to the long-term average. In construction, order books reached historically high levels at the end of the year.

<sup>1</sup> See Bui Quang (P.), Delbos (J.-B.), Perillaud (S.) and Bourgey (C.) (2019), "The green bond market is expanding rapidly but needs to be measured more accurately", *Banque de France Bulletin*, No. 226/6, November-December (<https://publications.banque-france.fr/en/>).

<sup>2</sup> See Financial overview of investment funds, 3<sup>rd</sup> quarter 2019 (<https://www.banque-france.fr/en/statistics/>).

<sup>3</sup> <http://webstat.banque-france.fr/en/>



## MORE COMPREHENSIVE INFORMATION ON THE ECONOMIC SITUATION

In 2019, the dissemination of business and consumer survey results became more widespread, with the inclusion in the Webstat database of results by region<sup>1</sup> from the *Tendances régionales* publications already available on the Banque de France website.<sup>2</sup> Data on access to credit for very small enterprises (VSEs) were also included in the Webstat database.<sup>3</sup> In addition, the Banque de France now publishes on its website the results of the detailed surveys for the various sectors of industry, market services and construction.<sup>4</sup> Finally, communication about business surveys has been extended to new media: announcements of publications

on Twitter, interviews of business leaders on YouTube<sup>5</sup> and presentation of the surveys in the newsletter of the Companies Directorate.<sup>6</sup>

1 <http://webstat.banque-france.fr/en/browse.do?node=5385261>

2 <https://www.banque-france.fr/statistiques/tendances-regionales>

3 <http://webstat.banque-france.fr/en/browseBox.do?node=5384962>

4 <https://www.banque-france.fr/statistiques/conjoncture/conjoncture-par-secteur-dactivite>

5 <https://youtu.be/-gHEGBa4yH0>

6 <https://entreprises.banque-france.fr/zoomconjoncture>

### The balance of payments highlights contrasted foreign trade patterns

In 2019, according to first estimates, the current account deficit increased slightly to stand at EUR 18 billion (or 0.7% of GDP), after EUR 15 billion in 2018.

However, the goods balance improved, reflecting both a EUR 1 billion reduction in the energy bill and stronger exports than imports, both vis-à-vis the euro area – which remains the largest contributor to the trade deficit – and the rest of the world. Developments were less favourable for trade in services, where the surplus declined. The good performance of transport services was not sufficient to offset the drop in the surplus on travel and business services. The various types of services excluding transport and travel showed contrasted developments, but overall exports fell more sharply than imports.

In 2019, the increase in the French economy's liabilities vis-à-vis non-residents (the stock of foreign investment in France) also led to a rise in income paid abroad, notably in the form of dividends and interest. This also contributed to the widening of the current account deficit.

Financial flows between France and the rest of the world displayed net capital inflows, which financed the current

account deficit. Foreign companies continued to invest in France, while French companies invested less abroad than in 2018. Foreign investors also invested in debt securities issued in France by the public and private sectors.



← The Annual Report  
The French balance of payments  
and international investment position  
(<https://publications.banque-france.fr/en/>)



↑ The trading room at the Banque de France headquarters in Paris



↑ Imène Rahmouni-Rousseau, then Markets Director at the Banque de France, at the annual conference of the International Capital Market Association (ICMA) on secondary markets on 20 March 2019 in Paris

## 2

### Innovating as the central bank for markets

#### The Banque de France adapts to market developments thanks to its strong expertise

On the foreign exchange market, the Banque de France uses a liquidity aggregator in order to compete instantaneously with some forty trading systems, to search for the best available price, to use order execution algorithms and to analyse highly granular market data. This tool enables the Bank to carry out its tasks efficiently in a market undergoing profound change.

In addition, against a backdrop of an increase in the share of cleared repurchase agreements, the transfer from London to Paris of the clearing of collateral transactions by LCH SA for euro area debt has strengthened market initiatives on collateral, enabling financial players to optimise the management of their liquidity and securities, and has

contributed more generally to reducing systemic risk. In this respect, Euro GC+, which is the triparty basket repo clearing service available since 2015 and which facilitates market players' management of euro liquidity, saw its outstandings and transactions increase sharply in 2019. This offer, which the Banque de France uses in its activities (outside the scope of monetary policy), enhances the attractiveness of the Paris financial centre, promotes the circulation of liquidity and collateral and thus contributes to reinforcing the financial stability of the euro area.

In December 2019, the Banque de France opened a new strategic representation in Asia, which reflects the growing importance of this continent in the world economy and financial markets. The Banque de France's Singapore office is its second representation abroad, the first one, which includes a trading room specialised in foreign reserve management, having opened in New York in 2010. The Banque de France is thus expanding its presence in the Asia-Oceania region, with the aim of closely monitoring the Asian economies and financial systems and developing close exchanges with the central banks and financial authorities in the Asia-Oceania region. The opening of this Asia office was followed by the launch of trading room activities within this representation in 2020.

## REVIEW OF THE CODE OF CONDUCT FOR FOREIGN EXCHANGE MARKETS

In 2015, the Bank for International Settlements (BIS) set up and mandated a working group to draw up a global code of conduct ("FX Global Code") that brings together a set of principles and best practices for foreign exchange market players, in a context affected by several successive financial scandals (in particular the one on foreign exchange benchmarks). The FX Global Code (the "Code") does not follow a regulatory approach, but is based on voluntary compliance by market players, one of the key vectors being market discipline.

After consultation of market participants and publication of the Code, foreign exchange market players were invited to publicly announce their compliance with the Code via a single declaration of commitment.<sup>1</sup> Many central banks<sup>2</sup> have complied with the Code themselves for their activities on foreign exchange markets (excluding foreign exchange interventions) and have also required their foreign exchange counterparties to comply with the Code.

Since the publication of the FX Global Code in May 2017,<sup>3</sup> adherence to the Code has gained momentum and has taken on increasingly diverse forms. They have helped to strengthen confidence in the proper functioning of the foreign exchange market.

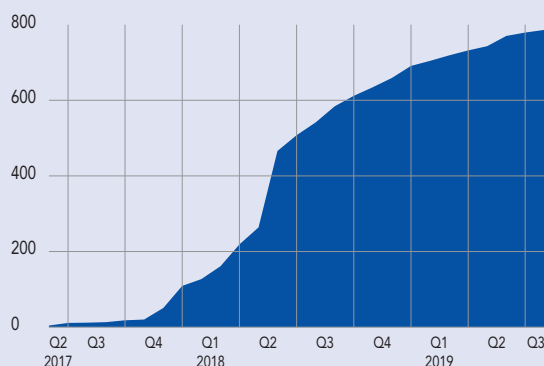
Concurrent with the publication of the Code, the Global Foreign Exchange Committee (GFXC), composed of central banks and private sector market participants, was set up with the objective of promoting a robust, liquid, open and transparent foreign exchange market. To this end, the GFXC relies on the Local Foreign Exchange Committees (LFXCs) in the various jurisdictions as channels for communication and action. GFXC provides a forum for discussing trends and developments in the foreign exchange market, its structure and functioning; it promotes and regularly updates the Code, and encourages adherence to the Code.

The growing use of electronic trading platforms and algorithms in the foreign exchange market, as well as the emergence of new players that are increasingly active in this market (hedge funds and major brokerage firms) also contribute to introducing changes in the structure of the foreign exchange market.

In 2020, the GFXC is expected to finalise a three-year review of the Code in order to assess the results obtained in relation to the objectives and to incorporate new developments.

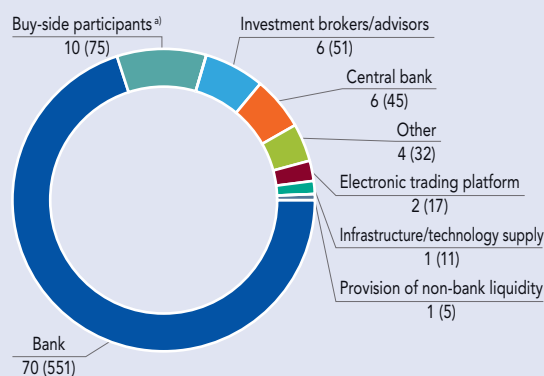
### Signatories to the commitment to respect the Code

a) Number of signatories to the declaration of commitment



b) Signatories by type of market participant

(in %; number in brackets)



a) The buy-side participants category includes asset managers (45 participants), corporate treasury services (14 participants), pension funds (7 participants), insurance companies (5 participants), quasi-sovereign or supranational institutions (3 participants), sovereign funds (1 participant).

Source: Global Index data.

1 <https://www.banque-france.fr/sites/>

2 45 at 7 January 2020.

3 [https://www.globalfxc.org/fx\\_global\\_code.htm](https://www.globalfxc.org/fx_global_code.htm)

## AUTOMATION OF SECURITIES LENDING AUCTIONS

When launching its extended asset purchase programme (APP) in March 2015, the ECB decided to authorise the lending of securities acquired under first the PSPP and CBPP and then the CSPP.<sup>1</sup> The introduction of securities lending facilities by Eurosystem central banks helped to prevent an excessive reduction in the liquidity of the securities purchased and to smooth the markets in which the Eurosystem central banks operate, in particular as the delivery dates for sovereign bond futures and quarter-end and year-end deadlines were approaching.

Over time, the Banque de France's securities lending activity has grown and become more transparent, in particular thanks to the roll-out of an automated system of competitive auctions for PSPP securities lending. These daily auctions now account for a significant share of PSPP securities lending. In 2019, the overall volume of these operations was close to EUR 50 billion (of which two-thirds by auction).

<sup>1</sup> PSPP: *Public sector purchase programme*;  
CBPP: *Covered bond purchase programme*;  
CSPP: *Corporate sector purchase programme*.

### 3

## Ensuring confidence in the euro in all its forms

### French confidence in the euro

#### 20 years of confidence in the euro

On its twentieth anniversary, the euro continued to enjoy a high level of support in France, the highest since 2009. The Standard Eurobarometer survey of November 2019<sup>4</sup> showed that 72% of French people were “in favour of an Economic and Monetary Union with a single currency, the euro”. Despite this historically high level of support, a paradox exists in French, and more generally European, public opinion: in every country in the euro area, citizens feel that the other Member States benefit more from the adoption of the single currency than their own country.<sup>5</sup>

#### The Banque de France, guarantor of the quality and security of banknotes in circulation

The Banque de France issues and puts into circulation across France (metropolitan France, Corsica and the overseas departments) euro banknotes and organises their

regular sorting: it puts fit banknotes back into circulation, withdraws counterfeits and destroys banknotes whose quality has deteriorated. It monitors the sorting carried out by private operators (*see the appendix on the recycling of euro banknotes and coins by private operators in 2019*). It also puts into circulation and withdraws euro coins on behalf of the State. The Banque de France ensures that citizens are free to choose their means of payment. This is a fundamental element of confidence in the currency, and the Bank strives to ensure that all means of payment are equally secure, equally accessible and equal in quality. Among all means of payment, cash continues to play an important role in our daily lives. Although cash is less used in France than in its main neighbours, it is still the most widely used payment instrument at points of sale: 68% of transactions in shops are settled in cash. These are mainly purchases in local conveniences stores.

<sup>4</sup> Eurobarometer Standard 92 (<https://ec.europa.eu/commfrontoffice/publicopinion/>)

<sup>5</sup> Abraham (L.) and Gossé (J.-B.) (2019), “The euro: is the grass always greener on the other side?”, *Bloc-notes Éco*, Banque de France, May (<https://blocnotesdeleco.banque-france.fr/en/>)

# 151.3

billion euro, value of all the banknotes issued by the Banque de France since the introduction of the euro

# 68

million:  
daily number of cashless payments  
(75.5 billion euro: daily value of cashless payments)  
(2018 data)

← The Paris-la-Courneuve currency management centre

## Security, oversight and innovation for all means of payment

### The Banque de France produces secure banknotes at the cutting edge of innovation.

Organised around an integrated production model based on its modernised paper subsidiary Europafi and its banknote printing works, both located in Auvergne, the Banque de France confirms its role as a major player in the cash industry.

In 2019, it was still the leading public printer of euro banknotes in the Eurosystem with an annual production of 1.1 billion banknotes. The Banque de France continued to produce the new €100 and €200 banknotes of the Europa series, representing respectively 20.4% and 46.3% of the overall volume issued for the Eurosystem; it also produced the €20 and €50 banknotes.

In addition, the Banque de France remains the main supplier of banknotes issued in the overseas territories and for some twenty foreign central banks, in particular within the African monetary areas.

### Strongly involved in the fight against counterfeiting

Highly involved in the fight against counterfeiting, the Banque de France contributes through its actions to significantly reduce the number of euro counterfeits in Europe. In 2019,

following the introduction of the new Europa series, the volume of counterfeit banknotes from all countries decreased further and remained very low compared with the number of genuine banknotes in circulation in Europe.

As part of the fight against counterfeiting, the Banque de France acts at all levels and as far upstream as possible. In 2019, close to 22,000 cash-handling professionals from the retail, banking, cash-in-transit and public administration sectors received training in authentication. The focus was on the new €100 and €200 banknotes of the Europa series, which have innovative security features that are easy to verify using the “Feel, Look and Tilt” method.

The Banque de France carries out its tasks through its two specialised centres, the National Analysis Centre and the Counterfeit Research Centre.

The main tasks of the National Analysis Centre are the following:

- centralisation and recording of counterfeit banknotes in the European database;
- technical and scientific analysis of counterfeits and their classification;



## REPORT ON ACCESS TO CASH IN METROPOLITAN FRANCE

In September 2018, a working group was set up under the aegis of the Ministry of the Economy and Finance and the Banque de France with the primary task of taking stock of access to cash in metropolitan France at end-2018. It is made up of the main French banking groups, cash-in-transit companies, the *Fédération bancaire française* (French Banking Federation), the *Comité français d'organisation et de normalisation bancaires* (French Committee for Banking Organisation and Standardisation), the French Treasury and the Banque de France. The report was published on 23 July 2019.<sup>1</sup> Overall, the report confirms that cash is very accessible, thanks to a network of close to 53,000 ATMs and more than 23,000 cash points, for example at retailers and tobacco shops. Thus:

- 98.9% of the population aged 15 and over resides either in a municipality equipped with at least one ATM or in

a municipality located less than 15 minutes by car from the nearest equipped municipality;

- on average, a person residing in a municipality not equipped with an ATM is eight minutes by car from the nearest equipped municipality;
- taking into account all access points, only 0.1% of the population (i.e. 34,268 people aged 15 and over) is more than 15 minutes from a cash point.

The rapidly changing way in which means of payment are used will require particular attention in the years to come, in order to continue to guarantee access to cash for all and everywhere, and to ensure that citizens, in particular fragile populations and those living in rural areas, continue to be free to choose their means of payment.

<sup>1</sup> <https://www.banque-france.fr/communique-de-presse/>

## THE LAST DENOMINATIONS OF THE EUROPA SERIES: THE €100 AND THE €200

On 17 September 2018, the European Central Bank unveiled the €100 and €200 banknotes, the last of the Europa series launched on 2 May 2013 with the introduction of the new €5 banknote.

The size of the new €100 and €200 banknotes is different from that of the first series. Their width is aligned with that of the €50 banknote, i.e. 77 mm (instead of 82 mm for the €100 and €200 banknotes of the previous series), while their length is the same as that of the previous series, i.e. 147 mm for the €100 banknote and 153 mm for the €200 banknote. The new €100 and €200 banknotes feature innovative security features: at the top of the silver stripe, a satellite hologram shows small symbols of the euro (€); they also incorporate an advanced emerald number. In addition to the security features visible to the naked eye, the euro banknotes also enclose machine-readable features.

The new €100 and €200 banknotes were put into circulation throughout the euro area on 28 May 2019. The authentication modules of the equipment that accepts, delivers and processes the banknotes have been adjusted, through parameter and software developments, in order to be able to detect and recognise the security features of these new denominations from 28 May 2019.

- assistance to and training of law enforcement investigation teams;
- judicial expert reports to the courts;
- training in authentication for professionals.

The Counterfeit Research Centre contributes to ensuring the security of banknotes through technical expertise and research and development. Enjoying a worldclass reputation, it carries out research for the European Central Bank and responds to requests from many other central banks around the world.

### Innovation and confidence in cashless means of payment

The Banque de France plays a key role in maintaining confidence in cashless means of payment and supporting innovations in the payments sector. Indeed, as early as 2001, the Bank was entrusted by law with the task of overseeing cashless means of payment. This mission covers all payment instruments except cash (payment cards, cheques, direct debits, transfers, as well as electronic versions of luncheon vouchers, holiday vouchers and culture vouchers)

In this respect, the Banque de France monitors the security of payments and carries out off-site and on-site inspections of market participants issuing means of payment. In support

988

individuals trained by the  
Institut bancaire et financier  
international (IBFI)

← Participants at a seminar  
organised by the International  
Banking and Finance  
Institute (IBFI)

of this task, the Governor of the Banque de France chairs the *Observatoire de la sécurité des moyens de paiement* (Observatory for the Security of Payment Means – OSMP), a market co-ordination body bringing together representatives of all the stakeholders in the payment market (suppliers, users and public authorities).

Overseeing the security of cashless means of payment thus leads the Bank to support innovations in the field of payments, ensuring greater security for users of means of payment and improving the user experience and interoperability of payment instruments at the European level. In order to fulfil this task, the Banque de France runs the *Comité national des paiements scripturaux* (National Cashless Payments Committee – CNPS), a market body responsible for overseeing the implementation of the national cashless payments strategy.

### New challenges, new tasks (securing access interfaces to payment accounts)

The second European Payment Services Directive (PSD 2) gave legal status to two new categories of players: account aggregators and payment initiators. The former have only reading access to their users' payment data, while the latter are able to issue payment orders from their customers' accounts. In order to enable these new players to access their customers' payment accounts under conditions of trust, PSD 2 stipulates that account-keeping institutions

(notably banks) are required to provide them with a secure exchange channel that they are obliged to use.

In this context, the Banque de France, in close cooperation with the ACPR, is monitoring the implementation of these requirements, which came into force on 14 September 2019. Regular marketplace meetings are organised to ensure a dialogue between market players and thus guarantee as smooth a transition as possible.

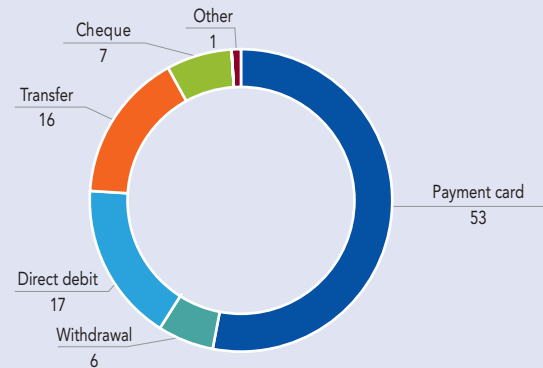
## THE USE IN FRANCE OF THE VARIOUS MEANS OF PAYMENT (COMPANIES AND INDIVIDUALS)

According to the latest available data, in 2018, cashless payments by consumers, government and businesses amounted to 25 billion transactions, for a total amount of EUR 27,700 billion. These figures have been rising steadily for many years, with a 3% growth in volume in 2018.

The payment card remains the most widely used means of payment in terms of the number of transactions, while showing the strongest growth. It accounts for 58% of transactions (52% for payments and 6% for withdrawals), and shows a 9% growth in the number of transactions, notably thanks to a two-fold increase in the use of contactless payments (2.3 billion payments, i.e. 1 in 5 card payments in stores). The second most widely used means of payment is direct debit, accounting for 17% of transactions in terms of the number of transactions. Credit transfers are the third most widely used means of payment in terms of volume. They still rank first in terms of value, accounting for 87% of transactions, since they are used in particular for the payment of wages and pensions and for payments between professionals. Cheques come last, accounting for 8% of cashless transactions. While this level remains

high compared with other European Union member countries, the steady decline in its use observed since the beginning of the century continued, dropping by 10% in 2018.

**Use of cashless means of payment in France in 2018** (as a % of the number of transactions)



## PAYMENT AUTHENTICATION ACCORDING TO PSD 2 STANDARDS, MIGRATION PLAN AND CNPS STRATEGY

The Banque de France plays an important role in the stimulation of the payments market through its chairmanship of the *Observatoire de la sécurité des moyens de paiement* (Observatory for the Security of Payment Means – OSMP) and the *Comité national des paiements scripturaux* (National Cashless Payments Committee – CNPS). 2019 was a busy year for these two bodies.

The OSMP approved the French financial centre's migration plan for the gradual implementation of the new requirements for strong customer authentication for online purchases by bank card set out in the Second European Payment Services Directive (PSD 2). This migration plan includes two objectives for the first quarter of 2021.

- The first objective is to equip customers with two-factor authentication solutions compliant with PSD 2 in replacement of the single-use SMS code, in order to further enhance the security of online payments.
- The second objective is to upgrade the technical authentication platforms used by online merchants, in particular the 3D-Secure protocol, in order to take into account all the provisions set out in PSD 2 regarding liability and exemption from strong authentication. The Counterfeit Research Centre aims to look

at the security of banknotes from a technical angle by drawing on technical expertise and research and development. Enjoying a worldclass reputation, it carries out research for the ECB and responds to requests from many other central banks around the world.

A steering committee chaired by the Banque de France has been set up to monitor the migration plan on a monthly basis.

In February 2019, the CNPS adopted and published the second national cashless payments strategy (2019-2024). Riding on the success of the first strategy adopted at the 2015 Conference on Payment Means, this new strategy revolves around three main areas:

- pursuing the work towards promoting dematerialised and secure payments for the benefit of society;
- speeding up the roll-out of innovations;
- contributing to Europe's ambition to deepen the single market for payments.

Five working groups affiliated to the CNPS have been set up to ensure the proper implementation of this new strategy.



# 2019 HIGHLIGHTS

## MAY

**28 May:** The new €100 and €200 banknotes of the Europa series are put into circulation in the euro area.



↑ The new €100 and €200 banknotes put into circulation on 28 May 2019

Interactive presentation on the ECB's website:  
↓ <https://www.ecb.europa.eu/euro/banknotes/>



## JULY

**16 July:** "Bretton Woods: 75 years later – Thinking about the next 75", conference at the Banque de France in the framework of the 2019 French Presidency of the G7.  
<https://www.banque-france.fr/en/french-g7-presidency-2019>



## SEPTEMBER

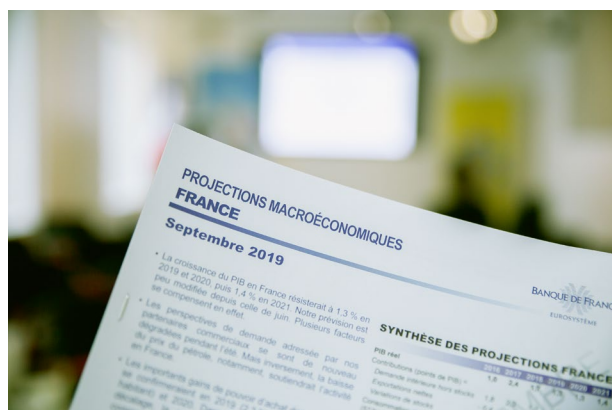
First of a new series of quarterly targeted longer-term refinancing operations (TLTRO III.1 to 7 between September 2019 and March 2021) for Eurosystem banks.  
<https://www.ecb.europa.eu/press/>

The Observatory for the Security of Payment Means publishes the migration plan for the generalisation of strong authentication for online purchases.  
<https://www.banque-france.fr/plan-de-migration-pour-lauthentic-forte>

## OCTOBER

**30 October:** The Eurosystem introduces a two-tier reserve remuneration system, whereby part of the excess liquidity holdings are exempt from the negative rate applicable on the deposit facility.  
<https://www.ecb.europa.eu/press/>

**31 October:** Presentation of the new FR-BDF macroeconomic model used for forecasts and analysis on France.  
<https://publications.banque-france.fr/en/>



↑ The quarterly Macroeconomic Projections France publication  
<https://publications.banque-france.fr/en/liste-chronologique/macro-economic-projections>

## NOVEMBER

**1 November:** The Eurosystem relaunches the asset purchase programme at a rate of EUR 20 billion per month  
<https://www.ecb.europa.eu/press/>

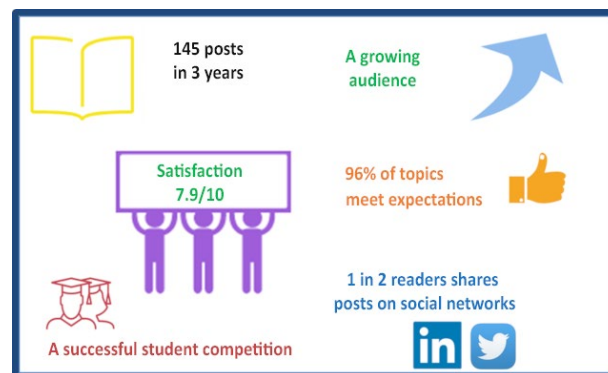
**12 November:** The Banque de France announces the opening of an office in Singapore.  
Press release: <https://www.banque-france.fr/en/communique-de-presse/>



## DECEMBER

**4 December:** The Banque de France announces its participation in experiments with digital central bank money (DCBM).  
Governor's speech: <https://acpr.banque-france.fr/publications/>

**27 December:** *Eco Notepad*, the Banque de France's economic blog, celebrates its third anniversary, with 145 posts published.  
<https://blocnotesdeleco.banque-france.fr/en/blog-entry/blog-discerning-and-demanding-readers>







# FINANCIAL STABILITY

# FINANCIAL STABILITY IN 2019



## MISSIONS

As well as securing confidence in the currency, the Banque de France guarantees another essential public good: **a sound financial sector**

- inspections at the European level to maintain an international standard for bank resilience
- protection of customer interests

**The Banque de France anticipates and prevents risks:**

- evaluation of new risks
- contributions to changes in regulations
- support for banks in their digital transformation

**The Banque de France ensures the sound functioning and security of payment instruments:**

- prevention of systemic risks
- sound functioning of payment systems and market infrastructures



**671**

banks supervised

**695**

insurance firms and mutual insurers supervised

**192**on-site inspections of insurance firms  
and banks (excl. SSM inspections)  
and their business practices**+****47**inspections on behalf of the ECB  
as part of the Single Supervisory  
Mechanism (SSM)**14.4%**the core tier one capital ratio  
of the six main French  
banking groups**1,042**

ACPR employees (full-time equivalent)

**€24.8<sub>BN</sub>**average daily flows processed by retail payment  
systems in France in December 2019**€301<sub>BN</sub>**average daily settlement flows processed by Target2  
(large value payments) in France in December 2019  
(the equivalent of 1/8<sup>th</sup> of annual GDP)

# THE BANQUE DE FRANCE AND THE ACPR SAFEGUARD THE STABILITY OF THE FINANCIAL SYSTEM

**Bank and insurance supervision aims to prevent both individual and systemic risks and to protect customer interests**

**This pre-emptive approach now also encompasses the impact of climate risks**

The Banque de France is responsible for safeguarding financial stability at both an individual and systemic level. Working in close and active coordination with the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability), it contributes to maintaining the stability of the financial system as a whole within a macroprudential policy framework. The *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority), an administrative authority attached to the Banque de France, is responsible for microprudential supervision and ensures that each of the banks, insurers and market infrastructures under its supervision are financially sound. The ACPR also carries out its activities through cooperative arrangements at the international level (monitoring, drafting the regulatory framework, etc.) and European level (particularly working jointly on banking supervision with the ECB as part of the Single Supervisory Mechanism applied to significant credit institutions).

## 1

### Protecting depositors and policyholders

In addition to its contribution to defining financial regulation and overall supervision, the Banque de France's initiatives

also extend to the day-to-day supervision of banks and insurance firms carried out by the ACPR's inspection teams. The Banque de France also supervises payment and market infrastructures.

### Inspections to ensure banks and insurers meet a European standard of resilience

In banking supervision, the ACPR now works in very close cooperation with the ECB within the framework of the Single Supervisory Mechanism (SSM), both through the Supervisory Board and, on a day-to-day basis, as part of joint supervisory teams (JST). In addition to their regular supervisory activities, the JSTs also carried out thematic reviews selected on the basis of SSM priorities for 2019. These reviews focused on: (i) credit risk; (ii) risk management in general (targeted review of internal models, review of internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP), liquidity stress tests and IT risk assessments); and (iii) multiple risk dimensions (such as Brexit preparations and the associated contingency plans).

Work thus remained closely focused on the analysis of credit risk from two complementary perspectives. The first aims to maintain the efforts made by institutions and supervisory bodies to reduce the weight of non-performing exposures on their balance sheet, particularly by ensuring



# 5.1%

growth rate in loans  
to businesses

# 6.6%

growth rate in loans  
to individuals



↑ The international academic conference, "Green Finance Research Advances", organised as part of Paris Climate Finance Day 2019 by the Banque de France and the Louis Bachelier Institute, with the participation of Finance for Tomorrow and the Institute for Climate Economics (I4CE)

the exposures are well managed and adequately provisioned. The second, introduced in 2019, is a credit standard analysis system to assess ex ante whether practices may exist that could lead to the reconstitution of major volumes of non-performing exposures.

Lastly, in-depth analyses tailored to institutions' risk profiles were also conducted, for example on the valuation of complex financial instruments.

In insurance supervision, the ACPR continued its inspections in order to ensure the proper implementation of the European Solvency II prudential framework that came into force in 2016. The ACPR notably concluded its thematic review of the governance practices within France's main insurance firms that was initiated in 2017 to check for compliance with European regulations and the main recognised international standards. Furthermore, the ACPR continued to monitor the quality of data used to perform and check prudential calculations, resulting in the ACPR imposing administrative enforcement measures for the first time.

In addition, and in response to the intensification of the low interest rate environment, the ACPR put a mechanism in place to closely monitor insurance undertakings identified as being particularly vulnerable to the risks associated with lower interest rates.

In bank resolution, the ACPR continued to play a leading role in Europe in pushing for the definition and operational implementation of resolution plans. At the same time, as part of the resolution for the insurance sector, the ACPR reviewed the first preventive recovery plans of the leading insurance firms in 2019. This will provide the basis for the preparation of resolution plans that will begin in 2020.

## Protection of banking and insurance customer interests

Within the framework of its mission to protect the customers of banks and insurers, the ACPR also conducts on and off-site inspections to ensure that the interests of customers are always taken into account in professionals' business practices. It pays particularly close attention to institutions' compliance with regulations designed to protect the most vulnerable customers.

In the banking sector, the ACPR's initiatives in 2019 mainly focused on ensuring that the commitments made by French banks in 2018 to cap payment incident charges billed to the most financially vulnerable were respected. In the insurance sector, the ACPR continued its inspections of cold calling practices and the distribution of insurance contracts for funeral expenses. Furthermore, in the current low interest rate environment, the ACPR focused greater attention on the

## COOPERATION WITH THE BANQUE DE FRANCE NETWORK – THE ARCOP<sup>1</sup> PROGRAMME

At the end of 2019, 70,000 entities operated as insurance and banking transaction intermediaries and their number is steadily growing. As part of its supervisory programme, the ACPR subjects these intermediaries to on-site inspections each year to check, more specifically, the way in which they conduct their business, market products and advise their customers. The transposition of the Insurance Distribution Directive has strengthened the requirements imposed on these players since 2018. Consequently, they remain closely monitored by the ACPR.

In order to scale up its efforts and to add to the inspections that it carries out directly, since 2017 the ACPR has called upon staff from the Banque de France network and given them the authority to conduct assignments in their regions. In 2019, 42 inspections

were delegated to network teams and this number is expected to rise.

These inspections provided an opportunity to assess and, where necessary, issue regulatory reminders with regard to: the practice of banking transaction intermediation and the duty to advise when marketing housing loans and payment protection insurance; banking transaction intermediaries' conditions of access and conduct; insurance intermediaries' required level of financial guarantee; and the conditions for the distribution of life insurance products to senior customers.

<sup>1</sup> *Action du Réseau pour le contrôle des pratiques commerciales* (Arcop – an action network for business practice oversight).

proper application of the duty to advise when distributing life insurance policies, given the incentives to take out unit-linked policies for which the risk is borne by savers.

These various supervisory initiatives then lead to the individual monitoring of supervised institutions and bodies, which may in some cases result in administrative enforcement measures or disciplinary sanctions.

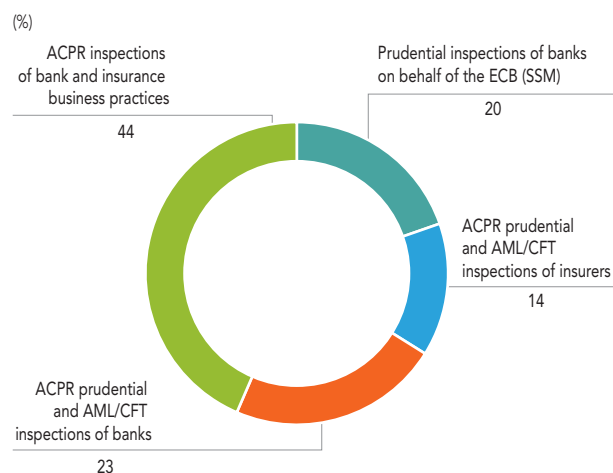
The ACPR also keeps the market regularly informed of its findings through banking and insurance industry meetings or press releases in order to help industry players continue to improve their business practices. For example, in 2019, the ACPR held a series of meetings with financial industry representatives to discuss the capping of bank charges and issues related to the implementation of the Insurance Distribution Directive (IDD). In addition, a range of statements was released following its reviews and inspections, notably highlighting points of particular concern with regard to the distribution of funeral insurance contracts and cold calling practices.

The ACPR also maintains a close relationship with the *Autorité des marchés financiers* (AMF – Financial Markets Authority) through their Joint Unit, *Assurance Banque Épargne*. Its purpose is, in particular, to coordinate authorities' actions to combat online financial scams and fraud, which, with their rapid expansion and increasing

sophistication, are becoming a fully fledged industry. Over 1,000 fraudulent entities or websites are now listed on the five blacklists published on the *Assurance Banque Épargne Info Service* (ABE IS) website ([www.abe-infoservice.fr](http://www.abe-infoservice.fr)).

In 2019, in keeping with demographic and societal changes, the ACPR and the AMF continued their investigations

### Breakdown of prudential and business practice inspections conducted on-site by the ACPR in 2019 in the banking and insurance industries



Note: AML/CFT refers to anti-money laundering and combating the financing of terrorism.

## THE G7 CROSS-BORDER COORDINATION EXERCISE

In October 2017, G7 Finance Ministers and Central Bank Governors approved in principle the organisation of an international cyber-incident exercise involving the financial authorities – finance ministries, central banks, banking authorities and market authorities – of the countries concerned. The role of organising the preparatory work for the exercise was entrusted to the Banque de France.

The exercise was carried out in June 2019 and involved the simulation of a major cyber-incident simultaneously impacting several financial sector players. Twenty-four G7 financial authorities took part, as well as representatives of the financial sectors of France, as part of the Paris Resilience Group (see above), Germany, Italy and Japan.

It served to test the communication protocol in place between the G7 financial authorities, and particularly its capacity to facilitate exchange of the most incident-relevant information, to enable the coordination of responses, and to ensure the most effective and coordinated recovery of financial services.

The exercise, which was by nature highly complex and the first of its kind in the world, marked a huge step forward in terms of international cooperation. Thanks to its success, the G7 authorities have agreed to draw up a programme of exercises for the coming years.

into the marketing of financial products to potentially vulnerable elderly populations, in order to identify and promote marketing best practices for this customer group. On 23 September 2019, the authorities launched an industry working group tasked with looking into this major issue in coordination with all concerned stakeholders (the financial sector and consumer associations, as well as specialists on the subject of ageing populations, training institutions and other affected sectors such as notaries).

