

**Payment, clearing and
settlement systems in
France**

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List of abbreviations

ACP	Prudential Supervisory Authority – Autorité de Contrôle Prudentiel
AFECEI	French Association of Credit Institutions and Investment Firms – Association Française des Établissements de Crédit et des Entreprises d'Investissement
AFEI	French Investment Firms Association – Association Française des Entreprises d'Investissement
Afepame	French Association of Payment and Electronic Money Institutions – Association française des établissements de paiement et de monnaie électronique
AMF	Financial Markets Authority – Autorité des Marchés Financiers
ASF	Finance Companies Association – Association des Sociétés Financières
ATM	automated teller machine
CCSF	Financial Sector Consultative Committee – Comité Consultatif du Secteur Financier
CCLRF	Financial Legislative and Regulatory Consultative Committee – Comité Consultative de la Législation et de la Réglementation Financière
CCP	central counterparty
CFONB	French Committee for Banking Organisation and Standardisation – Comité Français d'Organisation et de Normalisation Bancaires
CLS	Continuous Linked Settlement
CMF	Monetary and Financial Code – Code Monétaire et Financier
CORE	Retail payment system – COmpensation REtail
CPSS	Committee on Payment and Settlement Systems
CSD	central securities depository
DVP	delivery versus payment
EBA	Euro Banking Association
EEA	European Economic Area
e-RSB	French interbank authorisation network
ESCB	European System of Central Banks
ESES	Euroclear Settlement of Euronext-zone Securities
Euroclear France	French CSD, previously Sicovam SA
FBF	French Banking Federation – Fédération Bancaire Française
FCC	Central Cheque Register – Fichier Central des Chèques
FNCI	National Register of Irregular Cheques – Fichier National des Chèques Irréguliers
FSB	Financial Stability Board
GCB	Bank Card Consortium – Groupement Cartes Bancaires

France

GUF	SWIFT Users Group in France – Groupement des Utilisateurs SWIFT en France
IEDOM-IEOM	Monetary Institutes of the French Overseas Departments and Territories – Institut d'émission des départements d'outremer, Institut d'émission des territoires d'outremer
LCH.Clearnet SA	Clearing house and central counterparty for financial instruments
POS	point of sale
RGV2	High-speed Relit system 2 – Relit Grande Vitesse 2
RTGS	Real-time gross settlement
SCT	SEPA credit transfer
SEPA	Single Euro Payments Area
SFPMEI	Special purpose credit institution for issuing e-money – Société Financière du Porte-monnaie Électronique Interbancaire
SSP	Single Shared Platform: single technical platform of TARGET2
SSS	Securities settlement system

Introduction

France has two interbank payment systems, one for large-value payments and one for retail payments. The large-value system is the RTGS [TARGET2-Banque de France](#), which forms part of [TARGET2](#) and is at the heart of the French organisation for interbank and customer payment transactions. TARGET2 replaced the TARGET large-value euro payment system in May 2008. The new French system CORE (COmpensation REtail) that handles retail payments by clearing interbank exchanges of cashless [payment instruments](#) was launched on 28 January 2008, replacing the SIT system (Système Interbancaire de Télécompensation) set up in 1992.

[LCH.Clearnet SA](#) provides clearing for financial instruments. Settlement and delivery of securities are performed by Euroclear Settlement of Euronext-zone Securities ([ESES France](#)). Through its link to the RTGS system and a sophisticated mechanism for self-collateralisation, ESES France provides for continuous intraday final DVP in central bank money. ESES France operates on a common platform with the Dutch and the Belgian securities settlement systems (SSSs) of the Euroclear Group.

All French payment and securities clearing and settlement systems settle in central bank money in accounts held with the Bank of France.

As for the oversight of these systems, Article L 141-4 of the Monetary and Financial Code (Code Monétaire et Financier – CMF) gives the Bank of France broad competence to ensure the smooth operation and security of payment and securities clearing and settlement systems. It also confers statutory powers vis-à-vis the issuers of means of payment regarding security matters. In addition, to carry out its task of overseeing means of payment, the Bank of France is authorised by law to gather any necessary information.

Since 2007 the infrastructure of payments and securities has been transformed in France. This is due to European integration of means of payment and transfer systems, with the start of the implementation of the Single Euro Payments Area (SEPA) and the launch of new pan-European exchange platforms that have replaced the former infrastructures used on the Paris financial market.

1. Institutional aspects

1.1 The general institutional framework

1.1.1 General legal aspects

1.1.1.1 Issuance of means of payment

This field has been radically transformed by the Payment Services Directive 2007/64/EC, transposed into French law by an executive order published on 16 July 2009, establishing a harmonised legal framework for payment services throughout Europe in order to facilitate the implementation of European payment instruments and their adoption by final users, thus facilitating the implementation of the SEPA project, and creating a new category of non-banking payment services providers: the payment institutions.

Means of payment are defined broadly by Article L 311-3 of the CMF as “all instruments which, irrespective of the medium or technical procedure used, enable any person to transfer funds”. The issuance and management of means of payment, which were defined as banking operations, are now defined as payment services, and can be provided both by banks and by payment institutions.

The CMF governs banking and payment services activities and the conditions for executing such services in France.

According to the CMF, only credit institutions, the Treasury, the Post Office, the public trustee office (Caisse des Dépôts et Consignations), the Bank of France and the monetary institutes for the French Overseas Departments and Territories (IEDOM-IEOM), and payment institutions may provide and execute payment services, ie issue and process means of payment, as a regular part of their business.

