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**AMUNDI’s RESPONSE TO**

**ESMA’s CONSULTATION PAPER ON**

**REVISION OF THE PROVISIONS ON DIVERSIFICATION OF COLLATERAL IN ESMA’s GUIDELINES ON ETFs AND OTHER UCITS ISSUES**

(closing January 31, 2014)

Amundi approves that ESMA may contemplate improving its regulation when manifest excesses or misconceptions have been evidenced by the industry. This sign of “openmindedness” is very encouraging and welcomed.

Furthermore, Amundi totally agrees with ESMA’s approach to consider collateral (including securities received in a Reverse Repo transaction) as a specific portfolio totally different from assets held by the fund. The collateral is a risk mitigation factor and its composition should not interfere with the investment decisions of the asset manager. Each portfolio must independently comply with specific requirements. However we believe that some rules can be identical in both cases. Such is the case for the ability to hold up to 100% in government securities.

Without any idea to reopen discussions on the guidelines which are now implemented, Amundi wishes to bring to ESMA’s attention the very few following points where it feels that modifications of ESMA’s position could be considered at the level of F and Q or in relationship to the proposed regulation on benchmarks:

* **securities resulting from cash collateral** reinvestment should be considered in the concentration ratio of the assets of the fund and not in the collateral portfolio as they result from an investment decision of the asset manager (in a limited list of eligible assets); currently the FAQ published in July 2013 suggests a double monitoring which is unnecessary in terms of risk control and difficult to manage operationally;
* **Indices :** due diligences asked from UCITS managers when investing in an index should be simplified in many instances in consideration of the proposed regulation of indices administrators currently discussed by the European Parliament; for example, when using indices traded through future contracts on regulated markets eligible for UCITS, asset managers should be entitled to rely on the due diligences and controls conducted by local authorities that agreed and supervise the contract.

Last but not least, Amundi would like to insist on ESMA’s role to ensure a **consistent implementation** of its guidelines throughout all Member States. It is our experience that some countries prefer gold plating when others take a more pragmatic view.

**Q1. Do you believe that ESMA should revise the rules for the diversification of collateral received by UCITS that take the form of money market funds in the context of efficient portfolio management techniques and OTC transactions? If yes, do you agree with ESMA’s proposal?**

We consider that ESMA should revise the rules for the diversification of collateral received by all types of UCITS. The proposed limitation to MMFs seems to result from a misunderstanding. If MMFs are probably among the largest users of Reverse Repos (RR) and particularly hit by the existing rule, all UCITS are concerned. We consider that the rule is not based on objective risk criteria and appears disproportionate. Indeed, we consider that limitations on collateral should not be greater than those applied to assets directly held by UCITS funds. Moreover, should the amendment proposed by ESMA be adopted, it would seem inconsistent to grant an exemption to MMFs only, which are the most secured and tightly regulated funds, and to forbid other UCITS with a higher risk profile to use the same flexibility.

Amundi totally supports the terms of the letter sent by EFAMA to ESMA on October 10, 2013. We stress that EFAMA in its letter mentioned MMFs as an example and focused on those MMFs that have to exclusively hold government bonds in order to illustrate (with a paroxysmal case) the inadequacy of the rule concerning all UCITS. EFAMA expressly recommended an amendment to the rule not limited to MMFs. MMFs are not the only nor the most impacted UCITS. Any UCITS that would invest more than 20% of its asset portfolio in reverse repo would be. For example many structured UCITS like “Formula Funds” invest in reverse-repo up to 100% of their asset, especially when the Fund must be able to face strong redemptions on anticipated maturity dates.

Beyond the operational difficulties, the obligation to diversify among 5 or 6 sovereign issuers instead of concentrating on several issues of one or two top quality government issuers will either lead to an increase of risk or a deterioration of final conditions and performance for investors.

As a consequence we cannot agree with ESMA’s proposal as it is limited to MMFs. It does not rely on the strong basis of a fundamental analysis of risk resulting from Reverse Repos on government bonds but seems an exemption offered for purely pragmatic reasons.

Furthermore we consider that a specific regulation of MMF being currently discussed before the European Parliament it would be wiser to postpone any decision concerning them specifically.

Conversely, we strongly support option 2 as expressed in Annex II, because it provides a justified flexibility to all UCITS.

**Q2. Do you think that ESMA should introduce additional safeguards for government bonds received as collateral (such as a specific issuer limit) in order to ensure a certain level of diversification? Please give reasons for your answer.**

No, we think that there is no need for additional requirement on government bonds received as collateral or in the framework of a RR transaction. The exemption from the 20% concentration limit for government bonds does not exempt UCITS and their managers to assess the high quality and liquidity of the bonds received and ask for appropriate haircuts. And we know that those may move more rapidly than any regulation.

**Q3. Do you agree with the proposed requirement to diversify the government securities across at least six different issues?**

We consider that, for collateral, liquidity and credit quality are far more important than diversification. However we do not object to some concentration limits.

The rule to diversify among 6 issues none of which shall exceed 30% is not necessary and somehow confusing, when applied to collateral. It refers to the existing rule applying on the investment portfolio without duplicating it: we do not know what would happen for funds receiving in government bonds a percentage situated between 20 and 35% of their assets, whether they may concentrate it on one single issue or not.

We suggest to maintain the 20% ratio that is the reference in the guidelines and indicate that no single issue should exceed 20%. This would be more effective in terms of risk, since 20% is lower than 30%, and would prevent any threshold difficulty when reaching 30% and having to split the position in 6 issues. In case of collateral representing 100% of the fund assets, there will effectively be a minimum of 6 issues (because it is impossible to exactly adjust to have 5 times 20%). Operationally, collateral is posted by a counterparty that will find it easier to deliver one issue up to 20%, then another with the same limit and avoid to instruct delivery for a nominal amount of some 4 other issues to reach the minimum of 6. It will facilitate back office treatment, reduce cost and improve controls and safety of transactions.

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