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PRESS RELEASE

CESR sets out final guidelines on risk measurement and the calculation of global exposure and counterparty risk for UCITS

CESR publishes today guidelines (Ref. CESR/10-788) on risk measurement and the calculation of global exposure and counterparty risk for Undertakings for Collective Investments in Transferable Securities (UCITS) and a feedback statement (Ref. CESR/10-798). The key purpose of CESR's guidelines is to provide both regulators and companies managing UCITS with detailed methodologies to calculate the global exposure and counterparty risk for UCITS, whilst at the same time, fostering a level-playing-field in the area of risk measurement among EU Member States. CESR's guidelines are to accompany the Level 2 implementing measures of the UCITS Directive. This Directive will become applicable from 1 July 2011.

The guidelines set out detailed methodologies that have to be followed by UCITS when they use either the commitment or the more advanced Value-at-Risk (VaR) approach for calculating their global exposure (the VaR approaches are designed for more complex investment strategies). For UCITS using the VaR approach, CESR guidelines also provide additional safeguards which these UCITS should put in place when calculating the global exposure (stress testing and back testing obligations of the VaR model, validation of the model etc.).

In these guidelines, CESR also defines a set of high level principles relating to assets that may be used as collateral and cover rules for transactions in financial derivative instruments.

Guidelines provide calculation methodologies for different investment strategies

CESR wishes to emphasise that the calculation of the global exposure represents only one element of the UCITS overall risk management process. It remains the responsibility of the UCITS to select an appropriate methodology to calculate it.

Concerning the calculation of the global exposure, CESR sets out detailed methodologies to be followed by UCITS when they use the commitment (see paragraph 2, page 7 of the guidelines) or the VaR approaches (see paragraph 3, page 22 of the guidelines). This means that the risk management process of a UCITS should comprise the right procedures which enable the management company to assess the UCITS' exposure to all material risks including market risks, liquidity risks, counterparty risks and operational risks. UCITS must assess their investment strategy and portfolio composition on an ongoing basis to establish where an intra-day calculation may be required. This may be necessary, for example, on a particular day due to increased volatility or might be required more frequently.

Further work on structured UCITS

CESR received 48 responses to a public consultation (Ref. CESR/10-108) held on the draft guidelines. The feedback of the consultation was positive with stakeholders largely supporting the draft guidelines proposed by CESR. In the consultation paper, CESR sought stakeholders' views on the most appropriate approach for an optional 'sensitivity'-based regime in relation to interest rate strategies for the calculation of the global exposure. In particular, CESR consulted on two possible methods. The final version of the guidelines retains the option which was favoured by the respondents (Option 2). However, the Committee felt it appropriate to include this option into the standard regime of netting and hedging rules (Box 7 of the Guidelines) under a new section labelled "duration-netting rules.

In the consultation paper (Ref CESR/10-108) (pages 50 and 51), the Committee consulted on its initial views on specific guidelines for structured UCITS for the calculation of the global exposure. Given market participants' feedback on this issue, CESR will carry out further work to assess whether it might be appropriate for certain types of structured UCITS to use other methodologies than those published today to calculate their global exposure. This work will be finalised in time to give stakeholders the possibility to prepare themselves to apply other methodologies for certain types of structured UCITS, when the UCITS IV Directive comes into force, if the outcome of the work is positive.

Notes for editors:

1. In March 2007, the European Commission announced a series of targeted enhancements to the UCITS Directive (85/611/EEC). Following further work and consultation, the Commission adopted a proposal for the revised UCITS Directive in July 2008, an amended version of which was approved by the European Parliament in January 2009 and adopted by the Council in June 2009. The final text of the revised Directive (2009/65/EC) was published in the Official Journal on 17 November 2009.

2. On 13 February 2009 the European Commission submitted a provisional request to CESR for technical advice on the content of the implementing measures concerning the future UCITS Directive ('the mandate'). The mandate was split into three parts:

   I. Request for technical advice on the level 2 measures related to the management company passport;

   II. Request for technical advice on the level 2 measures related to key investor information;

   III. Request for technical advice on the level 2 measures related to fund mergers, master-feeder structures and the notification procedure.

3. CESR provided technical advice to the European Commission on Part I of the mandate dealing with level 2 measures related to the UCITS management company passport (Ref: CESR/09-963) in October 2009. This advice included proposed level 2 measures for the calculation of UCITS global exposure. These proposals had been the subject of a public consultation in June 2009 (Ref. CESR/09-489). The advice also recommended that certain implementing measures dealing with the calculation of global exposure be accompanied by level 3 Guidelines. The CESR advice also proposed that the level 2 measures and level 3 guidelines should be adopted as a single package by July 2010.

4. CESR published a consultation paper setting out its proposed guidelines on 19 April 2010 (Ref. CESR/10-108). 48 responses, from a range of stakeholders including trade associations, investment management companies, clearing houses and specialist service providers were received by the deadline of 31 May 2010.

5. CESR is an independent Committee of European Securities Regulators. The role of the Committee is to:

   - Improve co-ordination among securities regulators;
   - Act as an advisory group to assist the European Commission, in particular in its preparation of draft implementing measures in the field of securities;
   - Work to ensure more consistent and timely day to day implementation of community legislation in the Member States.
   - The Committee was established under the terms of the European Commission's decision of 6 June 2001 (2001/1501/EC). It is one of the two committees envisaged in the Final Report of the Group of Wise Men on the regulation of European securities markets. Baron Alexandre Lamfalussy chaired this group. The report itself was endorsed by the European Council and the European Parliament. The relevant documents are available on the CESR website.

6. Each Member State of the European Union has one member in the Committee. The Members are nominated by the Member States and are the heads of the national public authorities competent in the field of securities. The European Commission has nominated as its representative the Director General of the DG MARKT. Furthermore, the securities authorities of Norway and Iceland are also represented at a senior level.

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