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European Securities and Markets Authority
103, rue de Grenelle
75007 Paris
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20 September 2012

Dear Madam,

Dear Sir,

Response to the Consultation Paper ESMA 2012/474 on the treatment of repurchase and reverse repurchase agreements

This paper is the response on behalf of the Portfolio and Investment Management team of RBS Asset Management Limited to the above consultation paper.

The Portfolio and Investment Management team of RBS Asset Management Limited manages over £12.4 billion of assets (as of 19 September 2012), including a range of UCITS which are short term money market funds.

Please find below our response to the above consultation paper. Please note that other responses to this consultation paper might be submitted separately from other affiliates of The Royal Bank of Scotland Group.

Please do not hesitate to contact us should you wish to discuss our comments. We would like to thank ESMA for the opportunity to contribute to this consultation paper.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Scott McMunn', written over a horizontal dotted line.

Scott McMunn

Head of Portfolio and Investment Management

Response to the Consultation Paper ESMA 2012/474 on the treatment of repurchase and reverse repurchase agreements

Q1: What is the average percentage of assets of UCITS that are subject to repurchase and reverse repurchase agreements? For the purposes of this question, please have regard to arrangements covered by the provisions of Article 51(2) of the UCITS Directive and Article 11 of the Eligible Assets Directive (i.e. those arrangements which do not fall under the definitions of transferable securities and money market instruments, in accordance with recital 13 of the Eligible Assets Directive). In addition, please provide input on the following elements:

- i) The extent to which assets under such arrangements are not callable at any time at the initiative of the UCITS.**
- ii) The maximum and average maturity of repo and reverse arrangements into which UCITS currently enter. Please provide a breakdown of the maturities with reference to the proportion of the assets of the UCITS.**

The Portfolio and Investment Management team within RBS Asset Management Limited manage a range of Irish UCITS which are triple-A rated IMMFA short term money market funds. These funds enter into reverse repurchase agreements for efficient portfolio management purposes. To date the funds have only entered into overnight reverse repurchase agreements and it is unlikely that the funds will enter into such arrangements for any period longer than 7 days. The average percentage of assets of these RBS money market funds which are subject to reverse repurchase agreements varies. For example, in the last year our Sterling Government Fund has placed 50-80% of net asset value in overnight reverse repurchase arrangements per day, with an average of around 65%. Our Sterling Fund has placed 0-15% of net asset value in overnight reverse repurchase arrangements per day in the last year, with an average of around 3%.

Q2: Do you agree with the proposed guidelines for the treatment of repo and reverse repo agreements? If not, please justify your position.

Please see below our comments on the proposed guidelines.

1(b) IMMFA money market funds (such as the RBS money market funds) very rarely transact in arrangements other than overnight reverse repo and therefore this guideline will not affect the majority of these types of funds.

However, there could be occasions where, for efficient portfolio management purposes, such funds would want to make use of reverse repurchase arrangements other than overnight arrangements (for example over a holiday period) during which time a significant proportion of the fund assets could be subject to such arrangements (but in any event the term is unlikely to exceed 7 days). Having the ability to place a larger percentage of the fund in reverse repurchase arrangements for a few days is a useful efficient portfolio management tool for these funds. This is obviously subject always to the liquidity management of the fund and its ability to meet redemption requests. IMMFA money market funds are required to hold 10% of their net asset value in assets which mature on the next business day and no less than 20% in securities which mature within 5 business days. Therefore the value of the assets which can be subject to terms which do not allow them to be recalled at any time by default could not exceed 90%. This is a high figure, and it is unlikely that these types of funds would make use of such arrangements to this extent, but the ability to do so for short periods is a useful efficient portfolio management tool.

3(a) It would be useful to have greater clarity on the specific requirement or the issues which are to be addressed in this proposed guideline.

