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Classification of financial instruments as 'simple' or 'complex' as regards organisational rules for asset management companies: the AMF updates its policy

The AMF has amended its policy to propose a simpler and clearer methodology for assessing whether financial contracts and financial securities incorporating a financial contract are 'simple' or 'complex', as regards the management company's organisation and human resources. The Authority has also clarified the characteristics of strategies that may be classified as 'complex', along with the specific risk management requirements this entails.

How to assess the complexity of a financial contract or a financial security incorporating a financial contract: methodology and examples

- The first filter consists of seeing whether the underlying can be classified as 'non-traditional' (i.e. difficult to observe in the market). Non-traditional underlyings include, in particular, volatility, dividends and commodities.
- The second filter consists of looking at the complexity of the instrument's valuation method and risk profile. This second filter implies that instruments with a complicated or non-standard yield function, such as contingent convertible bonds ('CoCos'), catastrophe bonds ('cat bonds'), and certificates or EMTNs that are automatically redeemable by the issuer (autocallables) belong to the category of complex instruments.

List of 'simple' and 'complex' financial instruments

A list showing 'simple' and 'complex' financial contracts and financial securities incorporating a financial contract is annexed to AMF Position-Recommendation DOC-2012-19. A list showing 'simple' and 'complex' financial contracts and financial securities incorporating a financial contract is annexed to AMF Position-Recommendation DOC-2012-19.

Reminder of organisational rules when using financial instruments or strategies classified as complex

Management companies using financial contracts and financial securities incorporating financial contracts classified as complex, or, more generally, strategies classified as complex, must, in particular, have a risk management function that is independent of their financial management and must put in place enhanced risk monitoring. Furthermore, an appropriate valuation process must be in place where complex instruments are used.

Compliance deadline

The AMF reminds French management companies that they have until 28 February 2019 to comply with the new rules, notably where the latter entail a reorganisation or the run-off management of certain financial instruments.

This update to AMF policy is not at this stage accompanied by an overall update of the documents concerned in light of the instruments transposing MiFID II and separating the legal framework applicable to investment firms from that applicable to portfolio management companies. This overall update will be issued in the near future.

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