AUTORITÉ DES MARCHÉS FINANCIERS

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# The Enforcement Committee of the Autorité des Marchés Financiers fines Natixis Investment Managers International and Natixis Asset Management Finance for breaching their professional obligations

**In its decision of 25 September 2019, the Committee fined the asset management company Natixis Investment Managers International €2,000,000 for breaches relating to the information provided to investors as well as to its management of conflicts of interest. The Committee also fined Natixis Asset Management Finance €1,000,000 for failing to comply with the obligation to act honestly, loyally and professionally in the interest of its investors.**

Since 2009, several of the funds managed by Natixis Investment Managers International (formerly Natixis Asset Management and later Ostrum Asset Management) have used securities financing transactions in the form of securities lending or repurchase agreements made through Natixis Asset Management Finance.

Securities financing transactions are efficient portfolio management techniques designed to increase performance for the benefit of investors without increasing the level of risk borne by them. A securities lending is a contract whereby one person (the lender) gives another (the borrower) a certain number of securities that the borrower undertakes to return per equivalent, after benefitting from them during the term of the loan. A repurchase agreement is a transaction in which one fund (the transferor) transfers full ownership of financial securities to another fund (the transferee) for an agreed price. By this transaction, the transferor irrevocably undertakes to take back the securities and the transferor to return them at an agreed price and date.

In these types of transactions, the lender (in the case of a securities lending) or the transferor (in the case of a repurchase agreement) receives, on the one hand, a remuneration, commonly called "rent", and on the other hand, a guarantee, called "collateral", which may take the form of cash or securities under which it pays the borrower a fixed asset allowance.

Natixis Asset Management Finance acted both as an agent, i.e. as an intermediary between the lending or transfer funds and various banking counterparties, and in so-called "principal" mode, i.e. as a counterparty to the funds by buying or borrowing the securities it then sold or lent to banking counterparties. As such, it received cash collateral from the latter, which was placed in the books of the depositary credit institution and custodian of the funds and remunerated by it on very favourable terms, namely Eonia + at least 12.5 basis points.

The AMF Board initially argued that this cash collateral remuneration, called "additional remuneration", totalling €24.7 million, constituted income resulting from efficient portfolio management techniques and should therefore have been returned to the fund holders. It deduced several objections from this, which were notified to the depositary credit institution, Natixis Asset Management Finance and Natixis Investment Managers International, concerning, as the case may be, the retention by Natixis Asset Management Finance of the remuneration of the collateral in breach of the obligation to act in the interest of the investors, the failure to manage the conflicts of interest generated by this payment and/or the failure to provide information to the investors in this respect

At the Enforcement Committee meeting, the Board declared that it would withdraw the objections based on the obligation to act solely in the interest of the investors, on the grounds that the texts applicable at the time did not establish that the remuneration of the collateral received by Natixis Asset Management Finance should be paid to them.

In its decision, the Committee took note of this. It also dismissed the two other objections notified to the credit institution and one of the two breaches alleged against Natixis Asset Management Finance, in the absence of a significant conflict of interest between them and the investors. The credit institution depositary of the funds was thus cleared.

On the other hand, it found against Natixis Asset Management Finance that there had been a breach of the obligation to act honestly, fairly and professionally in the interest of investors, since they had not been informed of the remuneration that it had received, and considered that Natixis Investment Managers International had, on one hand, provided incorrect and imprecise information to the investors concerning these transactions and, on the other hand, failed to fulfil its obligation to manage conflicts of interest.

An appeal may be lodged against this decision.

*About the Enforcement Committee*
*The Enforcement Committee, which is made up of judges and professionals, has total freedom to make decisions. It can impose sanctions on any person or company whose practices contravene laws and regulations that fall within the jurisdiction of the AMF. It ratifies settlement agreements signed by the Secretary General and respondents. And it takes part in the AMF's educational efforts by clarifying financial regulations when explaining its decisions.*

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