AUTORITÉ
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AMF Recommendation
Future performance simulations – DOC-2017-07

Reference documents: Article L. 533-12 of the Monetary and Financial code and Articles 314-10 to 314-17, 319-5, 325-5 and 325-36 of the AMF General Regulation.

As part of its focus on technological innovation, the AMF has noted the emergence of wholly-digital services offered by professionals to their investors.

The AMF has observed that these professionals provide their investors and prospects with technological tools that enable them to carry out their own simulation of the performance of their investments. This involves prospects filling out standardised questionnaires in which they are usually asked to set their initial investment amount and the amount they wish to invest per month, choose a risk profile or investment vehicle, and determine the investment value they would like to obtain at a given horizon. The tool's algorithms then generate projections for the client's investment value under various scenarios, ranging from the most pessimistic to the most optimistic.

The AMF intends that this document reminds professionals, be they investment service providers, including asset management companies, financial investment advisers or crowdfunding investment advisers of their obligations and how they should be interpreted.

This document is also intended to set out recommendations for their implementation.

1. Reminder of legislative and regulatory provisions

1. Provisions applicable to investment service providers

Investment service providers are required to disseminate information that is clear, accurate and not misleading, pursuant to Article L. 533-12 of the French Monetary and Financial Code, which provides that "*All the information, including communications of a promotional nature, that is sent to clients, including potential clients, by an investment service provider, shall have a content which is accurate, clear and not misleading"*.

These provisions are repeated and completed in Articles 314-10 *et seq.* of the AMF General Regulation.

Thus, in accordance with the provisions of the second paragraph of Article 314-10 of the AMF General Regulation, when they provide information intended for their non-professional clients, investment service providers are required notably to respect the balance between risk and reward as defined in Article 314-11 of the AMF General Regulation, which sets out that:

> "*The information shall include the name of the investment services provider*.
>
> *It shall be accurate and in particular shall not emphasise any potential benefits of an investment service or financial instrument without also giving a fair and prominent indication of any relevant risks.*
>
> *It shall be sufficient for, and presented in a way that is likely to be understood by, an average investor in the category to which it is addressed or by which it is likely to be received.*
>
> *It shall not disguise, diminish or obscure important items, statements or warnings."*

Article 314-15 of the AMF General Regulation specifies what is meant by clear, accurate and not misleading information when the provider disseminates information about future performances to non-professional clients. This article provides that:

"*Where the information contains information on future performance, the following conditions shall be satisfied:*

1. The information must not be based on or refer to simulated past performance.

2. It must be based on reasonable assumptions supported by objective data.

3. Where the information is based on gross performance, the effect of commissions, fees or other charges must be disclosed.

4. The information must contain a prominent warning that such forecasts are not a reliable indicator of future performance."

2. Provisions applicable to crowdfunding investment advisers

Article 325-36, I of the AMF General Regulation provides that:

"*All information, including marketing information, issued by a crowdfunding investment adviser shall be fair, clear and not misleading. It shall be presented in a balanced manner.*

The content of such information must comply with Articles 314-10 to 314-17".

3. Provisions applicable to financial investment advisers

Article 325-5, I of the AMF General Regulation provides that:

"*All information, including marketing information, issued by a financial investment adviser shall be fair, clear and not misleading. It shall be presented in a balanced manner.*

The content of such information must comply with Articles 314-10 to 314-17".

2. Investor information on future performance simulation tools

Recommendation

In order to minimise the risk of poor comprehension by non-professional investors within the meaning of Article L. 533-16 of the Monetary and Financial Code, it is recommended that firms wishing to use a future performance simulation tool insert a message related to the results.
It is recommended that the following message be visible in bold type and in a legible size in a box on the same screen as the chart presenting the results.

The graphic illustration [or the result] presented is not a forecast of the future performance of your investments. It is meant only to illustrate the mechanisms of your investment over the investment period

The value of your investment could diverge significantly from the results shown, upwards or downwards. [*In the event that several scenarios (favourable, unfavourable, neutral) are displayed, add:*] Gains and losses may exceed the amounts shown in the most favourable and unfavourable scenarios, respectively.
By remaining on this site, you confirm that you acknowledge this warning, understand it and accept its content.

A message that could not be seen unless the user scrolled down would not be considered compliant, for example.
In the case of simulations carried out in a branch, the standardised message may appear solely on the document containing the simulation, which is printed out and given to the client by the advisor after the simulation has been completed.

3. Technical aspects to designing future performance simulation tools

It appears that some future performance simulation tools are based on unrealistic hypotheses that could result in potentially misleading and over-optimistic information being provided.

Cases have been observed in which professionals communicate on a highly unfavourable scenario, for which an investment constituted of money market assets is illustrated with manifestly disproportionate annual performance, or recourse by others of inappropriate short-term discount rates.

Recommendation

The AMF recommends that the following good practices be taken into account:
- Performance simulations are based on realistic market hypotheses;
- The volatility assumptions used in a future performance simulation chart are consistent with the simulated underlying assets, allocation and investment horizon;
- A simulation takes account of the investment horizon and is built on reasonable market hypotheses consistent with that horizon (interest rates, volatility, inflation etc.) based on objective factors;
- Long-term economic interest rate assumptions are not be used to simulate short-term future performances of interest-rate investments.