

France/France

INTRODUCTION

General

<i>Capital/Other major cities:</i>	Paris/Marseille, Lyon, Lille, Nice, Toulouse, Bordeaux
<i>Area:</i>	547,030km ²
<i>Population:</i>	62.75m
<i>Language:</i>	French
<i>Currency:</i>	Euro (EUR)
<i>Country telephone code:</i>	33
<i>National holidays:</i>	
2007 -	1 Jan, 9 Apr, 1, 8, 17 May, 14 Jul, 15 Aug, 1, 11 Nov, 25 Dec.
<i>Business hours:</i>	09:00–18:00 (Mon-Fri)
<i>Banking hours:</i>	09:00–17:00 (Mon-Fri)
<i>Stock exchange:</i>	Euronext Paris
<i>Leading share index:</i>	CAC 40

Government

Legislature

- Presidential republic with a bicameral parliament.
 - National Assembly – 577 members directly elected via simple-majority voting for five-year terms.
 - Senate – 331 members elected for nine-year terms; one-third are indirectly elected every three years by an electoral college within each department.
- France is a highly centralised state, with the regions and the departments as second and third echelons respectively of the country's political structure.
- The president is elected directly every five years.
- France is a founder member of the European Union.

Head of state

- Jacques Chirac, president since 17 May 1995.

Political leader

- Dominique de Villepin, PM since 31 May 2005.
- Head of a centre-right coalition government.

Economy

	2000	2001	2002	2003	2004	2005		2006		
						Q4	YEAR	Q1	Q2	Q3
Exchange rate* (EUR†/USD)	1.0854	1.1175	1.0626	0.8860	0.8054	0.8415	0.8041	0.8320	0.7962	0.7849
Interest rate* (lending rate**) (%)	6.70	6.98	6.60	3.77	3.69	4.04	3.89	4.13	4.18	4.37
Consumer inflation*** (%)	+1.7	+ 1.7	+ 1.9	+ 2.4	+ 2.3	+ 1.8	+ 1.7	+ 0.9	+ 1.6	+ 1.5
Unemployment (%)	10.0	8.8	8.9	8.9	9.2	9.6	9.1	NA	NA	NA
GDP volume growth*** (%)	+ 4.1	+ 1.9	+ 1.0	+ 1.1	+ 2.3	+ 1.0	+ 1.2	+ 1.4	+ 2.6	NA
GDP (EURbn)	1,441	1,497	1,549	1,595	1,659	-	1,710	-	-	-
GDP (USDbn)	1,328	1,340	1,457	1,800	2,060	-	2,127	-	-	-
GDP per capita (USD)	22,402	22,513	24,387	29,995	34,183	-	35,150	-	-	-
BoP (goods/services/income) as % GDP	2.4	3.2	1.7	1.7	0.7	-	- 0.3	-	-	-

* Period average. † FRF until 1999, EUR since 1999 at FRF6.55957 per EUR.

** General lending rate up to 2002, corporations (stocks up to two years) thereafter.

*** Year on year.

2006.

Source: *International Financial Statistics*, IMF December

Sectoral distribution of GDP (% of GDP)

- Agriculture 2.2%
- Industry 20.6%
- Services 77.2% (2006 estimate)

COUNTRY CREDIT RATING

Fitch Ratings rates France's issuer credit as:-

Term	Local Currency Rating	Foreign Currency Rating
Short	-	F1 +
Long	AAA	AAA
Long term rating alert	Outlook Stable	

Source: www.fitchratings.com January 2007

LEGAL AND REGULATORY

Central bank

- The Banque de France exercises its functions independently of the state. This independence was guaranteed by the Act of 4 August 1993. The Banque de France currently operates in accordance with the 2001 Monetary and Financial Code and its amendments. The Banque de France forms an integral part of the European System of Central Banks (ESCB) as provided for by Article 8 of the European Union Treaty of Maastricht.

