

**EFAMA REPLY TO THE FSB/IOSCO CONSULTATION ON  
ASSESSMENT METHODOLOGIES FOR IDENTIFYING NON-BANK NON-INSURER  
GLOBAL SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS**

EFAMA<sup>1</sup> welcomes the opportunity to provide comments on the FSB-IOSCO Consultative Document “Assessment Methodologies for identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions”.

**Executive Summary**

- **We endorse the numerous references made in the Consultation to the specificities of the business model of asset managers and investment funds (agency model, high degree of substitutability, strong regulatory framework including transparency and reporting requirements, ...) compared to other categories of financial entities (such as banks in particular).**
- **Because of their agency business model, asset managers are not a source of systemic risk. We therefore welcome the fact that the consultation puts the focus on investment funds as a more meaningful unit of analysis rather than on asset managers themselves.**
- **We are nevertheless convinced that regulated investment funds, such as UCITS or AIFs in Europe, should not be considered systemically important. In that respect, the consultation paper does not sufficiently take into account how risk that could arise in or be transmitted through funds is already mitigated by existing regulation and/or industry practice.**
- **We do not believe that size alone is an appropriate criterion to assess the systemic relevance of investment funds. A better indicator, in our view, would be the scale of activities of a fund (which is a reflection of its size and level of leverage). We believe that more work needs to be done on how to calibrate and articulate these size and leverage factors in the most effective manner and would welcome further discussion with the FSB and IOSCO around this issue.**
- **In any case, materiality thresholds – once defined at a global level – should be applied in the same manner in all jurisdictions in order to maintain a level playing field and avoid regulatory arbitrage at worldwide level.**

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<sup>1</sup> EFAMA is the representative association for the European investment management industry. EFAMA represents through its 27 member associations and 62 corporate members about EUR 15 trillion in assets under management of which EUR 9.8 trillion managed by 55,000 investment funds at end December 2013. Just over 35,600 of these funds were UCITS (Undertakings for Collective Investments in Transferable Securities) funds. For more information about EFAMA, please visit [www.efama.org](http://www.efama.org)

## **Preliminary Remarks**

EFAMA supports the efforts undertaken by the FSB and IOSCO under the auspices of the G20 to identify financial entities other than banks and insurance companies the failure of which can cause financial instability. Being important actors in the capital markets (and key representatives of the buy-side), asset managers and investment funds have a strong interest in the development of solutions to improve market soundness. The identification of sources and transmission channels of systemic risk in the broader financial ecosystem beyond the banking and insurance sector is an important step towards strengthening the stability and the resilience of the global financial system and improving the investment climate for the pensioners and savers which the asset management industry serves.

As a preliminary remark, in terms of method, we would like to make the point that it is rather difficult to assess the appropriateness of the proposed methodologies and to make detailed comments on the proposed indicators of systemic relevance without having any clear view on what the implications of a designation as G-SIFI would concretely be for the financial entities concerned. To alleviate uncertainty in the market, if designation is not presumed, this should be stated explicitly.

Against this background, we believe that it will be extremely important that any measures or potential remedies to be applied to systemically important financial entities will be subject to a robust public consultation process (as is the case for the definition of the methodologies leading to a potential G-SIFI designation) when there is a clear indication of the methodology for assessing the entities to which they will be applied.

Having said that, we remain convinced that the most effective form of regulating the risk of systemic failure arising from asset management activities is through the identification and direct regulation of these activities themselves, rather than through "large entities" which may (or may not) pose these risks. Indeed, this is already happening in many jurisdictions through the regulation of activities such as securities lending and OTC derivatives.

In the following response, we will limit ourselves to give the perspective of the asset managers and investment funds which are of direct relevance for our members and where we have a specific expertise to share. We will therefore refrain from commenting on the proposed methodologies for other financial entities, such as finance companies or market intermediaries. We have also not specifically commented upon the subject of any future work by FSB-IOSCO, for example in relation to investment managers themselves or segregated (individually managed) mandates. In that regard, we would be pleased to lend assistance to FSB-IOSCO to describe the nature of our industry.

