ASSET MANAGEMENT BY
LYXOR
GROUPE SOCIETE GENERALE

Paris, January 31st 2014

Object: response to ESMA consultation on revision of the provisions on diversification of collateral in ESMA's guidelines on ETF and other UCITS issues.

Dear Madam, dear Sir,

In response to the above mentioned consultation, dated December 20th 2013, please find hereunder our answers. We thank you in advance for the attention you will provide to these elements.

Question 1. 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 do agree with a revision of the Guidelines regarding collateral diversification for UCITS using efficient portfolio management techniques and OTC financial derivative transactions.
Regarding ESMA's proposal we think that the currently proposed option 1 is not a balanced solution as it is unreasonably restricting the issuer diversification exemption granted only to a specific class of UCITS. We would therefore strongly recommend that the second option as discussed in the cost and benefit analysis, which is derogation applicable to all types of UCITS that receive government bonds as collateral is reconsidered by ESMA.

Indeed, Lyxor view (shared with EFAMA) is that the rules proposed by ESMA regarding collateral diversification are based on a wrong conception of the role played by collateral in the mitigation of counterparty risk. Collateral diversification rules and UCITS assets diversification rules have two distinct objectives which should not be confused: the purpose of the asset diversification is to prevent excessive concentration of investments. As collateral is taken in order to reduce counterparty risk, we remain convinced that good credit quality and liquidity of the collateral are much more important than diversification.

We would like to underline that in our view the derogation should be applicable to all UCITS and not only to Money Market Funds. In fact, considering the specific objective of collateral explained above, we do not see why the type of UCITS should be considered as a relevant criterion for the application of this derogation.

Finally, we also would like to stress that the implementation of option 2 would address the following difficulty: a UCITS, whatever kind of UCITS it is, would not be compelled to refuse good quality collateral because of the 20% ratio per issuer. As explained above, what is capital in our

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view is the quality of collateral, not its diversification, in order to mitigate a counterparty risk. It should also be underlined that the constraints resulting from collateral diversification obligations may significantly increase the complexity linked to collateral management and therefore the costs of such collateral management. This cost increase could finally have a negative impact for investors.

Question 2. 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.

We do not advocate the implementation of further safeguards, notably for the reasons explained above.

Question 3. Do you agree with the proposed requirement to diversify the government securities across at least six different issues?

In our, view, whilst credit quality and liquidity of the collateral are, by far, the most important criteria, we have no objection with the proposal to diversify the government securities across different issues.
We believe, however, that the proposal made by ESMA to diversify government securities across six different issues, none of which should account for more than 30% of the collateral received is too complex and costly to implement and control from an operational perspective. We therefore recommend an alternative proposal consisting in replacing the "6 issues – 30%" requirement with a simpler rule whereby, when a UCITS makes use of the derogation from the 20% issuer limit envisaged in the Consultation Paper, it shall make sure that its exposure to a single issue should never exceed 20% of the Net Asset Value of the fund (without any requirement in terms of minimum number of issues). Such a rule would be much easier to implement from an operational point of view and would also be in line with the objective to prevent any excessive concentration of the collateral received on a single issue. For example, if the collateral received (with a haircut applied), consisting of government securities issued by a single issuer, represents 105% of the NAV, it will have to be diversified across minimum 6 different issues: (20%+20%+20%+20%+20% +5%).

Should you have any question regarding the elements developed above, we surely remain fully available.

Sincerely yours

Cédric Florentin
Chief Legal Officer

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*As at 10 June 2013; ** As at 20 June 2013; *** As at 17 July 2013*

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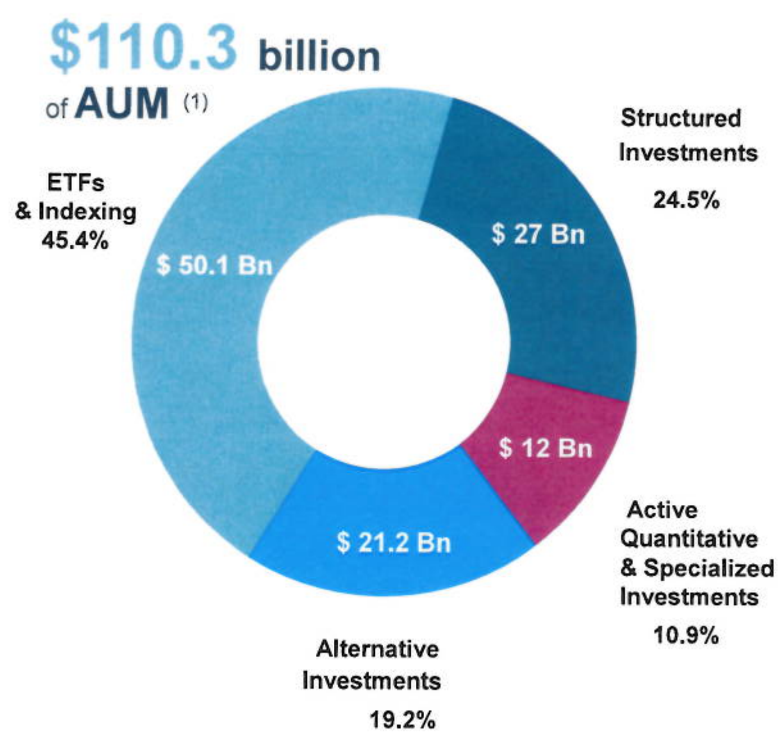

(1) Figures as of December 31st, 2013 - Equivalent to € 79.9Bn
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