AUTORITÉ
DES MARCHÉS FINANCIERS

AMF Recommendation
Future performance simulations – DOC-2017-07

Reference documents: articles 44 of Commission Delegated Regulation (EU) 207/565 of 25 April 2016, L. 533-12 of the Monetary and Financial code and 325-12 and 325-52 of the AMF General Regulation.

As part of its focus on technological innovation, the AMF has noted the emergence of wholly-digital services offered by professionals to their investors.

The AMF has observed that these professionals provide their investors and prospects with technological tools that enable them to carry out their own simulation of the performance of their investments. This involves prospects filling out standardised questionnaires in which they are usually asked to set their initial investment amount and the amount they wish to invest per month, choose a risk profile or investment vehicle, and determine the investment value they would like to obtain at a given horizon. The tool's algorithms then generate projections for the client's investment value under various scenarios, ranging from the most pessimistic to the most optimistic.

The AMF intends that this document reminds professionals, be they investment service providers, including asset management companies, financial investment advisers or crowdfunding investment advisers of their obligations and how they should be interpreted.

This document is also intended to set out recommendations for their implementation.

1. Reminder of legislative and regulatory provisions

Investment service providers, including portfolio management firms[1] pursuant to article L. 533-12 Monetary and Financial Code, financial investment advisors (CIFs) pursuant to article L. 541-8-1 Monetary and Financial Code and crowd funding advisors (CFAs) pursuant to article L. 547-9 Monetary and Financial Code are required to disseminate information that is clear, accurate and not misleading. This principle is set out at article 44 of Commission Delegated Regulation (EU) 207/565 of 25 April 2016, and at articles 325-12 and 325-52 of the AMF General Regulation:

- presenting the balance of risk and benefit when issuing information to clients; and
- when giving information on future performance to their clients, ensuring that this is clear, accurate and not misleading.

2. Investor information on future performance simulation tools

Recommendation

In order to minimise the risk of poor comprehension by non-professional investors within the meaning of Article L. 533-16 of the Monetary and Financial Code, it is recommended that investment service providers, financial investment advisors and crowd funding advisors wishing to use a future performance simulation tool insert a message related to the results.

[1] when: (i) providing investment services; or (ii) selling in France collective investment units or shares pursuant to articles L. 532-9 VII Monetary and Financial Code and 316-2 IV and 321-1 III of the AMF General Regulation. See also article L. 533-22-2-1 Monetary and Financial Code, which applies to portfolio management firms in general.

It is recommended that the following message be visible in bold type and in a legible size in a box on the same screen as the chart presenting the results.

The graphic illustration [or the result] presented is not a reliable indicator of the future performance of your investments. It is meant only to illustrate the mechanisms of your investment over the investment period

The value of your investment could diverge significantly from the results shown, upwards or downwards. [*In the event that several (positive/negative) scenarios (are displayed, add:*] Gains and losses may exceed the amounts shown in the most favourable and unfavourable scenarios, respectively.
By remaining on this site, you confirm that you acknowledge and understand this warning.

A message that could not be seen unless the user scrolled down would not be considered compliant, for example.
In the case of simulations carried out in a branch, the standardised message may appear solely on the document containing the simulation, which is printed out and given to the client by the advisor after the simulation has been completed.

3. Technical aspects to designing future performance simulation tools

It appears that some future performance simulation tools are based on unrealistic hypotheses that could result in potentially misleading and over-optimistic information being provided.

Cases have been observed in which professionals communicate on a highly unfavourable scenario, for which an investment constituted of money market assets is illustrated with manifestly disproportionate annual performance, or recourse by others of inappropriate short-term discount rates.

Recommendation

The AMF recommends that the following good practices be taken into account:
- Performance simulations are based on realistic market hypotheses;
- The volatility assumptions used in a future performance simulation chart are consistent with the simulated underlying assets, allocation and investment horizon;
- A simulation takes account of the investment horizon and is built on reasonable market hypotheses consistent with that horizon (interest rates, volatility, inflation etc.) based on objective factors;
- Long-term economic interest rate assumptions are not be used to simulate short-term future performances of interest-rate investments.