association française des investisseurs institutionnels

June 25th, 2013

AF2I'S RESPONSE TO EFRAG'S CONSULTATION

"IS THERE A NEED FOR SPECIFIC FINANCIAL REPORTING FOR LONG-TERM INVESTING ACTIVITIES BUSINESS MODELS?"

The **French Association of Institutional Investors** (Af2i)[1] is grateful to the EFRAG for providing the opportunity to respond to the consultation on the subject "Af2i's answer focuses on general consideration as well as more technical "points.

Question 1: Would you describe your (or one of your) business model(s) as a long-term investing business model? Please explain. If so, what is its economic purpose?

Most of French institutional investor's members of the Af2i are long-term investors. This specificity is due to their particular activity models that make them, except for some isolated cases, structurally creditors and cash rich. This observation stays valid, whatever the risks to their turnover or equivalent. This situation continues for some time period, even in case of cessation of activity (run off).

Schematically, we can make out 5 kinds of profiles:

1. **Long-term insurers**, primarily the ones who use products such as life insurance, pension fund, life annuity services, retirement or accidentals, but also liabilities insurers. In such cases, commitments duration can reach several decades. Companies and run-off contracts can last more than a decade.

2. **Short-term insurers** also called short risks. Their guarantees are covered for a one-year period. We find among them the property-casualty insurances or health services. The steadiness of the manageable asset is mainly ensured for these companies on going concern. Companies in run-off have a limited and shorter than a decade lifetime. However, ongoing

[1] Af2i is the French association of Institutional Investors, created in 2002 to represent the different families of Institutional Investors (insurance companies, pension institutions, foundations, corporate, special public our private institutions (Caisse des Dépôts, FRR) etc., to promote institutional asset management techniques, to organize training and transmission of best practices. Af2i wishes also to defend interests of his members in France and in Europe.

Af2i gathers 76 major institutional investors as members representing more than 1,8 trillion € of assets under management and 60 asset management companies or providers as associate members.

Each year, Af2i realizes a survey on investment and assets and Af2i is the most representative association of the European institutional world.

concern the manageable assets are barely affected, even when revenues fluctuations are great.

Note: Those two categories enjoy the “reversed economic cycle” that leads them to collect the cash, corresponding to the price of their services, from several months to several years before the payment of their clients. In financial analysis, this situation is called a structural financing requirement widely negative.

3. **Institutions that don’t have liability commitments** such as foundations, auxiliary contributory pension funds, which have a surplus of funds without short-term affectation.
4. **Several companies can also be considered as long-term and institutional investors.** They have a special profile characterized by very long and regulated liabilities and placements. As they are the only beneficiaries of their commitments and proprietaries of their assets, they distinguish themselves from the others investors categories. In France, a classic example is the case of nuclear facilities operators, which must acquire financial assets to their future decommissioning costs.
5. Others companies can also be long-term investors without being institutional. For instance holdings companies, several industrial groups that has heavy equipment, industrial, commercial, or civil participations for long durations. That can also be assets that they receive and that are managed directly or as local or specialized subsidiaries.

The investors work in constrained environment.

More generally, those categories of long-term investors have some specific accounting standards due to their activities, which lead to assets and provisions evaluation rules, as well as particular results communication modalities. Prudential rules (such as Solvency II) can be added when it’s appropriate.

In the end, the characteristic of the economic model of long-term investors is that it is based on economic aspects as well as constrained environment.

Question 2: What are your long-term investing activities driven by (e.g. the need to back long-term liabilities)? What is the nature of your long-term commitments? How do you distinguish between assets held to back long-term liabilities and other assets? Are you also involved in trading activities? If so, to what extent and for what purpose?

Sub question 2.1 & 2.2: What are your long-term investing activities driven by (e.g. the need to back long-term liabilities)? What is the nature of your long-term commitments?

1. **We define institutional investors as public or private entities, holding liabilities and/or assets that are regulated by a professional federation’s, legal code, legislation, etc.**

In theory, those investors can be classified in 3 categories: the ones who have long-term or very long-term liabilities, the ones who have short-term liabilities, and the ones who don’t have identified liabilities.

