

The IFRS Foundation's IFRS Conference

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KEYNOTE SPEECH:

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Ladies and gentlemen,

It is an honour for me to speak to such an impressive audience of experts in international financial reporting standards.

Back in 1995, the French securities regulator, then the Commission des Opérations de Bourse (COB), and its Chairman Michel Prada played a key role in fostering the development of IAS. The COB made great efforts to convince its fellow securities regulators within IOSCO to call for the development of a single set of high quality financial reporting standards. And as you may know, securities regulators gave the decisive impetus to the creation of the current IFRS Foundation organisation.

A second decisive impetus was given by the European Union with Regulation (EC) N°1606/2002, which adopted the use of IFRS for companies listed on regulated markets in the EU. Since then, with more than 100 countries where IFRS are required, the worldwide success has been impressive. Despite a recent setback with the decision by the US Securities and Exchange Commission not to allow the use of IFRS by US companies, the development of a single set of high quality standards should remain our long-term goal. The Autorité des Marchés Financiers is convinced that this is key in order for companies to compete for financial resources on an equal footing. But this objective should not be pursued at all costs. High quality of principles in the standards should always prevail.

But let me provide you with a brief description of our role and our involvement in the standard-setting and regulatory arenas.

Who we are

The AMF was created 12 years ago, a few months after the Sarbanes-Oxley Act in the United States and the Loi de Sécurité Financière in France, at a time when it became obvious that regulation of financial markets had to be improved.

The AMF is an independent authority. Its 450 employees report to a Board made up of 16 people. The members of our Board are appointed in order to ensure the regulator's independence, but also to bring together expertise that is needed in overseeing market activities, which are becoming more and more complex. Parallel to this Regulatory Board, our organisation has a second Board made up

of 12 members, called the “Sanctions Board”. While the Regulatory Board is prosecuting offences, the Sanctions Board acts as a specialised Tribunal. The powers of this Sanctions Board were recently reinforced, and now penalties that this Board can impose can reach up to 100 million euros.

The AMF has responsibilities in the following areas:

- information provided to investors (dealing, among other things, with marketing documents aimed at retail investors);
- market surveillance;
- supervision of asset management firms and funds;
- and, of course, enforcement of regulatory requirements as regards financial information published by listed companies.

The latter includes a role in the enforcement of accounting standards. This mostly refers to IFRS, since Regulation (EC) N°1606/2002 made this set of standards compulsory for companies listed on a regulated market and that prepare consolidated accounts.

It has to be noted that the AMF has no direct involvement in the oversight of auditors.

As regards listed entities, it be noted that three markets exist in France. There is a main regulated market called Euronext. Small and medium size companies can also opt for an organised Multilateral Trading Facility (MTF) with lighter rules, or for the ‘Marché Libre’ in which regulation is even lighter. There are about 550 companies with equity listed on the regulated market and 180 listed on Alternext, the French MTF. There are also 157 issuers with bonds listed on a regulated market.

The enforcement of requirements dealing with financial information for listed entities is performed jointly by the Corporate Finance Department and the Corporate Accounting and Audit Department. The Corporate Finance Department is 50 people strong and deals with requirements that result from the Prospectus, Transparency, and Market Abuse directives. It also reviews valuations made in offers to the public (takeover bids, mergers, etc.).

The Corporate Accounting and Audit Department is a team of 10 people focusing mainly on the compliance of issuers’ financial statements with the applicable set of accounting standards. They also have a monitoring role on auditing matters. In terms of institutional organisation, the AMF is a member of the Board of the French auditors’ oversight board and is therefore keen on sharing information on audit quality with this organisation.

Involvement in standard-setting

One of the characteristics of the French market is that a significant share of our market is made of companies with activities and subsidiaries in various parts of the world. For these ‘global companies’, a global set of accounting standards is seen as helpful, because they provide a ‘common language’ that all their subsidiaries can use. IFRS also improve comparability with their competitors, though in this area large companies often point at the diversity of practices which can be observed. Part of this diversity is due to the way the standards are written (principles rather than rules). Part of it is due to business models and legal environments that differ. Part is also due to diverging interpretations made by preparers, auditors and regulators.

As a securities regulator, the AMF is very much interested in the quality of accounting standards applied by companies listed on the French securities markets. Our organisation is therefore involved in the standard-setting activities.

Most of these activities deal with IFRS, for obvious reasons. However if you take a look at the comment letters received by the IASB, you will not find any coming from the AMF. Our involvement is only indirect. The Corporate Accounting and Audit Department contributes to the working groups and standing committees of the French accounting standard-setter, the Autorité des Normes Comptables (ANC), of ESMA and of IOSCO where the comment letters from these three institutions are prepared. The opinions expressed in these three groups are not always aligned, but the AMF feels that it is important to both take part in the exchange of views on new standards and to express our specific viewpoint. As a securities regulator, I must acknowledge that our views are biased. Of course, in the interest of investors we favour transparent disclosures. In addition to that, as a regulator, we pay particular attention to the enforceability of the principles and the guidance provided by the standards.

The IASB plans to undertake a consultation on its future work plan in the coming months. This gives me the opportunity to underline that, as a securities regulator, we would be very interested to have standards that would clarify:

- how to distinguish between equity and financial liabilities on the one hand, and
- how to account for business combinations under common control.

