

AUTORITÉ
DES MARCHÉS FINANCIERS



Annual Report
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Summary



REPUBLIC OF FRANCE



The Chairman

8 June 2007

Mr President,

It is my distinct honour to present this fourth annual report of the Autorité des marchés financiers (AMF), for 2006, to you and to parliament in accordance with Article L.621-19 of the Monetary and Financial Code.

Macroeconomic and financial conditions were favourable in 2006, with brisk global growth, robust corporate profits, and long-term interest rates still at all-time lows. Against this backdrop, equity markets continued to rise, trading volumes were high and price volatility was low. However, persistently large imbalances in world trade combined with the resulting uncertainty among market participants about the outlook for inflation, growth and some asset prices triggered a sharp mid-year correction. This was followed by a recovery that is still in progress.

Despite the moderate rate of growth in France, the Paris equity market – like most of its peers – had an excellent year:

- the CAC 40 index of leading shares rose 17.5% to reach 5,541 points at 31 December (it stood at 6,922 points on 4 September 2000);
- the market capitalisation of Euronext Paris grew 23.5% to €1,842 billion, equivalent to the gross national product of France;
- the primary (or new listings) market extended the recovery that began in 2005, with 109 initial public offerings on Euronext, including 82 in Paris. This vigorous performance was attributable in particular to the success of Alternext, the new market for mid-cap growth companies. However, it pales in comparison to the performance of London and has not yet reversed the trend towards a decline in listings – though this is largely due to the delisting of "multi-listed" foreign companies;
- corporate restructuring continued at a sustained pace, driven by through public offerings (albeit fewer than in 2006) and private equity funds, which are actively targeting large listed companies.

The Paris bond and derivatives markets in Paris were once again hit by competition from better-positioned markets – language factors played a key role in this respect – and from rapid growth in over-the-counter trading. It should be noted, however, that some French firms are highly active in these markets, both in terms of trading and of product origination.

One highlight was the robust performance of the asset management industry, which is European leader for collective investment schemes. Total funds under management grew 15% in 2006 to reach some €2,500 billion, of which more than €1,400 billion in collective investment schemes. The French industry stands out because of its entrepreneurial drive (the AMF registered 42 new asset management companies in 2006, taking the total to 500), its ability to create new investment instruments (the AMF registered 1,247 new schemes, for a total of 10,857) and its remarkable capacity for innovation

(especially in so-called "alternative" investing, which relies on increasingly sophisticated techniques). This highly positive development is taking place amid heightened competition in Europe, due to European Union (EU) legislation that encourages cross-border activities. At 31 December 2006, some 4,000 UCITS funds or subfunds were available to French investors, of which 777 were "passported" in 2006 (a 125% rise on 2005) and 75% were registered in Luxembourg.

Naturally, the vibrancy of the French financial markets required a greater effort from the AMF, not just in the field of market discipline but also in regular activities such as accrediting and registering intermediaries, issuing authorisations and approvals for financial products and corporate financing transactions, and updating regulations.

France's financial centre is fundamentally sound, certainly on a par with the world's leaders. But preserving this integrity demands constant vigilance and, where necessary, firm action against those guilty of misconduct and market abuse. This vigilant stance is evidenced in intensive market surveillance, carried out on daily basis with a sophisticated technical system, and in the number of investigations (84) and inspections of intermediaries (105). At the same time, the number of sanction proceedings (35 proceedings were opened and 30 decisions handed down in respect of 20 legal entities and 25 individuals) and the more than €18 million issued in financial penalties reflect the firm-handed approach.

After a long period of instability, the AMF's sanction procedure is now broadly appropriate. Some aspects could be improved, however, and fresh proposals to that effect will be submitted to the government shortly.

