



Paris, May 31st 2005

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From: "Commission TCNs" (i.e: Commercial Paper Group)

To CESR
11-13, avenue de Friedland
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Subject: CESR's Advice on Clarification of Definitions concerning Eligible Assets for Investments of UCITS

Dear CESR members,

The ACI France is pleased to submit its comments to CESR's Call for Evidence on the mandate for advice on clarification of definitions concerning eligible assets for investments of UCITS with a focus on money market instruments.

ACI France is supporting the idea of keeping regulation on definition of IMM (Instrument of the Money Market) in its present form and to use it as an allocation criteria for UCITS.

The position of ACI France can be summarized as follows: the quality of the investment support chosen to issue commercial paper is the best tool to be used to enhance market transparency, safety and normalization. We recommend to motivate the market to favour investment supports of which documentation complies with a normative standard, is updated regularly and is extensive under the supervision of an independent authority. The activity on these programmes has to be followed by an independent authority who will publish statistics with the aim to help investors (who can be dealers, corporate and institutional investors) to have a straightforward and reliable view of the activity of an issuer on the considered CP program. Using investor regulation as an incentive to privilege the development of this type of issuing tool has been proving, by experience, to be the most efficient way to orientate the market towards transparency, fairness and safety (same easy-to-understand rules for all players).

Taking into account the nature of the issuer (as ABCP), its nationality or its rating as a discrimination criteria does not appear to our eyes as a relevant manner to reach this goal. In the case of ABCPs, not considering them as IMM (even if the considered ABCP program used has the STEP label) and consequently restricting the eagerness of money market funds to 10% of their investments would seriously jeopardize the development of this issuer base. ABCPs being considered in Europe as the biggest area of growth (in terms of variety of issuers and in terms of outstanding issues) with unchallenged features as far as diversification, ratings and attractive returns are concerned.

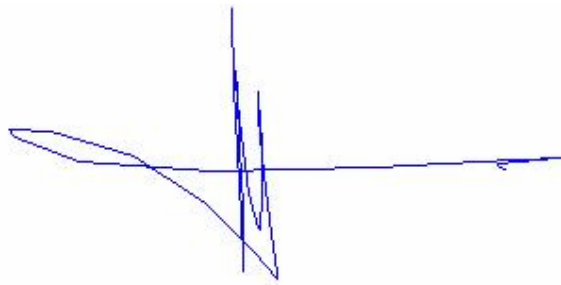
We believe that the investment decision has to remain to the investor – whatever the nature of this investor -. The decision has nevertheless to be grounded on elements of appreciation provided within a frame which guarantees an easy, fair and transparent access to normalized information.

The unregulated area – the 10% sector – must be considered as a test area for innovative products or non transparent products. Creativity is vital for the market. This area will be the nursering field for new generation products. Should, one of these products become used on a greater scale, the normalized sector (STEP) would have to adjust to integer this new product (as an example: extendible commercial papers).

The attached document aims to give a deeper analysis of CPs markets in Europe and highlights about the consequences of the possibility for UCITs to acquire freely any type of CP without any criteria about transparency, statistics, normalization of info memo and updates under the supervision of an independent authority. Consequences for the STEP project would be a lower support of part of the CP market players undermining this initiative to harmonize CP practices within the Eurozone.

Please feel free to contact ACI France “*Commission TCNs*” (Commercial Paper Group), if you need further information about this subject.

Rgds

A handwritten signature in blue ink, appearing to read 'Franck HEBEISEN', with a stylized flourish extending to the right.

Franck HEBEISEN
Head of “*Commission TCNs*”

Commercial Papers in Europe
Facts and figures for supporting UCITs regulation as an incentive to promote transparency,
and liquidity on the CPs market via the STEP label.

Summary

In our view, the present regulation, as put in the UCITS Directive and the national transposition, supports the market growth and the necessary move towards a European standard on money market instruments, which will guarantee a high quality level of information, and an easy access for any party involved in the market. We view this as key success factors for a balanced development in the Money Markets.

The present regulation interpretations encourage the market to move towards a standard which will guarantee a high quality level of information for investors (these investors being dealers, institutional investors or cash rich corporations). Moreover, transparency via the publication of statistics by independent sources is a key to the successful development of short term papers within the Eurozone and within Europe.