### The sound and secure functioning of payment and market infrastructures

A malfunction in the payment and securities settlement systems could have a major destabilising impact. The Banque de France therefore pays them particularly close attention and, as the competent supervisory authority for payment systems, it specifically ensures that financial market infrastructures fully comply with European regulatory requirements.<sup>1</sup> As such, it is the competent supervisory authority for the CORE(FR) and SEPA-EU retail payment systems. In conjunction with the other Eurosystem central banks, the Banque de France also manages the large-value payment system Target2 (a real-time gross settlement system) and the Target2-Securities (T2S) platform, which is used to manage the delivery-versus-payment settlement of securities in central bank money on behalf of central securities depositories. The Banque de France also supervises

the central counterparty LCH SA (alongside the AMF and the ACPR), as well as the central securities depositories, Euroclear France (licensed under the CSDR in April 2019) and ID2S (a new central securities depository licensed under the CSDR in October 2018) with the AMF. Lastly, the Banque de France participates in the cooperative oversight of SWIFT, a financial messaging services provider, and CLS, a global settlement system on the foreign exchange market, whose primary supervisors are the Banque Nationale de Belgique and the Federal Reserve Bank of New York, respectively.

One of the Banque de France's priority concerns is the cyber-resilience of the financial sector (particularly financial market infrastructures). Accordingly, an initial exercise was carried out in 2019 to assess payment systems in light of the Cyber Resilience Oversight Expectations (CROE) developed by the Eurosystem. Within the framework of the G7, the Banque de France also steered a simulation of cyber-crisis management between financial authorities (see box), which was one of the programme priorities of the French presidency of the G7 in 2019.

<sup>1</sup> SIPS (payment systems), EMIR (central counterparties and central trade repositories) and CSDR (central securities depositories and securities settlement systems), which are the European legal frameworks derived from the CPMI-IOSCO Principles for Market Infrastructures.

In 2019, the Paris Resilience Group carried out a national adaptation of the G7 cyber-test within the framework of its annual programme of crisis-management simulation exercises. This test, which was coordinated by the Banque de France's Resilience Unit, simulated a cyber-crisis and its financial repercussions in order to check the resilience of France's national crisis coordination system and the adequacy of the available contingency measures. Its success was commended by financial sector members and government representatives. The Paris financial centre recognised the stakes involved in this test as well as its significant international exposure and responded with energy and commitment, mobilising more than 1,000 people, who actively contributed to rising to this major challenge. The areas for improvement identified in the feedback will be used to define the Paris Resilience Group's testing strategy for the next three-year cycle.

The Banque de France also participates in the Euro Cyber Resilience Board – an industry discussion forum attended by representatives of pan-European financial market infrastructures, critical service providers, the central banks responsible for their supervision and European institutions – which supports global initiatives for information-sharing and communication in times of crisis.

### Anti-money laundering and combating the financing of terrorism

As the authority responsible for supervising practices associated with anti-money laundering and combating the financing of terrorism (AML/CFT), the ACPR rigorously ensures that the entities under its supervision comply with their obligations and may impose sanctions in the event of serious breaches. The ACPR's oversight involves a risk-based supervisory approach in accordance with the joint guidelines of the European Supervisory Authorities (ESA) – the EBA, EIOPA and ESMA – published in 2017.

In 2019, the ACPR contributed to European and international initiatives to reinforce the AML/CFT supervisory framework and the integration of money laundering and terrorist financing issues into prudential supervision. At the European level, the ACPR lent its expertise to amending the regulations establishing the ESAs, with the aim of enhancing the effectiveness of AML/CFT supervisory mechanisms in Europe. It actively participated in drafting the European guidelines on the establishment of AML/CFT supervisory colleges for groups that operate on a cross-border basis, as well as in drawing up the agreement on the modalities for the exchange of information between the ECB and

AML/CFT-competent authorities, signed in January 2019. At the international level, the ACPR contributed to the revision of the Basel Committee's guidelines on sound management of money laundering risks, aimed at enhancing the exchange of information and cooperation between AML/CFT and prudential supervisors.

## 2

### Contributing to financial sector regulation

After the financial crisis, the G20 summits in London (2 April 2009) and Pittsburgh (24 and 25 September 2009) gave a political impetus to the efforts to reinforce financial regulation, which were coordinated by the Financial Stability Board (FSB) along with all the standardisation authorities. Ten years later, the implementation of the Regulatory Agenda, to which the Banque de France and the ACPR made major contributions, is drawing to a close.<sup>2</sup>

#### Bank regulation

After the adoption in April 2019 of a legislative package aimed at strengthening (i) the prudential framework (the second capital requirements regulation<sup>3</sup> – CRR II – and the fifth capital requirements directive<sup>4</sup> – CRD V – amending the rules on capital requirements) and (ii) resolution instruments (the bank recovery and resolution directive<sup>5</sup> – BRRD – and the single resolution mechanism – SRM – on bank resolution), the ACPR and the services of the Ministry of the Economy and Finance began work on its transposition into French law. The ACPR also contributed to the drafting of European Banking Authority (EBA) technical standards and guidelines, particularly as a result of the numerous mandates accorded to the EBA to facilitate the smooth implementation of these new texts.

<sup>2</sup> See the letter from the Chair of the Financial Stability Board sent to G20 Finance Ministers and Central Bank Governors in October 2019 (<https://www.fsb.org/publications/g20-reports/>).

<sup>3</sup> Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms.

<sup>4</sup> Directive (EU) No. 2013/36 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

<sup>5</sup> Directive (EU) No. 2014/59 establishing a framework for the recovery and resolution of credit institutions and investment firms.





↑ Conference on new developments in anti-money laundering and combating the financing of terrorism (AML/CFT) and new developments in insurance supervision – Palais Brongniart, Paris, 21 June 2019

## THE BASEL III REFORMS

The agreement finalising Basel III that was announced on 7 December 2017 marks the culmination of an unprecedented regulatory effort, begun in 2009, to increase banking sector resilience after the financial crisis.

The agreement amended the prudential requirements for the calculation of the risk-weighted framework for credit, operational and credit valuation adjustment (CVA) risk, and introduced an output floor meaning that calculations of risk-weighted assets generated by internal models cannot be set below 72.5% of risk-weighted assets calculated using standardised approaches. Its overall objective is to improve the robustness of the results generated by internal models and the relevance of the standardised approaches, while respecting the framework imposed by the G20 so that the reforms do not result in a significant general increase in capital requirements.

Following on from this agreement, in January 2019 the Basel Committee published a new revised prudential framework for market risk (Fundamental Review of the Trading Book) and, at the end of November 2019, launched a consultation on targeted adjustments to the CVA risk framework. According to the Basel Committee schedule, these rules shall be applied as from

January 2022 with a gradual implementation of the output floor until January 2027. For the Basel agreement of December 2017 to become applicable in the European Union (EU), the second capital requirements regulation<sup>1</sup> (CRR II) and the fifth capital requirements directive<sup>2</sup> (CRD V) will have to be amended. The Banque de France and the ACPR support the faithful implementation of these agreements in the EU without over-transposition, and their teams are actively contributing to the preparatory work. In August 2019 and December 2019, the European Banking Authority (EBA) published two reports in response to a request for advice from the European Commission, which launched a public consultation in October 2019 to which the ACPR responded. The feedback from this public consultation and the EBA's advice will be used in the Commission's impact assessment, with a view to publishing its legislative proposal in 2020.

1 EU regulation on prudential requirements for credit institutions and investment firms.

2 EU directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

The Basel III reforms were finalised by the Basel Committee on Banking Supervision (BCBS) with the revision of capital adequacy requirements for market risk in January 2019. Subsequently, the ACPR has actively contributed to the EBA's regulatory work, which, in August and December 2019, responded to requests for advice from the European Commission as part of the preparation of a legislative proposal (CRR III/CRD VI) planned for the first half of 2020.

## Insurance regulation

In the insurance sector, the international regulatory landscape in 2019 was marked by the finalisation of the holistic framework developed by the International Association of Insurance Supervisors (IAIS) to prevent systemic risk in the sector. Following the publication of a first draft paper in 2018, a new public consultation and initiatives to clarify certain specific modalities meant that on 14 November 2019 the IAIS was able to finalise and adopt a framework combining an assessment of the systemic nature of certain sector activities or exposures with an evaluation of the specific role of certain organisations in those developments.<sup>6</sup> The ACPR is currently preparing the operational implementation of this framework as from 2020.

At the European level, exercises related to the review of the Solvency II Directive continued. The first review, in 2018, focused on the regulatory texts (Level 2 texts). This particularly led to a change, decided in 2019, in the prudential treatment in the standard formula of long-term investments in equity, unlisted equity and non-rated bonds.<sup>7</sup> The second review should in principle be concluded at the end of 2020 with a European Commission proposal for revision that covers a broader scope and touches on all texts, including at the legislative level. During 2019, the Commission sought the technical advice of the European Insurance and Occupational Pensions Authority (EIOPA) on a very wide range of questions.<sup>8</sup> With this advice expected to be delivered at the end of June 2020, the ACPR made a substantial contribution to EIOPA's initial work, mainly as part of a data gathering exercise to assess the impact of the current regulation and certain considered changes.

## Infrastructure regulation

The amendments to the European Market Infrastructure Regulations (EMIR) applicable to central counterparties (CCPs) and trade repositories was concluded with the publication of EMIR 2.2 on 12 December 2019.<sup>9</sup> The European Insurance and Markets Authority (ESMA) is now directly responsible for the supervision of the third-country

CCPs that are most systemically important for the European Union (EU) and for which strict compliance with EMIR requirements has now become mandatory.<sup>10</sup> The competent national authorities (including the Banque de France) continue to supervise CCPs established in the EU, but ESMA's role has also been reinforced in terms of the convergence of supervisory practices for European CCPs.

Most EMIR 2.2 provisions came into force on 1 January 2020 (notably the new governance at ESMA), but some technical implementation standards have yet to be specified (in particular with regard to the direct supervision of systemically important CCPs). The Banque de France contributed to the drafting of these standards along with the AMF.

As part of the finalisation of EMIR 2.2, negotiations on the proposed regulation on the recovery and resolution of CCPs resumed in mid-2019, after work on the text published in November 2016 had been suspended at the end of 2017, pending the EMIR revision. This proposed regulation aims to provide a framework for measures taken by CCPs as part of their recovery plans, to grant the competent authorities the necessary powers to intervene in the resolution of a failing CCP, and to define appropriate resolution tools. The Banque de France supports the provisions that are currently under consideration and is contributing, with the other competent French authorities (the Ministry of the Economy and Finance and the AMF), to the work performed at the European level.

<sup>6</sup> See the IAIS explanatory note for a presentation of this framework (<https://www.iaisweb.org/page/news/press-releases/>).

<sup>7</sup> Delegated regulation (EU) 2016/981 of the Commission of 8 March 2019.

<sup>8</sup> <https://register.eiopa.europa.eu/Publications/>

<sup>9</sup> Regulation (EU) 2019/2099 of 23 October 2019 (<https://eur-lex.europa.eu/legal-content/>).

<sup>10</sup> In addition, for certain clearing activities that are particularly systemically important for the European Union (EU), the Commission now has discretionary power to deny recognition (and thus impose an obligation to relocate in the EU).

## Managing risks and supporting transitions

As the implementation of the Regulatory Agenda draws to a close, the authorities responsible for the financial stability and supervision of the financial sector are focusing their activities further towards monitoring the system as a whole, identifying and anticipating risks and supporting the financial sector during a period of profound transitions.

### Continuously assessing risks

The Banque de France is tasked with the oversight of the entire French financial system. Its findings inform the deliberations of the HCSF, which is responsible for macroprudential policy. It also helps to determine priorities for the supervision of institutions. Twice a year, the Banque de France publishes an *Assessment of risks to the French financial system*, which sets out its analyses.<sup>11</sup> These reports noted that 2019 was characterised by the intensification of a persistently low interest rate environment whose potential consequences for financial stability prompted the authorities to be increasingly vigilant and to strengthen their communication.<sup>12</sup>

This monitoring also relies on regular stress test exercises that are mainly carried out within a European framework. Notably, in 2019, the ACPR worked with the ECB's supervisory services as part of the Single Supervisory Mechanism (SSM) to conduct a stress test to analyse short-term liquidity-risk sensitivity.<sup>13</sup>

The analysis of risks draws on research activity that in 2019 mainly focused on household debt<sup>14</sup> and corporate debt,<sup>15</sup> and also on asset management (in particular its role in certain markets and its importance to the insurance sector) and, more generally, on interconnections within the financial system. In addition to monitoring and risk analysis, other research projects have focused on the definition of macroprudential policy, on issues associated with climate change and on the "digitisation" of the financial sector.

The Banque de France's oversight also falls within a wider international context. The Banque de France works with other authorities (central banks, supervisors) to enhance risk assessment within international bodies – such as the Financial Stability Board (FSB) or the Bank for International

Settlements' Committee on the Global Financial System (CGFS) – or as part of initiatives taken by the ECB or the European Systemic Risk Board (ESRB). Notably, in 2019, the Banque de France took the chair of the FSB's analytical group on risks and vulnerabilities.

Lastly, as part of its bilateral surveillance mandate and its Financial Sector Assessment Program (FSAP), the International Monetary Fund (IMF) completed its financial system stability assessment of France in 2019. This assessment, which takes place every five years, required a significant commitment from all French authorities, including the Banque de France and the ACPR. The IMF, as well as giving an extremely positive opinion on the French regulatory and supervisory framework,<sup>16</sup> largely concurred with the risk analyses of the French authorities.

### Preventing systemic risks

In order to address the risks identified as part of its supervisory activities, the Banque de France and the ACPR actively contributed to the HCSF's macroprudential response. In March 2019, against a backdrop of mounting cyclical risks, the HCSF raised the countercyclical capital buffer rate<sup>17</sup> applicable to banks from 0.25% (decided in June 2018) to 0.5%.<sup>18</sup> In December 2019, the HCSF also adopted an action plan aimed at maintaining sound housing lending practices.<sup>19</sup> It formally recommended that banks comply with established best practice (maximum debt-service-to-income ratio at origination of 33% and a credit period of no more than 25 years, with a certain

11 <https://publications.banque-france.fr/en>

12 See, notably, the Governor's speeches on "Current challenges of monetary policy" from 24 September 2019 (<https://www.banque-france.fr/en/intervention/>) and on "Low rates: what are the causes and what are the effects for France?" from 9 January 2020 (<https://www.banque-france.fr/en/intervention/>).

13 <https://www.bankingsupervision.europa.eu/press/>

14 Ferrière (T.) and Frey (L.) (2020), "Calibration of borrower-based instruments with survey data", forthcoming.

15 See for example Couaillier (C.), Henricot (D.) and Idier (J.) (2020), "Do highly indebted large corporations pose a systemic risk?", Eco Notepad, Banque de France, January (<https://blocsnotesdeleco.banque-france.fr/en/blog-entry/>).

16 See the IMF's final mission report (<https://www.imf.org/en/Publications/>).

17 With the countercyclical buffer, it is possible to build up capital in good times, to strengthen the resilience of the banking sector and build leeway to support the financing of the economy in the event of a credit crunch in bad times. See Couaillier (C.) and Idier (J.) (2018), "The four seasons of the financial cycle and the countercyclical capital buffer", Eco Notepad, Banque de France, July (<https://blocsnotesdeleco.banque-france.fr/en/blog-entry/>).

18 HCSF decision No. D-HCSF-2019-2 of 2 April 2019 on the countercyclical capital buffer rate (<https://www.economie.gouv.fr/hcsf/decisions-hcsf>).

19 See the press release following the 23<sup>rd</sup> meeting of the HCSF (<https://www.economie.gouv.fr/hcsf/communiqués-presse>).



degree of flexibility allowed but still regulated).<sup>20</sup> It also drew the attention of credit institutions to the importance of proper pricing of housing loans to ensure appropriate coverage of costs and risks.

In order to avoid the risks associated with the impact of low interest rates on their profitability, the ACPR stepped up its monitoring of individual cases and with the HCSF called on insurance firms to adjust the rates they offer to policyholders to the current environment and to diversify the products they sell.

### Taking new risks into account: climate change and environmental risks

Following the efforts made by the French authorities since 2014 as part of their preparation for COP 21 and the Paris Agreement, there is now widespread recognition of the financial risks associated with climate change. The Banque de France and the ACPR have played a key role in promoting this growing awareness, by both engaging with financial players and working with their peers.

As part of its efforts to help the banks and insurance firms under its supervision to meet the challenges of climate change, the ACPR published two in-depth studies on awareness of the risks associated with climate change in the banking<sup>21</sup> and insurance sectors<sup>22</sup> in April 2019. While it reported remarkable progress in terms of risk governance and analysis, it also identified best practices and pointed out certain weaknesses. The ACPR then stepped up its technical discussions with financial players in order to accelerate the required transformations and risk management enhancements. The implementation in 2020 of climate stress tests by French banks and insurers, announced in November 2019, reflects this same dynamic of financial sector support in order to speed up the development of robust and appropriate methods and to ensure their rapid and widespread dissemination.

At an institutional level, a Climate and Sustainable Finance consultative committee, with representatives from the financial and non-profit sectors and academia, was set up on 3 October 2019 to assist the ACPR College. In particular, this committee will examine the extent to which the banks and insurers under ACPR supervision comply with their declared climate-related commitments. The ACPR and the AMF, which have put a similar structure in place, will publish a joint annual report setting out their monitoring and assessment of these commitments.

At the international level, the Banque de France has endeavoured to foster cooperation between the central banks and supervisory authorities that seek greater recognition and awareness of these issues. Specifically, it provides the secretariat for the Central Banks and Supervisors Network for Greening the Financial System (NGFS), which at the end of 2019 comprised 54 members and 12 observers. As such, it contributed significantly to the drafting of the NGFS reports published in 2019.<sup>23</sup> The Banque de France also contributed directly to current debates on these issues by devoting its *Financial Stability Review* to the topic of green finance.<sup>24</sup>

20 HCSF recommendation No. R-HCSF-2019-1 of 20 December 2019 on changes in the granting of loans in the residential real estate market in France (<https://www.economie.gouv.fr/hcsf/les-recommandations-du-hcsf>).

21 Aubert (M.), Bach (W.), Diot (S.) and Vernet (L.) (2019), "French banking groups facing climate change-related risk", *Analysis and Synthesis*, No. 101, April (<https://acpr.banque-france.fr/en/>).

22 Ahado (F.), Bontemps-Chanel (A.-L.), Chantrelle (L.), and Gandolphe (S.) (2019), "French insurers facing climate change risk", *Analysis and Synthesis*, No. 102 (<https://acpr.banque-france.fr/en/>).

23 See, in particular, the first comprehensive report, *A call for action*, published in April 2019 (<https://www.ngfs.net/en/>).

24 Published in June 2019 (<https://publications.banque-france.fr/en/>).



↑ NGFS conference in April 2019 for the presentation of the Network's first comprehensive activity report (at the time, the NGFS represented more than 30 authorities from five continents)



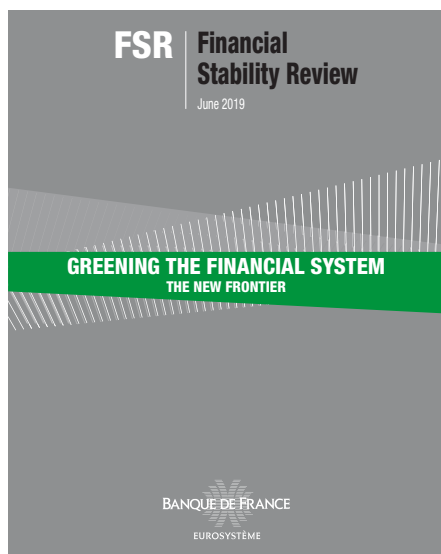
↑ Nicolas Hulot, former French Minister of the Environment, at the joint Banque de France/ACPR-Toulouse School of Economics-EconomiX conference on "Adapting to survive: climate change and finance", 13 December 2019



↑ Frank Elderson, member of the Governing Board of De Nederlandsche Bank, and Chair of the NGFS



↑ International conference on "Real time and speed in the financial system", held in Paris on 11 January 2019, with speakers and participants from central banks, financial market authorities and other public authorities, and the financial industry



↑ The *Financial Stability Review*, No. 23, published in June 2019 – <https://publications.banque-france.fr/en/>



↑ François Villeroy de Galhau, Governor of the Banque de France, during the conference organised to present the FSR, 12 June 2019

### Supporting the French financial sector in its digital transformation

For several years, the Banque de France and the ACPR, as a central bank and a supervisory authority, respectively, have supported the transformation of the financial sector brought on by the digital revolution. This support particularly revolves around a dialogue with innovative firms to better understand their technologies and their (notably regulatory) issues. For example, in 2019, the Banque de France again participated in the Paris Fintech Forum and also took part in the events organised by the Finance Innovation competitiveness cluster. The Banque de France's Lab is a partner of Le Swave, an incubation platform in Paris La Défense, and the ACPR's Fintech Innovation Unit works with Fintechs to answer all their regulatory questions and provide guidance. The ACPR also organises a Fintech Forum in partnership with the AMF, which brings together the public institutions, organisations and professionals involved in the French Fintech ecosystem.

It was as part of this general structure that, in 2019, two working groups organised by the ACPR prepared an overview of the difficulties encountered during first remote contact with and remote identification of (i) natural persons and (ii) legal entities. Proposals were developed on the basis of these assessments to amend the regulatory framework

in order to make the new customer experience more fluid while ensuring it continues to meet the strict requirements of anti-money laundering and combating the financing of terrorism (AML/CFT) arrangements. These proposals were largely integrated into the transposition into French law of the fifth EU anti-money laundering directive.

In 2019, the ACPR also continued its work on artificial intelligence (AI), following on from the AI report published at the end of 2018. Following feedback from the public consultation on the report, the ACPR set up workshops with voluntary participants, selected through a call for applications, to examine concrete cases of AI algorithm use in the financial sector. The selected cases relate to AML/CFT, risk modelling and customer protection. The objective in each case is to shed light on issues of auditability, explicability and governance of these new algorithms. The results are expected to be made available in 2020.

As is the case in other fields, these activities are furthered through internal research projects and discussions with practitioners and researchers. The Banque de France and the ACPR therefore establish contacts within academia, particularly with the chairs and research initiatives devoted to these subjects (during the European Horizon 2020 programme's "Big Data & AI" conference organised in March 2019, for example, or during regular seminars).



## LIBRA, DIGITAL CURRENCIES, STABLECOINS

A number of private initiatives around the world use blockchain technologies to offer new channels for exchange based on crypto-assets (issued and recorded on a blockchain). Crypto-assets are neither a currency nor a means of payment, but their promoters believe they should facilitate and accelerate transactions. Bitcoin was the forerunner, created more than ten years ago, of a range of crypto-assets that now number several thousand. However, in light of the risks associated with these crypto-assets (particularly their extreme volatility, liquidity risk and high operational risk), they do not represent a satisfactory alternative to traditional means of payment.

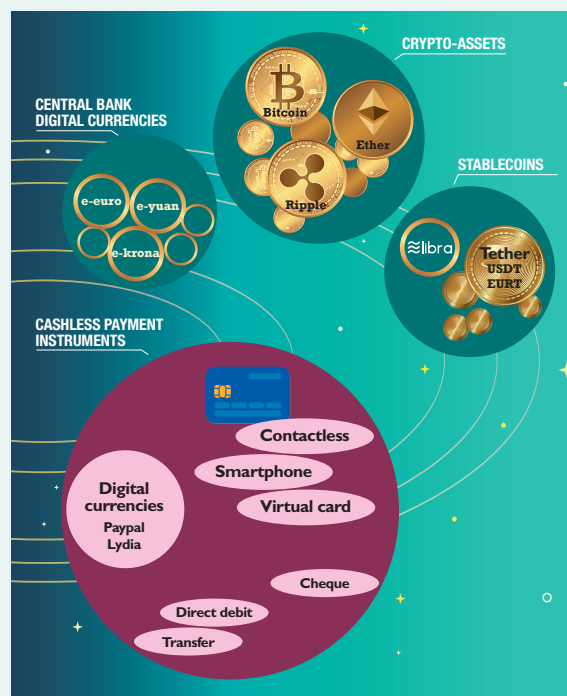
More recently, a second generation crypto-asset was launched – stablecoins – aimed at remedying the difficulties encountered when using Bitcoin-type crypto-assets (particularly their volatility) and promising (but not fully guaranteeing) a stable valuation based on a given underlying, such as a currency or basket of currencies or a commodity like gold or oil.

The announcement in June 2019 of the creation of a stablecoin called Libra by a Facebook-led consortium is the most highly publicised and aggressive initiative in the field of retail payments. Its promoters are targeting retail payments to counter the current limitations of cross-border payment mechanisms, which often involve two different currencies, and the low level of financial inclusion in certain countries.

As of yet, none of these solutions provides a satisfactory alternative to traditional payment systems, which explains the limited enthusiasm for crypto-assets. At the end of 2019, the 4,900 or so crypto-assets had a total value of USD 200 billion, which is negligible in comparison to the money supply of the G7 countries (USD 15,000 billion and EUR 13,000 billion). Nevertheless, central banks, mandated to maintain price stability, financial stability and the sound functioning of payment systems, are following crypto-asset developments closely. In October 2019, the G7, at the instigation of the French presidency, published a report on stablecoins, which highlighted the specific risks associated with their use in terms of money laundering and the financing of terrorism, consumer and investor protection, monetary policy, financial stability, competition and, ultimately, monetary sovereignty.

Against this backdrop, the question arises as to the issuing of a central bank digital currency (CBDC), be it retail, for individuals, or wholesale, for financial institutions. While the creation of a CBDC is neither a precondition for nor a guarantee of more efficient payments, it will nevertheless be a key technological challenge in the years to come.

A retail CBDC, made available to individuals, would probably not resolve the security risks associated with know-your-client issues and the implementation of AML/CFT arrangements, which contribute to long transaction execution times. Furthermore, there would appear to be little room to improve financial inclusion in Europe, given the high levels already reached. Therefore, the possibility of issuing a retail CBDC still needs to be studied in depth in order to appreciate all the benefits, while avoiding any potential negative externalities. The practicality of a wholesale CBDC, made available to financial institutions, seems more discernible given the use cases of private actors and central banks in the field of market infrastructures (see the chapter on transformation strategy).



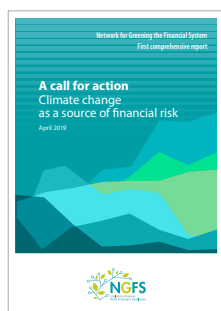
# HIGHLIGHTS 2019

## APRIL

**2 April:** The *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability) raised the countercyclical capital buffer rate from 0.25% to 0.5%.

## APRIL

**17 April:** The Central Banks and Supervisors Network for Greening the Financial System (NGFS) held its first annual conference.



<https://www.ngfs.net/en/>



## JUNE

**4-6 June:** An exercise to simulate a cyberattack on the G7 financial system was carried out with the aim of assessing the communication protocol between the financial authorities. The three-day long exercise was coordinated by the Banque de France and involved 24 financial authorities from 7 countries.

## JULY

**4 July:** Publication of the analysis of responses to the ACPR's public consultation on artificial intelligence. The feedback supported and enhanced the work currently underway alongside financial industry representatives.

ACPR (Fintech Innovation), *Artificial intelligence: challenges for the financial sector – responses to the public consultation on the ACPR's discussion paper*, December 2018, analysis of responses, June 2019.



<https://acpr.banque-france.fr/en/artificial-intelligence>

## DECEMBER

**20 December:** The HCSF published a recommendation addressed to credit institutions regarding lending standards for residential housing loans.



<https://www.economie.gouv.fr/hcsf/les-recommandations-du-hcsf>







# SERVICES TO THE ECONOMY AND SOCIETY

# SERVICES TO THE ECONOMY AND SOCIETY IN 2019



## MISSIONS

The Banque de France provides the general public with keys to **understanding the economy**:

- national steering body for France's financial education strategy
- large-scale initiatives and partnerships

The Banque de France **listens to consumers, especially those that are vulnerable**:

- help for the overindebted, right to a basic bank account
- maintenance of payment incident registers, monitoring of bank fees

The Banque de France acts as **banker to the French government**:

- holding of the French Treasury's bank account
- management of government debt auctions

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The Banque de France **provides help and guidance to businesses, especially small businesses**:

- guidance for VSEs and SMEs
- credit mediation

# 51,668

basic bank accounts  
opened at the Banque de France's behest  
(under the right to a bank account procedure)

# 153,453

cases of overindebtedness handled  
by the Household Debt Commissions

# 199,662

calls handled by the *Assurance Banque Épargne Info Service* (ABE IS)  
telephone platform and by the AMF and ACPR

# 13,000

businesses surveyed each month  
for the Banque de France's economic surveys

# 271,215

ratings assigned to non-financial  
corporations (mainly SMEs)

# 4,638

VSE managers towards professional  
organisations and networks

# 7,487

jobs saved or secured thanks  
to credit mediation

# THE BANQUE DE FRANCE IS PRESENT THROUGHOUT FRANCE, SERVING ALL MEMBERS OF SOCIETY

**The Banque de France is a trusted institution that listens to the public and delivers targeted, inclusive and responsible services to all segments of society – from businesses to private individuals**

The Banque de France's services to the economy and society are targeted at a broad scope of customers including businesses, private individuals, the French government, local authorities, credit institutions and associations. Its activities are designed to promote the development of inclusive and responsible finance, and range from the collection of data, usually directly from the actors concerned, to the compilation of analyses. The latter are constructed on an individual basis, as in the case of company ratings and debt reduction plans for consumers, or take the form of aggregated reports such as geographical and sector-based economic and social assessments.

These services are possible thanks to the Bank's country-wide presence, via its vast network of departmental branches and partnerships with public sector bodies and associations.

## 1

### Improving citizens' economic and financial literacy

**The Banque de France, national steering body for France's financial education strategy**

Since its appointment in 2016 as national steering body for France's financial education strategy, the Banque de

France has worked with a wide range of target audiences and helped to promote numerous educational initiatives.

Promoting financial education is a social, economic and democratic challenge. This commitment helps to reduce the information gap between the general public on the one hand and experts and decision-makers on the other.

#### A five-pillar strategy: measurable results, actions to be developed

As the national steering body for France's national financial education strategy, the Banque de France runs initiatives for a broad range of beneficiaries, working in association with numerous stakeholders: public authorities, consumer rights associations, associations for individuals in difficulty, professional organisations, etc. France's national strategy is structured around five pillars (*see diagram opposite*).

#### Economic and financial education for school pupils and the young

Under an agreement signed with the French Ministry of Education, the Banque de France helps to provide ongoing financial literacy training for school teachers. Its contribution takes the form of joint courses run in conjunction with professional trainers, and the hosting of regular conferences for teachers on economic topics. A specific version of the agreement has been signed with each local education authority.

## THE BANQUE DE FRANCE BRANCH NETWORK AND ITS PARTNERS

The Banque de France network is structured into departmental branches, with a smaller number of regional directorates tasked with coordinating and supervising activities, and managing the allocation of resources. This presence in each of the departments grants the Bank greater efficiency on the ground, and allows it to deliver the services assigned to it under the Eurosystem framework, national legislation and its public service contract directly to the heart of the community.

Thanks to their in-depth knowledge of local firms, built up through their rating activities or by questioning managers as part of economic surveys, staff at the branches are uniquely placed to carry out economic and financial assessments of firms and of business-related data. Using this knowledge, the branches have built up strong partnerships with local economic players, including local branches of government departments, local and regional authorities, chambers of commerce, commercial courts and banks.

As part of their work with private individuals (secretariat functions for the Household Debt Commissions, right to an account procedure, access to payment incident registers), the branches have also set up partnerships with organisations focusing on banking inclusion, notably social action community centres, departmental social cohesion bodies, organisations

providing advice and guidance to the public such as the Points conseil budget (PCB – Budget Management Advice Offices), and various solidarity associations.

Finally, under the Banque de France's role as national operator for France's financial literacy strategy, the branches are involved in numerous educational activities via partnerships with local educational authorities, schools and universities.

↓ Inauguration of the new premises of the front-office branch in Mende, 30 April 2019



## THE FIVE PILLARS OF THE NATIONAL FINANCIAL EDUCATION STRATEGY

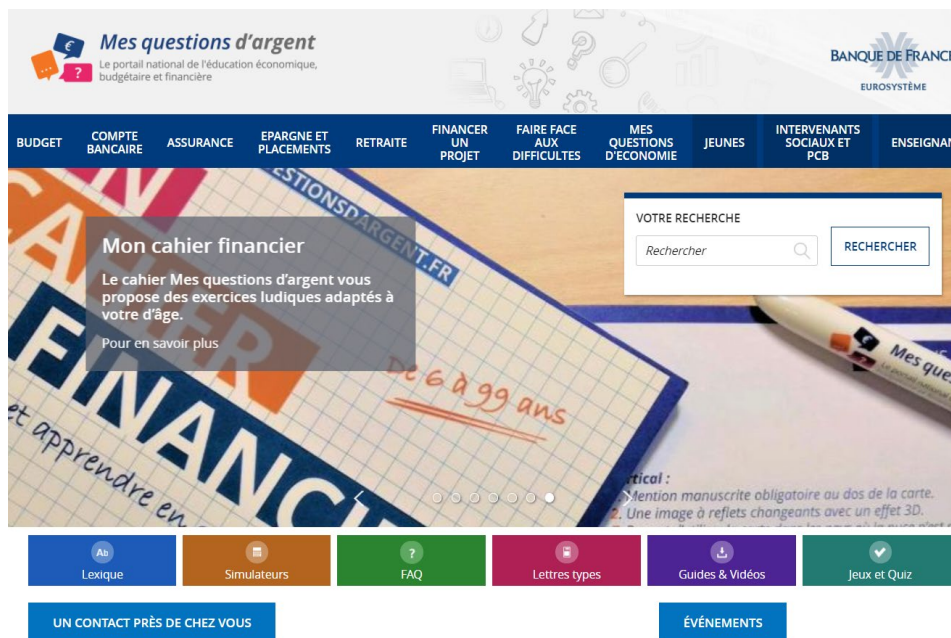
Provide **young people** with better education on budget management and finance

Provide social workers with the skills they need to assist those who are **financially vulnerable**

Support lifelong learning in **budget management and finance**

Ensure all audiences have the basic skills and knowledge to understand **economic debates**

Help **entrepreneurs** improve their economic and financial skills



← Mes questions d'argent or MQDA, the national economic, financial and budgetary education portal  
<https://www.mesquestionsdargent.fr/>

The Bank also offers short work experience internships for 14-15 year-olds, and holds regular workshops for pupils.

The Banque de France is working with the *Institut pour l'éducation financière du public* (IEFP – Institute for the Financial Education of the General Public) to develop a set of “Educsol” teaching resources, particularly on the topic of budget management. It has also developed a series of entertaining awareness-raising tools, including a game and a financial education booklet, which are available free of charge via the *Mes questions d'argent* (MQDA) portal and aimed at children aged six and over.

2019 was marked by the trial roll-out of two new initiatives: the “financial passport” which was tested successfully with Year 9 pupils at three schools in Créteil, and a financial education module launched as part of France’s National Universal Service scheme. In total, 18,165 secondary school pupils were supplied with information on economic, budgetary and financial issues. 2020 will see the expansion of these new initiatives.

#### Alerting external stakeholders to the need to provide guidance to the financially vulnerable

The Banque de France works throughout the country to raise awareness of financial literacy issues. It also organises information sessions for teachers and social workers on a variety of subjects of interest to the general public:

prevention and resolution of overindebtedness, banking inclusion, microcredit, and relations with banks and insurers. In 2019, 16,200 volunteers and social workers benefited from such sessions.

In 2020, the Banque de France will play a major role in training social workers involved in the roll-out of the *Points conseil budget* (PCB – Budget Management Advice Offices), which is a project run by the Ministry of Solidarity and Health Care as part of the national strategy for the prevention of poverty.

#### Supporting lifelong learning in budget management and finance

The *Mes questions d'argent* (MQDA) internet portal is targeted at the general public, social workers, associations and teachers, and provides a selection of unbiased educational materials on budget management and personal finance. The resources include articles, videos and games which provide an insight into theoretical and practical issues (bank accounts, insurance, savings and investments). In 2019, the number of page views on the portal reached 1.4 million.