## Answer to the questions

### 1. Systemic Risks and transmission mechanisms

**Q1-1. In your view, are the three transmission channels identified above most likely to be the ones transmitting financial distress of an NBNI financial entity to other financial firms and markets? Are there additional channels that need to be considered?**

In principle, we agree with the general description made in the Consultation Document of the three transmission channels whereby financial distress of an NBNI financial entity could conceivably be transmitted to other financial firms and to the markets in general.

In our view, this description identifies the main transmission channels which may eventually lead to financial system instability and we do not see other channels to be taken into consideration.

It should be noted, however, that because of their characteristics certain categories of NBNI financial entities are less prone than others to transmit their financial distress through any of the three main channels identified (counterparty channel, market channel or substitutability).

We have analyzed below the three transmission channels from a perspective of investment funds.

#### **Counterparty channel (exposures)**

In our view, counterparty exposure is the only material way in which distress could potentially be transmitted directly from an investment fund to another financial entity. If a fund suffers large losses compromising its ability to honour its obligations, there is a risk of direct contagion to the counterparties of the fund. This, in turn, might lead to cascading effects and – in extreme cases - to broader financial system instability if the exposures and linkages are significant.

However, in practice, such a situation is only likely to occur in the case of substantially leveraged investment funds and in the absence of regulation and industry good practice. Hence leverage combined with size should be the primary focus for identifying those funds which may pose systemic risks.

#### **Market channel (asset liquidation)**

We consider that the market channel (asset liquidation) is less relevant as a vector of systemic risk, at least as far as investment funds are concerned.

Indeed, as the Consultation document rightly notes *“investment management is characterized by the fact that fund investors are knowingly exposed to potential gains and losses of a fund’s invested portfolio”*. The risk of loss is disclosed to and accepted by investors, and should that loss materialise, it

is directly absorbed by those investors. Furthermore, asset price declines may occur frequently, in particular for funds with daily NAV calculation and, hence, they should not come as a surprise to investors. As a result, adverse market development and even important losses suffered by investment funds are very unlikely to result in investors redeeming from a fund en masse. The evidence of behavior in the financial crisis supports this view, in our opinion.

Furthermore, even in the unlikely event of a significant redemptions, investment funds (such as UCITS or AIFs in Europe) have specific management tools available (such as swing pricing, anti-dilution levies, redemption gates, side-pockets, temporary suspensions ...) which would prevent such a redemption from inducing the “*forced liquidation of positions*” so further reducing the risk of temporary distortions in market liquidity and or prices.

### **Substitutability channel (critical function or service)**

We fully share the FSB-IOSCO view that the substitutability channel is in general not applicable to investment funds. Indeed, as the Consultation paper rightly mentions<sup>2</sup>, investment funds are highly substitutable products and are therefore very unlikely to transmit any systemic risk through this channel.

## **2. High-Level framework for identifying NBNI G-SIFIs**

**Q2-1. Does the high-level framework for identifying NBNI G-SIFIs (including the five basic impact factors) adequately capture how failure of NBNI financial entities could cause significant disruption to the wider financial system and economic activity? Are there any other impact factors that should be considered in addition to those currently proposed or should any of them be removed? If so, why?**

Given the wide range of NBNI financial entities (and the huge diversity of their business models), we appreciate the challenges faced by the FSB and IOSCO in developing a high-level framework which is sufficiently flexible to capture different risks posed by entities in different sectors, while at the same time maintaining a certain degree of consistency across the entire NBNI financial space.

In light of these challenges, we support the approach chosen consisting in developing sector specific methodologies/indicators based on a common set of basic impact factors.

Concerning the five basic impact factors identified in the Consultation paper, we would like to make the following comments from the perspective of investment funds:

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<sup>2</sup> See pages 30 (“*the investment fund industry is highly competitive with numerous substitutes*”) and 32 (“*most investment funds are generally substitutable*”) of the Consultative Document.

