

Dexia Asset Management Belgium Reply to CESR's Consultation Paper

Ref. CESR/10-1253 - CESR's Guidelines on Risk Measurement and the Calculation of Global Exposure for certain types of structured UCITS

Dexia Asset Management Belgium¹ is very grateful to CESR for proposing a specific approach for the application of the guidelines on the "calculation of the global exposure for certain types of structured UCITS". Dexia Asset Management Belgium is interested as these structured UCITS are a well known feature on the Belgian market² and have been for years a relatively important part of the funds under Belgian law distributed to the end investors. We welcome thus the availability within the CESR's risk measurement guidelines of either the VAR method or the commitment method.

General Comments

Dexia Asset Management Belgium believes that structured UCITS offer useful features to the retail investor.

Should it become impossible to deliver these payoffs under the UCITS framework, they would be created under other legal wrappers providing far less investor protection and transparency.

Dexia Asset Management Belgium strongly believes that appropriate disclosure is key to help investors understand the features of structured UCITS and the payoff structure, and the scenarios included in the future KID will play an important role in this respect

Detailed replies to the questions

1. Do you agree with the proposed approach for the calculation of global exposure by certain types of structured UCITS which satisfy the criteria in paragraph 2 of Box 29?

Dexia Asset Management believes that the result of the calculation of the global exposure should give the same result regardless of how the fund is structured. Funds with the same payout formula should give a same global exposure calculation. Other cases, such as for example a portfolio of low risk assets, but fully collateralized, should be included in the cases.

¹ www.dexia-am.com.

² Funds under Belgian law with protection of capital (equity / fixed income): 30,3 billion EUR. The total assets of Belgian funds amounts to 96,82 billion EUR.

2. Do you agree with the proposed criteria for these structured UCITS?

Dexia Asset Management Belgium broadly agrees, but please see our reply to questions 2 through 7. We would welcome a clarification from CESR whether all criteria in Box 29 should apply. We do not quite understand, e.g., in what way the characteristic mentioned under 2.c. of Box 29 would narrow down any selection of structured UCITS, that has already been selected by applying the preceding characteristics 2.a. and 2.b. of Box 29?

3. Do you agree with the scope of the application of the alternative approach that derives from the criteria and global exposure calculation approach laid down in paragraph 2 of Box 29? If there are any specific criteria which could present difficulties for certain UCITS, could you elaborate on the reasons for your views and describe the types of UCITS concerned?

See following questions.

4. Can you suggest any alternative criteria?

5. Do you agree with the proposal to limit the maturity of structured UCITS which may apply the provisions of Box 29 to 9 years? Do you have any alternative suggestions?

Dexia Asset Management Belgium can understand that CESR prefers that structured UCITS have to explicit their final maturity date (2.e. of Box 29). The period of 9 years seems however arbitrarily chosen. Dexia Asset Management Belgium suggest that 15 years might be a more appropriate duration (with maturity to start after the first value date of the fund).

6. Do you agree with the proposal to prohibit these structured UCITS from accepting new subscriptions after the initial offer period?

Dexia Asset Management Belgium prefers to suggest another wording in point 2.f. of Box 29.

The formal closing of a structured fund after the initial marketing period can produce unwanted effects. There might be a risk on behalf of counterparties of biased pricing (as counterparties would know that trades in the secondary market would only be possible in one direction). We see no advantage towards the client in closing the fund after the initial subscription period. At the very least we would rather support a wording which states that “after the initial period wherein the fund has reached its predefined goal of subscriptions, the fund will no longer engage in active marketing of its parts”.

7. Do you agree with the proposed criteria to limit the maximum loss the UCITS can suffer under any individual scenario on any given day? Can you suggest any methods by which this loss can be limited or other safeguards which would deal with the risks posed by barrier-type features as described in Box 29?

For UCITS, the maximum loss is already limited by the legal diversification requirements.

8. Do you agree with the proposals regarding structured UCITS which were authorised before 1 July 2011? Do you have any alternative suggestions?

Dexia Asset Management Belgium certainly welcomes the grandfathering provisions.

9. Are the examples provided in paragraph 97 useful in illustrating the diversification requirement?

The examples only demonstrate certain types of digital options (all or nothing), but offer no clarification for structures where you switch from a payout X to an unknown payout Y, such as:

Maturity	5 Years
Underlying Assets	Basket of 20 shares equally weighted. Initial net asset value of EUR 100
Payoff	(1) If the performance of all shares are positive then the payoff is equal to the initial net asset value plus a dividend of EUR 100 (2) Otherwise, if the performance of at least one share is negative the payoff is equal to the initial net asset value plus the performance of the equally weighted basket (min redemption equals EUR 100)

In this example the result of (2) is not known in advance but can be higher than (1).

10. Can you suggest alternative examples?

The payoff definition in paragraph n° 97, example 1 and 2, does not seem correct because the payout formula is not closed. We presume that in the first clause the wording “performance of one of the shares” has to be replaced by “performance of all of the shares”.

11. Do you think the examples in paragraph 98 correctly explain how global exposure is calculated in different scenarios?

In general, we would like to draw attention to the fact that in our understanding that all structured UCITS with comparable “payout formula” should be subject to the same risk measurement guidelines. We do not really understand why the risk measurement guidelines would in the first place be distinguished according to the way the UCIT fund is structured (irrespective of the payout formula).

12. Do you have alternative examples?

A portfolio of collateralised assets.

13. Do you agree with the proposed prospectus disclosure requirements in Box 30?

14. Is the terminology used in the guidelines clear? Are there any terms used for which you feel it would be helpful to have a definition?

Dexia Asset Management Belgium fully agrees with the proposed prospectus disclosure requirements. It believes also that it would be helpful to have definitions for the terminology used in the guidelines.

Further detailed comments

Regarding N° 93:

In this paragraph the notion of “actively managed UCITS” is important for the proper understanding of the measurement requirements. In this context Dexia Asset Management Belgium wants to point out that a “passively managed” UCITS does not rule out that there is any portfolio management and in particular, should not prevent the manager from actively managing his relations with counterparties or managing inflows and outflows.

Regarding N° 94:

Dexia Asset Management Belgium would prefer maturities up to 15 years.

Regarding N° 97 – examples:

In general, we would like to draw attention to the fact that in our understanding that all structured UCITS with comparable “payout formula” should be subject to the same risk measurement guidelines. We do not really understand why the risk measurement guidelines would in the first place be distinguished according to the way the UCIT fund is structured (irrespective of the payout formula).

Regarding “risk free” vs. “risk low” assets:

The asset classes that fall under “risk free” vs. “risk low” considerations might be evolving under market conditions and external economic circumstance (e.g. not all government bonds are at this point in time considered to be risk free from an economist perspective).

Dexia Asset Management Belgium would in these considerations regarding asset classes certainly stress the obligation to diversify and to choose high quality assets in the underlying portfolio or that any concentration risk needs to be covered by the appropriate collateral.