AUTORITÉ DES MARCHÉS FINANCIERS

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The AMF publishes a summary of its findings regarding the costs and fees of UCITS marketed to retail investors

As part of a European supervision exercise, the AMF examined the practices of asset managers concerning the definition and monitoring of the costs and fees related to UCITS management. The AMF announces changes to its General Regulation and its policy on turnover fees and fund marketing.

Each year, the European Securities and Markets Authority (ESMA) sets up two strategic priorities for supervision at European level. Last year, the ESMA focused on costs and fees of UCITS marketed to retail investors and initiated a joint supervisory exercise on this topic, in which the AMF took part. The exercise focused more particularly on compliance with the UCITS regulations.

As part of its investigations, the AMF sent a questionnaire to 49 asset managers representing nearly 2,050 French and foreign UCITS for a total amount of €766 billion assets under management. It completed its observations with a series of short thematic inspections (SPOT inspections) upon five of these companies and conducted in-depth interviews with six others.

Concretely, the AMF examined the following:

- the breakdown of costs and fees for the UCITS marketed by the asset managers of the panel;

- “undue” costs and risky practices;
- price setting and review processes;
- costs paid to third parties and potential associated conflicts of interests;
- fees disclosure via regulatory and marketing documentation available for the UCITS in the sample;
- costs and fees monitoring associated with the implementation of efficient portfolio management (“EPM”) techniques;
- the internal control system in place regarding costs and fees.

The AMF has presented the good and poor practices observed in the sample in a summary document. For example, the exercise highlighted two relatively uncommon but questionable practices. The AMF identified that 14 of the 2,050 or so UCITS analysed had a portfolio composition very close to that of their index, which may suggest a rather passive management style, even though the level of fees was high. For seven funds, it also identified a very high level of turnover fees (“commissions de mouvement”), in excess of 2.5% of net assets. In both cases, the level of fees severely hinders the ability to achieve the management goal and the possibility to outperform the benchmark.

An evolution of the current rules has therefore been decided. The first change concerns the prohibition of turnover fees. It aims to abolish the possibility for UCITS and AIF managers to benefit from turnover fees, with the exception of turnover fees on real estate assets. To enable asset management companies to adapt their set-up, these changes will apply as of January 1, 2026. An amendment to the AMF General Regulation was approved by order of the Minister of the Economy, Finance and Recovery published on May 19, 2022. In this perspective, the AMF will modify its policy to specify the implementation of this change.

The second change concerns the marketing of active funds featuring high fees despite a performance that closely tracks their benchmark, as well as passive funds with high fees. For active funds, investment services providers (ISPs) must have procedures in place to identify funds with high fees relative to their tracking error vis-à-vis their benchmark. With respect to passive funds, the AMF also states that ISPs must have policies and procedures in place to compare the level of fees of funds that have a passive management objective with those of comparable funds in order to determine whether lower-cost equivalent collective investments are likely to be suitable for their client's profile.

Regarding the SPOT controls, the processes for setting up and reviewing costs and fees structures are generally regulated by an ad hoc committee. However, for the five

management companies controlled, the SPOT inspections revealed the absence of an internal umbrella procedure explaining the process for setting up fees schemes (when funds are created) as well as the criteria taken into account for changing these fees.

When they are paid to third parties, costs are usually governed by special agreements and by a conflict of interest management system consisting of a dedicated procedure, a mapping and a register. Risks of conflicts of interests related to the costs of the services provided by the management company's parent group (acting as a depositary or distributor), external distributors or delegated managers, are adequately addressed.

The AMF considers that the procedures governing the disclosure of costs and fees in UCITS' regulatory and marketing documentation are operational. It did note one shortcoming however, consisting into the lack of information on the existence, nature, main types of beneficiaries and the general formula for calculating fees retrocession.

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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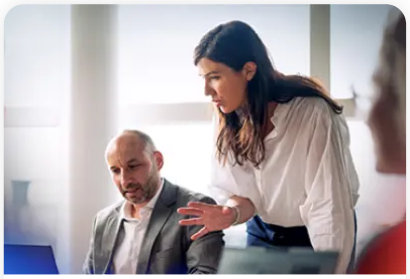

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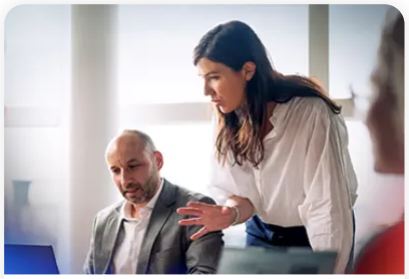

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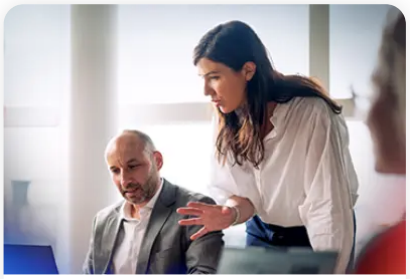

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