P I M C O

PIMCO EUROPE LTD
Nations House
103 Wigmore Street
London W1U 1QS

31 May 2010

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

Re: CESR's Guidelines on Risk Management and the Calculation of Global Exposure and Counterparty Risk for UCITS - Response to Consultation Paper dated 19 April 2010

Dear Sirs,

PIMCO is one of the world's leading fixed income managers. PIMCO Funds: Global Investors Series Plc (the "Fund") is an Irish domiciled umbrella UCITS investment company which has a net asset value of approximately US$ 45 billion (as of 31 May, 2010). The Fund is managed by both PIMCO Europe Ltd and Pacific Investment Management Company LLC. PIMCO Europe Ltd is a limited liability company organised under the laws of England and Wales, is authorised and regulated by the U.K. Financial Services Authority and is wholly owned by PIMCO Global Advisors LLC, a wholly owned subsidiary of Allianz Global Investors of America L.P.. PIMCO Europe Ltd had more than US$ 128 billion in assets under management in London (as of 30 April, 2010). Pacific Investment Management Company LLC, a Delaware limited liability company, was founded in 1971 and had more than USD 1 Trillion in assets under management (as of 30 April, 2010). In the United States, Pacific Investment Management Company LLC manages a large number of 1940 Act mutual funds.

PIMCO has used derivatives since 1980 in an attempt to manage portfolio risk, exploit market inefficiencies and improve risk adjusted performance. It is our view that with careful risk measurement and appropriate investment guidelines derivatives can be prudently and successfully used to potentially enhance portfolio returns. We therefore welcome the opportunity to provide comments on CESR's queries regarding risk management and the Calculation of Global Exposure and Counterparty Risk in UCITS Funds.

We have set out in the attached response our comments in relation to the certain sections of the Consultation Paper. We would be happy to discuss these in further detail if desired - please contact Tom Rice (+44 20 7872 1378; tom.rice@uk.pimco.com) or Ian Scorah (+44 20 7872 1385; ian.scorah@uk.pimco.com).

Yours Faithfully

Tom Rice
Senior Vice President – European Legal Counsel

Comments upon CESR's Guidelines on Risk Measurement and the Calculation of Global Exposure and Counterparty Risk for UCITS – Consultation Paper (CESR/10-108)

Section 2 – Calculation of Global Exposure using the Commitment Approach
2.1 Conversion Methodologies
2.1.1 Standard Derivatives - Embedded Derivatives and Non-Standard Derivatives
Point 3 in Box 2
Point 4 in Box 2

Questions
3. Do you agree with the proposed conversion methodologies for the different types of financial derivatives instruments?

We think that there should be a broader range of conversion methodologies than those set out at point 3 in Box 2

- We note that CESR is seeking delta weighting value in respect of Plain Vanilla Options. We would suggest that a UCITS should also be able to use the mark-to-market value for this purpose.
- Purchased options should not give rise to any exposure or commitment (beyond the premium paid). Accordingly, they should not require any cover or be taken into consideration for the purpose of calculating global exposure.
- With the exception of contracts for differences, the notional values of swaps are not exchanged. Accordingly, coverage for swaps (including total return swaps) should be market value based rather than notional.
- For forward FX only, non-hedging positions need to be covered as settled bond and forward FX for hedging should be viewed as a single hedge position (i.e. only excess forward currency requires coverage).

We feel that the non-exhaustive list should be more extensive and amended in light of the above comments. Please find attached, in Appendix I to this document, a non-exhaustive list for your consideration.

In addition, we do not believe that Convertible Bonds should be considered embedded derivatives (as suggested at Point 4 in Box 2). A consideration is paid for a convertible bond at the time of its acquisition. The bond converts into equity without any further consideration and consequently without any need for cover or to be taken into account for the purpose of calculating global exposure.

4. Do you have any alternative suggestions?
See Appendix I

2.1.3 Netting & Hedging
Box 5
Netting and Hedging – Point 4

"If the UCITS uses a conservative calculation rather than an exact calculation of the commitment for each financial derivative instrument, hedging and netting arrangements cannot be taken into account to reduce commitment on the derivatives involved". Please clarify what is meant by a "conservative approach" rather than an "exact calculation".

Question
10. Do you agree with the proposed criteria for netting and hedging in order to reduce global exposure?

While we agree generally with the proposed criteria, we require further clarification on what is meant "conservative calculation" and "exact calculation" of the commitment for each financial derivative instrument.

