



## AMF's New Strategy Proposals

29 June 2009

## EXECUTIVE SUMMARY

The financial crisis has undermined the confidence of investors and shareholders in the financial system. It has brought to light serious failings, especially in the process of producing and distributing financial products. And it has exposed weaknesses in all financial systems, even though some financial centres have proved more resilient than others. In Europe retail investors have particularly suffered because of a regulatory race to the bottom, at a time when the level of protection they are afforded varies from one country to another.

Many investors now show a preference for liquid savings. However, our economy needs long-term investment in a production system that has to focus increasingly on sustainable development. Financing is also necessary to pay for pensions and long-term care. We need to reassure investors in order to win them back to long-term financing. But this will be possible only if such investments inspire their confidence and meet their needs. Regulation is one way of fostering that renewed confidence.

The financial crisis has also shown the dangers stemming from self-regulation and from the spread of fragmented markets, where a growing number of increasingly complex products are traded without organisation, oversight or transparency.

The G-20 was the first body – in Washington in autumn 2008 and again in London in March 2009 – to provide regulators with a roadmap for tackling the most blatant shortcomings. It called for particular attention to be paid to the lack of coordination and information exchange among regulators, with a view to achieving closer scrutiny of risk as well as better monitoring of market participants and products that are not constrained by borders. Next came the turn of the European Council, which is preparing to adopt its own programme based on recommendations put forward by Jacques de Larosière. A new supervisory architecture will be established by creating European supervisory authorities with binding powers. Forming a network of national regulators – one for banking, one for insurance and a third for financial markets – will make it possible to harmonise the powers of Europe's regulatory authorities.

The AMF must draw practical conclusions from these deep-seated trends. It has carried out a review of its policy priorities and organisational structure, marshalling the findings in a strategic plan.

The AMF is charged by the Monetary and Financial Code with ensuring that investments in financial instruments are secure, that material information is transparently disclosed, and that financial instruments markets operate smoothly. It has direct oversight over management companies, their collective investment schemes, and investment services providers, working in collaboration with the Commission bancaire (CB). The AMF's priorities for the coming years will be based on three main lines of action:

- Enhancing investment protection and bolstering the confidence of individual investors;
- Delivering heightened risk monitoring, closer supervision of market participants, and more effective enforcement;
- Playing a more active role in efforts to increase the attractiveness of the French markets, for the benefit of investors and the financing of the country's economy.

**① At domestic level, these three priorities will be embodied in a series of concrete actions, including:**

- Creating an investor relations division to handle all the AMF's activities aimed at this constituency, including consultations, mediation and educational programmes;
- Developing new tools to monitor the marketing and sale of the financial products over which the AMF has jurisdiction. This involves overseeing advertising campaigns, disseminating consumer alerts, stepping up point-of-sale inspections, mystery shopping, and creating a Saving and Investment Product Observatory in collaboration with the insurance and banking supervisors (ACAM, CB);
- Setting up an in-house risk committee to identify early-stage risks more easily, in collaboration with other regulators, so as to programme inspection and monitoring procedures more effectively;
- Promoting organised or structured markets that ensure transparent, secure trading and appropriate financing for the economy, particularly small and medium-sized businesses;
- Extending the scope of supervision to all markets and products (over-the-counter markets, derivatives, etc.), in tandem with other national, European and international regulators, in order to monitor significant financial trends and market participants' strategies (investment services providers, asset managers), and prevent and detect market abuse, and develop new IT tools for these purposes;
- Encouraging best practices for corporate governance and for the full exercise of minority shareholders' rights. In particular, further to the report on the corporate governance of listed companies and the implementation of the AFEP/MEDEF recommendations, the AMF will formulate proposals on the transparency of executive directors' remuneration;
- Pursuing the Better Regulation initiative; and in particular, continuing to rationalise the dissemination of AMF policy in order to make it more accessible and understandable for users;

In addition, the AMF is willing to assume any new responsibilities the public authorities might wish to entrust to it in order to better monitor the marketing of financial products that are increasingly substitutable. The AMF also reiterates its wish to acquire dispute settlement powers with a view to improving the compensation of retail and institutional investors.

**② The AMF will defend its policy priorities at European and international levels. In particular it will:**

- Support, through the Committee of European Securities Regulators (CESR), ambitious measures to encourage integrated financial supervision. For this the AMF will see to it that the new European financial authority is able to duly exercise the powers of initiative, interpretation and arbitration with which it is due to be vested;
- Call for an early review to assess how the Markets in Financial Instruments Directive has impacted the fragmentation and transparency of European equity markets; and support initiatives aimed at harmonising market practices across financial centres in Europe;
- Contribute to promoting international accounting standards that reflect the business realities and investment horizons of the corporate sector;
- Support discussions and actions underway at European level to simplify pre-contractual disclosures by collective investment schemes and refocus them on key investor information; argue for this approach to be extended to other financial products;
- Back requests from retail investors to defend their views more effectively at European level;
- Propose a uniform approach to the 27 Member States for assessing the methods used by credit rating agencies registered in Europe;
- Emphasise all the risks associated with the possibility of issuing a European passport to offshore hedge funds;
- Defend a European regulatory framework to encourage private equity;
- Support initiatives to establish an OTC derivatives clearing infrastructure in the euro area.

The AMF will continue to forge closer relations with its counterparts in the main partner countries of the European Union, especially the US Securities and Exchange Commission.

Pursuant to the commitment made by the AMF Chairman, the strategic plan and policy priorities are being presented to stakeholders. An implementation schedule will be drawn up and the resulting resources and reorganisation measures will be in place by the beginning of the fourth quarter. Efforts will also be pursued to cut costs and keep spending under control. In any case, additional resources will be needed to put this strategic plan into effect. In collaboration with the public authorities, the AMF will determine the necessary human and financial resources, while ensuring sustainable income streams and a balanced budget.

Implementation of the plan will begin in the second half of 2009.