

Paris, 18 May 2007

AMF amends its General Regulation on independent investment research

The General Regulation of the French securities regulator, the Autorité des marchés financiers (AMF), was amended by an executive order of 4 May 2007, published in the Official Journal of the French Republic on 16 May 2007. http://www.amf-france.org/documents/general/7760_1.pdf

The amendments, which follow on from the public consultation held between 28 July and 31 October 2006¹ (http://www.amf-france.org/documents/general/7263_1.pdf), concern independent investment research and commission sharing arrangements.

The new measures stem from the recommendations set out in the report² published by the working group on independent investment research chaired by AMF Board-member Jean de Demandolx Dedons. They seek to provide independent investment analysts with conduct of business rules and to introduce commission sharing arrangements into France.

On the first point, the new measures lay down the conditions that investment analysts not employed by an investment services provider must comply with in order to be considered as having independent judgment. They also set forth the compliance duties of these analysts and the obligations applicable to the professional associations representing them. In addition, the AMF today published a recommendation on the production of independent research during large-scale securities offerings intended for retail investors: http://www.amf-france.org/documents/general/7889_1.pdf

On the second point, the new measures usher in a system of commission sharing arrangements. Where brokerage fees are charged to portfolios managed by an investment management company (through collective investment schemes or under mandates) a distinction must now be made between the portion of those commissions paid for order execution services and the portion paid for investment support services particularly investment research.

Under such a system, an investment manager can if it wishes ask a third party to supply it with a research service. In this case, a commission sharing agreement (CSA) must be entered into. The CSA must provide that the firm responsible for order execution services shall pay the portion of the brokerage fees relating to investment research services to the third party selected by the investment manager.

The AMF General Regulation stipulates how these arrangements are to be implemented, and in particular the conditions to be complied with by CSAs and the transparency requirements applicable to investment management companies in relation to their clients (i.e., holders of units or shares in collective investment schemes and mandate principals). Furthermore, an AMF instruction gives a non-exhaustive list of "non-

¹ The summary of consultation responses was published today
http://www.amf-france.org/documents/general/7763_1.pdf

² The report entitled "A fresh start for independent investment research in the French market", was released on 13 July 2005 and was put out for public consultation until 30 September 2005. A summary of the responses to the consultation was published on 20 December 2005.

permitted" services, which may not be billed to collective investment schemes or portfolios managed under a mandate covered by a CSA.: http://www.amf-france.org/documents/general/7890_1.pdf

Commission sharing arrangements will replace the present system of soft commissions after a transition period terminating on 1 January 2008. An assessment of the way in which these arrangements have been implemented in the French market will be made in first-half 2009.