

**Report of the Small and Mid Caps Working Group  
chaired by Yves Mansion**

**6 november 2007**

## Report of the Small and Mid Caps Working Group chaired by Yves Mansion

### Introduction

Following the public consultations on the Better Regulation approach, the AMF and MiddleNext set up a working group chaired by Yves Mansion, an AMF Board member who is also a director and the chief executive officer of Société Foncière Lyonnaise, to implement the commitments made by the AMF under this initiative. The working group's task was to propose changes to the financial disclosure requirements for companies with small and medium market capitalisations ("small and mid caps").

Since the creation of Eurolist and the transposition into French law of European Directives governing disclosure requirements, all companies listed and the regulated market in Paris, regardless of their size, have been subject to the same requirements.

Eventually, this situation will undermine the competitiveness and appeal of the B and C segments of Eurolist. Consequently, the need was felt to discuss adjustments to financial regulations applicable to small and mid caps in order to make the rules more consistent and better suited to the companies' circumstances. This involves striking a balance between investor protection and the need to remove obstacles to the competitiveness of such companies stemming from regulatory requirements that are disproportionate to their business volume and organisational structures.

The changes introduced must comply with applicable laws and regulations, especially European legislation. Consequently, the working group's discussions focused on two tasks:

- identifying and proposing possible a streamlining of the constraints imposed on small and mid caps by the AMF,
- identifying potentially helpful amendments to domestic and European legislation.

This report presents the findings of the group's work.

In addition to representatives from MiddleNext and the AMF, the working group members included medium-sized listed companies<sup>1</sup>, associations representing issuers (Medef, Croissance Plus), representatives from Euronext, the French directors' institute (IFA), auditors and lawyers and intermediaries who regularly work with small caps. The list of the working group members can be found at the end of the report.

Section 1 presents the definition of small and mid caps used by the group. Section 2 describes the changes that the AMF could make to its recommendations for small and mid caps, and Section 3 describes the actions that the AMF could take in support of these companies. Finally, Section 4 presents the proposals that the working group believes should be submitted to the Minister of the Economy, Finance and Employment, since their implementation would require changes in French law or even new negotiations on European legislation.

---

<sup>1</sup> Primarily companies listed on the B and C segments of Eurolist Paris or on Alternext.

## 1. The definition of small and mid cap used by the group

### 1.1 Choice of criteria

The working group had to come up with a definition of “small and mid caps” in order to determine which issuers would benefit from the changes that it was to put forward.

There is no single definition of such stocks. Some European legislation defines small and medium-sized enterprises (SMEs), as is the case in the Prospectus Directive. Consequently, the working group examined the various definitions in use, because these definitions have the advantage of being harmonised at the European level.

The definition of SMEs given in Article 2.1 f) of the Prospectus Directive is based on criteria relating to the number of employees, the total balance sheet and annual net turnover<sup>2</sup>. It also uses the threshold set by the European Commission Recommendation dated 6 May 2003<sup>3</sup>, but with slightly different wording. The European Directive of 14 June 2006<sup>4</sup> on the annual accounts of certain types of companies uses the same criteria relating to the number of employees, total balance sheet and turnover.

These definitions were given with different objectives in mind<sup>5</sup>. They are based on a purely economic and financial approach, not a stock-market approach. However, the working group wanted a definition of small and mid caps, and not a definition of SMEs. It wanted the definition to take a stock-market approach and, for the sake of simplicity, it did a definition that combined several criteria. Consequently, the working group opted for a definition that enables any company to determine quickly whether it meets the criterion used.

The discussion focused on two stock-market criteria: a company's free float<sup>6</sup> and its stock-market capitalisation. In the end, capitalisation was preferred, because it is universally accessible and updated periodically, in contrast to the option chosen for the definition of small businesses<sup>7</sup> in the USA.

Euronext uses two methodologies to calculate floats. It applies a qualitative definition that is more precise for companies in the CAC 40 and CAC Next20 indices. For other indices, it uses another definition that is more quantitative and more in line with international standards to cover a greater number of stocks.

In addition, the definition used to calculate the free floats of mid caps is not quite as refined as that used for stocks in the main CAC 40 index, because the information available is not as detailed.

The working group felt that the implementation of criteria relating to companies' floats would be a delicate matter because of the need to agree on the definition and to decide who should calculate the floats.

Also, for the sake of simplicity, the working group did not want to use a definition that combined capitalisation and free float.

Once the capitalisation criterion was chosen, the threshold had to be set.

---

<sup>2</sup> This article defines "small and medium-sized enterprises" as companies, which, according to their last annual or consolidated accounts, meet at least two of the following three criteria: an average number of employees during the financial year of less than 250, a total balance sheet not exceeding EUR 43,000,000 and an annual net turnover not exceeding EUR 50,000,000.

<sup>3</sup> Recommendation 2003/361/EC.

<sup>4</sup> Directive 2006/46/EC of the European Parliament and the Council dated 14 June 2006.

<sup>5</sup> In the Prospectus Directive, the notion of SME is primarily used to determine which companies can be considered to be qualified investors.

<sup>6</sup> The float is defined as the proportion of shares available to the public.

<sup>7</sup> The American Securities Exchange Commission opted for a float criterion to define “small businesses”. However, all listed companies in the USA are required to calculate and disclose their float in their filings with the SEC, which means that the American regulator's choice of this criteria does not create an extra burden for the issuers concerned, as it would in France.

## 1.2 Choice and impact of the threshold

The companies traded on Eurolist are identified by a capitalisation criterion that makes it easy to distinguish between:

- segment C, which covers small caps, with a market capitalisation of less than EUR 150 million,
- segment B, which covers mid caps with a market capitalisation of between EUR 150 million and EUR 1 billion, and
- segment A, which covers large companies with a market capitalisation of more than EUR 1 billion.

Therefore, the Euronext classification puts mid caps in segment B, meaning companies with a market capitalisation of up to EUR 1 billion. The working group felt that this figure was too high to consider the company in question a mid cap or a small cap. It felt that the threshold should be somewhere between EUR 500 million and EUR 750 million.

Therefore, the working group proposes that small and mid caps should be defined as companies traded on a regulated market or on Alternext that have a market capitalisation of EUR 750 million or less.

With a threshold of EUR 750 million, 75% of the companies traded on Eurolist Paris would be deemed to be small and mid caps, on the basis of their market capitalisations on 22 September 2007. The table below shows how they break down.

***Breakdown of companies traded on Eurolist Paris by their market capitalisations on 22 September 2007***

<b>Capitalisation (on 22.09.07, EUR)</b>	<b>Number of companies concerned</b>	<b>Percentage of companies concerned</b>	<b>Percentage of total market capitalisation</b>	<b>Percentage annual trading volume</b>
more than 750 million	171	25.3%*	96.05%	98.36%
between 500 and 750 million	40	5.9%	1.25%	0.64%
less than 500 million	465	68.8%	2.70%	0.99 %
<b>Total Eurolist Paris</b>	<b>676</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\* This means that 74.4% of the companies on Eurolist Paris have a market capitalisation of EUR 750 million or less.

In terms of numbers, small-cap and mid-cap companies, defined as companies with a market capitalisation of EUR 750 million or less, account for nearly 75% of the companies traded on Eurolist Paris, but they account for only 4% of total market capitalisation and less than 2% of annual trading volume.

## 1.3 Assessment date and adjustment date for the threshold

Once the threshold was defined, the assessment date had to be fixed and the procedure for adjusting the threshold had to be decided, particularly in the event of a major change in market conditions.

What was at stake in the definition of the threshold was the benefit of looser requirements for drafting the registration document and a simplified guide for preparing the internal control report. Consequently, it was proposed that the threshold should be assessed on the last day of the financial year covered by the registration document. The working group considered two aggregate figures: the "spot" capitalisation figure and the average of capitalisation figures over the previous 60 days. Once again, for the sake of simplicity, it was decided that the capitalisation on the last day of the financial year would be used.

The working group proposes that the rules applying to companies that exceed or fall below the EUR 750 million threshold on the last day of their financial year should change for the following year's registration document and internal control report. This gives such companies one year to make the transition after exceeding or falling below the threshold.

The working group also proposes that the AMF should have the right to adjust the threshold amount in the event of a change in market conditions that leads to a large number of companies being forced to meet new disclosure requirements.

The working group proposes that the threshold should be published in a recommendation in order to allow for later adjustments (see 2.3.).

### Recommendation

The working group recommends that small and mid caps be defined as companies with a market capitalisation of EUR 750 million or less on the last day of their financial year. If a company exceeds this threshold or falls below it, the working group recommends that the change of rules applying to the company should apply only for the financial year following that in which the threshold was crossed.

## 2. Adapting AMF recommendations for small and mid caps

The working group wanted to propose immediate simplification of the disclosure requirements for small and mid caps, without any need to amend regulations. This means that small and mid caps should be able to draft a streamlined registration document and follow a simplified guide for preparing and drafting their internal control reports for financial years starting on or after 1 January 2007.

### 2.1 A guide to compiling a suitable registration document for small and mid caps<sup>8</sup>

In January 2006, following the transposition of the Prospectus Directive into French law in 2005<sup>9</sup>, the AMF specified in its guide to preparing registration documents that the contents of such documents would be based on the contents defined by the European Regulation<sup>10</sup> implementing the Prospectus Directive in order to enable a company making a public offering to incorporate its registration document into the prospectus submitted to the AMF for approval.

The contents of the registration document are defined by two sources:

- the European Regulation, with interpretive explanations for some sections and any applicable AMF recommendations,
- the AMF General Regulation, which stipulates that the report on corporate governance and internal control is to be included in the registration document.

Consequently, the working group reviewed all the requirements for registration documents to see which ones could be adjusted and still comply with European legislation. Adjustments to some aspects that are not directly dealt with in the European Prospectus Regulation or set out in the provisions of the Regulation itself were deemed to be possible.

