Important: The following English text is a translation of extracts from the French version of the 2004 Annual Report. Only the original French text has any legal value. The AMF expressly disclaims all liability for any inaccuracies in the translation.

CHAPTER IV: INVESTMENT SERVICES PROVIDERS, INVESTMENT PRODUCTS AND MARKET INFRASTRUCTURES

The Autorité des Marchés Financiers (AMF) regulates investment services and financial investment advice. It sets out the rules of conduct for investment services providers and financial investment advisers, and supervises compliance with these rules.

The Financial Security Act of 1 August 2003 simplified the authorisation procedure for investment services providers (ISPs). The AMF authorises management companies and approves the programmes of operations of other ISPs when they provide management services. The provision of other investment services requires authorisation from the committee for investment firms and credit institutions (Comité des Etablissements de Crédit et des Entreprises d'Investissement, CECEI), with the assent of the AMF.

The AMF also defines market organisation and operating principles with regard to market operators, securities settlement, central securities depositories and clearing houses.

The AMF authorises the creation of investment funds and other collective investment products. It supervises such products throughout their lifecycle and monitors the quality of their disclosures.

The challenge facing the AMF is to protect investors and foster the growth of the financial services industry at the same time. Major progress was made on several important reforms in 2004, especially with regard to investment management.

- New rules on fund prospectuses are to be phased in between 2004 and early 2006. The new format should improve investor information thanks to its structure, which combines a simplified prospectus and a detailed securities note.
- The rules defined for collective investment schemes with streamlined investment rules and for contractual collective investment schemes strike a good balance between a flexible legal framework and restricted marketing of such schemes to qualified investors.
- The definition of executive officers, the requirements for exercising the voting rights attached to securities held by collective investment schemes and the obligations of managers with regard to combating money laundering were clarified in 2004.

This ongoing improvement of the regulatory framework bolstered the dynamic growth of France's investment management industry in 2004.

- Gross assets managed by collective investment schemes[1] increased by 10.7% to reach EUR 1,006.5 billion.
- The number of general-purpose funds reached 7,908.

[1] Including feeder funds.

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	AMF DECISIONS	2000	2001	2002	2003	2004
Investment management	Authorisations granted to asset management companies	62	59	36	33	68
	Portfolio management companies	58	56	33	30	68
	Fund management companies	4	3	3	3	0
	Use of European passport to conduct business in another state of the European Economic Area					48
	Freedom of establishment					1
	Freedom to provide services					47
	Use of a European passport to conduct business in France					15
	Freedom of establishment					0
	Freedom to provide services					15
	Funds authorised (total)	1 267	1 354	1 204	1 033	937
	Open-end investment companies (SICAVs)	112	44	27	28	13
	General-purpose unincorporated investment funds (FCPs)	843	967	826	697	689
	Venture capital funds (FCPRs)	54	35	37	34	51
	Employee investment schemes (FCPEs)	255	303	312	272	174
	Futures and options funds (FCIMTs)	3	5	2	2	10
	Funds declared via the simplified procedure	261	213	189	177	149
	Authorisations granted for transformation of a fund	2 104	1 797	2 586	3 792	6 745
	Authorisations granted to UCITS*	609	503 **	461	402	254
Other	Visas issued for debt securitisation funds (FCCs) and subfunds	4	8	7	6	6
	Visas issued for real estate investment trusts	14	12	10	45	31
	Opened to public	2	1	1	2	8
	Capital increases	4	-	0	0	10
	Change in price, updated prospectuses	8	11	9	43	13
	Visas issued for film production finance vehicles (Sofica)	8	9	6	10	18
	Newly established	5	6	4	10	11
	Capital increases	3	3	2	0	7
	Visas issued for fishing industry finance vehicles (Sofipêche)	8	7	4	4	8
	Newly established	7	7	4	4	8
	Capital increases	1	-	0	0	0
Source: AMF						

* or subfunds

** revised figures

	AMF DECISIONS	2004
Other investment services providers	Approval of programmes of operations	2
	Refusal of proposed programmes of operations	0
	Notifications of programmes of operations, including:	32
	Custody account keeping	11
	Investment services other than management	21
	Use of European passport to conduct business in another state of the European Economic Area	
	Freedom of establishment	7
	Freedom to provide services	142
	Use of a European passport to conduct business in France	
	Freedom of establishment	7
	Freedom to provide services	112
Source: AMF		

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I – CHANGES IN THE REGULATORY FRAMEWORK

A – Changes affecting management companies

1 – Impact of the UCITS Directive on management companies

Since 13 February 2004, when Directive 2001/107/EC of 21 January 2002, amending Directive 85/611/EEC (UCITS Directive), was transposed into French law, portfolio management companies have been allowed to market funds that comply with Directive 85/611/EEC and qualify as Undertakings for Collective Investment in Transferable Securities (UCITS) throughout the European Economic Area, subject to certain requirements. Prior to this, only dedicated fund management companies were allowed to do so.

Consequently, portfolio management companies are now allowed to offer discretionary management services and to manage collective investment schemes, whether or not these schemes qualify as UCITS and are granted a European passport.

Portfolio management and fund management companies had to choose between the rules set out in the UCITS Directive and those in the Investment Services Directive. Under the unified system for portfolio management companies, two types of management company must now be distinguished.

Whichever system they choose, asset management companies now have to meet new requirements, chief of which is an increase in regulatory capital.

Type 1 covers companies that choose the UCITS Directive rules

These companies have the following characteristics:

- Mandatory business activities
They must manage at least one collective investment scheme that complies with the UCITS Directive at all times. However, this requirement applies only after 30 September 2005, in order to give asset management companies time to reorganise.
- Possible business activities
Possible activities are defined in Article 5 of the Directive and listed in its Annex II[2]. They include management of non-coordinated funds and discretionary asset management or investment advice.
- Prohibited activities
Such asset management companies may not receive or transmit orders for third parties, bearing in mind that receiving buy and sell orders in collective investment schemes does not constitute provision of an order reception and transmission service.
- European passport
Type 1 management companies may apply for the passport defined by the UCITS Directive. Passporting provides access to the following activities under the freedom to provide services or the freedom of establishment:

- discretionary management;
- investment advice;
- fund marketing.

Type 2 covers companies that choose the Investment Services Directive rules

These companies have the following characteristics:

- Prohibited activities
This type of management company cannot manage collective investment schemes that qualify as UCITS. Nor can they receive a delegation for overall management of a coordinated open-end investment company (SICAV). On the other hand, these companies may manage a collective investment scheme or UCITS under a delegation, when they are not the official management company.

- European passport
Type 2 management companies may apply for the passport defined by the Investment Services Directive. Passporting provides access to the following activities under the freedom to provide services or the freedom of establishment:

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[2] Functions included in the activity of collective portfolio management in France:
- portfolio management;
- administration (legal and fund management accounting services, customer inquiries, valuation and pricing (including tax returns), regulatory compliance monitoring, maintenance of unit-holder register, unit issues and redemptions, contract settlements);
- marketing.

- discretionary management;
- investment advice;
- order reception and transmission.

Consequently:
- some activities are permitted under one set of rules only;
- the other permissible activities for management companies vary depending on the Directive. Both Directives provide a complete list of permissible non-core services.
- Asset management companies that do not manage harmonised UCITS or that offer only discretionary management on a client-by-client basis may apply only for the passport defined in the Investment Services Directive.

Options for existing management companies[3]:

The table below outlines the options available in the most frequent cases.

Type of business activity	Options	Constraints	New possibilities
Management of collective investment schemes and UCITS	Type 1 is obligatory	Receiving and transmitting orders is prohibited	Discretionary management, Investment advice
Management of non-coordinated collective investment schemes and discretionary management	Type 1 as long as one UCITS is under management after 30 September 2005	Receiving and transmitting orders is prohibited Non-core activities restricted to investment advice	UCITS management
Non-core activities (investment advice, etc.)	Type 2	No change (1)	None
Discretionary management only and/or advised management and the related non-core activities	Type 2	No change (1)	None
Investment capital only and the related non-core activities	Type 2	No change (1)	None
Employee savings schemes only and the related non-core activities	Type 2	No change (1)	None

(1) Subject to the provisions on initial capital and regulatory capital.

These provisions have been transposed into French law:

- by the Financial Security Act, which treats fund management and portfolio management the same and provides a single status for all asset management companies offering collective investment scheme management, investment fund management or discretionary management[4].

- by the AMF General Regulation, which:

  - has modified the minimum initial capital and regulatory capital requirements. It introduces a distinction between authorised capital and regulatory capital. The minimum authorised capital for an asset management company has been increased from EUR 50,000 to EUR 125,000, and the minimum regulatory capital requirements now depend on the amount of assets under management[5];

  - has defined the non-core activities that a portfolio management may carry on, with a distinction between companies that manage at least one UCITS and those that do not. This means that there are now two types of asset management companies. The previous rules still apply to all asset management companies carrying out portfolio management for third parties as their main activity,

[3] Article 417-1 of the AMF General Regulation.
[4] Article 68 II of the Financial Security Act.
[5] If the management company has less than EUR 250 million under management, this requirement is equal to the greater of the two following amounts: EUR 125,000 or one quarter of the overhead costs. If the assets under management are greater than EUR 250 million, this requirement shall be equal to the greater of the two following amounts: EUR 125,000, plus 0.02% of the share of funds under management in excess of EUR 250 million, or one quarter of the overhead costs. However, the requirement is capped at EUR 10 million.

plus related non-core activities, as long as the latter do not create a conflict of interest for the asset management company;

- has disallowed "shell" asset management companies that have no resources of their own;
- has explained the applicable provisions for managers and the persons determining the strategy of the portfolio management company.

