The AMF evaluates AIFM reporting systems in its SPOT inspections

A new series of SPOT inspections (“Supervision des Pratiques Opérationnelle et Thématique”) was carried out in 2019, allowing an assessment of the AIFM reporting systems of five asset management companies, with the objective of checking the quality of the data reported to the regulator and of the internal control procedures in place.

The AIFM European directive on alternative investment fund (AIF) managers was adopted in June 2011 and introduced reporting requirements for such managers for supervisory and financial stability purposes. The managers must provide information on the markets on which they operate, the main instruments traded, and the assets under management. They must also provide data on the strategy, exposure, asset and liability liquidity, and leverage of each AIF.

Through the SPOT inspections, the aim of the Autorité des Marchés Financiers (AMF) was to check the quality of the data that is reported to it and the procedures and controls implemented by asset management companies within the framework of AIFM reporting over the 2017-2018 period.

For the five companies that were inspected, the regulator examined:

— the organisation and procedures relating to AIFM reporting, including the control systems for that reporting,
— the quality and completeness of the data submitted,
— the methodologies used to calculate leverage, manage liquidity and conduct stress tests,
— the information provided to investors on leverage and liquidity.

Today, it is publishing its review of the good and poor practices it observed, also taking account of observations made in the course of three standard inspections conducted in 2019 on the themes of leverage and liquidity, analysis of the data collected by the AMF and its follow-up actions.

The work revealed in particular that for the financial years 2017 and 2018, the number of reports submitted to the AMF was globally in line with the number of reports expected. However, some data was missing from the reports submitted, related to ISIN and/or LEI codes, management strategy, investor concentration, trading and netting mechanisms for counterparty risk, and the existence of special regimes.

The asset management companies inspected all had specific AIFM reporting procedures or detailed procedures for calculating leverage, managing liquidity, reporting requirements and carrying out stress tests. However, in some instances, these procedures were not sufficiently operational because they did not provide a framework for the traceability of the data used, the methods used to calculate leverage and the scope of reporting. In some cases, they failed to define the assumptions used for liquidity management under normal market conditions and in times of stress, they did not take into account the time required for settlement of the funds’ assets when establishing their liquidity profile on the liabilities side.

Regarding the liquidity risk management system, it was complete and operational for most of the entities. However, in some instances, some asset liquidity criteria were only justified by expert opinion, the portfolio distortion caused by liquidating assets was not taken into account, and the time required for securities settlement was not taken into account when estimating the liquidity of the funds. The stress tests carried out by the asset management companies, designed to simulate a crisis situation, were not sufficiently operational.

In addition, three of the five entities in this SPOT inspection campaign carried out permanent and periodic checks on AIFM reporting. Finally, although asset managers are required to disclose to investors the risks and leverage levels associated with the AIFs they manage, two out of five entities did not provide clear and accurate information on this in the funds’ prospectuses and annual reports.

As a general rule, the AMF draws the attention of asset management companies to the fact that AIFM reporting should be integrated, as far as possible, into their management
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processes and internal management tools, in particular with regard to risk management. It should not be viewed as an administrative exercise to be carried out independently and with a different level of requirements from their day-to-day management activities.

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Summary of SPOT inspections on AIFM reporting by asset management companies

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