AUTORITÉ DES MARCHÉS FINANCIERS

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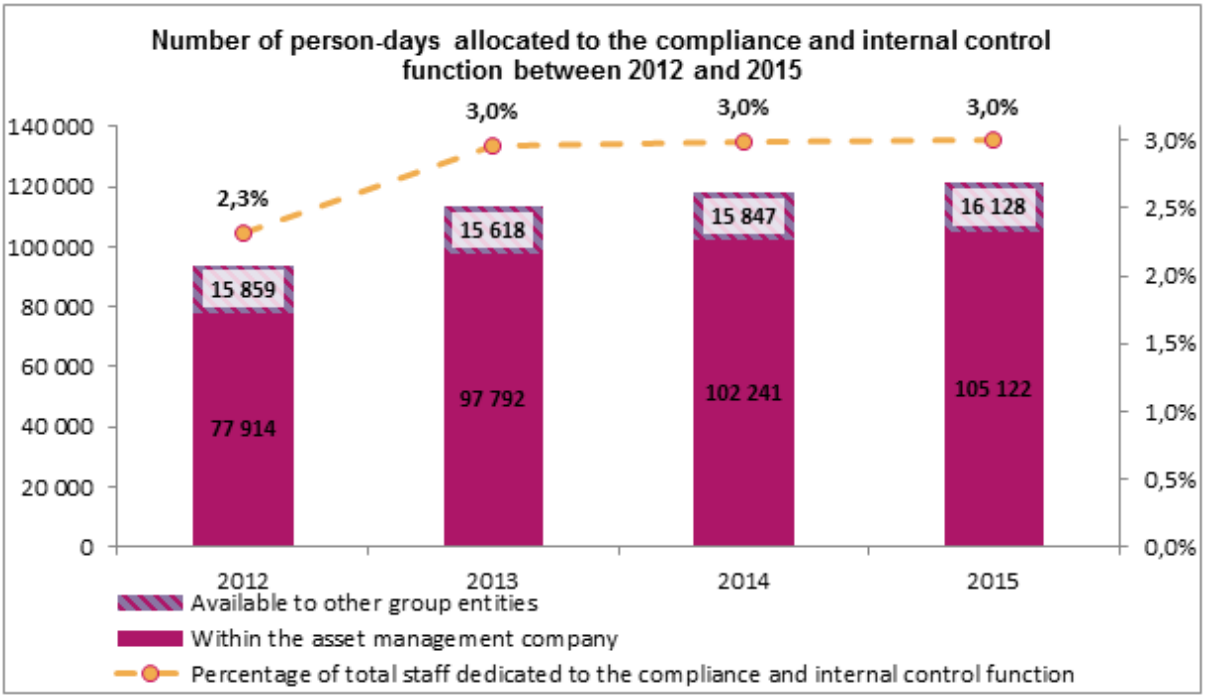
Key figures for asset management in 2015 - Control systems in asset management companies

In 2015, growth in staff assigned to the control function within the French asset management industry remained commensurate with growth in the sector but appeared to have levelled off. The number of person-days allocated to the compliance and internal control function increased and exceeded the 120,000 mark in 2015. The percentage of staff assigned to this function nevertheless remained stable relative to the last two years at 3%. In 2015, an increasingly large percentage of the control functions were outsourced. The percentage of outsourcing of permanent and periodic control in 2015 was, respectively, 58% and 82% (up 3 percentage points for both control functions relative to 2014). This article focuses on the organisation of control systems at asset management companies in 2015.

Stable allocation of staff to the compliance and internal control function

After increasing sharply in 2013 (20.9%), the number of person-days dedicated to the compliance and internal control function began to rise at a more moderate pace in 2014 (4.1% in 2014 and 2.7% in 2015).



