

AMF Recommendation n° 2010-16 **Reference framework for risk management and internal control systems**

Reference text: article L. 621-18-3 of the Monetary and Financial Code

In January 2007 the AMF took the initiative of publishing a reference framework for internal control. It was intended to be used by French companies compelled to comply with the requirements of financial security law.¹

The DDAC Law² of 3 July 2008 amended articles L. 225-37 and L. 225-68 of the Commercial Code, extending the scope of the Chairman's Report on the internal control and risk management procedures implemented by companies.

These legislative changes provided the AMF with an opportunity to update its reference framework for internal control by inserting a risk management section into it. This framework, devised and proposed by the AMF in 2007, is first and foremost a tool for progress with the focus firmly on improving the way companies are managed. This update was also an opportunity for the AMF to contribute to greater homogeneity in the concepts underlying the work of audit committees and the drafting of chairmen's reports on internal control and risk management.

In order to take account of the diversity of companies, some of which may have a less organised structure and simpler procedures, and without imposing a system that would be disproportionate to the reality of their activity and organisational structure, the reference framework offers a simple, pragmatic approach allowing companies to outline the conditions under which internal control and risk management systems are organised in a clear, coherent and proportionate manner.

As part of its drive for better market regulation, the AMF considered that the specific features of small and medium capitalisation companies should be better taken into account in the implementation of the reference framework published by the AMF in January 2007. This is why a reference framework adapted for small caps and midcaps was elaborated, and this too has been updated.

¹ Article L. 621-18-3 of the Monetary and Financial Code.

² Law incorporating various provisions to adapt business law to Community law, known as the DDAC Law which amended articles L. 225-37 and L. 225-68 of the Commercial Code.

Recommendation:

The reference framework and its application guide form a tool for the analysis and design of internal control and risk management systems that are sufficiently complete to improve the coherency and legibility of chairmen's reports.

The AMF thus recommends the use of this reference framework by all companies whose securities are admitted to trading on a regulated market.

The reference framework, including its guide, is not however intended to be imposed on companies, particularly those that are already governed by a standard enforced by another regulation, or to replace the specific regulations in force in certain sectors, such as the banking and insurance sector.

In their chairman's report on internal control and risk management procedures, companies are therefore asked to specify whether they used this reference framework and its guide to draft the report. If they only partially applied the reference framework and guide, companies should clearly identify the key areas or processes in internal control and risk management that they did apply, bearing in mind their activity, their size and their organisation methods. Companies should emphasise the elements and information likely to have a significant impact on their assets or their results.

The same transparency principles apply to the use of any other international standard that the company chooses, or is compelled, to apply. This standard should be clearly presented.

In their chairman's report, small and medium capitalisation companies are asked to specify whether they used this reference framework implementation guide to draft the report. Here too, these companies are reminded that when drafting their report, they should emphasise the elements and information likely to have a significant impact on their assets or their results.

Consequently, in their chairman's report on internal control and risk management procedures, small and medium capitalisation companies are asked to include the answers to the questionnaires featuring in the guide. If the company has not used the guide to draft its chairman's report, the same transparency principles apply to the use of any other international standard that the company chooses, or is compelled, to apply. This standard should be clearly presented.

Appendices to the AMF Recommendation:

- Reference framework for risk management and internal control systems
- Reference framework for risk management and internal control systems for small caps and midcaps