

**PRESS RELEASE**

**FRENCH SUPERVISOR AMF ANNOUNCES NEW APPROACH TO IDENTIFY FALSELY ACTIVE FUNDS: WILL IT PUT IT TO EFFECTIVE USE?**

**6 July 2018** – BETTER FINANCE welcomes the recent publication by the French capital markets supervisor AMF of its "alternative" method to identify potential closet index funds. As pointed out in [several studies](#) by BETTER FINANCE over the last few years, Closet Indexing represents a serious investor protection issue, as confirmed by the recent decision of the UK supervisor – the Financial Conduct Authority (FCA) – to sanction 64 closet index funds and to force their managers to indemnify their investors.

BETTER FINANCE has been looking into this misleading practice since 2014, when it asked the European Securities and Markets Authority (ESMA) to investigate the issue on a pan-European level.

The "Active Share" approach indeed bears several weaknesses:

- It provides a picture of a fund's portfolio only at one point in time (typically at year's end, or end of quarter at best). Therefore such an approach misses cases where the Active Share of a given fund's portfolio is very different from its benchmark at other points in time during the covered time frame.
- Also, as pointed out by the AMF, its use is limited due to its scarce availability: both ESMA and BETTER FINANCE could only get their hands on Active Share information for just about half of the funds under investigation.
- Furthermore, even when combined with other approaches (such as Tracking Error and R-Squared), the Active Share approach can lead to quite a few "false positives", meaning funds that test positive following the "Active Share" approach, but ultimately turn out to be truly active funds.

That being said, it would be wrong to portray the quantitative approach used by ESMA in 2016 as an "Active Share" approach, since ESMA also used the Tracking Error and R-Squared indicators, and also pointed out that it had complemented this quantitative approach with a qualitative one consisting in looking at the funds' documentation as well.

*"BETTER FINANCE wishes the AMF would have cross-examined this new approach with the one used by the UK FCA, which has already been put to actual and effective use by the FCA in order to identify and sanction 64 UK domiciled closet index funds",* says Guillaume Prache, Managing Director of BETTER FINANCE.

Mr Prache adds that he hopes *"that this new approach will eventually lead the French Supervisor to also identify and sanction French domiciled falsely active funds"*. So far - more than 2 years after ESMA found that up to 15% of the main UCITS equity funds were potentially falsely active - and despite specific evidence provided by BETTER FINANCE, the AMF has not identified any wrongdoing amongst the roughly 11.000 French domiciled investment funds.

\*\*\*

Contact: Chief Communications Officer | Arnaud Houdmont | +32 (0)2 514 37 77 | [houdmont@betterfinance.eu](mailto:houdmont@betterfinance.eu)