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TECHNICAL NOTE ON SUPERVISION OF LIQUIDITY RISK IN INVESTMENT FUNDS AND THE OVERSIGHT OF TRADING ACTIVITIES

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TECHNICAL NOTE

SUPERVISION OF LIQUIDITY RISK IN INVESTMENT FUNDS AND THE OVERSIGHT OF TRADING ACTIVITES

Prepared By
Monetary and Capital Markets Department

This Technical Note was prepared by IMF staff in the context of the Financial Sector Assessment Program in France. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP can be found at http://www.imf.org/external/np/fsap/fssa.aspx

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Glossary

ACPR	Autorité de Contrôle Prudentiel et de Résolution
AIF	Alternative Investment Fund
AIFMD	Alternative Investment Funds Management Directive
AMF	Autorité des Marchés Financiers
AUM	Assets Under Management
BoS	Board of Supervisors
CCP	Central Counterparty
CNAV	Constant Net Asset Value
ECB	European Central Bank
EMIR	European Market Infrastructure Regulation
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
FRA	Forward Rate Agreement
IFR	Investment Firm Regulation
HCSF	Haut Conseil de stabilité financière
IOSCO	International Organization of Securities Commissions
LMTs	Liquidity Management Tools
LVNAV	Low-Volatility Net Asset Value
MMF	Money Market Funds
MMFR	Money Market Fund Regulation
MTF	Multilateral Trading Facility
NAV	Net Asset Value
NBFI	Non-Bank Financial Intermediation
NCA	National Competent Authority
OTC	Over the Counter
OTF	Organized Trading Facility
SI	Systematic Internalizer
SPOT	Supervision des pratiques opérationnelle et thématique
UCITS	Undertakings for Collective Investment in Transferable Securities
UK	United Kingdom

EXECUTIVE SUMMARY[1]

Financial markets in France have evolved since the previous FSAP, particularly in respect of wholesale markets. France has attracted new types of trading activities and there is movement towards consolidation in the wholesale trading and asset management sectors. Such changes have often increased the complexity of markets within France, and in turn the complexity of supervision. At the same time, in some areas there has been a trend towards simplification and standardization in offerings, such as through Exchange Traded Funds (ETFs) and neo-brokers. There have also been significant regulatory changes, and the requirements for liquidity risk management within funds were changing at the time of the mission. The responsibilities of regulators have also grown, with new obligations to supervise against matters such as digital asset markets, sustainable finance, and digital operational resilience.

French authorities have responded well to these changes and supervisory approaches are high quality and effective, but constrained by the resources of the *Autorité des Marchés Financiers* (Financial Markets Authority, "AMF"). The AMF is a focused markets regulator deploying high quality supervisory methods. The authority has significantly invested in tools to embed data driven supervision, integrating and analyzing market data to improve its oversight, and inform supervisory priorities. This is supported by horizontal thematic supervision and traditional firm specific inspections, which result in a material number of enforcement actions in the context of European Union (EU) peers. The AMF has also invested resources towards financial stability and systemic risk monitoring. However, the AMF is increasingly constrained by limitations on resources. Resources are currently allocated in line with a risk-based approach but should be reviewed on a forward-looking basis, assessing supervisory capacity and needs. This should consider the increasingly complex environment and ensure that gaps in oversight do not emerge. This is particularly important in areas where there already has been increased complexity and change such as in the oversight of trading. Resources are also needed to further develop systems to continue the AMF's data-driven approach.

The AMF should continue to mitigate the risks of conflicts of interest that might arise from its governance arrangements. Although the AMF is an independent agency with an independent Board, membership is drawn from a range of public bodies and industry experts, and a government representative attends in a non-voting capacity. Authorities highlighted that this arrangement can bring benefits, through expertise and improved coordination of regulatory policy with the Government. The mission did not identify undue interference in the AMF's operational independence, but the arrangements can give rise to the risk of interference, real or

[1] This Technical Note has been prepared by Mr. James Roberts, Financial Sector Expert in the Monetary and Capital Markets Department of the IMF. The on-site work supporting the findings and conclusions was conducted in Paris during December 2024. The mission would like to thank all parties involved, in particular Ms. Kheira Benhami from the AMF for her work coordinating the AMF's input, and her technical input before and during the mission.

perceived. The AMF should continue to manage such risks and conflicts of interest that could arise.

The AMF rightly focuses its resources on markets and investor issues but should ensure that significant firms are subject to proactive supervision in respect of financial and operational resilience. Except for certain portfolio management companies, firms for which the AMF is the sole financial regulator do not carry out investment services and activities as defined in EU law. This can reduce the complexity of issues should the firm encounter financial or operational difficulties. Notwithstanding, some firms for which the AMF is the sole supervisor have significant presence in their market and are potentially dependent on other entities for their ongoing operation. The AMF should ensure that such significant firms are subject to proactive supervision in respect of financial and operational resilience, in line with a risk-based approach.

Inter-agency cooperation and supervision operates effectively but sometimes informally. Where investment firms are dual regulated by both the AMF and *Autorité de Contrôle Prudentiel et de Résolution* (Prudential Supervision and Resolution Authority, ACPR) the split of regulatory obligations are clear in both law and practice and understood by the regulated industry. Supervisory priorities are also clear, publicly disclosed, and are informed by economic research and industry input. Information sharing and coordination between regulators has increased since the previous FSAP but can be further formalized to ensure holistic supervisory oversight of dual regulated firms. There is a clear legal basis for cooperation, and practical arrangements could benefit from documentation and disclosure, in line with international practice. This should ensure that inter-agency cooperation arrangements facilitate timely response to market disruptions, and that no information silos arise that could limit holistic supervision.

The AMF's supervisory approach to managing liquidity risks in open-ended funds is proactive and should continue as incoming EU level changes amend requirements. Management of fund liquidity and redemption risks has been at the forefront of the supervisory approach, giving due consideration to policy tradeoffs and potential financial stability considerations. Supervisory mechanisms to improve the management of leverage, liquidity, and redemption risks in open-ended funds have driven early adoption while EU level requirements have been under development. The AMF's supervisory approach considers the effectiveness and economic incentives behind the application of different approaches, and which tools are likely be effective in different types of funds. The AMF's policy on liquidity management in open-ended funds has continued to develop over time, incorporating reflections from market events and changing international standards. It will change as a result of incoming EU level changes, and the AMF should continue to exercise its supervisory discretion in this area to minimize the risks of market-wide impacts of liquidity shocks.

The AMF has responded well to changes in trading activities and should continue to invest in supervision of market oversight and resilience. Markets and regulatory risks have changed since the previous FSAP, including a material increase in over the counter (OTC) trading, and in some markets a move away from continuous intra-day liquidity towards point-in-time liquidity concentration, for example in trading auctions. There have been recent changes to trading and clearing rules which can be complex and data intensive; however, the changes were not yet embedded at the time of the mission. The expected consolidation in the industry could also increase dependence on particular firms and infrastructure, heightening the need for testing of market resilience and understanding of key dependencies and interconnectedness. The AMF has upgraded its own market oversight systems, particularly from a market abuse perspective, and is utilizing the output of these systems to monitor changing trading patterns and emerging risks. Such developments heighten the need for the resilience testing in markets, ensuring that critical dependencies are understood, and that there are sufficient mechanisms in place to ensure continuity of trading in the case of disruption or outages.

Table 1. France: Key Recommendations on Supervision and Regulation or Trading Oversight and Fund Liquidity Risk

Recommendations	Timing[1]	Authorities
The AMF should ensure that there is appropriate supervision of the financial and operational resilience of firms on an ongoing basis, with a prioritization of significant institutions in line with a risk-based approach. (¶ 33, 34)	ST	AMF
The AMF and ACPR should more formally document their cooperation arrangements. (¶ 46, 47)	ST	AMF, ACPR
The AMF and ACPR should work together to ensure holistic supervisory oversight of jointly supervised firms, such as through joint-inspections, and that information silos do not limit supervision. (¶ 44, 45)	ST	AMF, ACPR
Authorities should put in place ongoing mapping of interdependencies and fragilities in markets to ensure that spillover effects of market events and disruptions are minimized where a critical firm or market operator cannot operate, including analysis of intra-day liquidity concentration and market data dependencies. Authorities should ensure that the division of responsibilities between the ACPR and AMF does not give rise to any gaps in oversight. (¶ 88, 89)	MT	AMF, ACPR
To avoid any perception of a potential conflict of interest and facilitate operationally independent functioning, the government should recuse itself from all supervisory decision-making committees at the ACPR and the AMF. (¶12, 13)	MT	Ministry of Economics and Finance
Ensure that the funding of the AMF provides adequate resourcing by conducting a bottom-up review of resources and needs, and developing a multiyear strategic workforce plan (both in terms of numbers and skills) (¶ 21, 22, 23, 85)	MT	AMF, Ministry of Economics and Finance

[1] I Immediate (within 1 year); ST Short Term (within 1-2 years); MT Medium Term (within 3−5 years).

INTRODUCTION

1. The 2019 FSAP of France assessed the regulation and supervision of investment services,[2] following a Detailed Assessment of Observance of the International Organization of Securities Commissions' (IOSCO) Objectives and Principles of Securities Regulation carried out in 2013.[3] The 2019 assessment took place during a time where significant changes were expected to take place in French markets, in part due to the introduction of new regulations, but also due to the changing EU market as the United Kingdom (UK) was in the process of exiting the EU. Since then, many of these changes have been embedded and have become a new normal for French and EU markets. The share of non-bank financial assets in France has remained relatively stable in recent years, compared to other jurisdictions, and is proportionally lower than the EU average.[4] Notwithstanding, this Technical Note considers areas where systemic and financial stability risk could emerge.

2. The Technical Note builds on previous FSAPs, focusing on institutional and supervisory arrangements and areas where there have been material changes in French markets and international standards which could relate to financial stability risks, namely the supervision of fund liquidity risk and the oversight of trading systems. The sectors are assessed separately but are interdependent, illustrated by asset managers representing 24 percent of the total balance of net "sellers" of CAC40 stocks in 2023.[5] This Technical Note is based on a desk review of material provided before the mission and on-site meetings with authorities and private sector stakeholders in France during December 2024. Supervisory files were presented by the AMF. In advance of the mission, authorities responded to a questionnaire issued by the IMF and provided data relating to French markets. The mission considered the information reviewed against prevailing international standards set by the IOSCO and the Financial Stability Board (FSB) where they relate to the matters assessed. It did not carry out an assessment against IOSCO's Objectives and Principles for Securities Regulation but considered and benchmarked against these principles where relevant. Given the changes that have taken place since the previous FSAPs, the Technical Note considers how the institutional and supervisory arrangements overseeing these activities have adapted.

3. France has long been a significant center of asset management activity, with a variety of asset classes and fund types available to cater to different investor bases. The main collective investment schemes are Undertakings for Collective Investment in Transferable Securities (UCITS) and Alternative Investment Funds (AIFs). UCITS funds are generally open-ended and marketed to retail investors, and account for the majority of funds in the EU. AIFs are generally

[2] IMF, France: Financial Sector Assessment Program-Technical Note-Select Topics in Financial Supervision and Oversight, October 2019

[3] IMF, France: Financial Sector Assessment Program—Detailed Assessment of Observance of IOSCO Objectives and Principles of Securities Regulation, July 2013

[4] FSB, Global Monitoring Report on Non-Bank Financial Intermediation; December 2024 (see page 54)

[5] AMF, Stock Market Drops: What are the characteristics, consequences, and possible causes of this phenomenon? November 2024

targeted to professional investors. France is one of the largest asset management centers in the EU, with a range of fund types with diversified holdings.

4. International work to enhance the liquidity management of open-ended funds has been significant since the previous FSAP, and France's MMF market is in the top three jurisdictions within the EU by assets under management (AUM). MMFs are generally low risk products but can transmit investors' liquidity shocks, as seen in the global "dash for cash" episode in March 2020. The AMF has produced public analysis of the impact of the 2020 event on French MMFs, highlighting the weighing of bank-issued securities sold to meet redemptions.[6] Outflows in France were lower during this period than other significant EU MMF jurisdictions, in part reflecting the different structure and types of MMFs (French MMFs being only Variable NAV, which are less exposed to risks of first mover advantage). The AMF has also carried out studies to assess the valuation methodologies of MMFs to avoid distorted volatility levels, and to assess funds with lower credit quality vs. peers and exposures to issuers not common in similar funds. Work on MMF volatility and fund liquidity mismatch well preceded the events of March 2020, for example the AMF published a study on MMF volatility in 2018.[7] This Technical Note also assesses the supervision of liquidity risk in the wider funds sector.