Bank supervision

- The CECEI (*Comité des Etablissements de Crédit et des Entreprises d'Investissement*) grants licences to the banks and investment firms.
- The Minister for the Economy is directly responsible for the regulation of the banking and insurance sectors after consultation with the CCLRF (*Comité consultatif de la législation et de la réglementation financières*). Set up in August 2003, following the introduction of financial security Law No. 2003-706, to reorganise the regulation of banking and insurance, the CCLRF is mandated to opine on any proposed proscriptive texts relative to banking, finance and insurance (laws, orders, decrees, and decisions, as well as any European regulations and directives) before they are adopted and become definitive.
- The CB (*Commission bancaire*) is the supervisory body for credit institutions. All banks operating in France are regulated on an equal basis.

Resident/Non-resident status

- It is generally considered that a resident company has its place of effective management located in France.

Bank accounts

- Foreign currency accounts can be held by residents both domestically and abroad, and accounts in domestic currency (EUR) are convertible into foreign currency.
- Non-resident bank accounts are permitted in France, denominated in either domestic or foreign currency.
- Banks are now free to decide to pay interest on resident current accounts. This follows the publication of a decree in the Journal Officiel on 16 March 2005 which cancelled all former texts prohibiting the payment of interest on domestic currency deposits with a maturity of less than one month and on current accounts.

Reporting

Reporting regulations

- Reporting regulations require all transactions between residents and non-residents to be reported on a monthly basis to the Banque de France if they exceed EUR 12,500.
- The same reporting regulations apply to a zero-balanced cash pool between residents and non-residents.
- Around 530 partial direct reporting companies must report all payments on their accounts abroad directly to the Banque de France on a monthly basis when the total amount of these payments exceeds the equivalent of EUR 1 million per month. These payments have to be reported within 25 days of the end of the month.

Reporting method

- Banks usually undertake the reporting of transactions between resident and non-residents on behalf of their corporate clients and transactions have to be reported within ten days of the end of the month. Ultimately, the accuracy of all reported information is the resident's responsibility.
- However, around 480 full direct reporting companies (whose total annual amount of transactions with non-residents exceeds EUR 30 million) report, on a monthly basis, all their cross-border transactions directly to the Banque de France. These payments have to be reported within 25 days of the end of the month.

Anti-money laundering / Counter-terrorist financing*

- France has implemented the relevant EU anti-money laundering directives ('Act No 90-614' of 1990, as supplemented by several legislative instruments, most recently 'Act No. 2004-130' of 2004 and 'Act No. 2004-204 of 2004'). Further legislation is pending.
- As a Financial Action Task Force (FATF) member, France observes most of the FATF-49 standards. It is also a member of the Caribbean Financial Action Task Force (CFATF) as a Co-operating and Supporting Nation.

- France has established a financial intelligence unit (FIU), the unit for Treatment of Intelligence and Action Against Clandestine Financial Networks Unit (TRACFIN), which is a member of The Egmont Group.
- Financial institutions are required to record and report suspicious transactions to TRACFIN.
- A report must be filed with TRACFIN when the identity of the principal or beneficiary remains doubtful despite due diligence. A report must also be filed where transactions are carried out on behalf of a third party by financial entity acting in the form, or on behalf, of a trust or an asset management instrument when legal or beneficial owners are not known.
- Reporting requirements have also been extended to casinos and traders in precious stones and metals, antiquities and works of art.
- Account opening procedures require formal identification. Individuals require an official document bearing a photograph of the account holder.
- Legal entities must be verified by extracts from an official commercial register.
- Where the transaction is performed on behalf of a third party, their identity must be ascertained unless the third party is a financial institution itself.
- All banks, credit and financial institutions have to identify 'occasional' clients for transactions exceeding EUR 8,000 or rental of a safe deposit box; they must also monitor clients for transactions over EUR 150,000 which have unusually complex conditions and no apparent economic justification.
- There is no legal requirement for financial institutions to include originator information in either payment or message forms accompanying wire transfers. However, the rules of the Centrale des Règlements Interbancaires and conduct standards issued by the Association Française des Banques require banks to include certain originator data (such as name, address, and identifying code of the originator where the originator is a business entity)
- Records must be kept for a period of at least five years.

*Supplied by BCL Burton & Copeland (www.burtoncopeland.co.uk for background explanatory article). Data as at May 2006.