When Directive 2009/110/EC enters into force in French law, electronic money institutions will also be authorised to provide and execute payment services. Provisions related to authorisations comply with the EU principle of mutual recognition of licences (only one authorisation needed), and of supervision by the authorities of the home member state, set by the Banking Directive 2000/12 and the Investment Services Directive. These provisions are codified in the CMF in Articles L 511-22 to L 511-28, L 522-12 to L 522-13 and L 532-23 to L 532-27.

The Bank of France has a statutory responsibility to exercise oversight over all non-cash means of payment, ie all except banknotes and coins, which are governed by other rules, within the framework of the European System of Central Banks (ESCB).

1.1.1.2 Functioning of payment and securities clearing and settlement systems

The Act of 31 December 1993 abolished the “zero hour”¹ rule in payment systems by amending the French Banking Act (Article 93-1, now CMF L 330-1). Since the implementation of this provision, netting arrangements for payment systems have been legally binding in the event of failure by a participant and the finality of payments in RTGS systems cannot be legally challenged, provided the systems comply with the legal definition of payment systems. The protection against any “zero hour” provisions also applies explicitly to SSSs. Directive 98/26 on settlement finality in payment and securities settlement systems has set common rules stipulating that transfer orders and netting must be legally enforceable once they have been entered into the system, even in the event of an order to commence judicial reorganisation or liquidation proceedings being made against a participant; that transfer orders may not be revoked after a moment defined in the system; that the insolvency of a participant may not have retroactive effects; and that the insolvency law applicable is the law of the Member State which has notified the system to the EC since it was the applicable law chosen by its participants. It has been transposed into French law, complementing the existing French provision (L 330-1 and L 330-2).²

The scope of protection granted for transfer orders processed in systems has been extended to night-time settlement and to settlement between linked systems in Directive 2009/44 amending Directive 98/26.

The legal basis for collateral arrangements in payment and securities settlement systems is Article L 330-2 of the CMF. This stipulates that regulations, master agreements or standardised agreements governing payment or multilateral settlement systems may provide for collateral arrangements in order to secure settlement within the system, and that collateral security provided to a system by a participant may not be affected by the opening of insolvency proceedings against that participant. The collateral eligible under the specific regime of Article L 330-2 is widely defined (transfer of claims, securities, guarantees, etc). The transfer of collateral is performed through a transfer of full ownership without any formal requirement to inform third parties and is enforceable notwithstanding the provisions of

¹ The zero hour rule deems an insolvency to begin at “zero hour” on the day the insolvency occurs. This means that payments made any time after midnight might be deemed void, entailing a lot of unwinding of payments.

² See Monetary and Financial Code (Part III: Payment systems and systems used for settlement and delivery of financial instruments, Articles L 330-1 and L 330-2).

French insolvency law³ or the equivalent provisions governing any judicial or amicable proceedings instituted outside France and any civil enforcement proceedings or exercise of a right.

Securities clearing systems being notified as SSSs, the provisions of both acts also apply to central counterparties (CCPs).

1.1.1.3 Legal basis for oversight functions

The Founding Treaty of the European Community states that the Bank of France shall ensure the smooth operation and the security of payment systems within the framework of the tasks of the ESCB relating to the promotion of the smooth operation of payment systems (Article L 141-4 of the CMF). In addition, it states that “notwithstanding the competences of the Financial Markets Authority and of the Prudential Supervisory Authority, the Bank of France shall ensure the security of securities clearing and settlement systems”. This provision establishes oversight of payment and securities settlement systems as well as CCPs as an integral part of the Bank of France’s statutory tasks within the Eurosystem. For payment security, the oversight role of the Bank of France has been enshrined in law by adding the following amendment to Article L141-4 of the CMF, which grants the Bank of France greater means of action:

“The Bank of France shall ensure the security of means of payment, other than banknotes and coins, as defined in Article L 311-3, and the relevance of the standards applicable thereto. If it deems that any such means of payment is insufficiently secure, it may recommend that the issuer take all necessary measures to remedy such insufficiency. If its recommendations are of no avail, it may, after having solicited the observations of the issuer, hand down a negative opinion published in the Official Journal. For the performance of its duties, the Bank of France shall conduct expert analyses and shall ask the issuer or any interested party for all relevant information concerning means of payment and the terminals or technical facilities associated therewith.”

With respect to securities clearing and settlement systems, Article L 621-7-VI 3) of the CMF (previously Article L 622-7-IV) states that the general regulations of the Autorité des Marchés Financiers (AMF) – Financial Markets Authority – shall specify “the general organisational and operational principles of securities settlement systems and the conditions under which the AMF approves the operating rules of such systems, without prejudice to the competences granted to the Bank of France by Article L 141-4 of the CMF” as mentioned above.

1.2 The role of the Bank of France

1.2.1 Oversight

Payment systems oversight forms an integral part of the Bank of France’s statutory tasks. It performs its duty of ensuring “the smooth operation and the security of payment systems within the framework of the tasks of the European System of Central Banks (ESCB) relating to the promotion of the smooth operation of payment systems” through the provision of settlement services, the definition of recommendations and supportive action aimed at facilitating private sector initiatives contributing to a safe and efficient functioning of payment systems.

Pursuant to Article L 141-4 of the CMF, the statutory competence of the Bank of France in the field of payment systems oversight also explicitly covers SSSs and CCPs.

³ Book VI of the Commercial Code.