- Size:** we recognise the superficial attractiveness of using size factors, such as net AuM or GNE, as an initial filter to narrow down the pool of investment funds which would then be subject to further assessment. We do not believe, however, that a simple size test, such as the value of assets in a fund is the best tool to ultimately assess the systemic relevance of investment funds. The consultation paper notes, *“the importance of a single entity for the stability of the financial system generally **increases with the scale of financial activity** that the entity undertakes”*<sup>3</sup>. We can imagine that in some sectors which the FSB has to consider more generally, the terms “size” and “scale of financial activity” are virtually interchangeable. However, it is extremely important to take into account the fact that the scale of financial activity of an investment fund (e.g. its use of leverage cannot be simply equated to its size). In this sense, an investment fund cannot be compared with a bank whose leverage ratio is implicitly correlated to its size. Consequently, it would be ineffective for the purpose of identifying potential G-SIFIs to screen investment funds exclusively on the basis of their size. A large and well-diversified fund with little leverage, such as an index fund, is unlikely to pose systemic risk. To the contrary, smaller but highly leveraged funds that are potentially more relevant from a systemic point of view (see our answer to Q1-1. above) would not meet a materiality threshold based on size. Whilst size has a superficial attraction and is a relatively simple measurement, it is hard to argue that there is a more theoretical justification for using it in a globally consistent framework. The most significant factor, in our view, given the likely channel by which risk would be transmitted, will be leverage in combination with size. Whilst we remain unconvinced that any funds are of both the size and leverage to be significant, at this stage, we strongly recommend that the initial filter should reflect a combination of factors derived from the absolute size of a fund and its level of leverage. We believe that more work needs to be done on how to calibrate and articulate these size and leverage factors in the most effective manner and would welcome further discussion with the FSB and IOSCO around this issue.
- Interconnectedness:** as already mentioned above, we fully agree that interconnectedness, i.e. counterparty exposure (in particular as reflected by the leverage ratio) is one of the most relevant criteria to assess the systemic importance of an NBNI financial entity (and of investment funds in particular).
- Substitutability:** in principle, we agree that substitutability may be an appropriate global systemic risk indicator. However, given that investment funds are highly substitutable products to which the aforementioned substitutability channel hence does not apply (see also our answer to Q1-1.) this criterion will be of little relevance when applied to investment funds.
- Complexity:** we do not believe that ‘complexity’ is a relevant indicator to assess the global systemic importance of investment funds. First of all, we do not think that “complexity” can be meaningfully defined, particularly in relation to funds, whose structure is generally fairly simple (certainly in comparison with much more complex corporate structures that prevail in other parts of the financial services). Secondly, we also disagree with the individual indicators that are proposed to assess the complexity of investment funds. As an example, the use of OTC derivatives does not

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<sup>3</sup> Consultation document, page 5 (we underline)

necessarily imply a higher level of systemic risk. UCITS for instance, often use derivatives for risk hedging and not for speculative investment purposes.

- Global activities: We also challenge the fact that the cross-jurisdictional activities of a NBNI financial entity are a relevant indicator to be taken into consideration when assessing their systemic importance. To the contrary, we would argue that typically the degree of diversification rises with the number of cross-border holdings. Similarly with increased diversification (and hence lower risk) in the investor base, the allocation of risk from a global perspective improves, i.e. is more widely spread. Additionally, one should bear in mind that the liquidation of a fund will be governed by the law of the domicile of the fund and not by the law of the jurisdictions where investors, counterparties, etc. are located. The issue faced by banks of local insolvency proceedings in many jurisdictions therefore does not exist for investment funds (indeed, unlike banks or broker-dealers, investment funds do not operate through international affiliates).

Having said that, it is also important to underline the fact that, depending on the characteristics of each category of NBNI financial entities, the respective importance of the basic impact factors may differ and that they should not be considered in isolation but rather be combined and considered together.

Lastly, we do not see other impact factors that should be considered in addition to those currently proposed in the consultation paper.

**Q2-2. Is the initial focus on (i) finance companies, (ii) market intermediaries, and (iii) investment funds in developing sector-specific methodologies appropriate? Are there other NBNI financial entity types that the FSB should focus on? If so, why?**

As a general remark, we firmly believe that highly regulated investment funds, such as UCITS funds and non-substantially leveraged AIFs, that comply with detailed diversification rules<sup>4</sup> and leverage<sup>5</sup> limits are not a source of systemic risk.