There were several noteworthy corporate finance deals in 2006:

- the initial public offerings of Aéroports de Paris and EDF Énergies Nouvelles;
- the offerings for the creation of listed real estate investment companies (SIICs) and the conversion of land investment companies to SIIC status, due to the popularity of this new vehicle;
- Mittal's public tender offer for Arcelor, which entailed unprecedented – and highly efficient – cooperation between several European regulators;
- the launch of the merger between the New York Stock Exchange and Euronext, finalised in 2007. In yet another demonstration of cooperation, the five European regulators concerned by the merger worked harmoniously together to ensure the independence of European market regulation. They then teamed up with the US Securities and Exchange Commission to build an appropriate framework for joint supervision of the new group. Allow me to stress the importance placed on monitoring the changes that are now under way in trading and post-trade infrastructures.

From a work organisation perspective, the operational process of taking over the responsibilities of the AMF's predecessors, COB and CMF, in the field of public tender offers was completed in 2006. This marked the successful completion of the merger, which went through without incident or interruption.

With regard to listed company disclosures, 2006 was the first full year of enforcement of the new Prospectus Directive, issued on 31 December 2003 and transposed into French law in September 2005. The AMF was also kept busy monitoring compliance with the new International Financial Reporting Standards norms and participating in their interpretation.

In the field of asset and financial product management, the AMF had to keep abreast of the increasingly sophisticated products and vehicles submitted to it for approval. The new system of rules governing financial investment advisors is now in force. Recent developments in intermediation for retail investors have cast an existing problem in a new light. At issue is the balance between the controls carried out by the regulator to check the capability and resources of service providers, the transparency and special risks of investment products, and the methods used to market these products to different consumer categories. Increasing attention is being paid to these matters, not merely in France but also in Europe as a whole. Let me say in passing that this issue forms part of a regulatory and competitive framework that is both cross-border and cross-sector. (In some cases, highly similar products,

especially collective investment schemes, "structured" products and life insurance, may be subject to different regulations because of the category of firm that is marketing them.)

By and large, 2006 intensified the process of deep-seated regulatory change that has been in train for the past few years, mainly in connection with the implementation of the EU Financial Services Action Plan.

Every aspect of the AMF General Regulation was affected by what amounts to a full-scale revolution, particularly in the way that the market is organised. Mention should be made of the transposition work for the Transparency Directive, which governs mandatory periodic and ongoing disclosures by listed companies. The quality of these disclosures depends to some degree on the companies' internal control systems, and an AMF working group redefined the general principles and norms for internal control in light of international standards, among other factors

Pursuant to the Takeover Directive, the section of the General Regulation covering public tender offers was also updated to stipulate, inter alia, the conditions in which fairness opinions are used, the interplay of certain defensive measures (e.g. issuing warrants) and the arrangements for dealing with market rumours.

Regarding investment services, the AMF extensively revisited the provisions of the General Regulation on conduct of business rules, compliance oversight and internal control at investment services providers.

Also in 2006, the transposition of the Markets in Financial Instruments Directive (MiFID) focused the attention and energies of the entire financial community. Due to come into force in November 2007, MiFID radically alters our market model, organises open competition among financial instrument trading venues and methods, and unifies Europe's financial market. As a quid pro quo, it ushers in new rules on pre- and post-trade price transparency, the requirement for intermediaries to secure best execution for their clients' orders, and a set of conduct of business rules designed to protect investors. Because of the complexity of these measures and their interpretation, an extensive programme of consultation and clarification was undertaken, both domestically and at EU level. This led to delays in transposing the directive, in France as elsewhere. A concerted effort made it possible to catch up the lost time, so that, at this writing, the bulk of the legislation has been introduced by executive order, decree and approval of the AMF General Regulation. Nonetheless, implementing these sweeping reforms is bound to raise many questions in the coming months, while also creating new opportunities for financial intermediaries.