Exchange controls

- Restrictions on capital transactions do not apply in France.
- France participates fully in EMU.
- On 17 February 2002, the euro (EUR) replaced the French franc (FRF) as sole legal tender with a conversion rate of FRF 6.55957:EUR 1.

TAXATION

Resident/Non-resident

- There is no statutory definition of company residence in French law and instead a company is generally considered resident in France if its effective management is located in France.

Tax year

- The tax year is in principle the accounting year of the company, which need not correspond to the calendar year. An annual return must be filed within three months of the end of the accounting year.

Corporate taxation

- France imposes corporate income taxation (CIT) at a standard rate of 33.3%, together with a social contribution tax of 3.3% on the amount of the CIT in excess of EUR 763,000. This surcharge increases the effective level of corporate income tax to approximately 34.43%. Under certain conditions, companies with a gross income of less than EUR 7.63 million (provided that 75% of their equity is held by individuals or companies also qualifying for the benefit of the reduced rate) may benefit from a reduced rate of 15% for profits up to EUR 38,120 and be exempted from the social contribution.
- Companies are taxed only on profits arising through a business entity operating in France and are subject to additional levies, including a local business tax and payroll taxes.
- Resident companies are taxed on any domestic or foreign 'passive investment income' not derived from a foreign permanent establishment. Such foreign passive investment income includes royalties, interest and dividends (unless the dividends are received under a participation exemption, in which case only 5% of the dividends are taxable).

Advance tax ruling availability

- Advance tax rulings are compulsory for the transfer of tax losses carried forward in certain circumstances.
- Advance tax rulings are compulsory for the benefit of the deferral of corporate income taxation in the case of certain reorganisations.
- It is possible for a company resident in a country that has concluded a tax treaty with France to request a ruling from the French tax authorities on whether it is carrying on its activities through a permanent establishment in France.
- Advance procedure agreements are also available in respect of transfer pricing matters.

Thin capitalisation

- Thin capitalisation rules apply to restrict interest paid to a foreign majority shareholder where the debt/equity ratio exceeds 1.5:1. A maximum rate applies to interest paid to all shareholders (4.21% for the calendar year 2005). Restrictions on interest paid to shareholders also apply when the share capital is not fully paid-up. Such excess interest is non-deductible and treated as a dividend.
- From 2007, thin capitalisation rules will apply to interest paid to related parties (controlled directly or indirectly by common shareholders) if it simultaneously exceeds all of the three following thresholds:
 - A related party debt-to-equity ratio of 1.5:1 (replacing the current debt-to-share capital ratio);
 - 25% of adjusted current profits (i.e. pre-tax operating and financial profits, increased by items such as intragroup interest and depreciation) for the year; and
 - Interest income received from related parties (if the company uses the funds to finance other affiliated companies).
- Excess interest as a result of the new limitation will no longer be treated as a deemed dividend.
- The maximum interest rate will remain applicable to direct shareholders who do not fall in the scope of the new thin capitalisation rules.

Transfer pricing

- France has anti-avoidance legislation that can adjust profits if inter-company transactions are not carried out at an arm's length price. The French transfer pricing rules operate by reference to arm's length principles and follow the OECD transfer pricing guidelines.

Capital gains tax

- Taxable gains are calculated by deducting the net book value of an asset from the sale proceeds, and are included in operating profits and taxed at the normal corporate tax rate.

- A reduced rate of 15% (plus surcharge) applies under certain conditions on controlling interests (securities held for long-term purposes, as opposed to investment securities) held for at least two years and where income is derived from patents.
- Moreover, capital gains on controlling interests as classified as such for accounting purposes are subject to a reduced rate of 8%. From 2007, up to 95% of the amount of these gains will be exempt from corporate income tax. The 5% portion would be subject to the standard CIT rate.

Stamp duty

- No stamp duty is levied on loan agreements.

