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Risk management principles for UCITS

Consultation Paper

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INTRODUCTION

Background

1. A risk management process is key in protecting investors from risks to which UCITS are exposed in relation to the performance of the activity of collective portfolio management.

2. The European legislation in the field of collective portfolio management is rather limited as regards risk management. Article 5f(1)(a) of the UCITS Directive establishes the obligation for the home Member State to require asset management companies to have adequate procedures and internal control mechanisms in place. More detailed provisions are set out in Article 21 of the Directive, which focuses on principles for the measurement and management of risks associated with the positions in derivatives. In 2004 the European Commission issued a Recommendation[1] to supplement the above provisions on the use of financial derivatives by UCITS. The Recommendation, however, stresses the general principle according to which "all material risks" incurred by the UCITS should be accurately measured.

3. CESR, through its Investment Management Expert Group[2], carried out a survey on how the 2004 Recommendation had been implemented in the different EU jurisdictions. The survey was also aimed at assessing whether CESR Members require risk management systems for all UCITS, including those not investing in derivatives. 25 Members responded to the survey. The responses highlighted different approaches to risk management as well as to the implementation of the 2004 Recommendation.

4. On the basis of the priorities expressed by CESR Members, it was decided that CESR would embark on further work concerning:

   a. specific technical and quantitative issues regarding UCITS portfolio parameters to measure global exposure, leverage and counterparty risk;

   b. the definition of guidelines for the industry as well as supervisory authorities in the risk management area.

[1] Recommendation 2004/383/EC of 27 April 2004.
[2] The CESR Investment management Expert Group is chaired by Lamberto Cardia, Chairman of the Italian Commissione Nazionale per la società e la borsa (CONSOB)

5. Convergence work in the above areas would be helpful in preventing regulatory arbitrage, fostering mutual confidence and delivering investor protection.
6. CESR's view is that sound risk management systems require organisational requirements and specific safeguards and diligences in order to ensure that all kinds of risk are adequately captured. Such requirements and good practices would be set out through common principles in order to both foster convergence among competent authorities and provide useful guidance to market participants.
7. In particular, this paper proposes a framework for guidelines concerning risk management, providing principles and an outline of the key elements for a standard in the risk management process.
8. The following principles should apply to both asset management companies and investment companies that have not designated a management company (self-managed UCITS). Definitions of key terms used in this paper are included in the following section ("Definitions").
9. The principles will be complemented by a paper on the aforesaid technical and quantitative issues related to risk management, which is expected to be published for consultation by the end of 2008.

Consultation

10. Readers are asked to consider the questions in this consultation paper and submit their response via CESR's website (www.cesr.eu) under the section "Consultations". The consultation closes on 17 October 2008.

Next steps

11. CESR will publish a feedback statement and final level 3 text, by the end of this year.

DEFINITIONS

1. Company: either the designated UCITS III management company or the self-managed investment company;
2. Senior Management: the person or persons who effectively direct the business of the company according to Article 5a 1(b) of the UCITS Directive;
3. Supervisory Function: the function within the Company responsible for the supervision of the adequacy and effectiveness of the risk management process.
4. UCITS: a collective investment scheme constituted according to the provisions of the Directive 85/611/EC as amended.
5. Outsourcer: a third party to which a Company may delegate the performance of risk management activities.

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RISK MANAGEMENT FOR UCITS - LEGISLATIVE BACKGROUND

1. Article 5f 1.(a) of the UCITS Directive provides that "*...the competent authorities of the home Member State, having regard also to the nature of the UCITS managed by a management company, shall require that each such company has sound administrative and accounting procedures, control and safeguards arrangements for electronic data processing and adequate internal control mechanisms...*".

2. Similar requirements are laid down for those investment companies that have not designated a management company, by Article 13c of the UCITS Directive.

3. Under Article 21 of the UCITS Directive "*the management or investment company must employ a risk-management process which enables it to monitor and measure at any time the risk of the positions and their contribution to the overall risk profile of the portfolio; it must employ a process for accurate and independent assessment of the value of OTC derivative instruments. It must communicate to the competent authorities regularly and in accordance with the detailed rules they shall define, the types of derivative instruments, the underlying risks, the quantitative limits and the methods which are chosen in order to estimate the risks associated with transactions in derivative instruments regarding each managed UCITS*".