This encouragement is being done for issuers via the listing on stock exchanges of the CP issuances or via regulatory models as developed in France. Regulation for eligibility to Money Market Funds will be the only way to motivate the issuers and dealers to a fair and equal level of self discipline, which will at the very end benefit to the market globally.

Under the light of an extensive picture of the CP markets within the Eurozone, we intend to demonstrate that fragmentation is limited in Europe – in fact restrained to 2 big markets within the Eurozone. Investor regulations have not been a brake to the development of the issuer base in Europe. The discrepancies which exist on these markets in terms of yields and spreads are not related to investor regulations but to issuers and investors different benchmarks and to tax policies for countries as Spain or Italy.

The need for normalization will be driven by the structure of investor demand. Should, this investor demand induce the ease of less requirements in terms of transparency of markets, standardization and availability of information, the market created - € 775 Bn as of end 2004, positioning it at 3 quarters of the size of the total USCP market – would be the 2nd in the world without any information commitment for issuers (this is made on the assumption that the market will not regulate itself, the ECP market being the best illustration of it).

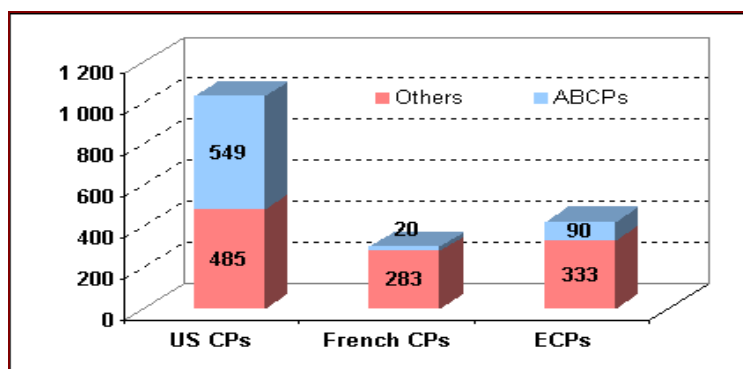
To give an appropriate answer to the problematic of unifying the CPs issuance market in Europe, STEP has been recognized by market participants as the best tool to organize the convergence towards a normalized model. This will allow the development of the market in equitable and safe conditions for all players (issuers, dealers and investors). The proposed organization (label) will request limited investments from all participants (on the French CP side where adaptation would mainly consider the language of writing of the info memo and on the ECP side where the adaptation would concern the guarantee to provide information and frequency of updates and the signature of the info memo). Loosening investment criteria for major investment areas – in which of course France, which is recognized as a major institutional money market investor base in Europe – would be a clear message to participants to privilege supports of lesser quality and will definitely jeopardize the STEP initiative. We do not believe there will be a second chance to structure the market if the present STEP initiative does not succeed and are convinced that any

signal to encourage participants to move to a fully non regulated model will threaten the STEP project.

I. AFTB - ACI France.

ACI France members have historically been prominent players on the Commercial Paper markets in Europe:

1/ As market participants in the second biggest domestic CP market in the world, € 303 Bn as of end 2004¹ (compared to € 1100 Bn equivalent on the US CP² at same time).



2/ As majors issuers in Europe:

Top 20 CP issuers on French and ECP market as of end 2004, live outstanding in € Bn.

Issuer	70 ECP	152 French CP	226 Total
BNP Paribas		27.3	27.3
Calyon	0.3	25.4	25.6
IXIS CIB (ex CDC IXIS CM)	0.9	16.0	16.9
Societe Generale		16.2	16.2
Cades	11.5	4.2	15.7
DePfa Bank plc	9.6	2.4	11.9
C.N.C.E.P		11.8	11.8
Rabobank Nederland	1.7	9.8	11.5
BFCM	5.6	5.2	10.8
HBOS Treas. Services	6.7	3.8	10.6
Natexis B.P.	1.7	6.4	8.1
GE Capital E.F.		8.0	8.0
Republic of Finland	7.6		7.6
Dexia Credit Local	0.9	6.0	6.8
KfW	6.6		6.7
Barclays Bank plc	3.1	3.2	6.3
Scaldis Capital Ltd	6.2		6.2
Silver Tower Funding	2.1		6.1
National Australia Bank	6.0		6.0
CCF		5.9	5.9

