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The French Banking Federation welcomes the CEBS initiative to look for supervisory convergence on outsourcing practices and finds many of principles contained in the consultation paper quite relevant. The FBF thinks that the CEBS consultation paper is the first step to a European framework for outsourcing practices. However, the French Banking Federation would like to voice some of its concerns and make a few recommendations.

1) Classification of outsourcing

As defined in the paper, we can understand that the CEBS classification of outsourcing could be shared in three parts:

- The first one is what can't be outsourced as core management functions or strategic areas.
- The second one is what can be outsourced but with a pre-notification of the regulator
- The third one is what can be outsourced without previous agreement of the regulator and remains under institution responsibility.

However, this classification, because of the core, strategic, essential characteristics, appears to be a variable concept, from a credit institution to another (an activity is crucial for one but secondary for another), from a country to another and through time (strategic and core businesses are evolving notions) It's difficult to find an international definition of the outsourcing, when an homogeneous definition of a credit transaction, doesn't even exist at the international level.

The proposal, to ban outsourcing of "strategic or core" activities, could then be problematic and arguable.

2) The concept of authorised entity

The concept of authorised entity is not clear and the French Banking Federation would like to have some precisions on:

- What does "authorised institution", more precisely, mean?
- Who does give the authorisation?
- How does the institution do to check if the outsourcer is authorised, and how does the regulator control this point?

The outsourcing agreements should be part of a dialogue between the bank and its regulator without to be an obstacle to the development of the bank in the future, but outsourcing remains a bank's decision.

3) <u>The intra group question</u>

Larger banks provide important financial services to intra-group components. What is externalised, in an affiliate, another part of the group, or affiliated at the same central organ, should be authorised, not to take into account in the outsourcing area. Because parent banks have to ensure and maintain risk management, structure, and organisational standards on a group level, **the FBF does not agree that intra-group outsourcing should be regulated.**

4) <u>The definition of “material activities”</u>

The definition of material activities is based on “subjective” elements as “could have a significant affect on ...”
The FBF asks the CEBS to be more precise regarding the link it has between this concept and both, regulator activity and business continuity.

This should be précised in a way to be easy to understand and to apply.

5) <u>The role of the regulator</u>

The text insists heavily on one hand on the extreme precise information due to the regulator and on the other hand on the full responsibility of the credit institution independently of the outsourcer responsibility. Does it mean that for outsourcing contract, the regulator intervenes between parties of this contract? We don’t think that it will be legally acceptable. Without talking about contradiction between the institution full responsibility and the full supervision of the regulator, **the FBF would like to underline the heavily of the text and would have more details to facilitate the understanding.**

In conclusion, the FBF thinks that this text is a good approach of the outsourcing problem and the supervisory convergence research but recommends that **no further risk analysis guidance will be required** other than that part of the international regulatory accord from the Basel Committee on banking Supervision.

The FBF also underlines that the CEBS never links the outsourcing process to the operational risk and then the fact that outsourced processes should be captured to determine the operational risk regulatory capital.

The FBF hopes that these comments will participate to increase a fruitful dialogue between the CEBS and the banks.