Here are our comments about the questions n° 17-18-19-20-56-57-58-59

17. What are the advantages and disadvantages of each methodology?

We understand the sensitivity approach as a complementary method to the classic commitment approach that aims at reaching a more adequate commitment calculation for interest rate derivatives. In this perspective, Option 2 is a more appropriate method than Option 1 as Option 2 better suits with commitment calculation principles.

Indeed, Option 2 is based on the calculation of an underlying asset position that simply translates in "cash terms" the derivative's sensitivity to the underlying's changes in price. This conversion naturally allows for netting under specific and calibrated compensation conditions.

Thus, in our view, Option 2 is in line with the Basel II methodology as both are based on a sensitivity approach. Notwithstanding, it is worth mentioning that there is one major distinction between the two methodologies which accounts for the unmistakable difference in goals. Indeed, the Basel II methodology was designed for the calculation of capital requirements, whereas the sensitivity approach as detailed in Option 2 is redesigned to match with the global exposure calculation under the commitment approach. In our members' view, this makes an undeniable positive feature under Option 2.

In parallel, Option 1 sticks to a larger extent to the Basel II methodology and obtains results consistent with a capital requirements objective. In Box 7, Statement 2 estimates the capital requirement of each debt instrument as in Basel II methodology (see pages 169 and 170 of Annex)[1]. It can be interpreted as a VaR estimation and it is not coherent with the commitment approach of part 2 of the CESR document. It would be much better to use directly the general VaR approach in part 3 of the CESR document. Statement 2 is mixing the commitment and the VaR approach and is therefore confusing.

We are not sure to understand how these results convert in the end into a commitment calculation (Box 7, page 20). Indeed, Statement 8 proposes a conversion of the capital requirement (or VaR) into an exposure which has sense for Banks but not for UCITS (see page 12 of Annex). Therefore, our members fail to see how the use of a multiplier (12.5 in the text) is consistent with a commitment calculation approach for the sake of calculating global exposure for UCITS. Moreover, this conversion is not compatible with statement 1 of Box 14 of the general VaR approach (part 3 of the document).

[1] Annex to : *International Convergence of Capital Measurement and Capital Standards A Revised Framework Comprehensive Version*
This document is a compilation of the June 2004 Basel II Framework, the elements of the 1988 Accord that were not revised during the Basel II process, the 1996 Amendment to the Capital Accord to Incorporate Market Risks, and the 2005 paper on the Application of Basel II to Trading Activities and the Treatment of Double Default Effects. No new elements have been introduced in this compilation.
BIS, June 2006
http://www.bis.org/publ/bcbs128.htm

Step 2 in Option 1 allocates instruments to different sensitivity zones. Compared to the maturity buckets proposed in Option 2 that are designed to encompass the main debt issue maturity points:

- Option 1 zones are less stable;
- Option 1 zones are defined based on volatility and correlation assumptions less up-to-date.

18. Which methodology do you consider more appropriate? Please give explanations and indicate whether additional safeguards should be included.

As stated above, our members favour Option 2 which is a steadier and adequate method for the purpose of global exposure calculation under the commitment approach than Option 1.

19. In the last step of Option 1, the total amount is multiplied by 12.5. Do you consider that (i) this takes due account of the sensitivity of the UCITS and (ii) that this is in line with the commitment conversion methodology (e.g. conversion of the derivative into the market value of the equivalent position in the underlying assets)?

(ii) As we have already mentioned in our answer to question 17, our members have remarked that using this multiplier is consistent nor with the commitment conversion method neither with the general VaR approach as clearly this is not a methodology designed to answer the specific needs of global exposure calculation. The resulting figures under Option 1 correspond to risk amounts that are meant to be used to determine the capital required.

(i) Option 1 does take due account of the sensitivity of the UCITS, however this is interesting only as part of the method in order to permit netting and hedging; the goal is not to compute sensitivities but to compute global exposure.

20. Under option 2 the target sensitivity of the UCITS can be longer than the sensitivity of the derivative while the equivalent underlying position is relatively small. This can result in high levels of leverage within the UCITS. Please provide views on the additional safeguards that could be introduced to mitigate this risk.

If the target sensitivity is in line with the investment strategy of the UCITS, the perceived gap between the UCITS target sensitivity and the derivatives' sensitivity is clearly contained.

58. Please indicate which of the above criteria would provide sufficient safeguards for investors in UCITS which apply this approach.

