AUTORITÉ DES MARCHÉS FINANCIERS

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The AMF publishes a summary of socially responsible investment practices observed during its thematic inspections

As part of its short, thematic "SPOT" (Supervision des Pratiques Opérationnelle et Thématique - operational and thematic supervision of practices) inspections, the AMF examined the socially responsible investment (SRI) systems implemented by five asset management companies (AMCs) and the integration of environmental, social and governance (ESG) criteria. The aim is to ensure that SRI information provided to investors is fair, clear and non-misleading, but also compliant with the investment and management process implemented.

Sustainable finance is one of the strategic priorities defined by the AMF in its "#Supervision2022" strategy. That is why SRI has been chosen as one of the first themes of the SPOT inspections carried out by the regulator since 2018, in addition to the report on SRI in collective management, the third edition of which should be published in autumn 2019.

The professional obligations of AMCs regarding SRI are based mainly on reporting requirements towards investors. Since 2011, AMCs are required to publish information on how they factor criteria relating to the achievement of social, environmental or governance quality objectives into their investment policy. The implementing decree of the French law on energy transition for green growth, published on 31 December 2015, marked a new phase

for ESG reporting requirements, in particular relating to the climate. In a detailed plan, it set out the information to be provided for each of the ESG criteria.

Over and above reporting obligations, and in light of the observations made during classical inspections, the AMF examined the following during its SPOT inspections:

- the organisation of the SRI system and the means implemented;
- the sufficiently operational nature of the investment and risk management procedures that regulate the SRI system;
- the SRI methodology established (data, ESG criteria, factoring in climate risk, rating of issuers, selection of securities, exclusion of securities, engagement policy, whether or not external suppliers are used);
- the consistency of the investment process with regard to internal procedures by means of a test on a sample of four to six securities of the fund portfolio managed by the AMC;
- whether the ex ante and ex post information provided to investors is satisfactory;
- the internal control system established on the SRI theme.

Methodology and investment process

For both classical inspections and SPOT inspections, the AMF noted that all the AMCs have adopted a uniform approach for the socially responsible management of the entire range of managed funds. The AMF also noted that the AMCs use a broad range of methodologies. Three of the five companies inspected use ESG data from four big data providers in the world.

The best practices observed in terms of methodology and investment process included the Following:

- an SRI approach based both on the risks related to the products and services proposed by the issuer and on the opportunities linked to the issuer's processes with regard to ESG issues;
- in dialogue with issuers, focusing on the ESG criteria announced to clients;
- establishing a formal and exhaustive audit trail of the investment and disinvestment process to ensure consistency between the investment policy, the methodology

announced to investors and the process applied in practice.

Information disclosed to investors

The information disclosed to investors is very extensive and varied from one AMC to another. The AMF did not note any breach concerning the consistency between the investment process of the managed funds and the information disclosed to the public. Generally speaking, for all the AMCs, the information provided to fundholders is consistent from one document to another. Nevertheless, the AMF notes that sometimes the information presented in the same document was incomplete and unclear.

Some of the best practices observed by the AMF in terms of information include:

- presenting in the prospectuses/KIIDs the data service providers used, making sure that the information provided is updated where necessary;
- presenting fund by fund the companies emitting the most CO2, by defining the various scopes considered;
- specifying in the engagement report (document reporting how the asset management company exercises its influence to ensure that sustainable development issues are taken into account in financial markets) the universe of companies concerned by the engagement, the themes of the engagement policy and the actions for following up on this engagement;
- grouping the documents concerning engagement in a section easily accessible on the website.

This new series of SPOT inspections gave rise to follow-up letters.

About the AMF
The AMF is an independent public authority responsible for ensuring that savings invested in financial products are protected and that investors are provided with adequate information. The AMF also supervises the orderly operations of markets. Visit our website https://www.amf-france.org

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Summary of SPOT inspections on the SRI management systems of asset management companies and the integration of ESG criteria

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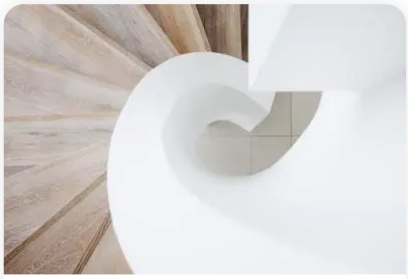

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