Withholding tax (subject to tax treaties)

Payments to:	Interest	Dividends	Royalties	Other income
Resident companies	N/A	N/A	N/A	N/A
Non-resident companies	16%	25%	33.33%	N/A

- Withholding tax applies to interest, dividends, royalties and payments to non-resident companies for services rendered in France.
- Prima facie, interest paid by a French entity on foreign loans will be subject to withholding tax, typically at a rate of 16% (although in theory this can vary up to a rate of 60%). The rate can be reduced, in some cases to zero, under an appropriate double tax treaty. There is also an exemption from withholding tax for interest on loans entered into outside France by a French legal entity, subject to satisfying certain conditions. This exemption also applies to French branches of foreign companies where the head office of the branch is established in an EU Member State or a State party to a French tax treaty with a non-discrimination clause regarding permanent establishments. Moreover, interest paid to a company located in another EU Member is exempt from withholding tax provided that, among other conditions, both companies are within the categories listed in the Annex to the Directive and one of the company holds directly at least 25% of the other company's shares or both are 25% directly held by the same shareholder.
- Dividends paid to non-residents are subject to a withholding tax at a rate of 25% unless a reduced treaty rate applies or the recipient is a company located in another EU Member State. In the latter case, no withholding tax is due provided that, among other conditions, both companies are within the categories listed in the Annex to the Directive and the recipient holds at least 20% of the distributing company's shares for at least two years. The minimum participation requirement will be reduced to 15% in 2007 and to 10% in 2009.
- A withholding tax of 33.33% is levied on royalty payments to non-residents unless a reduced treaty rate applies. There is an exemption from withholding tax for royalties paid to a company located in another EU member under the same conditions as the exemption for interest paid to an EU company.

Tax treaties

- France has a large tax treaties network. Tax treaties signed with France are primarily based on the OECD model.

Sales taxes/VAT (incl. financial services)

- The general rate of VAT is 19.6%. Reduced rates of 5.5% (on essential goods and certain publications) and 2.1% (on certain medicines, newspapers and theatrical events) also exist.

Payroll and social security taxes

- Employers must pay social security tax and a number of other premiums and levies. These contributions are deductible for corporate income tax purposes. The rates vary depending on the contribution involved, the level of the employee's wages and the type of industry in which the company is involved. On average total social contributions amount to around 35 to 45% of the employee's gross salary (i.e. salary before deduction of the employee's social security contributions).

All tax information supplied by Deloitte & Touche (www.deloitte.com). Data as at 1 May 2006.

BANKING

Major banks

Bank	Total assets (USDm)
	31 Dec. 2005
BNP Paribas	1,483,934
Crédit Agricole	1,251,997
Société Générale	1,000,728
Caisse Nationale des Caisses d'Epargne (CNCE)	700,793
Calyon (Crédit Agricole)	567,724
Crédit Mutuel	352,516
Caisse des Dépôts et des Consignations	254,075
Crédit Industriel et Commercial	230,992
Natexis Banques Populaires	198,300
HSBC France	136,637

Source: www.bankersalmanac.com

Overview

- There are around 234 commercial banks in France, with over 10,000 branches between them.
- In addition, there are numerous (around 139) savings, co-operative and rural banks.
- The financial arm of the French postal services also provides a wide range of retail services.
- There were over 160 foreign banks, including all the international cash management banks, in Paris at the end of 2005.
- France's banking sector has experienced some consolidation in recent times, most notably the merger of Banque Nationale de Paris (BNP) and Paribas, and the friendly takeover of Crédit Lyonnais by Crédit Agricole, which created one of the world's largest institutions.
- In 2004, France's savings banking group, Caisses d'Epargne, and the state-owned Caisse des Dépôts et des Consignations (CDC) merged to form Caisse Nationale des Caisses d'Epargne (CNCE). CDC was the strategic shareholder with 65%.
- However, in May this year, CDC sold its stake in Caisse d'Epargne which merged its corporate investment bank Ixis with Banque Populaire's corporate investment bank Natexis to form NatIxis.
- Several foreign banks have acquired substantial footholds in the French market. HSBC, ABN AMRO, Citigroup, Deutsche, ING, Fortis, Intesa BCI and San Paolo IMI are the most prominent.