There are four strands to the exercise of oversight: defining the principles or standards applying to systems; monitoring their implementation; overseeing the actual conditions of operation and use through assessments; and issuing recommendations to system operators asking them to remedy any malfunctions observed during the assessment. Consequently:

- The Bank of France participates actively in the definition of new international and European standards (CPSS/IOSCO working group, G20 central banks committee – Committee on Payment and Settlement Systems (CPSS) – and FSB and in cooperation with ESMA for the technical standards in its field of competence).
- The Bank of France regularly assesses the systems according to the standards in force and may also decide to carry out audits. In addition, the central bank periodically meets the managers of the systems in order to consider possible operational problems and to assess the envisaged evolutions;
- The Bank of France, in cooperation with other authorities, is consulted regarding system operators' planned strategies and any change in the operating rules. The Bank of France may oppose these strategies or changes if they do not comply with the standards and principles.
- In order to monitor the functioning of payment systems, the Bank of France has set up a statistical observatory, which among other things monitors the behaviour of participants in these systems. In case of operational problems in the systems, the Bank of France is immediately informed of the latest developments, and consulted with regard to the measures necessary to avoid any spillover effect.

1.2.2 Security of payment media

The legal framework of the Bank of France's oversight mission on the security of payment media has been significantly strengthened by law (Article L 141-4).

According to its statutory powers in security matters, the Bank of France is entitled to monitor the security level of the different payment media and to make recommendations. To fulfil its mission, the Bank of France considers that the security of payment media is based on the following three elements that are relevant for its oversight role:

- the soundness of the issuer, which faces risks that may threaten its stability and could lead to systemic effects while undermining public confidence in the means of payment;
- the stability of agreements between all the parties involved in payment relationships. These agreements are essential for the protection of users against several kinds of risks, such as financial losses, non-execution of the transaction on the agreed conditions and fraud; and
- the technical and organisational security dedicated to the protection of payment media against all types of threats. For each means of payment, the Bank of France analyses possible threats to its security, defines the minimum security objectives to which it must conform, and monitors that the resources implemented are adequate to meet those minimum objectives.

In addition, the law allows the Bank of France to conduct expert analyses and ask the issuer or any interested party for all relevant information concerning payment media and the associated terminals or technical facilities. If the Bank of France deems any means of payment to be insufficiently secure, it may recommend that the issuer take all necessary measures to remedy such insufficiency. If its recommendations are to no avail, it may, after

having solicited the observations of the issuer, publish a negative opinion about the issuer in the French Official Journal.⁴

As an example of its ongoing efforts to strengthen the security of means of payment, the Bank of France invited banks to improve the authentication of users of online banking payment services, which are gaining wide popularity. Moreover, banks were called upon to generalise the use of high-quality watermarks on bank cheques in order to improve their protection against counterfeiting.

Furthermore, the implementation of SEPA has involved setting up a harmonised Eurosystem oversight framework, which now covers the oversight of means of payment conducted by the Bank of France.

1.2.3 Prevention of fraud

The role of the Bank of France as a service provider in the field of payment instruments relates to its responsibilities regarding two national registers that help to ensure the security of card and cheque payments.

As part of the prevention system on cheque and payment card security defined in Articles L 131-85 to L 131-87 of the CMF, the Central Cheque Register (Fichier Central des Chèques – FCC) stores centralised information on cheque payment incidents and the resulting bank-imposed and court-ordered cheque-writing bans. Pursuant to an agreement, the FCC keeps a central record of bank card confiscations by institutions belonging to the Bank Card Consortium (Groupement Cartes Bancaires – GCB). Access to the FCC is restricted to credit institutions and payment institutions either prior to the issuing of a chequebook, or before granting a loan.

The above-mentioned provisions also state that anyone who receives a cheque in payment is entitled to obtain information from the Bank of France as to whether the cheque is regular. To provide this service, the Bank of France keeps a central record in the National Register of Irregular Cheques (Fichier National des Chèques Irréguliers – FNCI) of all incidents affecting the regularity of cheques drawn on a bank account. These may include loss or theft of chequebooks, account closures and details of all accounts held by individuals or firms that have been banned from writing cheques. As authorised by a Decree of the Minister of the Economy and Finance dated 24 July 1992, the Bank of France has delegated responsibility for implementing the procedures for consultation of the FNCI, especially by retailers, to a company called Mantis. This company provides a service allowing access to the Register operating under the name VERIFIANCE-FNCI.

Created in 2001 by law (CMF Article L 141-4 5th), the Observatory for Payment Card Security seeks to promote information sharing and consultation between all parties concerned by the smooth operation and security of card payment schemes. It brings together members of Parliament, consumers' and merchants' representatives, payment card issuers and public authorities. The secretariat of the Observatory is provided by the Bank of France.⁵ Among other things, the Observatory monitors the implementation of measures adopted by issuers and merchants to strengthen payment card security, compiles fraud statistics on the basis of

⁴ All laws voted by Parliament and decrees taken by the government or ministries must be published in the "Official Journal of the French Republic". Publication serves two purposes: (a) for a text to be known by everyone; (2) for a text to enter into force. Publication of laws and decrees is therefore required for their dispositions to have legal effect. Several other regulatory texts and decisions made by public authorities must be published in the French Official Journal if this is specified in the law.

⁵ Its president is appointed from among its members by the Minister for the Economy. Since 17 November 2003, Christian Noyer, the Governor of the Bank of France, has been President of the Observatory.

the relevant information disclosed by payment card issuers and maintains a technology watch in the payment card field. The Observatory draws up an activity report each year which is sent to the Minister for the Economy and communicated to Parliament.

1.2.4 Provision of services

The Bank of France operates the French component of TARGET2, TARGET2-Banque de France. In that respect, the Bank of France maintains the accounts of TARGET2-Banque de France participants as well as of ancillary systems connected to TARGET2-Banque de France, and manages the related conventions and databases.

