2010-05-31

CESR
(by e-mail)

Consultation: CESR's Guidelines on Risk Measurement and the Calculation of Global Exposure and Counterparty Risk for UCITS

The Swedish Investment Fund Association[1] (below referred to as SIFA) has been given the opportunity to comment on the above-mentioned CESR consultation.

SIFA would like to give the following comments from the perspective of the Swedish market.

General comments

SIFA agrees with most of the content in the proposed Guidelines. SIFA believe that the consultation paper accurately captures the practical management of risk measurement.

It is generally considered as positive that the guidelines are explained with non-exhaustive lists and numerical examples.

SIFA especially welcomes that the potential for netting and hedging arrangements is clarified and exemplified in the guidelines.

Detailed comments

Definition and scope of Global Exposure

Questions 1-2

Box 1 p. 4

SIFA would like to raise the question if it might be necessary to clarify the criteria mentioned for a UCITS to be obliged to use an advanced risk measurement methodology. That is, what is considered to be "more than a negligible part" of the UCITS investment policy and regarding the UCITS exposure to exotic derivatives. In the following Explanatory Text p. 2, the expressions "to a large extent" and "to a certain extent" need to be clarified in order to avoid misunderstanding whether to use the commitment approach or not. Perhaps a percentage could serve as a benchmark, a benchmark which the UCITS of course may deviate from if motivated. If this is not possible, SIFA has the view that it is important that the national supervisors agree on a common interpretation, to avoid different implementations across Europe.

[1] The Swedish Investment Fund Association is an association of 36 fund management companies representing approximately 95 percent of the Swedish fund market.

Calculation of Global Exposure using the Value at Risk (VaR) Approach

General Principles and general requirement

Question 21

SIFA agrees with the general principles outlined for the use of VaR. However, a question that arises is how the Value-at-Risk approach should be applied to fund-of-funds if the look through is limited. For example, a hedge fund-of-funds might have instruments and positions in the underlying hedge funds that are difficult to come by on a daily basis in order to calculate a daily absolute VaR. Furthermore, the underlying hedge funds might have a NAV that is set on a monthly basis.

Relative VaR approach

Question 23 (and 25)

SIFA would like to propose that the following alternative way to calculate the relative VaR of a fund should be allowed and consequently described in the guidelines.

By creating a "spread portfolio" consisting of a long position in the fund and a short position in its benchmark portfolio and then calculating the absolute VaR of the "spread portfolio" you get the relative VaR.

[(VaR of spread portfolio)/Market value of the portfolio] = Relative VaR

VaR approach: Quantitative requirements

Question 27

SIFA suggests that the maximum VaR limit should be raised. Depending on the risk profile of a fund the absolute VaR of a UCITS may very well be greater than 4.47% (having a holding period of 1 day and a confidence interval of 99%) The maximum absolute VaR limit should for that reason be raised by 50%. Hence the maximum absolute VaR limit would instead be 6.71% (1d, 99%) i.e. 30% (1m, 99%).

THE SWEDISH INVESTMENT FUND ASSOCIATION

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