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Your Ref: Comment letter on CESR's Guidelines on Risk Measurement and the Calculation of Global Exposure for certain types of structured UCITS

Dear Sir.

Thank you for giving us the opportunity to comment on your consultation paper on CESR's Guidelines on Risk Measurement and the Calculation of Global Exposure for certain types of structured UCITS. I will first make some general comments, and then discuss some more detailed points.

Overview

I generally support your guidelines which propose a specific approach to the application of the July CESR guidelines¹ on the calculation of the global exposure for certain types of structured UCITS. Your proposed approach consists of the calculation, for each scenario to which investors can be exposed at any one time, of the global exposure using the commitment approach. Under this approach each scenario must comply at all times with the 100 per cent global exposure limit using the July CESR guidelines.

The guidelines provide a simplified framework for tranche-based, "non-sophisticated" structured UCITS, which is reasonable and appropriate compared with the more complex risk-based approach, based on value-at-risk (VaR), which must be employed for "sophisticated" UCITS. The guidelines complement and complete the July CESR guidelines, providing clarity on when and how the commitment approach should be used for such "non-sophisticated" UCITS.

¹ See CESR/10-788, CESR's Guidelines on Risk Measurement and the Calculation of Global Exposure and Counterparty Risk for UCITS, CESR, 28 July 2010: <http://www.cesr.eu/index.php?docid=7000>

More comments on the consultation paper

Box 29, 1. Such UCITS are still required to establish appropriate internal risk management measures and limits.

Box 29, 2. I agree in principle with the proposed criteria for these structured UCITS.

Box 29, 2. e). It is not clear why there should be such a bright line at 9 years. What is the rationale for this? The explanation given in para 94 is rather vague. I would prefer that the prospectus clearly discloses the risks and impact on investors who redeem prior to maturity, possibly with some examples of "worst-case" losses on early redemption.

Box 29, 2. h). Limited to what? This is not clear. The explanation given in para 95, for example, is vague. I would prefer that the prospectus clearly discloses such "worst-case" maximum losses.

Para 92. However, the onus is on the UCITS to provide such complete information that the proper disclosure is still fair, i.e. not misleading.

Para 100. I fully agree with this.

Yours faithfully

C.R.B.

Chris Barnard