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Use of benchmarks: the AMF integrates new best practices into its policy

The Autorité des marchés financiers (AMF) reminds asset management companies of how important it is to draft the management objective clearly, especially when a fund refers to a benchmark index. The AMF is updating its policy to integrate best practices in this matter.

Use of benchmarks

The AMF reminds asset management companies of how important it is to draft the management objective clearly, notably when a fund refers to a benchmark index. Moreover, the AMF considers that when the management strategy allows, it is highly desirable to compare to a benchmark indicator so that investors can appreciate the change in the net asset value of the fund in which they have invested compared to the trend in the central market price.

AMF policy update

The AMF recommends, notably, that management companies which manage funds where the objective refers to a benchmark index define clearly and precisely the leeway accorded to the fund manager to invest differently to the index.

The AMF also recommends that the same types of funds prepare reporting for investors that enable them to see to what extent the fund diverges from or comes close to its

benchmark index. The updated policy documents are available to download below.

The follow-up to the ESMA study on potential closet index tracking

In 2015, ESMA conducted a study on funds in Europe that are sometimes termed “closet index trackers”. This practice consists of leading investors to believe that a fund is actively managed, when in reality it shows performances much like those of its benchmark index, in terms of the return/risk profile, while charging fees resembling those charged by a fund that is really actively managed. ESMA selected a sample of European collective investment funds invested in equities and analysed them using a quantitative approach in order to compare the data of different European markets and products. ESMA finally listed a number of European funds likely to be concerned by this practice, and communicated their names to national regulators so the latter could examine this issue more closely. After analysing the French funds brought to its attention, the AMF considered that they were not closet index trackers, notably because the quantitative criteria alone did not demonstrate that these funds are closet index trackers.

Read more

- Position-recommendation DOC-2012-19 on the programme of operations guide
✚ for asset management companies and self-managed collective investments
- Position-recommendation DOC-2011-05 on regulatory documents governing
✚ collective investments schemes
- Position-recommendation DOC-2011-24 on drafting CIS marketing materials and
✚ distributing CISs
- ✚ ESMA press release of 2 February 2016 (ESMA/2016/138)

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