PAYMENT INSTRUMENTS

Payment statistics

	Millions of			Traffic		
	transactions		% change	(EUR billion)		% change
	2004	2005	2005/2004	2004	2005	2005/2004
Cheques	4,133.8	3,916.3	-5.3	2,084.2	2,175.7	4.4
Card payments	4,650.0	5,243.8	12.8	219.6	260.2	18.5
Credit transfers	2,599.2	2,408.4*	-7.3	107,554.3	13,462.3*	-87.4
Direct debits	2,542.7	2,512.8	-1.2	782.5	906.7	15.9
Card-based e-money	16.1	17.0	6.4	0.05	0.04	-20.0
Total	14,071.0	14,279.6	1.5	111,150.4	17,280.1	-84.5

* Bank clients' transactions only.

Source: ECB Blue Book *statistical update*, December 2006.

Credit transfers

- Credit transfers are the most popular method of payment for wages, pensions and social security benefits. In addition, credit transfers are increasingly used to pay suppliers and taxes.
- Electronic credit transfer types include:
 - *virement de gros montant* (VGM) – high-value/urgent payment made through TBF (an RTGS system) and PNS (a real-time net settlement system);
 - *virement d'origine extérieure* (VOE) – a credit transfer issued by a bank located outside France to a bank located in France. The latter is responsible for transmitting all information in its possession; particularly on the currency conversion effected and charges thereon, to the beneficiary's bank, via SIT;
 - *virement échange de données informatiques* (VEDI) – electronic credit transfer using EDIFACT format;
 - *virement référencé* (VR) – credit transfer for which the payer's banker guarantees that the particulars contained in the labelled zones are correct and that it is transmitted only to creditors registered as being concerned by the service thus rendered.
 - *virement spécifique orienté trésorerie* (VSOT) – a special inter-bank transfer for treasury management operations;
 - *virement commercial* (VCOM) – irrevocable deferred electronic payment order (for settlement within a period of up to 120 days of issuance), accompanied with commercial data (invoice details) which the remitters bank forwards to the beneficiary when issued; there are two types:
 - *finançable* (discountable), and
 - *non finançable* (non-discountable).
 In the former case, creditors can obtain immediate value (less interest charges) by discounting the payment with the bank on which the transfer is issued.

Direct debits

- Direct debit (*avis de prélèvement automatique*) is a preauthorised debit on the payer's bank account initiated by the payee. The advice is sent by the debtor's financial institution for the automated transfer of funds from the debtor's account to the creditor's account at the initiative of the creditor and based on the debtor's authorisation. The authorisation seldom indicates the amount to be debited or the dates on which the debtors account will be debited.

Cheques

- Until recently, cheques were the dominant cashless payment instrument in terms of both volume and value. However, the use of cheques in France has been declining in favour of card payments, direct debits and credit transfers.
- Cheque usage is now mainly retail.
- Virtually all cheques are truncated in France with the exception of so-called 'circular' cheques (cheques above EUR 5,000 and cheques that cannot be truncated due to formal irregularities).

Card payments

- The bank card is now the most commonly used cashless payment instrument in France.
- The electronic purse scheme, Moneo, has been integrated into France's payment cards. The Bank Card Consortium (*Groupement des Cartes Bancaires CB*) intends to replace all existing cards with a new smart card (including an e-purse functionality) based on the international EMV

standard and to ensure all ATMs and POS terminals are EMV-compliant by mid-2007. EMV standard smart cards currently account for nearly all bank cards issued.

- The issuance and acceptance of CB bank cards is organised and supervised by the Bank Card Consortium, which accounts for around 148 banks and finance institutions, 11 of which take part in the Board of Directors and represent the other 137 financial institutions.