Source: AMF

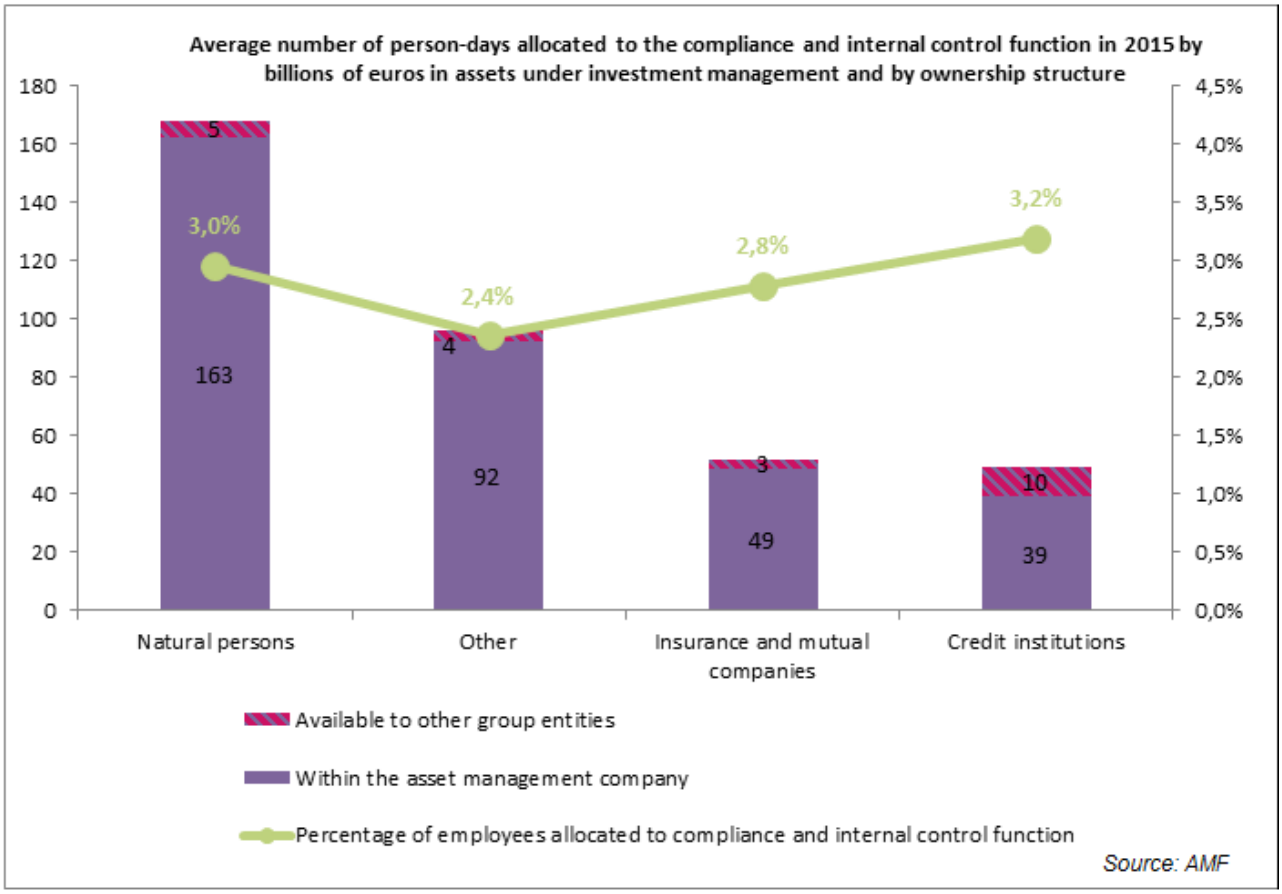
This slight rise was driven by both the increase in the number of work days spent on compliance and internal control activities within the management company (up 2.8%) and the increase in the human resources made available to other group entities for these same activities (up 1.8%).

In most cases, it was asset management companies that are subsidiaries of credit institutions that made human resources available to other parent group entities for compliance and internal control tasks.

The increase in the number of person-days allocated to the compliance and internal control function did not, however, translate into an increase in the percentage of staff dedicated to this function. Since 2013, the percentage of staff allocated to compliance and internal control has remained stable at 3%.

This is due to growth in both management company staff (up 3.4% between 2013 and 2014, and up 2.6% between 2014 and 2015) and the number of person-days allocated to the compliance and internal control function (up 4.1% between 2013 and 2014, and up 2.7% between 2014 and 2015).

