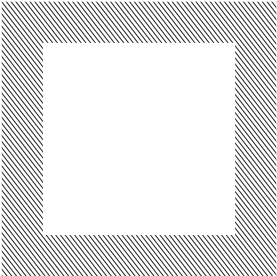
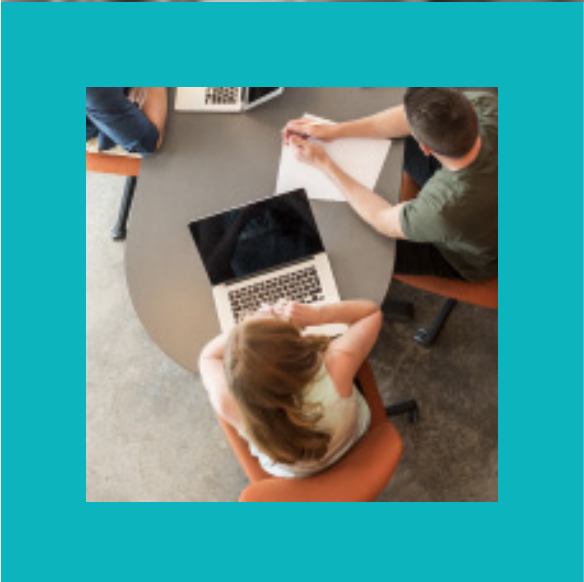
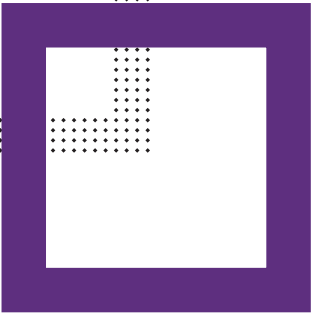
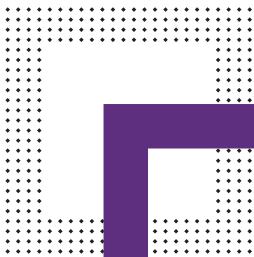


2018 SUPERVISORY PRIORITIES FOR THE AUTORITÉ DES MARCHÉS FINANCIERS





In accordance with the guidelines published in its 2018-2022 strategy, and as a supplement to the associated 2018 priority actions, the AMF is keen to share its thematic supervisory priorities for the current year.

➤ Purpose

This document presents the Autorité des Marchés Financiers' 2018 supervisory priorities for professionals authorised to provide investment services and collective investment management services. Publishing these thematic priorities helps to highlight certain areas of risk the regulator has identified and to encourage regulated firms to look more specifically at a number of their practices, in light of applicable professional requirements. With the entry into force of several crucial pieces of legislation for the industry, chief among them the Markets in Financial Instruments Directive (MiFID), it is important for the regulator to draw attention to specific areas of focus while also identifying the operational issues associated with practical implementation of the regulations.

The publication of these priorities is but one in a series of changes in the AMF's supervisory practices that aim to strengthen the monitoring of market participants and the effectiveness of the actions taken. This publication supplements efforts already underway to communicate with and reach out to the industry, for example through our annual meetings with compliance officers.

➤ Who should read this document?

This document is intended for financial intermediaries authorised to provide investment, collective investment management or financial investment advice services (credit institutions authorised to provide investment services, investment firms, asset management companies (AMCs), financial investment advisers (FIAs) and direct marketers).

Other market participants subject to AMF supervision (crowdfunding investment advisers, intermediaries in miscellaneous property, market infrastructures, etc.) are not directly targeted by this document which describes the thematic supervisory priorities for 2018. They are monitored, however, and could be subject to inspections regardless of the actions covered here. The monitoring of listed companies' financial disclosures is also not addressed in this document.

➤ Our approach to the supervision of market participants

The AMF has a number of supervisory tools, ranging from ongoing monitoring to specific inspections. It also carries out active upstream monitoring of the financial offers and savings products proposed to retail investors, as well as of the marketing practices of intermediaries, in order to inform the regulator's thinking and action.