Other payments

- A TEP (*titre électronique de paiement*) is an electronic payment order that allows remote payment for goods and services via data links or telephone. This is designed as an alternative for customers reluctant to use direct debits owing to the tacit agreement to the amount debited that they imply. The creditor must receive the customer's agreement before issuing the TEP. In terms of interbank processing, the TEP works as a direct debit order (*avis de prélèvement*). Settlement takes four banking days on average.
- A TIP (*titre interbancaire de paiement*) is a pre-formatted interbank payment order that allows remote payments. The creditor is able to retain the initiative in recovering claims and the payer is able to agree explicitly to each separate payment. When each debt falls due (or has fallen due), the creditor sends to the customer an bill or notice of installment due, with an attached TIP, which the payer is required to sign, date and return within the time limit stipulated by the creditor. They are widely used for regular payments such as utility payments and tax instalments.
- An LCR (*lettre de change relevé*) is an electronic commercial trade bill, the functionality of which resembles that of a future-dated cheque. It represents an order from one party (the drawer) to another (the drawee) to pay a specified sum on demand or on a specified date to the drawer or to a third party specified by the drawer. Widely used to finance trade and, when discounted with a financial institution, to obtain credit.
- A BOR (*billet à ordre relevé*) is an electronically processed promissory note.
- In theory, LCRs are issued by the creditor for acceptance by the debtor, while BORs are debtor-initiated instruments. However, in practice, the majority of LCRs are issued by the debtor who accepts and sends the LCR to the creditor. Both instruments are truncated when cleared, and customers are notified about the value of the payment four days in advance through the use of an electronic or paper-based advice (*relevé*).

PAYMENT SYSTEMS

Type

- Managed by the automated interbank settlement centre (*Centrale des Règlements Interbancaires - CRI*), TBF (*Transferts Banque de France*) is the national TARGET-linked RTGS system.
- PNS (Paris Net Settlement) is an electronic high-value real-time net settlement (RTNS) system. Managed by the CRI, PNS shares a common platform with the TBF.
- SIT (*Système Interbancaire de Télécompensation*) is an interbank teleclearing system. Managed by the GSIT (*Groupement pour un Système Interbancaire de Télécompensation / French Interbank Clearing Consortium*).

Participants

- TBF has approximately 130 direct participants and 29 indirect participants.
- PNS has around 16 direct and 33 indirect participants.
- SIT has approximately 13 direct participants, including the Banque de France, and 591 indirect participants.

Transaction types processed

- TBF settles all large-value transactions including those originating from France's other clearing systems.
- PNS clears EUR-denominated inter-bank transactions across Banque de France accounts opened in participants' names.
- SIT processes all low-value transactions equal to and below EUR 800,000, including electronic transfers, TIPS, LCRs, direct debits, credit card payments and withdrawals, as well as the bulk of all cheque payments which have been truncated and cleared by SIT since the dematerialisation of the cheque in 2002 with EIC.

Operating hours

- TBF's operating hours and time schedule reflect those of TARGET (i.e. 07:00–18:00 CET for customer payments, plus an extra hour for interbank payments).
- PNS operates between 08:00 and 16:00 CET.
- SIT is open 24 hours a day, Monday to Saturday.

Clearing cycle details

TBF

- Although TBF's opening hours and cut-off times reflect those of TARGET, in practice, banks often impose earlier cut-off times on their customers, particularly for smaller amounts.
- TBF is an RTGS system; the settlement of payments occurs in real time, transaction by transaction, without netting.
- In TBF the payments are settled in central bank money, across specialised settlement accounts, *Comptes Centraux de Règlement (CCR)* and are irrevocable and unconditional in real time for both cross-border and domestic high-value payments in EUR.
- Payments are cleared on a same-day basis via SWIFT, which interfaces with the CRI (Centre for Interbank Funds Transfers) technical platform. The CRI transmits a stripped down version of the SWIFT message to the TBF for settlement. Having received confirmation by the TBF that it has been able to execute the transfer between the banks' central bank accounts, the CRI notifies SWIFT to rebuild the message and forward it to the beneficiary bank.

PNS

- PNS is a real-time net settlement (RTNS) system, using central bank money, with real-time execution and immediate finality for both cross-border and domestic high-value payments in EUR.
- PNS results in the synchronization of the two-way flows of payments which is achieved by setting bilateral transfer limits fixed by the sender. Each bank defines for each of its counterpart the maximum net debit position that it is ready to accept on a bilateral basis.
- As TBF and PNS are linked by a common CRI platform, liquidity can be transferred between the two systems.

