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Key figures for asset management in 2016 - Control systems in asset management companies

In 2016, the number of person-days allocated to the compliance and internal control function increased by 3.1% compared with 2015, rising from 121,249 to 125,010. As the total staff of asset management companies followed the same trend over the period (up 3.4%), however, the share of staff dedicated to compliance and internal control remained stable and seems to have plateaued in recent years, despite the fact that the regulations have become more complex. Below we take a look back at the organisation of control systems within asset management companies in 2016.

A share of the total staff dedicated to the compliance and internal control function that has remained stable since 2013

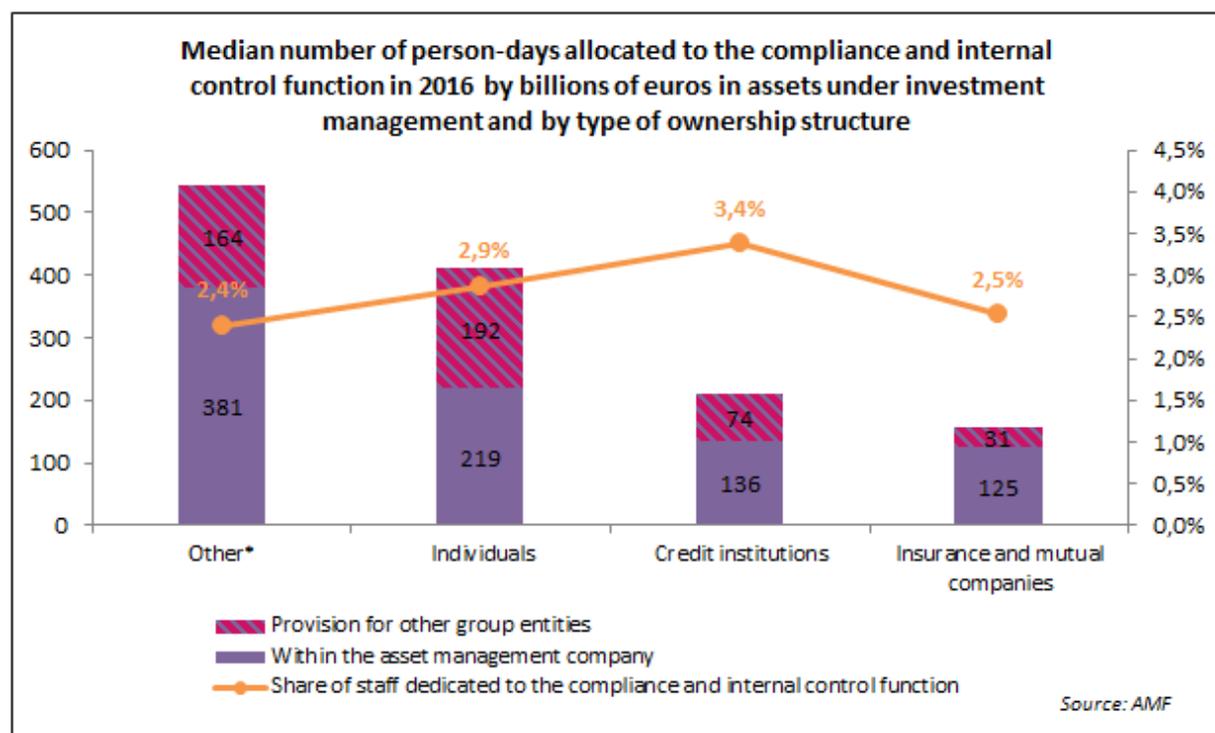
After moderate growth in 2015 (up 2.7%), the number of person-days dedicated to the compliance and internal control function increased by 3.1% in 2016 to 125,010.

This positive change is due to the increase (by 3.7%) in the number of days worked allocated to compliance and internal control within asset management companies. On the other hand, contrary to the past two years, there was a fall (by 0.9%) in the human resources

provided by asset management companies for other entities within the group to which they belong. In 2016, in fact, the number of asset management companies providing control or assistance services to other group entities, in the areas of compliance and internal control, stood at 81 compared with 101 in 2012.

The rise in the number of person-days dedicated to the compliance and internal control function also stems from the growth in the number of asset management companies created and the growth in total staff as a result. The consequences of the 2008 financial crisis and the subsequent tightening of the regulations have, moreover, driven companies to expand their compliance and internal control teams.

