ASSOGESTIONI
associazione del risparmio gestito

Milan, 2014 January 31th

ESMA
CS 60747
103 rue de Grenelle
75345 Paris Cedex 07
France

Our Ref. N. 44/14
Your Ref. ESMA/2013/1974

Reply to ESMA's consultation on the revision of the provisions on diversification of collateral in ESMA's guidelines on ETFs and other UCITS issues

Assogestioni([1]) is very pleased to comment on ESMA's consultation on the revision of the collateral diversification rules in the Guidelines on ETFs and other UCITS issues.

In general, we support the proposal to review the collateral diversification rules on "government securities" but we strongly believe that the derogation from the 20% issuer limit proposed by ESMA should be extended to not Money Market Funds also as it provides an equal treatment and a justified flexibility to all UCITS.

In the attendance of final decision and in order to avoid unnecessary costs to UCITS managers that are expected to take all necessary steps to align their portfolios of collateral in order to comply with the collateral diversification by the end of the transitional period, we would welcome a clarification by ESMA that market participants will not be expected to comply with the 20% issuer limit until ESMA has decided on a possible amendment of Paragraph 43(e) of the Guidelines.

Here below our response.

[1] Assogestioni is the Italian association of the investment fund and asset management industry and represents the interest of members who currently manage assets whose value is around 1.300 billion euro in open-ended UCITS and AIF funds and discretionary mandate.

Q1. Do you believe that ESMA should revise the rules for the diversification of collateral received by UCITS that take the form of money market funds in the context of efficient portfolio management techniques and OTC transactions? If yes, do you agree with ESMA's proposal?

We appreciate that ESMA is evaluating a revision of the rules for the diversification of collateral but we strongly support an extension of the proposal to all UCITS, and not just to money market funds ("MMFs"), for the following reasons.

We deem the proposal consistent with the role played by the collateral in order to reduce counterparty risks where collateral could benefit from more flexible rules of diversification than investment: the assets constituting collateral represent a secondary guarantee after the first guarantee formed by the counterparty. Consequently, we support less stringent criteria for collateral than UCITS diversification rules and accordingly the possibility to receive up to 100% from a single "government" issuer. Therefore, we see no economic reason not to extend this provision to non-MMFs also.

The proposal is also positive because the derogation for "government" bonds introduced avoids that collateral diversification rules are stricter than the positions that may be taken by UCITS, not only MMFs, as direct investments.

Further the proposal allows a more efficient management of the collateral. All UCITS, and not only MMFs, could easily breach the 20% limit, because different baskets of collateral contribute to it, such as collateral from OTC derivatives transaction and EPM transactions. The 20% threshold reducing the possibility of non-MMFs to receive governments bonds of high quality as collateral should be avoided, as it obliges them to a different issuer selection.

We believe also that the proposal should guarantee the use of the same management techniques to all UCITS and therefore a reverse repo of more than 20% in a single "government" issuer should be allowed not only to MMFs.

Finally, the combination of all criteria laid down in the guidelines, and in particular those regarding credit quality, haircuts and collateral liquidity ensure an appropriate level of investor protection. <u>We therefore strongly support option 2 as expressed in Annex II, as it provides an equal treatment and a justified flexibility to all UCITS.</u>

Q2. Do you think that ESMA should introduce additional safeguards for government bonds received as collateral (such as a specific issuer limit) in order to ensure a certain level of diversification? Please give reasons for your answer.

No, we think that there is no need for additional requirements on "government" bonds received as collateral. The derogation from the 20% concentration limit does

00186 Roma Via in Lucina,17 Tel. 06 6840591 Fax 06 6893262 20121 Milano Via Andegari,18 Tel. 02 361651.1 Fax 02 361651.63 info@assogestioni.it www.assogestioni.it

not affect the other criteria for collateral management, in particular those of credit quality, liquidity and haircuts.

Q3. Do you agree with the proposed requirement to diversify the government securities across at least six different issues?

As expressed before we consider that, for collateral, liquidity, credit quality and haircuts are more important than diversification. However we do not object to the concentration limits proposed by ESMA.

The Director General

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