Therefore, in full compliance with the European Directive and Regulation, small and mid caps could benefit from the following adjustments:

- disclosing only material information whenever the European Regulation allows, when qualifiers such as “main”, “important”, “material” or “materially” are used, with the specification that, for some sections, the companies concerned are given indications on how to determine what information is material (for example, when selecting the principal investments),

<sup>8</sup> The guide is presented in Annex I.

<sup>9</sup> Directive 2003/71/EC of the Parliament and the Council dated 4 November 2003.

<sup>10</sup> Regulation (EC) 809/2004 of 29 April 2004.

- optional application of AMF recommendations and interpretations for the drafting of certain sections of the registration document, such as insurance or provisions for disputes,
- simplification of some of the AMF recommendations, such as the recommendation on the presentation of risk factors, or even, where possible, simplification of CESR<sup>11</sup> recommendations,
- more references to information already included in the registration document to avoid duplication (for example, information that is already included in the financial statements or explanatory notes, or else in other sections of the document).

The working group proposes that the AMF publish a special registration document guide for small and mid caps, compiling all the requirements for drafting the document in a single volume, in addition to the adjustments discussed above. This presentation format will simplify the task of small and mid caps in coping with requirements set by a variety of regulators.

The working group also proposes that this special registration document guide should be valid for drafting a prospectus for a financial transaction, unless specific questions arise in an initial public offering.

The simplified guide, like the guide currently in use for all companies publishing registration documents, should be published as an AMF position that applies to all financial years starting on or after 1 January 2007.

## **2.2 A guide for implementing the internal control reference framework that is suited to small and mid caps<sup>12</sup>**

Under the terms of the Financial Security Act, companies making public offerings are required to publish a report on internal control procedures and corporate governance.

The AMF published an internal control reference framework and implementation guide in the form of a recommendation in January 2007 to give companies a tool for internal control and to make issuers' internal control reports more uniform and easier to compare.

The reference framework that the AMF published in January 2007 stipulates that it is not "intended to be binding on companies", but that companies may use it to "supervise and, where appropriate, develop their internal control system, but without constituting directions on how to design their organisational structures, since each company is responsible for its own organisation and, consequently, for its own internal control".

The reference framework already makes it possible to make adjustments to suit the company's specific organisational structure, but the working group wanted to provide greater guidance on its implementation for small and mid caps, since the framework was still deemed to be too burdensome for such companies.

More specifically, the reference framework includes general internal control principles and a detailed application guide covering the various control processes. The group's aim is to propose a simpler version of the general internal control principles and to take from the guide only the questionnaire on financial and accounting internal control contained in the appendix and the questionnaire on risk analysis and control.

Companies may use the implementation guide as a reference framework starting in January 2007.

Consequently, small and mid caps will be asked, as would have been the case under the terms of the January 2007 recommendation<sup>13</sup>, to explain in the chairman's report whether they have followed the reference framework implementation guide when drafting the report. However, they will not be asked to use the chairman's report to provide answers to the questionnaires included in the guide. When drafting their reports, the companies concerned should highlight the events and information that are likely to have a material impact on their assets or their earnings.

---

<sup>11</sup> Committee of European Securities Regulators.

<sup>12</sup> This guide is presented in Annex II.

<sup>13</sup> This recommendation applies to financial years starting on or after 1 January 2007, as does the new recommendation for small and mid caps.

If a company does not follow the guide when drafting the chairman's report, the same transparency principles should apply with regard to the use of any other reference framework that the company chooses or is required to use at the international level. Any such reference framework should be clearly presented.

### **2.3 Legal consequences of the proposed adjustments**

The AMF published a position regarding the registration document and a recommendation regarding internal control. This position and this recommendation therefore need to be adapted to stipulate that companies deemed to be small and mid caps may follow a special guide when drafting their registration document and internal control report.

On the other hand, the process that small and mid caps are required to follow is the same as for other companies.

This means that the drafting of the registration document is still optional and it concerns companies that are traded on a regulated market. It does not apply to companies traded on Alternext, even though such companies are free to publish an equivalent document.

The process that small and mid caps are required to follow with regard to the internal control reference framework implementation guide is also the same as that required for other companies. An AMF recommendation invites small and mid caps to use the guide, but without intending to make it mandatory. The working group, therefore, proposes that the January 2007 recommendation be amended to include a reference to the special implementation guide for small and mid caps.

#### **Recommendation**

The working group proposes that the AMF position and recommendation regarding the guide for drafting the registration document dated 30 January 2006 and the internal control reference framework dated 22 January 2007 respectively should be amended to stipulate that companies deemed to be small and mid caps, as defined under the working group's proposal, may draft their registration document or internal control report using the simplified guide.

The simplified system should be applicable for financial years starting on or after 1 January 2007.

### 3. The AMF's action in support of small and mid caps

The working group was also asked to look at the concerns of small and mid caps that are developing closer relationships with the AMF. These concerns focus primarily on a lack of clarity in the AMF's organisational structure and hierarchy, as well as the identification of companies' potential contacts on the AMF's operational staff.

The working group proposes that the AMF step up its communications about the organisation of its operational staff members who are in regular contact with listed companies. Actions to be considered include:

- giving all companies a single contact person so as to avoid, as far as possible, requests coming from multiple sources within the AMF,
- automatic notification of issuers when their usual contact person changes,
- improved communications about the hierarchy of the operational staff.

Furthermore, the working group proposes that the AMF develop educational actions aimed at small and mid caps to enable them to gain a better understanding of new regulations as soon as they are published.

#### **Recommendation**

The working group proposes improving the AMF's communications aimed at small and mid caps, particularly on the organisation of its operational staff who have regular contacts with such companies.

More specifically, the working group proposes:

- giving all companies a single contact person, except for special supervisory actions, so as to avoid, as far as possible, requests coming from multiple sources within the AMF,
- automatic notification of issuers when their usual contact person changes,
- improved communications about the hierarchy of the operational staff, and
- development of educational actions aimed at small and mid caps, particularly with regard to new regulatory requirements that concern them.

#### 4. Proposals for amendments to French and European legislation

Calls for changes to requirements that fall outside the responsibility of the AMF came up in the working group's discussions. The working group wanted to support these calls and pass them on to lawmakers, including European lawmakers. At this point, the working group will officially transmit the proposals outlined below to the Treasury Directorate at the Ministry of the Economy, Finance and Employment in submitting this report.

**The publication deadline for the half-yearly financial report.** The primary request put forward by small and mid caps with regard to legislative amendments concerned the two-month deadline for publishing their half-yearly financial reports.

This two-month deadline is deemed to be twice as burdensome for mid caps. Not only does it lead in practice to deadlines that are not compatible with the internal organisational structures of most mid caps, it also means that publications of half-yearly accounts by both large and small companies are clustered around the end of August, which deprives the small companies of press coverage and attention from securities analysts. In the past, they benefited from the fact that publications were spread out over a longer period. Furthermore, the related organisational constraints create specific governance problems for small and mid caps, because of their difficulties in recruiting directors. Changing this rule would require an amendment to the Transparency Directive. Under the terms of the Directive, the European Commission is to make a report on its application to the Council and the European Parliament by 30 June 2009<sup>14</sup>. However, the working group would like to have this request for an amendment be presented to the European Commission well before that date. MiddleNext proposes that small and mid caps should be given an extra month to publish their reports.

**Mandatory publications of notices in the official gazette (*Bulletin des annonces légales obligatoires*).** Small and mid caps would also like to see the mandatory publication of notices eliminated or reduced. They criticise the redundancy of the notices, now that the Transparency Directive has been transposed into French law, and the publication costs, especially since the processing of information submitted for publication has been automated. No discussions at the European level would be needed to change the rules regarding the publication of notices in the official gazette. The Minister of the Economy, Finance and Employment made an announcement in this respect in early October. The working group feels that this is a major step forward, which will affect all companies making public offerings, not just small and mid caps.

**Measures to ensure the liquidity of securities listed on Alternext.** The main aim is to enable companies traded on Alternext to buy back their shares under the terms and conditions set out in Article L. 225-209 of the French Commercial Code, including the introduction of liquidity contracts. This option is currently restricted to companies traded on a regulated market, but it could be extended to organised markets, including Alternext. Such measures do not require any discussions at the European level.

##### **Insider lists and disclosure of senior executives' dealing.**

Small and mid caps have also mentioned their compliance difficulties with two sets of requirements introduced into French law by the transposition of the Market Abuse Directive:

- the requirements on compiling and updating insider lists, especially with regard to the updates. Small and mid caps propose that the lists could include positions, but not the names of the persons occupying them, in order to facilitate updates,
- disclosure requirements for senior executives' dealing. Small and mid caps feel that the exempted amounts are too small (EUR 5,000 per year) and that the requirement to disclose all transactions is too burdensome. They also feel that some of the notions used in the legislation (such as senior managers) are not clear for the companies concerned. MiddleNext proposes that the disclosures should be quarterly, that the information should be aggregated rather than presented on a transaction-by-transaction basis, and that the exemption thresholds should be increased. These changes could also affect the largest companies.

These two sets of requirements stem from the Market Abuse Directive, which was transposed into French law in 2006. Therefore, they cannot be amended solely at the domestic level.

**Corporate governance and internal control.** Two new Directives are to be transposed into French law in 2008. The first calls for listed companies to have an audit committee (while leaving the Member State some choice in the matter).

---

<sup>14</sup> Article 33 of the Transparency Directive.

The directive lays down the minimum attributions<sup>15</sup> of the committee. The second Directive to be transposed calls for an annual report on internal control and corporate governance<sup>16</sup>. This report must be presented in a special, clearly identified section of the annual report, and it must include “a description of the main features of any existing risk management systems and internal controls in relation to the financial reporting process”.

