ASSOGESTIONI

associazione del risparmio gestito

Milan, 15 July 2009

CESR
11-13 Avenue de
Friedland
75008 Paris

Your Ref.: CESR/09-489
Our Ref.: 395/09

Re: Response to the CESR consultation on technical advice at level 2 on Risk Measurement for the purposes of the calculation of UCITS' global exposure.

Assogestioni, the Italian association of asset management companies[1], welcomes the opportunity to comment on CESR's Consultation Paper on technical advice at level 2 on Risk Measurement for the purposes of the calculation of UCITS' global exposure.

Here below the Association responds to the consultation document.

Calculation of Global Exposure using the Commitment Approach

1. **Do you agree with the proposed approach in relation to the calculation of global exposure?**
2. **Should the counterparty risk involved in an OTC derivative be considered in the calculation of global exposure**

We agree with the proposed approach and we do not consider necessary to take into account the counterparty risk in the calculation of global exposure.

3. **Do you agree with the proposed approach or can you suggest an alternative approach?**
4. **Do you agree that the incremental exposure/leverage generated through techniques such as repurchase and securities lending transactions should**

[1] Assogestioni is the Italian Association of fund and asset managers. Our membership covers all Italian asset managers and the majority of foreign managers operating in Italy. Its 218 members manage total assets for more the euro 840 bn. and include fund and portfolio managers, pension funds, banks and insurance companies.

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be included in the calculation of global exposure?

We agree with both proposals.

5. **Does option 1 correctly assess the market risk linked to investment in the corresponding instruments, and if so please explain?**
6. **Does option 2 correctly assess the market risk linked to investment in the corresponding instruments, and if so please explain?**
7. **Do you have any comments or other suggestions regarding other possible measurement approaches?**

The measurement of risk for financial derivatives with limited payoff function should be done under option 2 which is better suited to assess the market risk of the underlying instruments.

8. **Do you agree with the proposed approach, in particular the inclusion of a non-exhaustive list of financial derivatives?**
9. **Do you have any alternative suggestions for the conversion method?**
10. **Are there other types of financial derivative instruments which should be included in the paper?**
11. **Are you aware of any type of financial derivative instrument where global exposure cannot be calculated using the commitment approach?**

We agree with the inclusion of a non-exhaustive list of financial derivatives. Moreover, we suggest the following:

- Index Future: as an alternative it should be allowed to use the price of the future in place of the price of the underlying. This is best practice and it leads to similar results
- Bond Future: see above
- Forward FX: as an alternative it should be possible to evaluate the principal of the contract as the spot value of the currency leg.
- Credit Default Swap: we suggest the protection buyer to be allowed also the option to use the notional amount.

12. **Do you agree with the approach regarding TRORS (Total Rate of Return Swap) and derivatives with cash or an equivalent position?**

We agree with the approach indicated.

13. **Do you agree with the proposed use of the sensitivity approach?**
14. **Do you consider that this should be compulsory for these types of derivative or optional for UCITS?**
15. **Do you agree with the analysis of the sensitivity approach described?**
16. **What quantitative level would you consider appropriate for the default sensitivity?**

17. Do you have any additional comments or suggestions on this approach?

We agree with the proposed use of the sensitivity approach provided it remains optional. The decision regarding the appropriate quantitative level for the default sensitivity should be the sole responsibility of the management company.

18. Do you agree with the proposals regarding netting?
19. Do you have any additional comments and/or proposals?
20. Do you consider that hedging as described above should be permitted?
21. Do you consider that the strong correlation requirement should be further clarified by means of a quantitative threshold e.g. 0.9?
22. Can you suggest a possible threshold e.g. for the minimum correlation between stock baskets? Please justify your answer based on relevant market data

We agree with the proposal regarding netting and hedging. Details about the definition of strong correlation should be left to the management company to decide.

23. Do you agree with this proposal?

We need further clarification on the proposal. It is not clear whether it refers to the 20% issuer concentration rule.

Calculation of Global Exposure using the Value at Risk (VaR) Approach

24. Do you agree with this definition? Do you have any alternative suggestions?

We agree with the definition.

25. Do you agree with the above approach?

We agree with the proposal.

26. What additional safeguards (if any) are necessary for UCITS which use VaR to calculate global exposure to ensure consistency with the total exposure limit of 200% of NAV?