¹ Source: Banque de France

² Source: Federal Reserve Bank

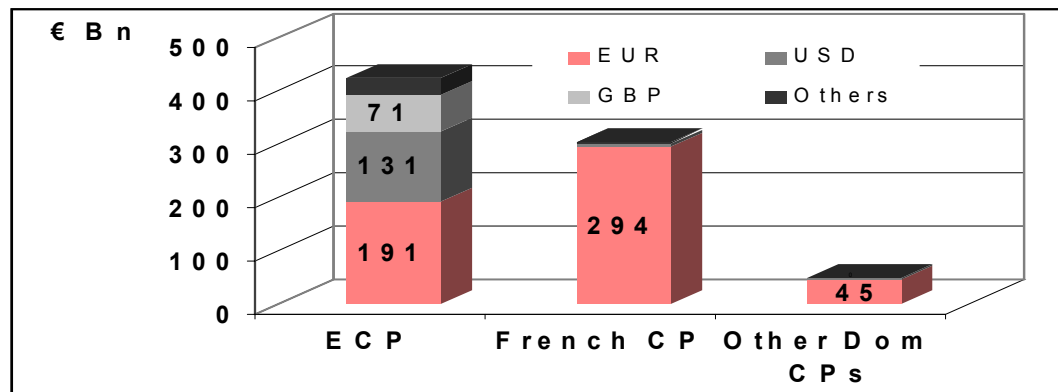
3/ As top ranking Arrangers, Dealers and Issuing and Paying Agents on French CP (and, to a lesser extend on ECPs).

BNP PARIBAS, BRED BANQUE POPULAIRES, CALYON CIB, CIC, HSBC CCF, IXIS CIB, NATEXIS BANQUES POPULAIRES and SG CIB being activ member of the Commercial Papers commission of ACI France.

Our position, at the cross roads between 2 CP models, gives us a unique position to assess the benefits of the move of the structure of CP markets in Europe toward such or such model. This has motivated ACI France to be an initial founder of the STEP label initiative.

II. The present fragmentation between issuing supports in Europe³ is not the result of the UCITS directive implementation and will remain, to a certain extend, reflecting different needs from both investors and issuers.

1/ One differentiation criteria between ECP and domestic CPs is clearly wider diversification on ECP in terms of currencies of issue:



Money market funds in the Eurozone having excess liquidity in non € currencies are not the bulk of Money Market Investors. This means that, for the moment, the present constraining regulation does not impact investors for the whole size of ECP outstandings, especially in France.

2/ The second difference between ECP and French CPs is the benchmark of issuance:

ECP benchmark is € EURIBOR when French CP benchmark is € OIS Eonia swap.

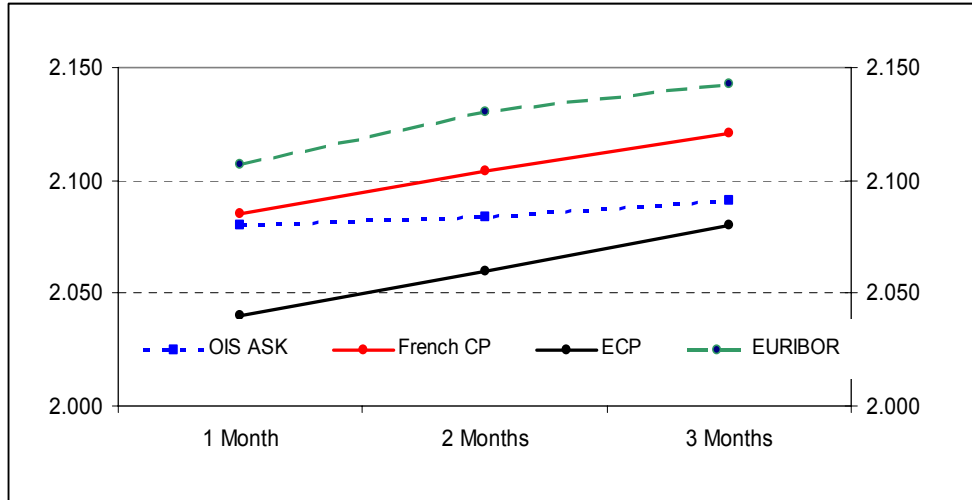
French CP is driven by both technology with an historical exposure from banks on variable overnight rate (TMP in FRF and then EONIA in €) and from Money market Investors.