#### Understanding the economy

The Banque de France publishes a series of educational documents entitled *ABC de l'Économie* (ABC of Economics), which are targeted at teachers and students in senior-level



← Playing the *Mes questions d'argent* game during Money Week, from 25 to 31 March 2019

education (baccalaureate onwards), as well as non-experts looking to learn more about the economy. They are available at: [abc-economie.banque-france.fr](http://abc-economie.banque-france.fr)

### Guidance for entrepreneurs

The Banque de France provides guidance for (young) entrepreneurs on economic and financial issues, at the business planning and creation stage and throughout the life of their enterprise. This fifth pillar of the financial education strategy notably includes a *Mes questions d'entrepreneur* (MQDE) web portal,<sup>1</sup> with free access to documentary resources, and fun and practical tools such as the financial analysis game #Aventure Entrepreneur.

### The EDUCFI label

On 25 November 2019, at the meeting of the Strategic Committee for Financial Education, the Ministry of the Economy and Finance, the Ministry of Education and Youth, the Secretary of State for Solidarity and Health Care, the Governor of the Banque de France and various associations, and institutional and professional actors rolled out a 2020 action plan for financial education.

One of the decisions taken was to introduce a labelling system to better integrate financial education initiatives launched by the private sector. The committee had noted a rise in interest from private stakeholders in economic and financial education. It therefore proposed creating an

EDUCFI label for projects from these actors, to guarantee that the content is unbiased, easily accessible and free of charge, in accordance with OECD criteria. The label will be granted based on an assessment of the reliability of the information, and will take into account how it is used over the long term. The system will be rolled out in the first half of 2020.

<sup>1</sup> <https://www.mesquestionsdentrepreneur.fr/>

### Number of teachers who received awareness training



### Number of social workers trained



### Number of page views on the *Mes questions d'argent* portal



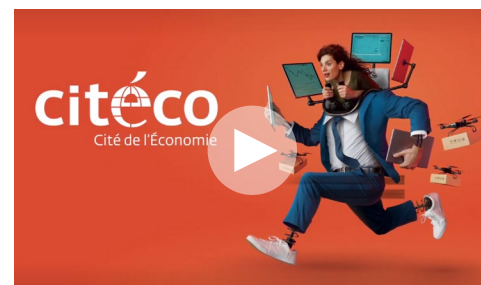




← Inauguration of Citéco on 15 May 2019, before its official opening to the public on 14 June. The museum is a cultural and educational centre covering 6,700 m<sup>2</sup> of floor space, and located in the Hôtel Gaillard (neo-Renaissance architecture) in Paris' 17<sup>th</sup> arrondissement



↓ Visit Citéco



## Projects, activities and partnerships

### Opening of Citéco, the *Cité de l'économie* museum

Citéco, or the *Cité de l'économie et de la monnaie* (Museum of Economics and Money), was inaugurated on 15 May 2019 by the Minister of the Economy and Finance, Bruno Le Maire, and the Governor of the Banque de France, François Villeroy de Galhau, before an audience of special guests and journalists.

It opened its doors to the general public in June (open every day except Mondays, and with some exceptions during school holidays), and in September rolled out its full range of attractions and services, including school visits, temporary exhibitions (such as "Born somewhere"), mediation services and cultural events. Reservations by school groups began to increase as of September, and a total of 3,800 people visited the museum during the European Heritage Days. Since June, it has attracted a total of 39,196 visitors, and media coverage has been extremely positive.

Citéco is aimed at families, and especially at young people, visiting with their school or in a private capacity. It relies heavily on social networks to communicate, sometimes using unconventional methods. It now has 19,000 subscribers on YouTube, 9,400 followers on Twitter and 2,200 on Facebook.

Citéco's permanent collection features interactive exhibits such as the group games "Negotiate-Decide" and "The Market Game", while visitors can also book guided tours. The winter 2019-20 programme focused on the theme of ecosystems (the economy viewed as a living organism), and in particular on a social and inclusive economy. This first season also featured late-night openings on specific topics, book-signings and musical events.

### Participation in Jéco

In 2019, as every year, the Banque de France was present at the *Journées de l'économie* (Jéco; "Economics days") in Lyon, which was organised around the theme of "The environment, the digital economy and society... a decade of risks". Between 5 and 7 November, more than 60 events, conferences and round-tables were held to give French people a better insight into the economy.<sup>2</sup> The Banque de France took part in ten events, focusing notably on the energy transition, monetary policy, the role of women and economic education. It also took advantage of the occasion to award prizes to the two winners of its blog competition for students.

<sup>2</sup> Rougès (D.) and Sestieri (G.) (2020), "Les Français s'intéressent-ils à l'économie?", *Bulletin de la Banque de France*, No. 227/7, January-February (<https://publications.banque-france.fr/>)



← Les Journées de l'économie (Jéco; "Economic days"), from 5 to 7 November 2019 in Lyon. The Banque de France sponsors and participates in Jéco as part of its role as national operator for France's financial education strategy

## 2

### Protecting private individuals

#### Support and advice

As part of its role to promote banking inclusion and provide information, the Banque de France is an important point of contact for individuals seeking advice or guidance, and who are often financially vulnerable. More than 1.2 million requests were handled in 2019 by staff in charge of relations with the public.

#### A multi-channel approach

In 2019, the Banque de France continued its work to develop a modern and multi-modal interface with the general public. Individuals wishing to contact the Bank can now do so via the channel of their choice. More than 10% of requests were submitted via the internet (at [accueil.banque-france.fr](https://accueil.banque-france.fr)), under "La Banque de France et vous : vos demandes en ligne", with the answers also posted directly online.

A majority of individuals still prefer to contact the Bank's staff directly and in person and, to cater for their needs, a system of meetings "by appointment only" has been put in place at the branches: 88% of people who used Banque de France branch

counters in 2019 had booked an appointment, and more than half of these were booked online, in just a few clicks (*see above*).

Further steps are being taken to modernise and simplify the Bank's contact with the public, especially its telephone platform, with the aim of improving accessibility and response times.

#### ABE IS, Assurance Banque Épargne Info Service

Using its unique insight into the needs and expectations of the general public, the Banque de France works with the *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) and *Autorité des marchés financiers* (AMF – Financial Markets Authority) to improve the practical information, products and services available on the [abe-infoservice.fr](https://abe-infoservice.fr). It also manages the ABE IS telephone platform, and in 2019 helped to inform and direct some 200,000 individuals, insurance policyholders and bank customers.

#### The right to a basic bank account procedure

In 2019, the Banque de France issued 51,668 orders to banks to open a basic deposit account for customers, representing a decline of 7.7% compared with 2018. Of these, 42,335 were for individuals requiring an account for non-professional purposes (–6.3%).

After increasing steadily between 1985 and 2015, the number of requests for a basic bank account has declined by 25% since 2016, falling back to its 2013 level.



more than **1,800** adverts examined

**1.2** billion consultations by banks of the three payment incident registers – the FCC, FICP and FNCI

**60.8** million consultations of the FNCI by retailers



← ABE IS, Assurance Banque Épargne Info Service. A joint ACPR-AMF-Banque de France service that provides the general public with practical information on bank and insurance products, and on financial investments

## Preventing financial difficulties

### Management of payment incident registers: a risk prevention tool

The Banque de France is tasked by law with managing a number of payment incident registers. These databases, which are populated by banks, are aimed at preventing overindebtedness and making payment instruments more secure.

The *Fichier central des chèques* (FCC – Central Cheque Register) and *Fichier national des chèques irréguliers* (FNCI – National Register of Irregular Cheques) serve to enhance cheque security. The FCC centralises payment incidents related to cheques, as well as details of bank cards that have been stopped due to misuse, while the FNCI lists the bank details of closed or banned accounts, as well as the numbers of stopped cheques and cheques reported lost or stolen. This information is disseminated to merchants and service providers to allow them to verify the validity of cheques presented by customers.

The *Fichier national des incidents de remboursement des crédits aux particuliers* (FICP – National Register of Household Credit Repayment Incidents) helps to prevent overindebtedness by enabling banks to better assess the risk when customers apply for loans. The FICP records payment incidents related to credit granted to private individuals, as well as information relating to measures for handling cases of household overindebtedness.

### L'Observatoire de l'inclusion bancaire (Observatory for Banking Inclusion)

At the end of 2018, the banking industry made a commitment to promote a specific service offering for “vulnerable customers” and, from 2019 onwards, to cap payment incident fees for all beneficiaries of this offering as well as for financially vulnerable customers in general. The implementation of these commitments is being closely monitored by both the Observatory for Banking Inclusion and the ACPR. The banking industry has made major efforts to put the capping system in place as quickly as possible. Moreover, in 2019 the Observatory began monitoring indicators on payment incident fees (both for beneficiaries of the specific offering and for all vulnerable individuals) and now collects quarterly statistics from the main banking groups to check that they are meeting their commitments.

### Helping the overindebted

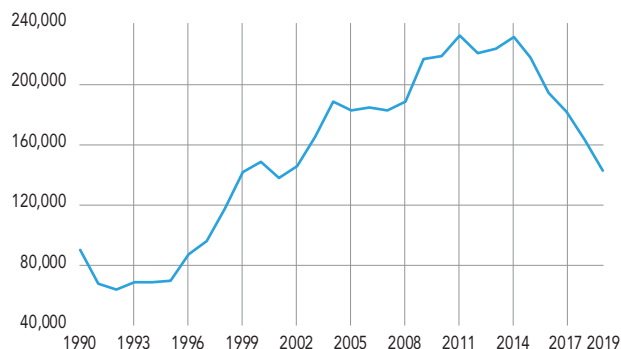
#### A simpler, more efficient procedure

Under the task entrusted to it by the government, the Banque de France's branch network carry out secretariat services for the departmental Household Debt Commissions. The latter are collegiate administrative bodies that propose solutions for individuals facing serious financial problems. In keeping with this mission, the Banque de France is continuing to support the roll-out of the *Points conseil budget* (PCB – Budget Management Advice Offices), which were set up as part of the national poverty prevention plan. The PCBs aim to ensure



**-12.2%** decline versus 2018 in the number of overindebtedness applications

Number of overindebtedness applications submitted to the commissions since the start of the scheme



earlier detection of individuals in financial difficulty, and, where possible, find solutions before they get into excessive debt.

For those who are overindebted, the Sapin 2 Law and Law on the modernisation of French justice for the 21<sup>st</sup> century introduced a series of changes as of January 2018 aimed at speeding up the implementation of solutions. Under these new measures:

- the amicable settlement phase (negotiations with creditors with a view to putting in place a standard debt repayment plan) is now reserved for cases where the debtor owns real estate;
- Household Debt Commissions can now impose a full or partial debt write-off without court approval. At the same time, the time limit for lodging an appeal or contesting a decision has been extended.

The Law of 23 November 2018 on housing, planning and digital technology (ELAN Law) introduced provisions to help prevent tenant evictions by ensuring greater coordination between overindebtedness solutions and the procedure for settling rental disputes.

Measures were also introduced to take better account of the difficulties faced by former self-employed workers. In 2019, for the first time, 1,650 former self-employed

workers were able to benefit from the overindebtedness procedure for all their debts, including those related to social security contributions.

Since 2016, to limit the resubmission of overindebtedness applications by households that have had their debts postponed (suspension or moratorium) but are still in financial difficulty, the commissions have tended to direct these cases towards a personal recovery procedure and total debt write-off if there is no realistic prospect of an improvement. This practice helped to accelerate the decline in resubmissions in 2019 (10,000 fewer than in 2018 which had already seen a decline of 8,000 versus 2017). The rate of resubmissions has fallen by nearly two percentage points since 2016.

Number of beneficiaries of the “specific offering”



Rate of resubmission of overindebtedness cases (%)



↑ 2019 Typological Survey of Household Overindebtedness  
National and regional data  
<https://particuliers.banque-france.fr/surendettement/>

## MONITORING THE BANKING INDUSTRY'S COMPLIANCE WITH ITS COMMITMENTS

Over the past few years, the Banque de France has participated actively in discussions with the financial industry over ways to strengthen measures to protect the financially vulnerable. As a result of these talks, French banks have made the following commitments:

- To cap banking incident fees at EUR 25 per month for financially vulnerable clients. This measure was to be implemented by 1 February 2019, and is expected to benefit more than three million people.
- To cap fees related to incidents of any kind at EUR 20 per month and EUR 200 per year for clients subscribing to the "specific service offering" set out by law for vulnerable individuals. This measure was to be implemented by 30 June 2019.
- To expand the specific set of services for vulnerable individuals by at least 30% by the end of 2019.

The Banque de France has closely monitored the implementation of these commitments. The statistics collected confirm that banking incident fees declined following the introduction at the start of 2019 of the EUR 25 monthly cap for

the financially vulnerable. In the first half of 2019, vulnerable individuals paid an average of EUR 17 in incident fees per month.

In parallel, as at 30 September 2019, 464,000 customers were using the specific service offering, compared with 250,000 at end-2016 and 215,000 at end 2015. In these cases, incident fees averaged EUR 8 per month, significantly below the EUR 20 monthly cap.

Thanks to these commitments, each quarter more than a million people benefit from the fee cap.



↑ 2018 Annual Report of the Observatory for Banking Inclusion  
<https://publications.banque-france.fr/>

## 30 YEARS FIGHTING OVERINDEBTEDNESS

The phenomenon of personal overindebtedness first emerged in the 1980s, in a context marked by low purchasing power growth (with disinflation maintaining the value of debts), the emergence of floating rate mortgages for first-time buyers and the removal of restrictions on consumer credit. However, over the years, the nature of overindebtedness has gradually evolved. Changes in the social and economic environment have led to a rise in job instability and in family breakdowns, and French legislation has had to adapt to these underlying trends. The Banque de France has worked with public authorities to analyse cases of overindebtedness and the possible solutions, and has updated its procedures and tools accordingly, in collaboration with other major stakeholders (e.g. courts, lenders, social workers). This transformation has picked up pace in recent years with the modernisation and digitalisation of the system.

Contact with stakeholders has been digitalised with the creation of dedicated portals for lenders, courts and members of the Household Debt Commissions. The next development will come at the end of 2020, when overindebted individuals will be able to submit their applications online.

As well as finding ways to resolve overindebtedness, the Banque de France is developing a preventive approach by putting in place initiatives for the public and social workers. These include actions conducted within the framework of its financial education role and, more recently, the provision of support for the *Points conseil budget*.

Publication: 30 years fighting overindebtedness.  
<https://particuliers.banque-france.fr/event/>



↑ Overindebtedness: solutions are available

more than **55%** of overindebted individuals belong to households living below the poverty line

**21%** of overindebted households are single-parent families

**16,384** median amount of personal debt in euro (excluding housing loans, which were present in 14.3% of cases)



The sharp drop in the number of resubmissions (–36% since 2014) is also a lagged consequence of the steady decline in first-time applications, which explains why the rate of resubmissions is not falling more rapidly.

In 2019, 143,000 applications were submitted to the Household Debt Commission secretariats in metropolitan France, of which 135,000 were deemed admissible. The number of filings was down 12.2% versus 2018, and nearly 40% lower than the peak seen in 2014.

In accordance with the provisions of Article R. 712-12 of the French Consumer Code, each Household Debt Commission draws up an annual report on its activities (see Appendix 4).

### 3

## Helping businesses with their financing and development

### Company ratings

The Banque de France maintains an essential reference database for the banking industry – the *Fichier bancaire des entreprises* or FIBEN. With more than 8 million companies

on file and 271,000 rated companies, the tool is also an essential lever for developing the economy.

Thanks to its branch network, the Bank has access to in-depth information on France's economic fabric, which it makes available to banks and corporate finance organisations (credit insurance firms, intermediaries and crowdfunding advisors, asset management companies, and insurance companies or mutual insurers that finance companies via investment funds). It also supplies the data to the tax authorities, to government economic and financial administrations tasked with preventing and resolving company difficulties, to regional councils providing business grants, to the listed companies themselves and to the banking supervisor (ACPR).

The Banque de France enjoys dual status as an External Credit Assessment Institution (ECAI) and an In-House Credit Assessment System (ICAS) within the Eurosystem. Accordingly, its rating can be used:

- within the Eurosystem, to assess the quality of assets pledged as collateral for bank refinancing operations;
- by credit institutions, to assess the quality of their exposures and determine their regulatory capital requirements.



# 271,215

non-financial companies assigned  
a rating (mainly SMEs)

# 13.3

million FIBEN consultations

← The Banque de France takes part in the BIG Salon (Bpifrance Inno Generation) on 10 October 2019, at the AccorHotels Arena in Paris. Its experts were on hand to present the Bank's service and product offering for entrepreneurs

By way of example, 63% of companies rated by the Banque de France have a rating which makes them eligible for monetary refinancing operations (between 3++ and 4).<sup>3</sup>

The rating also provides business leaders with an external analysis of their credit quality and enables them to identify the determining factors in this analysis. This improves dialogue between banks and companies by offering a shared, recognised point of reference.

The Banque de France applies an expert-based approach, consisting of an individual and in-depth analysis of the financial and non-financial position of companies (mainly SMEs) or groups (taking into account their financial statements and factors such as corporate social responsibility criteria). It rates more non-financial companies on the basis of their financial statements than any other central bank within the Eurosystem.

Within a regulatory framework, and as part of its general interest missions, the Banque de France assigns a management indicator to legal representatives of companies. This indicator is neutral by default (000) but becomes significant (060) for managers who have been at the head of at least three companies placed in judicial liquidation over the past five years, or who have been subject to legal penalties imposed by commercial courts.

## Support for VSEs is now available for SMEs

In the past three years, the Banque de France has assisted more than 11,000 project initiators and managers of very small enterprises (VSEs) in metropolitan France and the overseas departments and territories. Over time, the Bank has gradually stepped up its action, and in 2019 helped more than 4,600 entrepreneurs via a network of 102 departmental VSE correspondents. The role of these correspondents is to take questions from entrepreneurs regarding their business activities, make a rapid assessment of their situation and then direct them towards a well-identified representative at one or more professional bodies equipped to deal with their needs.

The VSE correspondents can be contacted by telephone (free phone number: 0 800 08 32 08), by email (TPMExx@banque-france.fr, where xx is the number of the department), or in person at the departmental branches.

Their approach consists in working closely with managers to find an in-depth solution, and putting them in touch with the relevant contacts as quickly as possible (in most cases within 48 hours).

<sup>3</sup> <https://entreprises.banque-france.fr/cotation-des-entreprises/>



## ASSIGNING COMPANY RATINGS: THE RESPONSIBILITY OF THE BANQUE DE FRANCE BRANCHES

The Banque de France assigns its ratings on the basis of qualitative information and a financial analysis of each company's accounts (earning power, financial autonomy, solvency, liquidity). Analysts work directly with thousands of business leaders to rate firms (close to 50,000 rating meetings were held at end-December 2019, accounting for 18% of the population of rated companies). "Qualitative" data are also collected, allowing analysts to draw up a profile of companies (trends in firms' market sectors, their market position, their medium-term outlook, their CSR approach, etc.).



## THE BANQUE DE FRANCE AND THE OBSERVATORY FOR PAYMENT TIMES

When a company grants a client a payment deferral, it makes a commercial decision exposing itself to potential cash flow problems, which could be further exacerbated if the payment is late. Currently, under the Law of 4 August 2008 on the modernisation of the economy (the LME Law), payment times are limited to 60 days as of the date of invoice. However, according to Banque de France estimates, around a third of companies experience delays in receiving payment.

To monitor this problem, in 1991 the public authorities set up an *Observatoire des délais de paiement* (Observatory for Payment Times). Chaired by Jeanne-Marie Prost, and with its secretariat functions carried out by the Banque de France, the Observatory compiles economic and statistical analyses on company payment times, at the request of the competent public entities. It may also be consulted on these issues by the Minister of the Economy. The Observatory brings together the main industry federations, the relevant government agencies, national associations and representatives of the hospital sector.<sup>1</sup>

Thanks to the methodological and operational support of the Banque de France, its members draw up a joint annual assessment of payment times in France, enabling them to identify any areas of difficulty. In response to a recommendation

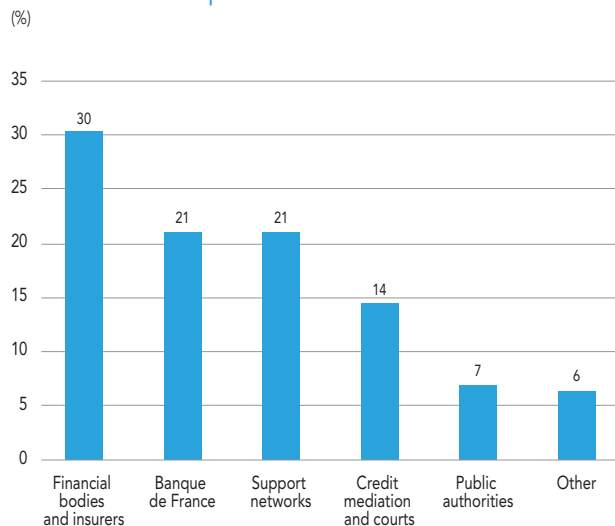
in the Observatory's 2018 annual report (published in March 2019<sup>2</sup>), for example, the government committee charged with evaluating policies to support growth and transform companies (created under Article 221 of the Pact of 22 May 2019), was tasked with monitoring "the modalities for implementing a database on payment times, that can be consulted and downloaded free of charge via the Ministry of the Economy's website, and that will serve as a reference for companies regarding compliance with the measures in place on payment times".

The Law on the modernisation of legislation in the overseas territories entrusted the *Institut d'émission des départements d'outre-mer* (IEDOM – the Delegated Central Bank for the French Overseas Departments and Territories) with the task of drafting an annual report on payment times for companies and public sector entities in the overseas departments and territories. The Observatory for Payment Times therefore focuses its work on payment behaviour in metropolitan France, but relies on the IEDOM to give it a picture of the situation in the overseas departments and any specific problems encountered there.

<sup>1</sup> Missions specified in the ministerial order of 7 June 2016.

<sup>2</sup> <https://publications.banque-france.fr/2018-1>

## Referrals of VSEs to professional networks



The Banque de France has been providing a bridge between businesses and professional networks since 2016, and has signed 37 national partnership agreements with financial organisations, chambers of commerce, support networks, employer federations and accountancy firms to guarantee the best possible service for entrepreneurs in need of help. The VSE correspondent service is free of charge, completely confidential and aimed at students setting up their own business, project initiators, craftspeople, retailers, managers of service companies, the self-employed, construction professionals and other VSEs.

Since 8 October 2019, the VSE system has also been accessible to managers of SMEs. VSEs and SMEs alike are therefore welcome to use the service, and the Banque de France's correspondents will provide them with help throughout the creation, development and transmission of their enterprises, and to prevent and resolve difficulties.

In 2019, the Banque de France organised various events for entrepreneurs in metropolitan France and the overseas departments and territories. On 13 March 2019, VSE and SME managers were invited to attend a forum at the Banque de France's Paris headquarters on entrepreneurialism, corporate social responsibility (CSR) and the social and solidarity economy (SSE). Some 50 partner networks hosted stands at the event, as a complement to the eight round-tables hosted by different experts.



↑ VSE correspondent in Lyon during the Entrepreneurs Salon, which was held on 12 and 13 June 2019. More than 200 business owners found out more about the Banque de France's missions and service offering for companies

## Monitoring of business risks

The Banque de France conducts regular, detailed assessments of the various risks that companies might face: customer payment times, signs of internal weaknesses.

### The Banque de France, a major participant in the "Signaux Faibles" system

On 3 April 2019, the Banque de France signed an agreement to help roll out the "*Signaux Faibles*" (Weak Signals) scheme, which is aimed at identifying warning signs within companies before they actually get into difficulty. The scheme is the product of a partnership between government start-up Signaux Faibles, the Banque de France Companies Directorate (DGE), the *délégation générale à l'Emploi et à la Formation professionnelle* (National Delegation for Employment and Professional Training), the *Agence centrale des organismes de sécurité sociale* (Central Social Security Agency), and the government Interministerial Digital Department. Its purpose is to pool the information held by government departments on individual businesses, develop an algorithm to detect whether they are showing signs of weakness and put in place efficient tools to help them.

The Banque de France is a major player in the project and has contributed actively to all stages of its development. It manages the IT architecture for the Signaux Faibles platform



↑ 3<sup>rd</sup> annual VSE convention on 14 October 2019 in Paris, with the participation of 102 departmental VSE correspondents and representatives of professional networks from the VSE universe



↑ Staff from the Banque de France's Companies Directorate at the Entrepreneur Salon held on 5 and 6 February 2019, at the Palais des Congrès in Paris. The event brought together close to 60,000 future managers, self-employed workers, start-ups, managers and business acquirors

and guarantees its security, supplies expertise in financial analysis and data science, and chairs the scheme's Scientific Committee. The Bank also provides essential data in the form of financial ratios and, through its branch network, helps to accompany businesses identified as being in danger. It also contributes to the organisation and management of the project at the national level.

Launched by the DGE in the Bourgogne-Franche-Comté region, the test phase of the project was gradually rolled out to the other regions in 2019. Each month, it analyses the financial and economic situations of close to 350,000 businesses with more than ten staff. The scheme is currently still in the experimental phase, but will be developed further in 2020.

### Credit mediation

As part of the national credit mediation agreement, in 2019 the Banque de France continued to assist companies, particularly small businesses, facing financing or cash flow problems. This support is provided through its branch network, as well as through the national credit mediation service which is now attached to the Bank.

In 2019, 1,570 companies applied for credit mediation, down 22% compared with 2018. This decrease continues the trend observed in previous years, and reflects the

improvement in the economic and financial position of VSEs and SMEs.

In 2019, the Banque de France took various steps to facilitate access to credit mediation for companies from the social and solidarity economy (SSE). In June, for example, it signed a partnership agreement, in the form of a Charter for Trusted Mediation Third Parties, with the representative bodies for the SSE sector – ESS France and the CNCRESS. It also carried out communication campaigns with actors from the sector, notably the Labo de l'ESS, and in November took part in the national SSE forum.

### *L'Observatoire du financement des entreprises* (Observatory for Business Financing)

Chaired by the National Credit Mediator, the Observatory for Business Financing groups together representatives of businesses and lenders, along with suppliers of statistics and economic studies (including the Banque de France). Its reports are adopted by consensus and made available to the public.

## 10 YEARS OF CREDIT MEDIATION

Credit mediation is a local, free and confidential service, piloted by the Banque de France and delivered nationally by the departmental directors and overseas branches, working in close proximity with companies facing financial difficulties.

This advisory and assistance service is governed by a national credit mediation agreement, which in July 2018 extended the scheme to cover companies in the social and solidarity economy in cases where there is a threat to employment.

The profile of companies using the procedure has changed little over the years. VSEs account for the majority of applicants (80%), notably those operating in retail (27%) and services (39%). In most cases (64%), the mediation procedures lead to a positive outcome.

Between its launch in 2008 and December 2019, the credit mediation service helped to secure the activities of 23,802 businesses, safeguard 421,626 jobs and secure EUR 7.4 billion of credit (re-opening of existing credit lines or new loans).



## 2019 REPORT OF THE OBSERVATORY FOR BUSINESS FINANCING

The 2019 report showed that the economic and financial health of French VSEs and SMEs has improved since the mid-2010s. The majority of accounting ratios have improved, while still remaining generally below pre-crisis levels. VSEs remain more fragile than SMEs. Access to credit has never been easier, both for SMEs and VSEs. The flow of credit is particularly dynamic, and interest rates are extremely low.

Relationships between SMEs/VSEs and banks are generally satisfactory and have improved over the past few years. Nonetheless, three points warrant vigilance:

- the question of payment times;
- the need to improve the financial skills of managers of small businesses (an issue on which the Banque de France has recently launched a number of initiatives);
- the principal challenges over the near term (such as the digital transformation or the incorporation of environmental concerns).



↑ 2019 Report of the Observatory  
for Business Financing  
[https://mediateur-credit.banque-france.fr/  
le-financement-des-pme-tpe](https://mediateur-credit.banque-france.fr/le-financement-des-pme-tpe)

# 4,638

entrepreneurs helped by the Banque de France's 102 departmental VSE correspondents in 2019

# 7,487

jobs saved or secured thanks to credit mediation



## 4

### The Banque de France acts as banker to the French government

Under an agreement signed with the French state, the Banque de France manages the Treasury's account. It gives the Treasury the means to manage its cash flow, and provides it with an IT system to carry out all its banking transactions (including the payment of public sector wages and collection of taxes). The Treasury's single bank account is held at the Banque de France's head office in Paris. This account centralises the transactions sent and received by the public accountants, established in mainland France and the overseas departments, via 5,000 transaction accounts. In addition to payments in and the supply of coins and banknotes, these transactions include an annual volume of nearly one billion payment transactions.

For transactions in and settlement of these payment instruments, the Banque de France represents the government in retail interbank payment systems (STET for France and STEP2 for European cross-border transactions) and high-value payment systems (Target2), as a direct participant.

Agence France Trésor (AFT), which manages the Treasury's cash balances, can supervise the government's financial flows on a daily basis, and ensure that it always has sufficient resources to meet its financial commitments. Article 123 of the Treaty on the Functioning of the European Union prohibits euro area central banks from granting overdrafts or any other credit facilities to public bodies. The Treasury's single account at the Banque de France must therefore be in credit at the end of each day.

On behalf of AFT, the Banque de France holds auctions of government securities on a weekly (Treasury bills) and monthly (OATs and OATis) basis, using a specific computer system to process the transactions. In 2019, these auctions raised EUR 490.5 billion.

## 5

### Execution of the Public Service Contract

Under the Public Service Contract signed between the French state and the Banque de France, the Bank's branch network is responsible for receiving members of the public and providing them with information on issues concerning overindebtedness, payment incident registers, the right





to a bank account, and bank transactions and practices. In 2019, the Banque de France network responded to more than 1.2 million such requests from individuals, including more than 561,000 requests received at its branches and reception offices. The network also handled more than 375,000 telephone calls and answered 147,000 letters and emails. In line with its commitment to modernise and diversify the way it communicates with users of its services, the Bank also responded to more than 118,000 requests transmitted via personal spaces on its website. Experts from the branch network participated in over 2,500 meetings of different bodies set up by the state in the framework of its economic activities.

**851** million transactions  
processed for the government  
Treasury account

#### **A DEDICATED PORTAL FOR THE FRENCH TREASURY**

The Banque de France provides public finance administrators with a dedicated portal enabling them to carry out their individual transactions and monitor their account position in real time. The portal is directly connected to the IT system of the Directorate General of Public Finances (DGFIP) for retail payments. The Bank's IT processing operations are regularly tailored to the Treasury's needs and it assists the Treasury with industry developments and with the modernisation of its payment means.



# 2019 HIGHLIGHTS

## MARCH

**27 March:** Signature of a framework agreement by the Governor of the Banque de France and the Chairman of the *Assemblée des communautés de France* (AdCF – Association of French Communities) under which the Banque de France will compile cartographic representations of data on businesses.

## APRIL

**3 April:** Signature of a partnership agreement between the Banque de France Companies Directorate (DGE), the National Delegation for Employment and Professional Training, the Central Social Security Agency and the government Interministerial Digital Department to implement the “*Signaux Faibles*” (Weak Signals) scheme.

## JUNE

**27 June:** Signature of a Charter for Trusted Mediation Third Parties, with the French Chamber for the Social and Solidarity Economy (ESS France) and the National Council of Regional Chambers for the Social and Solidarity Economy (CNCRESS).

## SEPTEMBER

**4 September:** Launch of the first version of the *Mes questions d’entrepreneur* (MQDE) website, a national economic and financial education portal for entrepreneurs.

[www.mesquestionsdentrepreneur.fr](http://www.mesquestionsdentrepreneur.fr)

## OCTOBER

**8 October:** Expansion of the VSE correspondent scheme to SMEs: 102 correspondents at the Banque de France branches offer advice and guidance to VSEs and SMEs.



↑ “Our aim – to ensure all VSE managers can get answers to their questions”  
Didier Lavigne, VSE correspondent in the Lot-et-Garonne department

## NOVEMBER

**25 November:** Launch of the EDUCFI labelling scheme at the meeting of the Strategic Committee for Financial Education held at Citéco and chaired by the Minister for the Economy and Finance, in the presence of the Minister for Education and Youth, the Secretary of State for Solidarity and Health Care and the Governor of the Banque de France.

## DECEMBER

**End-December:** 30<sup>th</sup> anniversary of Law No. 89-1010 of 31 December 1989, or the Neiertz Law, on the prevention and resolution of difficulties relating to the overindebtedness of individuals and families.

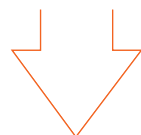


# TRANSFORMATION STRATEGY

# THE TRANSFORMATION STRATEGY IN 2019



# 10 KEY TARGETS FOR 2020



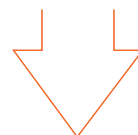
## FOR OUR STAFF

- At least **1,000 new hires** by end-2020, and 500 block-release contracts  
**A total of 1,144 new hires in 2019**  
**A total of 567 new block-release contracts**

- 200 internal promotions to professional/managerial roles** by end-2020,<sup>a)</sup> with the aim of raising the proportion of staff in professional and higher categories to 35%. **184 new professionals/managers in 2019 in cumulative terms (35%)**

- 9,720 FTE end- 2020**  
**9,857 end-2019**

- A rise in **confidence among staff in the future of the Banque de France**, above 50%  
**42% – Observatory 2018**

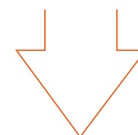


## FOR OUR PERFORMANCE

- Around **EUR 1 billion in investments** over 5 years, of which almost EUR 400 million for Ambitions 2020 and modernisation of the branch network  
**EUR 803 million for 2019 in cumulative terms**

- Ensure all **our pension commitments are fully covered** in 2020, thanks to a strong financial performance  
**102% end-2019**

- 10% reduction in the net expenditure** of our activities  
**End-2019 achievement –12.8%**



## FOR OUR INFLUENCE

- Steady increases:
  - in the Banque de France's **visibility 58% at end-2018**
  - in **customer satisfaction 86% customer satisfaction in 2020**

- Number of people benefiting from **economic and financial education<sup>b)</sup>**  
**+ 19,039 social workers and teachers trained in 2019**  
**+ 1,682,916 number of MQDA and Citéco pages consulted**

- Confidence of French citizens in the euro** at least stable compared with the European average and still above 60%<sup>c)</sup>  
**72% in November 2019 in France** (68% in November 2016)  
**76% as a European average** (70% in November 2016)

● Target reached ● Target to be confirmed ● Target not met

a) Excluding the additional impact of the career reform plan.

b) Measurement tools for this target were implemented in 2018.

c) This target naturally does not depend solely on the Banque de France and cannot be considered prescriptive. However, we feel it is important to monitor French citizens' confidence in our currency

on the basis of the biannual Eurobarometer survey. Recall that the starting point is December 2015: 67% of French people support the euro; the European average is 68%.

# OUR TRANSFORMATION STRATEGY: A BANQUE DE FRANCE THAT IS MORE EFFICIENT, MORE VISIBLE, MORE INNOVATIVE

**The Banque de France increased its visibility in 2019. Its transformation, based on a process of innovation, is rooted in all its activities, its organisation, its management and its working practices**

With twelve months to go before the Ambitions 2020 strategic plan comes to an end, an initial assessment of the transformation of the Banque de France can be made. The plan, which is based on three core commitments that embody the Bank's missions, is broken down into 59 actions. Its implementation is measured by 10 benchmarks.

Concretely, according to these criteria, the transformation of the Banque de France has already achieved the following three objectives:

- in Europe: being the central bank for financial markets, the benchmark in supervision and a leading player in the cash industry;
- in France: being a trusted and outstanding public service provider;
- for our management and staff: promoting a simpler, more modern working environment.

At the end of 2019, two-thirds of the 59 priority actions of the Ambitions 2020 plan to achieve these three objectives had been completed, the remaining third is underway and most of the ten target benchmarks are close to being met, particularly those relating to our efficiency.