The working group proposes that the requirements for small and mid caps should not be made more burdensome when these Directives are transposed into French law. More specifically, small and mid caps do not want to be required to have an audit committee. The working group also proposes that the report called for by the Directive should not become an additional requirement to the mandatory publication of the chairman’s internal control report, and that the chairman’s report requirement be eliminated or, at the very least, changed.

Finally, small and mid caps would like to have a number of requirements from various sources and covering different areas simplified. Examples include publication requirements concerning directors’ pay. No discussions at European level are required for such changes.

### Recommendations

The working group recommends the following changes to French legislation:

- eliminating mandatory publication of notices in the official gazette, at least for periodic information published in compliance with the Transparency Directive,
- extending the share buyback rules laid down in Article L. 225-209 of the French Commercial Code to companies traded on Alternext.

The working group recommends the following changes to European legislation:

- extending the deadline for publishing the half-yearly financial report from the current two months stipulated in the Transparency Directive to three months,
- changing the provisions of the Market Abuse Directive on compiling insider lists to facilitate drawing up and updating the lists, especially by allowing companies to compile a list of positions rather than a list of names,
- changes to the provisions of the Market Abuse Directive on disclosure of senior executives’ dealing to, at the very least, raise the exemption amount from the current level of EUR 5,000 per year.

The working group also recommends that the specific characteristics of small and mid caps should be taken into account when transposing the Directive of 17 May 2006, which calls for listed companies to have an audit committee and the terms and conditions under which Member States can grant exemptions from this requirement.

Finally, the working group recommends eliminating the mandatory publication of a chairman’s report on internal control when transposing the Directive of 14 June 2006, which calls for a statement from the board of directors on internal control.

<sup>15</sup> Directive 2006/43/EC of 17 May 2006 on statutory audits of annual accounts and consolidated accounts. The transposition deadline has been set at 29 June 2008.

<sup>16</sup> Directive 2006/46/EC of 14 June 2006 amending Directives 78/660/EEC and 83/349/EEC (4th and 7th Directives) on the annual accounts and consolidated accounts of certain types of companies. The transposition deadline has been set at 5 September 2008.

## **Conclusion**

The working group would like the adjustments proposed for small and mid caps to be the first step towards more substantial adjustments to legislation. This explains its willingness to pass on some of the proposals to amend French and European law put forward by associations representing issuers.

The proposed measures dealing with the registration document and the internal control report could be applied to the documents relating to the 2007 financial year, after the AMF board approves this report and the consultation of the financial community has taken place.

The adjustments proposed for small and mid caps, along with the AMF's action within the working group and as part of its Better Regulation approach, mark the first step. Their application needs to be monitored.

## Members of the AMF/MiddleNext working group on small and mid caps

### Chairman

Yves Mansion (AMF Board member, Société Foncière Lyonnaise)

### Members

Guy Mamou-Mani (Groupe Open, President of MiddleNext)

Caroline Weber (MiddleNext)

Marc Bidou (Maximiles)

Marylène Boyer (Thermador Groupe)

Jamal Labeled (Staff & Line, CroissancePlus)

Didier Demeestere (Ampléo Gestion)

Pierre-Franck Moley (Le Public Système, CroissancePlus)

Christian Poyau (Micropole-Univers, CroissancePlus)

Amaury Eloy (NewWorks, CroissancePlus)

Fabrice Rosset (Adomos)

Karine Merle (Medef)

Nicolas Stoop (Medef)

Pierre-Arnaud Conchon (Cotty Vivant Marchisio & Lauzeral)

Anne Maréchal (Cariddi Mee Rué)

François Duteil (Duteil Avocat)

Frédéric Fontaine (Fontaine Avocats)

Philippe D'hoir (Fidal)

Emmanuel du Boullay (Institut français des administrateurs)

Eric Le Boulch (CM-CIC Securities)

Franck Sebag (Ernst & Young)

Serge Castillon (Mazars)

Michel Sellier (Deloitte)

Yasmina Galle (Euronext Paris)

Annie Dupeyron (Euronext Paris)

### AMF representatives

Hubert Reynier (AMF – Regulation Policy & International Affairs Division)

Benoît de Juvigny (AMF – Corporate Finance Division)

Le Quang Tran Van (AMF – Corporate Finance Division)

François Denis du Péage (AMF – Corporate Finance Division)

Etienne Cunin (AMF – Corporate Accounting & Auditing Division)

Florence Aguedo (AMF – Corporate Accounting & Auditing Division)

### Rapporteurs

Maryline Dutreuil Boulignac (AMF - Regulation Policy & International Affairs Division)

Samia Mekious (AMF - Regulation Policy & International Affairs Division)

## APPENDIX I

# Guide to compiling the registration document for small and mid caps

### Introduction

The purpose of this guide is to help listed companies deemed to be small and mid caps to prepare their registration document. For such companies, this guide takes the place of the guide to compiling registration documents that the AMF published in January 2006<sup>17</sup>.

This guide contains the requirements set out at all levels for compiling the registration document and indicates which recommendations from CESR<sup>18</sup> and the AMF apply to the drafting of certain sections. The guide was prepared after a review of the statutory, regulatory and supervisory requirements applying to listed companies to determine which ones could be adjusted to meet the needs of small and mid caps for greater flexibility, while maintaining compliance with the European legislation in force, and the Prospectus Directive in particular<sup>19</sup>.

A company must be deemed to be a small cap or a mid cap to be eligible to draft its registration document in accordance with this specific guide. A company shall be deemed to be a small cap or a mid cap for the purposes of compiling its registration document if its market capitalisation is EUR 750 million or less on the last day of the financial year covered by the registration document. If the company exceeds or falls short of this threshold, it must compile its registration document in accordance with the appropriate guide (the one published in January 2006 or this one, as the case may be) for the financial year following the year in which the threshold was crossed.

### **I. Adapting the disclosure requirements applying to small and mid caps**

The outline of this guide follows that of the European Prospectus Directive. In each section, it indicates whether the AMF or CESR published any indications on how to provide the information requested, if disclosure of the information is mandatory under the terms of the Directive, or if it can be adapted, or even if it can be omitted, if it is not material<sup>20</sup>. In this case, indications or examples are sometimes given on how to determine whether the information requested is material. It is up to the company to determine whether information is material and its decision should take into consideration its individual circumstances and its business sector in every case, including those where threshold amounts are given. Some of the information may be omitted if it can be found in another document and readers are referred to it.

However, all the information that investors need to assess the company's assets, financial situation, earnings and outlook must be included in a registration document, regardless of the names given to the corresponding sections.

---

<sup>17</sup> Guide for compiling registration documents: regulations in force and AMF Interpretations and Recommendations. This guide, which was published in January 2006, remains valid for companies that are not deemed to be small and mid caps.

<sup>18</sup> The Committee of European Securities Regulators published recommendations on implementing the European Prospectus Regulation in February 2005.

<sup>19</sup> Since 1 July 2005, the contents of the prospectus have been defined by Regulation (EC) 809/2004 of 29 April 2004 ("European Regulation") adopted for the purposes of Directive 2003/73/EC of the European Parliament and of the Council of 4 November 2003 ("Prospectus Directive").

<sup>20</sup> Some of the sections in the outline use such terms as "important", "material", etc. leaving the issuer some discretion.

## **II. Linkage between the laws and regulations applying to the registration document**

First, issuers wishing to be exempted from the publication requirements set out in Articles 212-13-6, 222-7, 222-8 and 241-2 of the AMF General Regulation may include the following in their registration documents:

- the annual information document referred to in Article L.451-1-1 of the Monetary and Financial Code, as long as the registration document is made available to the public within 20 days of the publication of the issuer's annual financial report,
- the annual financial report referred to in Article L.451-1-2 of the Monetary and Financial Code,
- the amount paid in fees to each of the statutory auditors referred to in Article 221-1-2 of the General Regulation,
- the description of the share buyback programme referred to in Article 241-2 of the General Regulation.

The registration document must also include the mandatory report on corporate governance and internal control<sup>21</sup>.

When the outline presented by this guide states that information may be provided by referring readers to a management report, meaning a report that the board of directors, the executive board or the manager presents to the general meeting under the terms of the Commercial Code, the report must be incorporated into the registration document and the reference to it, like references to any other information in the registration document, must be specific.

This guide to the registration document may also be used by a small cap or a mid cap to draft a prospectus for a financial transaction, unless specific questions arise in an initial public offering. In order to determine whether a company is eligible to use this outline for its base document for an initial public offering, the market capitalisation figure to be considered is the one given on the filing date of the base document for an initial public offering.

The various recommendations and interpretations included in the January 2006 guide to compiling registration documents that are not mentioned in the outline of this guide or in the appendix no longer apply to the drafting of registration documents for small and mid caps<sup>22</sup>.

---

<sup>21</sup> Article 222-9 II of the General Regulation.

<sup>22</sup> Except for CESR recommendations on drafting information memoranda, including the recommendation on reporting working capital, or equity and debt, or CESR recommendations for certain issuers, such as companies in real-estate, mining, shipping, scientific research and start-ups. Such recommendations are still applicable, but they are not reproduced here because this guide deals only with the registration document.

