Dear Sirs,

Matrix Money Management Ltd welcomes the opportunity to respond to ESMA’s consultation entitled ‘ESMA’s guidelines on ETFs and other UCITS issues’.

Please note that although the CP contains many pertinent issues in respect of UCITS, the focus of our response is the questions within Sections VIII and IX. We have provided feedback to and are supportive of the comments from the Investment Management Association on both ETFs and ‘other UCITS issues’.

By way of background, Matrix Money Management is an FSA authorised investment management company: the firm operates a UCITS Platform located in Ireland; in addition the firm manages and distributes both UCITS and alternative investment products. The UCITS Platform currently has three funds with the following investment strategies: 1) Long/Short Equity; 2) Convertible Arbitrage; 3) CTA.

We understand ESMA’s overarching policy concern that in recent years, hedge fund managers may have ‘usurped’ UCITS and taken product development to a level not envisaged in UCITS 3, and that this transition from so called ‘true-cits’ to ‘new-cits’ potentially threatens the global reputation of the UCITS ‘brand’. However, with reference to Box 8 (proposed guidelines for strategy indices) and Box 9 (transitional provisions), ESMA must also recognise that if it adopts the CP’s proposals as guidelines, it risks the discontinuation of so called CTA UCITS, in their current approved form. Our analysis (which we would be happy to discuss with ESMA) indicates that there is approximately $2.5 billion of CTA UCITS assets under management. The CTA industry therefore is not insignificant, and the guidelines, as written, risk pushing future development of the industry, offshore.

Further, ESMA will know that all UCITS go through a rigorous approval process; competent authorities only authorise an investment strategy as a UCITS after the management company has been through a rigorous application process. Once a fund is authorised as a UCITS, then it is ‘free’ to make use of the marketing provisions. If, now, ESMA and the EU Commission want to retract from such approvals, then it reflects unfavourably on competent authorities. We feel more rigour needs to be implemented in the decision-making process – between Level 1 and Level 3 – for mandating UCITS.

We also believe the proposed guidelines will create uncertainty for investors and will lead to the unusual scenario whereby a CTA UCITS will remain authorised but which – in practice – would be closed to new investment; in effect becoming ‘closed’ open-ended funds.The intervention could also dis-intencivise redemptions from UCITS CTA, where investors are keen to keep an allocation to a regulated structure, despite advice from an investor’s intermediary that recommends a change in investment approach.

If ESMA feels it is appropriate to adopt all the guidelines (in respect of strategy indices) then it is imperative that it also adopts a transitional period, which coincides with the implementation date of AIFMD, and which would enable firms to manage the conversion of such funds from UCITS to AIFs.

Please see our below detailed response.

**Q39: Do you consider the proposed guidelines on strategy indices appropriate? Please explain your view.**

If ESMA propose to extend the guidelines to all indices and not just strategy indices, then the approach would be acceptable, but we ask ESMA to consider the following points:

1. **Re-balancing**: the frequency of re-balancing will vary according to the constituents of the index, in some circumstances the frequency has to be daily; therefore placing a limit on frequency seems arbitrary and impractical. Also, if ESMA is referring to changing in weightings, then ‘traditional’ indices are re-balanced frequently /daily – a function of market prices. Does ESMA propose to subject such indices to the guidelines in Box 8? In our view, the Eligible Assets Directive does not distinguish between the types of index. We therefore propose that the guidelines should incorporate a requirement for the UCITS to disclose the rules on re-balancing in the Prospectus, such that investors can understand the drivers of performance of the index.
2. **Publication of the index**: we trust ESMA has considered the implications of index providers having to publish both the constituents and relative weightings of an index? If both aspects of an index are published then what safeguards are there to prevent replication; also what commercial advantage would be left in creating an index at all? We propose that strategy indices should be required to publish all constituents of the index, changes to constituents, the re-balancing methodology, but not the relevant weightings.

**Q40: Do you think that further consideration should be given to potential risks of conflict of interest when the index provider is an affiliate of the management company?**

UCITS IV has adopted the MiFID requirements on conflicts of interest, which means the regulatory obligations and fiduciary responsibilities of the management company should not be compromised regardless of whether the index provider is an affiliate. It should be noted that the requirement to manage conflicts applies both to the management company and the index provider. Any further concerns should be considered within MiFID 2.

On behalf of Matrix Money Management Ltd

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