4. Furthermore, the 2004 Recommendation outlines some basic elements concerning risk management practices and systems which should be taken into consideration by CESR Members. In particular, it recommends that "*...risk-measurement systems...are adapted to the relevant risk-profile of a UCITS...*" and "*...accurately measure all material risks related to the UCITS...*".

5. Finally, when engaging in individual portfolio management, asset management companies are also subject to risk management requirements imposed by MiFID. In particular, Article 13(5) of the MiFID level 1 Directive states that firms *"...shall have... effective procedures for risk assessment..."*; this requirement is further explained by Article 7 of the MiFID level 2 Directive as the obligation:
   "… (a) to establish, implement and maintain adequate risk management policies and procedures which identify the risks relating to the firm's activities, processes and systems, and where appropriate, set the level of risk tolerated by the firm;

(b) to adopt effective arrangements, processes and mechanisms to manage the risks relating to the firm's activities, processes and systems, in light of that level of risk tolerance;

(c) to monitor the following:

(i) the adequacy and effectiveness of the investment firm's risk management policies and procedures;

(ii) the level of compliance by the investment firm and its relevant persons with the arrangements, processes and mechanisms adopted in accordance with point (b);

(iii) *the adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the relevant persons to comply with such arrangements, processes and mechanisms or follow such policies and procedures".*

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RISKS RELEVANT TO UCITS

1. This paper is focused on the risks to which UCITS investors could be exposed in relation to the performance of the activity of collective portfolio management by the Company. This is without prejudice to the obligations of the asset management company to comply with the risk management requirements imposed by the MiFID level 1 and 2 Directives when providing the service of individual portfolio management.

2. From the point of view of investors, UCITS are subject to financial risks and to certain operational risks that can materialize into capital losses or poor investment performance.

3. Among financial risks, market risk is typically referred to as the liability to fluctuations in the market value of the securities invested by the funds, which may vary over time (volatility clusters are well known in finance) reflecting different market conditions.

4. Theory suggests that, when financial transactions take place within efficient environments (markets populated by a plethora of marginal and symmetrically informed investors), asset prices embed all available information and, as a consequence, market risk can be considered as the only value-related relevant risk factor, either at the level of each security held by the fund or at the level of the entire portfolio.

5. However, since markets are often hit by discontinuous flows of information (that is, information is often incomplete and asymmetrically distributed), or are dispersed and consequently not able to produce a robust stream of prices (in the case of OTC bilateral trades), financial exposure to some classes and types of asset (ABS, OTC derivatives etc.) eligible for UCITS investment should be logically traced back to different risk determinants, which cannot be factored into a single risk driver.

6. With respect to such positions, market risk can still be thought of as capturing the exposure to standard movements in micro-economic and/or macro-economic variables (sales, profits, equity *premia*, interest rates, exchange rates). However, the other risk factors, namely credit, counterparty and liquidity risk, are often interpreted as representing the possible impact of events which may impair the trading conditions of certain securities (illiquidity) or the credit rating of specific issuers (default) or

counterparties of bilateral transactions (insolvency). Specific risks, such as credit or liquidity risk, may also refer to the exposure to sudden sharp changes in the macro-economic environment (such as a widening of risk *premia* - a "flight to quality"- or a downgrading of a specific sector or sovereign exposures).

7. An important issue worth noting is that, when factors other than market risk become relevant, the overall financial exposure of an investment fund may depend also on additional specific risk drivers that emerge only at the aggregate portfolio level. This is the case, for instance, for concentration risk or for certain aspects of liquidity risk, when liquidity is understood as the ability of a UCITS to meet, at a reasonable cost, its obligations (redemptions or debt reimbursement) as they become due.

8. From the point of view of UCITS investors, operational risks are attached to the different features and quality of the trading, settlement and valuation procedures operated by the Companies, which may increase the chances of losses due to human or technical errors.

9. However, it must be noted that, as the burden of operational risks is principally placed upon the Company and its management, only those operational risks that also affect investors' interests by their direct impact on the fund's portfolio should be considered within the scope of this document.