2- Executive officers

Under the terms of Article L. 532-9, points 4 and 5, of the Monetary and Financial Code, a portfolio management company "shall be effectively run by fit and proper persons with suitable experience to fulfil their functions" and the company's strategy shall be determined by two or more persons."

In 2003, the Commission des Opérations de Bourse (COB)[6] deemed that the "effective running" requirement was satisfied if portfolio management companies were run by two or more executive officers.

Industry bodies informed the regulator of the difficulties encountered in applying this requirement and the AMF adapted its General Regulation to grant greater flexibility to the requirements for asset management companies. Henceforward, the following persons must run an asset management company and determine its strategy:

First officer:
- a corporate officer with the power to represent the company in its dealings with third parties, such as a chief executive (managing director), a deputy chief executive (deputy managing director) or a manager.

Second officer:
- another corporate officer with the power to represent the company in its dealings with third parties,

or
- the chairman of the board of directors,

or
- a person specifically empowered by the company's decision-making bodies, or the company by-laws, to run the company and determine its business strategy, which includes monitoring accounting and financial data, along with the required level of regulatory capital.

Article 322-14 of the AMF General Regulation also establishes the principle of the permanent presence of personnel with suitable skills for the business activities of portfolio management companies, which means that one of the officers must work full-time for the company. This requirement does not apply, however, to "parent" and "subsidiary" management companies if the parent owns more than 90% of the subsidiary directly. This enables the two officers from the "parent" company to run the subsidiary and determine its strategy.

3 – Events that require a filing with the AMF

The Financial Activity Modernisation Act of July 1996 and its implementing instruments require asset management companies to file three types of information with the AMF:

- changes to the information contained in the initial application for authorisation[7], and in particular, changes in direct or indirect ownership, management, organisation and control. The AMF informs the company in writing of any consequences that such changes have on its authorisation.
- Within six months of the end of the financial year, companies must file copies of their balance sheet, income statement and notes to the financial statements, along with their annual reports and annexes, the statutory auditors' general and special reports[8], and, where appropriate, consolidated financial statements.
- Within four months of the end of the financial year, companies must file the information on the annual information sheet defined in Annex 4 of the COB Instruction of 17 December 1996.

Portfolio management companies frequently asked the AMF about these requirements, so, in 2004, a table was drawn up to explain in which cases prior authorisation is required from the regulator and in which cases an immediate filing is required.

[6] COB monthly bulletin, issue 382 (September 2003)
[7] Under the terms Article 5 of Decree 96-880 and Article 322-22 of the AMF General Regulation.
[8] Under the terms Article 322-72 of the AMF General Regulation.

The table of changes affecting portfolio management companies covers four main subjects:

- business activities: if an asset management company wishes to extend the scope of its activities beyond those described in the programme of operations filed with its initial application for authorisation, it must file an update of its programme of operations with the AMF and obtain prior authorisation.

- characteristics: if an asset management company changes its organisational structure (change in executive officers, legal name, granting of a financial delegation, etc.), it must notify the AMF immediately of the changes by filing the documents listed in the last column of the table. Nevertheless, in a number of specific cases (amendments to the corporate by-laws, takeovers, mergers, restructurings, etc.) the asset management companies need to obtain the AMF's prior authorisation.

- human resources and technical changes: as soon as changes are made within an asset management company (managers, compliance officers, internal auditors, etc.), the company must notify the AMF immediately.

- periodic filings: periodic filings consist of asset management companies' annual financial statements and the annual information sheet.

The table[9] is a working tool and its implementation was systematically monitored in 2004. It does not rule out any requests for further information from the regulator.

4 – Exercise of voting rights by asset management companies

The Financial Security Act of 1 August 2003 amended Article 533-4 of the Monetary and Financial Code, stipulating that portfolio management companies must exercise "the voting rights attached to the securities held by the collective investment schemes under their management, voting exclusively in the interest of the shareholders or unitholders in such schemes". It gave the AMF the task of defining the reporting requirements for companies' "practices with regard to the exercise of voting rights".

This legislative provision covers three key aspects:

- First, it upholds the principle that the voting rights attached to securities in a portfolio should be exercised exclusively in the interest of the investors. This reminder is particularly timely for asset management companies that are subsidiaries of diversified groups, some of whose companies may have their own interests as a result of their position as a shareholder, adviser or creditor[10].

- Secondly, asset companies are urged to exercise voting rights.

Yet, this exercise incurs a certain and specific cost for asset managers, whereas its positive impact on corporate governance benefits all shareholders. This situation is likely to give rise to "inefficient" behaviour patterns, since all shareholders benefit from the work done by a few, meaning the largest asset management companies. The Act is intended to remedy this harmful situation by requiring all asset management companies to report on their practices.

- Thirdly, it upholds the principle of informing unitholders and shareholders before and after voting rights are exercised. The obligation is more a matter of reporting whether or not the votes have been exercised rather than an obligation to vote.

The provisions in the AMF General Regulation dealing with asset management companies' exercise of voting rights attached to securities in fund portfolios are based on the following three requirements:

- Asset management companies have to prepare "voting policy" documents[11], which set out the companies' voting rules and strategies, along with their internal organisational structures in this area. These documents must be updated periodically and made available to the public on the asset management companies' websites or at their registered offices. They must be completed by 31 March 2005.

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[9] Available on the AMF website.
[10] In August 2004 the Securities and Exchange Commission (SEC) fined Deutsche Bank Asset Management USD 750,000 for failing to disclose a conflict of interest during the battle between supporters and opponents of the HP-Compaq merger. Deutsche Bank Asset Management, which backed the merger at the last minute with its 17 million shares, had been accused of failing to disclose that its parent, Deutsche Bank, had a business relationship with HP.
[11] Article 322-75 of the AMF General Regulation.

- Companies have to publish annual reviews[12], to be appended to the management reports by their boards of directors or executive boards, as the case may be[13]. These reviews must provide quantitative data compiled by the asset management companies on the exercise of voting rights and a report on conflicts of interest. The reviews must be available by the end of the first financial year ending after 1 December 2005.

- The companies must keep permanent and detailed records of the exercise of voting rights so that they can report to the regulator on votes cast and the reasons why they voted one way or another or why they abstained. To minimise costs, this information shall be made available to unitholders or shareholders in collective investment schemes at the registered offices of the management companies or on their websites.[14]

- Asset management companies have to draft internal procedures for detecting and dealing with conflicts of interest and publish these procedures in their "voting policy" documents. They also have to include a special account of how such conflicts were handled[15] in the annual review to be appended to the annual report by the board of directors or the executive board.

The AMF is aware that the issue of exercising voting rights is part of a broader debate than the one about asset management or custody account keeping. Consequently, it decided in November 2004 to set up a working group with members representing all stakeholders, namely issuers, investors, custody account keepers, and proxy voting providers[16].

The group,[17] chaired by Yves Mansion, a member of the AMF board, was created to analyse the operational constraints involved in exercising voting rights and look into ways of developing a voting rights management system that would be competitive at the European level. This issue is also a matter of concern for the European Commission, which, on 16 September 2004, initiated a public consultation on ways of helping shareholders to exercise their voting rights at general meetings[18].

5 – Requirements for combating money laundering and terrorist financing

The AMF adopted the new provisions in Article 322-51 and the following articles of its General Regulation to define the enforcement procedures for the provisions contained in Title VI of Book V of the Monetary and Financial Code and Decree 91-160 of 13 February 1991 on the obligations incumbent on portfolio management companies with regard to anti-money laundering and combating the financing of terrorism (AML/CFT).

The new rules stipulate that portfolio management companies must establish organisational structures and procedures to:

- identify and verify the identity of investors before entering into a business relationship. Customer due diligence procedures have been adapted for subscriptions and redemptions of fund units or shares;

- verify that normally complex transactions have a business justification and that their purpose can be deemed to be lawful;

- monitor compliance with AML obligations by foreign branches and subsidiaries;

- develop a hiring procedure and provide staff training that covers the requirements stemming from regulations on AML/CFT;

- keep a written record of vigilance measures implemented;

- make suspicious-transaction reports to the financial intelligence unit (Tracfin) as required.

The new provisions apply to all the activities of portfolio management companies.

It should be pointed out that the identification requirements for fund unitholders or shareholders and the transaction verification requirements differ according to the type of transaction, the marketing procedure and the legal status of the investor.

[12] Article 322-76 of the AMF General Regulation.
[13] Asset management companies may be incorporated under different legal forms. In some cases, they are not required to produce an annual report. The AMF General Regulation allows asset management companies that are required to produce an annual report to use this report and it requires other companies to produce a specific report.
[14] Article 322-77 of the AMF General Regulation
[15] Article 322-75 of the AMF General Regulation
[16] Companies that offer shareholders an information and documentation service to inform their voting choices at general meetings
[17] Press release, 2 February 2005
[18] European Commission, Internal Market Directorate General, MARKT/16.09.2004, "Fostering an appropriate regime for shareholders' rights"

B – Changes affecting collective investment schemes

1 – Collective investment scheme prospectuses

a) Preparations

The transposition of Directive 2001/107/EC, amending the UCITS Directive, led to a new format for disclosures to investors. A new document, called a prospectus, replaces both the *notice d'information* (information memorandum) and *règlement*/*statuts* (rules/by-laws). The new document is made up of a simplified prospectus and a memorandum or detailed note.

The simplified prospectus, based directly on the *notice d'information,* is an educational tool providing an easily accessible summary for all investors. It must be filed with the AMF before subscriptions are taken and it may be used for marketing purposes. The memorandum establishes all the operating rules for the collective investment scheme. It provides complete and accurate information for the use of expert investors and asset management professionals.

Since May 2004, every new authorised scheme must produce a prospectus.