The situation of accounts in central bank money of all participants and ancillary systems is monitored throughout the day to ensure that transfer orders are properly executed. Support is provided to both internal and external customers. Financial institutions and ancillary systems, as well as in-house back offices, are offered support, operational monitoring development, control and reporting services.

The Bank of France participates in and organises working groups and regular meetings with key institutions and infrastructure providers in order to improve customers' knowledge of TARGET2-Banque de France.

1.2.5 Cooperation with other authorities

The integration of financial markets and infrastructures in the securities field in the euro area has led the monitoring authorities of the countries concerned to implement joint supervision of these activities. Memoranda of understanding (MoUs) have been signed by several European authorities relating to the joint implementation of their respective responsibilities in terms of oversight, regulation and supervision.

The action of the authorities in charge of the oversight and regulation of LCH.Clearnet SA and LCH.Clearnet Group is coordinated under the existing cooperation framework. This framework is being completed by the conclusion of memoranda of cooperation between the relevant authorities.

An MoU has been signed between the Dutch, Belgian and Portuguese regulatory authorities and the French authorities in charge of the supervision of LCH.Clearnet SA for coordinated regulation, supervision and oversight of the clearing activities of LCH.Clearnet SA related to the Euronext markets. A committee has been set up for this purpose (Coordination Committee on Clearing (CCC)). The cooperation among these authorities is coordinated by a Permanent Secretariat currently held by the Bank of France.

An MoU has also been signed between the authorities in charge of the supervision of LCH.Clearnet SA – the Prudential Supervisory Authority (Autorité de Contrôle Prudentiel (ACP)) – and those in charge of the supervision of its sister company, the London-based clearing house LCH.Clearnet Ltd (the UK FSA and Bank of England), for exchange of information at the level of the Group. A committee has been set up for this purpose (Joint Regulatory Authorities (JRA)) as well. The cooperation among these authorities is coordinated by a Permanent Secretariat currently held by the Bank of France.

Concerning Euroclear Group, the relevant authorities of the central depositories that are subsidiaries of Euroclear SA/NV, the shareholder holding company of the central depositories of the group, have set up a cooperation framework to ensure the oversight of this company. This framework was formalised in an MoU signed in April 2005,⁶ according to

⁶ The signatory authorities of the April 2005 MoU are the Bank of France, the AMF, the Netherlands Bank, the Dutch Autoriteit Financiële Markten, the Bank of England, the UK Financial Services Authority, the National

which the Belgian authorities have the prime responsibility for the supervision and oversight of Euroclear SA/NV. The cooperation framework thus defined aims at ensuring a coordinated oversight and regulation of the services offered by Euroclear SA/NV to the different central depositories of the group to carry out their securities settlement activities. From a practical perspective, this cooperation framework relies on a Technical Committee and a High Level Committee that brings together representatives of the relevant oversight authorities (initially the Belgian, Dutch, French and UK authorities, and, since 2009, also the Finnish and Swedish authorities).

Following the launch of the new ESES Operating Model in September 2010, an MoU on cooperation concerning the supervision and oversight of the settlement operations performed by Euroclear France for Euroclear Belgium has been elaborated and approved between the National Bank of Belgium, Financial Services and Markets Authority (FSMA), the AMF and the Bank of France, and is currently being signed by these authorities. The cooperation aims to allow the Belgian authorities to continue to supervise compliance by EBE (ESES Belgium) with Belgian legal requirements.

The Continuous Linked Settlement (CLS) system provides settlement for foreign exchange trades in 17 currencies and is subject to coordinated oversight by the G10 central banks and the central banks that issue currencies settled in this system, including the Bank of France (under the primary responsibility of the US Federal Reserve). An MoU between the central banks participating in the oversight, the G10 central banks and the central banks that issue currencies eligible for CLS was adopted in 2008. The Bank of France is a party to this MoU, which organises the exchange of information and the joint oversight of CLS, under the primary responsibility of the US Federal Reserve System.

In addition, the Bank of France, along with the other G10 central banks, is involved in the cooperative oversight framework of the service provider SWIFT (under the primary responsibility of the National Bank of Belgium).

The Bank of France also takes part in the assessments of the compliance of French card payment systems with the oversight framework established by the Eurosystem and partners other Eurosystem national central banks to assess several international systems operating in France.

1.3 Role of other private and public sector bodies

1.3.1 Financial intermediaries authorised to provide payment services

Following the merger and consolidation process within the financial sector, there were 683 credit institutions conducting their business in France at the end of 2010,⁷ compared with 1,035 in 2001 and 1,608 in 1994. Of these, 206 were commercial banks licensed as all-purpose institutions to conduct a broad range of activities; 119 were cooperative banks, savings banks or municipal banks; 287 were finance companies (*sociétés financières*), which are not allowed to take deposits from the public for less than two years and the activities of which are restricted in accordance with their status; and three were specialised financial institutions (*Institutions Financières Spécialisées*) entrusted by law with a permanent public

Bank of Belgium and the Belgian Commission Bancaire, Financière et des Assurances (now FSMA), the last two having primary responsibility for the supervision and oversight of Euroclear SA/NV. The MoU was updated in 2009 and signed then also by Finansinspektionen (FI), Sveriges Riksbank, Finanssivalvonta / Finansinspektionen (FIN-FSA), and Suomen Pankki – Finlands Bank (the Bank of Finland). An updated version integrating the 2011 changes among Belgium regulators is currently being signed by the signatory authorities listed here.