The AMF continuously monitors professionals under its supervision based on information sent on a regular basis (annual control and compliance reports, reporting data, declarations, etc.) or upon request (requests for additional information sent to intermediaries, interviews, etc.). The AMF also receives information about the activities of investment services providers authorised in France directly through other channels (AMF Épargne Info Service platform, monitoring tools, whistleblowers, exchanges of information with other regulators in France and abroad, etc.).

These monitoring actions can be:

- individual, in response to specific alerts or as part of the periodic coverage of regulated entities, calibrated according to a risk-based approach;
- thematic, in particular to ensure implementation of new regulations.

This ongoing monitoring is carried out by the Asset Management Directorate for management companies and distributors (investment services providers (ISPs) or FIAs) and by the Markets Directorate for market intermediaries.

The work of the monitoring teams uses a risk-based approach to determine, where necessary, the market participants and the scope of the inspections, which are carried out according to a procedure governed by law and by the AMF General Regulation.¹ Once the inspection has been completed, its findings are detailed in a report sent to the audited entity. In 2018 it is planned to conduct the inspection of about 60 entities². These have two objectives, each of which represents a roughly equal share of the inspections conducted:

- first, the regular inspection of large participants or those that present particular risks or have raised specific alerts,
- second, a thematic approach involving a sample of market participants to better understand a given activity or practice, assess the implementation of applicable rules or explore potential risks for investors or the market.

Feedback will be provided to the industry on the findings of these inspections. The supervision teams will, if necessary, recommend updates to existing policy and will share with market participants the lessons learned from the different supervisory actions performed throughout the year in order to clarify, if need be, the regulator's expectations towards regulated entities.

➤ A gradual approach to new regulations

Several years ago, the AMF adopted a gradual approach to supervising professionals' implementation of new regulations, with an initial focus on assistance and monitoring.

It will continue to take this approach in 2018, a year marked in particular by the entry into force of MiFID II and PRIIPs. Against this backdrop, the AMF intends to continue its efforts to support professionals in the first few months of 2018. It will, moreover, adopt a proportionate approach, with its supervisory actions taking into consideration the efforts institutions have made to comply and the ongoing issues of interpretation on certain topics.



SUPERVISORY PRIORITIES FOR 2018 **ASSET MANAGEMENT COMPANIES (AMCs)**

Five themes have been identified for management companies. These companies must also implement several new texts, in particular MiFID II and PRIIPs.

■ ASSET VALUATION

The valuation processes at management companies are a fundamental aspect of investor protection. The AIFM Directive introduced specific requirements with respect to independent valuation and to the justification and traceability of the methods used and valuations obtained. The regulator will seek, through its monitoring and its inspections, to assess the organisation implemented and the robustness and reliability of the procedures, as well as the internal control systems put in place.

■ SRI MANAGEMENT

In mid-December, the AMF published the second edition of its report on socially responsible investment (SRI), which highlights a number of observations about the information provided to investors on SRI and provides an initial assessment of management companies' implementation of the French law on Energy transition for green growth. The report also shows the growing importance of this segment in the French collective investment management industry. The regulator's objective in 2018 will be to supplement the work done when preparing the SRI report with additional monitoring and specific inspections to ensure that the information provided to investors is clear, accurate and not misleading.

¹ A recently updated Inspection Charter available on the AMF's website clarifies this legal framework.

² Controls of asset management companies, investment services providers (ISPs) and FIAs. This figure excludes the AMF's so-called "mass inspections" of FIAs, which number about 70 per year.

■ MANAGEMENT COMPANIES' OWN FUNDS

Own funds are a key indicator of the financial health and sustainability of the activity of asset management companies. Monitoring own funds levels and how they are invested is one of the checks performed by the regulator. In addition to compliance with own funds requirements, the investment of regulatory and surplus own funds must be subject to specific precautionary measures, which were clarified in 2016 in the AMF General Regulation and Position-Recommendation 2012-19, mainly to exclude investments that involve “speculative positions”.

Supervisory actions will aim to verify AMCs' procedures and their monitoring and control of minimum levels and of the management of own funds, and to verify and analyse how the funds are invested. A particular emphasis will be placed on analysing the adequacy of additional own funds required by the AIFM Directive.

