Amundi
ASSET MANAGEMENT

Amundi's response to the consultation on

Strengthening Oversight and Regulation of Shadow Banking Regulatory framework for haircuts on non-centrally cleared securities financing transactions

(December 15, 2014)

Amundi, with more than 840 billion € under management, is a leading asset manager, ranking first in Europe and in the top ten worldwide. Amundi offers diversified investment solutions to a large range of clients, both retail and institutional. Securities Financing Transactions are not what Amundi concludes when lending securities or reverse-Repo-ing: those are Efficient Portfolio Management Techniques motivated by the clients' best interest.

Amundi is happy to react to FSB proposal and hopes to throw a clear light on the activities of an asset manager which, as are the funds it manages, is a non-bank.

First, we would like to share the following general comments:

- Amundi is totally supportive of the idea that a large flexibility should be given to counterparties in the choice of collateral, provided that appropriate collateral is secured; in that sense we consider that a minimum level of haircut should be required;
- Amundi considers that the level of the haircut should be mainly based on the volatility of the price and the liquidity of the proposed collateral; in that respect haircut should be adapted to the frequency of margin calls; we understand the current consultation to be based on the hypothesis of a daily call;
- Haircut is considered as a requirement when assessing the counterparty risk and the counterparties must have the choice either to effectively receive (or post) adequate collateral with haircut or to accept to carry (or create) an open counterparty risk; for example, UCITS that are allowed to have a 5% counterparty risk on a non-bank counterparty could use this ratio to accept that collateral and haircut be not posted entirely;
- With respect to government securities, we agree that they present, if of good quality, a lower risk and a higher liquidity than other securities; so we support the idea not

l : 90, boulevard Pasteur - 75015 Paris - France
stale : 90, boulevard Pasteur - CS 21 564 - 75730 Paris Cedex 15 - France
)1 76 33 30 30 - amundi.com
yme au capital de 596 262 615 euros - 437 574 452 RCS Paris
estion de Portefeuille agréée par l'AMF (Autorité des Marchés Financiers)

to impose any minimal haircut requirement on them, provided that the credit quality of the issuer is sufficiently high;

- The levels for minimal haircut proposed in table 1 are globally adequate but call for the following two remarks; on one side, we consider that the higher requirement for securitization should be limited to lower quality securitizations and not apply to first category securitizations as defined in Solvency 2 in Europe; on the other side, we do not understand the point of footnote 20 and would like mutual funds to benefit from a haircut level depending on their investment strategy as defined in the prospectus, so that a government bond fund would not be unduly penalized vis à vis a government bond;
- Amundi opposes the idea that asset managers and/or funds should be submitted to specific registration and reporting to enter in SFTs; except for hedge funds, and in Europe that means Alternative Investment Funds with a substantial leverage, funds are strictly regulated, constantly monitored and closely supervised and do not present any systemic risk; they should be out of the proposed framework and supervisors should rely on existing reporting (that could be improved).

We now answer specifically to the questions asked by FSB.

Q1. Do you agree that the application of the framework of numerical haircut floors as described in Section 3.3 to non-bank-to-non-bank transactions will help to reduce the risk of regulatory arbitrage and would maintain a level playing field?

Amundi agrees that the primary motive of a transaction is key to determine the scope of the proposed SFT regulation. As an asset manager, we participate to the securities lending business, always with a call provision. We are usually approached in order to lend securities and the borrower posts collateral and pays an indemnity. In that case we are not looking for any SFT (Securities Financing Transaction) but use EPM (Efficient Portfolio Management) techniques to improve the return of the funds. The UCITS regulation strongly limits the re-use of received collateral and only AIFs that use substantial leverage may exceed a 3/1 leverage, and as a consequence they have special reporting requirements under AIFMD. If we act as a borrower, which is not the most common situation, we will post collateral and not provide any secured financing to the lender as our position will be callable. In any circumstances funds should not be subject to numerical haircut floors when lending or borrowing securities.

We do not share the view that special Repo should be considered differently from securities lending as they achieve the same result. If we require a specific security through a reverse Repo we will send cash and receive securities as collateral. The fact that the receiver of cash will post securities with a haircut does not mean that there is a motivation differing from the same transaction conducted through a securities lending where he would receive more cash, including haircuts. The choice between the two techniques is determined in opportunity and is based on legal, administrative, internal …reasons. But from a risk perspective the economic effect and the motivation are identical and the risk consequences alike.

Amundi thinks that as soon as the interest paid on the cash on a reverse Repo significantly exceeds the Libor rate on the period, there is a presumption that the motivation was not refinancing but lending securities.

Q2. In your view, how significant is the current level of non-bank-to-non-bank transactions? Do you expect that level to increase going forward and why? What types of non-bank entities are, or could be, involved in such transactions?

Asset managers are very active in SFT. We do consider them not as refinancing activities but as Efficient Portfolio Management techniques. When a fund holds cash we prefer a Reverse Repo that brings a higher security than a non-collateralized deposit. When we lend securities we want to receive an indemnity that will improve the fund's return. If we borrow stocks it is with a view to develop a strategy in the clients' best interests.

