

AUTORITÉ  
DES MARCHÉS FINANCIERS



Annual report 2005 Summary

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# REPUBLIC OF FRANCE



## The Chairman

9 May 2006

Mr President,

It is my distinct honour to present this third annual report of the Autorité des Marchés Financiers (AMF) to you and to parliament.

Financial activity was both brisk and sustained across equity, bond and derivatives markets in 2005.

Despite rising oil prices and simmering tensions in the Middle East, investor confidence was bolstered by robust global growth, quiescent inflation and relatively low long-term interest rates. Most equity indices posted double-digit gains, while risk premia and price volatility remained remarkably low.

With economic growth in Europe picking up moderately, the French market was strongly bullish: the CAC 40 index of leading stocks gained 23 per cent, equity trading volume on Euronext rose 11 per cent, and the market capitalisation of companies listed on Euronext Paris reached €1,491 billion at 31 December, ranking the exchange fifth in the world.

The recovery in initial public offerings (IPOs) that began in 2004 gathered momentum last year, with 42 listings on Eurolist and on Alternext, the new organised market. The total raised in new equity in 2005 reached €13.5 billion, including €10.5 billion from the partial privatisation of the power utilities EDF and GDF.

But despite the upturn, the number of IPOs was well below that in the United Kingdom – AIM, the London growth-stock market, was in excellent health with 624 new additions – and was insufficient to make up the number of delistings from Euronext Paris, which had 749 companies listed at 31 December 2005, compared with 3,091 for the London Stock Exchange and 764 for Deutsche Börse.

The market's net contribution to corporate funding (minus share buy-backs) in 2005 was positive for the first time in several years.

The French asset management industry had a particularly gratifying year. Assets managed in collective schemes grew by nearly 15 per cent to reach €1,155 billion at 31 December, keeping France in top place in the European rankings.

Furthermore, 2005 was a busy year in terms of new legislation. This activity resulted directly from the transposition into French law of the directives originating from the European Commission's Financial Services Action Plan and, more generally, from efforts to adapt our regulatory framework to the impact of capital market globalisation.

The AMF was involved in preparing and implementing several major legislative and regulatory developments, notably by updating its General Regulation. Two pieces of legislation in particular – the Economic Confidence and Modernisation Act and the DDAC Act, which transposed various aspects of

European Union (EU) financial legislation – were informed by the adoption of EU directives on market abuse, issuance prospectuses, and transparent disclosure. The legal environment in which securities-issuing companies operate was thus clarified and modernised.

In 2005, the AMF established the operating framework for financial investment advisers (FIAs) in its General Regulation and approved the first FIA professional associations. We have thus completed the procedure provided for in the Financial Security Act of 1 August 2003.

Another milestone in 2005 was the transition to International Financial Reporting Standards. This demanded a huge effort from listed companies, and the AMF assisted them by issuing a variety of publications in collaboration with the main front-line agencies, including the national accounting board, the national auditors' institute, and the Committee of European Securities Regulators (CESR).

Significant developments also occurred in the field of savings products. These were driven not just by new EU rules but also by efforts to strike a balance between investor protection requirements and the tireless innovation that typifies this sector, amid intensifying competition between industry players and marketplaces.

The AMF's regulatory process hinges on consultation and concerted action. In addition to the regular activities of its consultative commissions and its dialogue with industry representative bodies, the Authority organises a number of cross-market projects directed by one or more members of its Board. In 2005, four working groups finalised their reports: the Naulot group on independent valuation and fairness opinions, the Demandolx Dedons group on independent investment research, the Mansion group on voting at general shareholder meetings, and the group on investor education in France, chaired by Claire Favre and Jean-Claude Mothié. In early 2006, Board Member Jacques Delmas-Marsalet submitted a ground-breaking report to the finance minister on financial product marketing – a key issue that is all the more important because products are becoming more and more sophisticated and, increasingly, are being sold across borders. Finally, the working group on takeover bids, chaired by Claire Favre and Dominique Hoenn, submitted its conclusions, which will guide the Board's decisions on enforcing the recently adopted law transposing the Takeover Directive. On this point, let me mention that France will boast a framework that meets the highest international standards while safeguarding investors' interests and encouraging fair competition between bidders and targets.