It is often considered that management and investment activities must be determined by the structure of liability, its length, and commitments’ liquidity needs.

This ignores the flexibility of the institutions, which is due to the fact that financial management is done in a situation of going concern. Their business model is not the run-off management of asset and liabilities. As a result, in their business model, asset management can be slightly “liability driven”. Thus financial strategies are only partially strained by liability structure.

As a result, on one hand, companies that have short-term liabilities generally possess financial reserves managed in a long-term perspective, in addition to their activity-related capital. On the other hand, companies with long-term liabilities manage flows of varying duration. Thus those investors need to hold short and mid-term assets, especially when an intermediate-yields security is required. That can occur when products prices hold a substantial part of financial objects, for instance in civil responsibility. That’s why there is not such a clear cut between those two categories.

In practice, institutional investors, members of Af2i, are structurally long cash (see question 1) whether or not they are in a situation of continuation of the business’ operations. Consequently they appear to have a limited need of systematic backing. That one is generally provoked by administrative or regulatory rules, or a will to improve delivery performance, by giving more certitude concerning their ability to release financial gain in the future.

We can differentiate two main situations.

1. For **property and casualty insurers** and **supplementary pension funds** there is no direct correlation between the cost of claims and the behavior of their financial assets. Indeed, a car crash and a building fire are independent of the profit of financial assets. As a result, long-term assets demand is not leaded by a financial necessity, but is a consequence of the ability to invest when constrained by a necessity of disinvestment due to a treasury need. The research of high level yields that can be offered by this kind of assets is motivated by a reduction in price for the customer.
2. **Life insurers** and **pension funds** have commitments that are more correlated with the behavior of financials markets, especially because of two **kind of mechanisms** :

- The first one is the contractual or regulatory incorporation of financial products generated by the investment of the premium, into clients’ commitments.
- The second one is whether or not there is a financial guarantee, in capital or minimum yield.

Those arrangements can modify investment policies at least partially backed. However, smoothing or commitments reduction abilities make this dependency limited because it has a gradual effect. French accounting standards recognized it by instituting, as soon as the IFRS were adopted, an equilibration reserve on balance sheet at the asset reflecting the reducing effect of liabilities (PBDA). It well shows the investors’ ability to adjust the yields due to their customers on the evolution of their assets.

Hence, strict needs of backing are mainly due to regulatory constraints, in a generally prudential goal. Currently the regulation tends to reduce the long-term investment capacities. However, the limits proven by the experience don’t stop companies from investing in risky assed.

2°) In numerous cases, **those commitments** are related to **remuneration.** This remuneration can be **contractual** toward the right owners of the institution (life insurance), or on a **capital or yield guarantee,** or it can include a **minimal long-term performance requirement.** This requirement is calculated on yield hypothesis and must be, if possible, equivalent to the **discount rate of the liability.**

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Sub question 2.3: How do you distinguish between assets held to back long-term liabilities and other assets?

1°) **Institutional long-term investor can be defined as an investor that, in theory has the ability:**

- **mix every class of assets "liquid" or "stable",** if they bring an additional value compared to the strict coverage of liabilities flow by assets of equivalent duration (Government bonds, for instance) that in theory would assure a perfect rate and maturity hedging.
- **Benefit from uncorrelated market cycles, or from situations where the market evaluates an asset or an asset class on a non-optimal way[2],** to invest or disinvest an adjust in time the hedging of their capital flows.

Nevertheless this dual capacity is constrained, particularly for insurers, by the future prudential regulations that lead them to prefer the assets that demand the least capital requirement over the ones that have a higher return expectancy, but require more equity.

2°) **Numerous institutions use liabilities hedging techniques** making a difference between a **"hedging portfolio"** made of good quality assets (Govies and investment grade) and a **"performance portfolio",** made of all sort of risky assets, without looking for particular hedging qualities[3]. The importance of both of those two classes depends on the degree of risk aversion of the concerned institution and/or on the necessity of a minimal yield. Typically, this kind of management policy could legitimize different accounting approaches. Today they are limited at an accounting treatment in "amortized cost" or in "fair value".

