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The AMF publishes the findings of its thematic inspections of asset management companies' monitoring of fund investment ratios, compensation and claims

This new 'SPOT' summary focused on the ratios that define the investment rules and asset mix, as stipulated by provisions of the law, or the internal or contractual rules of UCITS and AIFs, as well as the investors' information documents, such as the prospectus. These ratios, which must be complied with at all times, may be financial or non-financial in nature.

Asset management companies are required to comply with certain ratios, in particular those imposed by the regulations on the management of funds. For example, they are prohibited from investing more than 35% of the assets of a UCITS in financial securities or money market instruments issued by a single entity, or in deposits or derivatives entered into with that entity.

Since 2021, asset management companies have been required to notify to the AMF any 'active' ratio breach, i.e. resulting from an action of the investment fund manager, for the funds they manage. The data communicated to the AMF in this regard contributes to its knowledge and monitoring of regulated market participants and products, and enables the regulator to identify situations requiring its attention.

In addition, if the ratios are exceeded, fund unitholders may be entitled to compensation if they have suffered prejudice, in case of claim or not. The introduction of a robust internal process to monitor these ratios therefore falls under the obligation to act in the interest of

investors. This investor protection dimension, which was already one of the AMF's supervisory priorities for 2024, also forms part of its strategic guidelines for Impact 2027.

To this end, the AMF conducted a series of 'SPOT' (Supervision of Operational and Thematic Practices) inspections at five general-purpose asset management companies, mainly targeting retail clients and with assets under management of less than €100 billion. These inspections covered the period from 1 January 2021 to 31 December 2023.

The AMF examined the following points in this context:

- the organisation and governance of the processes for monitoring investment ratios, and for handling related claims and compensation (1);
- the set of procedures (2);
- the robustness of the associated operational processes (3);
- the information provided to investors and the regulator in relation to investment ratio monitoring (4);
- the internal control framework in place (5).

In all, the AMF identified 19 good practices and 7 poor practices.

1 • The AMF noted that all five asset management companies use similar human and technical resources to monitor investment ratios. The risk control function configures these ratios in an IT tool integrated into the order placement system. This tool enables pre- and post-trade checks to be carried out on each transaction to ensure compliance with the ratios at all times.

These checks are carried out internally by the management and risk control teams of each asset management company, and externally by the administrative and accounting managers responsible for valuation and by the custodians of the funds concerned. In more cases, ratio breaches are identified automatically. However, the investigation of these breaches remains a manual activity, due to the diversity of the ratios monitored and of the quantity of possible breach scenarios. The causes, impacts and corrective actions required are presented to senior management at periodic risk committee meetings. During the course of its work, the AMF identified one poor practice consisting of not regularly reviewing the consistency of the changes made to the configuration of the investment ratio control tool.

2 • With regard to the procedures they have put in place to monitor ratios, the panel's asset management companies have established clear rules, enabling them to investigate breach alerts according, in particular, to their level of severity. This also includes mechanisms for identifying false alarms, dealing with the causes of recurring breaches and escalating cases to senior management when necessary.

3 • The summary also shows that the operational process for monitoring ratios is well managed by the majority of the asset management companies on the panel. The tightly woven net created by the pre-trade and post-trade controls has enabled the panel to identify between 20 to 800 breaches per year, for a volume of between 100 to 10,000 transactions per year, which is consistent with the management strategy of the institutions inspected.

The automation of the pre-trade checks revealed that the volume of active breaches observed on the panel is four times lower than that of passive breaches. This has an impact on the compensation paid out, which, although it can run to several tens of thousands of euros, remains rare. On average, compensation is only paid in relation to 4% of the active breaches observed at the inspected asset management companies. A good practice adopted in this area is to define a clear internal policy for quantifying impact and compensation in the event of active breaches, particularly for funds domiciled in France. This policy must ensure that investors are treated fairly and equitably, while complying with the regulations of the countries in which the funds are domiciled.

None of the claims received by the asset management companies on the panel were related to ratios breaches. In fact, retail investors do not generally have access to information on the existence of such breaches, or on their possible impact, as there is no legal obligation for them to be provided with such information. Hence the need for asset management companies to have a robust internal process for monitoring such breaches in order to fulfil their regulatory obligation to act in the interest of investors, even in the absence of a claim, as called for in AMF Position-Recommendation DOC-2011-25.

4 • Regarding the regulatory documentation, the AMF notes that the investment ratios are clearly stated into it.

However, the AMF has noted anomalies in the reports sent to it concerning monitoring of ratios and breaches. It therefore reiterates its call for greater vigilance with regards to the quality of the data submitted in the context of regulatory reportings.

5 • Finally, reviewing the process for monitoring investment ratios is a standard internal control topic for the majority of the asset management companies on the panel. The

AMF stresses the good practice of carrying out a statistical analysis of trends in breaches to identify, at an early stage, any structural anomalies in the funds management approach, the quality of ratio configuration or the relevance of the first-level control system.

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

PRESS CONTACT

AMF Communications Directorate

+33 (0)1 5345 6025
media@amf-france.org

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Summary of SPOT inspections on the monitoring of funds (UCITS, AIF) investment ratios, and of related compensation and claims

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