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PROPOSED LEVEL 3 MEASURES

General principles concerning risk management from the perspective of UCITS investors

1. On the basis of the previously mentioned legal provisions, it is possible to identify some key principles concerning risk management which should be complied with in order to ensure protection of UCITS investors. These principles mainly relate to:

   (i) the governance and organisation of the risk management process;

   (ii) the identification and measurement of risks relevant to the UCITS;

   (iii) the management of risks relevant to the UCITS;

   (iv) reporting and monitoring.

2. All principles corresponding to the four areas mentioned above should be implemented as part of a coherent set of internal rules that govern the process of identification, measurement and management of the risks incurred by UCITS investors, hereafter referred to as the risk management policy of the Company.

3. Finally, principles regarding risk management at the company level are supplemented by supervisory principles which should guide the review of these processes for the purpose of investor protection.

PART 1 - SUPERVISION

Box 1: Supervision by competent authorities
1. The adequacy and efficiency of the risk management process should be considered by the competent authorities as part of the process for licensing the UCITS/Company, and subsequently monitored on an ongoing basis.

4. Companies should comply at all times with the conditions on risk management.

5. The risk management process should be assessed by the competent authority in the process for licensing UCITS and the Companies, and subsequently monitored on an ongoing basis.

6. Changes to the risk management process should also be assessed.

Questions for consultation:
Do you agree with CESR's proposals? If not, please suggest alternatives.

PART 2 - GOVERNANCE AND ORGANIZATION OF THE RISK MANAGEMENT PROCESS

Box 2: Definition of roles and responsibilities

1. In order to fulfil the duty to identify, measure and manage the risks relevant to the UCITS, Companies should structure, operate and maintain an adequate and proportionate risk management process, whose functioning and organisational rules should be established as part of the organisational rules adopted by each Company.

2. The risk management process should be appropriately documented, formalised and traceable in the procedures and organisational rules of the Company. The corresponding documents will be referred to as "risk management policy".

3. The risk management policy is approved, reviewed on a regular basis and, if necessary, adjusted by the Board of Directors.

4. The Board of Directors should be held accountable for the appropriateness of the risk management systems and procedures.

7. In particular, with respect to the organisation and functioning of the process, the risk management policy should:

   (a) identify the personnel and unit(s) that are in charge of the different parts of the risk management process;

   (b) define the principles and methods for the periodic identification of the risks relevant to the UCITS;

   (c) set out the terms of the interaction between the risk and the investment management processes in order to keep the UCITS risk profile under control and consistent with the UCITS investment strategy;

(d) define the terms and frequency of risk management reporting to Senior Management and to the Board of Directors of the Company.

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.

Box 3: The risk management function

1. Companies should specifically identify the relevant unit, department or personnel in charge of carrying out the risk management tasks (the risk management function).

2. The risk management function should be hierarchically and functionally independent from the operating units, where appropriate and proportionate in view of the nature, scale and complexity of the Company's business and of the UCITS it manages.

3. The risk management function should implement the risk management policy and procedures and report directly to the Board of Directors and Senior Management. It should operate in accordance with adequate standards of competence and efficiency.

8. An efficient risk management function requires adequate means and organisation. In particular, the risk management function should have the necessary personnel, with the skills, knowledge and expertise needed to be accountable for the responsibilities that are placed upon them.

9. The risk management function should employ sound processes, professional expertise and adequate techniques and IT structures.

10. The risk management function is responsible for the identification, monitoring and measurement of risks and the implementation of the methods and procedures necessary for this purpose, including the drafting of the related documentation.

11. The risk management function should provide direct reports to the Board of Directors. These periodic reports should enable the Board of Directors to exercise oversight on the consistency between the actual level of risk incurred by the UCITS and its risk profile.

12. The risk management function should also provide reports to Senior Management, at

the direction of the Board of Directors, which should enable them to assess the adequacy of the measures adopted to manage risks.

13. For the risk management function to operate successfully, a degree of separation from the Company's front-office functions is required.

14. Where it is not appropriate or practical to have a separate risk management function, the company should nevertheless be able to demonstrate that specific safeguards guarantee that risk management is carried out with an adequate level of independence.

