

The Committee of European Securities Regulators
11-13 avenue de Friedland
75008 Paris

FRANCE

Peter Lohse LL.M (London)
Head of Legal & Compliance

Phone +352 27049-270
Fax +352 27049-111
Mobile +352 661 270598

Luxembourg, Select date

Re: CESR Consultation: "Risk Management Principles for UCITS"

Dear Sir,

Assenagon Asset Management S.A. welcomes the opportunity to comment on CESR's Consultation Paper "Risk Management Principles for UCITS". We share the view of the Committee that a risk management process is key in protecting investors from risks to which UCITS are exposed in relation to the performance of the activity of the collective portfolio management.

Assenagon Asset Management S.A. is a Luxembourg based investment management company which offers customised funds as individually structured investment solution including Principal Protection (e.g. Constant Proportion Portfolio Insurance – CPPI), Portable Alpha and pay-out profiles typical in the certificate markets. Our derivative know-how is the base for our flexibility in asset classes including money market, government and corporate bonds, structured credits, equities, commodities and hedge fund indices.

Given this background a state of the art risk management is key to the business of Assenagon Asset Management S.A. and therefore Assenagon Asset Management S.A. wants to take part in customizing the European framework for a risk management process which can deliver protection for investors from risks as well as the awareness of the Management Company of the risks associated with managing UCITS.

Please see below detailed comments and responses to the following questions:

Box 1: Supervision by competent authorities

1. The adequacy and efficiency of the risk management process should be considered by the competent authorities as part of the process for licensing the UCITS/Company, and subsequently monitored on an ongoing basis.

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.

We welcome the proposal that the risk management process should be part of the licensing process for an investment management company when applying to the supervisory authority for a licence to manage UCITS III Funds. We do not think however that it is useful to repeat this analysis of the risk management process each time the already licensed investment manager applies for approval of a new UCITS III Fund if the UCITS III Fund has no legal identity itself. As suggested by the Commission instead of this analysis there should be a continuous monitoring of the risk management process by the supervisory authorities on a case by case basis. In order to avoid regulatory arbitrage CESR should agree a common approach by all European Supervisory Authorities to make sure that the ongoing monitoring of the risk management process is applied coherently throughout the Member States of the European Union.

Box 2: Definition of roles and responsibilities

1. In order to fulfil the duty to identify, measure and manage the risks relevant to the UCITS, Companies should structure, operate and maintain an adequate and proportionate risk management process, whose functioning and organisational rules should be established as part of the organisational rules adopted by each Company.
2. The risk management process should be appropriately documented, formalised and traceable in the procedures and organisational rules of the Company. The corresponding documents will be referred to as “risk management policy”.
3. The risk management policy is approved, reviewed on a regular basis and, if necessary, adjusted by the Board of Directors.
4. The Board of Directors should be held accountable for the appropriateness of the risk management systems and procedures.

Questions for consultation:

Do you agree with CESR’s proposals? If not, please suggest alternatives.

We agree with CESR’s proposal and suggest to define in more details the terms of “risk management process” and “risk management”. Such terms do have a broad meaning and therefore can be interpreted in different ways. This would also be a measure to ensure a coherent supervisory practice by the competent supervisory authorities within the EU.

Box 3: The risk management function

1. Companies should specifically identify the relevant unit, department or personnel in charge of carrying out the risk management tasks (the risk management function).
2. The risk management function should be hierarchically and functionally independent from the operating units, where appropriate and proportionate in view of the nature, scale and complexity of the Company's business and of the UCITS it manages.
3. The risk management function should implement the risk management policy and procedures and report directly to the Board of Directors and Senior Management. It should operate in accordance with adequate standards of competence and efficiency.

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.

It would be helpful to clarify in this context that the risk management function does not necessarily be exercised by one and the same risk management department within the investment company. We totally support CESR's view that the risk management function should be functionally independent from the operating units. However structurally it is possible that also the legal and compliance or internal audit department exercises risk management functions.