## Outline of the registration document for small and mid caps

Section of the registration document/prospectus <sup>23</sup>		Clarification about the information requested (whether it should be provided in all cases, or refer readers to other documents, any applicable recommendation(s)) <sup>24</sup>
<b>1.</b>	<b>PERSONS RESPONSIBLE</b>	
1.1.	Names and positions of the persons responsible for the document and, where appropriate, the persons responsible for certain sections, which should be indicated (name and registered office of legal persons).	
1.2.	Declaration by the persons responsible for the document <sup>25</sup> .	
<b>2.</b>	<b>STATUTORY AUDITORS</b>	
2.1.	Give the name and address of the issuer's statutory auditors for the period covered by the historical financial information, along with their membership of a professional body.	
2.2.	If auditors have resigned, been removed or not been re-appointed during the period covered by the historical financial information, indicate details if material.	
<b>3.</b>	<b>SELECTED FINANCIAL INFORMATION</b>	
3.1.	Present selected financial information regarding the issuer for each period covered by the historical financial information, and any subsequent interim financial period, in the same currency. The selected historical financial information must provide the key figures that summarise the financial condition of the issuer.	Issuers are free to determine which information they would like to present, provided they comply with the European Regulation and the indicators presented are clearly defined, can be reconciled with the accounts and are comparable over time.
3.2.	If selected financial information for interim periods is provided, comparative data from the same period in the prior financial year must also be provided, except that the requirement for comparative balance sheet information is satisfied by presenting the year end balance sheet information.	

<sup>23</sup> The section names and numbers are those used in the outline in Annex I of Regulation (EC) 809/2004.

<sup>24</sup> This column does not replace the previous column, but the issuer may find that it contains indications on how to provide the information required under the terms of the European Regulation. Unless otherwise indicated in this column, the information requested in the section is to be provided in all cases, with no further explanation from the AMF or CESR. If there is a recommendation applying to the information to be provided, the recommendation is either presented in this column or in an Annex to this guide. The option of providing the information in certain sections by referring readers to financial statements published under IFRS shall be available only to issuers applying IFRS.

<sup>25</sup> This is a declaration certifying that, having taken all reasonable care to ensure that such is the case, the information contained in the registration document is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import. Where appropriate, provide a declaration by the persons responsible for certain parts of the registration document that, having taken all reasonable care to ensure that such is the case, the information contained in the part of the registration document for which they are responsible is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

## Guide to compiling the registration document for small and mid caps

<b>4.</b>	<b>RISK FACTORS</b>	
	Provide prominent disclosure of risk factors that are specific to the issuer or its industry in a section headed "Risk Factors".	Mention that the company has undertaken a risk review and that it considers that there are no material risks, other than those disclosed, and list the specific risks that the company deems to be relevant and material. The AMF recommends a specific statement from the company on its exposure to liquidity risk. Readers may be referred to the notes to the consolidated financial statements or the management report (IFRS 7) for exposure to foreign exchange risk, and/or interest-rate risk, or equity risk.
<b>5.</b>	<b>INFORMATION ABOUT THE ISSUER</b>	
<b>5.1</b>	History and development of the company	
<b>5.1.1.</b>	The legal and commercial name of the issuer	
<b>5.1.2.</b>	The place of registration of the issuer and its registration number	
<b>5.1.3.</b>	The date of incorporation and the length of life of the issuer, except where indefinite	
<b>5.1.4.</b>	The domicile and legal form of the issuer, the legislation under which the issuer operates, its country of incorporation, and the address and telephone number of its registered office (or principal place of business if different from its registered office)	
<b>5.1.5</b>	The important events in the development of the issuer's business	For example, the issuer must mention any material events in the recent development of the company in this section, such as a material change in its structure or assets (acquisition, spin-off, contributions, etc.) or very significant commercial events or events pertaining to its business (new products, new markets, etc.). The issuer may repeat information published in its communiqués under the permanent information requirements.
<b>5.2</b>	<b>Investments</b>	
<b>5.2.1.</b>	Describe the issuer's principal investments (including amounts) for each financial year for the period covered by the historical information up to the date of the registration document	The proposal is to assume an investment is important if it represents more than:
<b>5.2.2.</b>	Describe the issuer's principal investments that are in progress, including the geographic distribution of these investments (home and abroad) and the method of financing (internal or external)	- 25% of the value of fixed assets carried on the balance sheet in the case of intangible assets and goodwill, - 10% of the gross value of fixed assets carried on the balance sheet or
<b>5.2.3.</b>	Provide information concerning the issuer's principal future investments on which its management bodies have already made firm commitments	10% of consolidated equity, whichever is higher, in the case of tangible fixed assets.

<b>6.</b>	<b>BUSINESS OVERVIEW</b>	
<b>6.1.</b>	<b>Principal activities</b>	
<b>6.1.1.</b>	Describe the nature of, and the key factors relating to the issuer's operations and its principal activities, stating the main categories of products sold and/or services performed for each financial year for the period covered by the historical financial information; and	Summarise the principal activities, mentioning at least the activities and geographical areas mentioned in the segment information contained in the notes to the consolidated financial statements.
<b>6.1.2.</b>	Indicate any significant new products and/or services that have been introduced and, to the extent the development of new products or services has been publicly disclosed, give the status of development.	
<b>6.2.</b>	<b>Principal markets</b>	
	<b>Describe the principal markets in which the issuer competes, including a breakdown of total revenues by category of activity and geographic market for each financial year for the period covered by the historical financial information.</b>	
<b>6.3.</b>	Where the information given pursuant to items 6.1 and 6.2 has been influenced by exceptional factors, mention that fact.	Only include this information on an exceptional basis.
<b>6.4</b>	If <b>material</b> to the issuer's business or profitability, include a summary of information regarding the extent to which the issuer is dependent, on patents or licences, industrial, commercial or financial contracts or new manufacturing processes.	The issuer is supposed to include such information in the description of its risk factors so readers may be referred to this section.
<b>6.5</b>	The basis for any statements made by the issuer regarding its competitive position.	If the issuer has any information from an external source, such sources should be mentioned, along with the dates of the information.
<b>7.</b>	<b>ORGANISATIONAL STRUCTURE</b>	
<b>7.1</b>	A brief description of the group and the issuer's position within the group.	
<b>7.2</b>	A list of the issuer's <b>significant</b> subsidiaries, including name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held.	Provide the table of subsidiaries and interests contained in the notes to the parent company financial statements or refer readers to the consolidation structure presented in the notes to the consolidated financial statements.
<b>8.</b>	<b>PROPERTY, PLANT AND EQUIPMENT</b>	
<b>8.1</b>	Existing or planned material <b>tangible fixed assets</b> , including leased properties, and any major encumbrances thereon.	CESR recommends describing the size and use made of these fixed assets, their productive capacity and their utilisation rate, as well as whether they are owned or leased, their location and the products manufactured. The AMF specifies that the asset utilisation rate may be left out if it is not relevant, particularly for companies in industry and in services.
<b>8.2.</b>	A description of any environmental issues that may affect the issuer's utilisation of the tangible fixed assets.	

**APPENDIX I**

**Guide to compiling the registration document for small and mid caps**

<b>9.</b>	<b>OPERATING AND FINANCIAL REVIEW</b>	
<b>9.1.</b>	<b>Financial condition</b>	
	To the extent not covered elsewhere in the registration document, provide a description of the issuer's financial condition, changes in financial condition and results of operations for each year and interim period, for which historical financial information is required, including the causes of material changes from year to year in the financial information to the extent necessary for an understanding of the issuer's business as a whole.	The information provided in this section must be adapted to investors' needs. It must cover the same period as the financial statements and it must be accurate and comparable. Companies that include their management report in the registration document do not have to provide any further information.
<b>9.2.</b>	<b>Operating results</b>	
<b>9.2.1.</b>	Mention significant factors, including unusual or infrequent events or new developments, materially affecting the issuer's income from operations, indicating the extent to which income was so affected.	Companies that include their management report in the registration document do not have to provide any further information.
<b>9.2.2.</b>	Where the financial statements disclose material changes in net sales or revenues, explain the reasons for such changes.	Companies that include their management report in the registration document do not have to provide any further information.
<b>9.2.3.</b>	Mention any strategy or any governmental, economic, fiscal, monetary or political policies or factors that have <b>materially</b> affected, or could materially affect, directly or indirectly, the issuer's operations.	Where appropriate, readers can be referred to the section on risk factors.
<b>10.</b>	<b>CAPITAL RESOURCES</b>	
<b>10.1.</b>	Provide information concerning the issuer's capital resources (both short and long term).	Readers may be referred to the issuer's financial statements. Discussion of the financing and cash management policy, financing sources and restrictions on access and covenants is only required in the event of substantial debt, in which case a connection may be made to the liquidity risk mentioned as part of the risk factors.
<b>10.2.</b>	Indicate the sources and amounts of the issuer's cash flows and describe these cash flows.	
<b>10.3.</b>	Provide information on the borrowing requirements and funding structure of the issuer.	
<b>10.4.</b>	Provide information regarding any restrictions on the use of capital resources that have materially affected, or could materially affect, directly or indirectly, the issuer's operations.	
<b>10.5.</b>	Provide information regarding the anticipated sources of funds needed to fulfil commitments referred to in items 5.2.3 and 8.1.	
<b>11.</b>	<b>RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES</b>	
	Where <b>material</b> , provide a description of the issuer's research and development policies for each financial year for the period covered by the historical financial information, including the amount spent on issuer-sponsored research and development activities.	Refer readers to the note required under IAS38 with regard to capitalised research and development costs. When research and development costs are recognised as current expenditure, they shall be deemed to be material if the cost (capitalised or recognised as current expenditure) is greater than 5% of turnover.
<b>12.</b>	<b>TREND INFORMATION</b>	
<b>12.1</b>	Indicate the <b>most significant</b> recent trends in production, turnover and inventory, and costs and selling prices since the end of the last financial year to the date of the registration document.	The proposal is to indicate changes in turnover since the end of the last financial year as one of the most significant trends.