An analysis of the compliance and internal control figures for each type of ownership structure reveals some disparities. However, the percentage of staff allocated to the compliance and internal control function for each category of ownership structure was relatively similar and stood at close to 3%.



Note: the "Other" category includes companies that are subsidiaries of investment services providers and companies governed by public law

Boutique firms (which account for 10.2% of assets under investment management) on average dedicated the most person-days by billions of assets under management to the compliance and internal control function, at 168 person-days.

In contrast, companies that are subsidiaries of credit institutions and of insurance and mutual companies allocated an average of 49 and 52 person-days, respectively, by billions of assets under management. These companies manage large volumes of assets (71.7% and 13.9%, respectively, of total assets under investment management) and benefit from economies of scale in managing their compliance and internal control needs. They often manage the portfolios of institutional clients which have larger asset volumes.

Increase in human resources made available for risk control

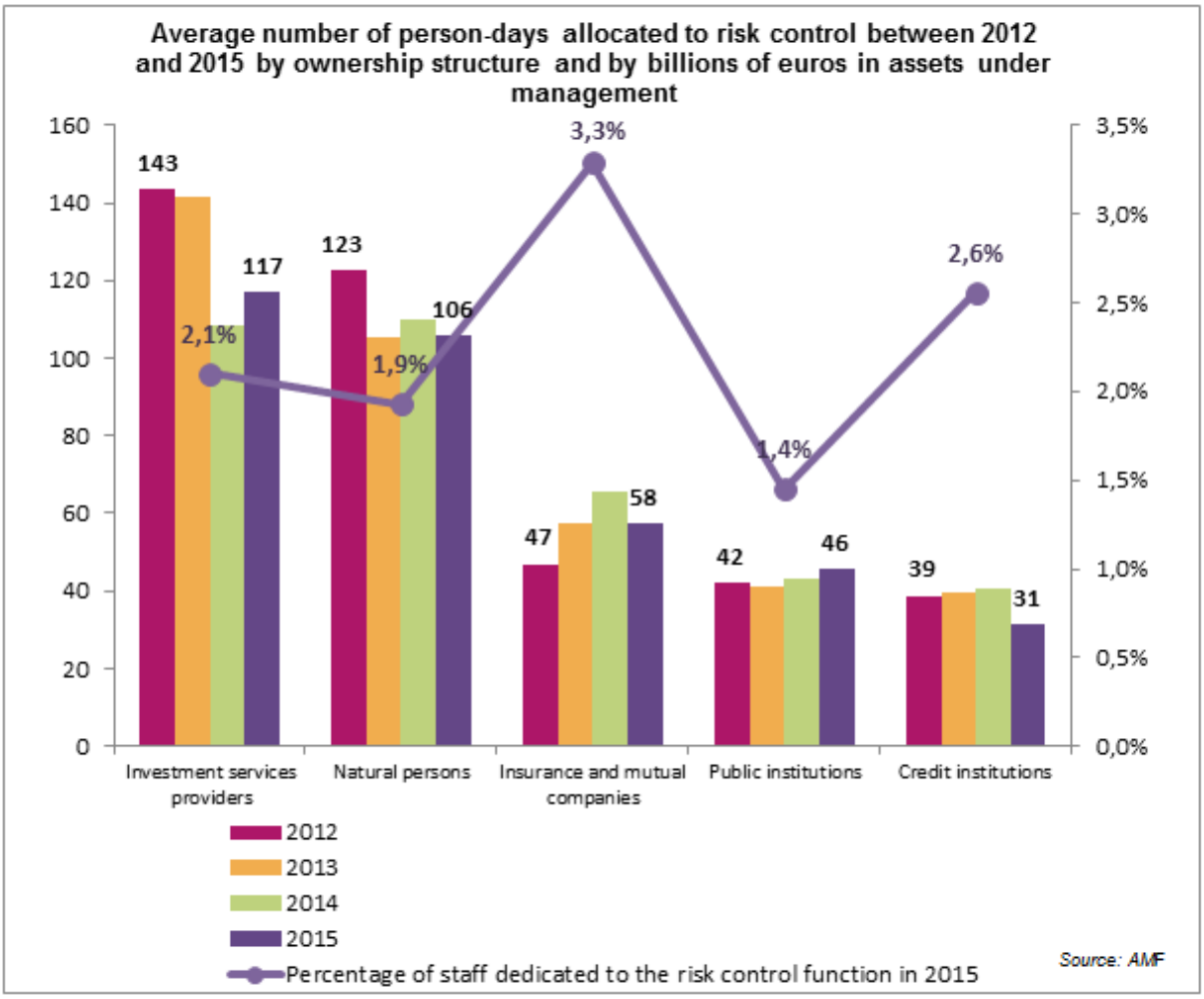
It is important to note that asset management companies must maintain a risk control function in order to formalise "all procedures enabling the investment manager to assess exposure to market, liquidity, counterparty and operational risks for each collective investment scheme or managed portfolio [(1)].