The different issuing benchmarks used by issuers are generating the biggest market segregation, as shown below on issuing levels as of February 21st 2005, as an example.

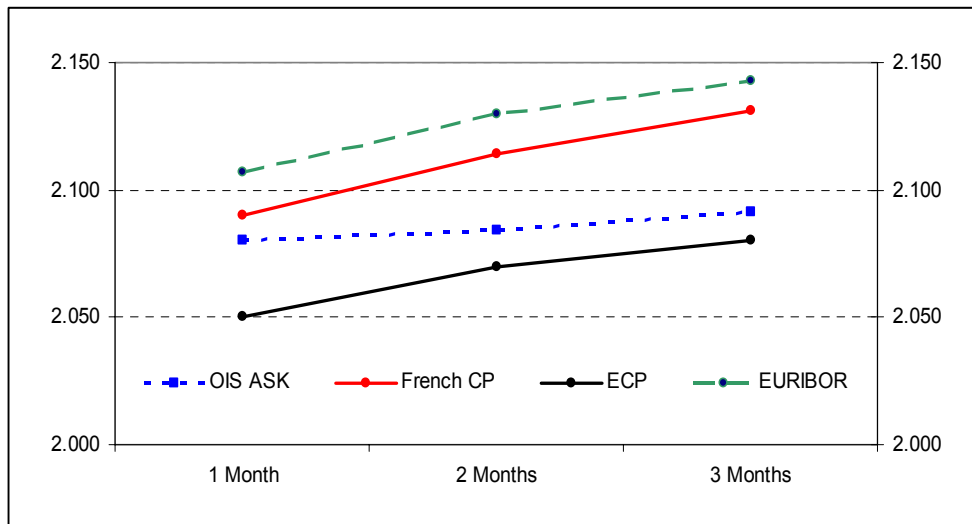
³ In fact this fragmentation is limited to 2 majors markets ECP and French CPs with some complementary markets with potential of development (Belgium, Spain, as examples).

The red curve illustrates the levels of issuance of French CP, the black ECP issuance levels (on 1, 2 and 3 month). The dotted curves show EURIBOR (green) and EONIA OIS Swap (bleu).

For A-1+ / P-1 / F-1+ issuers:



For A-1/ P-1 / F-1 issuers:



French money market investors do not invest on CPs below EONIA OIS level, even on very high quality names.

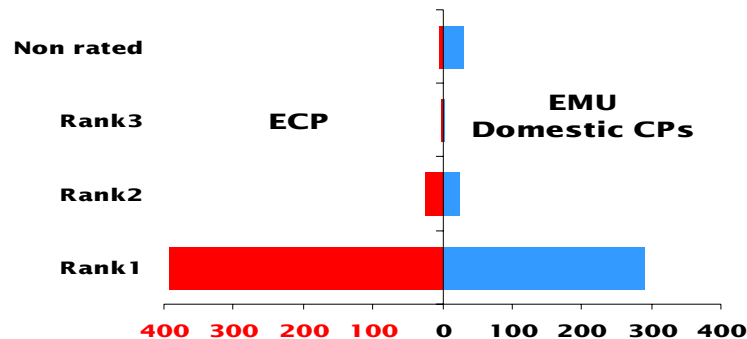
These graph illustrate the common situation of issuing levels between the French and ECP market on “Rank1” credit quality (A-1+, A-1, P-1, F-1+, F-1) : if there is a barrier to French investors for ECP, this is more linked to the issuing benchmark used than anything else. No regulatory ease will change this situation. “Rank1” commercial papers issuers representing € 684 Bn out of a total market of € 775 Bn, we can consider that 88% of the market is concerned by this. Easing regulatory constraints will not improve absolute returns for French Money market funds since foreign issuers will have to change their issuing benchmark.