## Guide to compiling the registration document for small and mid caps

12.2	Provide information on any known trends, uncertainties, demands, commitments or events that are <b>reasonably likely to have a material effect</b> on the issuer's prospects for at least the current financial year.	This information is only to be provided if there is a material effect on the issuer's prospects, in particular any circumstances affecting the sectors in which the company operates.
13.	<b>PROFIT FORECASTS OR ESTIMATES</b> If a profit forecast or estimate is included in the registration document, the document must also contain:	CESR Recommendations 38 to 50. AMF Position on the notion of forecasts (Implementation of European Regulation 809/2004 of 29 April 2004 as regards information contained in prospectuses – clarification regarding the notion of forecasts) dated 10 July 2006.
13.1	- A statement setting out the principal assumptions upon which the issuer has based its forecast, or estimate. There must be a clear distinction between assumptions about factors which the members of the administrative, management or supervisory bodies can influence and assumptions about factors which are exclusively outside the influence of the members of the administrative, management or supervisory bodies; the assumptions must be readily understandable by investors, be specific and precise and not relate to the general accuracy of the estimates underlying the forecast;	
13.2	- A report prepared by independent accountants or auditors stating that in the opinion of the independent accountants or auditors the forecast or estimate has been properly compiled on the basis stated and that the basis of accounting used for the profit forecast or estimate is consistent with the accounting policies of the issuer.	
13.3	The profit forecast or estimate must be prepared on a basis comparable with the historical financial information.	
13.4	If a profit forecast in a prospectus has been published which is still outstanding, then provide a statement setting out whether or not that forecast is still correct as at the time of the registration document, and an explanation of why such forecast is no longer valid if that is the case.	

14.	<b>ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES AND SENIOR MANAGEMENT</b>	
14.1.	<p>Names, business addresses and functions in the issuer of the following persons and an indication of the principal activities performed by them outside that issuer where these are significant with respect to that issuer:</p> <p>(a) members of the administrative, management or supervisory bodies;</p> <p>(b) partners with unlimited liability, in the case of a limited partnership with a share capital;</p> <p>(c) founders, if the issuer has been established for fewer than five years; and</p> <p>(d) any senior manager who is relevant to establishing that the issuer has the appropriate expertise and experience for the management of the issuer's business.</p> <p>Indicate the nature of any family relationship between any of those persons.</p> <p>In the case of each member of the administrative, management or supervisory bodies of the issuer and of each person mentioned in points (b) and (d) of the first subparagraph, provide details of that person's relevant management expertise and experience and the following information:</p> <p>(a) the names of all companies and partnerships of which such person has been a member of the administrative, management or supervisory bodies or partner at any time in the previous five years, indicating whether or not the individual is still a member of the administrative, management or supervisory bodies or partner. It is not necessary to list all the subsidiaries of an issuer of which the person is also a member of the administrative, management or supervisory bodies;</p> <p>(b) any convictions in relation to fraudulent offences for at least the previous five years;</p> <p>(c) details of any bankruptcies, receiverships or liquidations with which a person described in (a) and (d) of the first subparagraph who was acting in the capacity of any of the positions set out in (a) and (d) of the first subparagraph was associated for at least the previous five years;</p> <p>(d) details of any official public incrimination and/or sanctions of such person by statutory or regulatory authorities (including designated professional bodies) and whether such person has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer for at least the previous five years.</p> <p>If there is no such information to be disclosed, a statement to that effect is to be made.</p>	<p>If this information is in the management report or the internal control and corporate governance report, readers may be referred specifically to these documents.</p>
14.2.	<p>Administrative, management, and supervisory bodies' and senior management conflicts of interests</p> <p>Potential conflicts of interests between any duties to the issuer, of the persons referred to in item 14.1 and their private interests and or other duties must be clearly stated. In the event that there are no such conflicts, a statement to that effect must be made.</p> <p>Indicate any arrangement or understanding with major shareholders, customers, suppliers or others, pursuant to which any person referred to in item 14.1 was selected as a member of the administrative, management or supervisory bodies or member of senior management.</p> <p>Give details of any restrictions agreed by the persons referred to in item 14.1 on the disposal within a certain period of time of their holdings in the issuer's securities.</p>	

## Guide to compiling the registration document for small and mid caps

<b>15.</b>	<b>REMUNERATION AND BENEFITS</b> In relation to the last full financial year for those persons referred to in points (a) and (d) of the first subparagraph of item 14.1:	AMF Interpretation 4. If the information requested is in the management report, readers may be referred specifically to that report <sup>26</sup> .
<b>15.1.</b>	The amount of remuneration paid (including any contingent or deferred compensation), and benefits in kind granted to such persons by the issuer and its subsidiaries for services in all capacities to the issuer and its subsidiaries by any person. That information must be provided on an individual basis unless individual disclosure is not required in the issuer's home country and is not otherwise publicly disclosed by the issuer.	
<b>15.2.</b>	The total amounts set aside or accrued by the issuer or its subsidiaries to provide pension, retirement or similar benefits.	
<b>16.</b>	<b>BOARD PRACTICES</b>	
	In relation to the issuer's last completed financial year, and unless otherwise specified, with respect to those persons referred to in point (a) of the first subparagraph of 14.1:	If this information is in the management report or the internal control and corporate governance report, readers may be referred to those documents.
<b>16.1.</b>	Date of expiration of the current term of office, if applicable, and the period during which the person has served in that office.	
<b>16.2.</b>	Information about members of the administrative, management or supervisory bodies' service contracts with the issuer or any of its subsidiaries providing for benefits upon termination of employment, or an appropriate negative statement.	
<b>16.3.</b>	Information about the issuer's audit committee and remuneration committee, including the names of committee members and a summary of the terms of reference under which the committee operates.	
<b>16.4.</b>	Also include a statement as to whether the issuer complies with its country's of incorporation corporate governance regime(s). In the event that the issuer does not comply with such a regime, a statement to that effect must be included together with an explanation regarding why the issuer does not comply with such regime.	
<b>17.</b>	<b>EMPLOYEES</b>	
<b>17.1</b>	Indicate either the number of employees at the end of the period or the average for each financial year for the period covered by the historical financial information up to the date of the registration document (and <b>changes</b> in such numbers, if <b>material</b> ) and, <b>if possible and material</b> , a breakdown of persons employed by main category of activity and geographic location. If the issuer employs a significant number of temporary employees, include disclosure of the number of temporary employees on average during the most recent financial year.	Information about changes in the number of employees and the breakdown by activity should only be provided if it is relevant and material in view of the company's business or circumstances. The other information must be provided in all cases.
<b>17.2.</b>	<b>Shareholdings stock options</b> With respect to each person referred to in points (a) and (d) of the first subparagraph of item 14.1. provide information as to their share ownership and any options over such shares in the issuer as of the most recent practicable date.	The issuer may present information on stock options in the summary tables included in AMF interpretation 4 on directors' pay and option programmes.
<b>17.3.</b>	Describe any arrangements for involving the employees in the capital of the issuer.	

<sup>26</sup> In principle, the information required by the European Regulation corresponds to the information required by the French Commercial Code in the report to the general meeting by board of directors, the executive board or the manager, except for information about founders (in the case of companies that are less than 5 years old) and remuneration provided by subsidiaries.

<b>18.</b>	<b>MAJOR SHAREHOLDERS</b>	
<b>18.1.</b>	In so far as is known to the issuer, provide the name of any person other than a member of the administrative, management or supervisory bodies who, directly or indirectly, has an interest in the issuer's capital or voting rights which is notifiable under the issuer's national law, together with the amount of each such person's interest or, if there are no such persons, an appropriate negative statement.	
<b>18.2.</b>	Indicate whether the issuer's major shareholders have different voting rights, or provide an appropriate negative statement.	
<b>18.3.</b>	To the extent known to the issuer, state whether the issuer is directly or indirectly owned or controlled and by whom and describe the nature of such control and describe the measures in place to ensure that such control is not abused.	
<b>18.4.</b>	Describe any arrangements, known to the issuer, the operation of which may at a subsequent date result in a change in control.	
<b>19.</b>	<p><b>RELATED PARTY TRANSACTIONS</b></p> <p>Details of related party transactions (which for these purposes are those set out in the Standards adopted according to the Regulation (EC) No 1606/2002), that the issuer has entered into during the period covered by the historical financial information and up to the date of the registration document, must be disclosed in accordance with the respective standard adopted according to Regulation (EC) No 1606/2002 if applicable. If such standards do not apply to the issuer the following information must be disclosed:</p> <p>(a) the nature and extent of any transactions which are - as a single transaction or in their entirety - material to the issuer. Where such related party transactions are not concluded at arm's length provide an explanation of why not. In the case of outstanding loans including guarantees of any kind indicate the amount outstanding;</p> <p>(b) the amount or the percentage to which related party transactions form part of the turnover of the issuer.</p>	Readers may be referred to the financial statements (the notions defined here are the same as in IAS 24).
<b>20.</b>	<b>FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES</b>	
<b>20.1</b>	<p><b>Historical financial information</b></p> <p>Provide audited historical financial information covering the latest three financial years (or such shorter period that the issuer has been in operation), and the audit report in respect of each year. Such financial information must be prepared according to Regulation (EC) No 1606/2002, or if not applicable to a Member State, national accounting standards for issuers from the Community. For third country issuers, such financial information must be prepared according to the international accounting standards adopted pursuant to the procedure of Article 3 of Regulation (EC) No 1606/2002 or to a third country's national accounting standards equivalent to these standards. If such financial information is not equivalent to these standards, it must be presented in the form of restated financial statements.</p> <p>The last two years audited historical financial information must be presented and prepared in a form consistent with that which will be adopted in the issuer's next published annual financial statements having regard to accounting standards and policies and legislation applicable to such annual financial statements.</p> <p>If the issuer has been operating in its current sphere of economic activity for less than one year, the audited historical financial information covering that period must be prepared in accordance with the standards applicable to annual financial statements under the Regulation (EC) No 1606/2002, or if</p>	<p>CESR Recommendations 51 to 86.</p> <p>AMF Interpretation 1 only in the specific case of complex commitments.</p>