The AMF initiated various actions to facilitate the drafting of the new documents, including:

- posting a list of frequently asked questions and answers to its website to enhance finance professionals' understanding of the various sections of the prospectus;
- adapting the procedure for examining applications to create collective investment schemes to favour electronic exchanges of information and writing remarks directly into the documents submitted by management companies in order to speed up the process.

The different adjustments enabled a smooth transition to the new prospectus, without increasing the time required to examine applications to create collective investment schemes.

b) The changeover

Initially, all general-purpose funds were to have adopted the new prospectus format by 30 June 2005. They were required to do so even earlier if they submitted changes for authorisation after 1 January 2005. In the end, there was a consensus among the main European regulators to give management companies enough time to make the changeover successfully. Consequently, the AMF:

- extended the changeover deadline for funds complying with the UCITS Directive until 30 September 2005;
- extended the changeover deadline until 30 April 2006 for other collective investment schemes;
- organised the transition by simplifying and standardising the exchange of information between the AMF and management companies;
- established a procedure for making part of the changeover on the basis of a declaration for certain categories of collective investment schemes and for certain categories of management companies.

The new timetable and the new organisational structure provide a systematic framework for the changeover to the new prospectus, following standardised procedures and highlighting the responsibilities of the stakeholders.

2 – Market timing and late trading

In July 2004, the AMF published its recommendations[19] for preventing market timing and late trading by collective investment schemes.

Market timing is an arbitrage executed to realise a profit on the difference between the carrying amount of a fund and its market value. Such transactions are unethical because they result in unequal treatment of unitholders in unincorporated funds (FCPs) and shareholders in open-end investment companies (SICAVs). Late trading involves transactions executed on subscription and redemption orders transmitted after the cut-off time stipulated in the prospectus. Such transactions are prohibited.

These recommendations were drafted in consultation with market professionals and are in line with best practices. They cover:

- the responsibility of management companies in preventing these practices and the need for such companies to establish the appropriate procedures and dedicate sufficient resources for detecting and preventing them.

[19] AMF monthly review, issue 5 (July-August 2004)

- the definition of a cut-off time for the reception of subscription and redemption orders by the centralised order taker and compliance monitoring by the management company;

- the procedures for calculating the net asset value of equities funds and bond funds to ensure that subscriptions and redemptions can be made when prices are not known;

- the requirements for disclosures to certain unitholders and shareholders about the composition of the collective investment scheme's portfolio that could facilitate market timing and late trading transactions.

After assessing the measures that the various service providers have adopted to comply with these recommendations and work conducted at the European and international level, the AMF may incorporate some of these provisions in its General Regulation in 2005.

3 – Management fee rebates

The amendments made to COB Regulations 96-03 and 89-02 at the end of 2003 clarified the conditions under which a parent fund investing in a target fund[20] may receive a one-third share of the subscription and redemption fees and the management fees collected by the target fund. The amendments established the principle that the parent fund would share in the target fund's fees, but for practical reasons, the corresponding financial flows could pass through the management company, under certain conditions.

These provisions have been maintained in Articles 322-43, 411-43 and 411-46 of the AMF General Regulation. However, their wording was changed to clarify the fact that they apply to fee rebates to third parties and not just to the management company, as long as the rebates to third parties are related to the parent fund's investment in the target fund. These rules will be phased in between 1 January 2005 and 30 June 2005.

The AMF has prepared financial flow charts that are compatible with these provisions and has defined the procedures for disclosures to investors about these items[21].

With regard to the financial flow charts, the AMF explained that:

- a provision for fee rebates must be set aside each time the net asset value is calculated;

- that the fee rebates received must be allocated to the parent fund, but they can pass through the management company and be deducted from management commissions that it charges;

- that the allocation of rebates to the parent fund cannot be made in the form of a "round trip" between the management company and the parent fund when the management fee is paid to the parent.

With regard to investor information, the AMF explained that the changes resulting from the new provisions were not subject to the rules applying to increases in management fees, as long as the total compensation paid to the management company (management fees and management fee rebates received previously) was the same.

4 – Funds with streamlined investment rules

The Financial Security Act established two new products, contractual funds and funds authorised to operate under streamlined investment rules (ARIA funds)[22], which meet demand from professional for products that are not bound by the usual rules and intended for qualified investors.

The flexibility of ARIA funds lies in the looser and graduated rules on asset allocation[23] that make it possible to implement riskier investment strategies. The special rules were set out in Chapter VI of Decree 89-623, as amended, in November 2003. The publication of the AMF General Regulation in November 2004 finalised the provisions by defining the access requirements for unqualified investors and the specific operating procedures for such funds. The first ARIA funds were authorised in December 2004.

The special investment rules for ARIA funds differentiate between three types of funds:

- alternative funds of funds, which invest in other alternative funds, with a minimum of 16 underlying funds.

[20] By conventional definition, the term target fund refers here to a fund in which another fund invests. The term parent fund refers to the other fund in question.
[21] AMF monthly review, issue 9 (December 2004)
[22] Articles L. 214-35 and L. 214-35-2 of the Monetary and Financial Code.
[23] Article L. 214-35 of the Monetary and Financial Code stipulate the requirements and limits that ARIA funds must respect to be exempt from the common provisions applying to funds that are set out in Article L. 214-4 of the said Code and by a Decree of the Conseil d'Etat.

- unleveraged ARIA funds, where the exemptions from the rules primarily concern risk and market weight diversification ratios;

- leveraged ARIA funds, which are allowed to use three times more leverage than other authorised funds.

The access requirements are looser for alternative funds of funds than for unleveraged and leveraged ARIA funds. In addition to qualified investors, as defined in the Decree of 1 October 1998, any other investors acting voluntarily may invest in ARIA funds, as long as they meet the minimum investment requirement.

- The minimum investment is set at EUR 10,000:

  - for alternative funds of funds with no capital guarantee (there is no minimum investment requirement for guaranteed capital funds);
  - for leveraged and unleveraged ARIA funds, if the investors declare that they:

    - have financial assets worth at least EUR 1 million. These financial assets include bank deposits, financial instruments and life insurance;
    - or have held a professional position in the financial industry for at least one year in which they are required to know about the management strategies applied by the funds in which they intend to invest.

- For all other investors, the minimum investment requirement for access to leveraged and unleveraged ARIA funds is set at EUR 125,000.

These access requirements apply only to funds marketed in France. If funds are sold in other countries, the competent authority in the host country defines the access requirements and marketing rules for French funds on its territory and to its residents.

With regard to the specific operating procedures of ARIA funds, the AMF General Regulation stipulates:

- valuations once a month for these funds, as opposed to twice a month for authorised funds open to all investors;

- more flexible subscription and redemption procedures, with explicit provision for a lag between the date that a subscription or redemption order is received and the date on which the net asset value for the execution of the order is calculated.

This means that two types of notice requirements are possible for ARIA funds.

- The first is an "incentive" notice requirement, which increases subscription or redemption commissions if the notice requirement is not met. This system is already used by funds set up under French law. The principle of this system means that investors can buy or sell at any time at the next net asset value for subscriptions and redemptions, as long as they pay a commission, which can be quite high.

- The second is an imperative notice requirement, which is always applied. This means that orders are suspended between their transmission date and the next date on which the net asset value is calculated.

The liabilities of leveraged ARIA funds can be up to three times greater than their assets[24]. The scale of the leverage means that the management company's decision-making will have amplified financial consequences for unitholders or shareholders in these funds. Therefore, the creation of a leveraged ARIA fund requires prior approval of a specific programme of operations[25] intended to ensure that the management company has the necessary procedures, human resources and technical resources to monitor the liabilities and leverage of such funds.

5 – Contractual funds

The flexibility of contractual funds stems from the elimination or reduction of the constraints on:

- management rules: these funds are totally free to set their own debt and investment policies[26]; they can invest in all types of financial instruments and in bank deposits;

[24] Article 14-4, II of Decree 89-623: Articles 4-5 and 4-9 notwithstanding, the liabilities of a fund covered by this section that result from financial futures contracts, temporary sales or purchases of securities, and cash loans may be up to three times its assets".
[25] Article 14-3 of Decree 89-623.
[26] Article L. 214-35-2 of the Monetary and Financial Code stipulates the investment rules for contractual funds. They can invest in all financial instruments listed in Article L. 211-1 and in bank deposits.

- administration: the creation and transformation of contractual funds do not require authorisation from the AMF. These funds can also be used as part of a conventional or complex asset management strategy for qualified investors who are able to negotiate the investment ratios with the management company.

Their net asset value must be calculated at least once a quarter, and only management companies with special programmes of operations[27] are allowed to manage them. The programme of operations for a contractual fund describes the management company's organisational procedures for monitoring the investment and debt rules set out in the prospectus of each of the contractual funds that it manages. It does not provide a complete list of each of the potential contractual limits and the specific operational procedures for monitoring them. Instead, it describes the procedures for allocating adequate human and technical resources, as well as those for defining the operational structures for asset management and monitoring each of the contractual investment rules.

The access requirements are similar to those for unleveraged and leveraged ARIA funds, but the minimum investment requirements are EUR 30,000, instead of EUR 10,000, and EUR 250,000, instead of EUR 125,000 (see table below).