When it comes to investment funds, we therefore believe that the focus should primarily be on highly leveraged investment funds of a significant size. Any sector specific methodology applicable to investment funds should therefore be carefully calibrated to capture those risk factors in priority.

Although they are already subject to a specific regime, we think that CCPs may also deserve more specific attention. In Europe, due to the introduction of EMIR, CCPs will take on board more counterparty risks and therefore are a new potential source of concentration and systemic risks. In this context, we strongly support initiatives to establish a recovery and resolution framework for non-banks, including CCPs and CSDs. Notwithstanding this special regime, recovery and resolution of CCPs remains problematic to the extent that this could spread losses from a limited group of financial market

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<sup>4</sup> Article 52 of UCITS Directive 2009/65/EC.

<sup>5</sup> Article 51(3) and 83(2) of UCITS Directive 2009/65/EC and Article 25 AIFMD 2011/61/EC.

intermediaries (in particular, clearing members) to the wider economy (notably by dipping into funds' assets that represent the savings of the real economy).

### **3. Operational framework for NBNI G-SIFI methodologies**

**Q3-1. Is the proposed scope of assessment outlined above appropriate for operationalizing the high-level framework for identifying NBNI G'SIFIs? Are there any practical difficulties associated with the proposed scope of assessment?**

Subject to the reservations concerning investment funds expressed in our answer to Q2-1. and Q2-2., we have no particular remarks on the proposed scope of assessment outlined in section 3.1 of the Consultation paper.

**Q3-2. In your view, are the above proposed materiality thresholds (including the level) for the NBNI financial entity types appropriate for providing an initial filter of the NBNI financial universe and limiting the pool of firms for which more detailed data will be collected and to which sector-specific methodology will be applied? If not, please provide alternative proposals for a more appropriate initial filter (with quantitative data to back-up such proposals).**

We would like to reiterate here our strong reservations against any materiality threshold which would be based exclusively on the size of an investment fund (please refer to our answer to Q2-1.) Instead, we strongly recommend using as an initial filter a combination of factors based on the absolute size of a fund and its level of leverage.

The objective should be to set the thresholds at a level at a level that captures NBNI's with similar propensity to cause systemic risk as G-SIBs and G-SIIs. This does not mean that there have to be any NBNI G-SIFI investment funds: if, after careful analysis, it is concluded that investment funds do not pose material systemic risks (which we contend is a possible outcome) then none should be designated merely for political reasons.

Additionally, in order to foster a consistent implementation of these criteria at a global level, we believe that the following clarifications ought to be made:

- Materiality thresholds should be used as an initial filter and not the other way around. In other words, the fact that a fund meets the materiality threshold does not make it automatically a G-SIFI. Conversely, funds that do not meet the materiality threshold should be considered out of scope and not be subject to further assessment (except maybe in situations where a fund is very close to meeting the threshold).
- Once materiality criteria are agreed upon at a global level, there should be no possibility of 'gold-plating' for regulators (i.e. application of stricter materiality thresholds) as this would create an unlevelled playing field and regulatory arbitrage possibilities.

- For umbrella funds, it should be clarified that these materiality criteria should be applied at the level of each sub-fund (compartment) given that they all are independent from one another (separate assets and liabilities, individual investment strategies...).
- It would also be useful to further define the notion of “hedge funds” and to clarify which investment funds should be considered as hedge funds, in order to avoid diverging interpretations across different jurisdictions. To that effect, we recommend using as a starting point the definition in AIFMD of substantial leverage, which is a leverage ratio calculated in accordance with the commitment method of at least three times the net asset value of the fund<sup>6</sup>. As a result, UCITS and AIFs (and their non-EU equivalents) that do not use a substantial level of leverage should not be regarded as “hedge funds”.

### **Q3-3. Are there any practical difficulties in applying the materiality thresholds?**

We recognize that the materiality criteria suggested for investment funds (100 billion USD in net AUM or, for hedge funds, 400-600 billion USD in GNE) are straightforward and readily available or relatively easy to calculate metrics.

