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The AMF publishes the summary of its thematic inspections of the own funds of asset management companies

At the start of 2018, the Autorité des Marchés Financiers (AMF) carried out a series of five theme-based inspections focusing on the monitoring and investment of the own funds of asset management companies. Based on its observations during these inspections, in addition to the knowledge accumulated over the course of past inspections, it has prepared an assessment of practices and reminders of the rules to be applied.

As part of its new #Supervision2022 strategy, the AMF is carrying out new types of inspection, known as SPOT (Supervision des Pratiques Opérationnelle et Thématique - operational and thematic supervision of practices). Today, it publishes the summary of practices observed during these inspections focusing on the own funds of asset management companies, during which it examined:

- the organisation and procedures implemented by asset management companies;
- the determination of the regulatory capital;
- the investment of own funds;
- the relevant control mechanism.

The inspections revealed that, to varying degrees, the procedures used to determine regulatory capital, its investment and control are insufficiently detailed and well

implemented. However, the resulting shortcomings observed in the calculation of regulatory capital are very limited in scope. Overall, regulatory capital is generally invested in liquid assets or assets that can be easily converted into cash in the short term and that do not include speculative positions. The investment of own funds in such assets should also apply to all own funds below 130% of regulatory capital ("30% surplus capital") according to the AMF General Regulation. However, the inspections revealed that the 30% surplus capital is not always invested in these kinds of assets.

The requirement to comply with regulatory provisions for own funds at any given moment implies that asset management companies must adapt the frequency of controls to their situation (according to the scale of its surplus of own funds, the amount of dividends or bonuses paid, etc.). And yet, it was revealed that their controls are not always formalised nor comprehensive.

The AMF identifies the following good practices enabling the asset management companies to prevent the risk of non-compliance, notably when own funds are close to the minimum requirement:

- at the end of the inspection, one asset management company indicated that it had amended its procedure in order to implement a provisional calculation of the impact on its regulatory capital to any substantial disbursement (payment of dividends, employee bonuses, etc.). This simulation can be made based on an unverified interim accounting data;
- moreover, it is considered a good practice to perform a second-level control of own funds on a half-yearly basis - or more frequently if needed - taking into account the current year's activity on the basis of data from an interim closure not certified by statutory auditors.

These inspections gave rise to follow-up letters. In light of the varied nature of practices in terms of the investment of own funds, and to better guide asset management companies in this area, studies will be carried out with the stakeholders with a view to amending AMF Position-Recommendation No. 2012-19, and adjusting it to a European perspective if necessary. This modification will clearly identify the instruments that should not be considered "liquid", "easily convertible into short-term liquidities" and "non-speculative" in terms of the own-funds investments.

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The AMF is an independent public authority responsible for ensuring that savings invested in financial products are protected, that investors are provided with adequate information and supervising the orderly operation of markets. Visit our website <https://www.amf->

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