<table>
<tr><th colspan="6">Access requirements for ARIA funds and contractual funds</th></tr>
<tr><th colspan="3" rowspan="2">Type of fund</th><th rowspan="2">Qualified investors</th><th colspan="2">Other investors</th></tr>
<tr><th>No requirements</th><th>Net worth or experience requirements</th></tr>
<tr><td rowspan="4">ARIA funds</td><td rowspan="2">Alternative funds of funds</td><td>Guaranteed</td><td rowspan="5">No restrictions</td><td>0</td><td rowspan="2">0</td></tr>
<tr><td>Not guaranteed</td><td>EUR 10,000</td></tr>
<tr><td colspan="2">Unleveraged ARIA funds</td><td rowspan="2">EUR 125,000</td><td rowspan="2">EUR 10,000</td></tr>
<tr><td colspan="2">Leveraged ARIA funds</td></tr>
<tr><td colspan="3">Contractual funds</td><td>EUR 250,000</td><td>EUR 30,000</td></tr>
</table>

Source: AMF

6 – Chart of accounts for collective investment schemes

Fund transactions relating to financial years starting on or after 1 July 2004 must be recorded under the new chart of accounts for collective investment schemes published in Regulation 2003-02 of 20 October 2003 issued by the national accounting regulation committee (CRC). The new chart of accounts may also be used for financial years starting on or after 1 January 2004.

The provisions of the new chart of accounts, combined with the provisions of Regulation 2004-09 of 23 November 2004, also apply to venture capital funds for financial years starting on or after 1 July 2005. Such funds may also use the new chart of accounts for financial years starting on or after 1 January 2005.

The financial statements of securitised debt funds are subject to the provisions of Regulation 99-03 of 17 November 1999 and Regulation 2003-03 of 2 October 2003 for financial years starting on or after 1 January 2004. The provisions may also be used for financial years starting on or after 1 January 2003.

The accounting rules for futures funds are still those defined by the Decree of 6 May 1993 on accounting provisions for collective investment schemes.

C – The new regulatory framework for direct marketing of banking and financial products

The Financial Security Act reformed the rules on direct marketing of banking and financial products ("cold calling"), referring to prevailing regulations in order to implement some of its provisions.

The Official Journal of the French Republic on 29 December 2004 published three decrees: one on direct marketing of banking and financial products, a second on the list of persons authorised to engage in such marketing, and a third on the format of the direct marketing licence. These decrees contain the detailed provisions needed to implement the new regulatory framework for direct marketing of banking and financial products.

[27] Article L. 214-35-6 of the Monetary and Financial Code.

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1 – Decree 2004-1019 of 28 September 2004 on direct marketing of banking and financial products

For the purposes of Article L. 341-2 of the Monetary and Financial Code, this decree starts by listing the cases where direct marketing to legal entities is not subject to cold-calling rules.

In these cases, the prospect must be a legal entity with more than EUR 5 million in total assets, sales, revenues or assets under management, or else have more than 50 employees[28].

For the purposes of Article L. 341-4 IV of the Monetary and Financial Code, the Decree then defines the requirements for natural persons to engage in direct marketing, including natural persons with the power to manage or administer legal entities that have a mandate to engage in direct marketing.

The Decree also sets the minimum professional liability insurance coverage for natural persons and legal entities that have a mandate to engage in direct marketing. The insurance requirements depend on the types of transactions or services offered and on whether it is a natural person or a legal entity engaging in direct marketing[29].

The Decree also stipulates that the committee on investment firms and credit institutions (Comité des Établissements de Crédit et des Entreprises d'Investissement, CECEI) is the competent authority for registering direct marketers acting for the French Post Office, Caisse des Dépôts et Consignations and venture capital firms.

It stipulates that each natural person or legal entity will receive only one registration number, even if they engage in direct marketing on behalf of several employers or principals.

The Decree further stipulates that, if a natural person engages in direct marketing on behalf of a legal entity acting for a credit institution, an investment services provider or an insurance company, the direct marketing licence shall be issued by the legal entity hiring the direct marketer.

Finally, the Decree states that if natural persons cease to engage in direct marketing for any reason, they must surrender their direct marketing licences.

2 – Decree of 28 September 2004 on direct marketing licences

The licence must be signed by the holder and the duly empowered representative of the legal entity employing the direct marketer. The licence shall show only the name and address of the registered office(s) of the principal(s), the registration number of the direct marketer, the types of transactions and services the direct marketer is authorised to offer and the licence expiry date.

In principle, the licence is valid for two years in the case of persons engaging in direct marketing on behalf of a legal entity. Licences for employees of credit institutions, financial services firms and insurance companies are valid for three years.

3 – Decree 2004-1018 of 28 September 2004 on persons authorised to engage in direct marketing of banking and financial products

This Decree stipulates that the Banque de France must maintain an electronic file of direct marketers on behalf of three competent authorities: the CECEI, the insurance companies committee (Comité des Entreprises d'Assurances, CEA) and the AMF. The file is to be managed under the procedures to be laid out in an agreement between the Banque de France and the three authorities. The Decree also stipulates that the Banque de France may assign registration numbers directly.

The file contains the names of natural persons employed or mandated to engage in direct marketing on behalf of a credit institution, one of the organisations referred to in Article L. 511-1 of the Monetary and Financial Code (financial arm of the French Post Office, Banque de France, Caisse des Depôts et Consignations), an investment firm, an insurance company, a venture capital company or similar undertakings authorised in another Member

[28] These thresholds are not cumulative and they are assessed on the basis of the most recent consolidated financial statements or, failing that, the most recent parent company financial statements published and, where appropriate, certified by the statutory auditors.

[29] The minimum coverage for direct marketing of banking transactions and related activities is EUR 75,000 per claim and per year for natural persons, and EUR 300,000 per year and EUR 150,000 per claim for legal entities. The minimum coverage for direct marketing of other transactions or services is EUR 150,000 per claim and per year for natural persons and EUR 600,000 per year and 300,000 per claim for legal entities.

State of the European Community and entitled to conduct business in France. Also included are persons engaging in direct marketing on behalf of an investment adviser, if their direct marketing activities involve cold-calling, salespersons, legal entities with a direct marketing mandate under the terms of Article L. 341-4 of the Monetary and Financial Code, and natural persons employed or mandated by legal entities that are themselves mandated to engage in direct marketing.

The file is available to the public to provide a complete record of all persons engaged in direct marketing of banking and financial products. It is up to the entities authorised to engage in direct marketing to update the list for registrations of new direct marketers, renewal of mandates and persons struck off the list. For this purpose, such entities must sign a standard agreement drafted by the three aforementioned authorities and the Banque de France to enable the information in the file to be updated directly.

The registered direct marketers may exercise their right to access and correct the information in the file through the Banque de France and the entities that they work for.

The public may access the file through the website of any of the three authorities.

D – Financial investment advisers

The Financial Security Act introduced Article L. 541-1 and the following articles of the Monetary and Financial Code, which establish the legal status for professional financial investment advisers. The access and organisational requirements for this new regulated profession are set out in a decree and the AMF General Regulation.

1- Decree 2004-1023 of 29 September 2004

Decree 2004-1023 of 29 September 2004 sets out the requirements for investment advisers:

- having attained the legal age of majority;

- having no criminal convictions for any of the offences referred to in Article L. 541-7 of the Monetary and Financial Code and no penalties imposed by the AMF, the banking commission (Commission Bancaire) or the insurance control commission (Commission de Contrôle des Assurances, des Mutuelles et des Institutions de Prévoyance, CCAMIP) involving a temporary or permanent ban on engaging in an activity or providing a service.

The Decree also sets the minimum professional liability insurance coverage at EUR 150,000 per claim and per year for natural persons, and at EUR 300,000 per half year and EUR 600,000 per year for legal entities. The Decree establishes the registration procedures for financial investment advisers. The list of such advisers must be updated and filed with the AMF by each authorised representative body. The AMF is responsible for making the list available to the public.

2 – Provisions in the AMF General Regulation

The AMF General Regulation establishes:

- the competence requirements for financial investment advisers;
- the rules of conduct to be used as a basis for the rules to be drafted by authorised industry associations;
- the authorisation criteria for the representative associations of the new industry;
- the procedures for filing and updating the lists of financial advisers kept by each industry association.

Between 3 June and 17 July 2004, the AMF organised public consultations on its plans by suggesting four avenues for developing the regulatory framework for financial investment advisers:

- establishing a status for financial investment advisers that their clients (savers, businesses and investors) can clearly identify;
- establishing competence requirements to ensure quality service for clients;
- defining rules of conduct for financial investment advisers to ensure loyal, fair and appropriate provision of services;

- establishing the rules for authorising associations of financial investment advisers.

The public consultations highlighted three main issues:

- the existing asset management advisers' fear that the access requirements for the new profession are too restrictive;
- the risk of unfair competition from bank and insurance company advisers, who are not subject to the same regulatory constraints, particularly with regard to requirements establishing transparency with regard to compensation[30], when in-house advisers follow up their advice by proposing financial products;
- questions about the population covered by the new status, insofar as the Act includes equity finance advice[31] within the scope of competence of the future financial investment advisers.

The AMF then put forward a draft General Regulation that incorporated the various suggestions made during the first round of consultations and by its consultative commissions on Personal Finance and Small Investors and Minority Shareholders.

The AMF Board adopted the General Regulation provisions on financial investment advisers on 8 February 2005. The main provisions are as follows:

- Financial investment advisers must hold a nationally accredited undergraduate degree in law or economics or a diploma or degree of the same level, or they must present evidence of completing professional training for executing transactions in financial instruments, banking transactions or related transactions, providing investment services or related services and executing transactions in various assets. Alternatively, they must provide evidence of two years' professional experience in positions involving the execution of such transactions[32].
- Financial investment advisers must set out in a briefing letter the client's expectations and objectives, along with the nature of service being provided. The briefing letter must also describe the procedures for calculating the fees for advisory services and mention any existing business links to institutions promoting products;
- Financial investment advisers must have the equipment and human resources required for conducting their business and they must have procedures in place to meet AML/CFT requirements.

The General Regulation also defines the authorisation requirements for industry associations and spells out their obligations in the performance of their tasks.

Regarding transparency requirements for the marketing of products that a financial investment adviser may sell to clients in connection with its advisory services, the General Regulation stipulates that the terms of payment for such services must be clearly explained from the outset of the business relationship, along with all of the financial and business links between the adviser and the institutions promoting products.