The number of person-days dedicated to the risk control function increased at most asset management companies in 2015, rising by 6.1% from 2014 (i.e. 83,779 person-days in 2015). In the 2012-2015 period, the number of person-days allocated to the risk control function increased by 22.9%.

The number of person-days allocated to risk control is directly related to the size of the assets under management by the management companies and the nature of the management strategies they have implemented.

A closer analysis by ownership structure shows some disparities in the performance of the risk control function at asset management companies.

By billions of assets under investment management, boutique management firms and companies that are subsidiaries of investment services providers allocated the most person-days to the risk control function (on average 106 and 117 person-days, respectively, in 2015). This is because boutique firms take a niche/technical-type management approach.

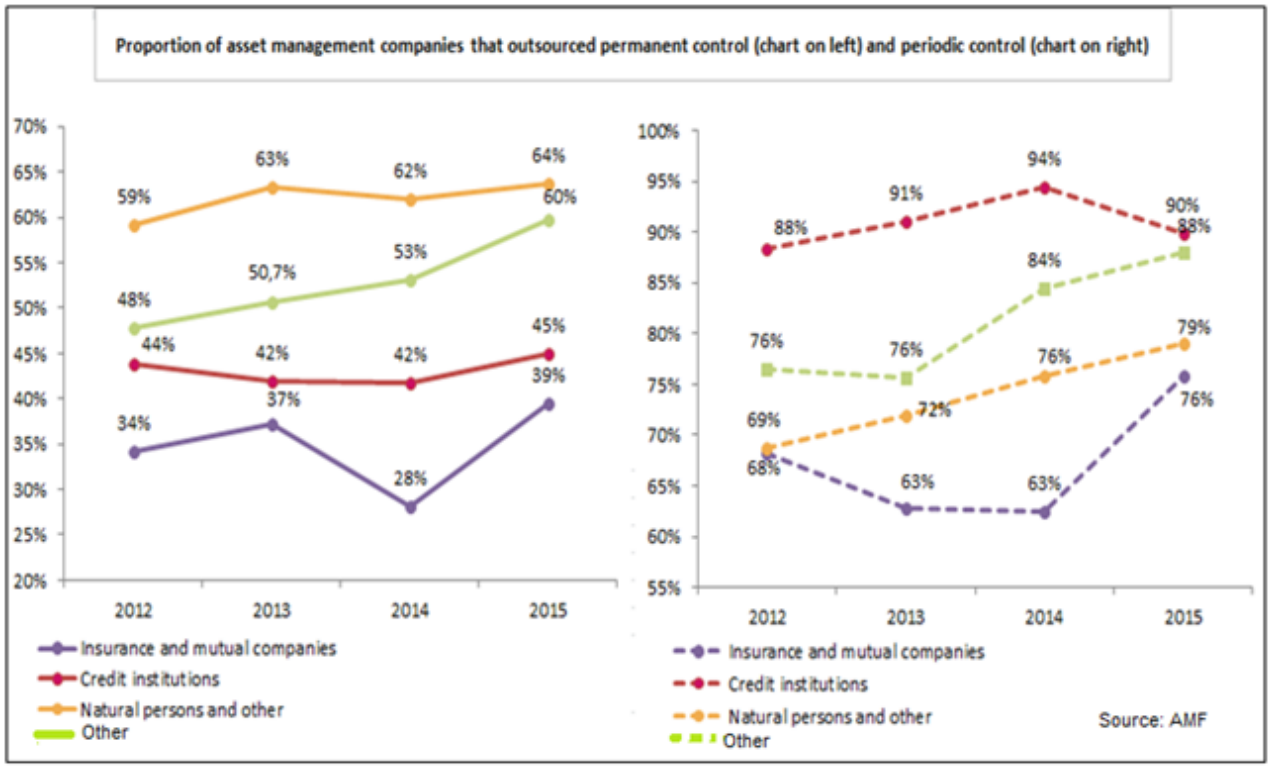


If the number of person-days reported is expressed as full-time equivalents, the risk control function accounts, on average, for 2% of total management company staff, ranging from 1.4% for companies governed by public law to 3.3% for subsidiaries of insurance and mutual companies. These companies require more risk control personnel due to certain activities that are specific to their business, including asset-liability management.

Furthermore, the number of management companies that must maintain an independent risk management function fell slightly to 137 in 2015 from 140 in 2014. Whether or not this independence is required depends on the nature and complexity of the management company's activity[(2)]. Within this group, 66% used the value-at-risk (VaR) method[(3)]
Value at risk (VaR) is a composite indicator that estimates the maximum potential loss a portfolio could incur for a given time frame and a given probability.
to measure risk exposure. This methodology came back into use in 2015 after falling somewhat out of favour for several years (65% in 2012, 64% in 2013 and 60% in 2014).

Rise in the outsourcing and delegation of permanent and periodic control

It appears that asset management companies are increasingly outsourcing permanent and periodic control.



Note: the "Other" category includes companies that are subsidiaries of investment services providers and companies governed by public law

Focus on the outsourcing of permanent control

When a management company or, more broadly, its parent group "does not reasonably have the financial resources to assign a person to the compliance function" and the position of compliance officer can only be assigned to a senior manager, then the asset management company generally outsources its compliance and internal control tasks.

The number of companies that outsourced permanent control rose by 6%, representing 58% of the total number of asset management companies.