Changes in the regulatory and market environments have led to the issuance by financial institutions (but also by corporate entities) of complex financing instruments for which it is very difficult to assess whether they are equity or liabilities according to IAS 32. Often we observe that analysts and rating agencies reclassify all or part of these instruments. It is therefore a concern to us that so much uncertainty exists as regards the classification of these instruments.

The second topic has been high on the securities regulators list for some time, but the last 18 months have seen a very significant number of IPOs taking place in European securities markets. Quite often a restructuring of entities under common control takes place just before the IPO. The issue has therefore become even more topical.

I would also like to make a reference to the IASB's 'Disclosure Initiative'. This project is very important to many securities regulators. Many stakeholders have expressed concerns about the quality of disclosures presented in the notes to the financial statements. The amendments to IAS 1 published at the end of last year are very welcome. The AMF is eager to read the IASB's draft Practice Statement on Materiality, which is planned for publication later this year.

We have been working on this topic as well. In several 'recommendations' published in past years the AMF invited issuers to provide more entity-specific disclosures. Unfortunately, so far, few listed companies in France have engaged into a rethink of their notes to the financial statements. The Board of the AMF approved last week a guide which should be published very soon, and which aim is to clarify that relevance and consistency of disclosures are key and efforts could be made to make the notes easier to read. This guide provides examples of disclosures used by a number of French and European companies. It also marks the commitment of our organisation to foster the initiatives that French issuers will take in this area. This guide is not setting a standard. It is not an

enforcement tool either. It is just an invitation to listed companies and to their auditors to change their way of doing things. And given the very positive feedback we received, we are confident that it will result in better disclosures.

On a quite different matter, I would like to say that being a member of a larger organisation has its advantages. For instance, until the end of last year, one of IOSCO's representatives at the IFRS Foundation Advisory Council was the Director of the Corporate Accounting and Audit Department or his predecessors. It allowed our organisation to take part in the consultation process with which this group is involved.

Along the same lines, there is a long-standing relation between the AMF and the IFRS Interpretations Committee. Representatives from the AMF have been serving for many years as official observers to the Interpretations Committee on behalf of IOSCO. This is a relationship that is particularly valuable, because a significant number of issues discussed by the Interpretations Committee come from enforcement cases.

Enforcement of IFRS

One of our main objectives as the securities regulator in France is to ensure compliance with regulations approved in Europe so as to provide high quality financial information to investors. In order to do that, the Corporate Accounting and Audit Department performs reviews of a sample of issuers' financial statements (approximately 100 each year). As experience has taught us that proactively dealing with problems can be more efficient than reacting to them, we engage on a regular basis in discussions and exchange of information with issuers and auditors in order to identify trends or emerging issues that could have significant impacts on the financial statements. This process allows us to share information with fellow regulators and to publish technical alerts, which we call accounting recommendations. The aim of these publications is to underline the importance of specific IFRS provisions in a given economic environment or a given industry so that issuers and auditors know that our expectations are high for these topics.

Because standards based on principles inevitably create a risk of diverging interpretations and practices, international co-operation between regulators is key. The AMF is very much involved in these activities, especially within ESMA. We have been part of the European Enforcers Coordination Sessions (EECS) since the beginning in 2004. Furthermore, since 2012 the sessions have been chaired by the AMF's Director in charge of these matters. We view these sessions as a very efficient tool, which helps European enforcers reach a common understanding of difficult technical issues. The frequency of the meetings (approximately once every six weeks) provides individual regulators with an opportunity to test their own technical analysis against that of their peers. When new problems arise, these sessions also give us the possibility to confirm whether the issue is widespread in Europe or limited to a specific jurisdiction. As a result of this testing at European level, European regulators can engage into a very positive dialogue with the IASB and the Interpretations Committee. Since 2012 an increased number of enforcement issues have been submitted to the Interpretations Committee. Over the years 2013 to 2015, approximately 10 per cent of the issues discussed by the Interpretations Committee came from ESMA. An improved process resulted in ESMA comment letters being sent on a more systematic basis in response to the publication of tentative agenda decisions (almost one-third over the period 2013-2015).

The AMF is also proud that ESMA chose to publish, before each year-end, 'European Common Enforcement Priorities', which are very similar to the AMF's recommendations that I mentioned earlier. We are convinced that this publication is a very valuable tool to help achieve a more consistent application of IFRSs.

Despite the fact that it is more difficult to develop tools similar to those in place at ESMA on a global basis, the AMF is convinced that IOSCO also has an important role to play in improving the consistency of how IFRSs are applied internationally. We may need to think afresh to identify more efficient processes and tools than the ones currently in place within IOSCO. If we succeed in this project, I am convinced that both securities regulators on the one hand and the IASB on the other would benefit greatly from this improvement.

I would like to venture a final comment. Since January 2005, the date of the first application of IFRSs, capital markets have gone through periods of great stress. Rules on financial information and accounting standards were put to the test during the financial crisis. And in my view the test was successful. The IASB showed responsiveness in strengthening the recognition and measurement principles for financial instruments. In parallel, good co-operation with European securities regulators, allowed to expeditiously respond to various emerging issues. There is a lot of value in the close co-operation between our organisations. This is an assessment that the European Commission seems to share, because it explicitly welcomed 'the effective co-operation between [ESMA and the IFRS Interpretations Committee]' in its report published on 18 June.

I wish you a very fruitful conference.