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Summary of SPOT inspections on valuation of complex financial instruments

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As announced in the AMF's presentation of its supervision priorities for 2019, the last series of SPOT inspections of asset management companies (AMCs) in 2019 focused on the valuation of complex financial instruments (CFIs). European Directive 2011/61/EU on Alternative Investment Fund Managers (the AIFM directive) introduced specific obligations regarding independent valuation, justification and traceability of the methods used and valuations obtained to ensure that the various assets of an alternative investment fund (AIF) are properly valued. As stated in Recital 79 of EU Delegated Regulation No. 231/2013 supplementing the AIFM Directive with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision (the AIFM delegated regulation), "for some assets, especially complex and illiquid financial instruments, there is a higher risk of inappropriate valuation. [The AIFM must therefore] put in place sufficient controls to ensure that an appropriate degree of objectivity can be attached to the value of the AIF's assets". A first series of SPOT inspections was carried out in 2018 on valuation systems within private equity firms. This series follows the same logic by looking at the scope of CFIs.

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