5. Trading activity in France has changed materially since the previous FSAP, with new types of investment firms and trading systems becoming embedded and relocating to France, which has become a key trading market within the EU. These changes are driven by a variety of factors and have not uniformly impacted French markets across asset classes. They have increased complexity within the regulatory and supervisory approach, particularly with an increase in more complex asset classes and instruments trading within the French regulatory purview. Forthcoming policy changes in respect of trading and clearing will also influence the supervisory approach. Although trading activities in France are not always the most significant in the EU by volumes, and trading in some markets is concentrated on trading venues based in other EU Member States, French markets are notably diverse. In part given these trends and changes, France is increasingly becoming a net exporter of financial services.[8]

6. EU level matters were not within the scope of the mission and EU level requirements were not assessed, but the EU ecosystem is critical to understanding French markets and their regulation. The use of passporting within the EU is fundamental to how financial services markets operate within France, closely integrating French markets within an EU ecosystem. Key legislative requirements such as the Markets in Financial Instruments Directive II (MiFID II) and changes to EU funds requirements to address liquidity risk direct how the matters within this note are approached in France. At the time of the mission there were renewed calls for an EU Capital Markets Union, and reports had been produced calling for central supervision by the European Securities and Markets

[6] AMF, Detailed Analysis of the Portfolios of French Money Market Funds During the Covid-19 Crisis in Early 2020, May 2021

[7] AMF, Study of the Volatility of French Money Market Funds, October 2018

[8] Bank of France, The drivers of growth and trade in financial services in France, accessed December 2024

Authority (ESMA). Formal proposals had not been issued. There is also an existing trend towards ESMA involvement in regulatory and supervisory matters, such as through ESMA issuing supervisory opinions. As such, while EU level matters are not assessed within this Technical Note, they are discussed throughout given their criticality to the supervision of the issues assessed.

7. The note assesses i) the institutional level supervisory arrangements for the oversight of the funds and trading sectors, including in systemic risk monitoring, ii) the approach to the supervision of liquidity and redemption risks in open-ended funds, and iii) the oversight of trading systems. Appendix 1 assesses the progress made against the relevant recommendations in the 2019 Technical Note on Select Topics in Financial Supervision and Oversight, and Appendix II provides background on the EU framework for regulating funds. French authorities, in particular the AMF, provided extensive and high-quality input and insight into the mission's work, before and during the on-site visit in December 2024. Industry representatives and stakeholders also committed time and provided further material which was valuable to the mission.

INSTITUTIONAL AND SUPERVISORY ARRANGEMENTS

A. The AMF's Governance Arrangements

8. The AMF was established in 2003 to regulate securities market participants and products within France. This includes market infrastructure, investment firms, trading venues, asset managers and listed companies. The authorization of regulated firms can vary between the AMF, ACPR and the Ministry of Economics and Finance, with the ACPR authorizing investment firms and trading venues operated by investment firms, and the Ministry of Economics and Finance authorizing operators of regulated markets. The AMF does not regulate banking and insurance activities, although it has responsibilities and oversight when banks and insurers carry out activities regulated by the AMF.

9. The AMF is an independent public body with objectives to safeguarding investments in financial products, ensure that investors receive appropriate information, and maintain orderly financial markets. The Authority is required to take account of financial stability objectives in the EU, which the AMF demonstrated is well established in their working practices. The Authority also hosts the AMF Ombudsman, providing free alternative dispute resolution for users of financial intermediaries in the securities sectors and companies that issue securities. The AMF has supervisory obligations in relation to the mitigation of financial crime, in respect of anti-money laundering, combatting the financing of terrorism, and financing of the proliferation of weapons of mass destruction. It has legal gateways for exchange of information domestically and internationally and has powers to enter into agreements with other bodies.

10. The AMF is led by the AMF's Board with a full time Chair and Secretary General. The Board of the AMF acts as the preeminent decision-making body and consists of sixteen members, the composition of which is specified under Article L. 621-2 of the Monetary and Financial Code. In addition, a representative of the Minister of Economics and Finance attends in a non-voting capacity. The Board consists of:

a) A Chairperson, appointed by decree of the President of the France;
b) A Member of the *Conseil d'Etat* (Council of State), appointed by the Vice-President of the *Conseil d'Etat*;
c) A Member of the *Cour de cassation* (Court of Cassation), appointed by the First President of the *Cour de cassation*;
d) A Magistrate from the *Cour des Comptes* (Court of Audit), appointed by the first president of the *Cour des Comptes*;
e) A Deputy Governor of the *Banque de France* (Bank of France), appointed by the Governor of the *Banque de France*;
f) The Chairman of the *Autorité des Normes Comptables* (Accounting Standards Authority);
g) Three members appointed by the President of the Senate, the President of the National Assembly, and the President of the Economic, Social and Environmental Council;
h) Six members appointed by the Minister for the Economy, Finance and Industrial and Digital Sovereignty;[9] and
i) A Representative of employee shareholders,[10] appointed by the Minister after consultation with trade unions.

The Chairperson is appointed for a non-renewable five-year term, and there are legal requirements prescribing gender parity in the appointments.

11. The Monetary and Financial Code similarly specifies the makeup of the Sanctions Committee, responsible for imposing sanctions, through Articles L. 621-15 and L. 621-17. The Sanctions Committee of twelve persons consists of:

a) Two members of the *Conseil d'Etat*;
b) Two members of the *Cour de cassation*;
c) Six members with financial and legal expertise; and
d) Two representatives of employees of investment service providers.

Members of the Sanctions Committee are appointed for five-year terms, renewable once, and there are legal requirements prescribing gender parity in the appointments.

12. This approach ensures broad representation of interested parties and brings expertise but can give rise to the risks of conflicts of interest and relies on the integrity of appointments and independence of governance arrangements in other bodies. Ex officio members of the Board can have had involvement in the AMF previously, for example a former Chair of the AMF currently sitting on the AMF's Board due to their new role in a separate body, and a member of the Sanctions Committee having previously been a member of the Board. The

[9] These members are drawn based on industry expertise following consultation with the AMF.

[10] Employees who own shares in their companies, who are often represented on the Boards of the company.

attendance of industry practitioners and a representative of the Minister heightens the need for measures to mitigate the risk of real or perceived undue interference with the regulator's operational independence. Such conflicts are to some extent mitigated by the imposition of term limits, and conflict of interest requirements both in the law and in the Board's operations. Authorities highlighted that the presence of the representative of the Minister can be helpful in practice, aiding consistency of decision-making for example in respect of regulatory rules. The mission did not assess the functioning of the AMF's Board, but notes that this approach amplifies the need to ensure ongoing strong governance and conflict of interest management.

13. The representative of the Minister of Economics and Finance can also trigger second deliberation of Board decisions, heightening the risks to the authority's operational independence, even though the board retains its final decision-making capacity. Under Article L. 621-3 of the Monetary and Financial Code the representative of the Ministry of Economics and Finance, who is a non-voting representative, can ask for a decision of the Board to be subject to a second deliberation, except in the case of sanctions. This is understood to be reserved for rule making powers, and the AMF highlighted that this has never happened in practice. Were such a request to be made the Board would not be obliged to change the original decision. However, this gives rise to the risk of real or perceived interference in the Board's operational independence, which is already present through the presence of the representative at Board meetings.

14. Recommendation: To avoid any perception of a potential conflict of interest and facilitate operationally independent functioning, the government should recuse itself from all supervisory decision-making committees at the ACPR and the AMF.

B. The AMF's Financial Resources

15. The AMF has its own resources and ability to set its budget, but the level of the budget is proposed by the Ministry of Economics and Finance for consideration and approval by the legislature. Each year the AMF assesses its resource need and enters into discussions with the Ministry, which ultimately determine the level of the budget proposal that is then put to the legislature for consideration. The proposal to the legislature is accompanied by a public report, explaining the reasons for any proposed budget increase. Regulatory fees are paid by regulated firms, but somewhat unusually are also considered as taxation in terms of legal basis. This gives rise to additional political considerations in budgetary planning that are relatively unusual for financial regulators. As an independent public authority, the number of employees of the AMF is also subject to a cap that is reviewed annually. In 2023 the AMF's revenue was €115.9 million with 515 employees. Fees payable to the AMF are specified in Article L. 621-5-3 of the Monetary and Financial Code, and Articles D. 621-27 to D. 621-30 specify the amounts and rates of these fees. Any revenues and fees in excess of the ceiling set by the legislature, including through the receipt of monies relating to financial penalties imposed on firms, are transmitted to the general government budget. In recent years this has amounted to around €15.5 million per year.

16. The 2013 and 2019 FSAPs made recommendations in respect of French financial authorities' budgets, headcount, and budget autonomy. Previous FSAPs made recommendations that the AMF and ACPR be given more freedom to determine their resource levels. A stable source of funding is essential to allow the regulator to plan ahead to ensure that it can exercise its powers and responsibilities, operationally independent from external influence. In response to previous recommendations, authorities explained that there are legal restraints preventing the AMF from being able to retain revenue in excess of its approved budget. At the time of the mission a proposal had been put to the legislature to consider an increase of the AMF's budget by 4-5 percent for the financial year commencing January 1, 2025. These additional resources are designated to address new responsibilities relating to the regulation of digital assets and digital operational resilience. However, at the time of the mission in December 2024 the proposal remained subject to legislative approval. If not adopted, the 2025 budget would remain flat on 2024 numbers.[11] Authorities highlighted that this was a material proposed increase relative to similar bodies, recognizing the resource needs of the AMF.

17. A 2024 report by the French Audit Court[12] was critical of the AMF's financial administration and internal governance, including the initiation of investment and projects without funding and prior assurances from government being in place. The report found that AMF cash reserves reduced from €54.4 million at end 2016 to €35 million end 2021, and €22 million end 2022, while nearly €20 million of investments had been committed for 2023 on technology and real estate expenditure. The report found that the financial position was unsustainable, and the AMF could have become insolvent if the government had not increased the amount of resources made available to it (by €2.5 million in 2023 and €6.5 million in 2024.). The report found examples of emergency recruitment freezes being imposed as the headcount exceeded the statutory ceiling, and the AMF being unable to meet its financial obligations, particularly in respect of the multiple IT projects being implemented. The report considered the level of information being provided to accompany budget requests to be insufficient and lacking dialogue with government. The report made recommendations in relation to internal organization, financial planning, and oversight.[13] The AMF accepted the recommendations, and at the time of the mission were in the process of implementation.

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[11] After the first mission the Finance Bill 2025 has been adopted, allowing the AMF an additional 25 FTE and budget increase around €5m.

[12] Cour des comptes, L'Autorité des marchés financiers, March 2024

[13] The report made eight recommendations, including:

a) Establish a multiyear staffing path consistent with the evolution of the AMF's missions.
b) Increase the use of specialized committees of the AMF College as provided for in the Monetary and Financial Code.
c) Clarify the respective roles of the president and the secretary general, particularly with regard to matters relating to support functions.
d) Authorize the Chairman of the AMF to grant delegations of authority.
e) Review the organizational chart of support functions, specifying the tasks and responsibilities of each directorate, particularly for the Legal Department, the Financial Department, and the IT Department.
f) Make the multiyear financial trajectory more reliable by integrating all investments.
g) Each year carry out a joint review of the AMF's budgetary position.
h) Reprioritize the projects carried out by the AMF concerning information systems.

18. The report also noted the growing number of mandates the AMF is being given, and complexity of the AMF's work, during a time which headcount and budget increases have remained moderate. The report analyzed headcount and budget increases over three years of the counterpart regulators in Germany, Italy, Luxembourg, Spain, and the Netherlands.[14] In the three years leading to December 31, 2021, the AMF's rate of headcount increase (0.2 percent) was the lowest rate in the sample, and the rate of budget increase (11 percent) placed third out of the six. Notwithstanding the increase, in absolute terms AMF's headcount and budget were both found to be the second lowest in the sample. As noted above, the AMF has significantly depleted historical reserves which have reduced year-on-year since 2017, having been used to meet demands above the agreed annual budget. In this context, the lack of available reserves could lead to a real term reduction in annual expenditure, subject to approval of budget increases.