Box 4: Outsourcing

1. Outsourcing of risk management activities does not exempt Companies from retaining full responsibility for the effectiveness and appropriateness of the risk management process.
2. The Company should properly and effectively supervise the carrying out of the outsourced activities. The Company should establish procedures for the periodic assessment of the Outsourcer's governance, technical and business environment, in order to monitor the quality and the appropriateness of its operations and conditions.
3. Outsourcing of the risk management function should not impair the ability of the competent authority to monitor the adequacy and efficiency of the risk management process and the Company's compliance with all its obligations.

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.

We share the opinion of the Committee that the Company should properly and effectively supervise the carrying out of the outsourced activities. Nevertheless the supervisory obligation of the Company should stay within a reasonable framework so that the outsourcing of activities remains attractive for the Company. In order to give the investment management companies the opportunity to efficiently organise its business and to focus on its core competences, administrative functions of the Company should be limited to an adequate size.

Box 5: Identification of risks relevant to the UCITS

1. The risk management process should assess and address all risks relevant to the UCITS.
2. Relevant risks should be identified among all possible risks incurred by the UCITS, according to the methods and principles defined by the risk management policy of the Company.

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.

In the context of the identification of relevant risks to the UCITS we would like to stress that also non-material risks should be identified in order to be able to monitor if and when they might become material for the UCITS.

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

1. Companies should deal appropriately with the possible vulnerability of their risk measurement techniques and models (model risk).
2. The risk measurement framework should be subject to continuous assessment and revision, and its techniques, tools and mechanisms should be adequately documented.

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.

Generally the requirements in Box 7 are important for effective risk management. Under number 36 of the Consultation Paper, it is highlighted that "stress tests should include, for example, unexpected changes in price correlations or to asset (or even market) liquidity."

It is only an example but could be easily regarded by auditors as a regulatory requirement. In this regard we would like to point out that changes in correlations and liquidity without changes in price or volatility do not lead to losses, which are measured by stress tests, unless there are very specific instruments in the portfolio, like best-of-basket-options, not-to-default-derivatives, or liquidity related derivatives. In most portfolios, these instruments are not used and the mentioned changes might lead to higher VaR or other risk measures, which however are not subject of stress tests.

Moreover changes in correlations lead easily to inconsistent correlation matrices, why one would only stress correlations in those baskets, in which one holds these specific instruments. Collapsing liquidity often leads to huge price movements, but that should be reflected in the price shock scenario.

Box 8: The link between risk measurement and asset valuation

1. Risk measures should be computed having regard to sound and reliable data.
2. The risk management function should provide appropriate support to the valuation process concerning exposures to illiquid assets, structured securities and complex derivatives.

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.

Portfolio valuation should reflect the achievable value in case it would be liquidated (partially), and this should be the the most important, if not the only, requirement for the portfolio valuation, as investors by and sell their UCITS shares on those prices. For risk management purposes the evaluation could be somehow simplified, as the price changes are more important than the absolute prices, but should be consistent with the portfolio valuation process. Effectively both processes should be consistent with each other and in no circumstances should an inappropriate process in one area lead to worsen the other one.

Box 11: Effectiveness of the risk management process

The risk management policy should define procedures that, in the event of breaches to the risk limit system of the UCITS, result in a prompt correction of the portfolio and provide for the timing of this.

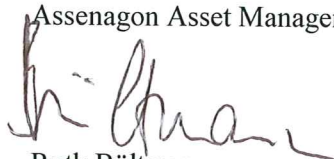
Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.

Generally we agree with CESR's proposal. We suggest however to differentiate in this context between internal risk limits of the Company and external or regulatory risk limits. As CESR we are of the opinion that regulatory risk limits should result in a prompt correction of the portfolio having regard to the prevailing interests of the investors in the Fund. Regarding internal risk limits we feel that the consequences of such breaches should be decided on by the Company itself on a case to case basis.

Yours sincerely,

Assenagon Asset Management S.A.



Ruth Bültmann
Managing Director



Peter Lohse
Head of Legal and Compliance