15. The portfolio managers should not be responsible for the measurement of the risks which they themselves have taken on, nor for the review of the specific limits or the overall risk limit system. Notwithstanding this principle of separation of functions, the risk management process should operate in parallel with, and should be intrinsically tied to, the investment process. That implies an ongoing, dynamic risk management process, for which an appraisal only at intervals will not be sufficient.

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives

Box 4: Outsourcing

1. Outsourcing of risk management activities does not exempt Companies from retaining full responsibility for the effectiveness and appropriateness of the risk management process.

2. The Company should properly and effectively supervise the carrying out of the outsourced activities. The Company should establish procedures for the periodic assessment of the Outsourcer's governance, technical and business environment, in order to monitor the quality and the appropriateness of its operations and conditions.

3. Outsourcing of the risk management function should not impair the ability of the competent authority to monitor the adequacy and efficiency of the risk management process and the Company's compliance with all its obligations.

16. Companies may delegate, for the sake of efficiency, the performance of risk management activities to a third party (Outsourcer) by written agreement.
17. Outsourcing of risk management activities should not impair the quality of the risk management process, oversight of which remains under the full responsibility of the Board of Directors.
18. The Outsourcer should have the technical ability and professional capacity to provide the outsourced activities reliably and effectively. Outsourcing of risk management activities should always follow appropriate technical due diligence concerning the systems, methods and information used by the Outsourcer, including an assessment of any potential conflict of interests.
19. The Company should take appropriate action if it appears that the Outsourcer may not be carrying out the outsourced activities effectively and in compliance with the applicable requirements.
20. Companies should in any event take all reasonable steps to ensure continuity to the risk management process in case of interruptions to the outsourced risk management activities (unexpected breaches of the contract, an urgent need to revoke the mandate, major infringements by the Outsourcer etc…).
21. The Company, its auditors and the competent authorities should be able to obtain ready access to data related to the outsourced activities, as well as, if necessary, to the business premises of the Outsourcer.

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.

PART 3 - IDENTIFICATION AND MEASUREMENT OF RISKS RELEVANT TO THE UCITS

Box 5: Identification of risks relevant to the UCITS

1. The risk management process should assess and address all risks relevant to the UCITS.

2. Relevant risks should be identified among all possible risks incurred by the UCITS, according to the methods and principles defined by the risk management policy of the Company.

22. The risk management process should regard as relevant the material risks that stem from the investment objective and strategy pursued by the UCITS, the trading style adopted by the managers and the valuation process.

23. The identification of risks relevant to the UCITS should be conducted under the responsibility of the risk management function, whose advice should therefore help the Board of Directors provide a meaningful description of the risk profile of the UCITS. However, this identification process should not be a static exercise but, on the contrary, should be periodically revised to allow for possible changes to market conditions or the UCITS investment strategy.

24. The risk management function should carry out an appropriate identification of the material risks relevant to the UCITS without being bound by the use of a specific risk management model (techniques, methods and technical instruments) within the Company.

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.

Box 6: Risk measurement techniques

1. The risk management policy of the Company should specify the techniques and tools that are deemed suitable to measure the relevant risk factors attached to the investment strategies and management styles adopted for each UCITS.

2. The risk measurement process should allow adequate assessment of the concentration and interaction of relevant risks at the portfolio level.

25. Measurement techniques include both quantitative measures, as regards quantifiable risks, and qualitative methods.

26. Ongoing risk management operations involve the computation of a number of quantitative measures (the risk measurement framework), more or less sophisticated

in terms of meaning and methodology, which generally aim to address the effects of market risk, credit risk (including issuer risk and counterparty risk) and liquidity risk.

27. The computation of these (more or less sophisticated) measures is carried out by IT systems and tools, which may need to be integrated with one another or with the front-office and accounting applications.

28. Consequently, while the choice of the risk measurement framework should depend primarily on the characteristics of the investment strategies of the UCITS under management (higher-risk profile UCITS may need more complex measures than plain low-risk profile ones), this may also partly reflect the diversity in size and complexity of the business and organisation of the Companies. However, Companies should employ sufficiently advanced risk measurement techniques, being expected to keep up to date with and consider the use of leading market solutions in the interests of investors.