19. The responsibilities of the AMF are continuing to grow. As well as market developments, increasing obligations are being placed on EU National Competent Authorities (NCA) through regulatory change, such as EU level developments to address the regulation of sustainable and digital finance. As well as the internal resources required to implement regulatory changes, these also bring complex data and systems obligations, driving resources into the technical development of policy and reporting requirements at domestic and EU level, typically through ESMA. Such contributions to EU level work are not always mandatory but are an important way to ensure that standards and the technical processes underpinning their implementation are informed by local supervisory experience and the technical functioning of local markets.

20. The scope and nature of firms subject to AMF supervision has also changed materially in terms of complexity as France has attracted new types of firms and markets. France has a long-established sector, such as asset management, where the AMF has built a depth of expertise over decades, discussed later in this report. Newer firms and markets in the trading of complex products and derivatives have grown significantly, which requires new expertise within regulatory authorities. Markets are becoming increasingly international with the concentration of key players. New systems have been implemented to strengthen market oversight but require maintenance and refinement to ensure they are equipped to monitor changing markets, with appropriately qualified staff to maintain and utilize them, which is critical to core functions such as market surveillance. This is discussed further in the trading oversight section of this Technical Note. In the three years leading to December 31, 2021, the time when firms were relocating from the UK, the AMF's headcount grew by only two full time employees. The mission did not find fundamental gaps in the AMF's oversight but did identify risks of limited resources to upgrade systems, a trend towards recruiting relatively junior staff, and key staffing dependencies.

21. The governance, headcount and budgetary constraints of the AMF continue to impose limitations on its operational agility to respond to the growing, increasingly complex, and heavily technology-driven developments in French financial markets. The significant and critical

[14] It is important to highlight that the regulatory mandates of these regulators are not directly comparable. Where regulators are responsible for the prudential and/or retail conduct supervision of banks, this would generally be expected to materially increase resource demand.

systems upgrades that the AMF has implemented in recent years should not be considered one-off costs, but rather strong starting points from which to build enhanced market oversight as markets change. This also necessitates the recruitment and retention of appropriately skilled staff to ensure systems are able to respond as market behavior develops. The staff turnover rate is around 11 percent, and there is increasing reliance on more junior staff with turnover at mid-levels. Benchmarking exercises highlight that employee salaries can be materially below market rates. The AMF applies its supervisory resources effectively and in line with a risk-based approach, yet resourcing constraints risk gaps emerging in oversight, including in areas discussed later in this Technical Note.[15]

22. The budgetary position and level should be reviewed from a bottom-up perspective in the short term, with a view to developing longer term budgetary planning. Opportunities to improve internal governance and financial planning that have been identified in the Audit Court report should be prioritized, taking account of the changes in French, European, and global financial services markets. As France has attracted increased banking and trading activity and fund markets continue to grow, budget reviews should ensure that the assessment of need properly assesses AMF's ability to continue to carry out its functions, considering the position of other markets regulators in leading European financial markets, and international counterparts. This includes ensuring that resources remain appropriate to supervise traditional sectors and regulatory issues which are changing and increasing in complexity, as well as to meet the requirements of new obligations on the AMF. Given that the annual budget requires political approval, multi-year plans cannot be formally imposed, but closer working between agencies to prioritize longer term planning should be embedded.

23. Recommendation: Ensure that the funding of the AMF provides adequate resourcing by conducting a bottom-up review of resources and needs and developing a multiyear strategic workforce plan (both in terms of numbers and skills).

C. The Supervision of Firms by the AMF

24. The AMF applies a risk-based supervisory framework, using supervisory alerts and risk assessments to inform the allocation of supervisory resources. It divides supervisory activities between individual actions in relation to a specific firm or event, and thematic actions which assess historical behavior and events, and the implementation of new regulations. These thematic actions are conducted by the Market Intermediaries and Infrastructure Supervision Directorate, by the Asset Management Directorate, and by the Inspections Directorate. In particular, the approach relies on *Supervision des Pratiques Opérationnelle et Thématique* (Supervision of Operational and Thematic Practices, SPOT) Inspections, which are shorter than conventional inspections and are fed back to

[15] Were aspects of the AMF's responsibilities centralized at EU level, such as post-trade oversight, this could free up elements of resource demand. However, this should not delay assessment of the AMF's resource need, and it is not currently clear that EU level supervision of certain cross-border activity would significantly reduce the need for NCA level oversight and input into EU level supervision.

the market to highlight good and bad practice.[16] There are separate teams carrying out investigations, which typically relate to investigating suspicion of market abuse.

25. The AMF incorporates industry and outside expertise through its Scientific Advisory Board and Consultative Commissions, chaired by members of the Board. The Scientific Advisory Board includes academics and provides input into risk and strategic matters, whereas the consultative commissions are more commonly used for industry input int the AMF's rule making. Industry stakeholders advised the mission that these are valuable touch points between the regulator and regulated sector, particularly in the development of regulatory requirements, and industry feedback is valued by the AMF. Both mechanisms for bringing external expertise and perspectives into the AMF are advantageous, particularly as French markets become more diversified and trading activity becomes more complex.

26. The supervisory approach is in part driven by the AMF's Risk Outlook and ESMA risk mapping, which are both published annually. The risks identified in the 2024 AMF Risk Outlook are summarized below. This is supported by an internal risk dashboard which informs supervisory priorities.

Table 2. France: Key Risks in the AMF's 2024 Risk Outlook

	Risk	Risk level and Outlook
Financial Stability	Risk of stock market repricing	Very high and upward
	Risk related to the adaptation to the new interest rate environment	High and upward
	Credit risk, refinancing risk, sustainability of the debt service burden	Very high and upward
Market organization and functioning	Risk of volatility increases, of sudden fluctuation in liquidity conditions, of large scale moves by investors from one asset class to another	High and upward
	Risks to the functioning of markets and post-trade infrastructures	High and flat
Financing of the economy	Risks to the profitability of financial institutions facing a contrasting environment	High and flat
	Risk of difficult access to financing for businesses, especially SMEs	High and upward

[16] Thematic inspection synthesis was published on AMF website on May 2021 regarding liquidity risk management on UCITS within context of a Common Supervisory Action coordinated by ESMA (https://www.amf-france.org/en/news-publications/publications/spot-inspection-campaigns/summary-amf-findings-context-esma-common-supervisory-action-liquidity-risk-management-ucits)

Table 2. France: Key Risks in the AMF's 2024 Risk Outlook (concluded)		
	Risk	**Risk level and Outlook**
Financing of the economy	Risk of difficult mobilization of funding for the energy transition	High and upward
	Risks to investor protection associated with inappropriate information on the risks of specific investments or distribution channels	Significant and flat

Source: AMF 2024 risk outlook, [1]summarized by IMF staff.

[1] AMF, 2024 Markets and Risk Outlook, June 2024

27. The AMF also publishes a summary of its planned supervisory activities annually. The 2024 Action Plan and Supervisory Priorities[17] sets out key priorities in asset management relating to investment restrictions, qualifications and training, sustainable finance, governance, and valuations of non-publicly listed assets. For intermediaries and market infrastructure, priorities relate to the quality of reporting data, algorithmic trading, involvement of compliance functions in employee conduct, market abuse and outsourcing governance. Although not listed in the 2024 supervisory priorities,[18] as in previous years, the AMF explained that fund liquidity mismatch, particularly in MMFs, remained a key priority.

28. The AMF publishes economic research on matters within its competency. Publications are designed to directly impact supervisory and policy priorities, and there have been numerous publications relevant to the matters discussed later in this note, such as the uptake of liquidity management tools by funds and approaches to measure liquidity in, and set transparency requirements for, corporate bonds. These are also published in English, reflecting the range of industry and policy audiences they intended to influence, within and outside of France. This also informs the AMF's internal risk mapping, identifying thematic and individual risks, which in turn shapes supervisory priorities.

29. Regulated firms are subject to supervisory tiering and categorization, informed by quantitative risk scoring, regulatory licenses and activities, and supervisory judgment. Tiering of a firm informs the intensity of supervision, with more regular meetings for firms who have a higher tier. Different approaches to tiering and categorization are taken in different sectors. This approach relies significantly on the quality of regulatory data, integrity of the authorization process, and the process of approval of the program of operations of investment firms. It results in some of the lowest tiered firms only interacting with the AMF on a reactive basis, such as off the back of a particular event relevant to that firm, or if the firm approaches the AMF, for example to amend its regulatory license.

[17] AMF, AMF Supervisory Priorities for 2024, January 2024

[18] The 2024 supervisory priorities focused more on valuation issues.

30. This approach to supervision allows for a risk-based allocation of the AMF's resources but relies on judgement and risk assessments. The largest trading banks in France can only have one or two full time employees as their AMF supervisor (those banks being also supervised by the ACPR and the ECB), and some smaller firms could go many years after initial authorization, potentially decades, without in-person supervisory interaction. The processes for authorization of fund management companies and for approval of the program of operations of investment firms that were assessed during the mission were robust, focused on requiring the firm to evidence ability to meet requirements on an ongoing basis. Notwithstanding, the requirements on and risks associated with firms can be wide-ranging, and sometimes there is significant delegation, outsourcing and reliance on group entities to ensure compliance with French provisions. The AMF has invested significantly in data and information systems in recent years which will help monitor issues that could emerge in smaller firms, such as leverage and liquidity issues. Particularly given supervisory resource limitations, it is critical that risk profiling is dynamic and accurate on an ongoing basis.

31. The AMF relies heavily on SPOT inspections, which combine on-site visits with desk-based review for a sample of around five firms, to assess their compliance with a particular matter of regulation. This is in addition to classic inspections which focus on an individual firm and assess a particular matter in more depth and could lead to a sanction if sufficient evidence of non-compliance is identified. SPOT inspections are typically carried out over four to five months, with recent themes including cybersecurity, portfolio management delegations, the application of regulation relating to short-term funding markets, regulatory reporting, and Environmental, Social and Governance related benchmarks. The focus of SPOT inspections is informed by internal risk monitoring and the insight of supervisors and decided by the Secretary General.

32. Investment firms are dual regulated by the AMF and ACPR, whereas other firms are solely regulated by the AMF, including for prudential purposes.[19] As a securities regulator the AMF's approach is rightly driven by market conduct supervision, while the ACPR focuses on prudential supervision and business continuity. The ACPR's role is discussed later. Firms which are solely supervised by the AMF are also subject to regulatory requirements related to own funds, although supervisory priority designed by AMF staff generally focusses on risk management in relation to the firm's business activities (e.g. asset management on behalf of third parties). Importantly, firms within the sole supervisory remit of the AMF are not authorized to trade on own account nor to hold client funds. Notwithstanding the lower prudential risks that such firms would ordinarily give rise to, supervisory responsibility is with the AMF who applied to prudential framework set forth by the AIFM and UCITS Directives.

[19] Investment firms carry out investment services and activities are defined in Annex 1 of Directive 2014/65/EU, known as MiFID II. Such firms are generally subject to the Investment Firm Regulation, and in France, generally authorized by the ACPR. In France, portfolio management companies who carry out UCITS or AIFMD activities are authorized and solely supervised by the AMF, including where they carry out certain MiFID investment services and activities. Such firms are only subject to Article 13 of the Investment Firm Regulation, which sets out a fixed overheads capital requirement, similar to the capital requirement in AIFMD and UCITS.

33. The AMF should ensure that the supervisory approach delivers appropriate financial and operational resilience supervision of firms under its sole supervisory remit including by focusing more on solvency issues. The focus on prudential supervision would not be expected to be as significant as for an investment firm dealing on own account or holding client funds, but could be more proactive for more significant firms. For example, there are firms within the AMF's sole supervision which manage tens of billions of Euros of assets and have complex delegation and outsourcing arrangements.[20] For these firms, financial distress could give rise to risks of disorderly exits from the market, or interconnectedness. Even firms which can appear to carry out bespoke and narrow activities with limited investor impact can sometimes have significant impacts on wider financial markets when they fail, for example through poor risk management and governance arrangement. The absence of group supervision for fund managers also allows the particular way a financial group is structured leading to differences in how it is supervised. [21] Currently supervision is more reactive, assessing regulatory returns, and the most recent SPOT inspection on regulatory capital was in 2018, reporting that 4.8 percent of asset management companies, generally smaller firms, had own funds deficiencies based on 2016 returns, which led to supervisory action.[22] The AMF acknowledges that this is not a key supervisory priority, explaining that the vast majority of asset management companies, including larger ones, have own funds materially in excess of the AIFM and UCITS Directive minimums. The financial and operational resilience of more significant firms within the AMF's sole supervisory remit should be supervised on a more proactive basis, ensuring that potential disruption resulting from a firm being unable to continue operating is assessed by supervisors, in line with a risk-based approach. The AMF noted that the incoming Digital and Operational Resilience Act will increase oversight of firms' activities in this respect.