A modern, competitive, innovative market economy with a degree of decisional independence cannot exist without a powerful financial centre. The finance industry generates large numbers of high value-added jobs. It needs to offer companies cost-effective access to capital as well as sophisticated financial engineering to enable them to grow and prosper in a globalised and fiercely competitive environment. It must also provide retail and institutional investors with managed investment products that are appropriate to their profile in terms of horizon, return and risk. And finally it must guarantee liquid, transparent and orderly markets for all.

After several years of effort and dazzling innovation, the Paris financial centre now meets those criteria. It is, however, facing intensifying international competition, and the public authorities should make a special and continual effort to improve the conditions in which market participants operate. That is why the AMF is engaging in active international cooperation with other regulators. Its aim is to better anticipate future developments in this strategic sector and to help construct the architecture and establish the principles of market regulation, both in Europe through the Committee of European Securities Regulators and at global level through the International Organization of Securities Commissions and the Financial Stability Forum. The AMF is also seeking to defend and promote France's regulatory positions (witness its activities with the IFREFI, the institute of French-speaking financial regulators) and to make its domestic actions more effective, since they depend to an ever increasing extent on international developments.

In this same spirit, the AMF initiated in 2006 its Better Regulation approach, a systematic process of re-examining its objectives and overhauling its methods. Based on a diagnosis drawing on active deliberation and participation by its entire staff, the views of outside consultants and a wide-ranging in-

dustry consultation, the AMF aims to elevate market regulation to the standard of excellence needed to fulfil its mission of protecting investors and market integrity, and also to contribute to the competitiveness of the French markets. In the months ahead, the Better Regulation approach will inform all the AMF's activities, its priorities and the improvements made to its internal administration, which is now guided by a system that was upgraded over the course of last year. And thanks to the consultative commissions – with their recently renewed membership and remit – and systematic consultation with industry organisations, the approach will be crafted and implemented in close cooperation with market participants.

Unless it confines itself to an offshore role, a financial centre derives its vitality from being rooted in the country's economic and social fabric. In this respect, France has clearly forgotten its past to some extent, for historical reasons. One of the top priorities must be to launch a major financial literacy campaign, as many similar countries have done, both to reconcile the French with the financial world and to allow them to get the most out of it. The AMF is contributing its share, to the best of its abilities, through its activities with the general public, including the Ombudsman Service, which is increasingly successful in encouraging the out-of-court settlement of disputes between retail investors and their investment services providers. The AMF also nurtured the project to create the Institute for Public Financial Education, whose capacity for action must definitely be enhanced. It also maintains close relations with academic circles, both through its Scientific Advisory Board and through the annual conferences it organises, which are open to high-level foreign researchers.

However, improving the environment so that which financial markets can flourish implies a greater effort from the public authorities, in terms not only of legal, fiscal and social systems but also public service infrastructures. Obviously, this is not the responsibility of the regulator. But I would like to stress the significance of the work and the input provided by Paris-Europlace, of which the AMF is an active member. I would also like to emphasise the vital importance, both for the market and for the financing of our economy, of boosting long-term savings that can be invested in stocks and shares. France has one of the most open equity markets in the world: some 46% of the equity of the major companies listed in Paris is owned by non-resident investors. Our domestic base is too small, particularly as regards individual share ownership, and we need to make progress in this area. We also need to improve our pension financing system.

I would like to conclude by pointing out that the AMF carries out its duties with a relatively small staff of some 350 people, all of whom are highly skilled and devoted. They are managed with outstanding talent by Secretary General Gérard Rameix.

The activities of the Board and the Enforcement Committee, now headed by Daniel Labetoulle, hinge on the high standard of their work.

Finally I wish to express my gratitude to my colleagues for their personal commitment to a demanding task. Their dedication is reflected in the number of meetings held in 2006: 27 plenary meetings of the Board; 12 meetings for the specialised committees; 40 for the consultative commissions and 30 for the two sections of the Enforcement Committee. The principle of multidisciplinary skills and collective decision-making that governs our institution also guarantees its competence and impartiality and underpins the credibility of France's financial regulation.

Yours truly,

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

Michel Prada