To estimate the potential loss under non-normal market conditions stress tests could be used as additional safeguards.

27. Do you agree with the approach outlined in paragraphs 2.3, 2.4 and 2.5?

The model should not need to be internally validated by a function independent from that responsible for building the model. Considering that the Risk Management function is independent from the portfolio management function, it should be

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allowed both to build and validate the model. This appears to be cost effective.

28. Do you have any comments or suggestions?

No

29. Do you consider that VaR should be calculated at least daily?

The calculation of the VaR should be made at least once a week. It should be left to the asset manager to decide whether to calculate it more often.

30. What type of criteria should competent authorities take into account in an assessment of the VaR Models?

We believe that the following criteria could be taken into account by competent authorities to assess VaR models:

- Backtesting results
- Quality of data input
- Nature and volume of the financial derivative instruments.

31. Do you consider that VaR models should be approved by competent authorities?

Authorities could set guidelines to build the models but allow asset managers to develop the model on the basis of the characteristics of the products. Should an approval by the competent Authorities be required, it should be granted in a business effective timeframe.

32. Is the proposed 3-step relative-VaR approach adequate to limit the global exposure of a UCITS?
33. Do you consider that the proposed limitations on the reference portfolio constitute reasonable and adequate safeguards to ensure that the relative VaR method does not result in the UCITS taking excessive risk or leverage?
34. What additional safeguards (if any) do you consider necessary?

We agree with the proposed 3-step relative-VaR approach

35. Can the absolute VaR be considered as an appropriate way of measuring global exposure?

We believe that absolute VaR can be considered as an appropriate way of measuring global exposure.

36. Do you consider that the proposed thresholds are suitable? Can you suggest other thresholds?

We consider that the proposed thresholds are suitable.

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37. What are your views on the application of stricter criteria to difference types of asset classes e.g. bonds, equities?

We do not agree to have stricter criteria to difference types of asset classes.

38. Do you consider the proposed safeguards, such as the use of appropriate additional risk management methods (stress-testing, CVaR) and the disclosure of the level of leverage, are sufficient safeguards when the absolute VaR method is used in the context of arbitrage strategies or complex financial instruments?

We agree such safeguard are sufficient.

39. Should UCITS using strategies that are potentially highly leveraged under the absolute VaR method be subject to specific marketing provisions, either at the level of the UCITS (minimum initial investment) or during the marketing process?

No, the general provisions appear to be sufficient.

40. Can you suggest alternative safeguards and/or requirements to avoid UCITS engaging in strategies which generate high levels of leverage?

We do not have any further suggestions.

3.2 OTC counterparty risk calculation methodology

41. Do you agree with the proposed method for calculating counterparty exposure?
42. Can you suggest an alternative method?
43. Do you agree with the approach for netting arrangements?
44. Do you consider that additional netting rules should apply?

We agree with the proposed method for calculating counterparty exposure.

45. Do you agree with the proposed approach to agree a set of principles in relation to acceptable collateral to reduce counterparty exposure? Do you have alternative suggestions?

We agree with the proposed approach.

46. Do you consider that rather than following principles based approach specific instruments that can be used as eligible collateral should be indentified?

An open list of eligible instruments could be useful, however it should not replace the set of principles. We understand that the collateral should not necessarily be coherent with fund rules (e.g. an Equity Fund should be allowed to receive bonds as collateral).

47. Should collateral be UCITS compliant in terms of asset eligibility and diversification?

The collateral should be UCITS eligible but not UCITS compliant in terms of diversification the reason being that collateral enters UCITS portfolio only if and when counterparties fail.

48. Do you agree that collateral passed to a derivative counterparty should be included either in the 5%/10% OTC counterparty limit or in the 20% issuer concentration limit?

Only with regard overcollateralization, we agree that net collateral should be included in the 20% issuer limit.

49. Do you have any other suggestions as to how such collateral passed should be treated?

We do not have any further suggestions.

50. What areas of further work should be carried out with regard to this?

We do not have any further suggestions

51. Do you agree with the proposal to abandon the use of the term sophisticated and non-sophisticated UCITS?
52. If you object to this proposal could you please provide reasons for this view?

We agree with the proposal.

We remain at your disposal for any request of clarification or further comments on the content of our reply.

The Director General

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