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In response to the consultation paper published on 15th June 2009, please find below some comments I have on the proposed technical advice regarding risk measurement for UCITS.

2) I feel that counterparty risk doesn't need to be included in the global exposure calculation and it is probably easier to look at the issue of counterparty risk as a separate issue.

4) I don't feel here that the market value of an option contract is an adequate assessment of the market risk being taken. The point of options is that they offer increased exposure to market movements, relative to their value. I therefore think this method would underestimate the exposure of the UCITS to market risk. For the purposes of exposure calculations I would use either a delta-adjusted exposure or a VaR approach.

5) In my opinion this measurement is the better of the two options.

21) & 22) A demonstrable high correlation should be required, but due to different timescales and return periods I think it would be hard to apply a fixed quantitative threshold to the correlation figure. While a minimum correlation of 0.9 could be imposed, using long time periods and monthly returns may make it an easy target to meet.. However, I do think that it is a good idea, and if the correlation was high enough (0.9 sounds reasonable) it would ensure hedging effects were only taken into account when there was a strong and obvious effect of risk reduction.

24) In this definition I would just change the part that says: "… the value of its portfolio could decrease by $4 million or more during 1 day…" to "...the value of its portfolio *will* decrease by $4 million or more during 1 day..".

28) In section 2.4 I would remove the reference to "extreme market conditions" as it is highly debateable what constitutes an "extreme market". I think it is enough just to say that the observation period should be at least one year, and that an exponential weighting can be applied.

29) I think that calculating a daily VaR should be mandatory only for funds that use fairly sophisticated strategies. Where funds have their exposure monitored using the commitment approach, I don't think it would be necessary to calculate a daily VaR.

35) & 36) I feel that an absolute VaR isn't a very good way of measuring global exposure for a fund. As all risk models feed off a minimum 1-year time horizon, the effect of a recent increase in volatility on calculated ex-ante VaR will initially be quite low. The result of this will be that VaR will rise only slowly, and historically seems to peak several months after markets have suffered a large drawdown. As an absolute VaR doesn't change when market volatility changes, I feel it is likely to prove an ineffective constraint when the market volatility in the VaR model is low, but may also prove

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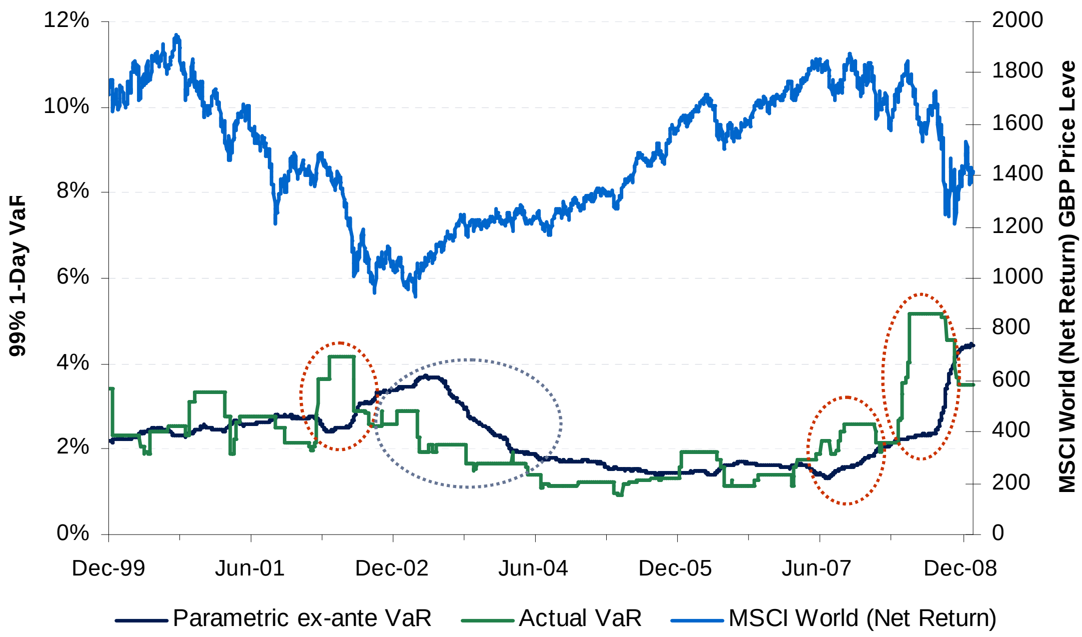
excessively restrictive when the market volatility in the VaR model is high. The chart below shows how the ex-ante VaR of the MSCI World (Net) (based on volatility of the last 252 1-day returns) has compared with what the actual worst 1-day return was over the next 100 days.

MSCI World Price Level and VaR



Source: Returns from Bloomberg, GBP returns 31/12/1998 to 16/06/2009

The areas marked in red have shown that when volatility has spiked, the 1-year volatility of the index has been slow to react, but that when it has increased it remains high for quite a long time (the area in blue). There is a risk therefore, that for funds with a high net exposure to global equities, having an absolute VaR limit will not have any effect during times of low volatility, but may force the fund to reduce exposure to global equities when volatility spikes. As volatility normally increases only after markets have suffered significant falls this may have the long-term effect of forcing funds to sell when markets have bottomed, while allowing excessive exposure when markets are high. Clearly, such an effect would be to the detriment of investors in the fund.

While an absolute VaR limit may be appropriate for portfolios that aim to have zero net exposure to bond and equity markets, I don't think it is appropriate for the majority.

Where funds have a target return (7% p.a. for example) but intend to adopt a strategy that has a positive exposure to stock and bond markets, they should be allowed to select a “neutral strategy” (e.g. 60% bonds, 40% equities) and use this as a benchmark for Relative VaR, regardless of what the performance benchmark may be.

51) Yes, the measurement of risk should be decided by the UCITS, based on what is deemed appropriate. While some funds should still be allowed to use the commitment approach and others the VaR approach, this shouldn’t have to be decided by a fund meeting “sophisticated” criteria.

I hope you find this commentary useful in your consultation, a do feel free to contact me if there are any questions you wish to ask.

Yours,

Aram Compton