■ EFFICIENT PORTFOLIO MANAGEMENT TECHNIQUES: PRACTICES FOR SECURITIES FINANCING TRANSACTIONS

A number of provisions in the AMF General Regulation, supplemented by the 2012 publication of ESMA's guidelines which have been incorporated into domestic law, govern the use of efficient portfolio management (EPM) techniques, in particular with regard to risk management, the breakdown of revenues arising from these transactions and the *ex ante* and *ex post* disclosure requirements. These regulations were clarified with the entry into force in 2017 of the Securities Financing Transactions Regulation (SFTR), which supplemented the information to be provided to investors.

In 2018, supervision will concern, in particular, the organisation of securities financing transactions (SFTs) implemented by the funds, the related controls and the information provided to investors.

■ STRESS TEST PRACTICES

In February of last year, the AMF published a guide to the use of stress tests as part of the risk management of asset management companies. The purpose of this guide was, among others, to facilitate the implementation of applicable regulatory provisions and provide a number of good practices that can be useful to management companies. In 2018, following on the discussions held in order to prepare this guide, the regulator will assess stress test practices of a broader population of management companies by analysing, for example, the inclusion of stress tests into their risk management policy and the scenarios used in liquidity stress testing.



SUPERVISORY PRIORITIES FOR 2018

MARKET INTERMEDIARIES

■ MIFID II: SUPPORT FOR AND MONITORING OF THE IMPLEMENTATION OF THE REPORTING, TRANSPARENCY AND MARKET STRUCTURE PROVISIONS

The entry into force of the Markets in Financial Instruments Directive on 3 January 2018 was a considerable challenge for market intermediaries. In 2018, the AMF will continue the efforts made in recent months to assist firms implement these new rules. The regulator will initially first on three areas at the centre of the market reform introduced by the directive:

- Reporting of transactions to the regulator: the completeness and quality of the reportings transmitted are crucial to the regulator's ability to perform its duties of detection of market abuse and supervision.

- Compliance with post-trade transparency requirements, with special attention paid to information on equity, bond and ETF transactions: this information, which is now more detailed for equities and completely new for bonds and ETFs, will help inform market participants' investment and execution decisions. Moreover, it will be used by ESMA to periodically calibrate the transparency requirements. Its completeness and quality are therefore critical to the orderly functioning of these markets.
- Compliance with the obligation to trade on organised and regulated trading venues for equities and certain derivatives and monitoring of transactions carried out on organised trading facilities (OTFs) and by systematic internalisers (SIs): in particular, the AMF will rely on transaction reporting to ensure that the transactions carried out over the counter do not conflict with the trading obligation and that the transactions carried out on OTFs and SIs comply with the applicable rules for these platforms.

■ MIFID II: BEST EXECUTION OBLIGATION

Implementation of the best execution principle as newly defined should help strengthen compliance with clients' interests when executing their orders.

The execution venue landscape will evolve significantly in the first few months of 2018, requiring high-quality data from and active monitoring by intermediaries so they can analyse the changes and gradually adjust their execution systems to this new environment. The AMF will observe these changes through both transaction reporting and its regular interviews with intermediaries.

The AMF will also continue to help professionals produce the new reports that will have to be published periodically.

■ EMIR REQUIREMENTS

Inspections of certain market participants will be carried out in 2018, using a risk-based approach, to verify their compliance with the requirements created by the European Market Infrastructure Regulation (EMIR), building on the work done with the industry in recent years. These inspections could focus, in particular, on the provisions relating to the reporting of transactions to trade repositories and to techniques for mitigating operational risk. The AMF will also continue to perform ongoing supervision and the changes considered in the context of the discussions around the EMIR review will be taken into account.

■ MARKET ABUSE

The effectiveness of the suspicious transaction and order reporting (STOR) systems remains a key focus of the fight against market abuse. The number of suspicious transaction reports sent to the regulator has increased steadily since 2014. The AMF will continue the actions it has been taking for several years, through monitoring, inspections or investigations, to verify institutions' compliance with the requirements set out in the Market Abuse Regulation and related texts (Delegated Regulation 2016/957 and ESMA Q&A 2016/1129).