Industry associations seeking the AMF's authorisation to defend the interests of financial investment advisers must file an application with the AMF. The names and addresses of authorised associations will be posted on the AMF website.

The Financial Security Act enjoined the AMF to address the issue of marketing from the angle of the new regulations governing certain market players, such as financial investment advisers. This approach led the AMF to extend the scope of its discussions to include levelling the playing field for similar professions. Therefore, the AMF will continue to address this subject in 2005.

[30] Article 541-4 of the Monetary and Financial Code requires financial investment advisers to disclose information about "their compensation procedures and the prices for their services".
[31] The report that Senator Philippe Marini presented on behalf of the Senate Finance Commission on "The Financial Security Act one year later" "regretted" the inclusion of equity finance advice (Senate Report No. 431 (2003-2004), page 120).
[32] The transactions are those referred to in Article 541-1 of the Monetary and Financial Code.

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E – Provisions with regard to investment analysis

1 – Regulations already in force

The General Regulations of the Conseil des Marchés Financiers (CMF) defined the function of investment analyst, stipulating that persons performing this function and employed by investment services providers under the CMF's supervision needed to obtain a professional licence. The regulations also restricted investment analysts' trading in financial instruments on their own account.

CMF General Decision 2002-01 included provisions on the compensation of analysts, the drafting of analysis, the analysts' independence and managing conflicts of interest, along with provisions governing the publication of analysis.

The CMF' Monthly Review of November 2002 also published answers to questions about the implementation procedures for its Decision 2002-01.

2- Provisions of the Monetary and Financial Code and Directive 2003/125/EC

Article L. 621-7 of the Monetary and Financial Code stipulates that the AMF General Regulation shall set the rules of conduct and other professional obligations that investment services providers must meet at all times, along with the natural persons operating under their authority or on their behalf in the provision of investment services and related services and in the production and dissemination of investment analysis.

Article L. 621-7 further stipulates that, in the case of independent analysts producing and disseminating investment analysis[33], the AMF General Regulation shall determine:
1. The activity requirements for the persons referred to in Article L. 544-1 of the Monetary and Financial Code;
2. The rules of conduct for natural persons operating under the authority or on behalf of persons who produce and disseminate investment analysis as their regular business, and adequate provisions to ensure their independence of judgement and to prevent conflicts of interest.
Article L. 544-1 stipulates that "any person who, as their regular business, produces and disseminates research about corporations making public offerings of securities in order to form and disseminate an opinion about the likely future developments for the said corporations and, as the case may be, about the likely trends in the prices of the financial instruments that the said corporations issue shall be deemed to be engaged in investment analysis".

Furthermore, Directive 2003/125/EC implementing the Market Abuse Directive establishes the principle of fair presentation of investment recommendations and the mandatory disclosure of conflicts of interest.

3 – Former provisions maintained and new provisions added

The AMF decided that with regard to the rules on investment analysis and all of the persons concerned it would:

- maintain the provisions from the CMF regulations with the necessary amendments for the transposition of the Directive;

- extend the provisions from the CMF regulations to portfolio management companies and to analysts working independently of investment services providers.

These provisions can be found in Book III "Service Providers" of the AMF General Regulation.

Under Title II, titled "Investment services providers", Chapter 1 is called "Investment services providers providing investment services other than management for the account of third parties". It contains provisions dealing exclusively with this category of investment services providers. It stipulates that service provider employees producing investment analysis are required to obtain a professional investment analyst licence. Paragraph 7 of Sub-section 4 of Section 3 of the Chapter, which is called "Rules of conduct applicable to the production or dissemination of investment research" reaffirms most of the rules from the CMF regulations, along with the transposition of the European Directive.

Chapter 2 of Title II, titled "Investment services providers performing asset management for third parties", contains provisions on "Rules of conduct applicable to portfolio management companies that produce or disseminate investment research", which are taken from the rules for other investment services providers and

[33] This covers all investment services providers, including portfolio management companies.

adapted to management companies' specific circumstances. However, the provisions on the professional licences do not apply to management companies, since this point needs to be discussed further. The special rules on dissemination of analysis apply to asset management companies only if the employees concerned decide to disseminate their analysis outside of the company.

Title III "Other service providers" in Book III includes Chapter VII on "Investment analysts not associated with an investment services provider". This chapter reaffirms the rules for investment services providers that are not specific to the said investment services providers.

The European Commission Directive 2003/125/EC has been transposed into French regulations dealing with analysis that is likely to be disseminated, but does not cover analysis provided by journalists, who are outside of the AMF's jurisdiction. The transposed provisions are very similar to the provisions contained in the Directive. The AMF General Regulation primarily added the requirement that the compliance officers of investment services providers, working in conjunction with the head of research, must be involved in establishing the procedures for implementing the provisions adopted. This means that, if any difficulties arise in interpreting the provisions, it is up to the compliance officer to deal with them, in keeping with the spirit of the provisions concerned and the specific organisational structure in which the officer works.

The AMF will issue several instructions in 2005 to clarify the implementation of the rules adopted. These instructions should deal with the issues raised previously by the CMF and provide a solution that is compatible with the new national and European regulatory framework.

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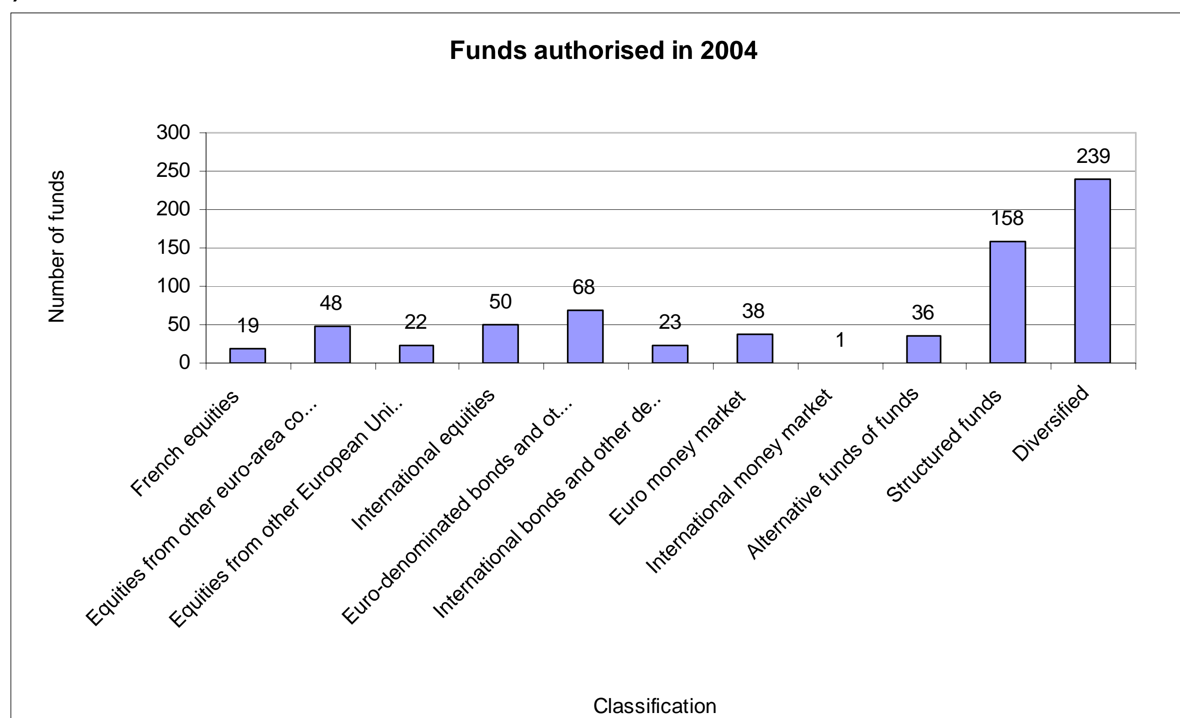
II – GENERAL-PURPOSE PRODUCTS

A – Authorisations in 2004

1) New funds authorised in 2004, by category

Classification	Number of funds authorised in 2004	% of total	Assets* of funds authorised in 2004 at 31/12/2004	% of total	Assets of all funds in this category as a percentage of aggregate fund assets at 31/12/2004
French equities	19	2.7%	8.3	11.9%	4.9%
Equities from other euro-area countries	48	6.8%	10.8	15.4%	4.2%
Equities from other European Union countries	22	3.1%	2.8	4%	2.8%
International equities	50	7.1%	4.3	6.1%	6.5%
Euro-denominated bonds and other debt securities	68	9.7%	12.3	17.6%	11.2%
International bonds and other debt securities	23	3.3%	0.7	1%	7.4%
Euro-area money market	38	5.4%	10.5	15%	34.8%
International money market	1	0.1%	0.1	0.1%	0.1%
Alternative funds of funds	36	5.1%	0.7	1%	1.1%
Structured funds	158	22.5%	9.8	14%	5.5%
Diversified	239	34%	9.7	13.9%	21.4%
Total	702	100%	70.0	100%	100%
Source: AMF	* EUR billions		** including feeder funds		

2)



Source: AMF

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3) Funds declared via the simplified procedure at 31 December 2004, by category

Classification	Number of funds	Assets at 31/12/2004	Assets as a % of total
French equities	1	0.0	0 %
Equities from other euro-area countries	16	0.8	0.9 %
Equities from other European Union countries	5	0.8	1 %
International equities	32	1.4	1.6 %
Euro-denominated bonds and other debt securities	83	7.2	8.4 %
International bonds and other debt securities	24	35.3	41.3 %
Euro-area money market	29	11.9	13.9 %
International money market	2	0.1	0.1 %
Diversified	388	27.4	32.1 %
Guaranteed or protected[34]	35	0.6	0.7 %
Total	615	85.5	100 %
Source: AMF	Assets in EUR billions		

4) Futures and options funds by assets

Assets in EUR millions	Assets			
	More than EUR 100m	EUR 10m to EUR 100m	Less than EUR 10m	Total
Number futures and options funds in 2004	1	14	21	36
Cumulative assets at 31/12/2004	172.4	485.7	75.3	733.40
Number futures and options funds in 2003	3	11	14	28
Cumulative assets at 31/12/2003	485.9	436.0	50.0	971.9
Source: AMF				

5) Authorisations to market foreign funds

As of 31 December 2004, there were 3,139 UCITS or subfunds authorised in the euro-area countries that had obtained marketing authorisations from the AMF. These included 315 funds with no subfunds and 239 umbrella funds with an average of 12 subfunds each.

