



**Aviva Investors' response to consultation on
CESR's Guidelines on Risk Measurement and the Calculation of Global Exposure for
certain types of structured UCITS**

Aviva plc is the world's sixth-largest¹ insurance group, the largest insurance services provider in the UK and is one of the leading providers of life and pension products in Europe and is actively growing its long-term savings businesses in Asia Pacific and the USA. Aviva's main business activities are long-term savings, asset management and general insurance.

Aviva Investors is the global asset management business of Aviva plc, managing assets in excess of £248² billion across a range of real estate, equity, fixed income, money market and alternative funds. The business operates under a single brand with over 1,300 employees in 16 countries across North America, United Kingdom, Continental Europe, and Asia Pacific. We are dedicated to building and providing focused investment solutions for clients which include local government organisations, pension funds, wholesale and retail banks, insurance companies, charities and private wealth managers.

Please note that we ask for our submission to remain private and therefore, not be made available for public inspection.

Please find below our responses to the specific questions raised.

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?

In principle we agree with the proposed approach.

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

We would be grateful if CESR could clarify whether it is necessary for the structured UCITS to have all of the eight characteristics (a) to (h) in order to qualify to use the commitment approach.

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?

In principle we agree with the scope of the application of this alternative approach.

4. Can you suggest any alternative criteria?

We have no specific comments to make.

¹ Based on gross worldwide premiums for the year ended 31 December 2009

² As at 30 June 2010

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?

No, we do not agree with this proposal. For example, this would exclude a 15 year simple product designed to offer protection to the investor that is lower risk and not complex. It does not seem appropriate to apply VaR to such products in particular when they are formulaic (for example 100% of the upside with protection). We do not support proposals for a maximum duration if the fund is no more risky than investing directly into an index. Given the increase in demand for products to meet pension requirements, it is likely that there will be increasing demand for products with longer maturities and 9 years is not long enough. If it is necessary to limit the maturity then we suggest that 15 years would be more appropriate.

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

We suggest instead that the characteristic (f) should be “the UCITS is not actively marketed after the initial marketing period”.

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?

We would like to highlight that all of these products are designed to deliver (or not) a payoff at maturity and feature warnings to keep the investment until maturity.

We seek CESR’s confirmation that that these proposals do not mean that it is not acceptable to create a product where on a particular day the investor has suffered no loss, but on the following day the performance shifts the product into a different scenario and there is too extreme a difference between the two pay-offs – in particular because the maximum loss is inherently limited by the 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?

Yes, we agree with the proposals for existing structured UCITS. However, we are concerned about implementing the new guidelines from 1 July 2011 as this is a very complicated requirement and there are now only six months for regulators to transpose and subsequently, firms to comply with these changes.

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

Generally yes, we think the examples in paragraph 97 are useful in illustrating the diversification requirement. However, structured funds must be designed so that the payoff scenarios are mutually exclusive.

10. Can you suggest alternative examples?

Yes, we would like to suggest a second version of example 3 but with a payoff based on the movement of three or more shares and in this scenario we believe it would comply with the diversification rules.

We would also appreciate an example that gives three scenarios in order to demonstrate the diversification (one positive, one neutral and one negative) as this would be more in line with a normal investment approach. Please see our suggestion below.

Example

Maturity	5 years
Underlying assets	Basket of 20 shares (share 1, share 2... share 20) equally weighted. Initial net asset value of euro 100
Payoff	1. If the performance of at least two shares is positive and no more than one share is negative then the payoff is equal to the initial net asset value plus a dividend of euro 20 2. If the performance of two shares is negative then the payoff is equal to the initial net asset value 3. If the performance of more than two shares is negative then the payoff is equal to the 80% of the initial net asset value

As the movement of the performance from scenario (1) to (2) results in a variation of 20% of the payoff, this complies with the diversification rules. The same applies between scenarios (2) and (3).

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

Yes, we think the examples explain correctly.

12. Do you have alternative examples?

No, we do not have any alternative examples to offer.

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

Yes, we agree with the proposed disclosure requirements.

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?

Generally, yes, the terminology is clear. It would be helpful if the term “negligible” in Box 1 could be defined.