

# Code of conduct setting the terms of in-kind contribution and redemption transactions on the primary ETF market without systematic referral to an auditor

The purpose of this AFG Code is to promote market standards in relation to in-kind contribution or redemptions made on the primary ETF market.

## Regulatory framework

The General Regulation of the AMF provides that the obligation for a statutory auditor's report to be produced for each in-kind contribution or redemption transaction is not applicable in the specific case of in-kind contributions and redemptions on the primary ETF market.

## Description of in-kind contribution / redemption transactions

In-kind contributions and redemptions on the primary market constitute an usual operation carried out between professionals (market makers, brokers) and governed by the ETF prospectus and a contract for the provision of services between the Authorised Participant and the management company. The operational processes for contributions and the role of the management company are identical for direct replication ETFs and indirect replication ETFs.

The management company is responsible for accepting or refusing the in-kind contribution or redemption at the time of each operation, having regard to the exclusive interest of unit-holders or shareholders. These operations allow for mitigation of the friction costs and improved management of liquidity risk whilst maintaining the structure of the portfolio.

Approval of the composition of the basket delivered or contributed is the responsibility of the management company and this operation takes place in agreement with the Authorised Participant. In-kind contributions can only involve equities, securities or contracts eligible for inclusion as assets of ETFs.

## Valuation of in-kind contributions / redemptions

In-kind redemptions are valued on the basis of their portfolio price, as calculated by the valuation agent of the fund. Similarly, in relation to contributions, valuation of the securities is verified by the management company in accordance with the principles defined in its pricing policy followed by the valuation agent. This evaluation is entirely consistent with the evaluation rules applicable to the calculation of the net asset value. Valuation of the ETF is also carried out in accordance with the rules laid down in the prospectus and its rules.

The rules for valuation of funds are strictly managed and supervised on an ongoing basis by the statutory auditors. Accordingly, checks on the net asset values and on in-kind contributions or redemptions form part of the auditors' ongoing mandate and any discrepancy will be referred to in their annual report with any remedial measures requested.

## Equality of unit-holders / shareholders

The fact that an Authorised Participant subscribes or redeems in-kind units or shares with the management company has no impact on unit-holders or shareholders. The management company shall adopt a procedure to ensure the equality of unit-holders/shareholders in relation to liquidity management.

## Compliance checks

These ordinary technical transactions between authorised professionals take place within the framework of management of the liquidity risk of the ETF and help facilitate the operation of the ETF. The management company shall ensure, in the course of its portfolio management and risk monitoring, that the quantities contributed or redeemed and the nature or prices of the assets involved in the in-kind contribution or redemption comply with the PCF (*portfolio composition file*) published by the management company.

Additionally, as for any other usual management operation, the report of the statutory auditor of the ETF on the annual financial statements of the ETF will report on the compliance of the process. If the ETF has been subject to in-kind contributions or redemptions during the financial year, the statutory auditors will ensure their suitability with the rules of evaluation and accounting as defined in the prospectus of the ETF.

## Information provided to unit-holders/shareholders

The management company shall refer in the prospectus of the ETF to the possibility of in-kind contributions or redemptions being carried out on the primary market. The status of the authorised counterparties, i.e. Authorised Participants, shall be clearly referred to. It shall also be stated that in-kind contributions can only include equities, securities or contracts eligible for inclusion as assets of ETFs and that contribution and redemption transactions are evaluated and checked in accordance with the rules defined in the prospectus of the ETF. In-kind contributions or redemptions made during the financial year form an integral part of the year-end report of the statutory auditors of the ETF.

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**The Association Française de la Gestion financière – AFG** (French Asset Management Association) represents and promotes the interests of third-party portfolio management professionals. It brings together all asset management players from the discretionary and collective portfolio management segments. These companies manage nearly €4,000 billion in assets, including €1,950 billion in French funds and approximately €2,050 billion in discretionary portfolios and foreign funds.



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