	<p>not applicable, to a Member State's national accounting standards where the issuer is an issuer from the Community. For third country issuers, the historical financial information must be prepared according to the international accounting standards adopted pursuant to the procedure of Article 3 of Regulation (EC) No 1606/2002 or to a third country's national accounting standards equivalent to these standards. This historical financial information must be audited.</p> <p>If the audited financial information is prepared according to national accounting standards, the financial information required under this heading must include at least:</p> <p>a) balance sheet;  b) income statement;  c) a statement showing either all changes in equity or changes in equity other than those arising from capital transactions with owners and distributions to owners;  d) cash flow statement;  e) accounting policies and explanatory notes.</p> <p>The historical annual financial information must be independently audited or reported on as to whether or not, for the purposes of the registration document, it gives a true and fair view, in accordance with auditing standards applicable in a Member State or an equivalent standard.</p>	
20.2	<p><b>Pro forma financial information</b></p> <p>In the case of a significant gross change, describe how the transaction might have affected the assets and liabilities and earnings of the issuer, had the transaction been undertaken at the commencement of the period being reported on or at the date reported.</p> <p>This requirement will normally be satisfied by the inclusion of pro forma financial information.</p> <p>This pro forma financial information is to be presented as set out in Appendix II and must include the information indicated therein.</p> <p>Pro forma financial information must be accompanied by a report prepared by independent accountants or auditors.</p>	<p>Appendix II of the European Regulation applies if the pro forma financial information is included in the document.</p> <p>CESR Recommendations 87 to 94  Pro forma financial information</p>
20.3.	<p><b>Financial statements</b></p> <p>If the issuer prepares both own and consolidated annual financial statements, include at least the consolidated annual financial statements in the registration document.</p>	
20.4.	Auditing of historical annual financial information	
20.4.1.	Provide a statement that the historical financial information has been audited. If audit reports on the historical financial information have been refused by the statutory auditors or if they contain qualifications or disclaimers, such refusal or such qualifications or disclaimers must be reproduced in full and the reasons given.	
20.4.2.	Indicate which other information in the registration document has been audited by the auditors.	
20.4.3.	Where financial data in the registration document is not extracted from the issuer's audited financial statements state the source of the data and state that the data is unaudited.	<p>Financial information that does not come from the financial statements must be clearly identified. The calculation methods and the terms used must be defined.</p> <p>The issuer must indicate which figures relate to historical information, forecasts, estimates or pro forma statements and emphasise the audited historical financial information.</p>
20.5.	<b>Age of the latest financial information</b>	

## Guide to compiling the registration document for small and mid caps

20.5.1.	The last year of audited financial information may not be older than one of the following: a) 18 months from the date of the registration document if the issuer includes audited interim financial statements in the registration document; b) 15 months from the date of the registration document if the issuer includes unaudited interim financial statements in the registration document.	
20.6.	<b>Interim and other financial information</b>	CESR Recommendations 98 to 106.
20.6.1.	If the issuer has published quarterly or half yearly financial information since the date of its last audited financial statements, these must be included in the registration document. If the quarterly or half yearly financial information has been reviewed or audited, the audit or review report must also be included. If the quarterly or half yearly financial information is unaudited or has not been reviewed state that fact.	
20.6.2.	If the registration document is dated more than nine months after the end of the last audited financial year, it must contain interim financial information, which may be unaudited (in which case that fact must be stated) covering at least the first six months of the financial year. The interim financial information must include comparative statements for the same period in the prior financial year, except that the requirement for comparative balance sheet information may be satisfied by presenting the year-end balance sheet.	
20.7.	Dividend policy Describe the issuer's policy on dividend distributions and any restrictions thereon.	
20.7.1.	Provide the amount of the dividend per share for each financial year for the period covered by the historical financial information adjusted, where the number of shares in the issuer has changed, to make it comparable.	
20.8	<b>Legal and arbitration proceedings</b> Indicate any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the issuer is aware), during a period covering at least the previous 12 months which may have, or have had in the recent past significant effects on the issuer and/or group's financial position or profitability, or provide an appropriate negative statement.	
20.9	<b>Significant change in the issuer's financial or trading position</b> Describe any <b>significant</b> change in the financial or trading position of the group which has occurred since the end of the last financial period for which either audited financial information or interim financial information have been published, or provide an appropriate negative statement	The issuer may use the information published under the permanent and periodic disclosure requirements here (for example, quarterly information).
21.	<b>ADDITIONAL INFORMATION</b>	
21.1.	<b>Share capital</b> Provide the following information as of the date of the most recent balance sheet included in the historical financial information:	
21.1.1.	The amount of issued capital, and for each class of share capital: (a) the number of shares authorised; (b) the number of shares issued and fully paid and issued but not fully paid; (c) the par value per share, or that the shares have no par value; and (d) a reconciliation of the number of shares outstanding at the beginning and end of the year. If more than 10 % of capital has been paid for with assets other than cash within the period covered by the historical financial information, state that fact.	
21.1.2.	If there are shares not representing capital, state the number and main characteristics of such shares.	
21.1.3.	The number, book value and face value of shares in the issuer held by or on behalf of the issuer itself or by subsidiaries of the issuer.	
21.1.4.	The amount of any convertible securities, exchangeable securities or securities with warrants, with an indication of the conditions governing and the procedures for conversion, exchange or subscription.	

## Guide to compiling the registration document for small and mid caps

21.1.5.	Information about and terms of any acquisition rights and or obligations over authorised but unissued capital or an undertaking to increase the capital.	CESR recommends that, if there is authorised but unissued capital or a commitment to increase capital (warrants, convertible bonds or other securities providing access to capital) or if subscription rights have been granted, issuers should indicate: <ul style="list-style-type: none"> <li>- the quantity of all securities in circulation that provide access to capital and the authorised share capital amount or capital increase and, the period for which the authorisation is valid,</li> <li>- the categories of persons with preferential subscription rights to the additional capital,</li> <li>- the terms, arrangements and procedures governing the issuance of the new shares.</li> </ul>
21.1.6.	Information about any capital of any member of the group which is under option or agreed conditionally or unconditionally to be put under option and details of such options including those persons to whom such options relate.	If the capital of a company belonging to the issuer's group is under option or agreed conditionally or unconditionally to be put under option, the issuer should indicate the nature and the quantity of the securities under option, the exercise price and the price for which the options were or will be created, the exercise period and the expiry date. If options have been granted, or it has been decided to grant options, to all shareholders and debt security holders or to any class of these securities or to employees under an employee shareholding plan, the information may be provided without giving names. The requirement will be satisfied by giving the exercise price range, the exercise periods and the expiry dates.
21.1.7.	A history of share capital, highlighting information about any changes, for the period covered by the historical financial information.	Indicate, for the period covered by the historical financial information: <ul style="list-style-type: none"> <li>- events that led to a change in share capital issued and/or the number and classes of shares making up the share capital and a description of changes in the voting rights attaching to various classes of shares during this period,</li> <li>- information about prices and significant aspects, such as the tranches of any issue, including details about the price if it was paid in another form than cash (including discounts, special terms and deferred payments),</li> <li>- the reason for any capital reduction and the percentage of any such reduction.</li> </ul>
21.2.	<b>Memorandum and Articles of Association</b>	
21.2.1.	Describe the issuer's objects and purposes and where they can be found in the memorandum and articles of association.	

## Guide to compiling the registration document for small and mid caps

21.2.2.	Summarise any provisions of the issuer's articles of association, statutes, charter or bylaws with respect to the members of the administrative, management and supervisory bodies.	
21.2.3.	Describe the rights, preferences and restrictions attaching to each class of the existing shares.	Indicate here any information about double or multiple voting rights, or any restrictions on voting rights, with the date of the general meeting that authorised them, the terms (threshold for capping voting rights), eligibility requirements (shareholding times and requirements, for example), requirements for eliminating or ending preferences and restrictions, applicable provisions of the bylaws. CESR also recommends indicating information about dividend rights (beneficiaries, time limits) and liquidating dividends, buyback terms, reserves or provisions for sinking funds and any obligations on the issuer to make public offerings.
21.2.4.	Describe what action is necessary to change the rights of holders of the shares, indicating where the conditions are more significant than is required by law.	
21.2.5.	Describe the conditions governing the manner in which annual general meetings and extraordinary general meetings of shareholders are called including the conditions of admission.	
21.2.6.	Provide a brief description of any provision of the issuer's articles of association, statutes, charter or bylaws that would have an effect of delaying, deferring or preventing a change in control of the issuer.	
21.2.7.	Indicate the articles of association, statutes, charter or bylaw provisions, if any, governing the ownership threshold above which shareholder ownership must be disclosed.	
21.2.8.	Describe conditions imposed by the memorandum and articles of association statutes, charter or bylaws governing changes in the capital, where such conditions are more stringent than is required by law.	
22.	<p><b>MATERIAL CONTRACTS</b></p> <p>Summarise each <b>material</b> contract, other than contracts entered into in the ordinary course of business, to which the issuer or any member of the group is a party, for the two years immediately preceding publication of the registration document.</p> <p>Summarise any other contract (not being a contract entered into in the ordinary course of business) entered into by any member of the group which contains any provision under which any member of the group has any obligation or entitlement which is <b>material</b> to the group as at the date of the registration document.</p>	Readers may be referred to section 19 for contracts entered into with related parties.
23.	<b>THIRD PARTY INFORMATION AND STATEMENT BY EXPERTS AND DECLARATIONS OF ANY INTEREST</b>	
23.1	Where a statement or report attributed to a person as an expert is included in the registration document, provide such person's name, business address, qualifications and material interest if any in the issuer. If the report has been produced at the issuer's request, enclose a statement to the effect that such statement or report is included, in the form and context in which it is included, with the consent of the person who has authorised the contents of that part of the registration document.	To determine whether an expert has a material interest, CESR recommends that the issuer take into consideration whether the expert holds the issuer's securities, is employed by the issuer or has received remuneration from the issuer in the past, holds a seat on one of the issuer's administrative, management or supervisory bodies, or has links with the intermediary involved in the financial transaction or the listing of the issuer's securities.