SUPERVISORY PRIORITIES FOR 2018 **DISTRIBUTION (AMCs AND ISPs)**

■ MIFID II AND PRIIPS: ASSISTANCE FOR AND MONITORING OF THEIR IMPLEMENTATION

MiFID II contains a significant investor protection component requiring that distributors make substantial changes to their information systems and pay close attention to traceability.

As part of its efforts to assist firms in implementing the new rules, the AMF will pay specific attention to two themes:

- product governance: MiFID II contains new obligations relating to the identification of a target market and the distribution strategy. The AMF's goal being to prevent these new obligations from impeding open-architecture distribution, such requirements should allow participants to find the best way to distribute products to the right clients, including, where appropriate, for client portfolio diversification reasons.

- costs and charges: MiFID II introduces new requirements relating to the disclosure of costs and charges. The driving ambition behind these requirements is to improve transparency on costs, and they call on participants to perform more complex calculations than they did before by using forward-looking assumptions, where applicable.

The PRIIPs regulation introduces new obligations related to the pre-contractual disclosures to be provided to retail investors who invest in certain financial products. As is the case for the costs and charges disclosure requirements set out in MiFID II, this regulation raises important issues for market participants in terms of complexity and operational implementation.

With regard to these issues, the AMF will continue its actions to assist market participants in implementing these new rules.

■ IMPLEMENTATION OF NEW MIFID II INTERVENTION POWERS

As part of its investor protection remit, the AMF has been working for several years to warn of the risks associated with certain speculative financial contracts. The AMF welcomes the initiative from ESMA which, on 15 December 2017, issued a statement indicating that it is considering measures that aim in particular to:

- prohibit the marketing, distribution or sale to non-professional clients of binary options; and
- restrict the marketing, distribution or sale to non-professional clients of certain CFDs, including rolling spot forex.

Without prejudice to its actions in relation to unregulated participants and those operating under the free provision of services, the AMF will actively supervise the relevant stakeholders' implementation of the intervention measures that may be taken by ESMA at the European level and by the AMF at the national level. If necessary, targeted inspections will also be carried out in this area, in light of the significant investor protection challenges.

■ DISCRETIONARY MANAGEMENT

Although its share has decreased since 2013, discretionary management represents 46% of total assets under management for third parties, or more than EUR 1.6 trillion in 2016. This is a highly concentrated market, as the top five firms account for nearly 70% of gross assets under discretionary management. The AMF would like to explore the structure of this market more deeply, notably existing practices and potential risks in terms of investor protection. The themes analysed when performing monitoring and conducting inspections will include, in particular, the conformity of the management mandate (conformity of the model, procedures for updating mandates).

■ COLLECTION OF INFORMATION ABOUT CLIENTS' FINANCIAL KNOWLEDGE AND EXPERIENCE

A series of inspections conducted in 2017 revealed deficiencies in the collection of information about clients' financial knowledge and experience. In 2018, monitoring and inspections will be expanded to other financial institutions that market financial instruments to retail clients, and will focus on both the know-your-customer questionnaire templates and the procedures in effect. The analyses carried out will also help facilitate the implementation of new provisions set out in MiFID II in this area which further strengthen the requirements already applicable.

■ MAIN SUPERVISORY PRIORITIES OF THE AMF-ACPR JOINT UNIT

The AMF and the French prudential supervisory Authority (ACPR) are concentrating particular focus on vulnerable populations and on the prevention of mis-selling of banking, insurance and financial products. Following a focus on the relationships between protected adults and their insurance and financial institutions in 2017, in 2018 the Joint Unit will turn its focus to the elderly and will rely not only on academic research, but also on observations of institutions' practices.

The regulator will remain vigilant with regard to the placement by financial institutions of their own securities with retail clients. In the context of the development of resolution systems and the creation of new financial securities (non-preferred subordinated debt), supervisors are concerned that clients be adequately informed about the actual risks and possible conflicts of interest. The topic will be addressed in greater detail in 2018.



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