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Employee shareholder investment undertakings: be careful of redemption orders with trigger thresholds

The net asset value of employee shareholder investment undertakings, which are employee savings plan funds invested mainly in the shares of the company/employer, is closely linked to the price of the shares in which they are invested, as I explained previously in the June 2019 issue. To monitor their investment, holders of shareholder funds must follow the net asset value of the fund, as well as the share price trend of the security in which they are mainly invested. But which of these two values should investors examine and monitor when they place a redemption order with a trigger threshold?

That is the question that I'll be answering in this issue.

The facts

Mr. D., an employee of Company B, has an employee savings plan, invested in an employee shareholder investment undertaking.

He wanted to place an order with a trigger threshold that would enable him to buy or sell a quantity of units from a threshold that he determined in advance. A purchase would be executed at or below this level and a sale would be executed at or above this level.



Mr. D. therefore registered his redemption order in his personal space on his account-keeper's website, with a trigger threshold with a minimum value of €125 on the shareholder investment fund. According to Mr. D, even though this minimum value had been reached for three weeks, his redemption order was not executed.

He asked his employer who told him that the trigger threshold was based on the value of the employee savings plan unit, thus confirming that the sale should have been executed.

Mr. D. therefore sent a claim to his employee savings scheme account-keeper who replied that under the terms of the regulations of the employee shareholder investment undertaking, the trigger threshold was based on the closing price of the B share in this fund. Since the price of the B share had at no point reached the minimum value set at €125, the order had not been executed.

It was under these circumstances that Mr. D. brought the case to me. He challenged the fact that for his trigger threshold order, his account-keeper had taken into account the B share closing price, whereas, according to him, what should have served as reference was the net asset value of the employee shareholder investment undertaking.

Investigation

I questioned the employee savings scheme account-keeper, who confirmed that for the employee investment which is the subject of the dispute, subscriptions or redemptions with a minimum value are triggered when the B share price, and not the net asset value of the fund, is reached.

The account-keeper provided me with the procedure for entering a redemption of units with a floor value on the investor space of the employee shareholder investment undertaking. He told me that an information prospectus was also available when the minimum value was entered on the website.

The account-keeper explained to me that this specific feature of the fund was stated in Article 15 of its regulations, which were available in the investor space.

In the light of these facts, the account-keeper of the employee savings scheme considers that the investor had been given the information needed for the proper understanding of the specific nature of the employee shareholder investment undertaking and that consequently, no loss of opportunity had been suffered in this case. He therefore did not wish to respond favourably to the investor's request.



Recommendation

I have examined the details of this case.

I observed that there was an alert message at each step in the entry of the order for the redemption at floor value of the employee investment undertaking. This message stated that investors could request the redemption of their units by specifying a floor price value. The price used would then correspond to the closing price of the B share making up the employee savings plan investment fund (FCPE). This message mentioned the ISIN code of the B share.

I also observed, from reading the regulations of the employee investment scheme, that Article 15 of this scheme stated that: "Unitholders may request the redemption of their units by specifying a floor price value. The value used in executing this order will correspond to the closing price of the B share, listed on the Frankfurt (Germany) Stock Exchange. "

I also noted that when they passed their order, investors had access to the following:

- the regulation of the employee shareholder investment undertaking, which is the authoritative document, by clicking on the name of the fund,
- the B share price, by clicking on the "I" when entering the redemption terms and in particular when entering the floor value.

It thus appears that when he entered the redemption order, the investor was informed, on several occasions, that the floor value that he had defined was conditional upon the closing price of the B share and not its net asset value.

I therefore informed Mr. D. that in the light of all these facts, I could not accede to his claim for compensation.

Lessons to be learned

For orders with trigger thresholds, the company managing the employee savings plan investment fund may define as reference value, not the net asset value of the fund but, as was the case here, the share price of the fund's component shares. It should state this specific feature in the fund's regulatory documentation.



Unitholders of the employee savings plan investment fund should therefore be attentive to the information available at the time they enter their trigger threshold orders and should not

hesitate to read the fund regulatory documentation before defining the terms of their order and to determine the floor value that they wish to set.

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