34. Recommendation: For non-investment firms the AMF should ensure that there is appropriate supervision of the financial and operational resilience of firms on an ongoing basis, with a prioritization of significant institutions in line with a risk-based approach.

35. The AMF has a public Inspection Guide outlining how it carries out supervisory inspections,[23] and actively pursues enforcement action under the Financial and Monetary Code. Firms can be sanctioned with financial penalties up to €100 million or ten-times profits, and individuals can be subject to financial penalties up to €15 million or ten times the profit made, under Article L. 621-15 of the Financial and Monetary Code. These caps impose limitations on financial penalties compared to some large market regulators, particularly in the United States and UK. However, the AMF actively uses its enforcement powers. A significant volume of the AMF's published enforcement actions relates to market abuse, focused on misuse of information and

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[20] The mission met with fund managers solely supervised by the AMF who manage over €50bn.

[21] For example, a financial group may establish a MiFID investment firm prudentially supervised by the ACPR for their investment business but carry out the majority of their non-MiFID business under the sole supervision of the AMF, or elsewhere in the EU, through separate legal entities. Whereas if the firm carried out the same activities from a single legal entity, it would be supervised by the ACPR. Fund managers can also be established in one jurisdiction and manage funds in another, and vice versa.

[22] AMF, Summary of SPOT Inspections on Regulatory capital, November 2018

[23] AMF, AMF Inspection Guide, September 2021

market manipulation.[24] Over the previous five years there have been around ten sanction decisions per year, with roughly two thirds of these cases resulting in financial penalties under €1 million. There was one significant financial penalty of €93 million, with the remainder below €40 million. Compared to EU peers the AMF imposes relatively high sanctions in terms of number and financial penalties, in part reflecting the supervisory approach focused on investigations and relative size of the French market. The AMF imposed the highest aggregate amount of financial penalties in the EU (based on a review of powers available under key pieces of EU securities legislation) in 2023.[25] Given the rapid changes in markets since the previous FSAP, effectiveness of the levels of financial penalties imposed should be kept under review.

36. The AMF's approach to enforcement has developed since the last FSAP to give greater focus to remedial action. The approach to enforcement has historically focused on specific breaches and, where non-compliance is identified, addressing the findings with the use of an individual enforcement tool. For example, this could be a warning letter issued to the firm either publicly or privately, or for more significant findings escalating to a public fine. This did not always incorporate a remediation plan with follow up supervisory action to ensure that the underlying non-compliance had been remediated. AMF staff advise that this is now incorporated into all enforcement actions, with later supervisory follow-up to validate the remediation. This is an important part of enforcement, and the AMF should continue to validate that when non-compliance is identified, follow-up supervisory action is taken to ensure that it is remediated.

37. The AMF has invested significantly in becoming a data-led regulator, having grown its staff expertise in data analysis and systems. The AMF's ICData program includes internal facing systems to analyze and present regulatory data for use by analysts and supervisors, but also the publication of market data and dashboards such as in respect of blacklists and short selling data. Other systems development have tools to improve connections with the regulated industry. These include the development of an extranet where asset managers can drop files for regulatory approval, a similar system for issuers, and systems to analyze prospectuses. Investment has also been made in systems to enhance market oversight. A significant number of staff roles within the Asset Management Directorate and Data and Markets Directorate relate specifically to the analysis of data, on both a market oversight and firm-specific basis, to identify emerging issues and inform the supervisory approach. Particularly given limitations on regulatory resources and increasing complexity within the supervised markets, data-driven supervision is essential to fulfil the AMF's functions.

[24] Enforcement action regarding market abuse is generally taken under the Market Abuse Regulation, concerning insider dealing, unlawful disclosure of information, and market manipulation. Market abuse oversight is not assessed in this Technical Note.

[25] ESMA, Report: Sanctions and measures imposed under AIFMD, BMR, CSDR, ECSPR, EMIR, MAR, MiCA, MiFID II - MiFIR, PR, SFTR and UCITS in 2023, October 2024

D. AMF's Involvement in Systemic Risk Framework

38. The AMF does not have a primary objective for systemic risk mitigation, which is not uncommon for a securities regulator, but does have a mandate to take account of financial stability objectives of the EU, to which it proactively invests resources. Since the previous FSAP the AMF has become more closely integrated with other French authorities in systemic risk monitoring, contributing to wider financial stability reports and producing its own economic research on emerging and persistent issues within its remit, as well as a Risk Outlook which influences supervisory priorities. The Analysis, Strategy and Risk Division analyzes emerging and persistent systemic risks within the AMF's oversight, and maintains an internal risk heatmap which informs supervisory actions. This spans the AMF's conduct and investor protection objectives as well as systemic risk monitoring. Operational directorates are brought together three times a year with a representative from the Bank of France to share information on potential risks. The Chair of the AMF is also a member of the *Haut Conseil de stabilité financière* (High Council for Financial Stability, HCSF), which acts as the macroprudential coordination body in France. This brings together senior figures in the French agencies responsible for financial sector oversight, and is chaired by the Minister, who acts as president of the HCSF. It also has three external members who act as advisors to the body.

39. The AMF carries out assessments of systemic risk in the sectors it supervises, taking account of ESMA guidelines.[26] The AMF assesses more leveraged alternative investment funds, and coordinates with EU authorities to assess leverage risk at an EU level. The AMF has carried out thematic studies to assess systemic risk in conjunction with authorities such as the Bank of France, for example having assessed potential spillover risks within real estate funds in 2023, leading to the AMF working with funds to ensure accurate and transparent valuations, resulting in a lowering of valuations within the sector.[27] As real estate funds are generally closed-ended, notwithstanding pressures applied through higher interest rates and a decline in commercial real estate values, French authorities considered spillover risks from real-estate funds to be limited at the time of the mission. This is monitored by the AMF, with supervisory actions requiring revaluations and liquidity management interventions. The AMF also contributes to regional international risk monitoring through ESMA, the European Systemic Risk Board (ESRB), and the IOSCO. More generally, the AMF contributes significant resources to regional and international bodies, in particular through the regulation-making powers of ESMA. At the time of the mission in December 2024 the AMF had around 70-80 of its employees involved in working groups of various such organizations. The AMF explained that it sees this as a critical part of its role, ensuring that the development of policy takes account of the nature of, and risks within, French markets.

40. In addition to involvement in the HCSF the AMF has developed a crisis management unit which can be activated when needed. This is chaired by the Chair and/or Secretary General of

[26] For example, ESMA's Guidelines On Article 25 of Directive 2022/61/EU, June 2021

[27] AMF, Detailed analysis of the portfolios of French money market funds during the COVID-19 crisis in early 2020, May 2021

the AMF and there are standing members of senior AMF employees with the ability to invite others depending on the nature of the issue. Some systems are already established to require reporting in a crisis, such as daily transmission to the AMF of fund subscription and redemption data by depositaries and centralizing agents, and breaches of investment rules by collective investment schemes. Crisis management arrangements requiring cooperation with other agencies function on an operational level, although these arrangements are not formally documented. These arrangements could benefit from some level of documentation, with key contacts, action plans, and authorities being documented.

E. The Role of Autorité de Contrôle Prudentiel et de Résolution

41. For investment firms the division of regulatory responsibilities is split between the AMF and ACPR. Firms carrying out activities under Directive 2014/65/EU (Markets in Financial Instruments Directive, known as MiFID II) and Regulation 600/2014 (Markets in Financial Instruments Regulation, known as MiFIR), collectively referred to as the MiFID II package, are authorized by the ACPR. These firms are also subject to Regulation 2019/2033 (Investment Firm Regulation, known as IFR), which sets out the prudential requirements applicable to investment firms subject to MiFID II, known as MiFID investment firms. For these firms, the ACPR is the lead regulator, with the sole power to authorize and withdraw licenses from firms. This is different to other firms within the AMF's oversight, including managers of UCITS and AIFs, for whom the AMF is the lead regulator and powers to grant and withdraw licenses are reserved to the AMF Board, with no supervisory involvement from the ACPR.

42. The dual supervision of investment firms in France is historical, pre-dating changes such as the IFR. Dual supervision models are not uncommon in financial regulation, for example the responsibility for prudential and conduct regulation of banks being assigned to different institutions. However, it is less common for investment firms except when they are considered to be sizable dealers which operate in ways similar to banks. The mission did not identify inherent deficiencies in this model, and the current approach to separate firms based on regulatory licenses is clear. However, it is important that regulatory classifications are not overly relied on to categorize potential risks and the resulting division of regulated firms is subject to ongoing scrutiny. The population of firms supervised by the ACPR should remain commensurate with the ACPR's objectives, ensuring that there are not individual firms or sectors which would more appropriately be supervised solely by the AMF, or firms and pockets of prudential risk which should be supervised by the ACPR.

43. The AMF and ACPR coordinate in respect of key supervisory actions and significant firms. There is a regular exchange of information between the ACPR and AMF, permitted through Article L. 631-1 of the Monetary and Financial Code. ACPR control teams and AMF supervisory and inspection teams coordinate in particular through regular meetings between the authorities, known as the "RAF" (*Réunion des Autorités Financières*). Information, including regulatory reporting, is not shared on an automated basis but rather in respect of specific alerts, issues, or matters of shared interest. Coordination has increased since the last FSAP, with documents such as prudential Supervisory Review and Evaluation Process (SREP) reports recently starting to be shared with the

AMF by the ACPR. For higher rated investment firms under the AMF's supervisory approach, the AMF supervisory team participates in the annual meeting organized by the ACPR. For French Securities Based Swaps Dealers (SBSD),[28] prudential aspects under the European Central Bank's (ECB) oversight and conduct issues are jointly discussed during quarterly calls with supervisory counterparts in the United States, involving both AMF and ECB representatives. The AMF is also informed about the main results of the annual SREP conducted by the ECB for these SBSDs.

44. The differing mandates of the regulators and regulated industry appear clear to the regulators and the regulated industry, and while progress has been made from previous FSAPs opportunities for closer supervisory actions remain.[29] In particular, the risk management and governance of a firm is relevant to the objectives of both regulators, as are the processes that would be required for a firm to exit the market. Although the perspectives and interests of the ACPR and AMF would be different and therefore overlap in supervision should be minimized, common understanding in these areas, potentially including joint inspections, would benefit the supervisory insight of both institutions. For example, IOSCO work on operational resilience of trading venues, which in France are supervised by both the AMF and ACPR, would be relevant to both regulators,[30] and the AMF could have valuable input into the business continuity planning of banks or investment firms supervised by the ACPR. Currently, despite closer working to ensure holistic supervisory oversight being a recommendation of the 2019 FSAP, joint working on such matters is limited and joint inspections are uncommon.

45. Recommendation: The AMF and ACPR should work together to ensure holistic supervisory oversight of jointly supervised firms, such as through joint-inspections, and that information silos do not limit supervision.

46. The legal basis for cooperation between authorities is clear and working level cooperation mechanisms are well established, but procedures are not formally documented. For example, there is not a Memorandum of Understanding between the two authorities outlining their approach to supervising jointly regulated firms, and the operational level approach is not documented. This is relatively unusual for jurisdictions where supervision of firms is split between two institutionally separate regulators, particularly in advanced markets. Both regulators highlighted the progress made since the previous FSAP, and that cooperation and information sharing is working well in practice. The formalization of such arrangements should not become overly prescriptive, but rather build on the positive cooperation arrangements that are taking place already, such as the RAF, sharing SREP outputs, and AMF attending ACPR annual supervisory meetings. The agreement and publication of high-level arrangements can help ensure that expectations,

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[28] French dealers subject to regulation in the United States of America.

[29] The mission team met with larger players within the financial sector, including asset managers managing a wide range of funds and asset types, a market operator of a regulated market and approved publication arrangement, a Multilateral Trading Facility, an Organized Trading Facility engaged in inter-dealer voice brokerage, a Systematic Internalizer within a bank, an audit firm, and French trade associations.

[30] IOSCO, Operational resilience of trading venues and market intermediaries during the COVID-19 pandemic & lessons for future disruptions, July 2022

arrangements and shared or differing goals are clear to all parties involved, including the regulated sector and other public stakeholders. Authorities explained that disagreements in respect of supervisory actions are very uncommon, yet given differing objectives the possibility remains. Documenting working agreements, including how to handle resolution mechanisms, can help limit the risk of confusion when complex issues or areas of disagreement arise.

