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DES MARCHÉS FINANCIERS

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The AMF publishes a study assessing its action regarding the complexity of structured products

The study measures the impact of a policy published jointly with the Autorité de Contrôle Prudentiel et de Résolution (ACPR) in 2010 and updated in 2016 which has the objective of limiting the complexity of structured products offered to the public in France. It concludes that the guidance has a positive effect, but this is partially offset by an increase in the number of scenarios provided for in the payoff formula of the product.

Structured products are marketed in the form of formula-based funds or structured debt securities and can be sold as vehicles for life insurance contracts. The AMF position 2010-05 defines four criteria to determine whether the financial instruments in question present a risk of retail investors misperceiving the risks. If the financial product does not meet one of these criteria, it is considered to be at risk of being mis-sold. One of these criteria concerns the number of features in the payoff formula. If there are more than three different calculation mechanisms used to determine the overall return on the product, the ACPR and the AMF consider that there is a mis-selling risk. In 2016, the policy was updated to better integrate the complexity of underlying indices in measuring the overall complexity of structured products.

The study was conducted using a database made up of 6,217 formula based collective investment undertakings (CIU) and complex debt securities marketed in France between 2001 and November 2018. It brings new insights that highlights the following main findings:

- a very marked decrease in complexity measured by the number of mechanisms after 2010, although this trend has been partially offset by an increase in the number of scenarios affecting the product's performance;
- the underlying indices considered as the most complex have been less used since 2017 nevertheless, simpler underlying indices are also less exploited. This reflects a significant development in the sector with the increasing use of newly created indices rather than the more traditional indices;
- gross performance, which does not take into account the costs linked to structured products, is substantially positive in most cases, even when adjusted for inflation;
- structured products appear to underperform when compared to investments in equities or bonds, particularly in a bull market environment;
- the most complex structured products are the worst performers.

In addition to a strict policy and regular supervision of the market, the AMF accompanies professionals by providing them with guides on how to prepare marketing documents that highlight unauthorised practices. The AMF has observed that the marketing materials for structured products are increasingly standardised and compliant with regulations. The regulator is also interested in retail investors' understanding of the marketing and regulatory documentation provided to them.

The regulator will continue to be especially vigilant regarding the marketing of structured products and will continue to monitor the complexity of the structured products market, in particular using the indicators resulting from this study.

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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