The recent examples of foreign issuers choosing to set up French CD programmes illustrate this well (figures between brackets = outstanding issues as of end January 2005 in € Bn versus program size):

There is a clear segregation between,

1. the one who have adopted the EONIA OIS benchmark as Rabobank (9.8 / 20.0), General Electric (7.2 / 25.0), Barclays Bank (4.7 / 10.0), HBOS (3.7 / 5.0), OKB (2.0/ 5.0.), Britannia Building Society (1.2 / 2.0)
2. and those who have not, or to a lesser extend such as UBS AG (0.0 / 10.0), Nationwide (0 / 5), Anglo Irish Bank (0.2 / 1.5), Nestlé (0.2 / 2.0).

3/ The CP market in Europe is already quite unified in terms of quality of credit and an easing of regulation for issuers will have a limited impact on credit diversification since the market remains by itself concentrated and mainly focused on Rank1:

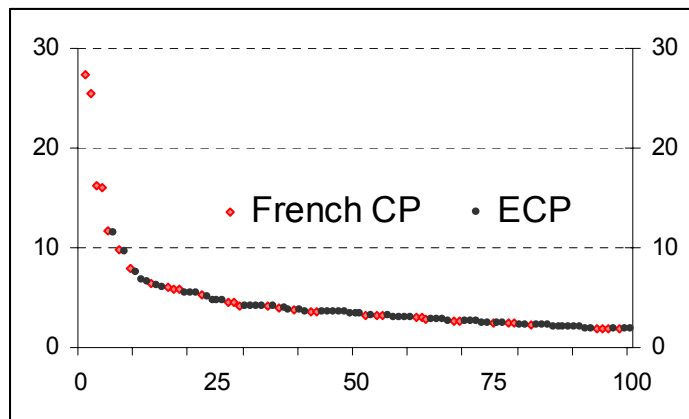


Split of CP outstanding issues in Europe as of end 2004 by credit type (Rank1 = A-1/P-1, Rank2 = A-2/ P-2, etc).

Rank1, with a credit risk probability of 0% at less then 90 days, represents 89% of the outstanding issues as of end 2004.

Out of 806 issuers as of end December, the first 100 reach € 456 Bn (59%) of the life outstanding € 775 Bn at this period.

Outstanding issues of the first 100 issuers of ECP and French CP.



4/ There has been no market access restrictions on domestic CPs platforms to foreigners as shown on the following list on new programs launched on the French market since 2003.

Date of launch	Issuer	Issuer country	Rating(s)	Arranger	Progr.size (in € Mios)
2003					
Jan-03	AFD - Agence Française de Développement	France	A-1+		1 000
Feb-03	AUCHAN FINANCE	France	A-1	HSBC CCF / SG CIB	500
Feb-03	AB SPINTAB	Sweden	A-1/ P-1/ F-1+	BNP	2 500
Mar-03	BRITANNIA BUILDING SOCIETY	United Kingdom	A-1	SG CIB	2 000
Jun-03	METRO A.G	Germany	A-2- / P-2	SG CIB	1 000
Oct-03	GECINA	France	A-2	BNP / HSBCCCF	500
2004					
Janv-04	VILLE DE BOULOGNE BILLANCOURT	France	A-1+	CALYON	175
Janv-04	HBOS TREASURY SERVICES	United Kingdom	P-1	SG	5 000
Janv-04	UNEDIC	France	A-1+ / P-1	BNP / CALYON / HSBC CCF	1 200
Feb-04	DEPFA BANK PLC	Ireland	A-1+ / P-1	BNP	5 000
Feb-04	EADS FINANCE B.V.	The Netherlands	A-1	NATEXIS	2 000
Mar-04	NORTHERN ROCK Plc	United Kingdom	A-1 / P-1	SG CIB	2 000
Mar-04	ANGLO IRISH BANK CORP. Plc	United Kingdom	P-1/ F-1	SG CIB	1 000
Apr-04	CLAM-Finance	France		CALYON	600
May-04	AIR LIQUIDE SA	France	A-1+		3 000
Jul-04	COMMUNAUTE URBAINE DE LILLE	France	A-1	CALYON	
Sept-04	SNS Bank NV	Sweden	A-1 / P-1	CALYON	4 000
Oct-04	UBS AG	Switzerland	A-1+ / P-1 / F-1+	UBS AG	10 000
Oct-04	NATIONWIDE BUILDING SOCIETY	United Kingdom	A-1 / P-1	SG	5 000
Nov-04	BOLLORE INVESTISSEMENT S.A.	France		CIC	300
Nov-04	WUERTEMBERGISHE HYPOTEKEN BANK A.G.	Germany	A-2 / P-2	CALYON	3 000
2005					
Jan-05	VILLE DE LEVALLOIS	France	- / - / F+	CALYON	300
Apr-05	F.I.H. Erhvervsbank	Denmark	- / P-1	SG CIB	2 000
May-05	ALCAN PECHINEY FIN. S.A.	France (Canada)	A-2/ P-2	SG CIB	1 000
May-05	ALLIANCE & LEICESTER Plc	United Kingdom	A-1/ P-1 / F1+	SG CIB	3 000