Because of the buoyant market conditions in 2005, the AMF's routine workload was particularly intense: issuing individual authorisations, approving investment services providers and their programmes of operations, authorising products, vetting tender offers, approving prospectuses and offer documents, and registering shelf registration documents. Nevertheless, in addition to these day-to-day tasks, the AMF continued to carry out its role of market surveillance, supervision and discipline with a firm hand.

It analysed 1,700 anomalous situations, ordered 88 inquiries and 107 on-site inspections, initiated 34 sanction proceedings and handed down 32 decisions involving 79 individuals and entities, 51 of whom were sanctioned. Eighteen appeals against some of these decisions were lodged with the State Council or the Paris Appeals Court. Furthermore, 31 cases were passed along to other authorities, including 25 to the prosecutor's office.

As I said last year, I hope that changes will be made to this enforcement framework, notably by increasing maximum penalties and introducing a settlement procedure, as proposed by the Board. Along with its most dynamic fellow-regulators, the AMF pursues a range of activities in the fields of prevention, mediation and education. The Ombudsman Service, for example, handled nearly 2,000 cases in 2005, including 485 requests for mediation and more than 1,500 inquiries.

A training institute for retail investors was set up on 26 April 2006, in line with the recommendation of Favre/Mothié working group. The institute's financing must be increased and stabilised so that it can develop its activities effectively.

Allow me also to draw attention to the growing European and international dimension of the AMF's work – a dimension that has a powerful influence on almost every area. This is true not only of rule-making, which now depends heavily on EU legislation and international standards, but also of routine activities, which are increasingly affected by cross-border transactions and deals. For this reason, the AMF is closely involved in the work of international standard-setters, especially the International Organisation of Securities Commissions and CESR, and does its utmost to promote effective

regulatory cooperation, without which market supervision would be pointless. In particular, we are pushing for the removal of international hurdles which, for legal, technical or behavioural reasons, are preventing some jurisdictions from clamping down on market abuse. This is crucial for the stability and integrity of financial markets.

The vitality and competitive strength of the Paris financial marketplace is strategically vital for France and, hence, for the AMF. It is key to the optimal financing and expansion of our companies; it is a crucial tool for allocating people's savings as safely and gainfully as possible; and it is a major source of highly skilled, high value-added employment. In sum, it makes a essential contribution to our dynamism and influence.

In this respect, special attention must be paid to the future of trading and post-trade infrastructures. Major structural changes will clearly have to be made to ensure they expand and remain competitive against a backdrop of European integration and globalised financial markets. However, these developments must serve the interests of the financial community at large, while meeting users' needs and respecting the principle of competition that underpins the construction of the single market in financial services.

Quality of regulation is one of the aspects that market participants take into account when deciding where to locate their activities, notwithstanding the host of other factors – tax, welfare system, infrastructure, quality of life – that make for a business-friendly environment. The AMF is keenly aware that, to a large extent, financial market regulation is in competition and that, after several years' intense legislative activity, a feeling of regulatory fatigue has set in among some market participants, even though much remains to be done. For that reason, we decided to undertake an in-depth review of our methods in 2006, with a view to achieving "better regulation", to use the term in vogue in the world's major financial centres.

The aim is to give greater consideration to factors such as opportunities, risks, costs and benefits when setting and enforcing rules on a daily basis. In short, to achieve a better match between resources and objectives and thus strike a more even balance between the need to protect savings and investment and the need to foster efficient markets. The main areas in which we will try out this approach are trading and post-trade infrastructures, the marketing of savings products, and the implementation of the new Markets in Financial Instruments Directive, which will radically alter the workings of the French market.

To ensure that the "better regulation" approach is effective, the AMF will have to make fresh efforts and listen even more closely to market participants. In 2005, the Board and staff of the AMF once again demonstrated the strength of their commitment and their exceptional professional qualities. For this reason, I am fully confident that, together, we can successfully meet future challenges.

Yours truly.

A handwritten signature in black ink, appearing to read 'Michel Prada', with a long horizontal flourish extending to the right.

Michel Prada