47. Recommendation: The AMF and ACPR should more formally document their cooperation arrangements.

SUPERVISION OF LIQUIDITY RISK IN INVESTMENT FUNDS

A. Market Overview

48. The French fund and asset management market is diverse and sizable in the EU context and sometimes interlinked with the French bancassurance model, by investment funds distributed by banking networks, very often wrapped in insurance products. Asset managers in France generally cater to the domestic and EU market with a range of funds across different asset classes, including real estate and alternative investment funds, denominated in Euros. While some fund types such as hedge funds are more common in other EU Member States, this does not make France immune from spillover risks, and issues which could emerge outside of France. At the time of the mission, there was expected consolidation in the industry with some of the largest asset managers in France announcing potential merger plans. There has also been increasing competition from overseas asset managers, such as from the United States.

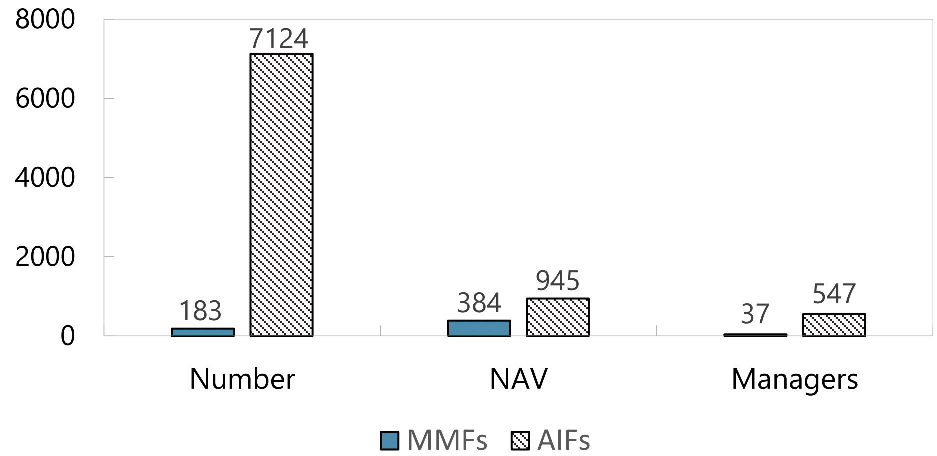
49. The supervision of asset management companies and funds is carried out by the Asset Management Directorate of the AMF. As discussed above, depending on the particular activities of a firm they may also be authorized and supervised by the ACPR. The AMF supervises around 700 management companies, with AUM around €4.6 trillion in 2022, up from €3.8 trillion in 2018. This in part reflects a trend towards collective portfolio management and an increase in ETFs and passive investing, with a growing trend towards ETFs in the EU, seeing an 89 percent rise in retail investors buying and selling ETFs in Q2 2024 vs. the previous year.[31] Types of funds by asset holdings are diverse, and notwithstanding net inflows into MMFs and bond funds, equity and multi-asset funds have seen redemption pressures. Given the cross-border nature of EU fund markets fund managers can be incorporated in one EU jurisdictions and manage funds in others, necessitating cross-border supervisory cooperation.

50. There are substantially more AIFs than MMFs in France, but the average size of MMFs is considerably larger with net asset value (NAV) of €384 billion split across 183 MMFs at the end of 2022. The global MMF market is predominately concentrated in the United States and the EU and China are significant players. France, Luxembourg and Ireland are the major EU domiciles.

[31] AMF, The activity of retail investors active in equities and ETFs increased further in Q2 2024, July 2024

French MMFs are largely held by domestic corporate and institutional investors, and around half of the managers in France actively manage MMFs, the other half being feeders or linked to employee savings plans.

Figure 1. French AIF and MMF Markets
(In Billions of EUR, December 2022)



Source: ESMA, IMF staff calculations

51. France is a top three EU MMF domicile but does not have Constant Net Asset Value (CNAV) or Limited Volatility Net Asset Value (LVNAV) MMFs, which are more dominant in the other key EU domiciles.[32] This in material respects lowers the risk profile of French MMFs vs. other EU markets, with subscriptions and redemptions being priced with granularity on a variable basis. Standard NAV MMFs are required to hold 7.5 percent of assets with residual maturity of one day, and 15 percent of with residual maturity of one week, with a weighted average maturity of 6 months. Recognizing the potential advantages of variable NAV MMFs, IOSCO standards have encouraged the transition from stable NAV towards variable NAV, and increased resilience and risk management where this is not workable.[33] This has been supported by reports from EU authorities (see Appendix II). In France these markets are also generally less cross-border in nature than other significant EU markets, although there has been an increasing trend across the asset management industry of managing funds and mandates on behalf of foreign clients, around €900 million in 2023.

B. Supervision of Liquidity and Redemption Risks

52. French authorities have been proactive in their approach to managing liquidity pressures within funds. Supervision is supported by a policy approach which has incorporated

[32] ESMA, Stress testing MMFs in the EU – First evidence from fund reporting, June 2023

[33] IOSCO, Policy Recommendations for Money Market Funds, October 2012

learning from market events, such as liquidity pressures at the beginning of the Covid-19 pandemic, and pressures in real-estate funds following interest rate increases throughout 2022 and 2023. The AMF in particular has strongly incentivized adoption of Liquidity Management Tools (LMTs). There has been limited published enforcement action in this area, in part reflecting changing requirements at EU level and supervisory focus on increasing adoption of LMTs to drive good practice in the industry. Where authorities have considered that liquidity mismatch and redemption risks in funds could have systemic risk implications these have been assessed in coordination with the Bank of France leading to analysis in financial stability reports, with the AMF contributing data, expertise, and insight.

53. The management of liquidity is integrated into the authorizations process, and ongoing supervision takes place in line with the wider AMF supervisory approach and analysis of regulatory reporting. Both authorization and supervision operate within the parameters of the EU framework, in particular through Directive 2009/65 (Units in Collective Investment Schemes Directive, known as UCITS Directive) and Directive 2011/61 (Alternative Investment Fund Managers Directive, known as AIFMD). Background on these directives is outlined in Appendix II. The AMF integrates data and regulatory reporting received from asset management companies, including daily NAV reporting of collective investment schemes, into a system to create automated alerts. These alerts are analyzed by AMF staff to identify more significant risks and inform supervisory actions, which AMF staff presented during the mission. In line with the AMF's wider supervisory approach, this can lead to SPOT or classic inspections, depending on the particular issues, or more timely market intervention. The AMF also published economic research on volatility in the funds sector, finding that 56 percent of UCITS funds have had daily redemption exceeding 5 percent at least once over a four-year time period.[34]

54. The AMF has developed clear supervisory expectations for the adoption of LMTs, within the parameters of the EU framework. AMF Instruction DOC-2017-05, published in 2017, outlined AMF calculation methodologies and expectations in respect of establishing gates. In February 2022 the AMF consulted on strengthening LMTs, and the policy was amended three times between 2022 and 2023. Changes incorporated alignment of conditions for anti-dilution mechanisms with swing pricing, requirements for funds that do not implement gates and anti-dilution tools to inform the AMF explaining the reasons for not implementing such tools and acknowledgement of the potential risks of not doing so, stress testing requirements, and prospectus disclosure requirements. Having found low uptake of LMTs, in part due to industry concerns around investor reactions, the AMF introduced a transitional period until December 31, 2023.

55. The approach to incentivizing LMTs has significantly increased uptake. The AMF estimates that 66 percent of retail opened-ended collective investment scheme AUM are equipped with gates and 45 percent with swing pricing. The adoption in MMFs is understood to be significantly lower, whereas the adoption of gates in AIFs is understood to be significantly higher, approaching 100 percent for the most commonly marketed funds. The AMF's monitoring has been

[34] AMF, Monitoring the adoption of liquidity management tools by French funds, November 2024

supported by a bespoke tool developed by the AMF and Bank of France that automatically reads fund prospectuses to identify whether LMTs are disclosed and stated to be incorporated into the funds. This is further complemented by an AMF tool which detects potentially abnormal variations in funds NAVs, and unusual patterns in subscriptions and redemptions. This proactive supervisory action while EU regulations were under development is commendable.

56. UCITS managers and AIFMs are also subject to leverage requirements. UCITS are limited to 100% leverage of NAV, and managers are required to manage and monitor positions and their potential impact on the overall risk profile of the portfolio, and opportunities for leverage are limited by the which are eligible to be held within UCITs funds being prescribed in legislation. Leverage requirements in AIFMD are more developed given the nature of AIFM assets, and additional leverage limits can be applied by NCAs under Article 25 of AIFMD. The AMF has not imposed additional leverage limits under Article 25 and takes an *ex ante* approach to impose limits in fund authorization, with limits prescribed for certain AIFs through Article R214-36-1 of the Monetary and Financial Code. Notwithstanding, other EU jurisdictions with different markets have taken action to impose additional limits, and this option remains available to the AMF.

57. Regulatory reporting can be at EU or national level and is not fully harmonized across different types of investment funds. Core reporting for AIFs and MMFs is prescribed at EU level. Recent changes through Directive (EU) 2024/927 introduce an EU reporting framework for UCITS, which has not previously been in place, although this reporting framework is not expected to take effect until 2027. This is expected to improve data quality and support cross-border coordinated actions with other regulators, particularly within the EU. The AMF requires a range of information to be reported to it by fund market participants, for different regulatory purposes. This includes detailed annual reporting of activities, managers, assets and strategies, and managers are required to submit Annual Control Report (known as the RAC), and an Annual Disclosure Sheet (known as the FRA) returns annually. Quarterly reporting is required regarding ratio breaches and compensation paid to unitholders by French management companies and funds managed by foreign managers. These reports are in addition to EU level reporting and are not exhaustive. The quality of these reports has been the target of two completed SPOT inspections,[35] and an additional inspection was anticipated during 2025.[36] Where legally permissible, the AMF would benefit from accessing further portfolio level statistics held by the central bank, which is not systematically shared currently.

58. French authorities have also implemented a system to require daily reporting of ratio breaches and subscription and redemption from depositaries and centralizing agents, which can be activated by the AMF when there are market stresses. This enables proactive monitoring of emerging issues, facilitating early intervention by authorities. Such tools and reporting

[35] These inspections respectively focused upon FRA-RAC in 2023 (https://www.amf-france.org/en/news-publications/publications/spot-inspection-campaigns/summary-spot-inspections-regarding-process-producing-checking-and-transmitting-regulatory-reports) and on reporting dedicated to AIFs and MMFs in 2024 (https://www.amf-france.org/en/news-publications/news-releases/amf-news-releases/amf-publishes-findings-new-series-spot-inspections-quality-regulatory-reporting-data).

[36] This inspection targets quarterly reporting regarding ratio breaches and compensation paid to unitholders by French management companies.

arrangements strengthen supervisory oversight, and having a system in place to acquire daily reporting from depositories is a well targeted tool to give supervisors high quality information about liquidity stresses as they start to emerge, particularly given the rapidly evolving nature of liquidity issues, which can be amplified by the liquidity management and subscription and redemption policies of certain fund structures. Supervisory work has relied on such tools to identify risks, leading to thematic work through a number of SPOT and firm specific inspections.

59. The AMF continues to reiterate its expectations in respect of LMTs, in particular to ensure that the tools adopted can be relied on and will achieve their goals when applied. In November 2024, the AMF published a report titled Monitoring of the Adoption of Liquidity Management Tools by French Funds, reiterating the supervisory expectations such as in respect of gate thresholds against the frequency of the NAV, and potential calculation methodologies ranging for five percent gate threshold for daily NAV calculation to 20percent for monthly NAV calculation. The report highlights a range of adoptions across the broad funds sector, which is set against the backdrop of developing EU requirements. It continues to emphasize the need for clear justification and disclosure of the particular approach a fund takes, building on the comply or explain approach in advance of EU level regulatory changes.