The fact, however, that materiality criteria are relatively simple to use and effective in narrowing down the pool of investment funds subject to further assessment does not mean that these criteria are necessarily the most appropriate to identify those financial entities that are most likely to be a source of systemic risk. Once again, we do not believe that an initial filtering of investment funds based exclusively on their size is the best possible approach.

Furthermore, we do not believe that GNE is a relevant indicator of the importance of the exposure of a fund (please refer to our answer to Q3-4.).

### **Q3-4. In your view, what is the appropriate threshold level, taking into account the range given above (USD 400-600 billion in GNE), for hedge funds? Please also provide reasons with data to back it up.**

As a preliminary remark, we do not believe that Gross Notional Exposure or GNE (defined as the absolute sum of all long and short positions, considering notional value (delta-adjusted when applicable) for derivatives is a relevant indicator of the systemic importance of an investment fund. Indeed, GNE is a crude and potentially misleading measure, since it does not capture the risk in the sense of the size of the exposure or its volatility. The inaccuracy of GNE as a measure of leverage stems from the fact that it does not in any manner take into account hedges or offsetting of positions. As a result, using this metric would very often lead to very significant overestimations of the systemic risk that a fund may pose.

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<sup>6</sup> Article 24(4) of Directive 2011/61/EU and Article 111 of Commission delegated regulation 231/013 of 19 December 2012.

This is why we would rather suggest taking as a starting point another measure of leverage based on the “commitment method”<sup>7</sup> under the AIFMD which, despite its imperfections, presents the advantage of being relatively easy to use and to allow for the netting of certain matching positions (please refer also to our answer to Q3-2. above).

Having said this, we have not found in the Consultation document any clear justification of the proposed threshold levels. We note, however, that the proposed level seem to be set at much lower levels than those that are being contemplated for the banking world (under the emerging leverage ratio), in spite of that model’s inherent fragility.

We therefore suggest that more work needs to be done on the optimal level of leverage in the system as a whole, as well as in its component parts.

**Q3-5. Do you think that it would be beneficial to set additional thresholds based on “global activity”? If so, please explain the possible indicator and the level on which materiality thresholds should be set (with reasons for selecting such indicator, the level and any practical challenges).**

Given that we are not convinced that the “global activity” of an investment fund is a relevant criterion to assess its systemic importance (see our reply to Q2-1.), we do not think that it would be appropriate to set additional materiality thresholds based on “global activity” indicators.

## **6. Sector specific methodologies: Investment funds**

**Q6-1. In your view, does the proposed definition of investment funds provide a practical basis for applying the specific methodology (i.e. indicators) to assess the systemic importance of NBNI financial entities that fall under the definition?**

We agree that the proposed definition under section 6.1 of the Consultation paper is broad enough to capture all types of investment funds and is, therefore, a practical basis for applying the specific methodology applicable to this category of NBNI financial entities.

As the Consultative document rightly notes, however, this definition covers very disparate categories of funds, most of which cannot be regarded as being systemically important entities because of their characteristics and the rules to which they are subject (see our answer to Q2-2.). We therefore believe that the focus should primarily be on highly leveraged investment funds of a significant size.

Concerning separately managed accounts (to which a short allusion is made on page 28 of the Consultation), we believe that there is no evidence that they should be regarded as potential NBNI G-SIFIs given that these accounts are regulated (both by general asset management regulation but also

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<sup>7</sup> Article 8 of Commission Delegated Regulation 231/013 of 19 December 2012.

by each client's regulation, e.g. pension funds or insurance regulation) and do not bear any risk of run but also because, based on our members experience, these portfolios are conservatively managed: i) most separate accounts use no leverage and those that do use a modest amount, ii) likewise, separate accounts are typically managed for only one investor and cannot suffer from run risk. We note that the consultation paper mentions that more work is needed to assess any potential financial stability risk that these separately managed accounts may pose and we stand ready to engage in a dialogue with the FSB and IOSCO to assist them in this fact-finding exercise.