29. If UCITS invest in structured products, their multiple risk components should be appropriately identified and managed.

30. When quantitative measurement of the effects of some risk factors is not possible, or produces unreliable results, Companies may consider integrating and adjusting their figures with elements drawn from a variety of sources, in order to obtain a comprehensive evaluation and appraisal of the risks incurred by the UCITS.

31. This approach is also likely to apply to the assessment of non-quantifiable risks, such as operational risk. For the purpose of this paper, these risks should be taken into account only in so far as they have a direct impact on the interest of UCITS investors (e.g. risks attached to the technical features of the trading, settlement and valuation procedures which directly impact UCITS performance).

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.

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Box 7: Management of model risk concerning the risk measurement framework

1. Companies should deal appropriately with the possible vulnerability of their risk measurement techniques and models (model risk).

2. The risk measurement framework should be subject to continuous assessment and revision, and its techniques, tools and mechanisms should be adequately documented.

32. The quality of risk model-based forecasts should be demonstrably assessed. Essentially, the risk management function should run documented tests to verify that model-based forecasts and estimates correspond, with the appropriate confidence level, to the actual values of the relevant risk measures (back-testing).

33. Back-testing should be carried out separately for every technique used in the risk measurement framework; tests should be run prior to inception (model calibration and internal validation) and, subsequently, on an ongoing basis to check how the model's viability and robustness hold up over time.

34. Companies should also assess in advance the validity range, market conditions and any inherent or assumed limits of their risk measurements, which generally result from the assumptions underlying the models or the estimation of their parameters. This assessment should be carried out, if needed, through additional diligences which include stress tests. Companies should review their risk management methods whenever needed.

35. Stress tests are usually meant to capture the possibility of rare and severe losses which could occur during market shocks, and which are unlikely to be measured by the models as they tend to follow structural breaks in the functional relationships between market variables (sudden shifts of crucial model parameters).

36. Stress tests should cover all quantifiable risks which affect, to a material degree, the value of the UCITS, with particular attention given to those risks which are not represented with sufficient accuracy by the risk models used. Such risks might include, for example, unexpected changes to price correlations or to asset (or even market) liquidity.

37. Stress tests may reflect subjective scenario hypotheses based on evidence concerning trading and market conditions (that may relate to either specific securities or an entire portfolio) during past periods of turmoil. However, such scenarios should not merely mirror historical conditions, but should elaborate on the assumption that similar

dynamics could affect the risk factors arising from the UCITS' outstanding exposures.

38. When the investment strategy of the UCITS is based on specific trading or portfolio models and algorithms, the risk management function should be adequate to assess and control their use.

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.

Box 8: The link between risk measurement and asset valuation

1. Risk measures should be computed having regard to sound and reliable data.

2. The risk management function should provide appropriate support to the valuation process concerning exposures to illiquid assets, structured securities and complex derivatives.

39. If robust market prices are available, the risk measures should be computed relying on a complete and adequate time series of marked-to-market values. However, when measuring risks of illiquid assets, risk managers should thoroughly check the robustness of their estimates, testing the data used for the computation against the valuations of actual comparable trades.

40. Assumptions and models underlying pricing of illiquid, structured financial instruments (whether or not they embed derivatives) or complex derivatives should be consistent with the risk measurement framework used by the Companies. These should be maintained and revised over time accordingly (using back-testing etc.).

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.

PART 4 – MANAGEMENT OF RISKS RELEVANT TO THE UCITS

Box 9: Risk management procedures

1. The Board of Directors should define the risk profile of each UCITS managed by the Company. In the initial definition of the risk profile of the UCITS, or in the event of its subsequent revision, the Board of Directors should be advised by the risk management function.

2. The risk management procedures should ensure that the actual level of the risks incurred by the UCITS remain consistent with its risk profile as defined by the Board of Directors.

41. The risk profile of the UCITS should reflect the level of the identified relevant risks that arise from its investment strategy, as well as their interaction and concentration at portfolio level.

42. Risk management procedures can be understood as the set of actions aimed at: (i) identifying and measuring the relevant risks; (ii) assessing their consistency with the UCITS risk profile; (iii) fostering through the appropriate reporting channels the adoption of remedial measures in case of deficiencies; and (iv) monitoring the efficacy of the action taken.