60. Amendments to UCITS and AIFMD agreed in 2023 amended the EU regulatory approach to liquidity management measures and will impact the AMF's approach and its supervisory powers. These changes require open ended AIFs to self-select two LMTs from a set of options including redemption gates, notice periods, swing pricing, anti-dilution levies, redemption in kind, redemption fees, and dual pricing. It also allows the introduction of side pockets or suspension of subscription or redemption orders by the manager in exceptional circumstances. ESMA published a consultation paper on these measures in July 2024, considering detailed technical implementation, taking account of ongoing IOSCO work. The amendments to AIFMD have also introduced requirements on lending by AIFs, requiring that where AIFs originate loans, taking account of the exposure of the AIF and its NAV, this is limited to 175 percent for open ended funds, and 300 percent for closed ended funds. Changes also introduce credit risk management and monitoring policies, diversification requirements, and 5 percent retention requirements where the AIF distributes a loan which it has originated to third parties. The changes further limit strategies to originate loans for the sole purpose of distributing to third parties.

61. Notwithstanding changes at EU level, the AMF should continue to proactively monitor and supervise the implementation of LMTs, in particular in MMFs, and ensure that the principles of international standards are embedded in their supervisory approach. The AMF's supervisory and authorization approach will need to shift to ensure adherence to these new requirements and the EU framework leaves limited room for national discretion. The AMF should continue to ensure that liquidity management tools remain appropriate in the absence of a prescriptive approach to require funds to apply particular tools. Although the AMF does have the formal legal power to suspend subscriptions and redemptions for financial stability purposes under Articles L. 621-13-2 and L. 621-13-3 of the French Monetary and Financial Code, its current approach is helpful to ensure intervention ahead of this more severe backstop. The AMF should continue to develop tools to be able to monitor and intervene to the extent allowed by the legal framework. As the AMF recognizes, the effectiveness of some tools does not depend on the fund and manager alone, but also requires changes in the wider eco-system, such as ensuring that depositories are able to process and calculate valuations and fees in the necessary time and manner, for example for anti-dilution levies. In particular, given the AMF's material expertise in this area, their continued engagement at EU and international policy level is advantageous.

OVERSIGHT OF TRADING SYSTEMS

A. Developments Since 2019

62. **France is a financial hub for European markets, and the majority of non-European Economic Area (EEA) shares traded in the EU trade on French markets.**[37] Trading venues may be established in France and have members and clients based across the EU. Users of French markets include third country headquartered banks who operate in European markets, particularly from the United States. Trading venues are regulated under Article L. 420-1 and subsequent of the Financial and Monetary Code, in accordance with the provisions of MiFID II.

63. **Trading in France has grown significantly since the UK's withdrawal from the EU.** Between 2019/2020 and 2021/2022 Multilateral Trading Facility (MTF) volumes multiplied by 121, from €11.6 billion to €1.4 trillion.[38] By the nature of the then largest financial market in the EU withdrawing from the block there have been significant changes in European markets. Markets have broadly continued to function. There have been disruptions, such as the challenges imposed by conflicting trading mandates in the EU and UK, discussed later in this section. Much of the response to these challenges has taken place at EU level, which French authorities were heavily involved in to ensure smooth legal and operational transition. Domestically French authorities introduced measures to limit disruption including the allowance for grandfathering provisions for certain UK securities through Executive Order 2019 ‑ 75 of February 6, 2019. Overall, risks appear to have been managed well where possible and disruption has been limited and concentrated, rather than causing acute disruption.

64. **MiFID II defines trading venue activity more broadly than the traditional concept of trading interests interacting over a multilateral system.** In certain circumstances inter-dealer brokerage is defined as trading venue activity, and OTC bilateral trading whereby firms back trading through their own account can be treated as an eligible platform for certain requirements such as trading obligations in particular equities and derivative contracts. MiFID II allows limited room for national discretion in the regulation of trading activity. As such this section focuses on the changes in requirements and market developments in France, and the AMF's approach to oversight, particularly in respect of market resilience.

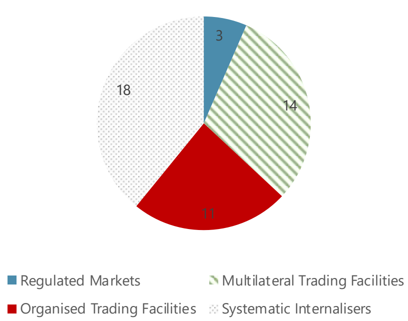
[37] ESMA, Evolution of EEA share market structure since MiFID II, October 2023

[38] ESMA, Evolution of EEA share market structure since MiFID II, October 2023

65. Trading in France is diversified by types of execution platforms and financial instrument, and interest rate swap markets are significant. A variety of trading firms, brokers and trading venues have relocated to France in order to preserve their presence in the EU and corresponding access to EU markets. France has over double the number of Organized Trading Facilities (OTF) as any other EU Member State, and the second highest number of Systematic Internalizers, representing the growth and diversity of trading activity in recent years. Although not the largest swaps market in the EU by notional outstanding France accounts for 30-40 percent of European Market Infrastructure Regulation (EMIR) reporting, highlighting the significant transaction volumes in French derivatives markets. Fixed income trading is split across different types of execution facilities, with around 30 percent taking place on electronic platforms, up from around 20 percent in 2015. French firms have also become increasingly exposed to commodity derivatives, with banks financing firms exposed to energy markets.

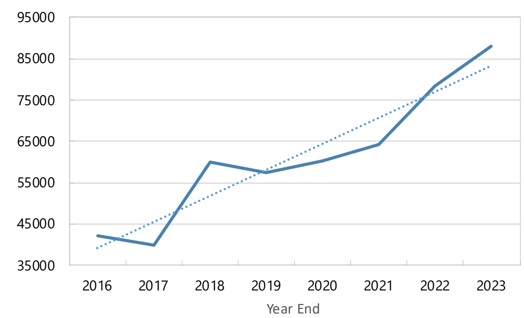
Figure 2. Distribution of Trading Activity

Types of Trading Venues (March 31, 2023)



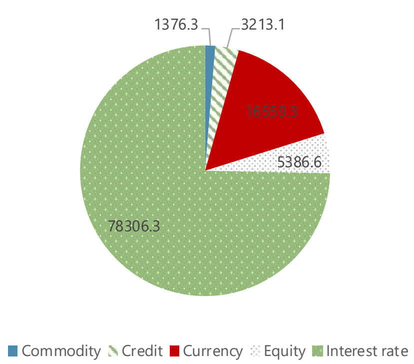
Source: ESMA

Notional Amount of OTC Derivatives
(In Billions of EUR, March 2023)



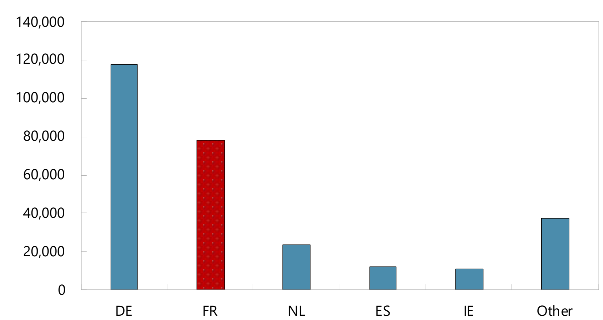
Source: ACPR

National Amount Outstandings by Underlying
(In Billions of EUR, March 2023)



Source: ESMA

Interest Rate Trading in the EU
(In Billions of EUR, March 2023)



Source: ESMA

66. There has been a significant increase in OTC activity in France since the UK left the EU, and a corresponding reduction in volumes on regulated trading venues. AMF research has shown the rate of OTC trading increasing from 25 percent in 2020 to 35 percent in 2021,[39] and this trend has continued. The AMF explains that this is partly due to increased intermediation chains and intra-group risk transfers which are not relevant for price discovery. However, the ongoing trend away from trading on venue is monitored by the AMF and should continue to be given close attention. OTC trading is important in many markets, particularly for large block trades, complex transactions, and derivative contracts which require an investment firm to deploy its balance sheet to facilitate a client trade. Yet trading venues by their nature pool liquidity in more standardized instruments and are central to price discovery which feeds data to all markets. Continuous liquidity on venues is also critical to the formulation of reference prices, indices, and benchmarks, which are vital across markets including through the asset management sector. The AMF showed how supervisory tools allow supervisors to look through Order Books on derivative trading venues, enabling more detailed analysis of liquidity balance between Request for Quote mechanisms and OTC trading. Such analysis should continue to inform policy development, recognizing that drivers of liquidity in markets can be complex to analyze.

67. Internationally, market events have highlighted potential vulnerabilities in markets. Some jurisdictions have seen increased volatility with more frequent activation of circuit breakers. In August 2024 the unwinding of leveraged trades impacted Yen carry trades, highlighting procyclicality risks in margin and deleveraging. The default of a family office on margin calls led to large losses by counterparties in 2021. Such events have highlighted the importance of overseeing resilience in financial markets and using regulatory data sets to identify critical dependencies and exposures early.

B. Regulatory and Supervisory Environment

68. Market operators of regulated markets are licensed by the Ministry of Economics and Finance on the recommendation of the AMF, and investment firms operating trading venues and Systematic Internalizers are authorized by the ACPR. Matters within the AMF's competency are assessed by the AMF, whose agreement is expected before the ACPR authorizes an investment firm. Given the relocation of activities from the UK, authorities have recent experience authorizing trading venues, with five new OTFs and four new MTFs operating in France since end-2018. A key consideration of French authorities when assessing the relocation of firms has been local substance of firms seeking to operate from France, ensuring that French operations are substantive and do not overly rely on functions in third countries outside of the EU. During this period, the AMF has applied significant effort into ensuring the relocation of regulated firms' resource including personnel to France, in conjunction with EU authorities such as the ECB and ESMA, who published an opinion of firm relocations including expectations on local substance.[40]

[39] AMF, 2022 Markets and Risk Outlook, June 2022

[40] ESMA, Opinion to support supervisory convergence in the area of investment firms in the context of the United Kingdom withdrawing from the European Union; July 2017

69. The ACPR and AMF should ensure that oversight remains robust and holistic, and that the dual-supervision model does not give rise to the risk of gaps in oversight. As discussed earlier, some reliance may have been taken from the relatively recent authorization of some firms, including new types of venues which the AMF has less traditional experience of, but they are by now well established. It is also important to ensure that these changes in markets are matched by breadth and depth of supervisory knowledge, in particular for less traditional markets and products in France. Notwithstanding the work of highly skilled staff from both the ACPR and AMF, as discussed earlier, during the key period when firms were relocating the AMF's headcount cap increased by only two full time employees.

70. In terms of instruments, MiFID II significantly expanded the scope of post-trade transparency. However, in 2023 only 32 French corporate bonds and 61 sovereign bonds were defined as liquid and therefore subject to immediate post-trade transparency provisions.[41] Further, despite MiFID II creating the concept of Consolidated Tape Providers to aggregate pre- and post-trade transparency data and volumes in order to provide a consolidated picture of EU trading activity, such entities have not emerged. The AMF has limited powers in respect of the transparency calculation methodology and policy requirements which are set at EU level, they have carried out supervisory work including through SPOT inspections to assess compliance and highlight best practice and are actively engaged in work at ESMA level to refine requirements.

71. MiFID II also introduced obligations for certain liquid equity instruments and swaps to be traded on trading venues, which have been impacted by the UK's withdrawal from the EU. At the time of exit from the EU, UK venues were subject to the same regulatory framework as EU venues, including the application of obligations to trade certain instruments on trading venues. After the UK's exit from the EU, the EU and UK did not recognize the other's trading venues as equivalent for the purpose of executing the trading obligations. For EU firms with branches in the UK this situation created conflicting obligations. However, both the EU and UK recognized Swap Execution Facilities in the United States.[42] As such, branches of EU firms in the UK would find themselves in breach of either EU or UK requirements by trading in-scope instruments on UK or EU trading venues, respectively, yet they were able to execute on Swap Execution Facilities in United States. To address this, derivative trading subject to these rules moved to Swap Execution Facilities, reducing on-venue trading of derivatives in the EU including France. At the time of the mission in December 2024, this conflict of rules remained in place. This arrangement cannot be amended by French authorities alone but gives rise to a heightened need to cooperate effectively with US authorities. Although not directly relating to the arrangements of the derivative trading obligation, since the previous FSAP, the AMF has entered into a Memorandum of Understanding with the Commodity Futures Trading Commission, ensuring a clear basis for cooperation and exchange of information.[43]

[41] AMF, Bond Transparency: How to calculate publication deferrals?, July 2024

[42] The EU later recognized Singapore based Market Operators in 2019.