3(b) The market seems to distinguish between 'traditional reverse repo' and 'non-traditional reverse repo'. Traditional reverse repo (which is the type of arrangement the RBS money market funds enter) is backed by debt issued by sovereigns, supra-nationals and government agencies within Member States or Group of Ten (G10) member countries and are typically transacted overnight (or where longer are subject to daily margin arrangements). It is assumed that there is a deep and liquid market for the collateral and there is a market standard overcollateralization rate of 102%. In respect of traditional reverse repurchase transactions, it is generally accepted that the price/market risk of the collateral is key rather than the credit risk of the counterparty. If this type of transaction is conducted at a longer tenor but subject to daily margin arrangements then this view should hold. A UCITS should not therefore be subject to counterparty diversification requirements in respect of these types of reverse repo.

3(c) Following on from the comment in relation to 3(b) above, the collateral diversification requirement of guideline 40(e) of the "Management of Collateral for OTC financial derivative transactions and efficient portfolio techniques" guidelines should not be required in respect of traditional reverse repo transactions or similar style arrangements entered into for very short tenors. As mentioned in 3(b) above, these types of arrangements (which are the type typically entered into by money market funds), are fully collateralised by debt issued by sovereigns, supra-nationals and government agencies within Member States or Group of Ten (G10) member countries. In addition, there are certain UCITS which restrict themselves to taking very specific risk, for example those offering 100%

sovereign exposure. In these cases, it would not be possible to meet the requirements of guideline 40(e).

In any event, the UCITS directive allows all UCITS to invest 100% of their assets in different transferable securities and money market instruments issued or guaranteed by a Member State, one or more of its local authorities, a third country, or a public international body to which one or more Member States belong (Article 54 (1)). If the property of a UCITS fund can be so invested, it would seem appropriate that the collateral held by a UCITS could be 100% in different transferable securities and money market instruments issued or guaranteed by a Member State, one or more of its local authorities, a third country, or a public international body to which one or more Member States belong.

With an amendment to the reference of "a third country" (see below), we believe that guideline 40(e) should provide a carve out from the 20% diversification requirement in respect of all UCITS (in respect of both OTC derivatives and efficient portfolio management arrangements) where collateral held consists of assets within Article 54 (1) (i.e transferable securities and money market instruments issued or guaranteed by a Member State, one or more of its local authorities, third countries that are Group of Ten (G10) members, or a public international body to which one or more Member States or Group of Ten (G10) members belong.)

Q3: What are your views on the appropriate percentage of assets of the UCITS that could be subject to repurchase and reverse repurchase agreements on terms that do not allow the assets to be recalled by the UCITS at any time and that would not compromise the ability of the UCITS to execute redemption requests?

In respect of the RBS money market funds, please see our comment on proposed guideline 1(b) in our response to Question 2 above.

Q4: Do you consider that UCITS should be prohibited from entering into repo and reverse repo arrangements on terms that do not allow the assets to be recalled by the UCITS at any time? If not, please indicate possible mitigating measures that could be envisaged in order to permit UCITS to use repo and reverse repo arrangements on terms that do not allow the assets to be recalled by the UCITS at any time.

Although IMMFA money market funds usually only enter into overnight reverse repurchase arrangements, there may be occasions when such funds would want to enter into these arrangements for very short tenors (less than 7 days). Such arrangements would usually be fully collateralised and

subject to daily margin arrangements as outlined above. This is a useful efficient portfolio management tool for these types of funds.

Q5: Do you think that there should be a minimum number of counterparties of arrangements under which the assets are not recallable at any time? If yes, what should be the minimum number? To answer this question, you are invited to take into account your response to question 2 above.

Please see our comment on proposed guideline 3(b) in Question 2 above. The RBS money market funds will only enter into overnight reverse repurchase agreements or very short term reverse repurchase agreements (such as less than 7 days). These arrangements will be fully collateralised by debt issued by sovereigns, supra-nationals and government agencies within Member States or Group of Ten (G10) member countries and subject to daily margin arrangements. We do not think that in respect of these types of arrangements there needs to be a diversification of counterparties. If any such guideline is included, we would request that "appropriate diversification" be given further clarity.