⁷ Or 711 if the 28 branches of institutions incorporated in third countries are counted.

interest mission (and unable to engage in banking operations other than those pertaining to that mission). Finally, there were 68 branches of credit institutions incorporated in the European Economic Area (EEA), as well as 28 branches of credit institutions incorporated in third countries.

The Post Office Bank, licensed as a credit institution in 2005 and supervised since then by the ACP, has replaced the former Postal Cheque Centres.

The number of domestic branches of all credit institutions totalled 38,958 at the end of 2010 (including those of the Post Office Bank).

1.3.2 Representative bodies

Credit institutions and investment firms are collectively represented in their relations with the public authorities through a two-tier system:

- Institutions that are not members of banking networks must belong to a professional association, such as the French Banking Federation (Fédération Bancaire Française – FBF) for banks, the Finance Companies Association (Association des Sociétés Financières – ASF) for finance companies, the French Investment Firms Association (Association Française des Entreprises d'Investissement – AFEI) for investment firms, and the French Association of Payment and Electronic Money Institutions (Association française des établissements de paiement et de monnaie électronique – Afepame) recently created for payment institutions.
- The central bodies of the banking networks and professional associations mentioned above are affiliated to the French Association of Credit Institutions and Investment Firms (Association Française des Établissements de Crédit et des Entreprises d'Investissement – AFCEI), which represents all credit institutions, payment institutions and investment firms, provides information to its members and to the public, studies all issues of common interest and prepares relevant recommendations.

1.3.3 Regulatory and supervisory authorities

The advice of the Financial Legislative and Regulatory Consultative Committee (Comité Consultative de la Législation et de la Réglementation Financière – CCLRF) must be sought by the Minister for the Economy for any European legislation project related to insurance, banking, payment service providers or investment firms (except for the acts that refer to the AMF or are in the scope of its competence). The advice of the CCLRF must also be sought before any general regulation is made applicable in these fields, and must be followed.

The ACP, which is chaired by the Governor of the Bank of France, is responsible for supervising and licensing credit institutions, investment firms and payment institutions.

The AMF has responsibilities regarding regulated markets and the establishment and monitoring of compliance with rules related to the provision of investment services and to securities markets.

1.3.4 Other entities

The Financial Sector Consultative Committee (Comité Consultatif du Secteur Financier – CCSF) examines questions concerning the relations between credit institutions, payment institutions, investment firms and insurance companies on the one hand, and their respective customers on the other, and proposes appropriate measures, particularly in the form of opinions or recommendations of a general nature. The CCSF is consulted by the Minister for the Economy, by the ACP or bodies representing these customers and professional unions. Several entities have been established to study, discuss and coordinate the evolution of the

payment systems infrastructure, both in general and in banking terms, as well as in terms of technical change and standardisation.

The Banking Mediation Committee, chaired by the Governor of the Bank of France, is responsible for establishing the framework for mediators' activity, ensuring the mediators' independence, and reviewing their reports with a view to preparing an annual report on banking mediation submitted to the CCSF.

The French Committee for Banking Organisation and Standardisation (Comité Français d'Organisation et de Normalisation Bancaires – CFONB) is the French banking standard-setting body and a forum for studying the modernisation of banking organisation.

A number of economic interest groupings (Groupements d'Intérêts Économiques – GIE) are also active in the field of payment systems, in particular the SWIFT Users Group in France (Groupement des Utilisateurs SWIFT en France – GUF), and the Bank Card Consortium (Groupement Cartes Bancaires – GCB; see Section 2.2.1.4).

2. Payment media used by non-banks

2.1 Cash payments

Cash payments include transactions using euro banknotes and coins, which are accepted anywhere in the euro area. Although all euro notes in circulation are exactly the same, euro coins have a common side and a national side. Collector coins have also been issued in France, and are legal tender only in France.

No statistics are available on the amount of cash payments in France, nor is there any reliable recent survey. While non-cash payments represent the major part of payments by value, cash remains the most widely used payment instrument by volume. In 2009, the total value of banknotes withdrawn from ATMs, and thus used for cash payments, amounted to more than EUR 120 billion, ie 1.6% of GDP. As one note can be used repeatedly for payment, the real number and value of cash transactions are higher.

2.2 Non-cash payments

2.2.1 Non-cash payment instruments

2.2.1.1 Credit transfers

Credit transfers accounted for 17.5% of all cashless payment transactions in 2010. They are primarily used by companies, government agencies and local authorities, and rarely by individuals. Credit transfers are the fourth most used payment instrument in France after bank cards, direct debits and cheques. The average value of credit transfers executed for customers in 2010 was EUR 7,158. In comparison, they represented 17.5% of all cashless payment transactions in 2006 with an average value of EUR 6,770.

The interbank exchange of all credit transfers takes place in paperless form. They are predominantly processed through the retail payment system CORE (see Section 3.3.1) and, in the case of cross-border payments, STEP2 operated by the Euro Banking Association (EBA). Ordinary transfers are generally settled on the day of presentation, although banks have until the following day to process SEPA credit transfers (SCT). Credit transfers for payment on a due date (which remain rare) are presented two or three days in advance of interbank settlement.

The SCT was launched in France on 28 January 2008. Its take-off has been slow given the technical adjustments necessary for its implementation. In 2008, SCT represented only

0.34% of all credit transfers processed by payment systems, and 0.90% in 2009. As public administrations have gradually started to migrate towards the SCT, these numbers increased significantly over the course of 2010 and 2011. By July 2011, SCT accounted for 21.2% of all credit transfers processed by CORE.