Solvency II strongly upset this approach by encouraging a diminution of private equities.

3°) **Certain long-term investors**, such as several foundations or long-term risk insurers don't have determined liabilities or perpetual liabilities. **Their first or crucial objective is to live principally or only thanks to the income of their portfolio,** without regular assets transfers. This characteristic leads them to different behaviour than the others long-term investors. They are going to prefer:

- **Income stability** over the research of capital gains
- **Regular revalorizations** of the portfolio, by possessing inflation-indexed assets, or those that are the most correlated with inflation (property and infrastructure assets, shares with regularly progressing dividends, etc.). They also have a rationalized policy of assets selling in favour of undervalued assets, with better yields.
- Investment in **quality stocks portfolios**, practicing a small rotation, mainly acquired in periods of underestimation of the market.

4°) **In a pure administrative management and accounting point of view, institutional investors' assets, particularly insurer's ones, sometimes are the subjects of ring-fence more or less legally secured.**

These ring fence can be used to back assets thanks to determined liability. For instance life insurers create isolated assets for a set of individual contracts, or to gather adhesions with a collective contract.."

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[2] This situation can be accidental or structural in case of massive intervention of the authorities, provoking over or undervaluation according to their objectives of monetary policy. For instance since the QE of the FED, fixed income assets' value is in purpose higher than their market value.

[3] Martellini (2006)

As a result, with segregated assets, it is possible to set a specific investment policy, to calculate the income generated by the assets, to isolate provisions and divers reserves (PPE, PB, capitalisation reserve, etc.). Nevertheless, the entrance fees and asset management fees can differ.

Legal asset segregation, such as the one of the "supplementary occupational pension products (directive 2003/41)" creates a full waterproof of the assets owned by an insurer in the case of a group annuity insurance contract on behalf of contributor employees. Insurer creditors don't have any right of pursuit. It's the same for the assets dedicated to hedge electric utilities companies' nuclear decommissioning liabilities. The French law of July 2006 created a legal and financial hive-off making the French State the only entity allowed to hold assets in case of failure of the nuclear operator.

Sub question 2.4 & 2.5 Are you also involved in trading activities? If so, to what extent and for what purpose?

The long term institutional investor doesn't have pure trading activities. However the biggest ones have a trading floor and negotiation tables, to better comply with "best execution" requirements.

Some have tested trading strategies (inc. HFT), but it remains rare and marginal cases compared to their operations volume and in the final results.

Generally, the long-term investor is allowed to freely assign capital when he thinks he found a buying or arbitrage opportunity, whether it is pro-cyclical or not.

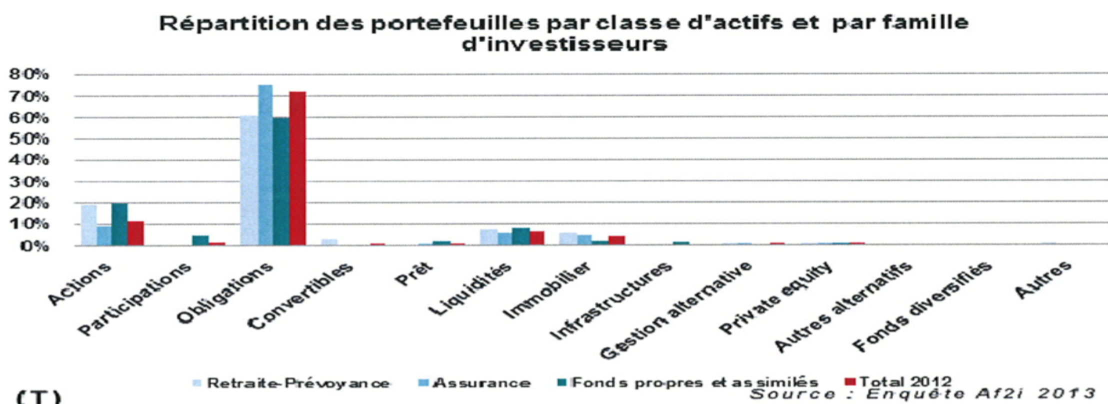
The long-term investor is not a motionless investor; he may conserve indefinitely his assets, when it is justified. He also can sell them very quickly. When a part of his assets are managed by placement funds, underlying assets also have a regular "turn over" that can be more or less significant and important, depending on the asset class, the management style and the investment process of the management.

