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The AMF publishes a review of its thematic inspections on securities financing transactions

In the second half of 2018, the Autorité des Marchés Financiers conducted a series of five "SPOT" (Supervision des Pratiques Opérationnelle et Thématique - operational and thematic supervision of practices) inspections concerning securities financing transactions. It has now prepared a list of best practices and issues reminders of the rules to be applied.

Securities financing transactions (SFTs) executed by asset management companies (AMCs) are transactions involving the lending and borrowing of securities, buying / selling of securities and securities repurchase and reverse repo agreements. They can improve the performance of funds under management by a few basis points.

During its inspections, the AMF examined:

- the best execution or best selection system;
- the conflicts of interest management system;
- the risk management system;
- compliance with obligations regarding information and transparency with respect to the unitholders.

On the whole, the asset management companies inspected have suitably established satisfactory operational systems for conflicts of interest management and order execution. However, these systems are not always appropriate to allow for the specific nature of securities financing transactions. The AMCs also all have a risk management procedure including the unwinding of SFTs at any time, and a satisfactory collateral exchange system. Furthermore, the AMF generally noted satisfactory information for unitholders in the prospectuses and annual reports of the funds in question.

The regulator identified the following good practices:

- Using a regulated investment service provider in the EU and providing an investment service within the framework of execution of securities financing transactions;
- Employing a service provider who uses an algorithm allowing a proportional allocation of securities based on their holdings in the funds.

The regulator conversely identified the following poor practices:

- Not enquiring, before signing the service provider's contract, about the procedures for price formation and allocation of transactions among the service provider's clients, the potential existence of a matching mechanism in the event of interposition of the service provider's own account making it possible to establish a correspondence between its transactions and those of its service provider which placed the market counterparties in competition, and the quality of the reports that will be provided by the service provider;
- Not identifying in the contractual documentation binding the AMC and the service provider the obligations and resources of the service provider for verifying best execution in the event that said service provider is not a regulated ISP in the EU, and the level of information that the service provider must provide to enable the AMC to check this service;
- Not establishing a control on compliance with the contractual sharing of remuneration among the funds, the service provider and the AMC.

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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