## Guide to compiling the registration document for small and mid caps

23.2	Where information has been sourced from a third party, provide a confirmation that this information has been accurately reproduced and that as far as the issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. In addition, identify the source(s) of the information.	
24.	<p><b>DOCUMENTS ON DISPLAY</b></p> <p>Provide a statement that for the life of the registration document the following documents (or copies thereof), where applicable, may be inspected:</p> <p>(a) the memorandum and articles of association of the issuer;</p> <p>(b) all reports, letters, and other documents, historical financial information, valuations and statements prepared by any expert at the issuer's request any part of which is included or referred to in the registration document;</p> <p>(c) the historical financial information of the issuer or, in the case of a group, the historical financial information for the issuer and its subsidiary undertakings for each of the two financial years preceding the publication of the registration document.</p> <p>Indicate where the documents on display may be inspected, by physical or electronic means.</p>	
25.	<p><b>INFORMATION ON HOLDINGS</b></p> <p>Provide information relating to the undertakings in which the issuer holds a proportion of the capital likely to have a <b>significant effect</b> on the assessment of its own assets and liabilities, financial position or profits and losses.</p>	Provide the table of subsidiaries and interests contained in the notes to the parent company financial statements or refer readers to the consolidation structure presented in the notes to the consolidated financial statements.

## Guide to compiling the registration document for small and mid caps

As part of the simplification of the guide to drafting the registration document, the table below summarises the recommendations and interpretations that the working group proposes should be made optional for small and mid caps.

<b>Interpretation or recommendation concerned</b>	<b>Status</b>
AMF interpretation 1 Off-balance sheet commitments	NA, except in specific cases involving complex commitments
AMF interpretation 2 Risk factors	Replaced by a simplified version for small and mid caps
AMF interpretation 3 Corporate governance	NA, readers referred to the management report and the corporate governance and internal control report
AMF interpretation 4 Remuneration of corporate officers and stock option plans	Applicable, but readers are referred to the management report for most of the information.
AMF interpretation 5 Voting rights restrictions and multiple voting rights	Applicable, summarised in the table
AMF interpretation 6 Markets and competition	NA
AMF interpretation 7 Parent-subsidiary relationships	NA
AMF recommendation 1 Creation of shareholder value	NA
AMF recommendation 2 Insurance and risk hedging	NA
AMF recommendation 3 Ownership structure (table of changes in shareholdings for the last three years and shareholder agreements)	NA
AMF recommendation 4 Pledges, guarantees and collateral	NA
AMF recommendation 5 Risks and disputes: provisioning method	NA
CESR recommendations 1 to 19 Introduction	NA
CESR recommendations 20 to 26 Selected financial information	Simplified draft for small and mid caps
CESR recommendations 27 to 32 Operating and financial review	Simplified draft for small and mid caps
CESR recommendations 33 to 37 Capital resources	Simplified draft for small and mid caps
CESR recommendations 38 to 50 Profit forecasts or estimates	Applicable
CESR recommendations 51 to 86 Historical financial information	Applicable
CESR recommendations 87 to 94 Pro forma financial information	Applicable
CESR recommendations 95 to 97 Financial data not extracted from the issuer's audited financial statements	Simplified draft for small and mid caps
CESR recommendations 107 to 126 Working capital statements	NA <sup>27</sup>
CESR recommendation 127 Capitalisation and indebtedness	Simplified draft for small and mid caps
CESR recommendations 128 to 130	Applicable only to certain issuers

<sup>27</sup> Recommendations on drafting the information memorandum and not the registration document.

**APPENDIX I**  
**Guide to compiling the registration document for small and mid caps**

<b>Interpretation or recommendation concerned</b>	<b>Status</b>
Property companies	
CESR recommendations 131 to 133 Mineral companies	Applicable only to certain issuers
CESR recommendation 134 Scientific research based companies	Applicable only to certain issuers
CESR recommendations 135 to 139 Start-up companies (less than 3 years old)	Applicable only to certain issuers
CESR recommendations 140 to 145 Shipping companies	Applicable only to certain issuers
CESR recommendation 146 Property, plant and equipment	Applicable except for §a
CESR recommendations 147 et 148 Compensation	Applicable
CESR recommendation 149 Related party transactions	Simplified draft for small and mid caps
CESR recommendation 150 Acquisition rights and undertakings to increase capital	Applicable
CESR recommendations 151 et 152 Options agreements	Applicable
CESR recommendations 153 et 154 History of share capital	Applicable
CESR recommendation 155 Description of the rights attaching to the issuer's shares	Applicable, <b>summarised in the table</b>
CESR recommendations 156 to 159 Statements by experts	Applicable
CESR recommendations 160 to 165 Information on holdings	Simplified draft for small and mid caps
CESR recommendation 166 Interests of natural and legal persons involved in the issue	NA <sup>28</sup>
AMF position of 10 July 2006 Notion forecasts	Applicable

<sup>28</sup> Recommendation on drafting the information memorandum and not the registration document.

## APPENDIX II

# Internal control reference framework: Implementation guide for small and mid caps

## Contents

I- OBJECTIVES, PRINCIPLES AND CONTENT

II- GENERAL INTERNAL CONTROL PRINCIPLES

III- QUESTIONNAIRES

I- OBJECTIVES, PRINCIPLES AND CONTENT
---------------------------------------

**Introduction**

Under the terms of the requirements set out in the Commercial Code for companies making public offerings<sup>29</sup>, the AMF published a reference framework in 2006 that became the object of an AMF recommendation on 22 January 2007 and will apply to financial years starting on or after 1 January 2007.

This internal control reference framework stipulates that “each company is responsible for its own organisation and, consequently, its internal control” and that the reference framework is not “intended to be binding on companies”, but that companies may use it to “supervise and, where appropriate, develop their internal control system, but without constituting directions on how to design their organisational structures”.

As part of its Better Regulation approach, the AMF set up a joint working group with Middelnext to put forward proposals for streamlining the regulatory constraints on small and mid caps<sup>30</sup>. The group concluded that the distinctive characteristics of small and mid caps should be given more consideration in the implementation of the reference framework that the AMF published in January 2007. Therefore, the working group compiled this guide to implementation of the internal control reference framework by small and mid caps<sup>31</sup>.

**Objectives of the guide**

This guide for the implementation of the “internal control” reference framework aims to achieve the following objectives:

- guiding the chairman, senior management and executives in their internal control discussions relating to principles, roles and responsibilities,
- facilitating the drafting of the “chairman’s report” on the internal control procedures implemented by the company.

**Principles**

As is the case with the reference framework, this guide is not binding on small and mid caps.

The guide and the questionnaires that it contains are designed to help a company identify the main internal control points to be implemented and/or improved.

However, each company is responsible for its own organisation and its internal control system, which should be part of good governance and comply with the specific regulations applying to certain industries, such as banking and insurance, or to certain financial markets. **This guide needs to be adapted to suit the company.** Depending on the company’s size, the complexity of its business and processes, or its international presence, it may be more suitable to draw greater inspiration from the implementation guide in the reference framework that the AMF published in January 2007.

As is the case for the reference framework, this guide is the object of an AMF recommendation.

Consequently, as would have been the case under the terms of the January 2007 recommendation<sup>32</sup>, small and mid caps are invited to specify in the Chairman’s report whether they have followed this guide for the

<sup>29</sup> According to articles 225.37 and 225.68 of the French Commercial Code, in companies making public offerings, the Chairman of the Board of Directors or of the Supervisory Board, shall “*give an account in a report... on the internal control procedures that the company has implemented.*” For the same companies, according to Article L 225-235 (Article 120 of the Financial Security Act): “the statutory auditors shall present a report... on their observations on the (chairman’s) report on the internal control procedures relating to financial reporting”.

<sup>30</sup> Under the chairmanship of Yves Mansion, a member of the AMF Board and Chief Executive Officer of Société Foncière Lyonnaise, the working group’s remit was to propose adjustments to the disclosure requirements for small and mid caps.

<sup>31</sup> The threshold that the company shall use to determine whether it is a small or mid cap shall be presented in a publication by AMF.

<sup>32</sup> This recommendation applies to financial years starting on or after 1 January 2007, as does the new recommendation for small and mid caps.

**Internal control reference framework : Implementation guide for small and mid caps**

implementation of the reference framework when drafting the Chairman's. The companies concerned must also highlight any events or information that is likely to have a material impact on their assets or their earnings.

Consequently, small and mid caps are not asked to include the answers to the questionnaires contained in this guide in the Chairman's report. However, if a substantial weakness in the company's internal control system is revealed when filling out the questionnaires, the Chairman's report should mention it.

If the company did not follow this guide when drafting the Chairman's report, the same transparency principles shall apply to the use of any other reference framework that the company chooses or is required to follow at the international level. Any such framework must be clearly presented.

**Content**

This tool designed for small and mid caps has two parts:

- general internal control principles,
- two questionnaires: one on internal control of financial reporting, and the other on risk analysis and control.

**II - GENERAL INTERNAL  
CONTROL PRINCIPLES**
**Definition**

Internal control is a company system, defined and implemented under its responsibility, which aims to ensure that:

- laws and regulations are complied with,
- the instructions and policies set by senior management or the Management Board are applied,
- the company's internal processes are functioning correctly, particularly those implicating the security of its assets,
- financial information is reliable,

and generally, contributes to the control over its activities, to the efficiency of its operations and to the efficient utilisation of its resources.

By helping to anticipate and control the risk of not meeting the objectives the company has set for itself, the internal control system plays a key role in conducting and monitoring its various activities.