The impact of more complex regulations on asset management companies' staff nevertheless seems proportionally barely discernible. Total staff rose in 2016, but the share of the staff dedicated to compliance and internal control has stayed unchanged at 3.0% for the last three years.



* The "Other" category consists of management companies that are subsidiaries of investment service providers or companies governed by public law.

Given the different ownership profiles, a more detailed analysis of the compliance and internal control figures reveals strong disparities. Independently of the type of ownership structure, however, the share of the staff dedicated to compliance and internal control is close to 3%.

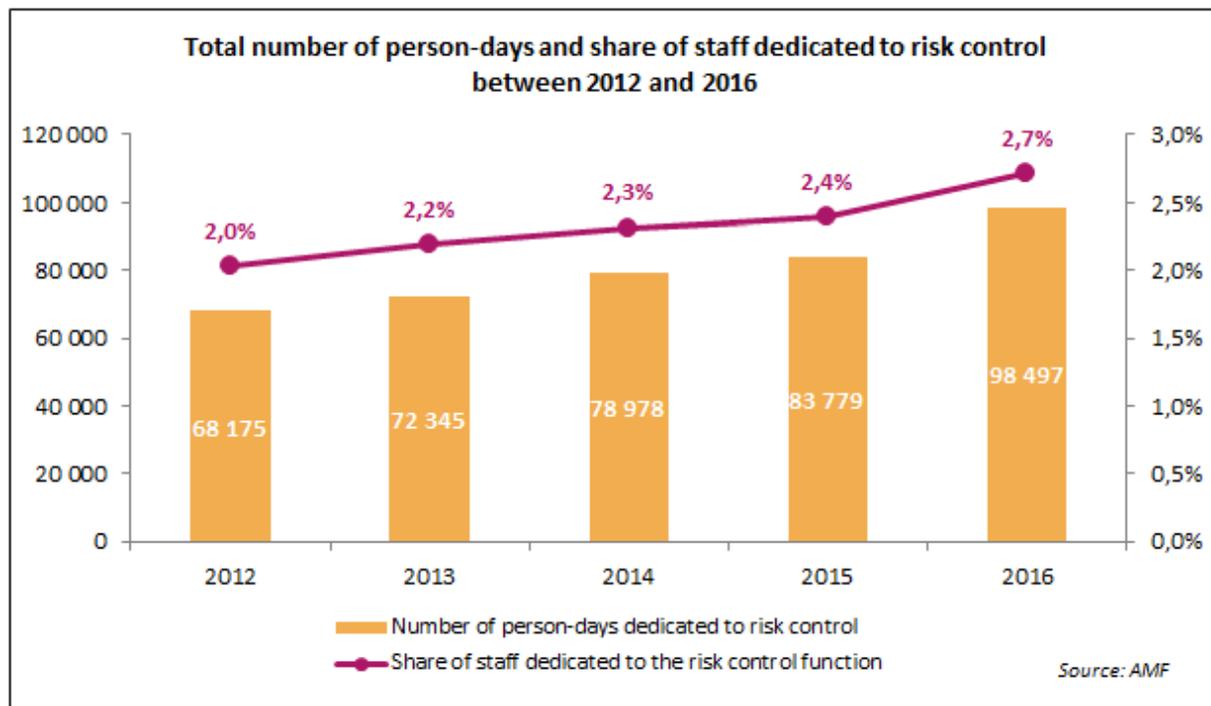
Boutique structures and the "Other" category, which consists of management companies that are subsidiaries of investment service providers or companies governed by public law, allocate the most person-days to the compliance and internal control function by billions of euros in assets under investment management (a median of 545 and 411 person-days, respectively, in 2016).

Management companies that are subsidiaries of credit institutions or insurance/mutual companies, for their part, dedicate fewer person-days to the compliance and internal control function by billions of euros in assets under investment management (a median of 210 and 156 person-days, respectively, in 2016). These figures are explained by a larger number of client portfolios and a greater volume of assets under management, meaning that this type of company benefits from economies of scale in terms of the management of compliance and internal control needs, and the optimisation of the human and technical resources dedicated to information systems.

Note, however, that management companies that are subsidiaries of credit institutions allocate the largest absolute share of staff to the compliance and internal control function (3.4%).

A growing increase in the human resources dedicated to the risk control function within asset management companies

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⁾".