Certain types of automated transfers meet specific needs. Credit Transfers from Abroad (Virement d'Origine Extérieure – VOE) enable banks established in France to send a transfer received from abroad via CORE to the payee's bank along with the information needed by the payee, such as the exchange rate applied and the commission charged. Initiated through a home banking service in settlement of an invoice, Referenced Credit Transfers (Virement Référencé – VR) allow banks to transmit the creditor's references along with the credit transfer.

2.2.1.2 *Direct debits*

Direct debit has been a very popular means of payment ever since its introduction in 1955. In 2010, over 3.4 million direct debits were exchanged, with an average transaction value of EUR 329. They accounted for 19.99% of all cashless payment transactions processed over the course of the year. In comparison, direct debits accounted for 18.32% of all cashless payment transactions in 2006 with an average value of EUR 358.

Direct debits are generally used for recurrent payments such as electricity, gas, telephone, insurance and water bills, and for monthly income tax. They are advantageous for banks (the processing cost being relatively low due to automation), utility companies (by simplifying their accounting administration) and individuals (by simplifying payment). Direct debits are processed through the same retail payment systems as credit transfers.

The SEPA direct debit was launched on 1 November 2010. To date, it represents a very small fraction of all direct debit transactions processed in France, although a number of important billers planned to migrate to this new instrument over the course of 2011.

Initiators of direct debits must be approved by a bank and obtain signed authorisation from the payer. With national legacy direct debits, this signed authorisation is sent to the payer's bank, whereas it is kept by the initiator in the case of a SEPA direct debit. Before transmitting the direct debit order to its bank for collection, the initiator must notify the payer of the amount and date of the debit (by sending an invoice, for example). This allows the latter to ensure that there are sufficient funds on his/her account or to contest the order if he/she so wishes.

2.2.1.3 *Cheques*

Cheques have traditionally been the most widely used payment instrument in France, being free of charge for the drawer and considered by customers as easy to use for both remote payments and face-to-face transactions. Approximately 3.1 billion cheques, with an average value of EUR 585, were processed by payment systems in 2010. This instrument has nevertheless experienced a steady decline in its relative share of cashless payments, losing its prominence in 2003. Whereas cheques still represented 25.62% of all cashless payment transactions in 2006, this number had fallen to 18.31% by 2010.

It is worth noting that cheques have followed the general trend towards the dematerialisation of payment instruments. Starting in 2001, French cheques have been truncated, with only 1.81% of cheques now circulating physically.

2.2.1.4 *Card payments*

Debit cards

Since 2003, bank cards have been the most popular payment instrument in France, representing 43.4% of all cashless transactions in 2010, for an average transaction value of EUR 49. In comparison, they accounted for 37.6% of all transactions in 2006. Debit cards

represent the vast majority of bank cards used in France. Thanks to a nationwide network of POS terminals and ATMs, they allow their holders to execute both payments and cash withdrawals.

Debit cards may be four-party cards, if the institutions that issue the cards are not the same as the ones acquiring the card transactions. In France, these interbank cards are mainly represented by the GCB and are very often co-branded with Visa or MasterCard, hence allowing cardholders to make payments abroad. Three-party cards where the same institution issues the cards and acquires the card transactions (eg American Express) also exist on the French market.

The Banking Service Network (e-RSB) is used for the transmission of authorisations for withdrawals and payments. This real-time network enables an ATM or a POS terminal to obtain authorisation from the bank which has issued the card, hence guaranteeing the payment for the beneficiary. Card transactions are predominantly cleared in CORE and settled in TARGET2.

The debit cards issued by credit institutions have to meet the technical and security standards set by the scheme owners. Cards are now systematically equipped with a microprocessor, resulting in an exceptionally low level of card fraud at the national level (with a rate of 0.014% for proximity payments and 0.019% for cash withdrawals).

Credit cards, travel and entertainment cards

Even though credit card issuers do not traditionally take deposits from their clients, French law forbids any organisation that is not a registered credit institution from issuing credit cards. In recent years, a growing number of deposit banks have started issuing credit cards in addition to debit cards. Today, the main issuers are BNP Paribas Personal Finance ("carte Aurore", 6.6 million cards in circulation in 2009), Finaref (5.5 million cards), Cofinoga (4.5 million cards), Accord (3.3 million cards), Sofinco (2.4 million cards) and Cofidis (1.9 million cards).

Retailer cards

Businesses are allowed to issue single-purpose cards on condition that these cards be used only to acquire goods or services on their premises. On the basis of a commercial agreement with the issuer, the use of single-purpose cards can be broadened to a limited network of service providers. There are a large number of such retailer cards in France as they are seen as an efficient way to build customer loyalty.

2.2.1.5 Other payment instruments

Bills of exchange and promissory notes represented 0.8% of all cashless payment transactions in 2006 and only 0.6% in 2010. Over the course of that year, 101 million payments were executed using one of these two instruments, for an average transaction value of EUR 3,707. This decrease in usage should continue in the near future as companies continue to change over to credit transfers.

2.2.2 Non-cash payment terminals

By the end of 2010, 56,243 ATMs had been installed nationwide. This represents a 5.3% increase from 2008. In addition, there were 1.29 million POS terminals in operation. ATMs and POS terminals are interoperable. The majority of ATMs may also serve as e-money terminals supporting Moneo cards for reloading.

2.2.3 Recent developments

2.2.3.1 Electronic money

The market for non-traditional means of payment has witnessed two major developments in recent years.

First, while the electronic purse has traditionally been based on solutions where the monetary value is stored on the device (as is the case with Moneo cards), an increasing number of products use cards only as a means of accessing prepaid accounts held centrally with the issuer. This market started with the growing practice of offering traditional paper-based products such as traveller's cheques or gift cheques in an electronic form. It took off in the most recent months due to the emergence of new distribution channels for anonymous prepaid cards, which consist mostly in proximity retailers.