There was a sharp reduction in the number of marketing authorisations issued in 2004. The number fell from 402 in 2003 to 254 in 2004. Luxembourg continues to dominate the market, accounting for 70% of the EEA funds that have received marketing authorisations in France, followed by Ireland, which accounts for 24%. The United Kingdom and Belgium account for the remaining 6%.

B – Fund assets in 2004

For the second consecutive year, the assets of general-purpose funds increased owing to the combined effects of rising equity markets and a substantial increase in subscriptions. Not counting feeder funds, the assets of general-purpose funds increased by 11% to EUR 936.5 billion at the end of 2004, as opposed to EUR 843.6 billion at the end of 2003.

If feeder fund assets are included, the total net assets of general-purpose funds increased by 10.7% to EUR 1,006.5 billion at the end of 2004, as opposed to EUR 909.4 billion at 31 December 2003.

The number of general-purpose funds registered in 2004 was stable compared to 2003. At 31 December 2004, there were 7,908 general-purpose funds, including 965 open-end investment companies (SICAVs) and 6,943 unincorporated investment funds (FCPs). Compared to 2003, there were 143 fewer SICAVs and their assets declined by 16.9%. On the other hand, the number of FCPs increased by 145 and FCPs accounted for 88% of the products on offer and 75% of the total assets of general-purpose funds.

[34] Changeover in progress.

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Funds by category (excluding feeder funds)

Assets in EUR billions	At 31/12/2003			At 31/12/2004			% change in assets
Funds (excluding feeder funds)	Assets	% of total	Number of funds	Assets	% of total	Number of funds	
Equity funds	148.6	17.6%	1,763	175.4	18.7%	1,712	18%
Bond funds	158.0	18.8%	1,178	181.7	19.4%	1,218	15%
Money-market funds	280.6	33.2%	465	304.4	32.5%	455	8.5%
Alternative funds of funds	--	--	--	10.0	1.1%	126	--
Structured funds	--	--	--	54.7	5.8%	732	--
Diversified funds	198.2	23.5%	2,960	209.7	22.4%	2,942	5.8%
Guaranteed funds	58.2	6.9%	898	0.6	0.1%	36	- 99%
Total	843.6	100.0%	7,264	936.5	100.0%	7,221	11%
Source: AMF							

Funds by category and by assets since 2002

Assets in EUR billions	At 31/12/2002		At 31/12/2003		At 31/12/2004	
Funds (excluding feeder funds)	Assets	% of total	Assets	% of total	Assets	% of total
French equities	42.3	5.6%	44.8	5.3%	48.2	5.1%
Equities from other European Union countries	4.4	0.6%	30.6	3.6%	27.6	2.9%
Equities from other euro-area countries	26.0	3.5%	56.1	6.7%	38.8	4.1%
International equities	49.1	6.6%	17.1	2.0%	60.8	6.5%
Euro-denominated bonds and other debt securities	86.4	11.5%	93.2	11.1%	108.4	11.6%
International bonds and other debt securities	56.0	7.5%	64.8	7.7%	73.3	7.8%
Euro-area money market	263.5	35.2%	279.4	33.1%	303.3	32.4%
International money market	1.2	0.2%	1.2	0.1%	1.0	0.1%
Alternative funds of funds	-	0.0%	-	0.0%	10.0	1.1%
Structured funds	-	0.0%	-	0.0%	54.7	5.8%
Diversified	174.8	23.3%	198.2	23.5%	209.7	22.4%
Guaranteed or protected	45.9	6.1%	58.2	6.9%	0.6	0.1%
Total	749.6	100.0%	843.6	100.0%	936.5	100.0%
Source: AMF						

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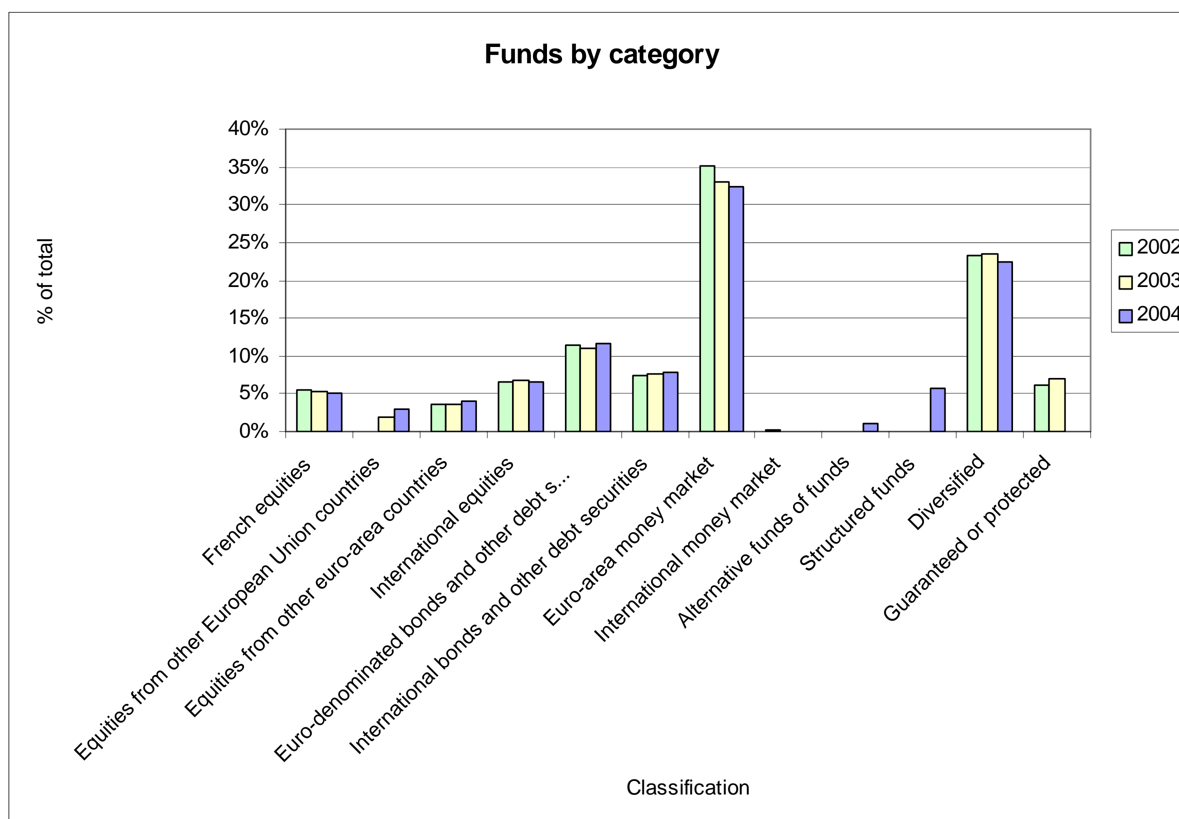


Funds by category and by assets (including feeder funds)

Fund classification	More than EUR 1bn		EUR 0.5-1bn		EUR 0.1-0.5bn		EUR 50-100m		EUR 10-50m		Less than EUR 10m		Total	
	Number	Assets	Number	Assets	Number	Assets	Number	Assets	Number	Assets	Number	Assets	Number	Assets
French equities	8	14.6	15	11.2	69	15.6	52	3.9	132	3.4	93	0.5	369	49.2
Equities from other euro-area countries	4	11.1	15	10.9	64	12.8	53	3.6	132	3.3	95	0.3	363	42.0
Equities from other European Union countries	3	6.2	11	7.2	50	9.2	36	2.5	119	2.7	71	0.4	290	28.2
International equities	2	4.3	16	10.6	146	29.9	151	10.6	314	8.4	240	1.2	869	65.0
Euro-denominated bonds and other debt securities	17	29.7	21	12.9	231	49.5	160	10.9	360	8.7	211	0.7	1,000	112.4
International bonds and other debt securities	7	46.7	7	4.6	76	15.5	68	4.8	124	3.2	41	0.1	323	74.9
Euro-area money market	92	250.7	63	47.3	187	43.7	75	5.1	137	3.6	79	0.3	633	350.7
International money market	0	0.0	0	0.0	4	0.7	6	0.3	4	0.1	3	0.0	17	1.1
Alternative funds of funds	1	1.0	2	1.1	26	4.9	31	2.2	63	1.6	34	0.1	157	10.9
Structured funds	0	0.0	6	3.6	151	31.5	143	10.6	348	9.4	102	0.6	750	55.7
Diversified	26	44.6	47	31.2	421	86.0	321	22.3	1,146	27.1	1,140	4.6	3,101	215.8
Guaranteed or protected	0	0.0	0	0.0	1	0.1	2	0.1	23	0.4	10	0.0	36	0.6
TOTAL	160	408.9	203	140.6	1,426	299.4	1,098	76.9	2,902	71.9	2,119	8.8	7,908	1,006.5
% of total	2,0 %	40.6%	2.6%	14%	18%	29.8%	13.9%	7.6%	36.7%	7.1%	26.8%	0.9%	100.0%	100.0%

Source: AMF

C – Main developments in products

1 - Structured funds

Structured funds are products where the management objective is to produce a predefined performance automatically at the end of the set holding period. The performance depends on market parameters such as index values or a basket of stocks.