[43] AMF, Memorandum of Understanding: AMF and CFTC, October 2023

Box 1. Equity and Derivative Trading Obligations

The Leaders' Statement following the G20 Pittsburgh Summit in 2009 called for all standardized derivative contracts to be traded on electronic trading platforms, where applicable, and traded through central counterparties (CCPs), with the reporting of OTC derivative contracts to trade repositories. In the EU, EMIR was a key part of implementing this commitment, with the introduction of mandatory central clearing and reporting to trade repositories. EMIR primarily focuses on post-trade and MiFID II concerns trading activity, so was the appropriate legal tool to incentivize the transfer of trading on venue.

This was introduced in the EU through an obligation to trade certain types of derivatives on trading venues by Article 28 of MiFIR. The specific instruments can vary and are published by ESMA. Once a class of derivative is subject to the clearing obligation under EMIR, ESMA is required to assess whether any of the derivatives should be subject to the trading obligation. The list has generally covered single currency fixed notional interest rate swaps and credit default swaps on European indices. The list is targeted at standardized swaps, and additional derivative trading takes place on venues for a range of reasons such as trades being negotiated off venue and executed on electronic platforms, and Forward Rate Agreements (FRAs).

A trading obligation for shares was created under Article 23 of MiFIR. This required investment firms to ensure that trading in shares admitted to trading on a regulated market, or traded on a trading venue, take place on a regulated market, MTF, Systematic Internalizer, or an equivalent third-country trading venue. Carve outs are available for certain transactions that are non-systematic, ad-hoc, irregular and infrequent, and which do not contribute to the price discovery process. This is defined in Regulatory Technical Standards developed by ESMA, and includes transactions such as fund transfers, collateral transferred for margin purposes, and securities financing transactions.

72. **In March 2024 a number of changes were made to MiFIR, known as the MiFIR Review.** This included the removal of the double volume cap, which limited the use of Negotiated Trade and Reference Price waivers in equity pre-trade transparency to certain percentages of total trading in an equity, to be replaced by a single seven percent volume cap concerning Reference Price exemptions. It also made changes to incentivize the development of an EU Consolidated Tape Provider including an opt-in for venues with less than one percent of EU trading. These developments, in particular amendments to incentivize the establishment of Consolidated Tape Providers and access to data at fair and reasonable cost, will be key to French trading activities and flows. An EU initiative known as the Distributed Ledger Technology Pilot Regime is also underway to allow firms to use a legal framework for the trading and settlement of certain crypto assets. At the time of the mission this was at an early stage. As firms start to explore these options French authorities will need to ensure that the mitigation of potential market integrity and financial stability risks are at the forefront of the supervisory approach.

73. **Material derivative clearing continues to take place in third country CCPs, including in the UK.** Temporary equivalence recognitions have been relied on which have remained central to the smooth operating of derivatives markets. At the time of the mission in December 2024, this

relied on a decision put in place in February 2022, and due to expire in June 30, 2025, in order to give time to "improve the attractiveness of clearing, to encourage infrastructure development, and to reform supervisory arrangements [which] were needed to build strong and attractive central clearing capacity in the EU in the years to come."[44] How this is addressed after June 30, 2025 will be critical to maintain stability in derivative markets, which as this Technical Note highlights are increasingly important in France. There could be acute market dislocation if the equivalence arrangement was not extended or alternative relief was not provided. The work involved in repapering, novation, and porting of clearing arrangements would be material, including through rearranging client cleaning chains. Such decisions are at EU level and their UK counterparts but given the criticality to the smooth functioning of derivative (and associated cash) markets, French authorities should engage with counterparts to ensure that continuity of clearing services is prioritized.[45]

74. Active account requirements have been introduced for EU firms to have activity on EU CCPs. On December 4, 2024, Regulation (EU) 2024/2987 and Directive (EU) 2024/2994, known as EMIR 3, were published in the Official Journal of the EU, introducing an active account requirement for certain firms to trade at least five trades per subcategory of class of derivatives on EU CCPs during defined reference periods, with detailed requirements to be developed by ESMA. The approach requires less activity to be transferred to EU CCPs than previous proposals, and so the impact on liquidity fragmentation due to reduced netting benefits and pools available for post-trade risk reduction services may be more limited than more prescriptive clearing requirements. Notwithstanding, given the presence of clearing members operating in France, authorities should monitor the compliance with and impact of these changes.

C. Oversight of Trading Activities

75. The authorization of investment firms, including those operating trading venues, is carried out by the ACPR in coordination with the AMF. The ACPR primarily assess financial and operational resilience (including IT resilience), and internal control, with the AMF assessing markets matters as well as organizational and conduct rules. The AMF's focus on resilience tends to be limited to aspects such as the use of circuit breakers and algorithmic trading. Trading venue rules are assessed at authorization, and any subsequent rule changes are subject to regulatory approval. Authorities presented authorization files, and the mission found working practices between the ACPR and AMF during the authorization process to be effective, driven by demonstrating ongoing ability for compliance with detailed EU rules. The number of investment firm authorizations was elevated around the time of the UK's exit from the EU, but new authorization requests are now smaller in number.

[44] European Commission, Capital Markets Union: Commission extends time-limited equivalence for UK central counterparties and launches consultation to expand central clearing activities in the EU, accessed December 2024

[45] After the mission, on 31 January 2025, the European Commission announced a three-year extension of equivalence for UK CCPS until 30 June 2028.

76. Authorization procedures were found to be effective, with the assessment procedure being clearly documented, applied, and grounded in legislation. In addition to EU requirements the authorization of investment firms considers compliance with the Decree of 3 November 2014, concerning internal control of entities in the banking, payment services and investors sector. This defines four key functions in investment firms, i) the heads of supervision, ii) periodic control, iii) compliance and iv) risk management. Authorities showed that this is a key requirement in ensuring strong governance, oversight and control through the authorization process, targeting independence of key functions within firms. Authorities shared examples of authorizations, highlighting recent challenges as substance requirements in respect of firms relocating from the UK, discussed earlier. In some cases, firms have been authorized but challenges remain in this area, which the team notes are a complex challenge given the interconnectedness of cross-border trading groups with centralized functions which are generally located outside of France.

77. The AMF has adapted its supervisory approach in response to market and regulatory changes, with a high level of coordination across the EU. The AMF takes targeted actions to improve standards in the industry and remediate non-compliance with regulatory requirements which can often be complex, and subject to interpretation when applied to different markets and practices. Supervisory actions are often coordinated with other key regulators. The AMF is well aware of the tensions that have contributed to unplanned outcomes, such as reductions in lit trading,[46] and while constrained by the regulatory policy environment of the EU, takes account of these considerations in its supervisory actions. The Authority is engaged at EU level and gives significant priority to measures to improve data and reporting quality, both in its policy work and directly with firms through its supervisory work.

78. Trading venues and Systematic Internalizers are supervised under a tiered supervision approach by the AMF and in accordance with the IFR by the ACPR. The AMF internally categorizes these types of firms through an internal rating system of investment firms using a range of metrics and supervisory judgement. The IFR has inbuilt metrics to bucket firms into different classes, representing their likely prudential risk, considering the resilience of and prudential risk posed by the investment firm itself, assessing recovery planning and interconnectedness. By their nature these approaches take a risk-based approach to supervision, incorporating quantitative factors and supervisory judgement. Approaches rely on accurate reporting of data, a thorough supervisory understanding of firms' business models, and the risks they pose to their client, counterparts, and the wider market.

79. The AMF's tiered supervision system was found to be effective, in line with a risk-based approach. The AMF presented the metrics used to categorize firms and the outputs of that categorization. Throughout the mission supervisory priorities, inspections and findings were presented and appeared to be well correlated with a risk-based approach to deploying the AMF's resources. The tiering approach informs the intensity and frequency of supervisory activity. Firms are

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[46] Lit trading refers to trading pools where bids and offers at which participants are willing to trade are continuously projected.

rated Tier 1 to 4, with Tier 1 firms receiving a minimum of 2 supervisory meetings a year, Tier 2 firms receiving a minimum of one supervisory meeting a year, Tier 3 firms having meetings where relevant, and Tier 4 firms being supervised reactively.[47] These categorizations are internal to the AMF and not shared with firms. This said, as noted earlier, this approach can lead to some lower rated firms not receiving proactive supervisory meetings. While not unusual for securities regulators with large markets, it heightens the importance of alert driven supervisory reporting and targeted surveys and thematic reviews.

80. The AMF's supervisory actions are driven significantly by MiFID II requirements. This includes involvement of ESMA given the cross-border nature of trading activities, with ESMA reviewing changes to trading venues' rules, which is a key control over trading venues which the AMF gives significant attention to. Supervisory actions can also take place on a coordinated basis across the EU through ESMA, with NCAs carrying out coordinated supervision of compliance with a particular regulatory requirement. Given the cross-border nature of trading venue activities, and users of trading venues being located in multiple jurisdictions, this is a helpful supervisory approach to ensure common application of, and compliance with, EU level rules. In a number of areas, the AMF is unable to act alone, such as in respect of certain market data matters where the provider of market data is located within another EU jurisdiction. Supervisory priorities relating to certain significant regulated markets are also shaped by supervisory colleges, which do not prevent the AMF from taking supervisory actions independently but encourage collective supervisory actions. The AMF presented supervisory cases where it acted interpedently, although given the cross-border nature of trading activity they often included cooperation with other authorities.

81. The AMF has given particular attention to the supervision of algorithmic trading, in conjunction with EU counterparts, particularly in respect of pre-trade controls. There are detailed rules overseeing the deployment of algorithmic trading activities, which are required to be notified to the AMF under Article 17 of MiFID II. Delegated Regulation 2017/584 sets out governance, organizational and continuity requirements for trading venues on which algorithmic trading takes place. Articles 18 and 48 of MiFID II requires written agreements to provide liquidity between investment firms providing market making activities on a trading venue and the trading venue, and systems to limit the ratio of orders to transactions in order to slow down order flow. The AMF reviews each trading venue's self-assessment of compliance with these procedures, including significant and unforeseen events that required remedial action. As well as coordinated action through ESMA, the AMF has put out investor warnings following market intelligence of poor behavior from particular firms. Current supervisory priorities also include the assessment of the use of discretion by OTFs, matching and execution systems, and complex product offerings. Particular priorities for Systematic Internalizers include data quality, market abuse, and algorithmic trading controls.

[47] These reflect minimum frequencies of supervisory interaction which may be materially more in reality, for example in response to market events and in respect of persistent supervisory matters.

82. The AMF also focusses on settlement efficiency, which has attracted heightened EU level focus following the Covid-19 pandemic. During the pandemic settlement fails rose significantly, and the AMF held daily meetings with firms to resolve. Daily margin data was also required from CCPs, working with EU counterparts with oversight of key EU CCPs. This issue has been given heightened focus at EU level, accompanied by a strategic drive towards T+1 settlement in the EU. In 2021 the European Commission launched a review of settlement finality, and at the time of the mission policy work was underway to improve timescales for allocations and confirmations, and the identify opportunities for improved automation of settlement process.

83. Similar to other regulated sectors the approach to supervision is significantly data-driven, relying on the AMF's systems and alerts, supplemented by thematic actions conducted by the Market Intermediaries and Infrastructure Supervision Directorate and by SPOT and firm-specific inspections. Given the relative concentration of significant firms in the trading sector supervision tends to be more intensive in respect of individual firms, with ongoing firm-specific supervision and firm-specific inspections. Supervisory actions have included matters under consideration at IOSCO, such as assessing controls and hedging practices in banks, and the use of circuit breakers on trading venues. Focus has also been given to order flow management in trading venues and Systematic Internalizers, particularly in OTFs and Systematic Internalizers where the firm can intervene to build a trade. Such supervisory activities are targeted and in line with the AMF's objectives and a risk-based approach. In part due to the relative concentration of the trading sector and tendency to act through ESMA and supervisory colleges, at the time of the mission relatively few SPOT inspections focused on the wholesale trading sector had been finalized compared to other sectors such as asset management. Key inspections have been into post-trade transparency for bonds, EMIR, record keeping, and market data, and a further inspection was underway at the time of the mission. Given the changes in markets, venues and trading since the previous FSAP are now relatively well embedded, SPOT inspections should be prioritized for this sector, both to set common understanding of best practice and to further enhance the AMF's understanding of newer markets. Where matters interact with matters within the ACPR's remit, actions could be taken in conjunction with the ACPR.