## 1

### **A more efficient Bank for the benefit of the community**

As part of the Ambitions 2020 plan, the Banque de France has succeeded in maintaining and even developing all of its services and preserving its nationwide network in the departments, while significantly reducing its costs.

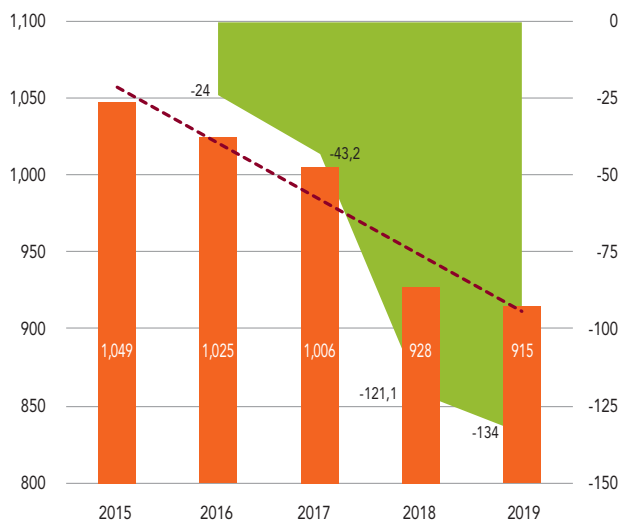
Under the combined effect of a continuous reduction in its headcount through partially replacing retirees, a more conservative compensation policy and a tighter control of overheads, the level of net business expenses has been reduced by EUR 134 million since 2015, allowing us to increase our contributions to the government's budget by the same amount. This illustration of the improvement in the Bank's efficiency meets the objective of providing the national community with a better service at the best cost.

Thanks to the Ambitions 2020 plan, and particularly in terms of innovation, the digitisation of processes and simplification, we have been able to reconcile greater efficiency with improved services to our fellow citizens. These efficiency drivers have



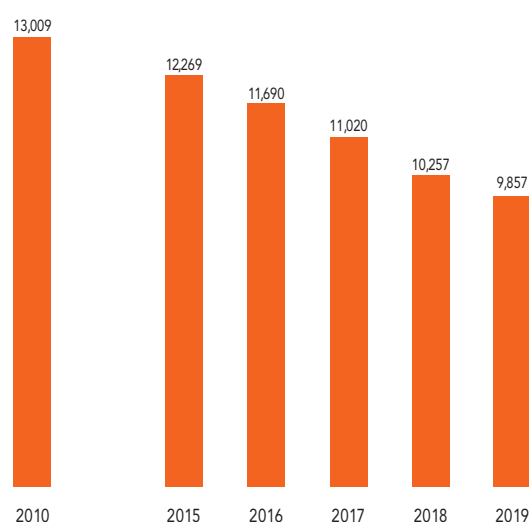
## Changes and reduction in cumulative net expenditure since 2015

(amounts in EUR millions)



## Change in total headcount

(full-time equivalent staff at 31 December 2019)



made it possible, among other things, to offer new services, to automate low value-added tasks and to reorganise the conduct of several activities, in particular those carried out by the branch network. With regard to the latter, the nationwide network has been preserved. All sites maintain a physical reception area for users, in addition to modern methods for requesting the Bank's services. The processing of corporate and individual applications has been consolidated among a smaller number of centres. This new organisation has been transparent to users in terms of the services provided and has generated significant productivity gains for the benefit of the community.

## 2

### An increased influence and visibility

#### Our role in European and international bodies

In 2019, the Banque de France continued to play a prominent role in international and European financial discussions. At the international level, the Banque de France is a major player in the Financial Stability Board (FSB), which brings together the G20 countries. It sits on the steering committee of this body and,

since March 2019, has chaired one of the FSB's main working groups in charge of analysing the vulnerabilities of the financial system. The active participation of the Bank's staff in the FSB's work on financial regulatory reforms has also led to a better understanding of their impact on key sectors of the economy, such as the financing of small and medium-sized enterprises.<sup>1</sup>

At the European level, the Banque de France continued its active participation in the discussions on the Capital Market Union (CMU). Conscious of the opportunities presented by the CMU for citizens, it has been proactive in making proposals to the European and national authorities.<sup>2</sup> 2020 will be an opportunity to continue these exchanges with the high-level working group set up by the European Commission.

#### Our initiatives for greening the financial system

In 2019, the Banque de France significantly strengthened its expertise and international influence on climate change and green finance. This was largely thanks to the development of the NGFS,<sup>3</sup> created at its initiative in December 2017, with 54 members and 12 observers at the end of 2019, and for which it provides the secretariat (i.e. the coordination of work and strategic steering).

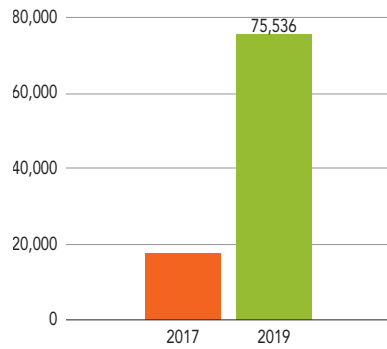
<sup>1</sup> <https://www.fsb.org/2019/11/>

<sup>3</sup> <https://www.ngfs.net>

<sup>2</sup> <https://www.banque-france.fr/en/intervention/>

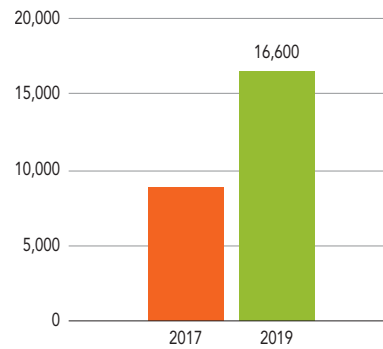
### Consultation of the *Banque de France Bulletin*

+340% in two years



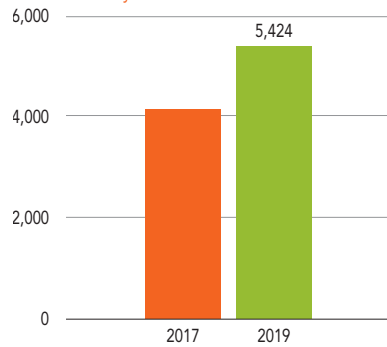
### Visitors for Heritage Days

Record in 2019



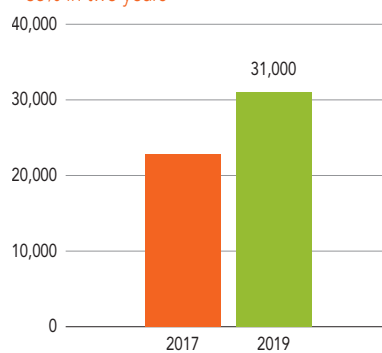
### Media coverage

+30% in two years



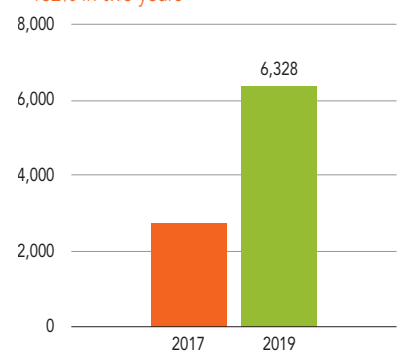
### Followers on Twitter

+36% in two years



### Subscribers on Facebook

+132% in two years



↑ Thierry Bedoin, Chief Digital Officer, at a Digital Day, 21 May 2019



↑ Afterwork "Tech your place", 3 October 2019:  
for greater diversity in the tech sector

The Network published its first comprehensive report in April 2019<sup>4</sup> with six recommendations, including on the role of central banks, supervisors, policymakers and financial institutions in greening the financial system and managing environmental and climate risks. This report was presented at a conference organised at the Banque de France on 17 April 2019.

### Our audience and visibility

Our audience has grown through the exposure given to speeches by the Governor and our spokespersons, the coverage of topical issues concerning the Bank in the media and on social networks, attendance at conferences and symposiums, and the readership of our publications. According to a survey carried out by a polling organisation, 58% of respondents are familiar with the Banque de France and most of its tasks (compared with 36% in 2016). In addition, all visibility indicators improved in 2019.

### A recognised expertise

The Bank's influence within European and international bodies was reflected in a number of appointments to the ECB and the Bank for International Settlements (BIS) of experts and managers from the Banque de France in 2019.

## 3

### Innovation is benefiting all activities and increasing our openness

#### Sharing our research work

In line with the Digital Republic Bill adopted in 2016, the Banque de France has opened up its anonymous individual data to researchers. In 2019, the Open Data Room received 23 new requests for access to its Paris site and a centre was set up in New York with a visitor reception desk. In 2020, it is preparing to provide remote access while ensuring compliance with the appropriate confidentiality and security rules. The Banque de France publishes 44,000 statistical series on the "Webstat" portal,<sup>5</sup> notably including its contributions to the statistics of the European System of Central Banks (ESCB), the European Commission and the BIS. In 2019, the portal received over 67,000 visits. Since this year, its application programming interface (API), referenced on [api.gouv.fr](https://api.gouv.fr) and [data.gouv.fr](https://data.gouv.fr), has facilitated access to data as well as its transfer to the economic database DBnomics. This project, conducted by the Banque

de France, the *Agence française de développement* (AFD – French Development Agency), the *Centre pour la recherche économique et ses applications* (CEPREMAP – Centre for Economic Research and its Applications) and France Stratégie, redistributes data from 62 statistical institutes around the world, representing more than 600 million statistical series.

#### The experimentation strategy via the Banque de France Lab

The Banque de France's innovation laboratory, Lab, stepped up its activities in 2019. It now works with all of the Bank's directorates, providing them with innovative solutions to facilitate or transform their activities and improve their efficiency. The Lab has also collaborated with many external players (start-ups, FinTechs, other "Labs", etc.). It also works with other institutions, in France and abroad, with a view to developing new solutions in line with the Banque de France's tasks. Since its inauguration in 2017, the Lab has already carried out more than 30 experiments, a third of which have led to concrete and operational projects. Examples include the detection of weak signals (*see chapter Services to the economy and society*), the use of artificial intelligence in the detection of fraud as well as the setting up of a digital trading platform.

Several ambitious projects were carried out in 2019 to take advantage of the opportunities offered by promising new technologies such as artificial intelligence and blockchain.

The Lab is also assisting the first batch of intrapreneurs from the ACPR, which was set up in 2019; the aim is to improve, through innovative solutions, the day-to-day performance of ACPR's missions by enhancing its staff's potential for innovation. Other initiatives of this type have also been taken, particularly in the field of CSR, and are currently being tested by the Lab.

In 2019, the Lab also strengthened its international cooperation. Its work was rewarded with a "Pioneer Award" presented to Thierry Bedoin, Chief Digital Officer of the Banque de France, at the Central Banking FinTech & RegTech Global Awards in Singapore.

<sup>4</sup> <https://www.ngfs.net/en/liste-chronologique/ngfs-publications>

<sup>5</sup> <http://webstat.banque-france.fr/en/>



↑ Speech by Tristan Nitot, on behalf of Qwant, during the conference “La vie publique de vos données personnelles” (“The public life of your personal data”), 19 June 2019

## Innovation to enhance our services and efficiency

### In the financial sphere

#### Market Operations

The Banque de France strives to continuously improve its operational processes related to its market activities. For instance, in the context of the Eurosystem’s asset purchase programmes (*see the chapter on monetary strategy*), it was recently decided to extend to the CSPP (private sector securities) portfolio the daily auction system it has been using since 2017 for its PSPP (government securities) securities lending facility.

#### Enhancing the security of payment services

In the area of payment services, since December 2017 the Banque de France has been operating a widely acclaimed world-first interbank blockchain (MADRE) for the management of the SEPA creditor identifiers required to be able to issue SEPA direct debits.

It has also thoroughly modernised its retail payment processing centre (transfers, direct debits, cheques, etc.), set up and operated in partnership with the Caisse des Dépôts et Consignations. The new application, EvoIMPM, which is state of the art, is capable of handling the high volumes and peaks in the tax year for the Treasury and of assisting it with future changes in the means of payment used.

For the submission of their payment orders, the Banque de France’s major customers have access to a modern online banking portal based on strong authentication.

### Digitalisation of our business lines

As part of the digitisation of its processes, the Banque de France has embarked on a project, bringing together business experts and IT teams in an agile mode, with the aim of further facilitating access to the short- and medium-term debt securities market (NEU CP and NEU MTN).<sup>6</sup> The aim is twofold: on the one hand, to optimise the process of managing the financial documentation for these securities between the Banque de France and issuers, underwriters and their partners (arranging banks, law firms, advisers, etc.) as well as the daily collection of market data (issues, flows, outstandings, etc.); on the other hand, to modernise the presentation and ergonomics of the Banque de France’s website for all the information regularly disseminated on this market.

### The data strategy

As the first Eurosystem central bank to have created the position of Chief Data Officer (CDO) in 2019, the Banque de France is making data part of its strategic approach, in line with its policy for its operational and digital activities. It takes

<sup>6</sup> *Negotiable European commercial paper and negotiable European medium-term note.*





↑ Visual management: a method that enhances collective intelligence

into account the data protection and security requirements as well as those of skills development and the dissemination of the know-how necessary for its implementation.

The Banque de France holds a wealth of data whose richness stems from its diversity: data on transactions and macroeconomic data collected from banks, companies and investment funds, provided by rating agencies. The scope also extends, and increasingly so, to the complementary external sources of data from the Web, the textual analysis of documents, platforms and social networks. Ambitions 2020 has created the conditions for an innovative use of this data through several projects developed based on the datalake.

## 4

### For our management and staff: a simpler, more modern working environment

#### Modernisation of our processes and practices

##### Promoting new working methods

The digitisation of processes and the dematerialisation of most media have improved the working environment for employees through new, more cross-cutting, collaborative

and agile organisations. Thanks to the deployment of new applications and equipment compatible with teleworking (laptops account for 63% of the computer population), 30% of employees are able to work from home on a regular or occasional basis. The regular telework rate stood at 21.2% at end-2019.

##### Administrative and organisational simplifications

The numerous administrative and organisational simplifications (500 steps taken), which are drivers and indicators of the transformation, have made it possible to streamline low value-added activities and refocus on the Bank's core activities. Simplifications of a vertical nature have gradually outpaced cross-cutting ones, whose implementation was facilitated by the multidisciplinary character of the major projects of the transformation plan, the spread of digital technology and the evolution of management culture.

##### New practices in working life

Many workspaces have been made more participatory and collaborative to facilitate new ways of working. These spaces are more open and are equipped with digital communication tools that are conducive to internal and external cooperation. At the same time, several inter-company challenges have helped unite teams around shared objectives.

## Simplifications in 2019

### Human resources

Simplification of the annual assessment and promotion process and gender equality

- Decentralisation of the promotion process
- Reduction from 72 to 8 in the number of joint committees
- Reduction from 27 to 17 in the number of employee representative bodies

### Financial processes

Simplification of budget and cost-accounting process

- Reduction:
- of 45% in the number of budget responsibility centres
  - of 70% in the number of operating budgets
  - of 50% in the number of activities listed

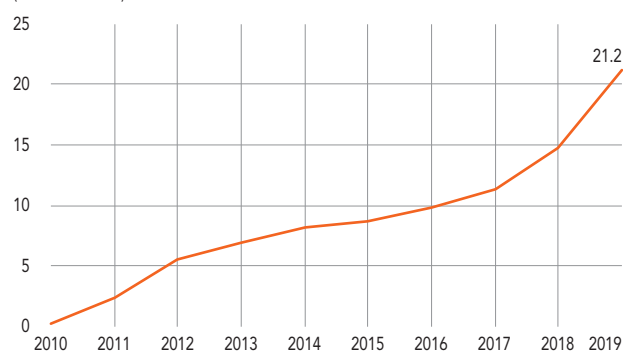
### Publications/regulation

Streamlining and simplification of annual reports

- Incorporation of the *Economic Report* into the *Annual Report*
- Reduction in the volume of reports (CCSF and CFA franc zone annual reports halved)
- Revoking of 700 regulatory texts (out of 1,700)

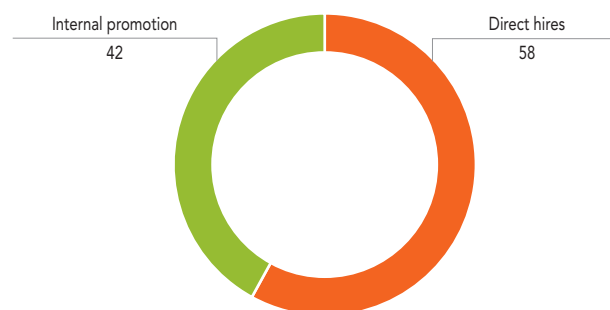
## Changes in telework since 2010

(% of headcount)



## Proportion of tenured managers internally promoted to professional/managerial roles

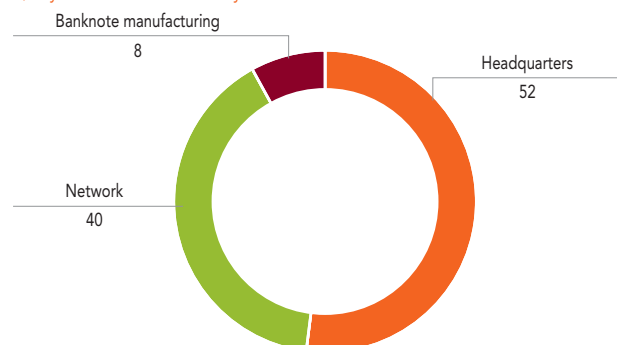
(% of staff at 31 December 2019)



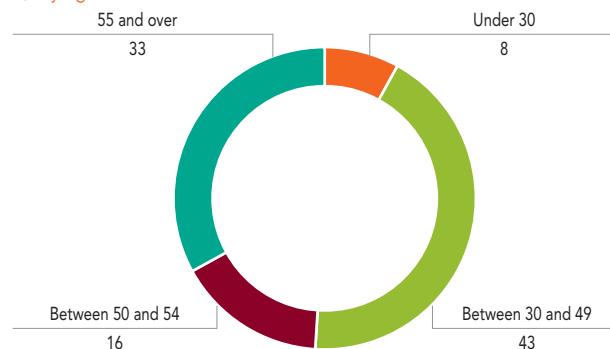
Note: Appointed to professional/managerial roles through the internal promotion scheme or examinations.

## Breakdown of headcount (% of full-time equivalent staff at 31 December 2019)

### a) By broad area of activity



### b) By age bracket



Note: For the headquarters, 9% corresponds to the *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority).





↑ Banque de France business line open days, 31 January 2019, Paris



↑ ACPR Jobdating "Au cœur de la surveillance financière" ("At the heart of financial supervision"), 4 April 2019, Paris

### Implementation of an internal services portal

The need to make the Bank's internal services more visible and accessible from a single entry point resulted in the deployment of a simple, intuitive and ergonomic portal, which was built with user needs in mind. The implementation of this new portal started at the end of 2019 and will be completed in 2020.

### As our culture and ways of working evolve, so do our staffing and recruitment practices

At 31 December 2019, the Bank had a total of 12,269 staff members (full time equivalent): 80% were tenured and 20% on contracts. In 2019, the total headcount declined by 3.9%, equivalent to 400 FTEs. This reduction was largely a result of the Bank's demographic structure, as some 33% of staff are aged 55 and above. In 2019, 626 employees retired in 2015 and more than 500 employees will retire in 2020. By the end of 2020, the total headcount will have declined by at least 20% relative to 2015, to stand at 9,720 FTEs. In order to compensate for the increasing number of retirements, at least 1,500 new staff members will have been recruited between 2016 and end-2020.

### In management

A new managerial model was introduced under the Ambitions 2020 plan. It provides managers with new levers to recognise and develop employee performance, thus responding to the expectations of managers and employees to develop

responsibility and autonomy while ensuring that everyone's contribution is fairly acknowledged. The role of managers has been strengthened to enable them to act as a driving force and to guide all their teams.

### In skills training

The creation of Université Banque de France and the opening of management and personal skills schools contributed to the dissemination of good practices and the attitudes to adopt by managers. The rate of access to training continued to increase in 2019 to reach an unprecedented level of 85.4%, up from 82.7% in 2018.

### In the reflection on our public service values

The profound transformation process affecting all of the Banque de France's business lines and operating methods has produced tangible results thanks to the commitment of its staff. This high degree of implication reflects values that resonate differently according to working contexts. The Bank's governing authorities therefore decided to launch a broad consultation among its staff on the public service values that are at the core of our commitment. This approach attracted widespread support: 4,000 Banque de France staff members expressed their views on this occasion.



# CORPORATE ENVIRONMENTAL RESPONSIBILITY

# THE BANQUE DE FRANCE STEPPED UP ITS SOCIAL AND ENVIRONMENTAL COMMITMENT

## **The women and men of the Banque de France, championing sustainable development**

The Banque de France's social and environmental commitment has a natural and transversal influence on all its activities, and is a core value given the Bank's public interest missions. In 2019, the Banque de France made full use of its expertise, its regional network and its presence in the financial markets to step up its commitment and its efforts.

In terms of its environmental commitment, the Banque de France introduced an ambitious plan to reduce CO<sub>2</sub> emissions, alongside a reinforced mobility policy empowering all its staff. It also integrated an environmental criterion into the profit-sharing agreement with the objective of reducing business flights in France and in Europe by 10% compared with 2018.

In March 2019, the Banque de France published its responsible procurement charter, an essential mechanism in the integration of sustainable development issues, with the aim of making sustainable development a driver of purchase performance for both the Bank and its suppliers, a driver of innovation in the regions by supporting green sectors, and ultimately a driver of the social and solidarity economy, thus contributing to the development of the economic fabric, particularly VSEs and SMEs.

Banque de France staff have been directly involved in a range of charitable events such as the *Pièces jaunes* fundraising campaign for children in hospital, the No Finish Line run and walk, World CleanUp Day, and initiatives and collections for the *Restos du cœur* and *La Cravate solidaire* associations. All Banque de France staff were also invited to participate in the *Défi Développement durable*, a maiden digital challenge aimed at encouraging innovative ideas to promote sustainable development. At the competition's conclusion, five projects were chosen to be trialled, with the winning teams largely given free rein, as part of an intrapreneurship approach.

Lastly, in 2019, the Banque de France branch network made considerable efforts to roll out the Bank's CSR strategy. Numerous regional initiatives helped in the widespread promotion of the values of commitment and solidarity, while a range of appropriate local actions was supported through the regional sponsorship scheme, which was also enlarged to include environmental considerations.



↑ More than 17,000 people visited the Banque de France to discover its history and activities during the European Heritage Days on 21 and 22 September 2019



↑ Microcredit consists in lending small amounts to individuals who do not have access to normal bank credit



## 1

### An educational and cultural commitment

#### Supporting research

The Banque de France's support for research involves two types of sponsorship. First, the Banque de France Foundation encourages research – a public good – in the field of economics. Second, through its partnerships with universities, the Banque de France supports some of France's most important research centres, while developing numerous joint projects with its own research teams. Sixty events were organised between January and September 2019.

#### Diversifying our cultural sponsorship and showcasing our heritage

On 21 and 22 September 2019, a record number of over 17,000 people took advantage of the European Heritage Days to visit the Banque de France's headquarters and its

branch offices in Arras, La Rochelle, Lille, Pau and Périgueux. Throughout the year, the Bank also continued to grant greater access to the Golden Gallery (107 visiting days, not including external Saturday conferences, compared with 84 in 2018) meaning that 5,569 art lovers were able to admire the work of Robert de Cotte (1656-1735) and François-Antoine Vassé (1681-1736).

Furthermore, in 2019, the Banque de France loaned several of its art works to museums and cultural centres open to the public. For example, the portraits of Louis XIII by Philippe de Champaigne and the Duchess of Orléans by Élisabeth Vigée-Lebrun – acquired by the Banque de France in 2015 – were entrusted to the museums of Grenoble and Clermont-Ferrand, respectively.

#### Number of conferences, seminars and workshops organised with the Bank's partner universities



#### Number of people admitted to the Bank's heritage sites





## THE CHARTE ENTREPRISE-TERRITOIRE AND LA COURNEUVE

In April 2019, at its new cash management centre at La Courneuve, the Banque de France reaffirmed the commitments it made when it signed the Plaine Commune *Charte entreprise-territoire* (a public-private development agreement for the Plaine Commune region): (i) to develop local employment; (ii) to strengthen solidarity; (iii) to forge links between schools and businesses; (iv) to contribute to the vitality of the local economy; (v) to open up to the region; and (vi) to care for the environment.

Under the agreement, local businesses receive 25% of the total cost of the construction project and all companies involved in the

construction site comply with an “inclusion” clause meaning that local long-term job seekers must make up 10% of the workforce. Six months after the building’s completion, the contract has been amply fulfilled: local businesses received EUR 8 million and 143 people, of whom two out of three live in the region, were recruited, corresponding to 52,000 hours of inclusion.

Lastly, the entire site has been granted HQE (high environmental quality) certification and by planting wild spaces on the rooftops, half of the surface area of the site has been greened.

## 2

### An economic and civic commitment

#### Boosting microcredit to financially vulnerable people

The French microcredit model attaches great importance to assisting borrowers and boasts a wide variety of players. The Banque de France helps in its promotion by mobilising its branch network in order to strengthen the ties between microcredit players (meetings on banking inclusion at region and department level, steering committees of the *Points conseil budget* (PCB – Budget Management Advice Offices), awareness-raising sessions with social workers) and to boost the scheme’s visibility. It also worked with all these players to prepare a new programme of regional microcredit conferences for 2020, with awards of “personal” and “professional” microcredit prizes, and to improve the interaction between microcredit and the overindebtedness procedure.

The report of the *Observatoire de l’inclusion bancaire* (OIB – Observatory for Banking Inclusion)<sup>1</sup> published in June 2019 includes an analysis of the continuing growth in microcredit during 2018. As at the end of 2018, outstanding amounts

of assisted microcredit had increased by almost 4% to EUR 1,359 million, spread across 244,000 micro-loans.

#### Fostering regional development and business growth

Since 2016, the Banque de France’s 102 local VSE correspondents have assisted managers of very small enterprises at every step of their companies’ evolution. Business creation, development, day-to-day management, innovative projects, financial management and financing offers are some of the main themes discussed between entrepreneurs, who have to adapt to a constantly changing environment, and VSE correspondents.

Businesses are now more concerned about sustainable development and social issues. A poll conducted in October 2019 of 600 businesses supported by the Banque de France’s VSE correspondents showed that very small enterprises were far more committed than in 2018 to an approach that prioritises the social and solidarity economy or social responsibility. For example, 27% and 31% of VSEs, respectively, were committed to implementing a social and solidarity economy approach or corporate social responsibility policies (compared with 18% and 23% in 2018).

<sup>1</sup> <https://publications.banque-france.fr/>





↑ The *Pièces jaunes* fundraising campaign: 30 years of partnership with the *Fondation des Hôpitaux de Paris – Hôpitaux de France*



↑ The Charitable Initiatives trophy presentation to the 25 winning projects on 2 July 2019

## HALL 32: THE CENTRE FOR THE PROMOTION OF INDUSTRIAL TRADES OPENED ITS DOORS TO THE PUBLIC IN SEPTEMBER 2019 IN CLERMONT-FERRAND

Hall 32, the Centre for the Promotion of Industrial Trades, was inaugurated in September 2019 during a ceremony attended by Muriel Pénicaud, the French Minister of Labour.

Hall 32 is the first of its kind, bringing together on a single site a range of different technological platforms that are ideally suited to industrial sector activities.

**An initial partnership established at the end of 2019 to recruit a dozen operators in the banknote finishing sector**

Since 2019, the Banque de France has drawn on Hall 32 to implement an innovative recruitment partnership with *Pôle emploi* (the national job centre) in order to meet its staffing requirements in the banknote finishing sector.

This arrangement has two main aspects: recruitment thanks to support from *Pôle emploi*, with a "tailor-made" approach; and training, with a specific programme designed to ensure a solid foundation of essential technical knowledge.



↑ Inauguration of Hall 32 on 13 September 2019 during a ceremony attended by Muriel Pénicaud, the French Minister of Labour



↑ Hall 32, the Centre for the Promotion of Industrial Trades



↑ Around 350 Bank staff took part in the No Finish Line run or walk held from 12 to 19 May 2019 to raise funds for the *Samu social de Paris* and *La Chaîne de l'Espoir*



↑ Banque de France staff rally round to support the national collection for the *Restos du cœur* association on 8 and 9 March 2019...

## Contributing to responsible investment

### Solidarity-based finance: savings with a twofold benefit of both financial and social solidarity returns

Consistent with its CSR strategy, the Banque de France is committed to promoting financial solidarity within the framework of its employee savings policy. In June 2019, the S Fund of the Banque de France's company savings plan was awarded the Finansol label. The Finansol label, delivered by a committee of independent experts from civil society on the basis of strict criteria, certifies that a financial savings product contributes to social solidarity by helping to finance activities with social or environmental benefits.

In accordance with the commitments made in March 2018 in its Responsible Investment Charter and as part of its adherence to continuous improvement and transparency, the Banque de France published a report in March 2019<sup>2</sup> presenting an analysis of its portfolios based on the provisions of Article 173 of the French law on Energy Transition for Green Growth and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).<sup>3</sup>

The Banque de France's responsible investment strategy focuses on five objectives: (i) getting aligned with a 2°C trajectory; (ii) contributing to financing the energy and

ecological transition; (iii) integrating a filter into its asset management procedures based on environmental, social and governance (ESG) ratings and climate indicators; (iv) exercising its voting rights (for 100% of companies in which it is a direct shareholder); and (v) influencing issuers.

The Banque de France has chosen an integrated governance approach. This means that the responsible investment strategy is applied at all levels of governance without the need for the creation of a dedicated committee.

The Banque de France's actions are entirely consistent with the corporate vision expressed in its CSR Charter, with its fiduciary responsibility as a long-term investor and with its mission to contribute to financial stability, through better control of environmental risks.

### Supporting civic and charitable initiatives

The Banque de France upheld its commitment, and that of its employees, towards its partner associations. The third annual Charitable Initiatives awards ceremony

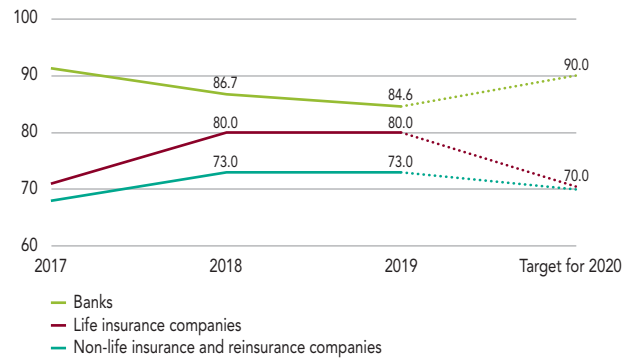
<sup>2</sup> <https://www.banque-france.fr/en/corporate-social-responsibility>

<sup>3</sup> <https://www.fsb-tcfid.org>



↑ ...and World CleanUp Day on 20 September 2019

### Proportion of banks and insurance companies made aware of climate-related risk (%)



### Total outstanding microcredit in France (in EUR billions)



### Number of VSEs assisted annually by VSE correspondents



### Number of staff projects supported annually



recognised 25 projects supported by Banque de France volunteers and led by associations working with vulnerable populations in the fields of social action, inclusion and community activism. The Governor of the Banque de France presented the spokespersons for each winning project with a trophy and a cheque for EUR 2,000 payable to their respective associations.

The 30<sup>th</sup> annual *Pièces jaunes* (small change) fundraising campaign was launched in January 2019 at the Necker children's hospital in Paris. As it does every year, the Banque de France mobilised its cash-processing network and 150 members of staff to collect and sort the coins, which amounted to 148 tonnes of small change for a total of EUR 1,665,000. Thanks to this campaign, almost 9,000 projects have been supported in children's hospitals across France during the past 30 years.

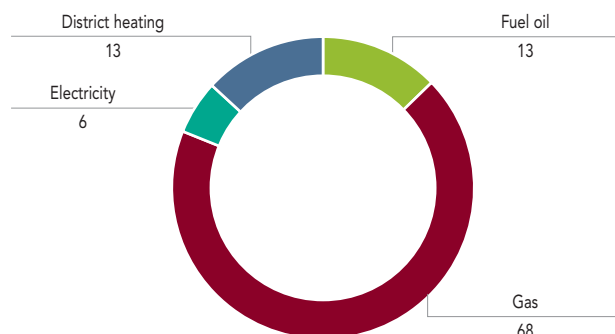
### Encouraging staff to support public interest causes and social inclusion

In 2019, the Banque de France made almost 40 staff volunteers available free of charge to some 15 partner associations as part of its 6 to 24-month long skills sponsorship campaigns in the fields of inclusion, community activism and social action.



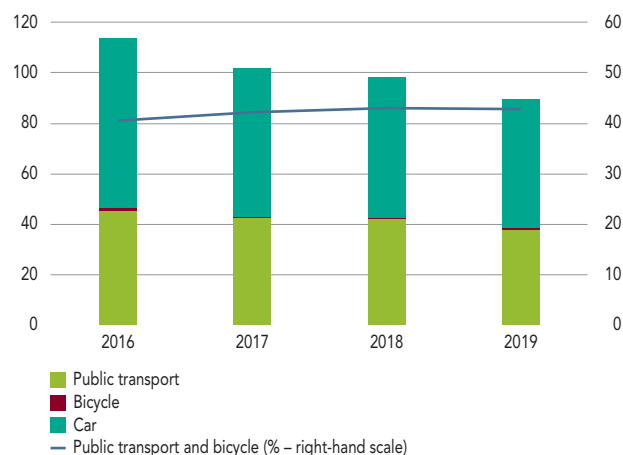
## GHG emissions by energy source in 2019

(%)



## Change in breakdown of commuting methods since 2016

(in millions of km and %)



### 3

## An environmental commitment

### Taking account of climate-related risks

The adoption of the Paris Agreement at the Paris Climate Conference (COP21) in 2015 set in stone the need to limit global warming to below 2°C and galvanised all financial players to take greater account of climate-related risks.

Since then, central banks and supervisors have made rapid advances to provide a fuller picture of the risks associated with climate change and their consequences for the financial sector. An ACPR report published in April 2019<sup>4</sup> gave a clearer vision of climate-related risks and opportunities. Also, in March 2019, the Banque de France became the first central bank to disclose – in its Responsible Investment Report – its climate risk exposures.

The Central Banks and Supervisors Network for Greening the Financial System (NGFS), which swelled its ranks from its 8 founding members in 2017 to 54 active members and 12 observers at the end of 2019, is a recognised success story. The NGFS published five reports in 2019 and provides

a forum to identify, share and capitalise on the best practices within its ranks in order to take concrete measures in support of climate initiatives.

### Reducing our environmental footprint

For several years now, the Banque de France has been engaged in a process of reducing its environmental footprint. Its approach to doing so falls within its CSR policy and figures amongst its Ambitions 2020 strategic plan commitments, with the objective of a 9% reduction in greenhouse gas (GHG) emissions between 2014 and 2020. In 2019, following a consultative process, the Banque de France launched an action plan to reduce its CO<sub>2</sub> emissions.

### Monitoring GHG emissions<sup>5</sup>

#### GHG emissions linked to energy consumption

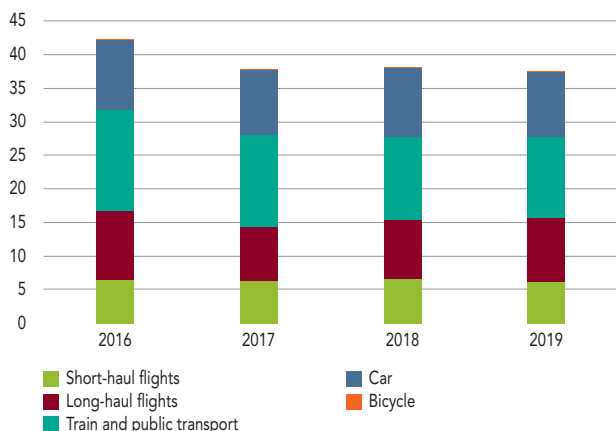
Electricity is still the most heavily consumed energy source, accounting for 54% of total consumption, followed by gas (32%). In 2019, the Banque de France reduced its energy consumption by 2% compared with 2018. This decline

<sup>4</sup> "Climate change: which risks for banks and insurers?", *Analyses et synthèses*: <https://acpr.banque-france.fr/node/162192>

<sup>5</sup> Based on provisional (and partly estimated) figures for 2019.