This category has seen the strongest growth in the last three years, with EUR 54.7 billion in assets and 750 active funds.

The return on investment is based on a relatively complex mathematical formula. The investors' choices should not be determined by the quality of management over the life of the fund but by their expectations with regard to the market parameters incorporated into the fund structure.

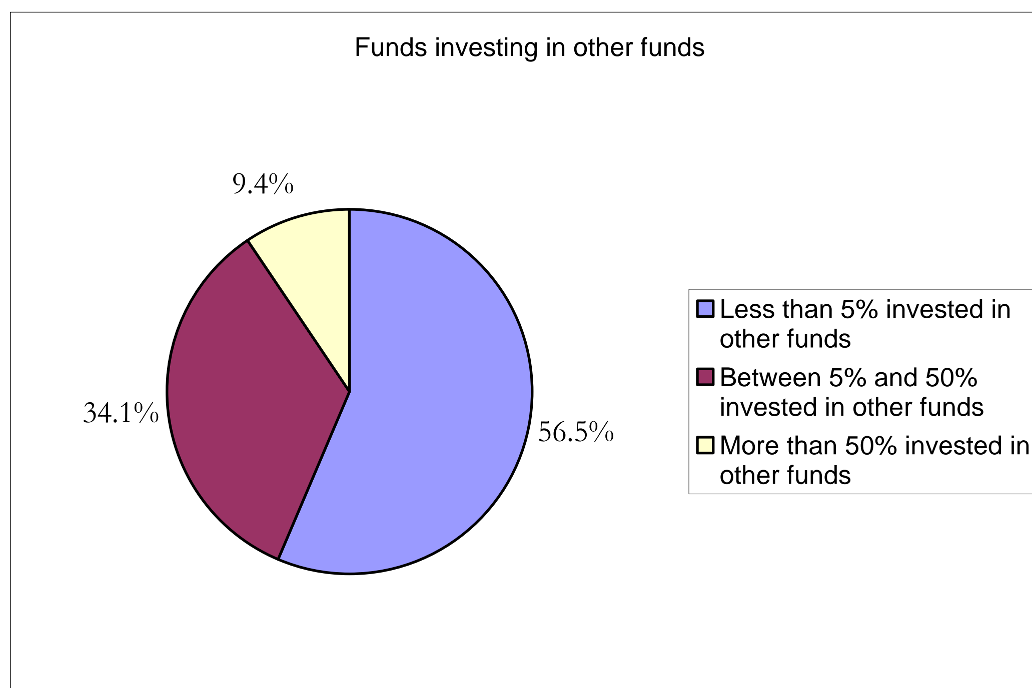
Over the year, the AMF paid particular attention to the marketing documents produced by this type of fund, taking special care to ensure that the information provided to potential investors was as clear as possible.

The AMF required all offering circulars for such products to include the following printed warning: "this fund is designed for investments covering the whole holding period, meaning for redemptions at the given maturity date(s)". Redemptions at other dates will be made at prices that depend on market parameters on the date in question [less a redemption fee of XX%]. Therefore, subscribers will incur a non-measurable capital risk if they need to redeem their investments before or after the given date(s)."

2 – Funds investing in other funds

Since 1998, funds organised under French law have been allowed to invest all of their assets in other French funds or foreign UCITS covered by the mutual recognition procedure established by Directive 85/611/EEC.

With the growth of multi-management funds, the number of funds investing more than 50% of their assets in other funds has increased significantly since their inception. They now account for 20.8% of the total number of funds, with 1,500 products and 9.4% of the total assets of general-purpose funds.



Source: AMF

3 – Master funds and feeder funds

The use of feeder funds provides management companies with economies of scale and enables them to market several feeder funds to different clienteles. These funds are legally independent from each other, but they are fully invested at all times in the same master fund.

As of 31 December 2004, there were 577 master funds with total assets of EUR 209.4 billion[35], which represents 20.8% of the total assets of general-purpose funds, as opposed to 18.3% in 2003, when there were 501 master funds with total assets of EUR 166.2 billion. The figures testify to the strong growth in the number of master funds and their assets in recent years. The number of funds increased by 15.2% and assets by 26% over the year, marking the fourth consecutive year of rapid expansion.

[35] Master funds are not used exclusively for feeder funds.

At the same time, there were 696 feeder funds with total assets of EUR 71.6 billion, as opposed to 642 feeder funds with total assets of EUR 65.8 billion at 31 December 2003. The number of feeder funds increased by 8.4% and their assets grew by 8.8% over the year, echoing the growth of master funds. Feeder funds now account for 7.1% of the total assets of general-purpose funds, which is virtually the same share as in 2003. Since all of the feeder fund assets are included the master fund assets, the latter are the only assets counted in aggregate assets of general-purpose funds in order to avoid double counting.

In 2004, the ratio of feeder funds to master funds was 1.2. Feeder funds enable managers to profit from scale effects produced by master funds, which explains the growth of this type of fund, particularly for money-market asset management. Since 1 April 2004, different categories of shares can be created within the same fund. This means fund managers are bound to use this type of structure instead of using feeder funds in the future.

4 – Alternative funds of funds

Alternative funds of funds have more than 10% of their assets invested in other French or foreign funds that implement "alternative" management strategies, meaning strategies that do not track market indices. Even though such funds have been available in France for many years, they have only been defined as a separate category since the publication of the COB Instruction of November 2003 on the full fund prospectus and after long discussions with the industry to clarify the situation.

This new category of fund, which accounted for only about EUR 1.6 billion in assets in 42 funds back at the start of 2000, has expanded rapidly. At 31 December 2004, there were 157 such funds with assets of EUR 10.9 billion.

These funds are not always as liquid as other types of funds and they are subject to special regulations. Management companies must have their programme of operations approved by the AMF before they can manage and market such funds. The programme must explain the management procedures for selecting and monitoring alternative funds and the risk management tools. A special warning is printed in the prospectuses of these funds to alert potential investors to the restricted liquidity of such funds and the fact that they are primarily designed for investors who do not require instant liquidity.

5 – Index funds

Index funds are products where the management objective is to match changes in a market index. Index funds include exchange-traded funds, which track a given index but can still be bought and sold throughout the trading session, just like conventional securities. The price of funds tracking European indices cannot deviate by more than 1.5% from their net asset value.

Part II of Article 16 of Decree 89-623 defines the characteristics of indices that are eligible for this type of fund. The indices must comply with three principles[36]: the composition of the index must be adequately diversified, the index must be representative of the market it tracks, and the procedures for establishing and disseminating the index must be satisfactory.

There were 199 active index funds at 31 December 2004, accounting for EUR 23.2 billion in assets, as opposed to 190 funds in 2003, with total assets of EUR 17.2 billion.

6 – Umbrella funds

Each fund may include one or more subfunds. Separate categories of shares or units are issued to represent the fund assets attributed to the subfunds in question. Umbrella funds make it possible to juxtapose several portfolios within a single open-end investment company (SICAV) or unincorporated investment fund (FCP) with a single name and investors may be allowed to switch from one subfund to another. This structure means that a fund may have more than one management strategy and can offer a variety of investments while benefiting from economies of scale.

The Financial Security Act fostered the development of such products by stipulating that the subfunds within an umbrella fund are financially independent of each other. This led to rapid growth of this type of fund in 2004.

As of 31 December 2004, there were 73 umbrella funds with total assets of EUR 8.2 billion held in 241 subfunds. This works out to an average of 3 subfunds per fund, as opposed to 30 umbrella funds and 130 subfunds with assets of EUR 6.6 billion at 31 December 2003.

[36] For further information see the AMF monthly review, issue 6 (September 2004).

Umbrella funds tend to invest in international equities and European equities[37], which respectively account for 51.2% and 25.6% of their total assets.

The figures show that diversified subfunds account for 42.7% of total subfunds and international equity subfunds account for 20.3% of the total.

[37] Including euro-area equities and European Union equities subfunds.

Important: The following English text is a translation of extracts from the French version of the 2004 Annual Report. Only the original French text has any legal value. The AMF expressly disclaims all liability for any inaccuracies in the translation.

III – MARKET INFRASTRUCTURES

The concentration of market activity and infrastructure continued in Europe with major projects, harmonisation, changes and adaptations in 2004.

The task of evaluating these changes was carried out by the French authorities in close consultation with the Belgian, Dutch, Portuguese and UK regulators that supervise the groups concerned.

Developments in clearing infrastructure included the completion of the merger between the French and UK clearing houses on 2 January 2004.

This merger, which the CMF approved on 23 July and 23 December 2003, has led to the following practical changes:

- The French and UK clearing houses are now called LCH.Clearnet SA and LCH.Clearnet Ltd.
- The two clearing houses now belong to the joint holding company incorporated under UK law, which is called LCH.Clearnet Group Ltd. Yet, because the company is classified in France as a financial holding company, as defined by the European banking directives, it is subject to the consolidated prudential supervision of the French banking commission, even though it is a UK company.
- A management team will be set up for the whole group and, in the near future, the holding company will develop risk monitoring of the clearing members belonging to both clearing houses, in addition to the monitoring that LCH.Clearnet SA and LCH.Clearnet Ltd perform independently as they continue to conduct their own clearing house activities completely independently.

The restructuring of the Euroclear Group, which was approved by the AMF on 20 July 2004 and completed on 1 January 2005, was one of the main developments with regard to securities settlement infrastructure.