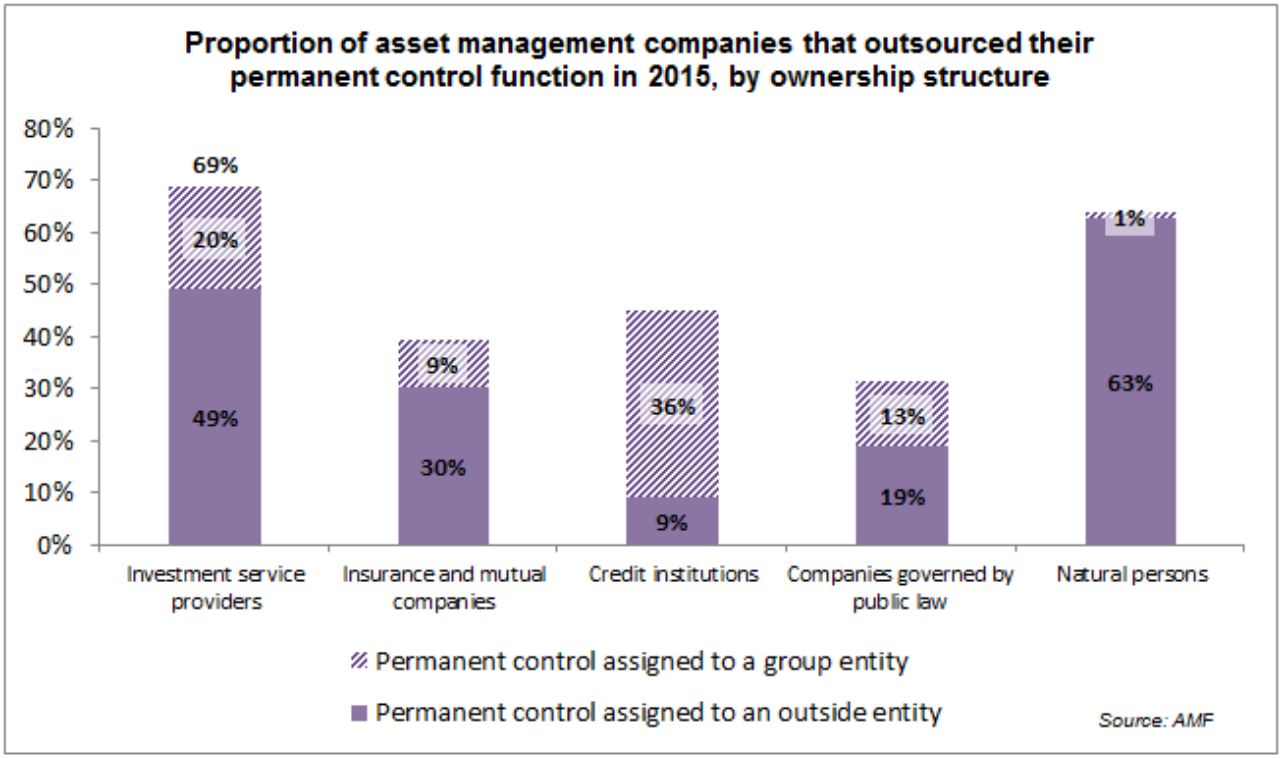
The companies that most commonly outsourced their permanent control were boutique firms (64%, up 2 percentage points from 2014). A majority of these firms have at least one senior manager compliance officer (62.5% in 2015) who generally performs operational duties in addition to his or her control duties. This type of entity therefore needs to outsource "support" functions, including control tasks such as permanent and periodic control.

Companies that are subsidiaries of banking or insurance groups tend to have their own permanent control function as less than 50% of this category outsources these duties (45% and 39%, respectively).

An in-depth analysis of the data on the outsourcing of permanent control draws a distinction between management companies that delegate this function to an outside entity and those that assign this function to an entity within the group to which they belong. Forty-eight percent of asset management companies rely on resources made available by their parent company for internal control and compliance tasks. Conversely, 10% assign this activity to an outside company.

The chart below, which breaks down the different types of ownership structure, shows that companies that are subsidiaries of credit institutions often rely on human resources within the group to which they belong to perform the permanent control function (36%).

The vast majority of boutique firms use outside consulting firms for this type of control (63%) as they do not belong to a group.



