AUTORITÉ DES MARCHÉS FINANCIERS

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The AMF complies with ESMA's Opinion on share classes of UCITS funds

On 30 January 2017, the European Securities and Markets Authority (ESMA) published an Opinion for national competent authorities, specifying the extent to which different types of units or shares (share classes) of the same UCITS fund can differ from one another. The AMF is applying this Opinion and provides some details on the content of the Opinion.

ESMA's Opinion states that UCITS shall not have hedging arrangements at share class level with the exception of currency risk hedging. In the case of UCITS share classes that continue to offer currency risk hedging, the Opinion calls for risk management arrangements to be established at share class level, with individualised ratio monitoring and stress testing by share class.

The AMF is complying with ESMA's Opinion in France. Accordingly, the AMF will not authorise UCITS with one or more share classes that do not comply with ESMA's criteria. In particular, UCITS share classes must comply with four high-level principles, which relate to a common investment objective, non-contagion, pre-determination and transparency. In terms of derivatives use at share class level, the AMF will continue to authorise currency risk hedging only, consistent with ESMA's guidance.

ESMA's efforts to standardise European practices are intended to ensure that investors are better protected against contagion risk and that shareholders and unitholders are fairly treated.

The Opinion seeks to improve risk monitoring and shall entail application of the following principles to UCITS share classes that continue to offer currency risk hedging:

- Implementation of stress tests at the level of each class to estimate the risks of contagion;
- Limitation of exposure from currency hedging obtained through derivative products. Such currency hedging shall be systematic, pre-determined and must not deviate from its hedging target by more than 5%;
- Compliance with diversification ratios (specifically for counterparty risk) at the level of each class.

In accordance with ESMA's Opinion, UCITS offering share classes that were created before the Opinion was published and that do not comply with its principles shall be closed for investment by new investors from 30 July 2017 and for additional investment by existing investors from 30 July 2018. However, given the operational challenges involved in implementing specific risk monitoring requirements for UCITS share classes that continue or that may decide to offer currency risk hedging, affected participants must comply with the requirements by 1 January 2018.

Read more

ESMA, Opinion – Share classes of UCITS, 30 January 2017 (ESMA 34-43-296)

Keywords EUROPE & INTERNATIONAL

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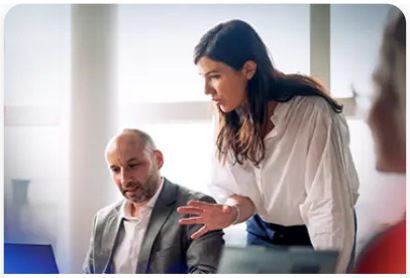

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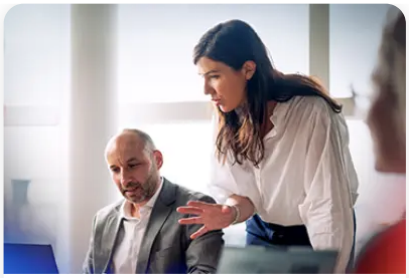

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Legal information:
Head of publications: The Executive Director of AMF Communication Directorate. Contact: Communication Directorate – Autorité des marches financiers 17 place de la Bourse – 75082 Paris cedex 02