The investor is responsible in front of his beneficiaries of his financial performance and consequently, he has the obligation to anticipate and redirect his assets according to the evolution of the economic situation, the inflation, and valorisation level of financial markets.

But this does not mean he is an intraday trader…

***Question 3 What are the different types of assets you invest in*?**

Each year, Af2i realizes a survey of his members which represent around 80% of French institutional assets under management. At the end of 2012, the average asset class breakdown was:



We observe some significant portfolios composition deviation between investors' categories. These differential may be explained by the different constraints, in particular the actual and future prudential rules (Solvency 2), their potential liquidity risk constraints, financial information and valuation standards for their assets.

Generally speaking, one can separate the assets belonging to long term investors with three main criteria: liquidity, volatility risk and valuation methods. During the late years, the combination of the Solvency II rules and the accounting standards have clearly speeded up the complete review of portfolios compositions:

- liquid assets, such as equity stocks, bonds and MMI directly owned or managed inside mutual funds and **illiquid assets (we prefer use "stable assets")** such as real estate, private equity, securitization, loans, hedge funds, and of course all listed or non-listed strategic subsidiaries and others non listed assets.
- Volatile assets such as equity stocks versus low volatility assets (such as real estate, bonds, MMI)
- The assets may be valuated from stock prices (marked to market), from models (marked-to-model) or with periodical evaluation process (from a monthly to an annual pace). The more the assets are managed in a long term view, the less is measured value change meaningful.

Question 4 How is your long-term investment strategy established and how do you report on it, for both transparency and stewardship perspectives? How do you ensure that your current or potential shareholders can make the link between how you report your investment long-term strategy and the information provided in your financial statements? Could such a link be improved? How?

Sub question 4.1 How is your long-term investment strategy established and how do you report on it, for both transparency and stewardship perspectives?

A structured investment process

The management of an institutional investor is realized inside a formal investment process structured by the steps:

Investment framework

- The studies of the liabilities by actuaries, annually revised, determination of the discount rate; audit.
- The building of the hedge portfolio, with a variant approach: an hedge portfolio et a performance portfolio, the weight of each component being based on risk aversion or capital guarantee and minimum yield;
- Definition of the strategic allocation and of the benchmarks ;
- Definition of the tactical asset allocation margins, and of the different risk indicators ;

These steps concern more insurers, pension funds and corporate than other institutional investors (question 1). Strategic and tactical allocation process concern investors belonging to the third category (question1)

Asset management rules

These rules concern all kind of investors.

- Determination of assets classes and declination of market segments, in line with the different asset classes weightings. These assets or asset classes have to be eligible by the legal rules of the institution ;
- The choice of direct management, mandates or funds;
- Risk monitoring : duration, counterparty risk, ratings, currency risk, universes, etc. ;
- Choice of the securities and implementation of the different investment process decisions.

On top of these previous steps, the investment process needs several validation steps executed by one or several committees depending on the Board of the institution, or by an "ad hoc" committee depending on the CEO or by the CFO/CIO. Many other departments may interfere inside the process such as the risk control & compliance department, ALM department, or marketing and development department, etc.

A double view financial information: the problem of aggregate data

It is necessary to separate the financial information for stakeholders and the one used inside the institution's organization.

Financial information from an external point of view.

The publication of the financial statements (with the market performances) is dependent to the legal status of the institution.

A large number of insurance companies, public entities and listed corporate companies publish their individual statements in French GAAP and their consolidated statements in IFRS. Many others are only publishing in French GAAP standards.

Simplified versions are frequently published in financial reports, regardless of whether companies are listed or not. They are, of course, more developed when the statements comply with IFRS standard.

Reading these Financial Reports and the Reference Documents and their analysis by specialists may give some information, but these are generally buried somewhere beneath a mass of information and data required by the IFRS. They are often less accessible due to the natural complexity and the wish to give synthetic and aggregate data which depend hugely from the set of hypothesis which are not necessarily simple to appreciate individually or globally.

