BPCE-FNCE Common response to the BCBS consultative document on the Guidelines “Corporate governance principles for banks”

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You may, below, find our comments on the "Guidelines for banking governance" issued by the Basel Committee in October 2014.

The French savings banks and cooperative banks share with all French banks the objective of improving corporate governance based on the considerations of the authorities, central banks and the Basel Committee.

Regarding the different governance approaches (see guidelines p.5)

The Basel Committee document makes no reference to the development model represented by cooperative banks. However, given the importance of cooperative banks in the banking sector, we believe that it is relevant to recognise the specific mode of governance of the cooperative model. Within this model, the member is both client and shareholder. They have the opportunity to become involved in the life of the company.

Savings banks are based on a dualistic governance model, with management functions on one hand and those of control on the other. Each of these functions is assigned to two separate bodies: the Executive Board, responsible for the management, and the Supervisory Board, responsible for monitoring the Executive Board’s management. Each of these bodies is collegial, which limits risk, particularly in management decisions. Moreover, it is impossible to participate in both organs simultaneously.

Principle 1: corporate culture and values (see guidelines p.7-8)

We agree that a fundamental element of good governance is to be based on ethical and responsible values. In fact, French savings banks subscribe to the 7 principles of the International Cooperative Alliance.

- First principle: Voluntary and Open Membership.
- Second Principle: Democratic Member Control.
- Third principle: Member Economic Participation.
- Fifth Principle: Education, Training and Information.
- Sixth Principle: Cooperation among Cooperatives.
- Seventh Principle: Concern for Community.
To assist the member of a Supervisory Board or of its Committees to fulfill its mandate in accordance with these values, French savings banks defined a set of principles and practices that have been brought together within a **code of ethics**.

Specifically regarding the French savings banks, any member of the Supervisory Board when taking office has to sign an act of commitment to respect the code of ethics which is based on the following key principles: to act in conformity with regulatory requirements governing the banking sector as well as with the cooperative principles.

French savings banks thus carry the founding principles of cooperative banks which are: transparency, solidarity, proximity, sustainability, responsibility, service and democracy.

**Principle 2: Composition and Competencies of the Supervisory Board.**

The Boards are composed of independent members (see guidelines p.11) 
The independence of cooperative administrators is enshrined in their election procedures. They are not, in fact, representatives of a particular shareholder or group of shareholders, to the extent that they have been democratically elected by their peers during their general assembly.

Because of the quality of members and their democratic designation mode, cooperative bank administrators are the representatives and the guarantors of the collective interests of members who are not only investors, but customers. This collective interest is the quality of customer service that is of a different nature from a purely financial interest.

Another feature of the French savings bank Supervisory Boards is based on the diversity of their members, from diverse socio-professional circles, who are representatives of local communities and employees.

The French savings banks’ Supervisory Boards are mainly composed of administrators representing members and are therefore representatives of diverse areas where savings banks are located.

Moreover, they live on the territory of their savings bank and are also engaged in professional activity, which allows them to keep a **strong link with the socio-economic fabric of the region** and with the cooperative shareholders that they represent and to listen to their expectations.

In addition, it is important to highlight that the Supervisory Boards of French savings banks includes not only shareholder representatives of the private or social economy sector, but also **representatives of cooperative shareholders local authorities**. This indicates another specificity of the governance of savings banks, which is bringing together different stakeholders on its board, and pledging a foundation in their territories.
Finally, within the Boards of each French savings bank, employees are represented twice: once by member employees, and once by all the employees.

**A Balanced representation of men and women on the Supervisory Board**
The French law of 27 January 2011 relating to "the balanced representation of women and men on the boards of directors and supervisory boards and professional equality" provides the establishment of a minimum proportion of persons of each gender in the corporate governance bodies. Therefore, the Supervisory Boards of the savings banks will be composed of a minimum of 40% women and of 40% men in 2017.

**Regarding the competences of members of the Supervisory Board (see guidelines p.11-12)**
The training of members of the Supervisory Board is obviously an essential component of an effective and balanced governance in cooperative companies.

On 26 July 2013, the French Parliament adopted a law of separation and regulation of banking activities which notably extended the powers of the French Prudential Control and Resolution Authority, especially vis-à-vis the members of the Supervisory Board and the Board of Directors.

In practice, for French savings banks - like any other credit institutions - a control mechanism of the reputation, experiences and competences of the members of the Supervisory Board of the French savings banks is now set up by the ACPR.

Thus, the "Banking Act" has confirmed the importance of the training of members of the Supervisory Board. The training system is organised by the French Federation of Savings Banks within its legal tasks.

The major topics of concern for the training of the French savings banks Supervisory Boards, whose mandates will be fully renewed in April 2015, will be:

- System of Governance (role and responsibility of the Supervisory Board, ...)
- Presentation of the French savings banks (history, markets, key figures, organisation, ...)
- Accounting and financial information (balance sheet, asset-liability management, accounting result, budget, ...)
- Strategic planning and its implementation (business and financial results, strategic project from 2014 to 2017, ...)
- Internal control and risk management, ethics (supervisory bodies, nature of risks and implementation of internal control, internal organisation plan, ...)
- Legal and regulatory requirements (Basel III, supervisory bodies, ...)
- Banking Markets and Financial Markets (Different financial markets, the role of financial markets ...)

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Principle 3 : Organisation of the Supervisory Board and evaluation of its members

Evaluation (see guidelines p.13)
Since 2011, the Supervisory Boards of French savings banks initiated a self-evaluation process. The aim is to assess the functioning of the Supervisory Board, to bring out the strengths, the areas for improvement and to derive action plans to improve the effectiveness of the boards in the performance of their missions.

This approach:
- Contributes to a more efficient functioning of the body (better understanding of the responsibilities, more efficient teamwork, better delimitation of tasks ...);
- Strengthens the relationship of trust within the company;
- Strengthens dialogue and transparency by allowing each member to express his point of view
- Can help to alleviate or anticipate problems.

The evaluation covers the following topics:
1. Composition and functioning of the Supervisory Board.
2. Quality and clarity of the documents submitted to the Supervisory Board.
3. Quality of the transmission of information in session.
4. Quality of deliberations and animation of meetings
5. Completion of the tasks entrusted to the Supervisory Board
6. Assessment of the commitment within the Supervisory Board
7. Deepening of work themes
8. Understanding of work themes
9. Quality of the work relationship between the Supervisory Board and the Management Board

Role of the Chairman (see guidelines p.13)
The Chairman of the Supervisory Board is a non-executive individual person, representing the cooperative shareholders.

Specific committees (see guidelines p.14-16)
Each specialised committee of the Supervisory Board has a specific regulation adopted by the Board which defines the composition and missions of the committee, its operating procedures as well as its investigation means.