## Change in business travel since 2016

(in millions of km)



was reflected across all types of energy sources, with the exception of district heating. The greatest reduction was in the consumption of fuel oil, down 18.6%, due to a variety of factors, notably the replacement of heating systems with less energy-intensive equipment, the ongoing policy of optimising building surfaces and a historically mild first quarter in 2019.

The corresponding net GHG emissions declined by 3.8% between 2018 and 2019. Given its high emission factor, gas accounted for 68% of GHG emissions linked to energy consumption.

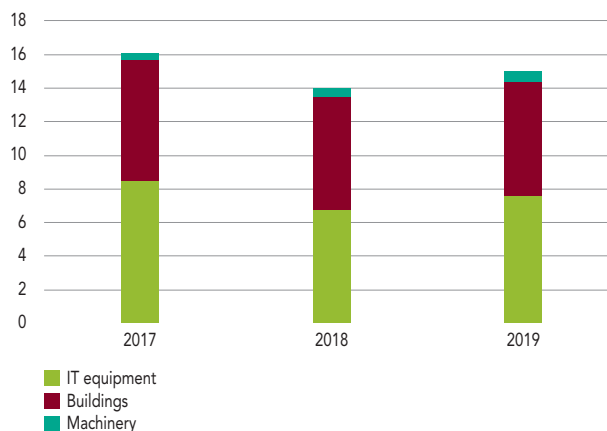
### GHG emissions linked to business travel and commuting

In 2019, GHG emissions linked to commuting and business travel fell by 4.7% compared with 2018, with commuting responsible for 62% of the emissions and business travel accounting for the remaining 38%.

- Emissions linked to commuting have steadily declined since 2016 and amounted to 13,264 tCO<sub>2</sub>eq in 2019 (down 8.5% year-on-year). This is due to an 8.4% reduction in car kilometres, as cars produce 98% of commuting-related emissions. The share of commuting kilometres covered using soft modes of transport (public transport and cycling) slipped slightly from 43.1% to 42.8%. Furthermore, commuting has decreased partly

## Fixed asset greenhouse gas emissions since 2017

(in thousands of tCO<sub>2</sub>eq)



due to the increasing popularity of teleworking: in 2019, 2,033 employees regularly worked from home and a further 956 occasionally did so, representing in total 30.7% of Bank staff.

- Emissions linked to business travel increased by 2.3% year-on-year in 2019 due to the greater number of kilometres travelled on long-haul flights (up 9.8%). However, it should be noted that kilometres travelled by all other means of transport have been reduced, particularly with respect to short-haul flights (down 7.4%) and car use (down 5.6%), and in total, the number of kilometres covered for business travel declined by 1.5%. The Banque de France also continued to renew its fleet of vehicles with low GHG-emitting models, and purchased 20 hybrid and 4 electric vehicles.

### GHG emissions linked to fixed assets

GHG emissions linked to fixed assets increased by 7.2% year-on-year in 2019, largely due to additional IT equipment as the Bank invested in more laptops. With the expansion of teleworking and the implementation of the *tout portable* objective for each member of staff to have a laptop by the end of 2020, the number of employees able to connect remotely increased by 43% in 2019 to 7,850. This growth accelerated at the end of 2019 in response to the public transport strikes.

## 2019 SUSTAINABLE DEVELOPMENT PROFIT-SHARING OBJECTIVE LINKED TO BUSINESS FLIGHTS IN FRANCE AND EUROPE

The 2019-21 profit-sharing agreement fixes an objective to reduce the number of business kilometres flown domestically and in Europe between 2018 and 2019. Overall, there was an 8.4% decrease in 2019 compared with 2018. This decline was reflected in both domestic and European flights (down 12.1% and 6.7%, respectively), bearing in mind that European flights represent nearly 69% of scope.



↑ Lyon branch, HQE-certified building

Buildings generated a similar level of GHG emissions as in 2018 (up 0.5%), in line with building surfaces, which remained almost unchanged (up 0.7%).

### 2019 highlights

#### Implementation of an action plan to reduce the Banque de France's GHG emissions

Following its latest GHG emissions assessment, the Banque de France adopted an action plan with the aim of meeting its 9% GHG emission reduction target by the end of 2020. The main measures include changing travel policies, developing remote training programmes, implementing a multi-site mobility plan for the Île-de-France, pursuing a real-estate policy focused on energy efficiency, carrying out energy audits at banknote manufacturing sites and introducing energy consumption reduction measures at data centres.

#### A real-estate policy focused on energy efficiency, well-being in the workplace and biodiversity conservation

While for many years the Banque de France has been committed to a real-estate policy focused on improving the energy efficiency of its sites, it decided to push its approach further by undertaking a series of diverse initiatives. One such example was the project launched to green the headquarter's rooftop-terraces. These terraces, delivered in 2020, will be open to Banque de France staff and will cover a surface area of 800 m<sup>2</sup> with planted spaces, raised vegetable beds and beehives. The primary goal is to contribute to conserving biodiversity while also offering a relaxing setting for Bank staff.

The Banque de France also fitted out eight new convivial spaces and recently opened winter and summer gardens to employees working at its headquarters.

Furthermore, the Banque de France acquired an energy monitoring and management tool in order to better track and control its consumption and thereby continue to reduce its GHG emissions.

In order to get staff increasingly involved in the Bank's energy policy and to ensure that an awareness of the importance of behaviour reinforces the efficiency gains made through technical improvements, in 2020, two branches

#### Reducing our environmental footprint (in tCO<sub>2</sub>eq)

2018	93,185
2019	92,922 <sup>a)</sup>

a) Provisional data.





↑ Participants at the conference on equality and diversity in the workplace, May 2019



↑ The Banque de France's Centre d'adaptation et de réinsertion par le travail (CART) celebrated its 40<sup>th</sup> anniversary in 2019

will participate in the fifth edition of the *Concours Usage Bâtiment Efficace* (CUBE – the Contest on Usage and Efficiency in Buildings). CUBE awards energy consumption reduction projects involving building occupants and, primarily, the promotion of green behaviour.

Lastly, in order to improve its waste management, the Banque de France replaced the bins for general waste in its communal areas with individual sorting and recycling facilities.<sup>6</sup> This system will be rolled out across all Banque de France premises in 2020.

#### 4

### A commitment towards Bank staff

#### Fostering gender equality and diversity

At the beginning of the year, the Banque de France introduced an institutional mentoring programme to provide support to its junior managers, and particularly female junior managers, who account for 75% of the 42 mentoring pairs, throughout their professional careers. This initiative is aimed at consolidating the progress already made over the past two years in increasing the proportion of women

in management positions. This increased from 25% to 27% in one year, due to the high percentage of women (60%) promoted to management positions during 2018 and 2019. Furthermore, the gender pay gap is limited, illustrated by the Bank's result of 88/100 on the wage gap index.

On 8 March 2019, François Villeroy de Galhau, Governor of the Banque de France, signed a Gender Diversity Charter for the events and publications of the Bank and the ACPR to encourage gender parity in the composition of all its organisational panels.

The *Talentu'elles* collaborative network, which now boasts more than 775 members, 30% of whom are men, organised several initiatives to raise awareness of dealing with mental overload and to promote women in the digital sector. In May 2019, the Banque de France also organised the first meeting of the G7 working group on gender equality and diversity in the workplace in Paris, which provided a forum for in-depth discussions on measures to foster inclusive talent management.

<sup>6</sup> Application of the provisions of the French law on Energy Transition for Green Growth on sorting five specified types of waste at source.

#### Percentage of women in top management positions



Several conferences open to the public provided an opportunity to discuss topics such as the economic impact of gender inequality, women in central bank governance, gender and financial inclusion, and the impact of digital technology on issues of gender equality.

In order to encourage people from all backgrounds, since 2010 the Banque de France has worked in partnership with the Créteil Education Authority to assist secondary school students up to their BTS qualification. In 2019, over 500 young people benefited from the Banque de France's involvement, which included methodological support courses and individual mentoring, as well as a lecture series, and a job fair devoted to the Bank's business lines.

#### Promoting the integration of people with disabilities

In 2019, 6.48% of Bank positions were filled by people with disabilities, 6% of whom were directly employed. The Banque de France thus exceeded its 6% baseline target for the third consecutive year. Only 18% of corporate employers achieved this objective and the national average is still close to 3.5%.

In addition to the special relationship enjoyed with the *Centre d'adaptation et de réinsertion par le travail* (CART – Work Adjustment and Rehabilitation Centre), which celebrated 40 years of activism in 2019, and in order to encourage purchases from the sheltered sector, the Mission Handicap team and the Bank's procurement directorate

#### Percentage of employees with access to training (%)



organised a forum on 13 June 2019 to promote purchasing from *établissements et services d'aide par le travail* (ESATs – centres that provide work opportunities for people with disabilities) and sheltered employment companies. The Mission Handicap team also pursued its initiatives to improve awareness throughout the Bank's headquarters and network, and two of the guided tours organised during the European Heritage Days were carried out in sign language.

#### Encouraging skill acquisition and career development

As part of its Ambitions 2020 strategic plan, the Banque de France launched a project for an in-house university to further improve staff training and to make educational resources interesting and universally accessible. In 2019, the Banque de France University completed the creation of 13 faculties that provide structure to the educational content: training devoted to traditional and new business lines, cross-disciplinary skills and management.

With the University's foundation, Bank staff are able to reflect on the new skills they could acquire and changes in technology and business lines. Each employee can therefore take charge of her or his own training within the framework of a skills development drive. The Banque de France's commitment to professional training, which is regularly reinforced, is reflected in the allocation of more than 7% of its wage bill to training initiatives.

#### Rate of employment of people with disabilities (%)



#### Share of the wage bill devoted to professional training (%)



## CSR dashboard

Priority actions	Indicators	2019 INDICATOR	Targets for 2020
EDUCATIONAL AND CULTURAL COMMITMENT			
1. Improving the economic and financial education of the general public	Composite indicator * Portal visits (number of pages viewed) * Number of teachers apprised * Number of social workers trained <i>Baseline: zero portal visits in 2016</i> <i>1,147 teachers apprised in 2016</i> <i>no social workers trained in 2016</i>	1,358,000 (MQDA portal) 3,357 16,265	* 1,300,000 pages * 2,500 teachers <sup>a)</sup> * 20,000 social workers
2. Supporting research through sponsorship	Number of conferences, seminars and workshops organised with all the partner universities of the Bank as defined in the partnership agreements, including those organised within the framework of the Banque de France Foundation <i>Baseline: 83 events organised in 2016</i>	97	At least 100 organised events <sup>b)</sup>
3. Diversifying our cultural sponsorship	Number of persons admitted to the Bank's headquarter and regional heritage sites <i>Baseline: 15,000 visitors in 2015</i>	22,159	Between 15,000 and 20,000 visitors
ECONOMIC AND CIVIC COMMITMENT			
4. Preventing and resolving overindebtedness	Percentage of second-time applications for household debt resolution <sup>c)</sup> <i>Baseline: 45% of files in 2016 were second-time applications</i>	43.4%	37%
5. Promoting banking inclusion and microcredit	Total outstanding microcredit in France <i>Baseline: EUR 1.2 billion at the end of 2015</i>  Banking inclusion: target at the end of 2019 measuring the rate of application of the commitments undertaken by banks at the end of 2018 on capping banking fees	EUR 1.5 billion as at end-2019 As at mid 2019, average monthly banking incident fees billed to financially vulnerable clients amounted to EUR 17 (down from EUR 25 in 2018)	EUR 2 billion in outstanding "assisted" microcredit  Banking incident fees for all vulnerable clients capped at EUR 25 per month and EUR 200 per year for clients subscribing to the "specific services offering"
	Number of clients benefiting from the "specific services offering"	489,000 compared with 384,000 in 2018	500,000 "specific services offering" clients
6. Fostering regional development and business growth	Number of VSEs assisted annually by VSE correspondents <i>Baseline: 560 VSEs assisted in 2016</i>	4,638 (up 19.5% on 2018)	4,000 VSEs <sup>d)</sup>
7. Contributing to responsible investment	Objective at the end of 2019: 100% of the Bank's investments in equity <sup>e)</sup> comply with the French SRI label <sup>f)</sup> pillar III requirements	2018 indicator: the equity portfolio backed to own funds corresponds to a global warming trajectory of more than 3°C	Equity portfolio backed to own funds compatible with a global warming trajectory of 2°C or less
8. Supporting charitable initiatives	Number of staff projects supported annually (financial support and skills sponsorship) <i>Baseline: no funding projects supported in 2016</i>	75	At least 60 projects

## CSR dashboard (continued)

Priority actions	Indicators	2019 INDICATOR	Targets for 2020
ENVIRONMENTAL COMMITMENT			
9. Taking account of climate-related risks	Share of banks (by percentage of bank assets) and insurance companies (by percentage of technical reserves) made aware of climate risk (within the framework of the monitoring committee set up in 2017 and the conference scheduled for 2018) <i>Baseline: 0% at the end of 2016</i>	Banks: 84.6% as at end-2019 Life insurance companies: 80% as at end-2019 Non-life insurance and reinsurance companies: 73% as at end-2019	Banks: at least 90% of assets Insurance companies: at least 70% of technical reserves
10. Reducing our environmental footprint	Annual CO <sub>2</sub> emissions <i>Baseline: 99,890 tCO<sub>2</sub>eq in 2014</i>	92,922 tCO <sub>2</sub> eq as at end-2019 (provisional data)	90,900 tCO <sub>2</sub> eq
COMMITMENT TOWARDS BANK STAFF			
11. Fostering gender equality and diversity	Share of women in a position of director general or deputy, or director or deputy, at Bank headquarters and in the network <i>Baseline: 23.25% at the end of November 2016</i>	27%	30%
	Rate of employment of people with disabilities <i>Baseline: 5.94% in 2016</i>	6.48%	Maintain rate of employment at 6%
12. Encouraging skill acquisition and career development	Share of the wage bill devoted to professional training <i>Baseline: 7.6% in 2017</i>	7.3%	Maintain at a minimum of 7% on average
	Percentage of employees with access to training <i>Baseline: 74.8% In 2017</i>	85.4% as at end-2019	Maintain at a minimum of 80% on average

a) Target reviewed upwards (initially set at 2,000 in 2016).

b) Scope and target redefined.

c) Cases where a household has already applied for debt resolution once, but has had to apply a second time due to a deterioration in its financial position.

d) Target reviewed downwards (initially set at 6,000 in 2016).

e) Excluding index funds.

f) The companies invested in must comply with the environmental, social and governance criteria of the French "Socially Responsible Investment" label.

# 2019 HIGHLIGHTS

## JANUARY

**9 January:** The 30<sup>th</sup> annual *Pièces jaunes* (small change) fundraising campaign was launched at the Necker children's hospital in Paris. As it does every year, the Banque de France mobilised its cash-processing network and 150 members of staff to sort the coins (148 tonnes of small change in 2019).

↓ The *Pièces jaunes* fundraising campaign in Nice



**24 January:** The Banque de France was placed 6<sup>th</sup> out of 50 in the *Baromètre PAP50* compiled by WWF France and *Riposte Verte*, which assesses the paper sourcing and use policy of French public organisations.

## MARCH

**12 March:** The Banque de France became the first central bank to disclose its climate risk exposures (in its 2018 *Responsible Investment Report*: <https://www.banque-france.fr/en/corporate-social-responsibility>).

**29 March:** The Banque de France's CSR strategy was further enhanced with a Responsible Procurement Charter with its suppliers.

## SEPTEMBER

**13 September:** The Banque de France participated in the inauguration of "Hall 32", the Centre for the Promotion of Industrial Trades, in Clermont-Ferrand.

**21-22 September:** The Banque de France opened the doors of its headquarters and certain branches to the public for the European Heritage Days. More than 17,000 people discovered the Bank's history and heritage and the wealth and diversity of its activities.

↓ The Golden Gallery in the Hôtel de Toulouse (17<sup>th</sup> century), which was opened to the public for the European Heritage Days



## NOVEMBER

**12 November:** The Banque de France defined an ambitious plan to reduce CO<sub>2</sub> emissions with the goal of bringing down its greenhouse gas emissions by 9% by the end of 2020.





# GOVERNANCE

# GOVERNANCE



**Denis Beau**  
First Deputy Governor



**François Villeroy de Galhau**  
Governor



**Sylvie Goulard**  
Second Deputy Governor

## 1

### Executive bodies

#### The Governor and Deputy Governors

The Banque de France is managed by its Governor and two Deputy Governors. The Governor chairs the General Council and prepares and implements its decisions. Both the Governor and Deputy Governors are appointed by decree by the Council of Ministers for a six-year term, renewable once. François Villeroy de Galhau was appointed Governor of the Banque de France on 1 November 2015. He is supported by two Deputy Governors: Denis Beau, who was appointed on 28 July 2017, and Sylvie Goulard, who was appointed on 17 January 2018.

The Governor is also Chairman of the *Autorité de contrôle prudentiel et de résolution* (ACPR – the Prudential Supervisory and Resolution Authority), the *Observatoire de la sécurité des moyens de paiement* (Observatory for the Security of Payment Means) and the *Observatoire de l'inclusion bancaire* (Observatory for Banking Inclusion). He is also a member of

the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability).

#### The Executive Committee

The Executive Committee is the Banque de France's main organ of operational governance. Chaired by the Governor, it is composed of the Deputy Governors, the Directors General and a Director General Delegate. The Chair of the *Institut d'émission des départements d'outre-mer* (IEDOM – the French overseas departments' note-issuing bank) and of the *Institut d'émission d'outre-mer* (IEOM – the French overseas note-issuing bank) is also a member.

#### Operational management bodies

Three bodies play a central role in the conduct of investment policies and market operations: the Assets-Liabilities Committee, the Risk Committee and the Pension Plan Strategic Committee (CS2R). The Assets-Liabilities Committee, which is chaired by the Governor, examines the Bank's investment strategy for all its portfolios (both euro and foreign currency denominated), with the exception of the Employee Reserve Fund investment portfolios which are monitored by the CS2R (set up in April 2018), which is chaired

Other members of the  
Executive Committee  
(as at March 2020)



**Gilles Vaysset**  
Secretary General



**Nathalie Aufauvre**  
Director General Financial  
Stability and Operations



**Érick Lacourrège**  
Director General Services  
to the Economy and Branch  
Network Activities



**Olivier Garnier**  
Director General Statistics,  
Economics and International



**Didier Elbaum**  
Comptroller General



**Vincent Bonnier**  
Director General  
Banknote Manufacturing



**Hervé Gonsard**  
Director General  
Human Resources



**Marie-Anne Poussin-Delmas**  
Chair of the IEDOM and  
Director General of the IEOM



**Dominique Laboureix**  
Secretary General ACPR



**Alain Duchâteau**  
Director General Delegate  
Statistics, Economics  
and International

by one of the Deputy Governors. The Risk Committee, which is chaired by one of the Deputy Governors, defines the risk management framework for the Bank's market portfolios.

The Bank has three other operational management committees, placed under the authority of the Secretary General: the IT Strategy Group, the Real Estate Strategy Group, and the Procurement Strategy Group.

### **The branch network and Network Executive Committee**

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The Banque de France branch network is organised into 13 regional directorates. It currently comprises 95 departmental branches (including the 13 regional directorates), to which are attached 16 economic centres and 1 household debt centre. Services related to currency management are carried out at 33 of these establishments and at 4 specialised centres (*see map of the Banque de France network in Appendix 1*). To make it easier to access its public services (household debt resolution, access to payment incident registers, right to a bank account procedure), the Bank has set up 75 customer service and information offices and 5 local centres in towns where it has no permanent establishment.

The regional managers and directors of the network business lines and projects (cash activities, services for companies and individuals, etc.) are answerable to the Director General Services to the Economy and Branch Network Activities. Together they make up the Network Executive Committee, which is responsible for the network's strategic management.

## **2**

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### **Decision-making and control bodies**

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#### **The General Council**

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The General Council performs the main functions of a board of directors. It decides on issues relating to the management of the activities that do not fall within the remit of the European System of Central Banks (ESCB).

As at 1 January 2020, the General Council was made up of the Governor, the Deputy Governors, Agnès Benassy Quéré, Catherine Barthélemy, François Calvarin, Jean Roger Davin, Bernard Delas, the Vice-Chair of the ACPR, Anne Laure Delatte,

Élizabeth Ducottet and Yannick Guillemaud, the Banque de France staff representative.

Meetings of the General Council are attended by the censor, Sébastien Raspiller, who was appointed by the Minister of the Economy, or by his alternate, Jérôme Reboul.

In 2019, the General Council met eight times.

#### **The Audit Committee**

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The Audit Committee reports to the General Council on issues relating to financial reporting, external and internal auditing, internal control and risk management. It was thus informed of the conclusions of the external auditors' work related to the 2019 financial year.

The Committee also examined:

- the main conclusions of internal audits and the progress report on the action plans drawn up by the audited units;
- the audit programme for 2020;
- developments in the field of permanent control and risk management.

## **3**

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### **Internal audit and operational risk management**

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#### **The Internal Audit**

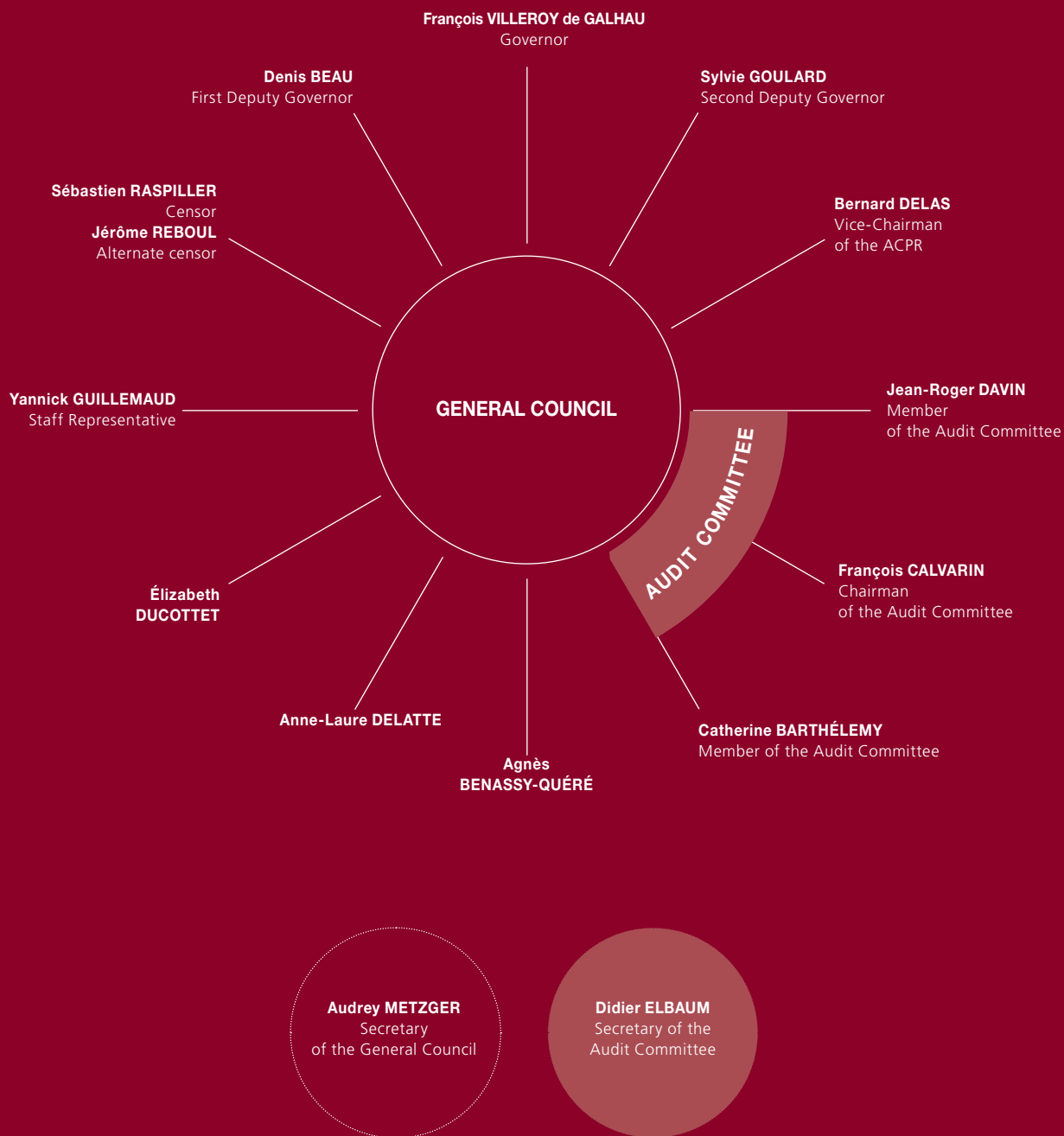
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The Internal Audit is managed by the Comptroller General and is the Banque de France's third line of control. It has responsibility over all the Bank's units, processes and activities, including over its subsidiaries.

The Internal Audit conducts its inspections using a risk-based approach, and reports its findings to the Audit Committee, the Bank's governance bodies and the Directors General. In doing so, it provides independent and objective assurance of:

- the achievement of the Bank's strategic objectives;
- the integrity and reliability of all financial and operational information;
- the effectiveness and efficiency of all operations;
- the protection of the Bank's assets, image and reputation;
- compliance with all laws, regulations, procedures, contracts and ethical rules.

## The General Council and the Audit Committee



## CYBER RISKS

From data leaks to fraud and information system sabotage, the potential fall-out of a cyberattack is one of the most important operational risks facing the Banque de France and indeed all financial sector participants.

To tackle the multifaceted and ever-changing nature of cyberthreats, the Banque de France has defined a strategy for cybersecurity: it continuously enhances the protection devices in place for its IT system, which is becoming increasingly complex, and ensures that staff at all levels are kept constantly aware of the risks. It has also reinforced its system of governance for

cyber risk, to better integrate the work of different stakeholders within the Bank, ensure that they all follow the relevant security rules, notably those applicable to the Bank's public service role, and guarantee that new IT projects have the appropriate security mechanisms.

Alongside these preventive measures, the Banque de France has set up an internationally certified computer emergency response team (CERT), that is tasked with detecting and responding to cyberattacks. It is also involved in numerous cybersecurity working groups at national, European and international level.



↑ Cybersecurity conference organised in May 2019 within the framework of France's G7 presidency. The event was attended by high-level representatives of the G7, international institutions and the private sector, who took part in discussions on how to strengthen international cooperation.

## THE GENERAL DATA PROTECTION REGULATION (GDPR)

The GDPR came into force on 28 May 2018 and defines the rules for the processing of personal data and the rights of individuals regarding all information relating to them. In conjunction with the amended 1978 French data privacy law, it grants the *Commission nationale de l'informatique et des libertés* (CNIL – the French Data Protection Agency) extended powers to punish violations of the regulation. It notably makes it compulsory for businesses to keep a register of all processing of personal data.

The GDPR applies to the Banque de France due to the large quantity of personal data it processes as part of its public service role. It notably receives a high volume of access requests from members of the general public.

As a result, the Bank appointed a Data Protection Officer (DPO) in 2018 and has set up an internal network of data protection correspondents. All GDPR compliance work is being conducted as a project, piloted by the Director of Risk Prevention and supervised by the Bank's Comptroller General.



The Internal Audit also operates within the framework of the ESCB. The Comptroller General and the Director of Head Office Audit are permanent members of the ESCB Internal Auditors Committee (IAC). Together with their counterparts at the other national central banks and the ECB, they draw up the Eurosystem's audit programme and oversee audits conducted under the aegis of the IAC. The IAC submits its findings to the ECB Audit Committee and Governing Council; those related to the Single Supervisory Mechanism are also reported to the ECB Supervisory Board.

With regard to both the organisation and conduct of audit missions, the Banque de France's Internal Audit complies with the international standards for the professional practice of internal auditing as defined by the Institute of Internal Auditors (IIA). This compliance was confirmed in 2018 by an external audit, which underlined the audit team's "effective commitment to providing the Institution with advanced assurance and advisory services".

In 2019, the Internal Audit carried out some 50 inspections, paying particular attention to the piloting of the Bank's activities, its organisational efficiency, the implementation of permanent controls, information system security and the conduct of large-scale projects.

### Risk management

In line with the model proposed by the Committee of Sponsoring Organizations of the Treadway Commission, the Banque de France has implemented a three-pronged internal control system, comprised of operational staff and their managers, professional risk management and permanent control officers, and the Internal Audit. The system assesses all operational risks as well as the methods and action plans in place to mitigate them, and checks that existing controls are relevant and efficient, using industry best practices as a benchmark.

In 2019, the Bank took the following steps to improve the calibre of its internal control:

- It made full use of the functional links between the Risk Prevention Directorate, which manages the overall system, and local participants in the directorates general and network branches (risk managers, heads of permanent control, business line heads of security);
- It awarded certified qualifications to a second group of "Risk management and permanent control" officers and began a third round of training.
- It enhanced the risk management software implemented in 2018 with the addition of two new modules.

The Bank also continued to roll out its framework for managing cyber risk. The levels of security in the most sensitive applications comply with the rules and best practices recommended by the French national cybersecurity agency, Anssi.

### Compliance with the GDPR

The Banque de France continued its efforts to ensure it complies with the EU General Data Protection Regulation (GDPR). This mainly involved identifying how personal data are processed at the Banque de France, the ACPR and their subsidiaries. The Bank's priority was to ensure that all processing of sensitive data complies with the spirit of the regulation. All new IT projects now have to take account of the GDPR in their design. Staff continued to be made aware of the new regulations via an online training programme.



# FINANCIAL MANAGEMENT AND ACCOUNTS

# FINANCIAL MANAGEMENT AND ACCOUNTS

## Annual financial statements of the Banque de France

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The Banque de France General Council approved the financial statements for the year ended 31 December 2019 at its meeting of 30 March 2020.

The Banque de France's balance sheet grew from EUR 1,088 billion at 31 December 2018 to EUR 1,142 billion at 31 December 2019. This EUR 53 billion increase mainly reflects the growth in banknotes in circulation and in customer current accounts, in addition to the year-on-year appreciation of gold and the main foreign currencies (particularly the US dollar) against the euro. This resulted in the upward revaluation of gold and foreign currency assets and a corresponding increase in the revaluation accounts on the liabilities side. The euro-denominated securities held for monetary policy purposes on the asset side of the Banque de France's balance sheet decreased slightly year-on-year as the monthly EUR 20 billion net asset purchases made since the purchase programmes were resumed on 1 November 2019 did not fully offset the volume of maturing securities in 2019. Lastly, loans to credit institutions continued to grow while outstanding loans granted as part of refinancing operations declined in equal measure.

Net income from activities amounted to EUR 8,647 million in 2019, down EUR 565 million year-on-year, due mainly to the decline in income derived from securities held for monetary policy purposes. This was partly offset by an increase in income from the reserve portfolios, particularly US dollar reserves. After operating expenses, profit before tax came in at EUR 6,493 million, down EUR 526 million compared with 2018. Net profit after corporate income tax decreased year-on-year by EUR 778 million to EUR 3,846 million in 2019.

After taking account of retained earnings, the Bank's General Council decided on the following appropriation of distributable profit:

- allocation to the general reserve of EUR 192 million, i.e. 5% of net profit;
- dividend payment to the state of EUR 3,478 million;
- allocation to the Employee Reserve Fund of EUR 171 million, equivalent to the 2019 net current service cost;
- allocation to the provision for investment of EUR 4 million.

## The balance sheet and profit and loss account

### Balance sheet at 31 December 2019

(EUR millions)

Notes to the balance sheet		ASSETS	At 31 Dec. 2019	At 31 Dec. 2018	Notes to the balance sheet		LIABILITIES	At 31 Dec. 2019	At 31 Dec. 2018
1	A1	Gold	106,053	87,794	12	L1	Banknotes in circulation	242,693	228,154
2	A2	Foreign currency assets (excl. relations with the IMF)	52,965	49,373	4	L2	Euro-denominated liabilities to euro area credit institutions related to monetary policy operations	518,291	504,445
		2.1 Foreign currency assets held with non-euro area residents	45,954	42,248			2.1 Current accounts	411,081	207,098
		2.2 Foreign currency assets held with euro area residents	7,011	7,125			2.2 Other liabilities	107,210	297,347
3	A3	Relations with the IMF	16,073	15,384	13	L3	Other euro-denominated liabilities to euro area credit institutions	1,845	8,949
5	A4	Euro-denominated claims on non-euro area residents	973	1,030	14	L4	Euro-denominated liabilities to non-euro area residents	46,599	50,560
4	A5	Euro-denominated loans to euro area credit institutions related to monetary policy operations	95,274	110,918	2	L5	Foreign currency liabilities	1,355	248
5	A6	Other euro-denominated loans to euro area credit institutions	13,287	12,828	3	L6	Counterpart to SDR allocations	12,521	12,339
6	A7	Euro-denominated securities issued by euro area residents	589,552	602,857	15	L7	Relations within the Eurosystem	754	2,844
		7.1 Securities held for monetary policy purposes	541,592	543,141	16	L8	Euro-denominated liabilities to other euro area residents	65,760	65,260
		7.2 Other securities	47,960	59,716			8.1 Liabilities vis-à-vis the state and government agencies	32,390	35,399
	A8	Relations within the Eurosystem	129,972	99,469			8.2 Other liabilities	33,370	29,861
11		8.1 Participating interest in the ECB	1,634	1,545	17	L9	Items in the course of settlement	79	135
7		8.2 Claims arising on the transfer of reserve assets to the ECB	8,233	8,217	18	L10	Banking transactions	99,064	82,819
		8.3 Claims on the Eurosystem for euro banknotes in circulation	91,356	89,466	19	L11	Other items	8,034	9,245
7		8.4 Other claims on the Eurosystem	28,750	240	20	L12	Provisions for liabilities and charges	947	936
8	A9	Advance to the IEDOM	6,110	5,718	21	L13	Revaluation accounts	97,984	77,223
	A10	Claims on the French Treasury	0	0	22	L14	Fund for general risks and tax-regulated provisions	8,085	8,089
9	A11	Other euro and foreign currency denominated financial assets	116,965	91,239	23	L15	Revaluation reserve for state gold and foreign exchange reserves	22,354	22,285
10	A12	Other items	12,367	9,685	24	L17	Capital, reserves and retained earnings	11,332	10,090
11	A13	Fixed assets	1,952	1,950		L18	Net profit	3,846	4,624
		13.1 Tangible and intangible fixed assets	1,265	1,264					
		13.2 Participating interests other than the ECB	686	686					
TOTAL ASSETS			1,141,544	1,088,245	TOTAL LIABILITIES			1,141,544	1,088,245

NB Each item of the balance sheet and profit and loss account is rounded up or down to the nearest one million euro. For this reason, discrepancies between totals or sub-totals and their components may arise. This also applies to the figures presented in the notes to the financial statements.