The takeover bids for the London Stock Exchange announced in December were newsworthy but had no impact on activity in 2004.

A – Euronext activity and regulation

1 – Regulation of value-weighted average price orders (VWAP)

On 16 November 2004, the AMF granted the application for approval from Euronext for changes to its harmonised rules (Book I).

Some of the changes involve minor adjustments of general provisions required by the technical migration in November 2004 of the Amsterdam derivatives market to the LIFFE CONNECT trading system used by all of the other derivatives markets in the Euronext Group.

The other changes completed the trading rules for the Dutch, Belgian, Portuguese and French Euronext marketplaces. These rules are in Chapter 4 of the harmonised provisions (Book I) and they introduce a new type of weighted average price order called VWAP. As is the case with cross trades and block trades, this type of regulated market trade is not handled through the central order book. Institutional investors, especially management companies seeking to protect themselves from price swings on volatile markets, are keen to use VWAP orders. The AMF examined this new type of order in close consultation with the Dutch, Belgian and Portuguese authorities under the terms of the cooperation agreement signed in 2001.

At the same time as the VWAP order was introduced for trades on regulated markets, the AMF General Regulation was amended to allow these orders to be placed on the over-the-counter market, as an exception to the principle of order centralisation on regulated markets. In keeping with this principle, authorisation to execute VWAP orders off regulated markets is subject to a minimum trade amount and conditions regarding the reference price used. The trade must be for EUR 500,000 or more and the weighted average price for the reference period must be within 1% of the weighted average price observed for the security in question on the regulated market during the reference period.

2 – Changes to listing arrangements

On 14 June 2004, Euronext Paris presented the outline of its project for reforming its listing arrangements. The changes are being introduced to make the new list more understandable and create a more favourable

environment for the growth of mid-caps. The two main measures being taken are the creation of a single regulated market on 21 February 2005 and the launch of a new, exchange-regulated market called Alternext.

After discussions that started in the summer of 2003 with a group of industry representatives based on the observation that mid-caps (companies with a market capitalisation of less than EUR 1 billion) account for the dominant share of listed companies and that regulatory changes stemming from the implementation of the European Commission's Financial Services Action Plan provided an opportunity for unifying the list, Euronext Paris decided to introduce a single list called "Eurolist by Euronext" on 21 February 2005. Eurolist brings together on a single market all the companies that used to be listed on the Premier Marché, Second Marché and Nouveau Marché lists. This market imposes the same listing and disclosure requirements for all companies.

A number of measures were taken to make the list more understandable and foster its growth.

- A classification was established that divides companies into three groups, according to their market capitalisation: large-caps (more than EUR 1 billion) mid-caps (between EUR 1 billion and EUR 150 million) and small-caps (less than EUR 150 million).
- The range of indices will be changed, with new indices for mid-caps, changes to the technology stock indices and the creation of a broad index.
- Brokers can be accredited as small-cap and mid-cap experts if they track and analyse some sixty stocks and publish annual analysis with half yearly updates, news of important events, and so on.

These changes also led to the establishment of Alternext. The purpose of this new, exchange-regulated market is to provide new financing opportunities for European companies. To this end, the Alternext listing requirements will be simpler than those for regulated markets. However, the market rules include disclosure requirements for issuers wishing to list their securities on this market. The AMF, in consultation with Euronext Paris, decided to extend the provisions of Book VI of the AMF General Regulation, which ban price manipulation and the use of inside information, to the new market.

Furthermore, Euronext Paris has no plans to change the rules for the Marché Libre, which will be neither an organised nor a regulated market.

B – LCH.Clearnet SA activity and regulation

In 2004, the AMF granted its approval for the following changes:

a) 2 March, replacement of the ISB[38] technical platform with Settlement Connect and the introduction in Paris of "Payment Agents" and "Settlement Agents", and the ensuing changes to Title IV of the clearing rules (this Title covers the provisions applying to the clearing of French securities).

The changes to the rules primarily concerned updates and the introduction of a supplementary margin call for "de-netting" to cover the additional risk incurred by spreading securities settlement over several "settlement addresses" and the resulting "decoupling" of settlement from the net "open positions", which are used as a basis for calculating the margin calls made to clearing house members.

b) 16 March, migration of Portuguese derivatives to Clearing 21 ®[39], and the changes made to Titles I and VI of the clearing rules.

This migration led to the deletion of nearly all of the articles in Title VI, which contained the provisions on clearing Portuguese derivatives. Clearing of these securities is now governed by the provisions of Title I, which apply to all Euronext securities in Paris, Amsterdam, Brussels and Lisbon.

c) 1 April, amendment to Article 1.7.2.3 of Title I of the LCH.Clearnet SA operating rules as a result of the non-renewal of the insurance policy taken out through Chubb France.
On the same day, the AMF approved the deployment of the Settlement Connect technical platform in Belgium and the ensuing amendments to Titles III and IV of the clearing rules.

d) 16 April, the deployment of Settlement Connect in the Netherlands, where it replaced the CNS system that had been used to integrate cleared trades into the Euroclear Nederland[40] securities settlement system, and the ensuing amendments to Title II of its rules, which contains the provisions applying to Dutch Clearing Units.

[38] ISB (formerly called Inter Sociétés de Bourses) is the current technical platform linking LCH.Clearnet SA to its clearing members and Euroclear France. The clearing house uses this platform to integrate trades cleared through the Euroclear France and Euroclear Bank securities settlement systems.
[39] This is the technical platform currently used by LCH.Clearnet SA for clearing French, Dutch, Belgian and Portuguese securities and derivatives.
[40] Dutch central securities depository, fully owned by Euroclear Bank

e) 17 May, extension of LCH.Clearnet SA's activities to clearing Dutch securities traded on the London Stock Exchange and the ensuing amendments to Titles I and II of its operating rules, which contain the provisions applying to all clearing house members and Dutch securities, respectively.

f) 8 June, an application from the new director of the clearing house's internal audit and control department for a professional licence in his capacity as the head of audit for clearing house members and the compliance officer for the clearing house and its employees.

g) At the same meeting, the memorandum of understanding on coordinating the supervision of LCH.Clearnet Group for signature by all of the relevant French, Dutch, Belgian and British authorities.

h) 19 October, amendments to Titles I, III, IV and V of the clearing rules. In addition to some explanations and clarifications, these amendments included the introduction, in Article 5.3.0.1., of a paragraph that explains at what point the trades received by the clearing house systems become final and irrevocable.

A – Euroclear France: activity and regulation

In 2004, the AMF also approved the following changes:

a) At its 15 April and 21 September meetings, the plan for deploying a "mutual guarantee fund" and "individual guarantees" in order to enhance the security of the end-of-day finality channel in the RELIT Grande Vitesse 2 settlement system and the subsequent amendments to the system operating rules.

b) 20 July, the change of direct ownership of Euroclear France and the changes in its technical, human and financial resources planned as part of the restructuring of the overall group. In practical terms, this restructuring involved:

- the incorporation of Euroclear SA in Belgium, which is the new parent company for the Dutch, French and UK central depositories, along with the Belgian bank, Euroclear Bank.

- the transfer of a number of support functions to Euroclear SA and its branches. The transferred functions include development, operation and provision of data processing services, audit, financial management, risk management, legal affairs, human resources, product management, business model design and harmonisation. Euroclear SA is the internal service provider for the group and, as such, it will not take on the role of central depository or securities settlement system management. The restructuring did not lead to any changes in the operating rules of either RGV2 or the central securities depository.

c) 23 December, extension of the splitting procedure initiated by Euroclear France for the instantaneous finality channel in RGV2 and the subsequent introduction of the new Article 6-46 in the system operating rules.

D – Takeover bids for the London Stock Exchange (LSE)

On 13 December 2004, the management of Deutsche Börse (DBAG) announced an unsolicited bid to take over the London Stock Exchange (LSE). The bid valued the LSE at EUR 1.95 billion. DBAG's offer, which was explained in detail on 27 January 2005, projected savings of some EUR 100 million from synergies.

LSE management quickly rejected the DBAG bid when it was announced, maintaining that the offer price offered was too low and the outlook for implementing the plan was uncertain. In its press release, the LSE stated that it was nonetheless willing to continue discussions with DBAG.

On 20 December 2004, the Euronext Group confirmed that it was considering a counter-bid for the LSE. The contents of the offer were presented on 9 February 2005, but with no information about the price. This bid put the potential synergy savings at EUR 200 million. The bidder stressed the synergy between the LSE cash market and the Liffe derivatives market, which the Euronext Group already controls. The bid also called for the London clearing and settlement infrastructure to remain in use.

On 5 March 2005, the management of Deutsche Börse announced that it was withdrawing its bid, but reserved the right to make another offer later on, if a rival bid is made, especially by Euronext.

At this writing, no takeover bids have gone through to completion. Regardless of potential offers from rivals, the position of competition authorities, particularly at the national level, are likely to shape the ultimate scope of such bids. The UK Office of Fair Trading (OFT) issued a decision on 29 March 2005 referring both the Euronext and DBAG bids to the Competition Commission, which was to announce its findings on 12 September 2005. According to the OFT press release announcing the referral of the bids to the Competition Commission, the Commission's analysis should focus on the potential impact that the rival bids would have on clearing and settlement infrastructure.

Although the AMF is not called on to give its position on the merits of the bids that are likely to be made by two companies listed on regulated European markets, it undertook a detailed assessment of the potential repercussions for financial markets in Paris. It will ensure that any undertaking managing a French regulated market has adequate means and structures in France. In this vein, the AMF will continue to work with the Euronext Group regulators, including the UK Financial Services Authority, in accordance with the coordinated market supervision agreements signed in 2001 and 2003. More specifically, the AMF helped to set up a joint analysis group to look into the takeover bid. This group is due to continue its work in the coming months.