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Rome, 07 August 2024

European Securities and
Markets Authority (**ESMA**),
201-203 rue de Bercy
75012 Paris, France

Object: Call For Evidence, on the review of the UCITS Eligible Assets Directive

Q1 In your view, what is the most pressing issue to address in the UCITS EAD with a view to improving investor protection, clarity and supervisory convergence across the EU?

In the author's view, the most important issue to be addressed is the creation of greater coordination of national laws within the Union governing UCITS, which will create the conditions for maximising competition at EU level and increasing the circulation of units. Similarly, greater protection will be given to fund subscribers. Finally, common and harmonised rules on cross-border marketing of UCITS are desirable. A definitive definition of the value of securities should be given and not only from a formal legal point of view. This will prevent the definition of net asset value from being applied to a range of financial products with different characteristics and different levels of liquidity. In this sense, it is necessary to ensure consistency in the definition of the value of securities in the Directive to be amended.

Q5 The 2020 ESMA CSA on UCITS liquidity risk management identified issues with respect to the presumption of liquidity and negotiability set out in UCITS EAD.

In light of the changed market conditions since 2007, do you consider such a presumption of liquidity and negotiability still appropriate? Where possible,

please provide views, data or estimates on the possible impact of removing the presumption of liquidity and negotiability set out in the UCITS EAD.

Assume that the liquidity of a financial instrument is its immediate convertibility into cash without loss of principal. Marketability is an element that directly influences the liquidity of an instrument, which in turn is influenced by the transferability of the instrument and its circulation, and therefore by the fact that it is a listed instrument.
In the opinion of the author, it still seems appropriate to carry out liquidity analyses and forecasts prior to the investment; it is recalled how the question of the overall liquidity of the portfolio, considered to be sufficient, could be raised by including instruments that are not admitted or traded on regulated markets pursuant to Art. 50 (2) (a) of the UCITS Directive 2009/65/EU. Therefore, it is still necessary to apply the 10% investment limit in such instruments in order to ensure portfolio stability and investor protection in general.

Q6: Please explain your understanding of the notion of ancillary liquid asset and any recurring or significant issues that you might have experienced in this context. Please clarify if these are held as bank deposits at sight and what else is used as ancillary liquid assets. Where relevant, please distinguish between ancillary liquid assets denominated in the base currency of the fund and foreign currencies.

Ancillary liquid assets are instruments that are inherently liquid, such as those found in the money market, demand bank deposits, and cash held on current accounts with a bank, which can be accessed at any time to cover current or exceptional payments. These assets are instruments that can be held by collective investment schemes (UCITS) and are characterised by high liquidity, making them ideal for managing temporary cash flows or balancing the portfolio. Examples include government bonds, which can be easily converted into cash, bank deposits and money market instruments. These assets within a UCITS portfolio ensure proper cash flow management and are suitable for meeting redemption requests from unitholders.

Q7: Beyond holding currency for *liquidity* purposes, do you think UCITS should be permitted to acquire or hold foreign currency also for *investment* purposes,

taking into account the high volatility and devaluation/depreciation of some currencies? Where relevant, please distinguish between direct and indirect investments.

The writer believes that currency holding should be limited to meeting liquidity needs, given the potential for exchange rate and volatility risks between the fund's reference currency and the currency in which the investment is denominated. These risks are further compounded by the inherent differences between the characteristics of different currencies and countries.

Q8: Have you observed any recurring or significant issues with the interpretation or consistent application of the 10% limit set out in the UCITS Directive for investments in transferable securities and money market instruments other than those referred to in Article 50 of the UCITS Directive? If so, please explain the issues and how you would propose to address them in the UCI

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Q19: Are there any national rules, guidance, definitions or concepts in national regulatory frameworks that go beyond ('gold-plating'), diverge or are more detailed than what is set out in the UCITS EAD? If so, please elaborate whether these are causing any recurring or significant practical issues or challenges.

It should be noted that Italian legislation does not include any provisions that are more detailed or that deviate from the UCITS EAD.

Q22: Under the EAD, should a look-through approach be required to determine the eligibility of assets? Please explain your position taking into account the aforementioned risks and benefits of UCITS gaining exposures to asset classes that are not directly investible as well as the increased/decreased costs associated with such indirect investments.
A look-through approach would aim to ensure that the list of eligible asset classes set out in the UCITS Level 1 Directive would be deemed exhaustive and reduce risk of circumvention by gaining indirect exposures to ineligible asset classes via instruments such as delta-one instruments, exchange-traded products or derivatives. Where possible, please provide views, data or estimates on the possible impact of such a possible policy measure.

A "look-through" approach enables us to examine the underlying characteristics of an investment or portfolio, particularly in the context of UCITS. This approach allows us to analyse the composition of the individual investments that comprise the portfolio.

This approach enables more effective risk management, particularly in the context of exposures to asset classes that are not directly investable or costs associated with indirect investments. It therefore reduces the risk of avoidance associated with these assets.

Q23: What are the risks and benefits of UCITS investments in securities issued by securitisation vehicles? Please share evidence and experiences on current market practices and views on a possible need for legislative clarifications or amendments.

In terms of the benefits associated with UCITS investments in securities issued by securitisation vehicles, these include: (i) Diversification with respect to the investment, thus enabling investors to participate in a diversified portfolio while reducing risk; (ii) Access to regulated markets; (iii) Professional management.

In terms of risks, these include: (i) credit risk with respect to the underlying; (ii) concentration risk; (iii) risks inherent to the liquidity of securitisation instruments; (iv) market risk with respect to the fluctuation in the price of securitisation securities, which may affect the value of the overall portfolio; (v) the complexity of the structure of the securitisation instrument.

Kind Regards

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