## Profit and loss account for 2019

(EUR millions)

Notes to the P&L		2019	2018
1	Net income from Banque de France activities	8,647	9,212
29	1.1 Net interest income	8,128	8,710
	1.1.1 Interest and related income	10,367	10,309
	1.1.2 Interest and related expenses	-2,239	-1,599
30	1.2 Net income from financial transactions	152	-49
	1.2.1 Net realised gains/losses and unrealised losses on foreign exchange	69	-92
	1.2.2 Net allocations to/reversals from the foreign currency revaluation reserve	-69	92
	1.2.3 Other income and expenses on financial transactions, net	152	-49
	1.3 Commission	6	6
	1.3.1 Commission income	43	43
	1.3.2 Commission expenses	-37	-37
31	1.4 Income from equity securities and participating interests	406	336
32	1.5 Net result of pooling of monetary income	-740	-566
33	1.6 Other income and expenses, net	694	774
2	Operating expenses	-2,154	-2,194
34	2.1 Staff costs and related expenses	-875	-930
	2.2 Pensions and related expenses	-502	-486
	2.3 Taxes other than income tax	-46	-43
	2.4 Provisions, depreciation and amortisation	-152	-148
	2.5 Other operating income and expenses, net	-579	-586
	Profit before tax and exceptional items (1 + 2)	6,493	7,019
3	Net additions to fund for general risks and tax-regulated provisions	4	5
4	Exceptional items	0	0
	4.1 Exceptional income	0	0
	4.2 Exceptional expenses	0	0
35	5 Corporate income tax	-2,650	-2,400
	Net profit for the year (1 + 2 + 3 + 4 + 5)	3,846	4,624

## Notes to the financial statements

### Accounting principles and valuation methods

#### Legal framework

The annual financial statements of the Banque de France are presented in accordance with a format decided by its General Council and with the provisions of the Order of the Minister of the Economy, Finance and Industry of 7 February 2000, which was amended on 16 November 2010. Their structure is designed to reflect the specific nature of the tasks carried out by the Banque de France as part of the European System of Central Banks (ESCB) and its diverse range of activities. The financial statements are expressed in millions of euro.

The accounting and valuation methods applied by the Banque de France are defined in Article R. 144-6 of the French Monetary and Financial Code, which specifies the following provisions.

- For all activities carried out within the ESCB framework, the Banque de France must comply with the accounting and valuation methods laid down by the European Central Bank (ECB) in its Guideline of 11 November 2010<sup>1</sup> on the legal framework for accounting and financial reporting in the ESCB (ECB/2010/20), amended by the Guidelines of 24 January 2012 (ECB/2011/27), 22 December 2012 (ECB/2012/29), 15 December 2014 (ECB/2014/57), 13 March 2015 (ECB/2014/54), 21 July 2015 (ECB/2015/24),<sup>2</sup> 3 November 2016 (ECB/2016/34) and

28 November 2019 (ECB/2019/34).<sup>3</sup> This Guideline establishes in particular the accounting rules applicable to refinancing operations for the banking sector, securities, foreign currency transactions carried out in the course of foreign exchange reserve management, and the issue of banknotes.

- The accounting rules established by the *Autorité des normes comptables* (ANC – the French accounting standards authority) apply to all the Banque de France's other activities. However, the Banque de France's General Council may also decide to apply the accounting and valuation methods recommended by the ECB to these other activities.

With effect from 1 January 2003, the General Council extended the accounting methods laid down by the ECB Governing Council to securities portfolios recorded in asset item A11. Since 1 January 2018 and by decision of the General Council, this provision has also applied to securities portfolios held in the Banque de France Employee Reserve Fund recorded in asset item A12.

#### **General accounting principles**

The accounting rules are applied in accordance with the principles of prudence, going concern, consistency (of methods between reporting periods), accruals, matching and revenue recognition (independence of reporting periods), cost (economic reality), full disclosure, and recognition of post-balance sheet events.

#### **Valuation methods**

##### **Foreign currency transactions and resulting gains and losses**

Spot and forward purchases and sales of foreign currencies are recorded as off-balance sheet commitments at the trade date. They are recognised in the balance sheet at the settlement date.

Gold and foreign currency positions are valued at year-end on the basis of the prevailing rates and prices on the last business day of the year. Unrealised gains are recorded as liabilities in the revaluation accounts (item L13). Unrealised losses are recorded in profit and loss item 1.2.1 as financial transaction expenses. Unrealised gains and losses are not offset.

Foreign currency gains and losses on gold and foreign exchange reserves  
Realised gains and losses are calculated for each currency. A weighted average price is calculated every day, firstly on inflows (spot or forward purchases on the trade date and foreign currency denominated income, in particular daily accrued interest), and secondly on outflows (spot or forward

sales on the trade date and foreign currency denominated expenses). The realised gain or loss is calculated by applying the difference between these average prices to the lower of the day's inflows or outflows.

When outflows exceed inflows, a second realised gain or loss is calculated, which equates to the difference between (i) the net outflows of the day valued at the average outflow price and (ii) the net outflows of the day valued at the average price of the day's opening position. When inflows exceed outflows, the net inflow is added to assets held at the beginning of the day, thereby changing the average price of the position.

Revaluation reserve for state gold and foreign exchange reserves (RRRODE)

The agreement between the state and the Banque de France dated 2 February 2011 neutralises the impact on the Banque de France's profit and loss account of realised gold and foreign currency gains and losses (including currency option premiums) and unrealised losses at year-end, thanks to a mechanism whereby the counterpart in the profit and loss account is symmetrically offset against the RRRODE. The amount of net foreign currency gains taken to the RRRODE is limited to the net profit for the year before transfers to the reserves.

The agreement also stipulates that:

- the amount of the RRRODE must be at least equal to 12% of the gold and foreign currency position and must also be sufficient to cover the losses that would arise from prices falling to their worst level of the past ten years;
- if the RRRODE falls below its minimum amount as defined above, it shall be replenished by way of a deduction from profit for the financial year (not exceeding 20% of net profit).

Foreign currency gains and losses other than on gold and foreign exchange reserves

The Banque de France applies ANC Regulation 2014-03 to foreign currency transactions that are not connected to its main responsibilities as a central bank. Foreign currency deposits and investments are marked to market on the last business day of the year. Realised and unrealised foreign

<sup>1</sup> Official Journal of the European Union of 9 February 2011, L35, page 31.

<sup>2</sup> An unofficial consolidated version was published in the Official Journal of the European Union on 21 July 2015.

<sup>3</sup> The clarifications set out in the November 2019 amendment have no impact on the accounting principles and valuation methods applied by the Banque de France.

currency gains and losses are recorded in profit and loss item 1.2.3, "Other income and expenses on financial transactions, net". Accrued income and expenses are converted into euro at the rate prevailing on the day the transaction is recorded. Forward foreign currency hedges are valued at the closing date exchange rate.

### Securities portfolios

Fixed-income securities and variable-yield securities are recorded in the following balance sheet items:

- A2 for foreign currency denominated securities held in connection with foreign exchange reserve management;
- A7.1 for securities held for monetary policy purposes;
- A11 for euro-denominated securities earmarked against the Banque de France's own funds, provisions and customer deposits recorded in items L4 or L10;
- A12 for securities held in the Banque de France Employee Reserve Fund;
- A4 or A7.2 for other euro-denominated securities depending on whether they are issued by non-residents or residents.

#### Securities held for monetary policy purposes

Debt securities held for monetary policy purposes (item A7.1) are valued at amortised cost, regardless of the holding intention. They may therefore be sold before maturity if the Governing Council so recommends. Impairment tests are conducted annually.

#### Other securities

Other securities are recognised as follows.

- Fixed-income securities that the Banque de France has decided to hold to maturity are recognised in the financial statements at amortised cost. They are tested for impairment annually and may be written down if there is a risk of non-recovery.
- Fixed-income securities that may be sold before maturity and variable-yield securities are marked to market on a line-by-line basis on the last business day of the year. Unrealised gains are recorded as liabilities in the revaluation accounts (item L13). Unrealised losses are recorded in profit and loss item 1.2.3 as financial transaction expenses. Unrealised gains and losses are not offset. Gains and losses arising from sales carried

out during the year are calculated on the basis of the weighted average price of each line of securities and are recorded in profit and loss item 1.2.3, "Other income and expenses on financial transactions, net".

For all fixed-income securities, differences between the acquisition price and the redemption price are spread over their remaining lives on a discounted basis. Implicit options that may be included in these securities are not valued separately.

Lastly, marketable investment fund units, held for investment purposes without the Banque de France intervening in the decisions on the purchase or sale of the underlying assets, are recognised at their year-end net asset value. No offsetting is performed between unrealised gains and losses on the various units of the marketable investment funds held.

Specific treatment of Banque de France Employee Reserve Fund securities  
The rules described in the note on "Other securities" (*see above*) apply to the securities held in the *Caisse de réserve des employés* (CRE – the Banque de France Employee Reserve Fund). However, unrealised losses recognised in connection with the mark-to-market of fixed-income securities that can be sold and variable-income securities, as well as the gains and losses on disposal of these securities, are booked to the CRE's equity capital. Consequently, there is no impact on the Banque de France's profit and loss account (see Note 28).

### Financial futures

Interest rate financial futures traded on organised markets are recorded off-balance sheet at the notional amount, while daily margin calls paid or received are recognised in profit and loss item 1.2.3.

Interest rate swaps are marked to market at 31 December. Unrealised gains are recorded as liabilities in the revaluation accounts (item L13). Unrealised losses are recorded in profit and loss item 1.2.3 as financial transaction expenses. Unrealised gains and losses are not offset. Unrealised losses are amortised over the remaining life of the contract. The interest is recorded in profit and loss item 1.1 on an accruals basis.

Currency option premiums are recorded on the asset side of the balance sheet if they relate to purchases and on the liabilities side if they relate to sales. In the event that the option is exercised, the premium is included in the price of the currency purchased. If the option is not exercised,

at its expiry date the premium is recorded in profit and loss item 1.2.1, "Net realised gains/losses and unrealised losses on foreign exchange". At year-end, the premium amounts booked to the profit and loss account during the year are transferred to the state gold and foreign exchange revaluation reserve (RRRODE) in the same way as realised foreign currency gains and losses (*see above*).

Open positions on currency options are marked to market at the balance sheet date. Unrealised gains are recorded as liabilities in the revaluation accounts (item L13). Unrealised losses are recorded in profit and loss item 1.2.3 as financial transaction expenses. Unrealised gains and losses are not offset.

Forward foreign currency transactions with customers (see Note 26) are marked to market at 31 December.

### Eurosystem claims and liabilities

Eurosystem claims and liabilities arise on cross-border euro payments made within the European Union and settled in central bank money. These payments are allocated to Target2 – the Trans-European Automated Real-time Gross settlement Express Transfer system – and give rise to bilateral balances in the Target2 accounts of the ESCB central banks. All these bilateral claims and liabilities are netted out on a daily basis within the Target2 system so that each national central bank (NCB) has a single net bilateral position vis-à-vis the ECB. The Banque de France's net position in Target2 along with other euro-denominated liabilities to the Eurosystem are carried on its balance sheet either as a net liability to the Eurosystem in item L7 (see Note 15) if it is a creditor or as a net claim on the Eurosystem in item A8 (see Note 7) if it is a debtor.

The Banque de France's participating interest in the ECB is recorded in balance sheet item A8.1 (see Note 11). This item also includes the net amounts paid by the Banque de France in connection with an increase in the proportion of its subscription of the ECB's equity value resulting from a change in the capital key.

The Banque de France's claim on the ECB resulting from the transfer of a part of reserve assets is recorded in item A8.2; the claim resulting from interim dividends and accrued income receivable from the ECB in respect of the allocation of the balance of monetary income (see Note 7) is recorded in item A8.4; and lastly the claim resulting from the shared responsibility for issuing euro banknotes among NCBs and the ECB is recorded in item A8.3.

### Tangible and intangible fixed assets

Tangible and intangible fixed assets are valued and accounted for in accordance with French reporting standards.

Land is carried at acquisition cost. Buildings and equipment are carried at historical cost, less depreciation or provisions for impairment booked since they were brought into service.

In accordance with Article 322-1 of the *plan comptable général* (French General Chart of Accounts), the depreciation period for each asset is determined on the basis of its probable useful life. The Banque de France's property assets are therefore depreciated over 10, 20, 33 or 50 years, depending on the asset type. Computer equipment is depreciated over 2 to 10 years and other equipment is depreciated over periods ranging from 3 to 12 years. Purchased software is amortised over 3 to 6 years. Most fixed assets are depreciated using the straight-line method. In accordance with ANC Regulation 2014-03, the useful life of fixed assets is reviewed regularly and modified as required.

External expenses relating to the development and integration of computer software are capitalised.

Projects developed by one or more Eurosystem NCBs are capitalised in accordance with the full cost accounting methodology set down by the Eurosystem. The Banque de France recognises any share in those projects – calculated at the Eurosystem level – in the total amount to be capitalised.

Accelerated tax depreciation is applied to fixed assets that can be depreciated more rapidly for tax purposes than for accounting purposes.

### Banknotes in circulation

The ECB and the 19 euro area NCBs that together make up the Eurosystem issue euro banknotes. The total value of euro banknotes in circulation in the Eurosystem is allocated on the last business day of each month in accordance with the banknote allocation key.<sup>4</sup> The ECB has been allocated an 8% share of euro banknotes in circulation, with the remaining 92% allocated between NCBs according to their share in the ECB's paid-up capital.

The share of banknotes in circulation allocated to the Banque de France is disclosed in liability item L1, "Banknotes in circulation".

The difference between the value of banknotes in circulation allocated to each NCB in accordance with the banknote allocation key and the value of banknotes actually put into circulation by the NCB gives rise to an interest-bearing intra Eurosystem position (*see asset item A8.3, "Claims on the Eurosystem for euro banknotes in circulation"*) remunerated at the main refinancing operation rate. Interest income and expenses on these balances are cleared through the accounts of the ECB and included in profit and loss item 1.1, "Net interest income".

A mechanism to smooth any adjustments that may arise during the first five years following a country's entry into the euro area has been implemented, which in 2019 concerned only Latvia and Lithuania.<sup>5</sup>

### Dividend paid by the ECB

The ECB's seigniorage income arising from the 8% share of euro banknotes in circulation,<sup>6</sup> as well as the income generated on its holdings under the SMP, CBPP3, ABSPP and PSPP programmes,<sup>7</sup> are distributed in January of the following year in the form of an interim dividend unless the ECB Governing Council decides otherwise. This income is distributed in full unless it exceeds the ECB's profit. The Governing Council may decide to transfer all or part of this income to a provision for financial risks. It can also decide to deduct the total expenses paid by the ECB for the issuing and handling of euro banknotes from the total income from euro banknotes in circulation to be issued in January.

The amount distributed to NCBs is recorded in profit and loss item 1.4, "Income from equity securities and participating interests".

### Fund for general risks

The *fonds pour risques généraux* (FRG – fund for general risks) is intended to cover all possible risks to which the

Banque de France is exposed through its activities, except for the exchange rate risk on gold and foreign exchange reserves, which is covered by the relevant revaluation accounts and by the RRRODE (*see above*). Its amount is determined on a discretionary basis based on the volume of outstanding operations at the balance sheet closing date and an analysis of the attendant risks. It is booked as a liability in item L14. Charges to and reversals from the fund are recorded through item 3 of the profit and loss account.

### Pension scheme

See Note 28.

### Key events in 2019

There were no significant events during the 2019 reporting period.

### Post-balance sheet events

#### The coronavirus epidemic (COVID-19)

The outbreak of the coronavirus epidemic after the Banque de France closed its financial statements has no effect on the valuation and measurement of the assets and liabilities and the income and expenses recorded in the balance sheet and profit and loss account at 31 December 2019. It is currently impossible to quantify the impact that this major event will have on the 2020 financial statements.

#### The United Kingdom's departure from the European Union

As a result of the United Kingdom's departure from the European Union and the consequent withdrawal of the Bank of England from the ESCB, the allocation of the ECB's subscribed capital – unchanged at EUR 10,825 million – was adjusted on 1 February 2020. This had a number of impacts.

- The Bank of England's 14.3% share of the ECB's subscribed capital was reallocated among both the euro area NCBs and the remaining non-euro area NCBs. As a result, as of 1 February 2020, the Banque de France's share of the ECB's subscribed capital increased to 16.6%.
- The ECB's paid-up capital remained unchanged in the year of the United Kingdom's departure from the European Union at EUR 7,659 million as the remaining NCBs covered the Bank of England's EUR 58 million share of the paid-up capital. Furthermore, the euro area NCBs will pay up in full their increased subscriptions to the ECB's capital following the Bank of England's withdrawal in three annual installments. As a result, the Banque de France



transferred EUR 11.1 million to the ECB in 2020 and will transfer EUR 124.6 million in 2021 and EUR 124.6 million in 2022.

Furthermore, pursuant to Article 30.2 of the Statute of the ESCB, the contributions of the euro area NCBs to the transfer of foreign reserve assets to the ECB are fixed in proportion to their share in the ECB's subscribed capital. Therefore, following (i) the increase in the weighting of the euro area NCBs in the ECB's subscribed capital resulting from the Bank of England's withdrawal from the ESCB and (ii) a Governing Council decision to reduce the proportion of the euro area NCBs' contributions – so that the total amount of foreign reserve assets already transferred by the euro area NCBs will remain at the current level – the claim equivalent to this transfer was marginally adjusted. This resulted in a EUR 7.4 million increase in the Banque de France's claim, which was paid to the ECB in February 2020.

## Balance sheet

### Note 1: Gold

At 31 December 2019, the Banque de France held 78 million ounces (2,436 tonnes) of fine gold. The increase in the equivalent euro value of these reserves is due to the rise in the market price of gold.

### Note 2: Foreign currency assets and liabilities

Foreign currency assets are mainly US dollar holdings. Holdings in other currencies are mainly intended to diversify risks. A breakdown of holdings by main currencies is provided below.

Foreign exchange reserves are invested in overnight deposits, fixed-term deposits, reverse repo transactions, and fixed-income and index-linked securities. The Banque de France may also borrow foreign currencies through repo transactions, recorded in liability item L5.

### A breakdown of holdings by main currency

(%)

US dollar (USD)	77
Australian dollar (AUD)	8
Canadian dollar (CAD)	5
Net assets vis-à-vis the IMF (SDR)	6
Other	4

### Foreign currency assets and liabilities

(excluding relations with the IMF)

Asset item A2 and liability item L5

(EUR millions)

	2019	2018
<b>ASSETS – Foreign currency assets</b>		
Overnight deposits	51	14
Fixed-term deposits	7,180	6,424
Foreign currency liquidity provision to Eurosystem counterparties	0	0
Securities received under repurchase agreements	2,501	2,345
Fixed-income or index-linked securities	42,954	40,332
o/w recognised at amortised cost	27,062	23,587
o/w marked to market line-by-line	15,892	16,745
Accrued interest receivable	279	258
<b>TOTAL</b>	<b>52,965</b>	<b>49,373</b>
<b>LIABILITIES – Foreign currency liabilities</b>		
Securities delivered under repurchase agreements	1,343	247
Accrued interest payable	12	1
<b>TOTAL</b>	<b>1,355</b>	<b>248</b>

4 ECB decision of 6 December 2001 on the issue of euro banknotes (ECB/2001/15) amended by ECB decision ECB/2010/29 of 13 December 2010.

5 For a five-year period from the year of adoption of the euro, intra-Eurosystem balances resulting from euro banknote allocation are adjusted to avoid significant changes in the NCBs' profit positions compared to previous years. These adjustments are made by taking into account the differences between (i) the average value of banknotes in circulation of each NCB during a reference period commencing 30 months before the introduction of the euro in the country concerned and (ii) the value of banknotes that would have been allocated to them during that period under the ECB's banknote

allocation key. These adjustment amounts are reduced each year until the first day of the sixth year following the adoption of the euro, after which income on banknotes is allocated fully between the NCBs in proportion to their share of the ECB's paid-up capital.

6 ECB decision of 17 November 2005 on the distribution of the income of the ECB on euro banknotes in circulation to the NCBs of the participating Member States (ECB/2005/11).

7 SMP: securities markets programme; CBPP: covered bond purchase programme; ABSPP: asset-backed securities purchase programme; PSPP: public sector purchase programme.

### Note 3: Relations with the IMF

The last entry in liability item L6, "Counterpart to SDR allocations", was made in 2009 with a general allocation and a special allocation of SDRs by the IMF totalling SDR 10 billion. Since that date, any changes in the item have resulted from movements in the SDR/euro exchange rate.

#### Relations with the IMF

Asset item A3 and liability item L6

(EUR millions)

	2019	2018
<b>ASSETS</b>		
Receivables from the IMF		
Reserve tranche position	3,996	3,194
Loans as part of the NAB	602	910
SDR holdings	10,266	9,861
Loans as part of the PRGT	1,189	1,393
Accrued interest receivable	20	26
<b>Total</b>	<b>16,073</b>	<b>15,384</b>
<b>LIABILITIES</b>		
Counterpart to SDR allocations	12,505	12,317
Accrued interest payable	16	22
<b>Total</b>	<b>12,521</b>	<b>12,339</b>

### Note 4: Loans to and deposits from credit institutions related to monetary policy operations

Transactions carried out by the Banque de France with credit institutions within the framework of the Eurosystem's monetary policy are recorded in asset item A5 and liability item L2.2.

On the asset side, item A5 includes loans granted to credit institutions of EUR 95 billion. The risks related to these transactions are shared within the framework of the Eurosystem on the basis of a Eurosystem key, which is calculated for each NCB as the proportion of its subscription of the ECB's capital (its capital key) compared with the total capital keys for all euro area NCBs (see Note 11). The Banque de France thus bears the risks on 20.41% of loans to credit institutions granted by the Eurosystem NCBs, which amounted to EUR 624 billion at 31 December 2019. Loans to credit institutions are secured by collateral.

Loans to credit institutions cover the following

- Main financing operations, which are short-term open market operations conducted by the Eurosystem. They play a key role in steering interest rates, managing bank liquidity and signalling monetary policy stances. They are conducted through weekly tenders in the form of temporary sales of assets (repurchase agreements) with a

In accordance with the agreement of 20 December 2010 between the state and the Banque de France on the management of and accounting for state foreign exchange reserves, International Monetary Fund (IMF) receivables and liabilities are recognised in the Banque de France's balance sheet.

On the asset side:

- the reserve tranche position is equal to the proportion of the IMF quota (France's share in the IMF's capital) settled in gold and foreign currencies plus or minus the net utilisation of the quota in euro – since 2016, France's quota has been SDR 20.2 billion;
- special drawing rights (SDRs) allocated to IMF member countries in proportion to their quota, or which can also be acquired under voluntary swap agreements with IMF-designated member countries;

- loans granted to the IMF within the framework of the New Arrangements to Borrow (NAB) and the Poverty Reduction and Growth Trust (PRGT) set up under the auspices of the IMF for low income countries, or drawdowns on the quota.

The cumulative SDR allocations by the IMF to France are recorded in liabilities.

The increase in the reserve tranche position in 2019 is the result of the utilisation of France's quota in euro with a total of implementations net of reimbursements of EUR 751 million. Net repayments of loans granted as part of the 2 December 2009 agreement amounted to SDR 261 million (EUR 322 million). Other changes are mainly due to SDR exchange rate fluctuations.

one-week maturity. Since October 2008, these operations have been conducted as fixed-rate tender procedures.

- Longer-term refinancing operations (LTROs) and targeted longer-term refinancing operations (TLTROs) with maturities of up to 48 months. In 2016, the Governing Council launched a new series of targeted longer-term refinancing operations (TLTRO II) that had a 48-month maturity, with the possibility of repayment after two years. In addition, in 2019 the Governing Council introduced a new series of seven quarterly operations (TLTRO III) with a three-year maturity and a possibility of repayment after two years. The interest rate applicable to TLTRO III operations will depend on the outstanding amount of lending granted to the real economy by the borrowing institutions and can be as low as the average interest rate on the deposit facility prevailing over the

### Euro-denominated loans and liabilities to euro area credit institutions related to monetary policy operations

Asset item A5 and liability item L2

(EUR millions)

	2019	2018
<b>LOANS</b>		
Main refinancing operations	200	50
Longer-term refinancing operations	96,031	111,835
Fine-tuning operations <sup>(a)</sup>	0	0
Structural operations	0	0
Marginal lending facilities <sup>(b)</sup>	0	0
Margin calls paid	0	0
Accrued interest receivable	-957	-967
<b>TOTAL</b>	<b>95,274</b>	<b>110,918</b>
<b>LIABILITIES</b>		
Current accounts	411,101	207,119
Other liabilities	107,210	297,347
Deposit facilities	107,210	297,347
Collection of fixed-term deposits <sup>(a)</sup>	0	0
Repurchase agreements	0	0
Margin calls received	0	0
Accrued interest payable	-20	-21
<b>TOTAL</b>	<b>518,291</b>	<b>504,445</b>

(a) Fine-tuning operations/collection of fixed-term deposits are executed on an ad-hoc basis with the aim of managing market liquidity and steering interest rates. Fine-tuning operations take the form of reverse transactions, outright foreign currency swaps or the collection of fixed-term deposits, generally executed by means of quick tenders or bilateral procedures.

(b) Marginal lending facilities are overnight facilities granted in the form of reverse transactions to Banque de France counterparties at their request. Interest is paid on these facilities at a rate fixed by the Eurosystem.

life of the operation. As the effective interest rate for these operations will only be known starting from 2021 and a reliable estimate is not possible until that time, it was deemed prudent to use the deposit facility rate for calculating the accrued interest for 2019.

Loans to credit institutions related to monetary policy operations held by the Banque de France are recorded in liability item L2, and include the following.

- Credit institutions' current accounts held by the Banque de France and recorded in liability item L2.1. Current account amounts are made up of minimum reserve requirements (calculated as 1% of the reserve base<sup>8</sup> since January 2012) and sums in excess of minimum reserve requirements. Minimum reserve requirement holdings bear interest at the average MRO rate over the period during which the reserves are built up. Deposits in excess of minimum reserve requirements bear interest at the deposit facility rate, which is negative. On 30 October 2019, the Governing Council introduced a two-tier system for reserve remuneration, exempting part of credit institutions' excess liquidity holdings (i.e. reserve holdings in excess of minimum reserve requirements) from negative remuneration at the rate applicable on the deposit facility. For each institution, the volume of exempt reserve holdings – the exempt tier – is determined as a multiple of six times its minimum reserve requirements.<sup>9</sup> The exempt tier will be remunerated at an annual rate of 0%. The non-exempt tier of excess liquidity holdings continues to be remunerated at the lower of 0% or the deposit facility rate.
- Deposit facilities (profit and loss item L 2.2), which enable Banque de France counterparties to make overnight deposits, remunerated at a rate set by the Governing Council (–0.40% until 17 September 2019 and –0.50% since 18 September 2019).

8 The reserve base includes liabilities corresponding to "deposits", "debt securities" and "money market paper" (denominated in euro or foreign currencies, with regard to residents or non-residents) as defined within the framework of the ECB provision on the collection of monetary and banking statistics. However it excludes interbank liabilities between institutions that are themselves subject to the minimum reserve system

and liabilities vis-à-vis other participating national banks and the ECB. <https://www.banque-france.fr/politique-monnaire/presentation-de-la-politique-monnaire/definition-de-la-politique-monnaire/les-instruments-de-politique-monnaire/les-reserves-obligatoires>

9 The multiplier may be adjusted by the Governing Council in line with changing levels of excess liquidity holdings.

**Note 5: A4, "Euro-denominated claims on non-euro area residents", and A6, "Other euro-denominated loans to euro area credit institutions"**

These items include euro-denominated investments earmarked against euro-denominated deposits recorded in liability item L4 (see Note 14). These amounts, unrelated to monetary policy operations, are split between items A4 and A6 on the basis of whether the counterparty is located inside or outside the euro area.

**Euro-denominated claims on non-euro area residents**  
Asset items A4 and A6

(EUR millions)

	2019	2018
Securities held to maturity	904	902
Other claims	50	109
Accrued interest receivable	19	19
<b>Total euro-denominated claims on non-euro area residents</b>	<b>973</b>	<b>1,030</b>
Securities received under repurchase agreements	8,576	10,051
Other including loans	4,711	2,777
<b>Total other euro-denominated loans to euro area credit institutions</b>	<b>13,287</b>	<b>12,828</b>

**Note 6: Euro-denominated securities issued by euro area residents**

**A7.1, "Securities held for monetary policy purposes"**

Since 2009, the Eurosystem has organised a series of asset purchase programmes, adding these non-standard measures to its monetary policy. Securities purchased by the Banque de France as part of these programmes are recorded in item A7.1.

They include bonds purchased within the scope of the three covered bond purchase programmes (CBPPs),<sup>10</sup> the securities markets programme (SMP),<sup>11</sup> the public sector purchase programme (PSPP)<sup>12</sup> and the corporate sector purchase programme (CSPP).<sup>13</sup> The ECB is responsible for the asset-backed securities purchase programme (ABSPP).<sup>14</sup>

On 1 November 2019, the Eurosystem resumed its net purchases under the asset purchase programme (APP)<sup>15</sup> at a monthly pace of EUR 20 billion. This followed a ten-month period that began at the end of 2018 during which the Eurosystem had only reinvested the amounts received in repayment of maturing securities. The Governing Council intends these purchases to run for as long as necessary to reinforce the accommodative impact of its policy rates. They will only end shortly before it starts raising the key ECB interest rates. The Governing Council also intends to continue the reinvestments for an extended period of time past the date on which it begins to raise the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

These securities are tested for impairment at the Eurosystem level on the basis of available information and an estimate of recoverable amounts at the balance sheet date.

Accordingly, with regard to securities held by the Eurosystem under the corporate sector purchase programme (CSPP), at the end of 2019 the Governing Council deemed it appropriate to maintain a provision to cover the credit risk associated with monetary policy operations (see Note 20).

Programme	Programme start date	Programme end date	Risk-sharing between NCBs and the Eurosystem
CBPP1	June 2009	June 2010	No risk-sharing
CBPP2	October 2011	October 2012	No risk-sharing
SMP	May 2010	September 2012	Risk-sharing based on the key for subscription of the ECB's capital
ABSPP	October 2014		Risk-sharing based on the key for subscription of the ECB's capital Purchases borne by ECB
CBPP3	October 2014	December 2018 (a)	Risk-sharing based on the key for subscription of the ECB's capital
PSPP	January 2015	1 November 2019 (b)	Risk-sharing based on the key for subscription of the ECB's capital on securities issued by supranational bodies No risk-sharing on government bonds acquired by NCBs
CSPP	January 2016		Risk-sharing based on the key for subscription of the ECB's capital

(a) Phase out of asset purchase programmes and reinvestment of maturing securities.

(b) Resumption of net asset purchases.

## Securities held for monetary policy purposes

### Asset item A7.1

(EUR millions)

	2019		2018		Variation	
	Amortised cost	Market price	Amortised cost	Market price	Amortised cost	Market price
Securities held under the securities markets programme (SMP)	10,654	11,379	15,520	16,761	-4,866	-5,382
Securities held under the first covered bond purchase programme (CBPP1)	442	446	1,080	1,112	-638	-666
Securities held under the second covered bond purchase programme (CBPP2)	1,018	1,097	1,193	1,307	-175	-210
Securities held under the third covered bond purchase programme (CBPP3)	51,421	52,973	50,042	50,425	1,379	2,548
Securities held under the public sector purchase programme (PSPP)	418,202	437,149	417,420	421,064	782	16,085
Securities held under the corporate sector purchase programme (CSPP)	55,565	57,828	53,427	52,809	2,138	5,019
Accrued interest receivable	4,289		4,460		-171	
<b>Total</b>	<b>541,592</b>		<b>543,141</b>			

Based on the impairment tests carried out on the other programmes, no impairment loss in respect of the portfolios held by the Eurosystem for monetary policy purposes was recognised in the financial statements.

### A7.2, "Other securities"

This item includes euro-denominated securities issued by euro area residents, other than those held for monetary policy purposes or for the Employee Reserve Fund, or those that are specifically earmarked against the Banque de France's own funds or against customer deposits that are recorded in asset items A7.1, A11 and A12 (see Notes 9, 10 and 26).

Just as for portfolios of securities held for monetary policy purposes, impairment tests were also carried out on the Banque de France's other portfolios. Based on these tests, it was concluded that no impairment was needed.

## Euro-denominated securities issued by euro area residents

### Asset item A7.2

(EUR millions)

	2019	2018
Securities held to maturity (a)	45,898	55,949
Other fixed-income securities	1,390	2,952
Accrued interest receivable	672	815
<b>TOTAL</b>	<b>47,960</b>	<b>59,716</b>

(a) In 2019, securities held to maturity amounting to EUR 2 billion were sold as a result of exceeding the holding limits established by the ECB.

### Note 7: Claims arising on the transfer of reserve assets to the ECB and other claims on the Eurosystem

### A8.2, "Claims arising on the transfer of reserve assets to the ECB"

### Claims arising on the transfer of reserve assets to the ECB

#### Asset item A8.2

(EUR millions)

	2019	2018
Claims arising on the transfer of reserve assets to the ECB	8,233	8,217
Accrued interest receivable	0	0
<b>TOTAL</b>	<b>8,233</b>	<b>8,217</b>

Item A8.2 corresponds to the claim held by the Banque de France resulting from the transfer of foreign reserve assets to the ECB. It is remunerated at the marginal rate applied to main refinancing operations, adjusted to reflect a zero return on the gold component of the transferred reserve assets. The amount of the claim has changed following the adjustments to the ECB's five-yearly capital key on 1 January 2019 (see Note 11).

10 ECB decisions No. 2009/16 of 2 July 2009 and No. 2014/40 of 15 October 2014.

11 ECB decision No. 2010/5 of 14 May 2010.

12 ECB decision No. 2015/10 of 4 March 2015.

13 ECB decision No. 2016/16 of 1 June 2016.

14 ECB decision No. 2014/45 of 19 November 2014.

15 The asset purchase programme (APP) includes the third covered bond purchase programme (CBPP3), the asset-backed securities purchase programme (ABSPP), the public sector purchase programme (PSPP) and the corporate sector purchase programme (CSPP). Further details with regard to the APP are available on the ECB's website at <https://www.ecb.europa.eu/mopo/implementation/html/index.en.html>



#### A8.4, "Other claims on the Eurosystem"

At the end of 2019, this item was mainly made up of the net claim on the Eurosystem generated by transfers via Target2 with other NCBs in the ESCB. At 31 December 2018, these transfers had generated a net debt that was recognised in liability item L7 (see Note 15).

Item A8.4 also includes the claim on the interim dividend paid by the ECB. Based on 2019 earnings, the ECB Governing Council decided to distribute an interim dividend of EUR 1,430.9 million to the Eurosystem NCBs. The Banque de France received EUR 292 million.

#### Other claims on the Eurosystem

##### Asset item A8.4

(EUR millions)

	2019	2018
Claims on the Eurosystem (Target2)	28,458	0
ECB interim dividends	292	240
Other claims	0	0
<b>TOTAL</b>	<b>28,750</b>	<b>240</b>

#### Note 8: Advance to the IEDOM

The circulation of banknotes in the French overseas departments and the French overseas collectivities of Saint Pierre and Miquelon, Saint Barthélemy and Saint Martin is managed by the *Institut d'émission des départements d'outre-mer* (IEDOM – Delegated Central Bank for the French Overseas Departments and Territories) in the name of, on behalf of and under the authority of the Banque de France.

#### Securities portfolios

##### Extract from asset item A11

(EUR millions)

	2019			2018
	Fixed-income securities held to maturity	Other securities	Total	Total
Fixed-income securities held to maturity				
Fixed-income securities and government securities	58,253		58,253	56,389
Securities issued by public bodies	23		23	6
Other issuers	0		0	0
Accrued interest	-16		-16	-14
<b>Net balance sheet value</b>	<b>58,260</b>		<b>58,260</b>	<b>56,381</b>
Equities and other variable-yield securities (a)				
Collective investment funds		6,676	6,676	6,460
Other variable-yield securities		325	325	169
<b>Net balance sheet value</b>		<b>7,001</b>	<b>7,001</b>	<b>6,629</b>

(a) The revalued securities are marked to market at 31 December. The cost price of these securities at the end of 2018 and 2019 was EUR 5,358 million and EUR 5,342 million, respectively.

To this end, the Banque de France grants the IEDOM a non-interest-bearing advance for an amount equivalent to a percentage of France's euro banknote allocation, which, since 1 July 2007, has been calculated according to the allocation mechanism in force within the Eurosystem.

#### Note 9: Other euro and foreign currency denominated

##### financial assets

Asset item A11 notably includes securities and other assets linked to the Banque de France's own funds, to provisions and to customer deposits recorded in liability items L4 and L10.