SIT

- SIT is a multilateral clearing system which provides direct, bilateral links between participants.
- The SIT allows for a continuous exchange of payment orders directly between direct participants computer centres. The exchange between the direct participants is bilateral. Each participant has one or several access points to the system. The SIT system is open for exchange six days a week.

- The SIT ensures the multilateral clearing of exchanges and routing of operations to the different participants in the system.
- The cut-off time for same-day settlement (credit transfers and credit card payments) is 13:30 CET.

Cheque clearing via SIT

- The bulk of all cheque payments are truncated and processed by SIT via image technology or EIC (*échange d'images cheques*).
- Since the migration cheque clearing to image took place at the end of 2001 (in order to coincide with the introduction of the EUR as legal tender on 1 January 2002), all bank institutions in France, Monaco and overseas territories must now submit and receive cheque payments by image technology.
- However, cheques exceeding EUR 5,000 or irregular cheques are still required to be transferred physically to the drawn banks.
- These 'circular' cheques (*cheques circulaires*) are exchanged electronically; with the physical cheque exchange coordinated by the new Paris-based *Centre d'Échanges physiques de Cheques* (CEPC).

CASH MANAGEMENT

Domestic

Notional pooling

- The legal status of notional pooling is uncertain. The principal problem stems from difficulty under French law to establish the legal validity of the cross guarantees within the framework of a multi-company pooling structure, in order to enable the bank providing the service to be able to get legal right of set-off in the case of bankruptcy. This creates an additional problem for the bank, since without the cross guarantees, it will be unable to net off balances within the notional pooling structure for reporting of regulatory capital purposes.
- Banks offer zero-balancing solutions with mirrored accounts as a substitute.

Cash concentration

- All the major international and domestic cash management banks offer cash concentration techniques.
- Cash concentration arrangements are allowed under the following circumstances:
 - The participating companies in the pool must be controlled by one of the participants.
 - The agreement must respect the corporate interest of each participant.
 - The operations must be at arm's length.
 - All participants need to sign a treasury agreement detailing the extent and the conditions under which cash pooling can take place.
 - The agreement and cash pool structure must be authorised by a special deliberation of the board (*Conseil d'Administration*).
 - In addition, it is recommended that the agreement is submitted to the relevant auditors before presenting it to the board.

Cross-border

- The same restrictions apply to cross-border sweeps as those set for domestic cash concentration.
- Cross-border merging of interest statements is not permitted.
- The removal in March 2005 of the restriction regarding interest-bearing resident accounts, has also resulted in removing the obstacles in setting up pooling arrangements between resident and non-resident companies.

Lifting fees

- Funds transfers between resident and non-resident accounts are usually subject to lifting fees.
- However, these are gradually being replaced by itemised charges.

Central Treasury Units

- The Central Treasury Unit is unique to France and benefits from a special fiscal status, which not only allows its participants to avoid withholding taxes on interest paid to a non-resident sister or parent company but also to dispense with the interest deductibility ceiling:
 1. **Elimination of withholding taxes** on interest earned on balances in current accounts which are part of a company's treasury management operation. This means that current account interest paid by a French-registered treasury management subsidiary to a foreign sister company or to the parent company is not taxable.
 2. **Elimination of the interest deductibility ceilings** which set a limit on tax deductible interest that could be paid by a subsidiary to its parent company. Intra-company financing, for example, will generate interest expenses which are fully tax-deductible, without limitation.
- There are five conditions which treasury operations must meet in order to benefit from this special tax status
 1. Treasury operations (borrowings and loans) are to involve companies controlled directly or indirectly, pursuant to the stipulations of the French Banking Act of 1984;
 2. The group to which the companies belong must be defined as a multinational corporation, with registered operations in at least three different countries (not limited to Europe alone);
 3. Fiscally, the operations are to be of a normal managerial nature, and be the object of a treasury management agreement signed by all of the group companies involved;
 4. Movements of funds are to be recorded in specific accounts in order to be traceable with precision in each company concerned;
 5. Transactions are to be the object of an annual declaration to the fiscal authorities (indicating the identities of the beneficiaries, the nature of the revenues, and the details of taxable amounts).