In 2016, the number of person-days dedicated to risk control rose by 17.6% compared with 2015 to 98,497. The rise since 2012 is even steeper (44.5%). Following a similar trend, the share of the staff allocated to this function has constantly grown in recent years. For instance, the risk control function occupied 2.7% of management companies' total staff on average in 2016. Remember that asset management companies must establish a permanent risk management function and keep it operational⁽²⁾.

Also note that the need to maintain an independent risk management function concerns ever more asset management companies, because of the nature of the financial instruments that they use and the complexity of the strategies that they implement. 24.4% required such a function in 2016, versus 23.1% in 2015. Furthermore, 63.9% of these companies use the Value at Risk (VaR) method⁽³⁾ to measure risk exposure, compared with 66.4% in 2015.

An analysis of the risk control figures according to the type of ownership structure reveals disparities due to the fact that this function is directly linked to the volume of assets under management by management companies and the nature and complexity of the management strategies that the latter implement.

In 2016, boutique management companies allocated the largest number of person-days to the risk control function by billions of euros in assets under investment management (89 on average in 2016). This fact is attributable to the implementation of niche strategies or techniques by this type of company and the lower levels of assets under management. Management companies that are subsidiaries of credit institutions or insurance or mutual companies allocate the largest share of their staff to the risk control function (3.5% and

3.2% respectively), however, because of the scope of their ranges and of certain activities specific to them, such as asset and liability management.

Outsourcing of permanent and periodic control

** The "Other" category consists of management companies that are subsidiaries of investment service providers or companies governed by public law.*

When an asset management company or, more broadly, its parent group, "does not reasonably have the financial resources to assign a person to the compliance function"⁽⁴⁾ and the position of compliance and internal control officer can only be assigned to a senior manager, then the asset management company outsources its compliance and internal control tasks.

In 2016, 60.7% of asset management companies outsourced permanent control, up 16.6% compared with 2012. The "Other" category (management companies that are subsidiaries of investment service providers or companies governed by public law) and boutique structures outsource permanent control the most (67.2% and 66.1%).

Most boutique structures have a senior manager compliance and internal control officer (62.4%). The latter usually performs sales or other functions in addition to their control tasks, which means that "support" functions, including control tasks, need to be outsourced. Conversely, management companies that are subsidiaries of credit institutions or insurance or mutual companies outsource permanent control relatively infrequently

(45.9% and 37.1%), as they have substantial human resources or the group to which they belong provides them with staff.

Asset management companies are therefore increasingly outsourcing permanent and periodic control tasks. The outsourcing rate is much higher for periodic control than for permanent control, however.

** The "Other" category consists of management companies that are subsidiaries of investment service providers or companies governed by public law.*

Periodic control aims to "examine and evaluate the suitability and effectiveness of the asset management company's internal audit mechanisms and systems⁽⁵⁾ .

86.1% of management companies outsource periodic control, versus 73.0% in 2012. If we look at the figures more closely, according to category of ownership structure, we can see a more widespread outsourcing of periodic control to external firms or internal audit and inspection teams within the groups to which companies belong.

An in-depth analysis of the permanent and periodic control outsourcing figures reveals different organisational practices for control systems, namely delegation to an external entity or to an internal group entity. Two groups can be clearly identified.

** The "Other" category consists of management companies that are subsidiaries of investment service providers or companies governed by public law.*

Firstly, management companies that are subsidiaries of credit institutions or insurance or mutual companies mostly use human resources within the group to which they belong to delegate periodic control tasks (83.8% and 57.1% respectively) and, to a lesser degree, permanent control tasks (30.6% and 11.4% respectively).

Secondly, boutique management companies or subsidiaries of investment service providers or companies governed by public law, the majority of which don't belong to a group, tend to use external firms to perform compliance and control tasks.

Note that 46.4% of asset management companies that outsource periodic control to an external entity also outsource permanent control to an independent consultancy firm. 97.1% of these companies use the same entity for both types of control.

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. 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 2016

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 313-53-4 of the Autorité des Marchés Financiers' General Regulations.
- 3 • Value at risk (VaR) is a composite indicator that estimates the maximum potential loss that a portfolio could incur for a given time frame and a given probability.
- 4 • Article 3.2.6.1. of AMF position-recommendation DOC-2012-19 – Programme of operations guide for asset management companies and self-managed collective investments.
- 5 • Article 313-62 of the Autorité des Marchés Financiers' General Regulations.

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