#### Other euro and foreign currency denominated

##### financial assets

##### Asset item A11

(EUR millions)

	2019	2018
Fixed-income securities held to maturity (a) (b)	58,276	56,395
Other fixed-income securities and variable-yield securities	7,488	7,387
Other transactions	51,203	27,469
Accrued interest	-2	-12
<b>TOTAL</b>	<b>116,965</b>	<b>91,239</b>

(a) In 2019, none of these securities were transferred to another portfolio and none of these securities were sold before maturity.

(b) Collateralised securities earmarked against customer deposits: EUR 57,793 million of which EUR 51,855 million of foreign currency denominated securities.

#### Note 10: Other items

Asset item A12, "Other items" includes all the securities portfolios held in the *Caisse de réserve des employés* (CRE – the Banque de France Employee Reserve Fund), whose investments are reported at their year-end market value.

## Other items

### Asset item A12

(EUR millions)

	2019	2018
Miscellaneous including CRE portfolios	11,700	9,149
Accruals and deferred expenses	667	536
Accrued income	640	504
Prepaid expenses	26	24
Other adjustment accounts	1	8
<b>TOTAL</b>	<b>12,367</b>	<b>9,685</b>

### Note 11: Fixed assets and participating interest in the ECB

The Banque de France has not granted any loans or advances to its subsidiaries with the exception of the IEDOM, which has received an advance of EUR 6 billion as part of its euro banknote circulation activity on behalf of the Banque de France in the French overseas departments and collectivities that fall within its scope of intervention (see Note 8). Furthermore, the Banque de France has not provided any securities or guarantees to these entities.

Following a review of the materiality criteria for these subsidiaries at Banque de France level, none of these entities have been consolidated.<sup>16</sup>

<sup>16</sup> In the 2018 financial statements, the IEDOM and Europafi were fully consolidated.

## Fixed assets

### Asset items A8.1 and A13

(EUR millions)

	At 31 Dec. 2019	Increase (a)	Decrease (a)	At 31 Dec. 2018
Participating interest in the ECB (balance sheet value)	1,634	89		1,545
Participating interests other than the ECB (gross value)	686			686
<i>Intangible fixed assets (gross value)</i>	<i>749</i>	<i>120</i>	<i>72</i>	<i>701</i>
<i>Amortisation and impairment</i>	<i>472</i>	<i>69</i>	<i>13</i>	<i>416</i>
Net value of intangible fixed assets	277	51	59	285
<i>Tangible fixed assets (gross value)</i>	<i>2,642</i>	<i>403</i>	<i>363</i>	<i>2,602</i>
<i>Depreciation and provisions</i>	<i>1,654</i>	<i>83</i>	<i>52</i>	<i>1,623</i>
Net value of tangible fixed assets	988	320	311	979
Total tangible and intangible fixed assets (net balance sheet value)	1,265	371	370	1,264

(a) Increases and decreases also include transfers between fixed asset accounts.

## Information relating to subsidiaries and participating interests at 31 December 2019

### Asset items A8.1 and A13.2

(EUR millions)

Name	Headquarters	Asset item	Capital	Share of capital held (%)	Reserves and retained earnings before appropriation of net profit (c)	Net profit	Book value (d)	Pre-tax turnover for the period or equivalent (e)	Dividends received in 2019
European Central Bank (a)	Frankfurt (Germany)	A8.1	10,825	20.41	37,006	2,366	1,634	2,686	317
IEDOM	Paris (France)	A13.2	33.5	100.00	124	2	149	47	0
Bank for International Settlements (b)	Basel (Switzerland)	A13.2	864	8.96	23,221	570	405	911	15
Europafi	Vic-le-Comte (France)	A13.2	133	99.00	18	3	132	75	0
La Prévoyance immobilière	Paris (France)	A13.2	<0.1	98.00	na	na	ns	na	0
Banque de France Gestion	Paris (France)	A13.2	0.6	99.99	6	9	ns	26	8

ns: not significant; na: not available.

(a) The share of capital held (capital key) is the Banque de France's share out of all of the euro area member NCBs. Dividends are allocated on the basis of this key.

(b) Last financial year-end at 31 March 2019, accounts prepared in SDR, euro/SDR conversion rate as at 31 March 2019.

(c) Including revaluation accounts and provisions equivalent to reserves for the IEDOM, the European Central Bank and the Bank for International Settlements.

(d) Gross and net book value of the securities held as no provision has been recorded.

(e) Net interest income for the IEDOM, the European Central Bank and the Bank for International Settlements. Production sold for Banque de France Gestion.

## The Banque de France's key for subscription of the ECB's capital

(%)

Until 31 Dec. 2003	From 1 May 2004 to 31 Dec. 2006	From 1 Jan. 2007 to 31 Dec. 2008	From 1 Jan. 2009 to 30 June 2013	From 1 July 2013 to 31 Dec. 2013	From 1 Jan. 2014 to 31 Dec. 2018	From 1 Jan. 2019
16.8337	14.8712	14.3875	14.2212	14.1342	14.1792	14.2061

### Participating interest in the ECB

At 31 December 2019, the capital of the ECB stood at EUR 10,825 million.

Pursuant to Article 28 of the Statute of the ESCB, the capital of the ECB is held solely by ESCB NCBs. The key for subscription of the ECB's capital is set under the conditions defined in Article 29 of the Statute of the ESCB, based on the various countries' share in the total population and gross domestic product of the European Union. These two determinants have equal weighting. The ECB adjusts this capital key every five years (the last five-yearly adjustment took place on 1 January 2019) and each time there is a change in the composition of the ESCB.

Following the five-yearly adjustment that took place on 1 January 2019, the Banque de France's participating interest in the ECB increased by EUR 88 million to EUR 1,634 million. The participating interest includes:

- the Banque de France's key for subscription of the ECB's capital;
- the net amounts paid by the Banque de France due to the increase in its share in the ECB's equity value<sup>17</sup> resulting from all previous ECB capital key adjustments.

### Participating interest in the IEDOM

Since 1 January 2017, the Banque de France has held 100% of the capital of the *Institut d'émission des départements d'outre-mer* (IEDOM – Delegated Central Bank for the French Overseas Departments and Territories). The IEDOM is responsible, on behalf of the Banque de France, for implementing its missions of monetary strategy, financial stability and services to the economy and society in the regions that fall within the scope of its intervention.

The IEDOM is thus notably responsible for issuing and managing the circulation of banknotes and coins, rating companies so that private loans can be mobilised as part of Eurosystem refinancing operations, supervising payment systems and means, providing the secretariat of

the household debt commissions, managing local interbank registers and providing services of general interest to public or private bodies.

### Participating interest in Europafi

In 2015, the Banque de France spun off its paper business within Europafi. At the end of 2019, the Banque de France had a 99% holding in Europafi; the Banca d'Italia, the Oesterreichische Nationalbank, and the Banco de Portugal had stakes of 0.5%, 0.25% and 0.25%, respectively.

### Note 12: Banknotes in circulation

Euro banknotes in circulation increased by 6% from 2018 to 2019.

### Note 13: Other euro-denominated liabilities to euro area credit institutions

Liability item L3 is made up of securities purchased for monetary policy purposes delivered under repurchase agreements.

### Other euro-denominated liabilities to euro area credit institutions

#### Liability item L3

(EUR millions)

	2019	2018
Euro-denominated liabilities to euro area residents	1,845	8,949
Accrued interest payable	0	0
<b>TOTAL</b>	<b>1,845</b>	<b>8,949</b>

### Note 14: Euro-denominated liabilities to non-euro area residents

This item comprises euro credit balances and fixed-term deposits (excluding Target2) with non-euro area central banks, commercial banks and non-financial customers in non-Eurosystem member countries. In most cases the assets matching these liabilities are included in asset items A4 or A6 (see Note 5) or in asset item A11 (see Note 9), depending on whether they are invested in the same currency or are covered by cross-currency swaps (see Note 26).

## Euro-denominated liabilities to non-euro area residents

### Liability item L4

(EUR millions)

	2019	2018
Euro-denominated liabilities to non-euro area residents	46,599	50,560
Accrued interest payable	0	0
<b>TOTAL</b>	<b>46,599</b>	<b>50,560</b>

### Note 15: Euro-denominated liabilities to the Eurosystem

In 2019, euro-denominated liabilities to the Eurosystem corresponded to accrued liabilities of EUR 754 million in respect of the pooling of monetary income.

In 2018, the item also included a EUR 2,297 million net debt to the Eurosystem generated by transfers via the Target2 payment system with other ESCB NCBs. However, at 31 December 2019, these transfers had generated a net claim that was recognised in asset item A8.4 (see Note 7).

## Euro-denominated liabilities to the Eurosystem

### Liability item L7

(EUR millions)

	2019	2018
Euro-denominated liabilities to the Eurosystem (Target2)	0	2,297
Accrued interest payable	0	0
Accrued liabilities in respect of monetary income	754	547
<b>TOTAL</b>	<b>754</b>	<b>2,844</b>

### Note 16: Euro-denominated liabilities to other euro area residents

Liability item L8.1, "Liabilities vis-à-vis the state and government agencies" consists of the following.

- The Treasury's account, which, up to a capped amount,<sup>17</sup> bears interest at the Eonia rate. Above this amount, interest is charged at the deposit facility rate, which has been negative since 13 June 2014. Interest is credited (or debited) to the Treasury's account on the last business day of the month.
- The accounts of other government agencies.

## Euro-denominated liabilities to other euro area residents

### Liability item L8

(EUR millions)

	2019	2018
P8.1 Liabilities vis-à-vis the state and government agencies	32,390	35,399
P8.2 Other liabilities	33,370	29,861
Accrued interest payable	0	0
<b>TOTAL</b>	<b>65,760</b>	<b>65,260</b>

Liability item L8.2, "Other liabilities" includes the euro-denominated current accounts of resident institutional customers (other than the state and government agencies) and individuals, and also the IEDOM's current account.

### Note 17: Items in the course of settlement

Balance sheet item L9, "Items in the course of settlement" includes items (primarily cheques) debited or credited to a customer's account, but not yet credited or debited to a credit institution's account, and vice versa.

### Note 18: Banking transactions

This item mainly comprises overnight and fixed-term foreign currency denominated deposits from French or foreign public bodies, or foreign central banks. The management of these foreign currency transactions is totally separate from the management of foreign exchange reserves. The assets offsetting these liabilities, which may be hedged by cross-currency swaps, are included either in asset item A11 (see Note 9), or in items A4 or A6 (see Note 5), depending on whether they are invested in a foreign currency or in euro.

Euro-denominated deposits made by institutional customers (other than monetary and financial institutions) and private customers are recorded in liability item L8.2.

## Banking transactions

### Liability item L10

(EUR millions)

	2019	2018
Customer deposits	2,546	1,805
Other banking transactions o/w fixed-term deposits	96,084	80,693
Accrued interest payable	434	320
<b>TOTAL</b>	<b>99,064</b>	<b>82,819</b>

<sup>17</sup> The ECB's equity value includes all reserves, revaluation accounts and provisions equivalent to reserves less losses relating to prior years. In the event of a capital key adjustment arising during a reporting period, the capital also includes the net profit (or loss) at that date.

<sup>18</sup> The limits applied during the reporting period were EUR 613.8 million from 1 January 2019 to 31 March 2019, EUR 763.8 million from 1 April 2019 to 30 June 2019, and EUR 788.4 million from 1 July 2019.

**Note 19: Other items**

This item mainly includes:

- the capital of the Banque de France Employee Reserve Fund (see Note 28);
- miscellaneous creditors and the impact of off-balance sheet foreign exchange positions in relation to retail banking operations.

**Other items****Liability item L11**

(EUR millions)

	2019	2018
CRE capital	6,891	6,377
Accrued expenses	299	297
Other adjustment accounts	0	0
Miscellaneous	844	2,571
<b>TOTAL</b>	<b>8,034</b>	<b>9,245</b>

**Note 20: Provisions for liabilities and charges**

Provisions for liabilities and charges mainly include employee-related provisions:

- provisions for restructuring, relating to the “cash activities” and “banknote manufacturing” plans, and plans to adapt the Banque de France’s branch network, to discontinue retail banking activities, and to modernise cash services, as well as provisions corresponding to the full coverage of pensionable service credited under early retirement schemes;
- provisions for changing the age pyramid, relating to an early retirement incentive scheme for employees reaching the end of their working life;

- provisions for retirement benefits;
- a provision covering the Banque de France’s commitment to fund part of retirees’ supplementary health insurance contributions;
- provisions for various social liabilities for working employees (death benefits, long-service medals, end-of-career leave, extended sick leave, pensions for industrial injuries and unemployment benefits);
- provisions to cover various social obligations granted to retired employees (death benefits, etc.);
- other provisions, particularly for major repairs (such as façade repairs, renovations, etc.).

For discounted social security provisions, a discount rate of 2.25% (2.75% in 2018) and pension and salary revaluation assumptions based on long-term inflation of 1.75% (unchanged from 2018) are applied.

The increase in provisions with regard to social liabilities is mainly due to the reduction in the discount rate.

Following impairment testing carried out on the CSPP portfolios, the Governing Council revised the amount of the provision for credit risk on monetary policy transactions set aside in 2018, reducing it from EUR 161 million at 31 December 2018 to EUR 89 million at 31 December 2019. In accordance with Article 32.4 of the Statute of the ESCB, this provision shall be allocated in full between the national central banks of the participating Member States in proportion to their key for subscription of the ECB’s capital during the year in which the write-down occurred (i.e. in 2018). Consequently, the Banque de France had recorded a provision for EUR 18 million at the end of 2019,

**Provisions for liabilities and charges****Liability item L12**

(EUR millions)

	2019	Increase	Decrease	2018
Provisions for restructuring and changing the age pyramid	140	8	7	139
Provisions for retirement benefits	145	3	12	154
Provisions for supplementary health insurance	352	39	8	321
Other miscellaneous provisions – current employees	97	17	20	100
Other miscellaneous provisions – retirees	166	14	6	158
Provision related to monetary policy operations	18		14	32
Other	29	6	8	31
<b>TOTAL</b>	<b>947</b>	<b>87</b>	<b>75</b>	<b>936</b>

compared with EUR 32 million at the end of 2018, which represents 20.14% of the total provision. The impact of this adjustment (EUR 14 million) is recorded in the profit and loss account under item 1.5, "Net result of pooling of monetary income" (see Note 32).

#### **Note 21: Revaluation accounts**

Gold and foreign currency assets and liabilities were revalued at the reference prices indicated by the ECB on 31 December 2019.

The revaluation rates used at 31 December 2019 for gold and the main currency holdings were:

- EUR 43,535 per kilogram of fine gold (compared with EUR 36,040 per kilogram at end-2018);
- EUR 1 = USD 1.1234 (compared with USD 1.1450 at end-2018);
- EUR 1 = SDR 0.8104 (compared with SDR 0.8228 at end-2018);
- EUR 1 = AUD 1.5995 (compared with AUD 1.622 at end-2018);
- EUR 1 = CAD 1.4598 (compared with CAD 1.561 at end-2018).

The increase in the balance of item L13 is mainly the result of a sharp rise in the price of gold and unrealised gains on variable-yield securities.

#### **Revaluation accounts**

##### **Liability item L13**

(EUR millions)

	2019	2018
Revaluation accounts – gold	86,686	68,428
Revaluation accounts – foreign currency	7,284	6,213
Revaluation accounts – securities and financial futures	4,014	2,581
<b>TOTAL</b>	<b>97,984</b>	<b>77,223</b>

#### **Note 22: Fund for general risks**

No allocation was made to the fund for general risks in 2019.

#### **Note 23: Revaluation reserve for state gold and foreign exchange reserves**

See the comments on the RRRODE in the section on valuation methods.

#### **Note 24: Capital, reserves and retained earnings**

##### **Capital, reserves and retained earnings**

##### **Liability item L17**

(EUR millions)

	2019	2018
Capital	1,000	1,000
Reserves	10,332	9,090
Statutory reserve (a)	1,274	1,043
Long-term capital gains	100	100
Special pension reserve fund (see Note 28)	5,709	4,719
Other reserves (b)	3,249	3,228
Retained earnings	0	0
<b>Total</b>	<b>11,332</b>	<b>10,090</b>

(a) In accordance with Article R. 144-4 of the French Monetary and Financial Code, 5% of the net profit for the year is allocated to a special reserve that ceases to be funded when it reaches an amount equal to double the Banque de France's capital.

(b) Other reserves include the investment reserve and the insurance fund to cover claims against the Banque de France. In accordance with Article R. 144-2, the Banque de France must maintain reserves to finance its investments. The Banque de France is also its own insurer with respect to civil liability risks, claims on property it owns and damages to this property by third parties.

#### **Off-balance sheet**

#### **Note 25: Interest rate financial futures**

##### **Notional amount of financial futures**

(EUR millions)

	2019	2018
<b>Outright transactions on organised markets</b>		
Foreign currency denominated interest rate contracts		
Purchases	17,174	46,618
Sales	18,491	48,543
Euro-denominated interest rate contracts		
Purchases	198	1,272
Sales	1,176	2,652
<b>Over-the-counter market operations</b>		
Foreign currency denominated interest rate swaps	172	169
Euro-denominated interest rate swaps		

#### **Note 26: Forward foreign currency transactions**

As part of its forward foreign currency transactions with customers, the Banque de France collects euro-denominated deposits from non-euro area residents, in particular foreign central banks and international bodies, which are recorded in liability item L4. The Banque de France also collects foreign currency denominated deposits, mainly from non-resident institutions, which are recorded in liability item L10.



These euro or foreign currency denominated deposits are invested either in the same currency or in a different currency (euro-denominated investments are recorded in asset items A4 or A6 depending on the counterparty's area of residence, while foreign currency investments are recorded in item A11). When appropriate, foreign currency risk is neutralised by cross-currency swaps of the same amount and maturity as the deposits. These foreign currency deposits and investments, and the related spot and forward foreign currency transactions, form part of an activity that is separate and independent from the management of foreign exchange reserves. Consequently, they are recorded in dedicated accounts separate from those used for the management of foreign exchange reserves, and are valued in accordance with the standards issued by the ANC (*see the valuation methods section above, "Foreign currency gains and losses other than on gold and foreign exchange reserves"*).

Amounts of foreign currency receivables and deliverables in respect of transactions carried out with customers are detailed in the table above.

Amounts of foreign currency receivables and deliverables resulting from foreign reserve asset management operations amounted to EUR 6.3 million and EUR 6.2 million, respectively.

### Foreign currency receivables and deliverables on transactions with customers

(EUR millions)

	2019	2018
Euro to be received against foreign currency to be delivered		
<i>Euro receivable</i>	23,327	18,108
<i>Foreign currency deliverable</i>	23,235	18,378
Foreign currency to be received against euro to be delivered		
<i>Foreign currency receivable</i>	17,440	20,624
<i>Euro deliverable</i>	17,408	20,517
Foreign currency to be received against foreign currency to be delivered	96,172	70,990
Foreign currency to be delivered against foreign currency to be received	95,803	72,247

### **Note 27: Off-balance sheet commitments given or received in respect of operations with the IMF**

The commitment in respect of France's quota in the IMF's capital amounts to SDR 20.2 billion. The reserve tranche position stood at SDR 3.2 billion at 31 December 2019, meaning that additional drawing rights of SDR 17 billion are still available.

The credit line granted to the IMF within the framework of the New Arrangements to Borrow (NAB) amounts to

SDR 9.5 billion, SDR 0.5 billion of which was drawn down at 31 December 2019. Additional drawdowns of up to SDR 9 billion can still be made.

A bilateral loan agreement between France and the IMF was signed in October 2012 and has since been renewed. Under this agreement, France undertakes to provide further financing of EUR 31.4 billion. This credit line has not been used.

In addition, the Banque de France grants loans to the Poverty Reduction and Growth Trust (PRGT) under the IMF's "Poverty Reduction and Growth Facility" and "Exogenous Shocks Facility" (PRGF-ESF). The first loan agreement for SDR 1,328 million came to an end on 31 December 2018. In February 2018, a second loan agreement for EUR 2 billion was put in place. No loans have yet been drawn down under this agreement. At the end of 2019, the total amount due from PRGT came to SDR 1 billion and concerned loans granted under the first agreement.

### Commitments received by the Banque de France

In the 2008 supplementary budget act, the state extended its guarantee to the loans granted by the Banque de France to the PRGT.

### **Note 28: Pension liabilities**

Banque de France employees benefit from a pension scheme, governed by Decree 2007-262 of 27 February 2007, which entered into force on 1 April 2007, and was subsequently amended by Decrees 2008 1514, 2012 701, 2012 847 and 2014 1702 to align it with that of the civil service.

### The Employee Reserve Fund

The Banque de France pension fund, known as the *Caisse de réserve des employés de la Banque de France* (CRE – the Banque de France Employee Reserve Fund), is designed to service the pensions of its statutory employees. The CRE does not have a legal personality distinct from that of the Banque de France. It constitutes, as the French Council of State set out in its decisions of 5 November 1965 and 28 April 1975, "a means for the Banque de France to manage itself assets that are assigned to a special purpose and whose separate financial identity has been recognised with the sole purpose of showing the results of this management in a special account".

Consequently, the CRE is subject to separate accounting treatment but its assets, liabilities, income and expenses form an integral part of the Banque de France's financial statements.

The securities posted in assets on the CRE's balance sheet are recorded in asset item A12 of the Banque de France's balance sheet and are recognised in accordance with the rules set out in the section on valuation methods used for securities portfolios. They come for the most part from the portfolio earmarked against the special pension reserve fund (*see below*).

CRE capital is shown in liability item L11, "Other items". Realised gains and losses, unrealised losses and contributions paid that are recognised in the profit and loss account require a matching allocation to or reversal from CRE capital. On the liabilities side, item L15 also includes revaluation differences for CRE securities that have been revalued.

Pension expenses are included in profit and loss item 2.2, "Pensions and related expenses". Income from the CRE's securities portfolios is recorded in profit and loss item 1.6, "Other income and expenses, net".

#### Other sources of pension financing

In order to ensure the progressive financing of the unfunded portion of liabilities in respect of pension rights vested before the entry into force of Decree 2007-262 of 27 February 2007, the General Council set up a special pension reserve fund in 2007, in accordance with Article R. 144-4, paragraph 3, of the French Monetary and Financial Code. At 31 December 2019, pension liabilities were fully covered. The special pension reserve fund is recorded in liability item L17, "Capital, reserves and retained earnings", and was invested in a securities portfolio recorded in asset item A12.

In addition, liabilities in respect of the additional seniority granted as part of restructuring plans (see Note 20) are provisioned in full.

#### Actuarial assumptions

Total pension liabilities have been calculated in accordance with actuarial standards (using the projected unit credit method), taking into account all current employees, retirees and their dependants. Liabilities to current employees were determined using a prospective method with assumptions concerning future career and salary developments.

The TGH-TGF 2005 statutory mortality tables applicable to life insurance contracts were used to calculate pension liabilities at 31 December 2019.

Calculations of pension liabilities and the underlying assumptions used are validated and monitored by the Banque de France's actuaries. A discount rate of 2.25% was applied in 2019, compared with 2.75% in 2018. Pension and salary revaluation assumptions based on long-term inflation will rise to 1.75% with effect from 2021 (see Note 20).

### Pension liabilities and funding

(EUR millions)

Liabilities			Funding		
	2019	2018		2019	2018
Pension liabilities	14,443	13,553	Funding	12,599	11,096
			o/w to Employee Reserve Fund	6,890	6,377
			o/w to special pension reserve fund	5,709	4,719
o/w to current employees	4,852	4,767			
o/w to retirees	9,591	8,786			
Liabilities in respect of the additional seniority granted as part of restructuring plans	140	138	Provision	140	138
			Revaluation accounts	2,140	1,230
Total gross liabilities	14,583	13,691	Total funding	14,879	12,464
Net liabilities		1,227	Net funding	296	

## Profit and loss account

### Note 29: Net interest income

Net interest income for 2019 amounted to EUR 8.1 billion, down year-on-year from EUR 8.7 billion.

The decrease was mainly due to lower rates of return on euro-denominated security portfolios (securities held for monetary policy purposes and investment securities) and a reduction in the volume of held-to-maturity securities.

### Net interest income

#### Profit and loss item 1.1

(EUR millions)

	2019	2018
Interest on foreign currency assets	1,370	1,233
<i>o/w interest on held-to-maturity securities</i>	656	527
Interest on receivables from the IMF	154	132
Interest on euro-denominated claims on non-residents		
Net income from monetary policy operations (excluding securities) (b)	1,415	1,335
Interest on euro-denominated securities	4,697	5,517
<i>o/w interest on held-to-maturity securities</i>	1,482	1,806
<i>o/w interest on securities held for monetary policy purposes</i>	3,215	3,711
Interest on claims arising on the transfer of reserve assets to the ECB	0	0
Interest on net claims on the Eurosystem (a)	0	0
Interest on the net euro banknote position	0	0
Interest on other euro and foreign currency denominated financial assets	2,731	2,092
<i>o/w interest on available-for-sale securities</i>	7	12
<i>o/w interest on held-to-maturity securities</i>	-120	-105
<i>o/w other interest</i>	2,844	2,185
<b>Total interest and related income (A)</b>	<b>10,367</b>	<b>10,309</b>
Interest on non-monetary policy euro-denominated liabilities to monetary financial institutions in the euro area (c)	3	10
Interest on euro-denominated liabilities to non-euro area residents	-2,056	-1,502
Interest on foreign currency liabilities	-52	-62
Interest on counterpart to SDR allocations	-124	-114
Interest on net debt to the Eurosystem (a)	0	0
Interest on the Treasury's account and related interest	200	154
Other interest	-210	-84
<b>Total interest and related expenses (B)</b>	<b>-2,239</b>	<b>-1,599</b>
<b>Net interest income (A + B)</b>	<b>8,128</b>	<b>8,710</b>

(a) Interest on the Banque de France's net position within the Target system (see Notes 7 and 15).

(b) Net income from monetary financial institution (MFI) current accounts, deposit facilities and TLTRO II and III (negative interest).

(c) Interest on pensions.

It was, however, partly offset by an increase in income earned on foreign currency denominated securities as well as interest from institutional customer deposits (deposit facilities and deposits in excess of minimum reserve requirements) remunerated at the negative deposit facility rate.

### Note 30: Net income from financial transactions

This profit and loss item includes the net gains and losses resulting from sales of financial instruments held by the Banque de France as well as unrealised losses on gold, foreign currency and financial instrument revaluations. It also includes net foreign currency gains and losses arising on foreign currency denominated transactions.

In 2019, net realised gold and foreign currency gains and losses represented total income of EUR 69 million. In accordance with the agreement of 2 February 2011 between the state and the Banque de France on the management of and accounting for state foreign exchange reserves, this net balance was allocated to the RRRODE, with the corresponding entry taken to the profit and loss account (item 1.2.2).

### Other income and expenses on financial transactions, net

#### Profit and loss item 1.2.3

(EUR millions)

	2019	2018
Net gain/loss on foreign currency denominated securities (a) (b) (c)	37	-71
Net gain/loss on euro-denominated securities recorded in item A7.2 (b) (c)	75	-1
Net gain/loss on available-for-sale securities recorded in item A11 (b)	30	12
Net foreign currency gains and losses (excluding foreign exchange reserve management)	10	11
<b>TOTAL</b>	<b>152</b>	<b>-49</b>

(a) Excluding the impact of foreign exchange fluctuations, recorded in profit and loss item 1.2.1.

(b) These items include realised gains and losses, and unrealised losses at year-end.

(c) These items also include margin calls on interest rate financial futures, and profits and losses on synthetic instruments.

### Note 31: Income from equity securities and participating interests

For 2019, the Governing Council decided to distribute the ECB's share of seigniorage income and income from its SMP, CBPP3, ABS and PSPP securities holdings to the national central banks. As a result, the Banque de France received EUR 292 million of the ECB's EUR 1,430.9 million interim dividend.

#### Income from equity securities and participating interests Profit and loss item 1.4

(EUR millions)

	2019	2018
ECB dividend (final for 2018 and interim for 2019)	369	298
Dividends from other participating interests	24	24
Dividends from available-for-sale securities	13	14
Other income	0	0
<b>TOTAL</b>	<b>406</b>	<b>336</b>

### Note 32: Net result of pooling of monetary income

This item comprises the annual net result of the pooling of monetary income recorded in profit and loss item 1.5. In 2019, this corresponded to a EUR 751 million expense. It also includes prior-year adjustments amounting to a EUR 3 million expense that mainly relates to revisions made by other Eurosystem central banks to their 2017 and 2018 financial statements.

This item also includes the Banque de France's share of the net reversal of the provision set aside in 2018 to cover the credit risk on monetary policy operations carried out by the Eurosystem. In 2019, this resulted in income of EUR 14 million (see Note 20) compared with a net allocation to provisions of EUR 19 million in 2018.

#### Net result of pooling of monetary income Profit and loss item 1.5

(EUR millions)

	2019	2018
Monetary income pooled by the Banque de France	-3,057	-3,073
Monetary income allocated to the Banque de France	2,306	2,459
<b>Net result of pooling of monetary income in 2019</b>	<b>-751</b>	<b>-614</b>
Adjustments for prior years	-3	67
<b>Sub-total</b>	<b>-754</b>	<b>-547</b>
Net provisions/reversals related to monetary policy operations	14	-19
<b>TOTAL</b>	<b>-740</b>	<b>-566</b>

The monetary income pooled by the Eurosystem is allocated between national central banks (NCBs) in proportion to their subscription of the ECB's capital.

The monetary income of each NCB reflects the income derived from the earmarkable assets held against its liability base.

The liability base includes banknotes in circulation, euro-denominated liabilities to euro area credit institutions related to monetary policy operations, intra-Eurosystem liabilities resulting from Target2 transactions, and net intra-Eurosystem liabilities on euro banknotes in circulation within the Eurosystem. Any interest accruing on liabilities included in the liability base is deducted from pooled monetary income.

Earmarkable assets include euro-denominated lending to euro area credit institutions related to monetary policy operations, securities held for monetary policy purposes, claims arising on the transfer of reserve assets to the ECB (excluding the gold component), net intra-Eurosystem claims resulting from Target2 transactions, net intra-Eurosystem claims arising on euro banknotes in circulation within the Eurosystem and a limited amount of gold in proportion to each NCB's subscription of the ECB's capital (capital key). Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the amount of monetary income is determined by multiplying the difference by the marginal rate applied to main refinancing operations.

### Note 33: Other income and expenses, net

This balance includes income and expenses generated by service activities carried out on behalf of third parties. These activities mainly relate to public service activities entrusted to the Banque de France by law or by agreements signed with the state and, to a lesser extent, activities carried out in support of the economy, for which the cost is re-invoiced.

Income includes the contribution for the cost of supervision by the *Autorité de contrôle prudentiel et de résolution* (ACPR – the French Prudential Supervisory and Resolution Authority), which was established by Order 2010-76 of 21 January 2010 merging the licensing and supervisory authorities of the banking and insurance sectors. The ACPR is a financially autonomous, independent

administrative authority without legal personality, chaired by the Governor of the Banque de France and as such its budget is a sub-budget of the Banque de France. The expenses and income of the ACPR are recognised in the financial statements of the Banque de France. Expenses are booked as operating expenses according to their nature, and income consists of levies raised from the organisations under ACPR supervision. In 2019, levies for supervisory expenses generated income of EUR 198 million.

Services provided by the Banque de France to the state – particularly the operation of the departmental commissions for handling cases of household overindebtedness and the management of the Treasury's account – are remunerated on a full-cost basis.

### Other income and expenses, net

#### Profit and loss item 1.6

(EUR millions)

	2019	2018
Remuneration for services provided to the state	241	244
Payments for ACPR supervisory expenses	198	198
Miscellaneous income (a)	282	367
Total other income (A)	721	809
Total other expenses (B)	-27	-35
Other income and expenses, net (A + B)	694	774

(a) This item mainly includes fees charged for use of the databases managed by the Banque de France (FNCL, FICP, FCC and FIBEN).

### Note 34: Staff costs and related expenses

The Governor's total gross remuneration for 2019 was EUR 287,956. The First and Second<sup>19</sup> Deputy Governors received EUR 231,737 and EUR 193,382, respectively. No employee accommodation is made available to them but they each receive a gross housing allowance of EUR 5,812 per month, which is subject to tax. These provisions are governed by Article R. 142-19 of the French Monetary and Financial Code.

### Remuneration of management bodies

(EUR millions)

	2019	2018
Total remuneration paid to management bodies (a)	2.8	3.0

(a) The Banque de France's management bodies are made up of members of the General Council and the Executive Committee. Remuneration comprises gross remuneration plus any payments in kind. The Banque de France staff representative and the censor are not remunerated for the duties they perform in the General Council.

### Staff costs and related expenses

#### Profit and loss item 2.1

(EUR millions)

	2019	2018
Salaries and wages	585	614
Taxes on salaries and wages	94	104
Social security contributions	160	181
Profit-sharing and incentive plans	36	31
Total staff costs and related expenses	875	930

#### Profit and loss item 2.2

(EUR millions)

	2019	2018
Pensions and related expenses	502	486
Total pensions and related expenses	502	486

### Note 35: Corporate income tax

According to Article 8 of Law 2007-212 of 20 February 2007 on various measures concerning the Banque de France, the taxable profit of the Banque de France is calculated using accounting rules defined in accordance with Article L. 144-4 of the French Monetary and Financial Code and the agreement in Article L. 141-2 of the said Code.

### Corporate income tax

#### Profit and loss item 5

(EUR millions)

	2019	2018
Income tax expense for the year	2,650	2,400
On profit before exceptional items	2,650	2,400

<sup>19</sup> Sylvie Goulard requested a two-month period of unpaid leave on personal grounds from 1 September 2019 to 31 October 2019.

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## STATUTORY AUDITORS' REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Year ended 31 December 2019

### Opinion

In compliance with the engagement entrusted to us by your General Council, we have audited the accompanying annual financial statements of the Banque de France for the year ended 31 December 2019. These annual financial statements were approved by the General Council on 30 March 2020 based on the information available at this date in the evolving context of the COVID-19 health crisis.

In our opinion, the annual financial statements give a true and fair view of the assets and liabilities and of the financial position of the Banque de France as at 31 December 2019 and of the results of its operations for the year then ended in accordance with accounting principles from Article R. 144-6 of the French Monetary and Financial Code (*Code monétaire et financier*).

### Basis for opinion

#### Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' responsibilities for the audit of the annual financial statements section of our report.

#### Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from 1 January 2019 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

### Emphasis of matter

We draw attention to the following matters:

- the introduction to the Notes to the annual financial statements describes the accounting principles and valuation methods applicable to the Banque de France, some of which are specific to the European System of Central Banks;
- the General Council has determined the level of detail of the published financial information in accordance with its right provided for in Article R. 144-6 of the French Monetary and Financial Code (*Code monétaire et financier*).

Our opinion is not modified in respect of these matters.

### Justification of assessments

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the following matters that, in our professional judgement, were of most significance in our audit of the annual financial statements of the current period.

.../...



These matters were addressed in the context of our audit of the annual financial statements as a whole, approved in the above conditions, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the annual financial statements.

#### Valuation of securities at amortised cost

Your Institution holds securities portfolios that are recognised at amortised cost. An impairment loss is recorded in the event of risk of non-recovery, in accordance with the methods described in the Note "Valuation methods – Securities Portfolios" to the annual financial statements.

Our work consisted in reviewing the impairment tests put in place by the Banque de France to assess the risk of non-recovery, in order to evaluate the assumptions used and to examine the management procedures in place to approve these estimates.

#### Assessment of social obligations

Your Institution calculates its social obligations in accordance with the methods described in Note 28 to the annual financial statements. These obligations were assessed by an actuary.

Our work consisted in examining the data used and the assumptions applied when making these estimates.

#### Responsibilities of management and those charged with governance for the annual financial statements

Management is responsible for the preparation and fair presentation of the annual financial statements in accordance with accounting principles from Article R. 144-6 of the French Monetary and Financial Code (*Code monétaire et financier*) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the entity or to cease operations.

The annual financial statements were approved by the General Council.