That said, the former type of electronic purse has not lost its prominence: in 2010, Moneo cards accounted for over 41 million payments, with an average transaction value of EUR 2.22. The electronic money used by these traditional electronic purses is issued by the Société Financière du Porte-monnaie Électronique Interbancaire (SFPMEI, a credit institution specialised in issuing e-money), whose role is to collect and manage the funds received in the issuing process. The SFPMEI also defines the security requirements (technical and organisational) for the Moneo scheme and guarantees that the e-money it issues can be redeemed by all e-money holders.

The second major development in the market for non-traditional means of payments is the growing trend towards the use of new devices for executing payments, as shown by the increasing number of payments made via the internet and mobile phones. Even if no data are currently available, server-based solutions that enable internet transactions from a dedicated account held centrally with the issuer are becoming more and more popular, especially through the use of prepaid payment cards. The adoption of the revised E-Money Directive (Directive 2009/110/EC) should also favour the emergence of new electronic money-based solutions on the market.

2.2.3.2 Contactless payments

Payment solutions based on contactless technologies are beginning to enter the market: contactless cards are now in circulation and trials are being held for mobile phone payments. Société des Paiements Pass (S2P, now Carrefour Banque) has led the way in marketing contactless cards. In 2009, it issued 2.5 million Pass cards, which are accepted in Carrefour shops. Moneo has also been offering electronic purses in the form of contactless cards since 2006 and has 500,000 cards in circulation. Contactless payment cards by Visa and MasterCard (payWave and PayPass respectively) were launched on a trial basis in Caen and Strasbourg in September 2009, and entered into a pre-deployment phase in 2010 in Nice. To date, 1,000 compatible terminals and 3,000 mobile phones allowing for contactless communications have been deployed.

3. Payment systems

3.1 General overview

The current structure of the French payment systems (excluding SSSs) consists of one large-value payment system and one retail payment system:

- Large-value operations are processed in TARGET2. However, legally speaking, TARGET2 is not a single system, but a technical platform hosting several TARGET2 national components. The French component of TARGET2 is TARGET2-Banque de

France, which is a real-time gross settlement system (RTGS) where transactions are continuously settled in central bank money and on a gross basis.

Retail operations are processed in the French automated clearing house, namely CORE (COmpensation REtail). This is a deferred net settlement system where the balances resulting from a business day's operations are settled on a net basis through the accounts held by participants in TARGET2-Banque de France.

3.2 The French component of TARGET2: TARGET2-Banque de France

The French RTGS system, TARGET2-Banque de France, started operating in euros on 18 February 2008. The Bank of France manages the relationship with TARGET2-Banque de France participants, while the Single Shared Platform of TARGET2 (SSP) ensures the technical management of financial institutions' accounts open on the books of participating central banks (see the descriptive Red Book chapter on the euro area).

3.3 Retail payment systems

3.3.1 CORE (COmpensation REtail)

Designed by the company Systèmes Technologiques d'Echange et de Traitement (STET), a private operator owned by five major French banks, the system CORE was created in 2005 and operations began in January 2008. Migration from the former single French retail payment system, Système Interbancaire de Télécompensation (SIT), was completed in October 2008. All retail cashless payments are now exchanged electronically through CORE.

3.3.1.1 Institutional framework

Legally, CORE is a payment system under the French jurisdiction which currently serves only the French banking community.

Direct participants sign legally binding agreements detailing their financial and technical responsibilities. They sign three agreements with STET: a Payment System Agreement,⁸ a Service Contract⁹ and a Guarantee Agreement.¹⁰

The Customer Committee is the decision-making body for the system. Technical issues are dealt with by specific committees (Operational Committee, Technical Committee) and crisis committees can intervene for urgent financial problems, such as liquidity or solvency issues affecting a participant, threatening the completion of daily settlement operations.

3.3.1.2 Participation

CORE has a two-tier participation setup. All banks sending or receiving payments eligible for CORE must participate in the system as either direct or indirect participants:

⁸ The Payment System Agreement covers access criteria, obligations and liability of participants, irrevocability rules, clearing procedure, settlement procedures, financial safety mechanism, concentration risk rules, pricing list, confidentiality rules, suspension and termination, governing law and arbitration clause in case of litigation.

⁹ The Service Contract defines services supplied and technical processes executed by CORE as well as the commitments and obligations resulting for the contracting parties in two parts: one general and one specific to the direct participant.

¹⁰ The Guarantee Agreement defines the rights and obligations of each direct participant in the Financial Safety Mechanism, the role and obligations of STET as the operator of the mechanism and of the Bank of France as the custodian of the account in which the cash deposits are kept.

- Direct participants can send and receive payments for their own account or on behalf of indirect participants. The responsibilities of direct participants are both financial and technical and extend to the institutions they represent. There were 10 direct participants at the end of 2011.
- Indirect participants (389 at the end of 2011) send and receive payments via a direct participant.

Rules of access for direct participants and indirect participants rely on a set of statutory, financial and technical criteria and requirements, in accordance with the system rules and the legal framework.

3.3.1.3 *Types of transactions*

CORE was designed to cover all the payment instruments available to French banks, including SEPA instruments. Therefore it can handle a wide range of payment instruments including cards (POS and ATM transactions), credit transfers, direct debits, cheques, bills of exchange, bank drafts and non-financial messages.

The volume of card transactions represents more than 45% of the transactions processed by the CORE system. Cheques still represent a significant although decreasing share of payments in France and the processing of French cheques by CORE relies on the cheque imaging technologies following national exchange rules.

