

POSITION PAPER



ESBG response to CESR consultation on risk management principles for UCITS

(CESR/08-616)

October 2008



The European Savings Banks Group (ESBG) welcomes the opportunity to comment on the draft Level 3 measures as regards risk management principles for UCITS.

In general, the ESBG welcomes the proposals included in the consultation document. We consider that the proposed risk management standards are sound.

The ESBG would like to comment on some specific points included in the CESR draft:

- **Box 1 (supervision by competent authority):** We agree that the adequacy and efficiency of the risk management process should be considered by the competent authorities as part of the process for licensing the company. However, we disagree that this should on an ex-ante basis be the case for the licensing of each single UCITS. Such a procedure would disrupt the issuing of new funds and would go beyond the requirements of the UCITS Directive (Article 21).
As regards the idea that changes to the risk management process of each funds should be assessed by competent authorities, we would like to highlight that for practical reasons also such an assessment should be done on an ex-post basis and, where comparable, encompass all funds to which the same risk management process applies.
- **Box 6 and 7 (Risk management techniques/ Management of model risk concerning the risk measurement framework):** In our view the text does not sufficiently reflect the EU recommendation on the use of derivative instruments in UCITS funds (2004/ 383/ EC). Whereas in point 28, CESR recognizes the fact that higher-risk profile UCITS may need more complex measures than plain low-risk profile ones, we believe that additional clarifications are necessary: For the same reasons that funds which use derivative instruments on a large scale are required to apply qualified risk management methods, funds which do not use derivative instruments on a large scale or which use derivative instruments only for purposes of efficient portfolio management should be permitted to use simplified risk measurement methods.
- **Box 8 (link between risk measurement and asset valuation):** Although we agree that there is a close link between risk management and valuation, we do not think that risk managers should test the data used (and provided by the valuation department) against the valuation of actual comparable trades. In our view this task falls within the competence of the valuation department.
- **Box 11 (effectiveness of the risk management process):** We believe that in the event of breaches to the risk limit system of the UCITS, the risk management needs to respond immediately by starting an investigation of the underlying causes. Based on this investigation, decisions as regards the corrective action and its timeframe should be taken. In deciding what is appropriate, risk management should act in the interest of the client. We would like to highlight that immediate correction of the portfolio is not always best in protecting the interest of the client. Therefore we doubt that “prompt correction” is the right term, as this might imply a mechanical response, not permitting the time for a proper investigation.



About ESBG (European Savings Banks Group)

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising about one third of the retail banking market in Europe, with total assets of € 5215 billion (1 January 2006). It represents the interest of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

ESBG Members are typically savings and retail banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their region. ESBG Member banks have reinvested responsibly in their region for many decades and are one distinct benchmark for corporate social responsibility activities throughout Europe and the world.



European Savings Banks Group - aisbl
Rue Marie-Thérèse, 11 B-1000 Brussels Tel: +32 2 211 11 11 Fax : +32 2 211 11 99
Info@savings-banks.eu www.esbg.eu

Published by ESBG. October 2008