#### Statutory Auditors' responsibilities for the audit of the annual financial statements

Our role is to issue a report on the annual financial statements. Our objective is to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the entity or the quality of management of the affairs of the entity.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgement throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the annual financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

.../...

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the annual financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of this audit report. However, future events or conditions may cause the entity to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the annual financial statements or, if such disclosures are not provided or are inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the annual financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Paris La Défense, on 30 March 2020

The Statutory Auditors

**KPMG Audit**  
**A division of KPMG S.A.**

Marie-Christine Jolys  
Partner

**MAZARS**

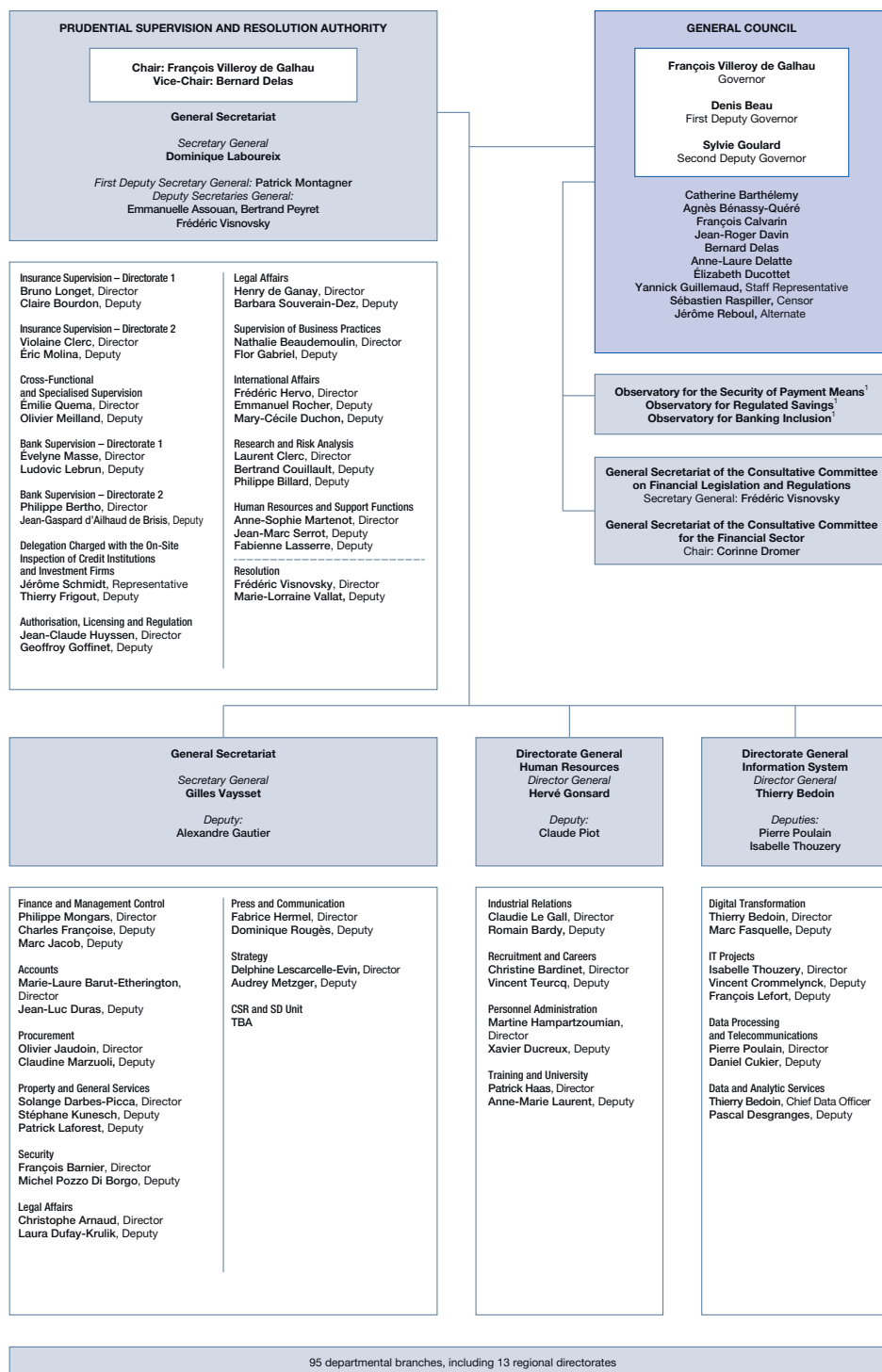
Hervé Hélias	Franck Boyer
Partner	Partner



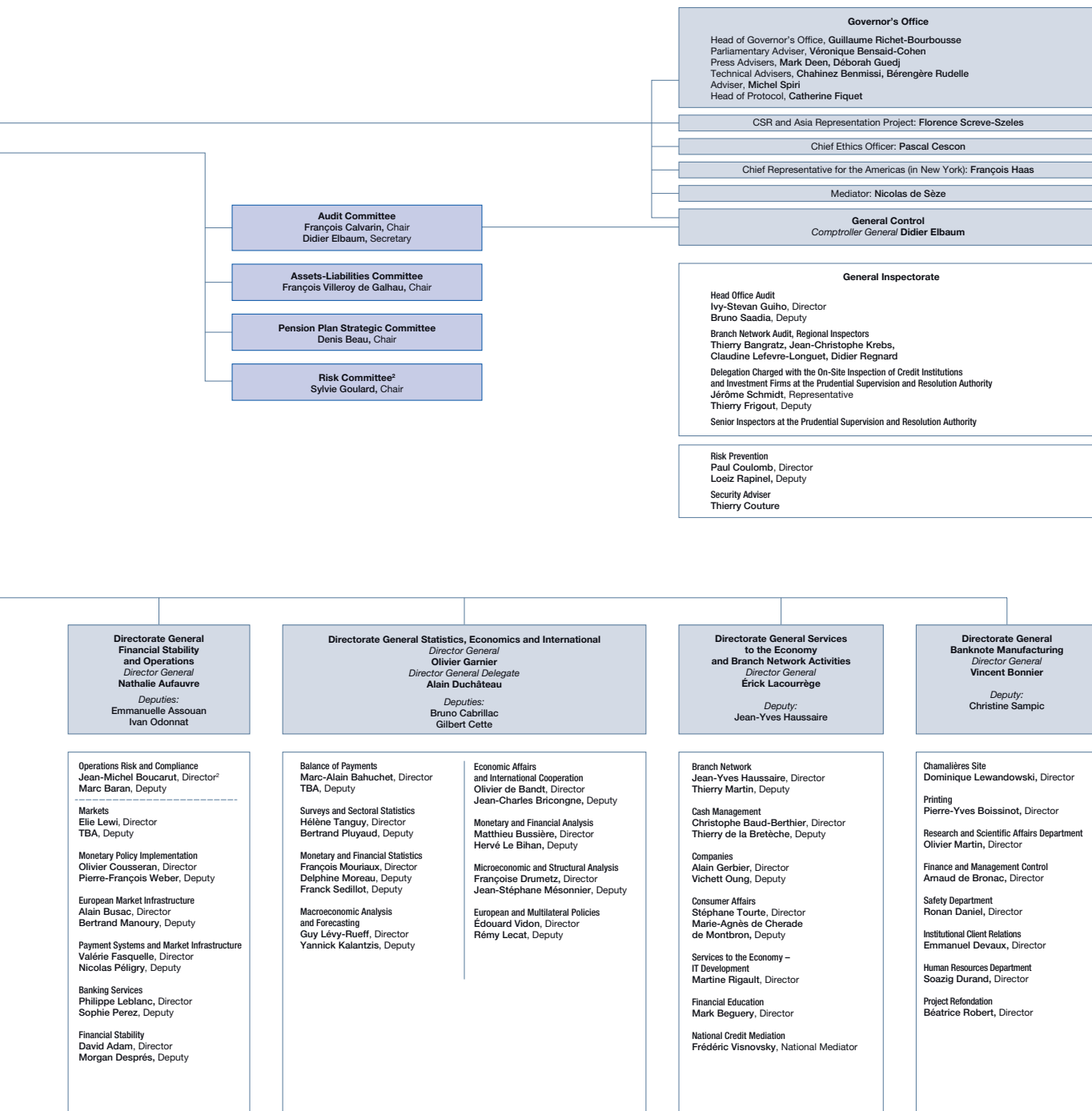
# APPENDICES

# APPENDIX 1

## Organisation of the Banque de France as at 18 May 2020



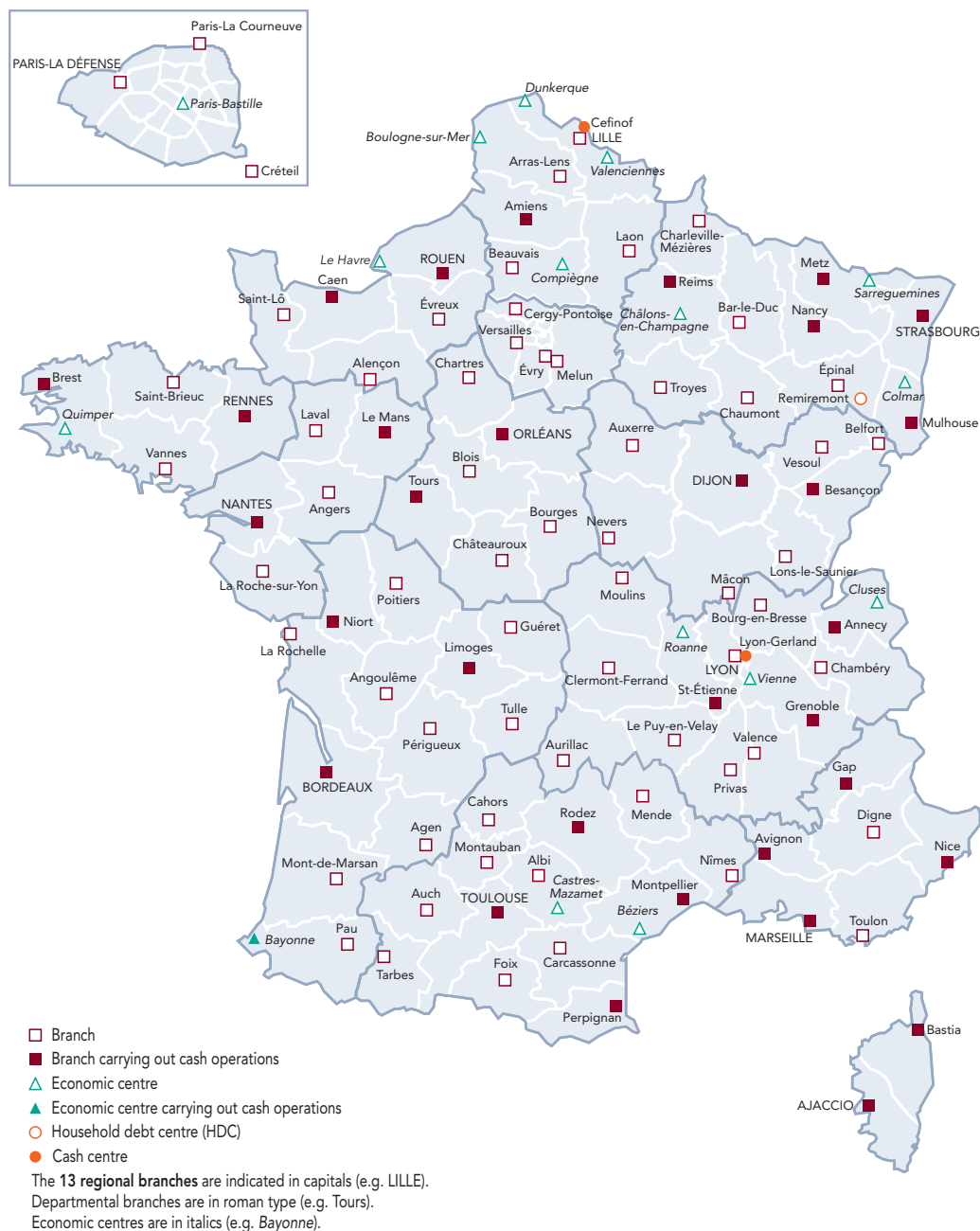
<sup>1</sup> The Governor chairs the Observatory for the Security of Payment Means, the Observatory for Regulated Savings and the Observatory for Banking Inclusion.  
<sup>2</sup> The Director of Operations Risk and Compliance reports to both the Chair of the Risk Committee and the Director General Financial Stability and Operations.



16 economic centres, 1 household debt centre and 2 cash centres



# THE BANQUE DE FRANCE BRANCH NETWORK AS AT 1 JANUARY 2020



# APPENDIX 2

## THE SCOPE

### OF THE BANQUE DE FRANCE



The Law of 8 November 2016 on transparency, the fight against corruption and the modernisation of the economy transformed the *Institut d'émission des départements d'outre-mer* (IEDOM – the Delegated Central Bank for the French Overseas Departments and Territories) into a wholly-owned subsidiary of the Banque de France, with effect as of 1 January 2017. Its missions consist primarily in the provision of central bank functions to the French overseas departments and collectivities, under the aegis of the Banque de France.



Victoires Paiements was created on 22 May 2012 and is an economic interest grouping combining the Banque de France and the Caisse des Dépôts et Consignations (CDC). Its mission is to process retail payments (i.e. large volumes of small payments). The structure consists of a shared transaction processing platform, which allows the Banque de France and CDC to pool their investments and reduce costs. Flows between the two banks are also processed via the intrabank channel, outside the usual exchange systems.



Europafi was created on 27 October 2015 to set up a public paper manufacturing unit within the Eurosystem. The aim is to make the paper mill in Vic-le-Comte the leading publicly-owned producer of banknote paper in the euro area. Four central banks are shareholders alongside the Banque de France.



Created on 27 December 1995, BDF Gestion is the Banque de France's asset management subsidiary. It manages 30 collective investment schemes (dedicated, open to the public, employee savings), as well as a number of individual mandates for institutional investors.

# APPENDIX 3

## THE RECIRCULATION OF EURO BANKNOTES AND COINS BY PRIVATE OPERATORS IN 2019

Under Article L. 141-5 of the French Monetary and Financial Code, the Banque de France is tasked with maintaining the quality and fitness of the banknotes and coins in circulation within French national territory. Article R. 122-8 of the Code requires operators (credit institutions, cash-in-transit companies, retail sector operators) contributing to the processing and recirculation of banknotes that have not come from a Eurosystem central bank to sign an agreement with the Banque de France before undertaking such activities. At the end of 2019, 88 credit institutions had signed agreements with the Banque de France authorising them to recirculate banknotes to the public via customer operated machines; 150 operators had signed processing agreements setting out criteria for sorting banknotes; and 25 operators had signed an agreement authorising them to process coins.

The most common logistical set-up for distributing banknotes in 2019 was via bank ATMs replenished with banknotes recirculated by cash-in-transit firms.

In the first half of 2019, 35.4% of the banknotes collected and recognised as valid by private operators (last known figures) were put back into circulation, representing a rise of 2.1 percentage points compared with end-2018. Of these, the share recirculated by cash-in-transit firms has stabilised since end-2018 at close to half (49%), with a similar proportion recirculated by credit institutions.

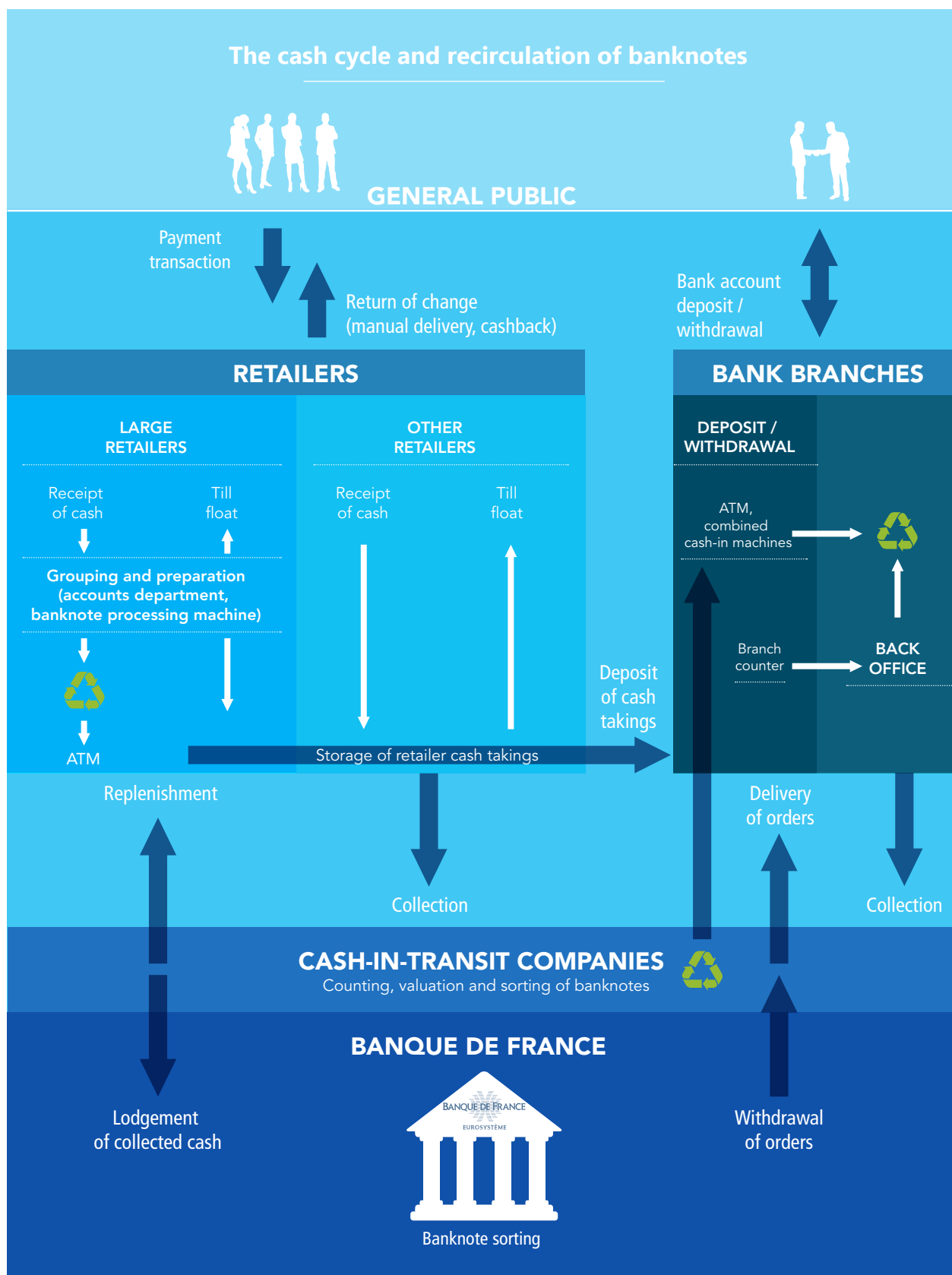
### 1

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#### **Banque de France inspections of operators**

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All operators processing banknotes that have not come from a central bank and recirculating them via cash machines are subject to inspections by the Banque de France. In 2019, the Bank carried out 642 on-site inspections of bank branches and workshops processing



## Agreements signed with private operators in 2019

Type of agreement	Type of operator	Number of agreements signed in 2019	Total number signed as at 31 December 2019
Coins			25
	Professional operators	0	13
	Non-professional operators	0	12
Banknotes			238
Distribution agreements	Credit institutions	1	88
Processing agreements	Credit institutions	1	56
	Cash-in-transit companies	0	8
	Retailers providing recirculation services	2	85
	Other professional cash-handlers	0	1

banknotes for customer-operated machines, of which 325 were conducted entirely by staff from the branch network (increase of 110% relative to 2018). Two broader inspections were also carried out (of bank branches and processing workshops simultaneously), focusing more specifically on the monitoring of suspect banknotes. Following the lowering of the acceptable tolerance level for fitness checks from 10% to 5%, 12.1% of banknote handling machines were found to be non-compliant in 2019 and required intervention by the manufacturer. Of the bank branches inspected, 23 were issued with a temporary suspension.

Document checks led to the cancellation of a banknote processing contract with one retailer, due to the latter's failure to comply with its contractual obligations. As a result, the retailer was banned from replenishing the cash machine on its premises with notes it had processed itself. In total, 137 interventions were carried out to upgrade operators' processing equipment, of which 72% were at credit institutions.

### 2

#### Banque de France inspections of coin-processing sites

In 2019, the Banque de France performed 36 on-site inspections of coin-processing sites.

### 3

#### Banknote recirculation and coin processing in the overseas departments

The Banque de France has charged the IEDOM with managing the recirculation activities of firms based in the overseas departments and collectivities. At the end of 2019, ten agreements had been signed with private operators for the recirculation of banknotes via customer-operated machines and ten for the processing of banknotes (eight of which were signed by the IEDOM and two by the Banque de France in metropolitan France). The IEDOM conducted inspections at 21 of the 83 sites concerned. Moreover, seven agreements on automatic coin processing had been signed, covering a total of nine production sites. Seven of these sites were inspected.

### 4

#### Banknote authentication training for bank employees

In accordance with the provisions of Article R. 122-6 of the Monetary and Financial Code, the Banque de France assists banks in training their staff in the manual distribution of banknotes. As part of this task, in 2019, it provided banknote authentication training to nearly 1,500 credit institution employees.

# APPENDIX 4

## SUMMARY OF THE HOUSEHOLD DEBT COMMISSIONS' ACTIVITY REPORTS FOR THE YEAR 2019

In accordance with the provisions of Article R. 712-12 of the French Consumer Code, each Household Debt Commission draws up an annual activity report setting out the number of cases processed, the measures taken, the type of debt involved and the difficulties encountered. These reports are submitted to the Banque de France, which is responsible for summarising and disclosing them in its annual report.

### 1

#### **New cases declined for the seventh consecutive year, falling well below 1990's level**

In 2019, the Household Debt Commissions received a total of 143,080 overindebtedness applications, representing a decline of 12% relative to 2018 and of 38% relative to 2014. The number of new cases fell by 10,000 versus 2018 to a total of around 81,000, meaning that first-time applications were well below the levels seen at the start of the 2000s, and substantially lower than in 1990 when the overindebtedness procedure was first introduced.

### 2

#### **The procedure's efficiency stems from its emphasis on finding permanent solutions and on reducing processing times**

In line with the target set by public authorities, the commissions' priority, wherever possible, is to find a permanent solution to the overindebtedness cases they handle.

Two important measures simplifying the procedure came into effect in January 2018: Law No. 2016-1691 of 9 December 2016 on transparency, the fight against corruption and the modernisation of the economy (the Sapin 2 Law) got rid of the amicable settlement phase between the debt commission, creditors and debtor in cases where no real estate is involved; and Law No. 2016-1547 of 18 November 2016 on the modernisation of French legislation for the 21<sup>st</sup> century reduced the legal aspects of the overindebtedness procedure. 2019 confirmed the effectiveness of these measures, which enable the commissions to impose solutions more rapidly.



## Key data on the commissions' activity

(in number of applications)

	2018	2019
Applications filed	162,936	143,080
<i>o/w resubmissions (%)</i>	45.9	43.4
Admissible applications	148,066	135,014
Non-admissible applications (A)	8,508	7,349
Directed towards a debt restructuring programme	79,706	75,469
Directed towards a personal recovery procedure	68,391	59,743
Directed towards a personal recovery procedure without judicial liquidation (B)	77,287	61,360
Agreement by the debtor to a personal recovery procedure with judicial liquidation (C)	1,995	1,147
Agreement on a debt repayment plan (D)	14,312	12,019
Measures imposed or recommended by the commissions (E)	71,685	62,073
<i>Of which measures imposed immediately</i>	54,007	54,905
Cases closed (F)	12,312	9,505
Cases handled (A+B+C+D+E+F)	186,099	153,453

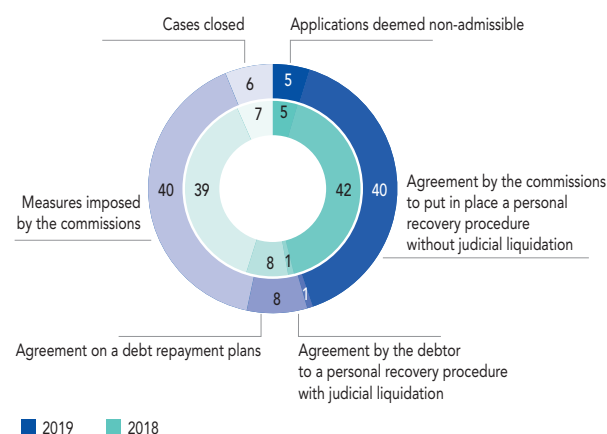
The number of cases handled in 2019 (153,453) was naturally lower than in 2018 (186,099), due to the fall in applications observed in 2019, and the base effect caused by the spike in cases at the start of 2018 (a significant number of cases were postponed at end-2017 pending the entry into force of the new legislation on overindebtedness).

In 2019, as in 2018, more than 76% of cases handled led to a permanent solution being found, or resulted in a personal recovery procedure (PRP) or permanent debt rescheduling plan. This compares with 60% of cases in 2014. The share of cases directed towards a PRP fell slightly in 2019 but remained above 40%, underscoring the extent of the social and personal difficulties that applicants find themselves in.

### 3

## Breakdown of commissions' decisions in 2018 and 2019

(% of total applications processed)



## The ELAN Law has improved coordination between the overindebtedness procedure and the procedure for rental evictions

Law No. 2018-1021 of 23 November 2018 (known as the ELAN law on housing, planning and digital technology), which came into effect on 1 March 2019, contains provisions relating to landlords who have obtained a court order rescheduling a tenant's rent arrears.

Since 1 March 2019, these debt repayments are no longer suspended if the tenant submits an admissible overindebtedness application. On top of his/her usual rent payments and current expenses, the tenant has to continue paying the rescheduled arrears until the Household Debt Commission has put in place measures to resolve his/her financial situation.

Once the tenant and landlord have been notified of the commission's proposed measures, they have thirty days in which to contest them, after which they cancel and replace all debt repayments ordered by the court.

The implementation of the ELAN Law has provided an opportunity to forge closer ties between the Household Debt Commissions and the *Commissions de coordination des actions de prévention des expulsion locatives* (CCAPEX – Coordination Commissions for the Prevention of Evictions). The commissions' activity reports showed they met numerous times to discuss topics relating to the application of the law (digitalisation of information exchanges between the commissions, the CCAPEX's internal regulations and a charter for the prevention of evictions), with the aim of ensuring overindebted households are better protected from evictions.

#### 4

### Efforts to provide better social support need to be continued

Overindebted individuals are often very vulnerable and need better support and guidance throughout all stages of the debt resolution procedure.

The creation of dedicated support structures – 150 *Points conseil budget* (PCB – Budget Management Advice Offices) were set up in 2019, and a further 250 are planned for 2020) – should ensure the earlier detection of individuals in financial difficulty and, in some cases, prevent them from having to file an overindebtedness application. The PCBs can provide advice on how to better manage the household budget, and inform individuals of their rights.

There is also a need to provide greater support throughout the overindebtedness procedure, as the commissions noted that applicants often had difficulty understanding the different steps and even the letters received from the commissions. It was also fairly common for debtors not to know exactly how much debt they owed, as new debts were often declared after the procedure had been opened.

Support needs to be provided right up to the end of the procedure, to make it easier to implement measures with creditors and avoid resubmissions being made almost immediately due to a failure by the applicant to understand his/her role and responsibilities at this final stage.

Representatives of the commissions visited a number of PCBs in 2019, in those regions where they are starting to be rolled out, in addition to their visits to other stakeholders, notably social workers and other welfare groups and associations.

#### 5

### Stakeholders in the procedure took major steps to improve economic and financial literacy among the general public

The commissions stepped up their economic and financial education campaigns throughout France in 2019. Social workers were given access to specific resources to help support the financially vulnerable and stop consumers getting into too much debt. In total, the commissions met more than 16,000 social workers and representatives of welfare groups, social action centres, family benefits offices, consumer or family associations and charities in 2019, to advise them on how to better guide individuals with their overindebtedness applications and throughout the procedure.

In 47% of cases submitted in 2019, the applicant was being supported by a social worker.

#### 6

### Regular communication with magistrates remains vital

In 2019, all commissions held at least one meeting with the district court judges or registrars in their region with a view to harmonising practices and finding appropriate solutions for the overindebted.

The commissions noted that they still encountered difficulties in implementing a PRP with a judicial liquidation. The procedure is long and debtors have difficulty paying the necessary fees.

Some commissions highlighted the risk that imposed measures might be wrongly approved if the decision was appealed or challenged directly via the court, without informing the commissions.

Due to their professional status, some heavily indebted individuals are considered ineligible for the individual

overindebtedness procedure and have to file for commercial bankruptcy, even though they only have personal debts. However, the courts frequently refuse to open commercial bankruptcy proceedings or a professional recovery procedure in these cases, as the individual in question has no professional debts. This can also occur in the case of individuals who have ceased their business activity but have outstanding social security debts (to the RSI – the social security scheme for self-employed workers): the debts are deemed to be professional under the overindebtedness procedure, but are classified as personal by the courts for the purposes of commercial bankruptcy proceedings.

The commissions have been making efforts to find a solution for former self-employed workers by declaring their applications admissible, and, since the start of 2019, have resolved 1,650 cases. Discussions with social security organisations indicate that the latter have a similar point of view on this matter, and raise hopes that a common approach might soon be rolled out across the country.

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## 7

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### **The procedure is now deemed to be balanced, but it is still important to monitor how it is implemented**

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The commissions are continuing to encounter difficulties with the complexity or specific features of certain cases, especially those involving professional debts or the division of property. Similarly, it can be hard to measure the precise impact of a request to sell a property with a low value or that is located in an undesirable area, or to fully appreciate the effect of the rehousing of the debtor.

The commissions also highlighted issues in dealing with cases where debt recovery has been outsourced to a specialised agency – in particular a failure by these agencies to suspend proceedings while the overindebtedness application is being examined. In cases where debts have been sold, the commissions also noted that it is sometimes difficult to identify the exact owner of the claim. The increasing digitalisation of information exchanges with creditors is also leading to occasional errors, as users are still adapting to the new systems.

One area that needs to be monitored closely is the referral of cases for a PRP without judicial liquidation, which generally results in a complete write-off of debts. In some cases, the

value of debts was found to have been indicated as zero, leading to the accumulation of arrears and the threat of legal action even after the measures had been validated. Similarly, some debtors had stopped paying their day-to-day expenses in the belief that these debts would be written off under the procedure.

Finally, efforts will need to be made to take account of underlying changes in society and modes of consumption: dual employment (where individuals combine a job contract with self-employment, or retirement with self-employment); alternation between periods of temporary work, unemployment and training; presence among debts of long-term lease contracts or lease contracts with purchase options, where a vehicle repossession can pose a threat to the debtor's job.

# LIST OF ILLUSTRATIONS

## TABLES

---

Simplifications in 2019	82
CSR dashboard	97
Balance sheet at 31 December 2019	111
Profit and loss account for 2019	112
A breakdown of holdings by main currency	117
Foreign currency assets and liabilities (excluding relations with the IMF)	117
Relations with the IMF	118
Euro-denominated loans and liabilities to euro area credit institutions related to monetary policy operations	119
Euro-denominated claims on non-euro area residents	120
Securities held for monetary policy purposes	121
Euro-denominated securities issued by euro area residents	121
Claims arising on the transfer of reserve assets to the ECB	121
Other claims on the Eurosystem	122
Other euro and foreign currency denominated financial assets	122
Securities portfolios	122
Other items	123
Fixed assets	123
Information relating to subsidiaries and participating interests at 31 December 2019	123
The Banque de France's key for subscription of the ECB's capital	124
Other euro-denominated liabilities to euro area credit institutions	124
Euro-denominated liabilities to non-euro area residents	125
Euro-denominated liabilities to the Eurosystem	125
Euro-denominated liabilities to other euro area residents	125
Banking transactions	125

Other items	126
Provisions for liabilities and charges	126
Revaluation accounts	127
Capital, reserves and retained earnings	127
Notional amount of financial futures	127
Foreign currency receivables and deliverables on transactions with customers	128
Pension liabilities and funding	129
Net interest income	130
Other income and expenses on financial transactions, net	130
Income from equity securities and participating interests	131
Net result of pooling of monetary income	131
Other income and expenses, net	132
Remuneration of management bodies	132
Staff costs and related expenses	132
Corporate income tax	132
Agreements signed with private operators in 2019	144
Key data on the commissions' activity	146

## CHARTS

---

Breakdown of the year-on-year change in core inflation in the euro area	16
Changes in Eurosystem assets	17
ECB key rates	17
Household debt	19
Non-financial corporation debt	19
Signatories to the commitment to respect the Code	23
Use of cashless means of payment in France in 2018	28
Breakdown of prudential and business practice inspections conducted on-site by the ACPR in 2019 in the banking and insurance industries	38
Number of teachers who received awareness training	57

Number of social workers trained	57
Number of page views on the <i>Mes questions d'argent</i> portal	57
Number of overindebtedness applications submitted to the commissions since the start of the scheme	61
Number of beneficiaries of the "specific offering"	61
Rate of resubmission of overindebtedness cases	61
Referrals of VSEs to professional networks	66
Changes and reduction in cumulative net expenditure since 2015	77
Change in total headcount	77
Consultation of the <i>Banque de France Bulletin</i>	78
Visitors for Heritage Days	78
Media coverage	78
Followers on Twitter	78
Subscribers on Facebook	78
Changes in telework since 2010	82
Breakdown of headcount	82
Proportion of tenured managers internally promoted to professional/managerial roles	82
Number of conferences, seminars and workshops organised with the Bank's partner universities	87
Number of people admitted to the Bank's heritage sites	87
Total outstanding microcredit in France	91
Number of VSEs assisted annually by VSE correspondents	91
Number of staff projects supported annually	91
Proportion of banks and insurance companies made aware of climate-related risk	91
GHG emissions by energy source in 2019	92
Change in breakdown of commuting methods since 2016	92
Change in business travel since 2016	93
Fixed asset greenhouse gas emissions since 2017	93
Reducing our environmental footprint	94
Percentage of women in top management positions	96
Rate of employment of people with disabilities	96



Percentage of employees with access to training	96
Share of the wage bill devoted to professional training	96
Breakdown of commissions' decisions in 2018 and 2019	146

## DIAGRAMS

---

The five pillars of the national financial education strategy	55
10 key targets for 2020	75
The General Council and the Audit Committee	105
Organisation of the Banque de France as at 18 May 2020	138
The Banque de France branch network as at 1 January 2020	140
The cash cycle and recirculation of banknotes	143

# LIST OF BOXES

Low core inflation in the euro area	16
Bank profitability and tiering: a measure adopted to partially neutralise the effect of negative rates	18
More comprehensive information on the economic situation	21
Review of the code of conduct for foreign exchange markets	23
Automation of securities lending auctions	24
Report on access to cash in metropolitan France	26
The last denominations of the Europa series: the €100 and the €200	26
The use in France of the various means of payment (companies and individuals)	28
Payment authentication according to PSD 2 standards, migration plan and CNPS strategy	28
Cooperation with the Banque de France network – the Arcop programme	38
The G7 cross-border coordination exercise	39
The Basel III reforms	41
Libra, digital currencies, stablecoins	47
The Banque de France branch network and its partners	55
Monitoring the banking industry's compliance with its commitments	62
30 years fighting overindebtedness	62
Assigning company ratings: the responsibility of the Banque de France branches	65
The Banque de France and the Observatory for Payment Times	65
10 years of credit mediation	68
2019 Report of the Observatory for Business Financing	68
A dedicated portal for the French Treasury	70
The <i>Charte entreprise-territoire</i> and La Courneuve	88
Hall 32: the Centre for the Promotion of Industrial Trades opened its doors to the public in September 2019 in Clermont-Ferrand	89

2019 sustainable development profit-sharing objective linked to business flights in France and Europe	94
Cyber risks	106
The General Data Protection Regulation (GDPR)	106

**Banque de France**  
**Press and Communication Directorate**

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Paper from sustainably managed forests