It leads the specializing establishment in life insurance or personal pension products to elaborate as a complement, some more "appetizing" simplified financial reports. They cannot explain their business model, through the common accounting standards. In general, they give year after year, a reminder of the strategic management objectives of the product, a focus on the asset policy during the past year, and give either the integral portfolio, or aggregate data and breakdowns, at least the performances gross and net of fees or taxes. These reports may be at the disposal of the clients on the company website or sent with an individual situation statement.

Financial information from an internal point of view.

The issue of aggregate data: depending on the business model of the institution.

A) As written before, the structural characteristic of the institutional investors is to be rarely constraint by liquidity. It gives them a large freedom to hold long term assets. They can observe the behavior of the assets through very different market conditions. It gives the opportunity to distinguish more clearly the real things than annual reporting with compact but too simplistic representations.

For instance, the issue of an unrealized gain or loss must not be analyzed in an instantaneous manner as a reflection of market evolutions. If a perspective is added with a temporal dimension, the gain of loss can become an appropriate representation and a quality indicator of an asset maintained on a long time period de temps, much more than its simple market price.

The scientific literature has highlighted the limited character of the informational content of the market price[4]. So, it relevance in long term asset management may be challenged in a scientific way, and even more because the basic and implicit assumptions inside are more restrictive for assets hold during a long time period.

By the way, the practice may highlight in a very simple way the non-equivalence of aggregate data in the actual financial reports. This non-equivalence will be more apparent as the passage of time reveals the difference.

For instance, an unrealized loss on a bond is not the reflection of an identical reality than an unrealized loss on an equity stock. In the first case, the loss indicates that next bond investments will be made at a higher and better yield than during the first purchase. In the second case, the loss may reveal that the company is in a worse mood than at the last valuation or that it has lost market favors, maybe the two reasons at the same time.

So, in most of cases, a financial report, which uses an aggregate way, may have a limited relevance for understanding the company's reality in front of his business model.

The difficulty to describe correctly a business model from too much aggregate measures and data are more and more experienced by listed companies and analysts. EFRAG may refer to a recent PWC survey made in Europe last autumn 2012[5].

- Increasing use of specific indicators and data tables by the companies[6].
- Express wishes from financial analysts to have flow analysis [7].
- Wishes to have less analysis on stocks in the balance sheets, too difficult to interpret because of substantial implicit or explicit incorporated assumptions, for which it is difficult to be insured from their independence or from their correlation level.

B) For others, and in particular for classical industrial companies, with constraints to manage important financial reserves, whose presence must not interfere with their current industrial activity, the allocation of financial assets, in a long term perspective, segregated inside the balance sheet may justify specific rules regarding presentation and valuation, disconnected from the others activities and assets of the company..

First of all, the rules should be supported by the diversification of assets principles of the portfolio. Any investor tries to reduce his global portfolio risk in holding assets which are less or non-correlated, in

[4] The **efficient-market hypothesis (EMH)** has been formulated by FAMA in particular and others like JENSEN. It has been précised by degrees: low, semi-low, or strong. It has been disputed on various aspects: financial behaviour, limited rationality of economical agents, bias. It is discussed by separating the operational informational and allocative efficiency. But the problem here, is the general acceptance that: "the hypothesis where it exists a fundamental and objective value, that can be defined ex ante without ambiguity and whose price would be an optima estimator isn't right' (André Orléan in La Tribune 29 mars 2011).

[5] 62% of the interviewees think it is necessary to have substantial changes PRICE-WATERHOUSE COOPERS September 2012: Financial reporting priorities, A European Investor review.

[6] Cf. ibid : 93% of the interviewees consider them as very important.
[7] Cf.ibid: 47% want more information on operational cash-flows.

diversifying his assets in the largest possible way. It allows seeking the same expected returns, even higher, for a same or diminished volatility risk.

Portfolios with a long term objective are always diversified, composed of a more or less higher number of stocks (sometimes more than hundred), combining different asset classes, countries, industries and sectors, with different valuation methods and paces, non-directly comparable. Each stock participates in the diversification objective and is dedicated to improve the risk/reward ratio.