An easing of registration procedure for foreign issuers (allowing the utilization of other language than French with insert of a digest of the info memo in French) has been voted by the parliament and enforced by new regulatory authorities.

Foreign issuers are free, on the French CP market, to use the advice of a local arranger, but this is not necessary (examples: RABOBANK, GE CAPITAL FUNDING, UBS AG ...).

III. A distinction between money markets instruments encouraging the development of a transparent and disciplined market is appropriate.

To our knowledge, the UCITS Directive and its national transpositions appropriately distinguish between money markets instruments according to the degree of information, transparency and regulation. In doing so, the current rules will help the market converges toward a same level playing field, without endangering the market because of a lack of regulation.

This distinction is fully in line with market practice. Indeed, for years, there has been a common distinction in the market between domestic segment and off-shore products. The Off-shore markets do not provide the same information and guarantee for investors, and rely more on private organization that do not fully protect market participants. Off-shore markets are generally characterized by non domestic investors, as well as a currency breakdown shifted in favor of non domestic currencies.

Historically, the lesser transparency of this segment was rewarded by a bigger spread on yield. However, there has been a shift in recent year toward a removal of this spread in the short term markets, due to a global liquidity surplus. Thus, we could go as far as saying that investors are no longer rewarded, but the underlying products do not display the same level of security.

IV. The current definition of Money Market Instrument has not been hindering the Market development.

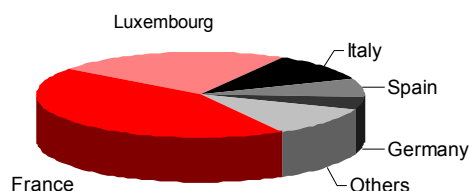
There have been no uncertainties in the definition of eligible short term assets, or confusion in certain members States, leading to an increased fragmentation of the European Union's Money Market. On the contrary, the market is still growing, and members are working for a unified model (see below).

Modifications or clarifications of the current regulation would be necessary if the Market development was at risk because of overly restrictive rules. It does not seem the case to us.

1 / On the investor side, if we take the French market as an example, it is well known that Money Market Funds represents a prominent part of the European MM Funds. The current regulation has not been hampering the growth, and the UCITS Directive definitions, which copes well with the previous regulation, has been one of the success factor for this development.

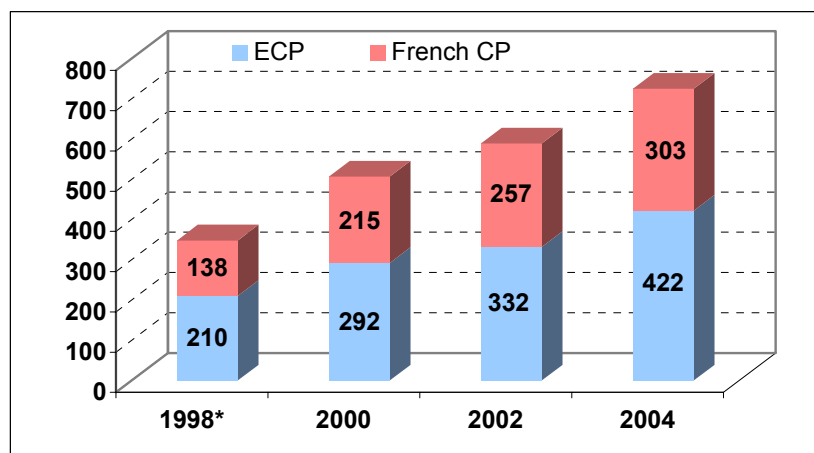
Indeed, by organizing the market with the collaboration of a Public Institution, and with an organized access to information for the investors, confidence from all the market participants has been well established, and shield the markets against any form of moral hazard.

