Amundi's response to ESMA'S Consultation Paper on

Guidelines on participant default rules and procedures under CSDR

(June 30, 2016)

Amundi is a major asset manager, ranking first in Europe and among the top 10 worldwide. Provider of investment solutions to a large and highly diversified clientele of investors with different profiles, Amundi is particularly attentive to security for its clients. This, notably, implies a strong risk management expertise that includes a great attention to counterparty risk at large. In that respect Amundi is attentive to the quality of its partners when it chooses them from a large sample of competitors like for custody and depositary services, brokerage or external financial and economic analysis… We are also very concerned with the quality, both in terms of level of service and of financial strength, of partners for which we have not such an open choice. This is the case for CCPs and CSDs among other FMIs. Thus, Amundi is thankful for ESMA having opened to the public its present consultation on its proposed guidelines on participant default rules and procedures under CSDR.

We do not suggest that we have an opinion on the technicalities in this specific domain. Nevertheless, Amundi wishes to share its main concerns as an investor and an end-user of CSDs. We will limit them to the following 2 points and are not able to strictly relate them to one or the other of the questions in the C.P.

1. **Amundi is highly concerned that investors' assets be safe:**

We know that our custodians will ultimately rely on CSDs to hold the assets of our funds, which ultimately belong to the investors in these funds. We are confident that CSDs are safe and strictly regulated entities which can perform their duties with the highest level of safety for end users.

In that respect Amundi is in favour of a strict segregation of assets in the books of all the custodians from the depositary to its sub-custodians as required in both AIFM and UCITS directives: there is no doubt in our view that the **segregation of UCITS and AIFs' assets** one from the other and from own assets and the assets of the other clients of this custodian has to be performed all along the chain of custody. It means that the assets of Amundi's AIFs deposited with one depositary that we have chosen should not be confused at the level of the sub-custodian with assets of other AIFs that are deposited with another depositary that we may have knowingly rejected. To our knowledge only a few depositaries have implemented segregation in 4 different masses. We are surprised that ESMA is not more active in ensuring a correct application of the

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explicit requirement of AIFMD and UCITS V in that respect. We believe that the tripartite agreement issue can be solved with innovation, benevolence and a better understanding of the different conceptions of the security law in different countries.

Amundi does not suggest a segregation of assets at the level of CSDs that would go further than the identification of the participant. This implies that specific measures must be taken in order to protect clients' assets. Investors of non-defaulting participants should of course not be impacted in any manner in case of a default. No delay for access to their holdings, no risk of any financial contribution. For clients of the defaulting participant, the impact should be limited through a procedure allowing for quick reconciliation of the segregated assets of the funds. They should be "sanctuarised" and benefit from a priority vis à vis other asset holders and specifically own assets of the participant.

As a consequence, we believe, under question 1, that representatives of users including asset managers should be consulted and should express a view in the validation process of the procedures on default prepared by the CSD. Under question 3, we suggest that a quick fix for investors as end clients of a CSD be prepared and applied as soon as reconciliation shows that the position in the books of the CSD is sufficient to serve all clients of the defaulting participant, its own assets excluded. Under question 4, we are very much afraid that the mention in §23 "including non-defaulting participants" may suggest an indirect impact on their clients: it should be clarified that it is not the case.

2. Amundi wants CSDs to avoid any commercial activity in order to be safer :

We totally support the reference made by ESMA to ISOCO principles on FMIs and particularly principle 13. It is in our view a domain where a common and harmonized approach at international level is of foremost importance, as markets are no longer limited in geographic terms. Eventually, we all use FMIs in different parts of the world that are subject to different legislations. A high level of security in financial markets implies a cooperation among different jurisdictions to accept minimum common standards.

As far as CSDs are concerned, we have a strong view that they should be limited to their role of safe keeper of assets and not have any other activity, especially of a commercial nature. We want to be totally ensured that CSDs are safe and have no position opened on any market. We consider that CSDs should not be competitors of banks in commercial activities and should not be authorized to act as a lending agent for example. It is a source of risk that may impact their fundamental role of safe keeping of assets. We take as obvious the fact that trust and confidence in a CSD with exclusive custodian responsibility will be far higher than in a CSD that carries open positions on a market.

Amundi agrees, though, that custody implies positions to be taken for temporary and technical adjustments, for example when a "fail" appears that would be very problematic if not solved.

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