Each individual stock is supportive of the others stocks and its presence can only be explained by its participation to diversification. A lower price is not an irretrievable and completely loss, if it is compensated by the unrealized gain inside the same portfolio.

This type of asset management functions well with a benchmark and when there are no disproportionate positions in the portfolio.

This is why this practice includes several requirements:

- Formal decisions of segregation with all technical measures keeping the assets isolated and with a complete documentation (list of segregated assets, separate stocks, cash, derivatives accounts) and portfolio operations (buy, sell, revenues, futures, fees, etc.);
- Operational management strictly in line and compliant with what is describe above;
- Valuation method in line with the benchmark's one;
- An « ad hoc » and non-equivocal presentation in the company's statements

Question 5: Do you believe the business model described above justifies a specific financial reporting treatment? If so, what should it be? Please explain how it brings relevant information to investors. Are there circumstances in which you would argue that fair value is not an appropriate measure? What other measurement attribute would you suggest and why (i.e. where a measurement basis in existing IFRS does not properly reflect the business model as described by you)? How should measurement uncertainty be dealt with in a long-term investment activities' business model?

Sub-question 5.1: Do you believe the business model described above justifies a specific financial reporting treatment? If so, what should it be? Please explain how it brings relevant information to investors.

The different business models of long term investors, as described above, justify a specific treatment and even several specific treatments.

Firstly, a LT investor, managing a very diversified portfolio, watches his performance under several aspects (current revenues, yield breakdown by maturity, spectrum of unrealized gains and losses by asset classes, annual performances, risk indicators (volatility, VaR) or potential risk indicators (duration, convexity, etc.), asset class by asset class, on different time periods with several valuation methods. This is particularly the case because the long term investor uses to mix multiple assets which are valuable with different methods (marked-to-market, marked-to model, expertise, etc.).

Secondly, others business models may impose to give priority to income instead of gains. In this case, the short term variations of value are not relevant. They have to be finely interpreted in relation with the cash flows forecast of the company.

Thirdly, based on his level of exposure in long term assets (and in essence volatile assets), the investor should [8] be able to withstand financial and political impacts of volatility, even the huge ones. But this is not sufficient. The accounting treatment should give the mean to withstand these shocks without questioning the business model. Example: results smoothing mechanism, actuarial amortization of premium and depreciations.

The accounting entries of financial assets under « AFS » with changes in the value reported in other comprehensive income are largely legitimate.

In contrary, recycling realized gains and losses only in other comprehensive income, as recommended by new IFRS9 clearly damages institutions whose business model has always live on income, dividend and realized gains.

The great real anomaly is to accept to recognize in Profit and Loss Account unrealized results.

The question to distinguish in systematic way in a financial report the assets managed in a long term perspective is to be raised, the underlying idea being to give more transparency in shareholders information. In fact, this idea is not relevant in main cases, because the structural characteristic of the credit balance imposes itself in all the company's practice...

In contrary, this separation is plainly justified in all cases of legal assets segregation (some pension products, assets for nuclear decommissioning, etc.).

Sub question 5.2 Are there circumstances in which you would argue that fair value is not an appropriate measure

As it has been told above, scientific literature has pointed out the limited information content of market prices.[9] Thus, its pertinence for long-term asset management can highly be disputed in a scientific way. Especially the underlying and implicit continuity hypothesis and the use of market price as a proxy to determine the value, have been proven too much restrictive to be relevant and adapted to the long-period-held assets tracking.

Furthermore, the practice shows for some people in a very simple way the non-equivalence between notions used together in the actual accounting reports. This non-equivalence is all the more apparent as the time allows the observation of differences.

Thus, if we take for instance the subject of losses. A loss on a bond security and a loss on an equity share don't reflect the same reality. In the first case, the loss simply indicates that the future bond investment will have higher rate than when the security was bought. In the second case the loss can indicate that the company's situation is deteriorated since the last valuation, or that it lost the favours of the market, or both.

As a result, in most cases, the financial reporting that uses in an aggregated way the sum of shares or bond financial gains will have a limited relevance to understand the reality of the company's position in front of its activity model.