**Money Market Funds domiciled in Europe
as of end September 2004, € Bios**



2 / On the issuer side, as well, there is no evidence of restrictions for accessing the domestic markets.

The issuance base of CPs in Europe has been constantly growing since the launch of the Euro as illustrated below with year end outstanding issues in € Bn on the main European markets (1998: estimation for ECPs).



The French CP issues have been supported by both increasing issuer needs (mainly financial institutions and ABCPs) and the very strong appetite for CPs from French Money Market funds. On the ECP side, the growth was also generated by the emergence of sovereign and supras issuers (KfW, Republic of Finland, Cades, Fannie Mae, ...). The 2 issuing supports remain complementary, managed and promoted by two different financial centers, partially for different users (as shown herein after).

V. The current Directive and its transposition in France support Market efforts for establishing a common European standard, through the STEP label initiative”.

ACI France has been a founding member of the STEP - Short Term European Paper- label initiative. With our experience in the Short Term markets, we have been eager to help the European market toward more integration.

Recent history in the credit market told market that disclosure is a very sensitive topic. Regulators in the USA, for instance, have been defining much more clearly the features of information that companies must disclosed to the investors, after the Enron, Worldcom, and others cases, that have shaken credit markets.

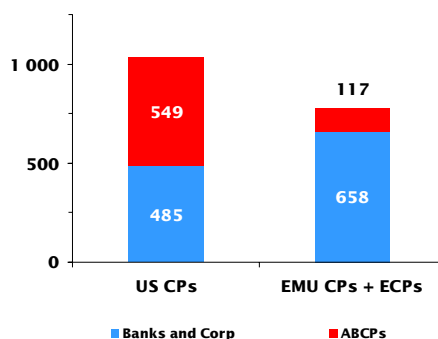
With this background, we have been working to enhance the quality of the short term instruments through a common European standard, the STEP label. The conclusions of the ACI STEP Task Force report are well known (see the report on ww.aciforex.com) and concur with our assessment that the development of these markets requires a transparent, well organized framework, with well established features for the money markets products (Information Memorandum, commitment of the issuers , regular and public statistics...).

We understand that CESR currently investigating how to further clarify the criteria for the eligibility of Instrument of the Money Market for UCITS investment purposes. We believe that some of the criteria set up in the French transposition contribute to the implementation of the recommendations expressed by the ACI EURIBOR - STEP task force.

As a conclusion, we think that the promotion of the STEP standards should contribute to a proper and consistent implementation of the UCITS Directive across EU Member States to the benefits of all the market participants.

VI. The current Directive and its transposition in France do not generate any segregation by type of issuer and have been hence helping to the development of the ABCP sector, which remains the biggest potential of growth of CP markets in Europe. STEP initiative will allow this development to continue with an unbeaten level of transparency for investors.

ABCPs markets in Europe compared to theUS CPs maket shows a huge potential of growth for the ABCP sector in Europe:



The information provided to Investors for ABCPs programs traditionally consists in the Info Memo and in investments reports provided by the sponsors on a monthly basis. Rating agencies provide from time to time studies about the conduits. The STEP label will allow investors to access to standardized information on a sector which is not supplied with information based on data made available thanks to the listing of the equities or bonds of the issuer on stock exchanges, We believe that the level of transparency of the STEP market would be efficient to allow investors to assess their credit opinion on reliable information.

Considering rated ABCPs as instruments which can not be MMI despite they issue under a reliable issuing support using the STEP label would jeopardize the development of this vital sector in Europe for both issuers and investors (bank and institutional investors).