Section 3 - Calculation of Global Exposure using the Value at Risk (VaR) Approach

3.7 VaR approach: Qualitative requirements
Box 21
Model Validation -Point 3

Question
39. Do you agree with the requirements regarding model testing and validation?

We do not agree with the proposed requirement for model validation by a party independent of the building process. In light of the stress testing and back testing procedures already provided for, we are of the view that the cost of a validation procedure by a party independent of the building process (for ensuring that the model is conceptually sound and captures adequately all material risks) is a disproportionate cost and should not therefore be imposed.

Disclosure
a) Prospectus
Box 23

Question 42
42. In particular do you agree that UCITS using VaR to calculate global exposure should disclose the expected level of leverage in the prospectus?

Assuming that a UCITS is using either Relative or Absolute VaR, we do not agree that it (i) should be required to disclose the expected level of leverage or (ii) calculate leverage as the sum of the notionals of the derivatives used.

Section 4- OTC Counterparty Risk Exposure
4.2 Counterparty/Issuer Concentration
Box 26

Question
48. Do you agree that exposure to a clearing house should be considered as part of the counterparty exposure limit? Do you have any alternative suggestions?

We do not agree with this proposal which is inconsistent with the UCITS requirements in relation to exchange traded derivatives (which are not required to be taken into account for the purpose of counterparty limits contained in Articles 52(1)).

APPENDIX I

Commitment Approach Calculations – Conversion Method – Standard Derivatives

Exposure	Calculation	Coverage	Calculation
Short Call - Bond	Par X Market Price of Underlying	Long Call	Par X [Strike of short call - (strike of long call - strike of short call)]
		Long Bond	Par X [Strike of short call - (market price of bond - strike of short call)]
Short Call - Futures	Par X Market Price of Underlying	Long Underlying Futures	Par X [Strike of short call - (market price of futures - strike of short call)]
		Long Call	Par X [Strike of short call - (strike of long call - strike of short call)]
		Long Deliverable of Futures	Par X [Strike of short call - (market price of deliverable – strike of short call)]
Short Call - Currency	Par X Market Price of Underlying or spot rate if underlying is not priced	Long Call	Par X [Strike of short call - (strike of long call - strike of short call)]
		Long Currency	Par X [Strike of short call - (current exchange rate - strike of short call)]
Short Call - Index	Par X Market Price of Underlying	Long Call	Par X [Strike of short call - (strike of long call - strike of short call)]
		Long Underlying Index	Par X [Strike of short call - (index price - strike of short call)]
Short Put - Bond	Par X Strike	Long Put	Par X Strike of Long Put
		Short Underlying	Par X Contract Price
Short Put - Future	Par X Strike	Long Put	Par X Strike of Long Put
		Short Underlying Future	Par X Contract Price
		Short Deliverable of Futures	Par X Contract Price
Short Put - Currency	Par X Strike	Long Put	Par X Strike of Long Put
		Short Underlying Currency	Par X Contract Price

Short Put - Index	Par X Strike	Long Put	Par X Strike of Long Put
		Short Underlying Index	Par X Contract Price
Short Future	Par X Market Price	Long Future	Par X Market Price of Future
		Long Call	Par X [Market Price of Future - (Strike of call - Market Price of Future)]
		Long Call On Deliverable	Par X [Market Price of Future - (Strike of call - Market Price of Future)]
		Long Deliverable	Par X Market Price of Deliverable
Long Future	Par X Market Price	Short Future	Par X Market Price of Future
		Long Put	Par X {Market Price of Future - (Market Price of Future - Strike of Put)]
		Long Put on Deliverable	Par X {Market Price of Future - (Market Price of Future - Strike of Put)]
		Short Deliverable	Par X Contract Price of Deliverable
Money Market Futures	Daily Margin	Liquid Assets	
SWAPS - other than short CDS	ABS Market Value		
Short CDS	Notional value	Long CDS on same credit	Notional value
		Long underlying credit	Notional value
Long Forwards	Par X Market Price	Short Underlying	Par X Market Price
		Long Put on Underlying	Par X [Market Price of Bond - (Market Price of Bond - Strike of Put]
Short Forwards	Par X Market Price	Long Underlying	Par X Market Price
		Long Call on Underlying	Par X [Market Price of Bond - (Strike of Call - Market Price of Bond)]
Long Currency Forwards	Excess currency	Long Put	Par X Strike of Long Put
Short Currency Forwards	Excess currency	Long Call	Par X [contract price - (strike of long call - contract price)]