Short-term investments

- Banks pay interest on deposit accounts in accordance with competitive rates offered in fellow eurozone countries. Since 16 March 2005, it has also been possible for interest to be earned on current accounts.
- Time deposits can be offered with maturities ranging from overnight to medium-term (maturities over two years are rare). Interest can only be paid on time deposits with maturities of at least one month.
- Certificates of deposit (CDs) usually have maturities of three to six months. CDs can have fixed or variable interest rates.
- Offered by companies and public authorities, commercial paper (billet de trésorie – BT) is popular among commercial banks (70% of investors in commercial paper are banks). Most outstanding BTs are held in OPCVMs (Organismes de Placement Collectif en Valeurs Mobilières). Commercial paper has a minimum maturity of one day and a maximum maturity of one year. The majority of BTs have a one-month maturity and a value of EUR 30 million. France's leading banks act as dealers in commercial paper programmes. Issuers rarely distribute commercial paper directly.
- OPCVMs are mutual investment funds into which residents can transfer excess funds. OPCVMs are a popular and flexible method of short-term investment. OPCVMs are used to invest in money, bonds or equities.
- Treasury bills (bons du Trésor) are regularly issued to commercial banks and funds by the Agency France Trésor. Discounted T-bills (bonds du Trésor à taux fixe – BTFs) have maturities of below one year.
- France has the busiest repo market in the eurozone. Repos usually have maturities ranging from one day to one week.

ELECTRONIC BANKING

- All banks offer electronic banking in France, although the products are usually provided by software houses rather than banks.
- The majority of banks offer ETEBAC (*Echanges télématiques entre les Banques et leurs Clients*) products alongside their own proprietary systems.
- ETEBAC standards are a common set of security and technical standards used by electronic banking systems, covering over 20 types of data exchange.
- The latest protocol ETEBAC 5 can transmit a wide variety of formats, including EDIFACT and XML formats.
- The majority of systems available allow corporate users to manage their bank accounts and payment transactions. The services on offer generally include intra-day reporting, transaction initiation services and end-of-day sweeping arrangements, on both a domestic and international scale.
- Internet banking is offered by all the major banks, both on a domestic and international scale, but, for the moment, remains mainly retail-orientated. However, ASP software for electronic banking via the internet, previously only offered by independent software houses, is being integrated into many banks' proprietary packages.

Security & certification

- In October 2004, the CFONB (French Banking Organisation and Standardisation Committee / *Comité Français d'Organisation et de Normalisation Bancaires*) agreed to adopt the PRSI (*Politique de Référencement Intersectorielle de Sécurité*), developed by the French administration, after consultation with the major players in the market, as the common rule for electronic certificates in the banking sector.
- For corporate customers of the banks, the adoption of the PRSI facilitates the acceptance of certificates provided by the banks for access to banking services as well as to the whole of electronic procedures currently available or envisaged by the administrative services.

TRADE FINANCE

Trading partners

Import

- Germany 18.9%, Belgium 10.7%, Italy 8.2%, Spain 7%, Netherlands 6.5%, UK 5.9%, USA 5.1%.

Export

- Germany 14.7%, Spain 9.6%, Italy 8.7%, UK 8.3%, USA 7.2%, Belgium 7.1%.

Imports/Exports

- France applies the European Union customs code and all associated regulations and commercial policies.

USEFUL CONTACTS

Banque de France		www.banque-france.fr
Leading banks	BNP Paribas	www.bnpparibas.net
	Crédit Agricole	www.credit-agricole.fr
	Société Générale	www.socgen.com
French Bankers' Association		www.afb.fr
French Association of Corporate Treasurers		www.afte.com
Ministry of the Economy, Finance and Industry		www.finances.gouv.fr
Chamber of Commerce and Industry of Paris		www.ccip.fr
Invest in France Agency		www.afi.fr
Euronext Paris		www.euronext.fr
Centre for Interbank Funds Transfers		www.cri.fr
French Interbank Clearing Consortium (GSIT)		www.gsit.fr
ETEBAC		www.etebac.com
Bank Card Consortium		www.cartes-bancaires.com
French Banking Organisation and Standardisation Committee		www.cfonb.org

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