ASSOGESTIONI
associazione del risparmio gestito

Milan, 17 october 2008

CESR
11-13 Avenue de
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Our ref N. 630/08

Response to the European Commission call for evidence regarding risk management principles for UCITS.

Assogestioni[1] welcomes the opportunity to comment on the European Commission call for evidence on risk management principles for UCITS. We support the request for work in this area in order to evaluate the principles of this activity, subject to the observations set out below in our response.

Box 6: Risk measurement techniques

*31. This approach is also likely to apply to the assessment of non-quantifiable risks, ~~**such as operational risk**~~. For the purpose of this paper, these risks should be taken into account only in so far as they have a direct impact on the interest of UCITS investors (e.g. risks attached to the technical features of the trading, settlement and valuation procedures which directly impact UCITS performance).*

For more clarity, we suggest dropping the example of the operational risk. In fact one of the most representative risk of this kind (NAV errors) is usually bear by the management company and leaves UCITS investors unaffected.

Box 7: Management of model risk concerning the risk measurement framework

*2. The risk measurement framework should be subject to ~~**continuous**~~ **periodic** assessment and revision, and its techniques, tools and mechanisms should be adequately documented.*

We suggest replacing *continuous* with *periodic*. In fact hypothetical benefits from a continuous assessment of risk management framework would not outweigh its

[1] Assogestioni is the Italian association of the investment fund and asset management industry and represents the interests of 168 members who currently manage assets whose value is close to 1.000 billion euro at the end of June 2008.

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certain cost (e.g. human resources, organizational requirements).

Box 8: The link between risk measurement and asset valuation

40. Assumptions and models underlying pricing of illiquid, structured financial instruments (whether or not they embed derivatives) or complex derivatives should ~~***be consistent***~~ ***not be in contrast*** *with the risk measurement framework used by the Companies. These should be maintained and revised over time accordingly (using back-testing etc.).*

We note that the assumption underlying the pricing procedures of illiquid instruments may differ from those of the risk measurement procedures due to different objectives.

Indeed, the former are conceived for providing a mark-to-market valuation of the NAV according to the fund's rules, while the latter are designed to provide the management company with a clear picture of the risks under many different scenarios. As a consequence we suggest that CESR should address this issue and consider to replace "consistent" with a less strong requirement.

Box 10: Risk limits system

45. The limit system should refer to the risk profile of the specific UCITS and should set appropriate limits for all potentially relevant risk factors. That is, it should cover all risks to which a limit can be applied and should take into account their interactions with one another. The Company should ensure that every transaction is ~~***immediately***~~ *taken into account in the calculation of the corresponding limits.*

We agree with CESR's proposal where indicates that Company should ensure that every transaction is taken into account in the calculation of the limits. But we suggest deleting the reference to the timing of the control, because it seems to be not necessary and likely to be achieved that every transaction is taken immediately into account.

Box 13: Monitoring of the risk management process

~~*1. The Board of Directors and the Supervisory Function, if any, should receive on a periodic basis written reports from the risk management function concerning: (i) the adequacy and effectiveness of the risk management process; (ii) any deficiencies in the process with an indication of proposals for improvement; and (iii) whether the appropriate remedial measures have been taken.*~~
~~*2. The risk management function should review the adequacy and effectiveness of measures taken to address any deficiencies in the risk management process.*~~
~~*3. The risk management process should be subject to appropriate internal or external independent oversight.*~~

~~*53. The risk management function should periodically assess, and consequently report to the Board of Directors and Supervisory Function, the adequacy and efficiency of the structures, procedures and techniques adopted for risk management.*~~

1. **The risk management process should be reviewed by internal or external auditors.**
2. **The Board of Directors and the Supervisory Function, if any, should receive on a periodic basis written reports concerning: (i) the adequacy and effectiveness of the risk management process; (ii) any deficiencies in the process with an indication of proposals for improvement; and (iii) whether the appropriate remedial measures have been taken.**

In our opinion the tasks under box 13, number 1 should be dealt with by an appropriate internal or external oversight function (audit). In fact CESR proposal seems to suggest that the risk management function should assess its own work.

We hope that our observations will be of help and remain at your disposal for any clarification on the comments made in this response.

Yours sincerely

The Director General

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