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.

Box 10: Risk limits system

1. The risk management policy of the Company should provide, for each UCITS, a system of limits concerning the measures used to monitor and control the relevant risks.

2. These limits should be approved by the Board of Directors, and be consistent with the risk profile of the UCITS.

43. Without prejudice to the limits imposed by the UCITS Directive, a Company should define for each UCITS the limits (the risk limit system) that should be complied with by the UCITS to maintain consistency with the chosen risk profile. The risk limit system should be consistent with the UCITS' investment strategy.

44. The self-defined risk limit system provides for an appropriate way to manage and control risk and should be respected as part of the ongoing risk management process.

45. The limit system should refer to the risk profile of the specific UCITS and should set appropriate limits for all potentially relevant risk factors. That is, it should cover all risks to which a limit can be applied and should take into account their interactions with one another. The Company should ensure that every transaction is immediately taken into account in the calculation of the corresponding limits.

46. The limit system should be clearly documented. Records should also be kept of cases in which the limits are exceeded and the action taken.

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.

Box 11: Effectiveness of the risk management process

The risk management policy should define procedures that, in the event of breaches to the risk limit system of the UCITS, result in a prompt correction of the portfolio and provide for the timing of this.

47. The risk management process becomes effective when it allows actual control of the risk profile of the UCITS. In order to achieve this objective, the process should be designed to trigger a prompt reaction from fund managers if the UCITS' target risk limit is breached. In order to ensure an efficient rebalancing of the portfolio in these circumstances, the risk management process should employ risk management tools and measurement techniques able to provide precise information about the most relevant risk factors to which the UCITS is exposed.

48. The risk management process should allow warnings to be generated so that appropriate corrective measures may be taken on a timely basis to prevent breaches. While ongoing warnings should primarily relate to the imminent breach of the predetermined risk limits as set by the risk limit system of the UCITS, exceptional warnings may result instead from specific risk assessments addressing possible forecast scenarios that result from a particular concern.

49. In this context, stress tests may contribute to the generation of exceptional warnings,

which should be adequately taken into account within the investment decision-making process.

Questions for consultation:
Do you agree with CESR's proposals? If not, please suggest alternatives.

PART 5 – REPORTING AND MONITORING

Box 12: Reporting to the Board of Directors and the Senior Management

1. Companies should implement and maintain efficient internal reporting by the risk management function. The terms, contents and frequency of this reporting should be defined by the risk management policy.

2. The risk management function should report regularly to the Senior Management and, if necessary, to the heads of the different operational departments, highlighting the current level of the risks relevant to the UCITS, and outlining any actual or expected breaches to their limits to ensure prompt and appropriate action is taken.

3. Periodic written reports should be submitted to the Board of Directors, providing an in-depth analysis of the consistency between the actual risks and the risk profile of the UCITS as defined by the Board of Directors.

50. The Board of Directors should be informed regularly, through a formalised periodic reporting process, of the actual level of risk incurred by the UCITS. If the risk management function reports evidence that the risk profile of the UCITS needs to be updated, the Board of Directors should do so promptly.

51. Prior to the definition, update or change of the risk profile, the Board of Directors should consult the risk management function.

52. The risk management function should periodically report to the Senior Management about the results of the controls regarding the risk profile of the funds, the overall adequacy of the risk management and the measures taken to address any deficiencies.

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.

Box 13: Monitoring of the risk management process

1. The Board of Directors and the Supervisory Function, if any, should receive on a periodic basis written reports from the risk management function concerning: (i) the adequacy and effectiveness of the risk management process; (ii) any deficiencies in the process with an indication of proposals for improvement; and (iii) whether the appropriate remedial measures have been taken.

2. The risk management function should review the adequacy and effectiveness of measures taken to address any deficiencies in the risk management process.

3. The risk management process should be subject to appropriate internal or external independent oversight.

53. The risk management function should periodically assess, and consequently report to the Board of Directors and Supervisory Function, the adequacy and efficiency of the structures, procedures and techniques adopted for risk management.

Questions for consultation:

Do you agree with CESR's proposals? If not, please suggest alternatives.