Our comments on the list of criteria provided by CESR:

1. The fund is passively managed and structured to achieve a pre-defined payoff

As mentioned above, we agree on this criteria, provided that the term "passive" means that the manager, at all times, (i) will have to respect the promised payoff, without any right to change it, and (ii) must make sure that he will be able to achieve the required payoff, in practice through derivatives. This should of course not prohibit the manager from his other duties, which are active by nature, like actively managing his relations with derivatives counterparties, actively entering and unwinding derivatives, changing counterparties, managing counterparty risks, managing inflow and outflows etc.

2. The pre-defined payoff is based on a calculation formula relating to the performance of financial instruments or other financial parameters

As mentioned above, we agree on this criteria. We believe that this is the only possible meaning of a "pre-defined payoff".

3. The fund has a final maturity date not exceeding 9 years

We believe that such safeguard is acceptable, since in practice most of these funds have a maturity that is lower than 10 years Structured Funds are purchased by investors on the basis that they will hold them until maturity so it makes sense not to extend too much this duration. It seems to us; however, that 9 year is a little bit too short. We would rather propose 15 years.

4. The fund is not open to new subscriptions

We believe that this is not completely necessary. We proposed hereunder an alternative which is to close the fund if and when it is not able to respect the standard risk guidelines.

5. The prospectus contains full disclosure regarding the investment policy, underlying exposures and pay-off formulas. It should also contain information on leverage levels and the specific risks associated with investing in such a fund.

We agree on this. We believe that, since the payoff is predetermined, it should be explained to investors, in a summary way in the KID, and in a more detailed way in the full prospectus.

6. The final predefined payoff is guaranteed by a credit institution located in the OECD or by entity subject to prudential supervision

We agree. We believe that it is essential to make sure that the formula is effectively guaranteed at maturity. For the sake of these guidelines, we should consider as Structured Funds only funds where reaching their promised pay-off at maturity is not only a fiduciary duty of the manager but also a legally binding requirement. We therefore believe that it is important to require that the final predefined payoff be guaranteed by an external entity with enough capital to make a strong, legally binding and enforceable commitment.

7. Investors capital on maturity is guaranteed by a credit institution located in the OECD or by an entity subject to prudential supervision; or capital protection on maturity is obtained through investments in deposits, debt securities of high quality such as debt securities issued by an entity subject to prudential supervision and registered in a Member State of the EEA or debt securities issued or guaranteed by a Member State of the EEA

Structured Funds are sometimes, but not always, capital guaranteed. In fact, they are less and less so, due to the low interest rates level. Their underlyings can be indices or any allocation of securities, in general shares. Their returns may be linked, for example, to the prices reached, at some pre-determined dates, by shares that belong to a pre-determined basket.

It would be very restrictive to limit such funds to capital guaranteed funds. Investors would have a protected downside but at the price of a very limited possible upside, especially if the maturity is limited to 9 years. Very few formulas would therefore make sense and investors would be extremely restricted in their choice. Structured Notes would become the only standard of the market, at the detriment of UCITS, at the very time where the EU commission realizes, in the course of the PRIPs debate, that UCITS are much more regulated and protective of investors than alternative products.

59. Can you suggest any additional criteria?

Yes, we believe that additional safeguards are possible. These safeguards are there in order to make sure that the Structured Products guidelines are used only to the extent that they are necessary. Standard guidelines should be implemented as much as possible.

1. An obligation to respect at any time counterparty risks requirement

Structured Funds can respect these constraints. If any doubt, it should be made clear that they will not have any specific guideline in this respect.

2. An obligation to comply with all the standard guidelines at inception

Structured Funds should be created only the extent that they comply with all the standard guidelines at inception. If they are not able to comply at inception, they should not be created.

3. An obligation to comply with all the standard guidelines as long as the fund is marketed

If at some point the manager sees that the standard guidelines, as regards the commitment approach and as regards the issuer concentration limits, cannot be respected, the fund should close to new subscriptions and stop being marketed.

4. An anti-avoidance rule

It would be prohibited to create a Structured Fund where the formula itself shows that the fund will never be able to respect the standard guidelines during its life.

Example of a fund that should not be allowed: a fund with an indexation on an appropriate number of securities in order to respect proper diversification at inception but that, over time, has an exposition that is reduced automatically to a number of securities that is too limited to allow proper diversification, even if the market conditions were at that time the same as at inception.