3.3.1.4 *Operation of the system and settlement procedures*

CORE offers a centralised IT architecture and the system is based on:

- modern middleware components, with established track record;
- systematic redundancy of all critical hardware and middleware components; and
- high capacity of transaction handling.

For contingency purposes it has:

- two data centres, with real-time replication of data, which enables a short synchronisation phase and a fast switch, should one of them be in default;
- two mirrored servers hosting tools in different locations that can be accessed by support staff through encrypted links;
- a separate location for STET service support staff in case of problems at the main data centre location; and
- tools to guarantee permanent and efficient client access, ie the STET encrypted network, SWIFT Net, and the STET secured extranet.

Direct participants can enter payment orders into the system on their own behalf or on behalf of their indirect participants at any time during working hours (00:00–22:10) and receive a time-stamped confirmation of entry. The system is in charge of all the automated processing required for receiving and sending operations and netting interbank payment orders exchanged between participants in euros. Participants can monitor the status of their debit and credit payments.

Every business day, CORE starts and closes a new payment cycle, which works in three steps. In the first step the system starts the exchange of payment orders between banks' IT centres and CORE's technical platform. The processing of operations in the system is organised around a central platform, to which direct participants connect via the system's dedicated servers. The second step includes the multilateral netting of orders in CORE between 14:00 and 15:00, and the third step is the settlement of net balances on settlement accounts held by the direct participants in TARGET2 at 15:05.

3.3.1.5 Risk management

By design, CORE is a deferred net settlement system with a single daily settlement, which implies that large exposures can build up until the end-of-day settlement. Payment finality of all the individual underlying payment instruments exchanged in the system is only reached when settlement of the net interbank obligations has occurred in central bank money, between the direct participants, in the RTGS system TARGET2. On particular days, single net debit positions for a participant can reach more than EUR 5 billion. Therefore, to manage the different risks, mitigation actions are implemented:

- legal protection through the status of notified system under the Settlement Finality Directive;
- financial rating for participants to access and continue participating in the system;
- recommendations to avoid risk concentration; and
- a Financial Safety Mechanism with a collective pool of cash collateral and individual prepayments, combining “survivors pay” and “defaulter pays” features.

3.3.1.6 Pricing

The pricing of the system is applied to direct participants. It combines fixed fees to participate (setup fees mostly) and variable fees depending on the volume/value of operations. The pricing policy was designed so as to balance the needs of the large participants with those of smaller participants. Pricing is supposed to achieve a cost recovery (investments + variable costs) objective.

3.3.1.7 Major ongoing and future projects

The system has not undergone any major changes since it started operations.

4. Systems for post-trade processing, clearing and securities settlement

4.1 General overview

Securities settlement in France is handled by Euroclear France. On 26 November 2007, ESES replaced RGV2 as Euroclear France’s securities settlement system. ESES France delivers prompt irrevocable gross settlement and simultaneous settlement of securities and funds transfers in central bank money.

CCP clearing in France is handled by LCH.Clearnet SA. A recent evolution was the launch on 29 March 2010 of a clearing solution on European indices on CDS, a segment for which the need for development of a clearing solution had been identified both at the G20 and at the ESCB level.

4.2 Post-trade processing systems

Not applicable.

4.3 Central counterparties and clearing systems

For a detailed description of the activity of LCH.Clearnet SA, please refer to the descriptive Red Book chapter on the euro area.

4.4 Securities settlement systems

For a detailed description of the activity of ESES France, please refer to the descriptive Red Book chapter on the euro area.

4.5 The use of the securities infrastructure by the Bank of France

4.5.1 The Bank of France as liquidity provider in the SSS

ESES France offers a DVP solution corresponding to “Model 1”, ie it ensures real-time gross settlement of securities (through mirror securities account) and cash (through central bank cash accounts) thus ensuring immediate settlement finality.

There is a real-time link with the TARGET2 payment system, which allows the participants to transfer liquidity between ESES and TARGET2 depending on their needs in each platform. The system offers an auto-collateralisation functionality, which implies the automatic setting-up of intraday credit in central bank money in order to ensure the smooth processing of transactions settlement. In other words, if, at some point, a participant does not have sufficient funds to settle a securities purchase but has on its securities account assets eligible as collateral with the central bank, the ESES platform can automatically deliver these eligible assets to the central bank in exchange for intraday credit. This credit will then enable the finalisation of the securities purchase.

The ESES platform ensures the settlement of the securities transactions’ cash legs in central bank money, according to a so-called integrated model whereby the cash flows relating to securities transactions are settled on the same platform as the securities. These cash flows are registered, under central bank mandate, on accounts opened directly on the settlement platform.

4.5.2 Monetary policy operations: marginal lending under the new 3G scheme

The 3G (Gestion globale des garanties) project went live on 18 February 2008 and provided the French banking community with a tool to manage all ESCB-eligible collateral including credit claims in a single pool of collateral. To obtain overnight liquidity from the Bank of France against this pool of collateral, institutions must fulfil the eligibility criteria to participate in monetary operations and must also hold an RTGS account at the Bank of France to input their marginal lending operations.

Marginal lending requests must be transmitted to the Bank of France before 18:15. If a participant has a debit balance on its RTGS account after a marginal lending facility request, automatic marginal lending will occur. RTGS accounts must always have a positive credit balance at the end of the day. The Bank of France is solely responsible for checking that the counterparty pool of collateral can cover the lending before confirming the operation.

Repayment of marginal lending occurs at the opening of the day at 07:00. The SSP inputs a connected payment unwinding the previous operation. Interest payment occurs on a separate account.