This difficulty to present its activity model from over aggregated measures is increasingly felt by companies as well as analysts. The EFRAG can refer to the PWC European study of autumn 2012, already mentioned above.

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[8] These shocks can come from an erratic trend of the market price of a stock around its long term trend or from a mechanic effect of interest rate increase on the market price of a bond.

[9] See footnote 4 above

Several specific pitfalls deserve to be highlighted.

-"Fair-value" and "marked to market' mustn't be confused;

- Pricing every asset, whatever its nature or its social utility, at the marked price or at the fair value doesn't have any interest in a long term perspective, or any sense for illiquid assets, except its final effect to create volatility when there is not any;

-The "marked to market" is only significant when the measure or financial markets are transparent and give to the operators a correct and complete evaluation of the offer, the demand, the prices and the volumes. However, the European financial market, especially the bond market has become largely fragmented and opaque since the setting of the MIF directive.

Sub question 5.3: What other measurement attribute would you suggest and why (i.e. where a measurement basis in existing IFRS does not properly reflect the business model as described by you)?

Our propositions

Above all, we do consider that the principle of prudence should be reintroduced in the IFRS. It could be the best measure to face the specific and multifaceted characteristics of long term institutional investors.

Firstly, we are proponents of the reporting modality that put in the first plan the monitoring of flows and cash circulation in the liaison between the company and its "stakeholders". The cash must be closer to the centre of the accounting reports. Concerning the assets, it means differentiating the entering cash flows (dividends, interest, etc.) and distinguishing them from temporary increases in value.

Secondly, it would be adapted that the evolution of unrealised appreciations (or depreciations) be more analysed and included, not as a likely gain (or loss) according to the notion of "fair value" but more like as an indicator of assets situation, in regard of the expected valorisation.

In the examples above, the extra value on the rates products will express either an improved funding level of the issuer or a decreasing in the future current income of new policyholders. The extra value on shares will express an improvement of the economic performance of the company, implying an increase in the dividends or a good profitability of the revenues reinvested in the company. Anyway, it will be at an expert in charge of the portfolio and under responsibility of management of the companies in a readapted prudential frame, to valid every eventuality, security by security, and to draw the necessary operative conclusions for the portfolio management.

Thirdly, in a context of strict ring-fence of a long-term diversified investment portfolio, specific rules could be applied:

- Possibility of derogating from the accounting rules of individual security provisioning, in favour of a global asset provisioning;
- In particular: adaptation of the IFRS rule of provisioning for durable loss (impairment) on individual security for a global provisioning on the hived-off asset;
- No global provisioning, as soon as the last valuation of the portfolio is bigger than the amount of capital brought since the origin to finance the portfolio. Indeed, the additional operations of sale or purchase (turn over), or payment of the portfolio incomes, mustn't jeopardise the global character of the reasoning.

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- No global provisioning as soon as the decrease in global value hasn't been noticed for a time period corresponding to the market cycle of the portfolio management duration, ant that can last up to 5 years.

Sub question 5.4: How should measurement uncertainty be dealt with in a 'long-term investment activities' business model?

It is necessary to accept a part of subjectivity. It doesn't affect the accounts conformity, regularity, sincerity and accuracy, which have always been the management commitment in term of financial information. We should give back their rightful place to judgement and management expertise.

Above all, reintroducing the principle of prudence in the IFRS is one of the appropriate answers of the measurement of uncertainty in long term activities

Question 6: If you are an investor in entities that are involved in long-term investment activities, what is the information that is the most relevant to you? How does IFRS financial reporting contribute to those needs today? Please explain.

Quality of financial information measures can be summarized by some specific characteristics that don't threat the principles of regularity, sincerity and true and fair view: it's the long-term investment information's clarity, consistency and information sustainability.

The information on those investment and assets must contain a clear description of the chosen strategy, and financial instruments, and of the risks taken.

Valuation must be based on sustainable methods, which bring a consistent view on the different defined dates. In other terms, we must ensure that the film is consistent by comparing it to a succession of pictures.

We remain available for further information you might need.

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