However, internal control cannot provide an absolute guarantee that the company's objectives will be met.

**Scope of internal control**

It is up to every company to design an internal control system that is adapted to its situation.

In the case of a group, the parent company ensures that its subsidiaries have internal control systems. These systems should be adapted to each subsidiary's individual characteristics and to the relationship that exists between the parent company and the subsidiaries.

**Components of the internal control system**

Senior management or the Management Board design the internal control system. Communication about the system must be appropriate to ensure implementation by all employees.

## Internal control reference framework : Implementation guide for small and mid caps

Internal control will be that much more relevant if it is based on rules of conduct and integrity upheld by the governance bodies and communicated to all employees. In no way can it be reduced to a purely formal system with serious breaches in business ethics taking place on the sidelines.

The internal control system, which is adapted to the characteristics of each company, should provide for:

- an **organisational structure** comprising a clear definition of responsibilities, with suitable resources and competencies and supported by appropriate procedures, information systems, tools and practices;
- **internal dissemination of relevant and reliable information** that enables everyone to discharge their responsibilities;
- a **system** for identifying and analysing the main identifiable risks in relation to the company's objectives and for ensuring that procedures exist for managing those risks;
- **control activities** proportionate to the implications of each individual process and designed to reduce the risks that could affect the company's ability to achieve its objectives;
- on-going monitoring of the internal control system together with a regular review of its operation. This monitoring, which can usefully rely on the company's internal audit function, when there is one, can lead to adjustments to the internal control system.

### Participants in internal control

Internal control is everyone's business, from the governance bodies to each employee of the company.

#### → Board of directors or supervisory board

It is the responsibility of senior management or the management board to report to the board, or the audit committee, if one exists, on the main features of the internal control system.

If necessary, the board may use its general powers to conduct audits and verifications as it sees fit or to carry out any other initiatives that it deems appropriate in this area.

#### → Senior management / management board

The task of senior management or the management board is to define, instigate and monitor the system deemed to be the most suitable for the company's circumstances and business.

As part of this task, they:

- receive regular updates on problems, weaknesses and implementation difficulties with the system, as well as any excessive demands it creates,
- ensure that the necessary corrective actions are undertaken,
- report to the board about important points.

#### → Internal audit

If an internal audit function exists, it is responsible for assessing how well the internal control system works and for making recommendations to improve it, within the scope of its duties.

#### → Company employees

All employees concerned should have the necessary knowledge and information to set up, operate and monitor the internal control system relating to the objectives assigned to them.

## III - QUESTIONNAIRES

The two questionnaires below are tools for facilitating discussion, implementation and communication with regard to internal control. Their primary objective is to enable the company to identify the control points that could be improved, particularly for the purposes of communication with shareholders and the market on the subject of internal control and for drafting the chairman's report required by law.

The questionnaires need to be adapted to the specific characteristics of the company. The company may refer to the application guide for internal control of financial reporting that the AMF published in January 2007, which is

**Internal control reference framework : Implementation guide for small and mid caps**

available on the AMF website ([www.amf-france.org](http://www.amf-france.org)). The application guide will help the company adapt the questionnaires.

The application guide discusses the following principles and key points:

**I – Oversight processes for the accounting and financial reporting structure**

- Principles and key analytical points
- Role of senior management
- Role of the board of directors or the supervisory board

**II – Processes involved in preparing published accounting and financial information**

- Quality criteria
- Identifying risks affecting the preparation of published accounting and financial information
- Principles and key analytical points
  - Investment / Divestment / Research and development
  - Intangible assets, tangible assets and goodwill
  - Long-term investments
  - Purchases / trade payables
  - Costs / Inventories and work in progress / Long-term or construction contracts
  - Ordinary income / Trade receivables
  - Cash / Financing and financial instruments
  - Employee benefits
  - Taxes
  - Equity transactions
  - Provisions and obligations
  - Consolidation
  - Management information required for preparing accounting and financial information for publication
  - Management of external financial information.

## Questionnaire on internal control of accounting and financial reporting

### → Governance bodies

- Have the accounting principles that have a material impact on the presentation of the company's financial statements been formally validated by senior management, reviewed by the statutory auditors and presented to the board of directors or the supervisory board?
- Has senior management explained and substantiated the main accounting options and choices made with regard to the preparation of the published financial statements for the board, and have the statutory auditors reviewed these choices?
- Has a process been established for validating planned changes in accounting principles, with due consideration for the economic aspects of the transactions? Does this process call for consultation with the statutory auditors and notification of the Board?
- Does the Board receive the statutory auditors' assurance that they have had access to all the information needed to carry out their duties, especially in the case of consolidated companies?
- Does the Board receive the statutory auditors' assurance that they have made enough progress on their work at the cut-off date to be able to present all their material observations?
- Are the earnings components, balance-sheet presentation, financial position presentation and the notes to the financial statements explained to the Board each time the published financial statements are prepared?
- Has the Board been informed of the existence of a management control function, which produces data that are periodically reconciled with the published financial information?
- Has the Board been regularly informed of cash position statements that include the short-term outlook? Do the cash flow statements used in the analysis presented to the Board clearly distinguish cash holdings with restrictions on their use by the parent company?

### → Accounting and financial reporting structure

- Does the accounting and financial reporting function have access to the information needed to prepare the financial statements from all the entities covered by the statements?
- Does the group have an accounting principles manual that specifies the accounting treatment for the most significant transactions?
- If financial statements are published in accordance with several sets of accounting standards at the individual company or consolidated level, have procedures been established for explaining the main restatements?
- Are there accounting procedures manuals and instructions describing the division of responsibilities for execution and control of accounting tasks, as well timetables for execution? As part of the preparation of the consolidated financial statements, are there dissemination procedures to ensure that the manuals and instructions are followed by subsidiaries?
- Have the people responsible for preparing the financial statements and financial information, and the various players who participate in the preparation of the financial statements been identified?
- Has a process been established to identify the resources required for the smooth operation of the accounting function? Does it give due consideration to foreseeable developments?

### → Accounting and financial information system

- Have information procedures and systems been developed to meet requirements with regard to the security,

**Internal control reference framework : Implementation guide for small and mid caps**

reliability, availability and relevance of accounting and financial information?

- Are information systems used for accounting and financial information adapted, as the company's needs change?
- Has senior management verified compliance with record retention requirements with respect to information, data and processing routines used directly or indirectly to prepare accounting records and financial statements?

**→ Identifying and analysing risks affecting accounting and financial information**

- Have systems been established to identify the main risks affecting the process of preparing the financial statements?
- Does the internal control system for accounting and financial reporting include specific procedures to reduce the risk of errors and fraud?

**→ Control activities**

- Are regular audits and spot checks conducted to ensure compliance in practice with the manual of accounting principles and the manual of accounting procedures?
- Have procedures been established to identify and resolve new and unforeseen accounting problems in the accounting principles manual and/or the accounting procedures manual?
- Do internal control activities for accounting and financial reporting include procedures to protect assets (risk of negligence, errors and internal or external fraud)?
- Does the internal control system for accounting and financial reporting include specific audits of accounting aspects that are identified as critical, such as recognition of assets, recognition of earnings, accruals, inventory valuation, etc.?
- Are the procedures for preparing the group's financial statements applied in every consolidated entity? If there are exceptions, are there adequate procedures for dealing with them?

**→ Accounting and financial disclosure**

- Has a schedule been established that summarises the group's periodic disclosure requirements for accounting and financial information? Does this schedule specify:
  - the nature and deadline for each periodic disclosure requirement;
  - the persons responsible for preparing disclosures?
- Has a procedure been established for checking information prior to disclosure?

## Questionnaire on risk analysis and control

### → General risk management principles

- Does the company have a “common language” for dealing with risk (uniform definitions, criteria for risk identification, analysis and monitoring, etc.)?
- Has the company established risk management objectives?

### → Identification of the main risks

The internal control structure includes a system to ensure that a process has been established to identify the main risks involved in the company's business activities.

The level of detail in this process is adapted to the company's objectives, characteristics and environment (from strategic choices to transactions).

- Is there a process for identifying the main risks? If so, does the process incorporate the company's objectives? Has a structure been set up for this purpose?

### → Analysis of the main risks

- Does the company analyse the potential impact of the main identified risks (quantified or not, financial or non-financial impact) and the estimated degree of risk control?
- Does the risk analysis incorporate internal and external changes affecting the company?
- Does this analysis lead to specific actions? Has the responsibility for such actions been defined? Where appropriate, is the implementation of these actions monitored?

### → Main risk management procedures

- Have policies and procedures for managing the main risks been defined, approved by management and implemented in the company?
- Have specific resources been allocated to implementing and supervising risk management procedures?
- Have risk management responsibilities been defined and notified to the people concerned?
- Has the company's past experience with risks or that of similar entities been taken into consideration?
- Does management receive information about the key characteristics of actions taken to manage the company's main risks (type of actions taken or hedges established, insurance exclusions and the amount of coverage, etc.)?
- Does the company have a crisis management plan?

### → Supervision of risks and risk management procedures

- Does the company provide internal information to the people concerned:
  - about risk factors?
  - about risk management systems?
  - about current actions and the people in charge of them?
- Has the company identified its legal and regulatory obligations with regard to risk disclosure?
- Is there a mechanism that makes it possible, when necessary, to adapt risk management procedures to

**Internal control reference framework : Implementation guide for small and mid caps**

changes in risks and the external environment, as well as to changes in the company's objectives and business activities?

- Is there a system for identifying and correcting the main weakness in the risk management system used by the company?
- Has the board of directors or, as the case may be, the supervisory board, been informed of the main thrust of the risk management policies? Is the board updated periodically on the main risks identified and the key characteristics of the risk management system, including the resources allocated and ongoing improvements?