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## **The AMF publishes a summary of its SPOT inspections on the theme of best execution in asset management companies**

**After a series of short thematic inspections concerning best selection and best execution obligations, the AMF is asking asset management companies to improve their arrangements in this area, and in particular to specify their policy and the procedures which govern best execution and how quality of execution is monitored, and to strength their internal control systems.**

Since November 2007, in accordance with the Markets in Financial Instruments Directive (MiFID), investment firms have had an obligation to comply with "best execution" rules, whether for discretionary portfolio management for reception and transmission of orders services. The revision of MiFID strengthened these obligations. The regulations provide for similar measures in the case of collective investment management. Asset management companies are therefore required to take all measures to obtain the best possible result at order execution, given the market price, cost, speed, likelihood of execution and settlement, size and nature of the order.

To examine practices, the AMF selected five companies representative of the diversity of the asset management industry in terms of activity (UCITS, alternative investment funds, discretionary portfolio management) and order placing framework.

For each of them, the AMF focused on:

- completeness of the best execution and best selection policy and procedures;

- criteria and due diligence for selection of brokers and trading venues;
- procedures for monitoring best execution and best selection and for assessing brokers, as well as policy review criteria;
- client information obligations;
- the control system.

In its summary document, the AMF notes the good and poor practices observed for the period from July 2018 to July 2021. Although the inspected asset management companies have indeed put in place their in-house best execution policy and procedures, these are insufficiently precise on the following points:

- factors taken into account in the choice of execution and their respective importance;
- possible execution venues;
- criteria for the selection of brokers and, as the case may be, of external providers to which selection of brokers or order execution may be outsourced, and the methodology used to assess those brokers and service providers.

Regarding the procedures for monitoring best execution and best selection, the four AMCs in the sample group that use brokers have established a half-yearly committee in charge of monitoring the quality of the services provided, and have determined a set of qualitative assessment criteria based on which they state their opinion periodically. Four of the five asset management companies in the sample group have quantitative measures enabling them to perform an ex-post check on the quality of execution of orders executed by themselves or by brokers. But how such data may be used to assess the quality of execution is, unclear and covered by only little or no in-house formal presentation and documenting. Only one of the companies in the sample group has determined and used an alert threshold and a methodology to detect any outliers, but without substantiation of the nature and level of this threshold, which has proved ineffective given the volume of alerts generated.

With regard to client information, the inspected entities chose their website as the channel for publication of their best execution policy, but this publication is limited merely to the principles.

Regarding the control system, the AMF noted shortcomings with respect to analysis of the suitability and completeness of the best execution policies, and of their implementation. Over the period investigated, for example, internal control did not make sure that due diligence for assessing the quality of order execution by asset management companies or

their brokers was effectively carried out, apart from merely holding regular committee meetings.

The AMF therefore calls on asset management companies to strengthen their in-house best selection/execution policy and procedures, and to reinforce and define more formally their arrangements for monitoring the quality of order execution.

### **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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