Focus on the outsourcing of periodic control

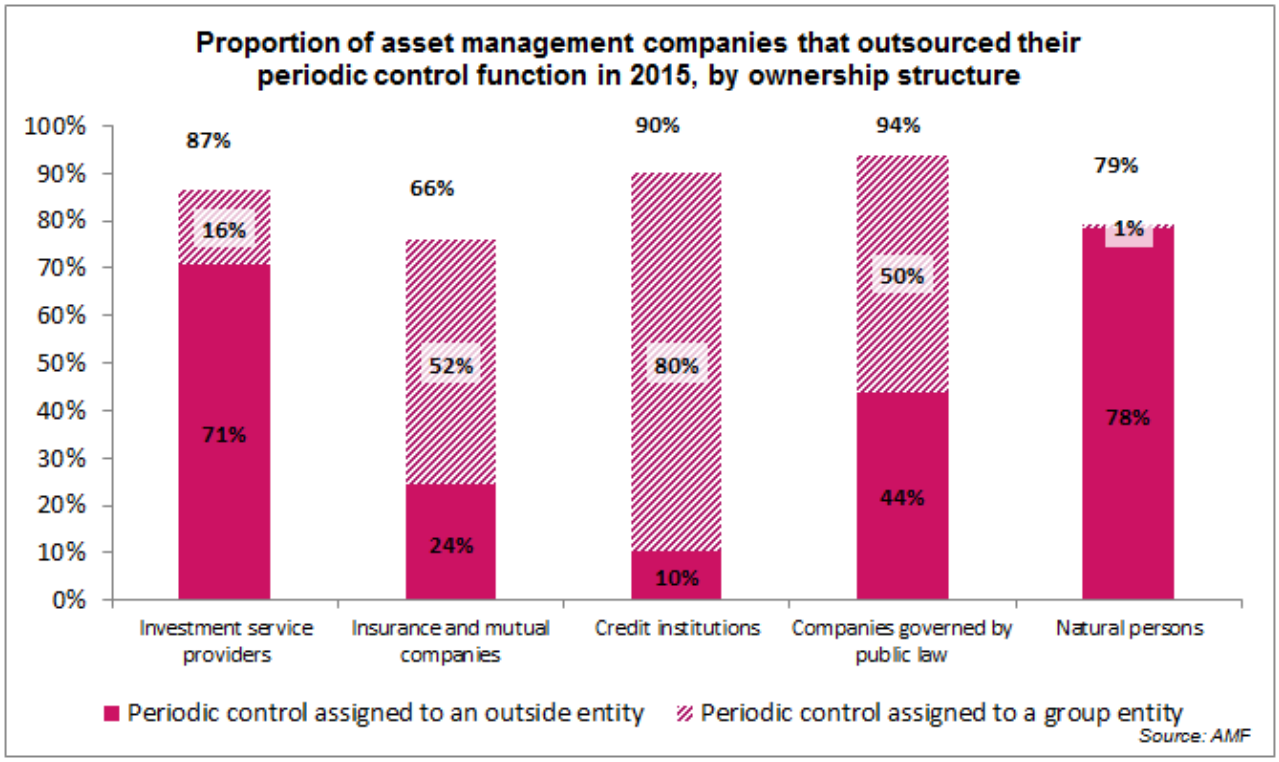
Management companies should establish and maintain a periodic control programme designed to examine and evaluate the suitability and effectiveness of their internal control mechanisms and systems.

The upward trend in the outsourcing figures also applies to periodic control: 82% of management companies do not perform internal periodic control, a 3-percentage-point increase from 2014. This figure breaks down as follows: 61% delegate periodic control to a company within the group to which they belong and 21% assign this function to an outside entity.

More than 75% of asset management companies assign periodic control to an outside entity.

The chart below illustrates the differences in the delegation of periodic control within a group and the outsourcing of this function to external firms by ownership structure.

The vast majority of companies that are subsidiaries of credit institutions delegate the periodic control function to a parent-company entity (80%), as they have access to the human resources made available by the group, mainly in the form of internal audit or inspection teams.



Source

As part of its monitoring of the asset management sector, the AMF collects annual information forms from asset management companies (AMCs). These forms contain quantitative information about the assets managed and about the revenue and expenses associated with asset management in France. This information enables the Authorisation and Monitoring Department of the AMF's Asset Management Directorate to perform analyses. Since the AIFM Directive entered into force in July 2013, European AIF managers have also been subject to a new reporting requirement. The information gathered mainly concerns the portfolios' exposure to different types of risks and is collected on a quarterly, semi-annual and/or annual basis. Although every care is taken when compiling and processing the data, due to the late receipt of some of the forms and possible data entry errors, the analyses may nevertheless contain inaccuracies.

Key figures for asset management in 2015

Each year, the AMF publishes a series of five articles entitled "Key figures for asset management". These publications are available from the Publications > Reports, research & analysis > Savings & services providers page on the AMF's website. The key figures cover the following topics: the landscape for management companies, their profiles, assets under management, financial data and, lastly, the control mechanism. A compilation of these five publications, plus additional data and tables, is published at a later date.

Notes

1 • Articles 2.1.1. and 2.1.2. of AMF position-recommendation DOC-2014-06 – Guide to arranging risk management systems in asset management companies.

2 • Article 3.2.6.2. of AMF position-recommendation DOC-2012-19 – Programme of operations guide for asset management companies and self-managed collective investments.

3 • Value at risk (VaR) is a composite indicator that estimates the maximum potential loss a portfolio could incur for a given time frame and a given probability.

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