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23 June 2021

The AMF updates the accepted market practice on liquidity contracts

As of July 1, 2021, the accepted market practice (AMP) on liquidity contracts, which had been in effect since January 2019 on the French market, is updated to take into account in-depth analyses of the effects of the AMP and of the series of short thematic controls performed in 2020.

In accordance with the European regulation on market abuse, the Autorité des marchés financiers notified the European Securities and Markets Authority (ESMA), on March 31, of a new draft accepted market practice governing the implementation of equity liquidity contracts intended to replace the framework that had been in place since January 2019. This project received a negative opinion from ESMA. However, in accordance with European law, the AMF has decided to implement this project which will apply to issuers and intermediaries from July 1.

Liquidity contracts, concluded between an issuer and a financial intermediary (investment firm or credit institution), are intended to allow the financial intermediary to make purchases and sales of equities independently from the issuer in order to improve, for the benefit of investors, the regularity of the daily quotations and the liquidity of the issuer's shares. When established as an accepted market practice, liquidity contracts provide issuers and the financial intermediaries, who implement them and comply with their terms, with legal comfort with regards to market manipulation regulation.

Widely implemented in France (by more than 440 French companies, or nearly 70% of the French listed companies), this practice is considered essential for the proper functioning of the French market for equities of medium-sized issuers. A retrospective analysis of the implementation of the current practice, carried out over the period December 2019 / May 2020, thus showed an improvement in the posted spreads and the price impact of transactions, which are more sensitive for illiquid equities than for liquid and highly liquid equities. In this context, and driven by the desire to support companies in their access to the market and their visibility to investors, the AMF has decided to improve and maintain this practice.

The accepted market practice takes into account simultaneously the points of convergence established at European level by ESMA, the specific features of the French market and the lessons learned from the retrospective analysis carried out, as well as the practices observed during a series of short thematic controls. The AMP provides new limits to the implementation of liquidity contracts in terms of the volume of activity during the day, the price of orders presented to the market and the resources allocated by the issuer to the liquidity contract.

The AMF, whose market surveillance system based on Big Data technology enables to oversee market integrity, does not share ESMA's negative opinion and reiterates the advantages of the liquidity contract framework favouring the regularity of daily quotations and the liquidity of small and medium-sized enterprises' equities.

The AMF's decision governing the new market practice can be consulted on the AMF's website, as well as the note presenting, in accordance with European regulation, the reasons for the AMF's decision to introduce the market practice and the reasons why, contrary to the opinion expressed by ESMA, it is unlikely to affect market confidence.

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> URL = [https://www.amf-france.org/]

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