84. Since the previous FSAP the AMF has launched a market supervision platform known as ICY that has significantly improved oversight of trading. This integrates data from i) Approved Publication Arrangements which provide trade data, ii) Approved Reporting Mechanisms that facilitate transaction reporting and ii) direct transaction reporting by investment firms. It also incorporates transaction reporting made to other European NCAs as well as EMIR reporting from Trade Repositories. The platform enables the AMF to structure and analyze large volumes of order and transaction data including order and transaction data, such as trading order books and EMIR reporting data. The system utilizes algorithmic learning and artificial intelligence to minimize false positives and produce targeted alerts. This has reduced alerts to around 8,000 a year compared to around 20,000 under the previous tool. It also equips the AMF to monitor developing trends such as negative swap spreads. The AMF explained that it actively monitors the division of trading activities in France, including dark vs. lit and trends towards OTC trading. The ICY system provides significant insight into French markets and reflects a significant step in trading oversight. As with any system, it depends on the quality of the inputs and is therefore less effective where data is fragmented or incomplete, such as certain derivative regulatory reports, and where a trade can have multiple interlinkages and dependencies on other transactions, such as spread trades, swaps, and package transactions.[48] The alerts triggered in respect of derivative transactions are understood to be a very low percentage of the total alerts received.

85. It is critical that the AMF has sufficient resources to maintain, develop, and enhance its surveillance activities, both in terms of technological systems development and appropriately skilled employees. As discussed earlier, the AMF's funding and headcount has been constrained in recent years, and although this is expected to change, this is to address new obligations being placed on the AMF. The ICY system is also important to ensure that the AMF is equipped to review its surveillance and oversight capabilities on an ongoing basis, taking account of market changes and improving oversight of more complex markets and products that have become more frequently traded in France in recent years, since the commissioning of the existing system. However, some developments of the ICY have been postponed due to budgetary pressures. Such tools are primarily designed to oversee markets from a market abuser perspective. However, they also provide significant abilities to monitor developments in markets, including liquidity fragmentation and potential fragilities.

86. The AMF has also carried out supervisory activities on market resilience in areas such as circuit breakers and capacity limits and has conducted economic research into stock price volatility and corrections. This assessed the causes of volatility on French markets and whether they give cause for concern.[49] During 2023 the study identified two daily variations over 20 percent in the CAC40 which resulted from the publication of profit and growth warnings in quarterly results. The emergence of such single name volatility is not isolated to France, and such domestic level work to understand the causes of market events is important, with supervisory work being led by such analysis rather than a strictly compliance-based approach and should be continued. As a market regulator the AMF is highly focused on market conduct issues, drawing from the regulatory responsibilities within the AMF's remit and the division of responsibilities with the ACPR. This is reflected in the prevalence of market abuse enforcement actions that it carries out. The AMF should ensure that such matters are assessed from a holistic perspective, including to address potential fragilities and spillover effects, as well as impacts on investor protection angles such as price discovery and disclosure. This could benefit from joint supervisory work with the ACPR where appropriate, given the overlap with the ACPR's focus and expertise in business continuity and resilience.

[48] Notwithstanding the significant level of regulatory data received, there are quality limitations in part due to geographic limitations. For example, where trade involves a non-EU counterpart this may not be fully reflected in regulatory reports, which leads to a segmented view of markets, particularly in respect of derivatives.

[49] AMF, Stock Market Drops: What are the characteristics, consequences, and possible causes of this phenomenon? November 2024

87. The AMF has identified increasing concentration of liquidity in auctions in equity markets, publishing research in 2019.[50] The concentration of trading activity vs. continuous intra-day trading gives rise to price discovery issues if there is an outage. This can be amplified if used for benchmarks, reference prices, valuations, portfolio rebalancing, and embedded pricing in derivatives. The absence of fallback prices being available could risk voiding or embedding uncertainty into contracts and arrangements which rely on prices set on particular markets. Feedback from market participants suggested that there may be new auctions and dark pools being launched on trading venues, potentially further concentrating liquidity, which would increase the importance of understanding the potential wider market impact of outages. Work on the risks associated with concentration of liquidity in end of day auctions has been advanced by AMF research and EU level action through ESMA, assessment of the wider interdependencies as markets have changed has not been established.

88. Given increased liquidity tensions and increased market complexity, the AMF should ensure that it is assessing potential fragilities in market structure and arrangement on an ongoing basis. Trading outages and liquidity events have become more frequent in recent years, notwithstanding significant regulatory work domestically and internationally. Such matters can be analyzed from the perspective of risks to price formulation and transparency. It is also important to test whether there are critical dependencies on particular trading systems, such as through direct members or clients not having back-up arrangements, or less direct dependencies such as through funds taking reference prices from particular trading systems for portfolio rebalancing. Such testing and arrangements are sometimes embedded for more established markets and should be reviewed as trading behavior changes. Similarly, it is important to ensure that alternative markets continue to be available where there are outages, particularly where trading activity is concentrated, and consolidation of venues is taking place. Such monitoring is complex in all jurisdictions, potentially more so in the EU given the relatively fragmented trading infrastructure, but it is important to carry out such testing on a regular basis, particularly as markets and trading behavior changes.

89. Recommendation: Authorities should ensure ongoing mapping of interdependencies and fragilities in markets to ensure that spillover effects of market events and disruptions are minimized where a critical firm or market operator cannot operate, including analysis of intra-day liquidity concentration and market data dependencies. Authorities should ensure that the division of responsibilities between the ACPR and AMF does not give rise to any gaps in oversight.

[50] AMF, Growing importance of the closing auction in share trading volumes, October 2019

Appendix I. Actions Taken Since 2019 to Address Recommendations on Regulation and Supervision of Investment Services[1]

Recommendation	Action
The AMF should approach the ECB to agree an MoU on exchange of information and supervisory cooperation, using the template developed by European Securities and Markets Authority (ESMA) in 2016 as a starting point.	**Implemented** The AMF entered into an MOU with the ECB in August 2021.[2]
The supervisory authorities should continue to work closely with the Ministry of Finance with a view to ensuring that risks from Brexit are properly addressed in the legislative and regulatory framework.	**Implemented** This action was particularly relevant at the time of the 2019 FSAP, ahead of the UK's withdrawal from the EU which took place on 31 January 2020. French authorities have managed this process in a way to minimize avoidable disruption, including grandfathering provisions and working with EU authorities.
Both AMF and ACPR should be given more freedom to determine their resource levels	**Not implemented** This recommendation has not been implemented.
The Ministry of Finance should no longer sit on the Sanctions Committee of the ACPR. The AMF should also find a way to bring in appropriate technical expertise to its Sanctions Committee without having recourse to individuals who work for regulated entities.	**Partially implemented** The AMF Sanction Committee has conflict of interest provisions in place and the AMF has advised that CVs of members will be available on the website. The Sanctions Committee can draw on the expertise of AMF staff, but the constitution of the body has not changed, and arrangements have not changed.

[1] International Monetary Fund, France: Financial Sector Assessment Program-Technical Note-Select Topics in Financial Supervision and Oversight, October 2019

[2] ECB and AMF, Memorandum of Understanding on cooperation between the European Central Bank and the l des marchés financiers, August 2021

Recommendation	Action
The AMF and the ACPR should consider carrying out joint inspections of investment firms to allow for a holistic view of the entity from a prudential and conduct perspective.	**Partially implemented** The authorities work closely at authorization and have open communication channels and regular meetings. However authorities work quite separately in their supervisory work, and there is opportunity to deepen supervisory cooperation in key matters of shared competency, such as the risk management and control framework.
The ACPR should consider allocating additional resources to the on-site inspection of investment firms operating on a solo basis with a view to increasing the frequency of such inspections.	**Not implemented** The number of on-site inspections has not notably increased since the previous FSAP. It should be noted that this has been impacted by the Covid-19 pandemic, and there has been some increase since 2022. The implementation of IFR has required some larger firms to license as credit institutions, who would have been more likely to receive on-site inspections under the previous framework.

Appendix II. The Regulatory Framework for Investment Funds

1. French authorities such as the AMF are subject to the policy environment set by the EU as well as domestic requirements. EU Regulations apply directly across the EU, whereas EU Directives are required to be transposed into each Member State's laws before having effect in the relevant Member State. NCAs also implement and supervise in line with their national frameworks. As such, notwithstanding France's membership of the EU, elements of discretion in implementation and day-to-day application remain reserved for domestic authorities. This can be through national discretions and areas unaddressed by EU regulation, which commonly relate to retail and investor conduct measures, or regulatory reporting. Passporting rights allow services authorized and supervised in one Member State to be provided in all other Member States without separate authorization. This significantly integrates EU markets and heightens the need for harmonization of regulatory approaches and the implementation of EU requirements to avoid regulatory arbitrage.

2. The UCITS Directive regulates open ended collective investment schemes marketed to retail investors, with minimum disclosure requirements and the ability to operate across the EU when authorized in one Member State. UCITS funds have been cited as having €13.1tn net assets at end 2023.[1] There are restrictions on the types of assets that UCITS funds can invest in, which limits (but does not eliminate) the liquidity risk in UCITS funds compared to funds investing in a wider range of illiquid assets. Derivative leverage is also set at 100% of NAV under Commission Recommendation 2004/383/EC, and leverage based on borrowing is limited to 10% with term restrictions.

3. AIFMD regulates alternative investment fund managers and the distribution of alternative investment funds. Alternative Investment Funds authorized under AIFMD accounted for €7.5tn net assets at end 2023,[2] around a third of the EU fund industry. ESMA reports have disclosed that NAV in AIF markets deploying liability driven investment strategies reduced in 2022 following the stress in these markets in 2022, which led to regulatory intervention by Irish and Luxembourgish regulators to bolster yield resilience before NAV turns negative in GBP denominated liability driven investment funds.[3, 4] Liquidity management requirements for AIFs are more prescriptive than UCITS given the greater diversity in eligible investments gives rise to the risk of more challenging liquidity profiles than UCITS funds. This includes alignment of the investment strategy and redemption policy with the liquidity profile, including limits for liquidity of the AIF with plans for remediation should those limits be exceeded.

[1] European Fund and Asset Management Association, Fact Book 2024,

[2] European Fund and Asset Management Association, Fact Book 2024,

[3] ESMA, Advice of the European Securities and amerkets Authority of 26 April 2024 on the proposed measure by the Commission du Serveillance de Secteur Financier under Article 25 of Directive 2011/61/EU; April 2024

[4] This was also an example of the supervisory powers of ESMA, who issued an opinion in respect of the NCA's supervisory actions regarding leverage. In addition, where there is a disagreement between a host and home Member State NCA on the suspension of redemption under the amended UCITS Directive and AIFMD, ESMA can issue an opinion to the NCAs, which can be made public.

4. Regulation 2017/1131 (Money Market Fund regulation, known as "MMFR") was introduced after the 2007-8 financial crisis to limit contagion risk associated with MMFs, which are generally authorized as UCITS funds. The MMFR introduced resilience requirements including eligible asset class and diversified holding requirements, by different types of MMFs, and minimum liquidity requirements. It requires daily Mark to Market valuations and publication of NAV, and amortized cost is permitted in certain circumstances for CNAV and LVNAV MMFs. Standard NAV MMFs, those being the most prevalent MMFs in France, are required to hold 7.5 percent of assets with residual maturity of one day, and 15 percent of with residual maturity of one week, with a weighted average maturity of 6 months. The European Systemic Risk Board (ESRB)[5] and ESMA[6] made recommendations to amend the MMF Regulation after the liquidity issues in MMF markets in 2020, and FSB proposals to enhance resilience of MMFs that were finalized in 2021. At the time of the mission in December 2024 the EU had not amended the MMF Regulation. Proposals have been considered to raise complications around the ability to define liquid assets eligible to be included in buffers, concentration of sovereign debt, and the viability of imposing floating NAV to LVNAV funds.

5. An EU consultation paper on Addressing the Adequacy of Macroprudential Policies for Non-Bank Financial Intermediation (NBFI)[7] concluded in November 2024. The consultation considers the risks of liquidity and leverage within the investment funds sectors and brings attention to existing requirements in the regulation of non-banks which can act to limit and mitigate vulnerabilities and systemic risks. The development of this work will be key to the stability of French markets, and French authorities should remain closely involved in its development. It also identifies a number of macroprudential tools embedded in existing funds regulations, such as those described above.

[5] ESRB, Recommendation of the European Systemic Risk Board on reform of money market funds, 2021

[6] ESMA, Final Report: ESMA opinion on the review of the Money Market Fund Regulation, 2022

[7] European Commission, Targeted Consultation Document: Assessing the adequacy of macroprudential policies for non-bank financial intermediation (NBFI),