DIRECTIVE ON MARKETS IN FINANCIAL INSTRUMENTS  
(MIF Directive)

The European Directive on Markets in Financial Instruments (known as the MIF Directive or MiFID Markets in Financial Instruments Directive) has been transposed into French law (Ordinance of 12 April 2007 modifying the Monetary and Financial Code).

It concerns financial instruments, including collective investment schemes, equities, bonds, subordinated securities, partnership shares, negotiable certificates of deposit, forward instruments, etc.

It amends a number of the rules governing the operation of the markets, notably by providing for competition between trading methods. It defines the principle of "best execution" of orders, sets out the rules for assessing and informing investor clients and stipulates the organisational principles to be complied with to avoid conflicts of interests.

The purpose of this leaflet is to explain the main features of these amendments.

The provisions came into force on 1 November 2007.

1 – Competition between trading methods

Until now, in France, stock market orders could be executed only on a regulated market (notably Euronext or the Paris Bourse). Practices varied in other European countries.

Henceforth, three execution methods are permitted under a single legal framework:

- a regulated market, which is an approved multilateral system, that provides a meeting point for a large number of buyers and sellers of financial instruments admitted for trading (in France, Euronext);
- multilateral trading facilities (MTF), operated by a market firm, that provide a meeting point for a large number of buyers and sellers;
- systematic internalisers that, on an organised and frequent basis, trade for their own account by executing their clients’ orders outside a regulated market or an MTF; there are a number of transparency rules that must be complied with by the investment firm in this case.

2 – Execution of orders at the most favourable terms and conditions for the client (best execution)

To protect the investor and assure him of a high quality service, the MIF Directive requires intermediaries to guarantee that their execution procedures allow for their clients’ orders to be traded at the best terms and conditions with respect to:

- overall execution price;
- execution quality (speed and likelihood);
- order features (type, size or any other consideration relating to the order).
3 – Assessment of clients and information provided to them

The assessment of clients and information provided to them is governed by new rules.

Asset management companies have a general obligation to act in the client’s best interests by taking into account his degree of risk aversion. To achieve this, these companies are required under the MIF Directive to categorise and assess their clients (including potential clients) in order to determine the suitability of the financial services and instruments offered, forcing them to collect certain information prior to providing a service.

The implementation of these new rules by Amundi will result in increased protection of its investor clients.

♦ The rules are graduated according to the investor classification:

The MIF Directive thus distinguishes three categories of investors:

- Eligible Counterparties
- Professionals
- "Retail clients : all other clients

Retail clients enjoy the greatest protection. Professional clients (and all the more so, eligible counterparties) are, in particular, presumed to have the experience and knowledge needed to understand the inherent risks in financial instruments.

In order to have more information about the criteria to be fulfilled for each of these categories, please look at appendix 2 “client qualification” of this letter.

Note: client under Investment Management Agreement can only be classified in two categories:
- Retail clients
- Professional clients

In this mailing, we have specified the category to which you belong.

It is possible to request a change of category. In this case, your usual Sales correspondent will check that the required conditions are met if the resulting level of protection is lower.

♦ They vary according to the service provided:

→ When the asset management company offers an investment advisory or portfolio management service, it must gather the information it needs to assess the client’s knowledge, his experience in investment matters, his financial situation and his investment objectives. If the asset management company does not obtain this information from its client, it must refrain from recommending investment services or financial instruments;

→ When the asset management company provides investment services other than those listed above (e.g. execution of orders in the client’s name or receipt and transmission of orders for one or more financial instruments), it only needs to verify the client's knowledge and experience in investment matters. If it does not have sufficient information, it warns the client that it cannot determine the suitability of the service envisaged.

1 As defined by Article D. 533-11 of the French Monetary and Financial Code
4 – Organisational rules aimed at avoiding conflicts of interests

Any provider of investment services must take measures aimed at avoiding conflicts of interests between itself and its clients or between two clients: detection of such conflicts and establishment of an effective management policy (procedures to be followed and measures to be taken).

Amundi’s policy for managing conflicts of interests, governing the application of procedures for the prevention and management of conflicts of interests, will be available from your usual Sales correspondent. You may also consult this policy on our website at www.amundi.com. (presentation heading, implementation of MIF).

5 – Application of the MIF Directive to the collective investment schemes

The obligations of the MIF Directive were transposed into the new book III of the AMF [French Financial Market Authority] General Regulations published on 15 May 2007, applicable to investment service providers of portfolio management on behalf of third parties, order reception and transmission services or investment advisory services, and applied from 1 November 2007.

Since the management of collective investment schemes falls within the competence of the UCITS European Directive and not that of the MIF Directive, direct clients investing in collective investment schemes (open to the public or dedicated) were not affected by book III of the AMF General Regulations published on 15 May 2007.

The new book IV of the AMF General Regulations setting out the statutory obligations applicable to Collective investment products was published on 30 March 2008.

In particular, one Article in this book IV stipulates:

- When an asset management company markets its own units or shares in collective investment schemes, this latter must comply with the rules of conduct for order execution services on behalf of third parties
- When an asset management company markets units or shares in collective investment schemes managed by other entities, it must comply with the rule of conduct applying to order receiving and transmitting service on behalf of third parties.

The application instruction defining these obligations was published on 15 July 2008.