Funds are strictly regulated, continuously monitored and closely supervised. Except for Hedge Funds, and in Europe they are considered as AIFs that use substantial leverage, they do not develop leveraged strategies and are forbidden to have a risk exposure through borrowing or derivatives that exceeds 3 for 1 in capital (and even 2 to 1 for UCITS). All these funds should be exempted from specific minimal haircut requirements designed to limit refinancing and leverage.

As a matter of fact, most of our transactions are dealt with investment banks and we tend not to trade directly with non-banks. However, there might be a tendency to develop direct dealings between non-banks in the future and use banks as intermediary and not counterparty.

Asset managers will certainly consider it with a view to better protect their clients interest. It is part of their fiduciary duty to ensure best execution and, if there is a price advantage, to take it.

Amundi is very surprised to see in foot note 20 that mutual funds are pointed out to suffer a 10% minimum haircut when posted as collateral. Instead, we insist on them being considered according to their investment strategy expressed in their prospectus: main equities or debt instruments or composite. We believe that, except for leveraged hedge funds, funds are very low risk entities and should benefit from lower and not higher haircut requirements. For example no haircut should apply to high quality government securities funds, MMFs should benefit from a 0.5% haircut according to their very low average maturity and main index ETFs should enjoy a 6% minimum level of haircut.

Q3. Do the approaches set out above cover all potential approaches in applying numerical haircut floors to non-bank-to-non-bank transactions? Are there any other approaches? If so, please describe.

Yes. We do not see any other possibility than entity-based, transaction based approaches or combination of both.

Q4. Please provide any comments you have on the strengths and weaknesses of the approaches set out above, as well as any other approaches you believe the FSB should consider. What issues do you see affecting the effective implementation of numerical haircut floors for non-bank-to-non-bank transactions?

Amundi favours the entity based approach globally, as it includes as a prerequisite a thorough examination of the concerned entity and a specific assessment of its contribution to systemic risk. In that respect we have a strong view that UCITS and AIFs that do not use significant leverage should remain out of the scope of a regulation on minimum haircuts. Funds

and investment managers are subject to strict controls and transparent information obligations that are sufficient for supervisors to assess their activities. In terms of motivations, they do not use EPM techniques (or so called SFTs) to refinance their balance sheet since they are limited in their global exposure including through derivatives.

Entity approach allows an entity to actively manage its counterparty exposure. At its global level, an entity may use its allowance (under a prudential regulation) in terms of counterparty risk exposure to accept limited collateral deposit. This grants a minimal flexibility in a world where regulations are not harmonized and enables an entity to enter in a transaction on (almost, because of the impact on its prudential ratios) competitive terms.

Q5. What forms of avoidance of the numerical haircut floors are most likely be employed for non-bank-to-non-bank transactions? Which of the proposed implementation approaches is likely to be most effective in preventing such avoidance?

Regulation should address the entities that are currently not registered nor supervised. The entity based approach will be more efficient to trace them. Counterparties should only deal with entities that are themselves registered and effectively report their trades. That implies a transaction based approach to identify concerned entities and then an entity based regulation.

Q6. If different entity-type regulations are used, do you see the need to ensure comparative incentives across different entity types? If so, please describe any potential mechanisms that may help ensure comparative incentives across entity types?

Amundi feels that the key criterion to decide any scaling up in the regulation should be the effective leverage of the entities, not their legal nature nor the absolute amount of their positions. In terms of risk, it seems the better approach in our view.

Q7. If market regulation is used, should the FSB consider setting a materiality threshold of activity below which entities do not need to register? If so, what could be an appropriate level for such a threshold?

First, Amundi recalls that it prefers an entity approach and not a market regulation. In the case a transaction-based approach would be taken, yes we consider a threshold would be necessary. If we keep in mind the ultimate goal of the proposed regulation, which is to enhance financial stability and reduce systemic risk through a limitation of leverage provided by securities financing transactions, a materiality threshold is appropriate to concentrate on entities that may present a real risk.

Amundi thinks that the threshold should be primarily linked not to an absolute amount but the leverage achieved by an entity. In that respect we do insist on the fact that asset managers and funds being registered, prevented to have high leverage and required to publish extensive reporting should be exempted from registration and specific reporting.

Q8. Do you see the need for a phase-in period in applying numerical haircut floors to non-bank-to-non-bank transactions, and if so how long should it be and why? Does the appropriate phase-in period vary depending on which approach is followed? Should it vary by jurisdiction based on the size and importance of the non-bank-to-non bank sector or should it be consistent across jurisdictions?

Regulators should keep a global view of different legislations that are being implemented progressively. In Europe, we refer to EMIR that has to be fine-tuned, in terms of timing, in order to avoid conflicts between the requirements for mandatorily centrally cleared transactions on derivatives and those for non-centrally cleared deals. EMIR identified 4 categories of actors and non-financial corporations are, if they exceed the materiality thresholds, granted longer delay, roughly 3 years, before implementation. We consider that any haircut standard is closely linked to the collateral it applies to and that the regulation should be considered as a whole and should follow the same pace for implementation.

Contact at Amundi :
Frédéric Bompaire
Public Affairs
frederic.bompaire@amundi.com
+33 (0)1 7637 9144