**Q6-2. Does the above description of systemic importance of asset management entities adequately capture potential systemic risks associated with their financial distress or disorderly failure at the global level?**

We appreciate the FSB and IOSCO acknowledging some of the specific features of investment funds that fundamentally differentiate them from banks from a systemic perspective. We welcome the recognition in particular of the "shock absorber" role of fund investors in case of distress or default of an investment fund, as well as the factors which dampen the global systemic impact of a fund failure.

With these essential mitigating factors in mind, we broadly agree with the description made on page 29 of the Consultation paper of the two channels (the exposures/counterparty channel and, to a much lesser extent, the market channel) through which the financial distress of a fund could – at least theoretically – be propagated to other financial participants or to the markets in general.

However, as already mentioned before, we firmly believe that these potential transmission channels are only relevant in the case of highly leveraged funds of a significant size (hence, the importance of taking these two indicators into account in the methodology aiming at identifying which investment funds should be considered as G-SIFIs).

*A contrario*, we believe that there is a strong case to exclude regulated investment funds (such as UCITS or AIFs under regulated managers in Europe) where there is already a strong focus on diversification and funds built to meet investor liquidity expectations.

**Q6-3. Which of the following four levels of focus is appropriate for assessing the systemic importance of asset management entities: (i) individual investment funds; (ii) family of funds; (iii) asset managers on a stand-alone basis; and (iv) asset managers and their funds collectively? Please also explain the reasons why you think the chosen level of focus is more appropriate than others.**

Subject to our comments above that most investment funds are not a source of systemic risk (Q6-2.), we share the rationale given in the Consultation paper (section 6.2.2) to justify that the focus of the methodology should be put on the fund level and not on the fund manager.

Indeed, asset managers on a stand-alone entity basis are not systemically relevant. This is because asset managers do not individually bear the hallmarks of systemic institutions, i.e. large size, be extremely interconnected and be providers of services which are difficult to substitute. Asset managers

are acting as agents for their clients, rely on a generally stable fee based income stream and are subject to regulatory oversight at both the manager and portfolio levels.

Furthermore, unlike systemic institutions, fund managers **do not**:

- Invest with their own balance sheet by engaging in principal trades with clients
- Employ balance sheet leverage
- Guarantee investor principal
- Have access to central bank liquidity

In the unlikely event of an asset manager's failure, all of the client assets – which are ring-fenced – would be transferred to another asset manager that would take over the management of the assets.

It is also true that asset managers are exposed to operational and reputational risks but these will be specific to each entity and unlikely to be systemic in nature.

For all these reasons, we do not believe that asset management entities should be considered systemically important financial institutions either on a stand-alone basis or taken collectively with the funds they manage.

The Consultation document also refers to the concept of 'families of funds' as a possible alternative of focus for the methodology. At this stage however, we are missing a specific and objective definition of this concept of 'families of fund' and we believe that, in practice, it would be extremely challenging to come up with clear criteria to determine which funds belong to the same 'family' on the basis of the similarity of their investment strategies. In our view, 'families of funds' would introduce significant complexity in the application of the methodology, without providing any clarity on systemic risks.

**Q6-4. Should the methodology be designed to focus on whether particular activities or groups of activities pose systemic risks? If so, please explain the reasons why and how such a methodology should be designed.**

As already explained above, we believe that the scale of activities of an investment fund, which is a reflection of its leverage and size, is the determining factor in assessing its potential systemic relevance.

Additionally, we believe the methodology should explicitly be calibrated to look at a combination of factors. To put it differently, the factors should be cumulative rather than alternative.

Please refer also to our preliminary remarks where we commented on the relative importance of activity-based rather than entity-based regulation of potentially systemic activities.

**Q6-5. Are the proposed indicators appropriate for assessing the relevant impact factors? If not, please provide alternative indicators and the reasons why such measures are more appropriate.**

The answer to that question needs to be considered in the context of our analysis of the five basic impact factors (see Q2-1.).

Globally, the substitutability and complexity factors are, in our view, largely irrelevant for investment funds, and so are consequently the corresponding individual indicators. In particular, the three individual indicators concerning substitutability are based on subjective assumptions and therefore, highly debatable.

Similarly, the individual indicators of the cross-jurisdictional presence of an investment fund are not necessarily relevant criteria to assess its systemic relevance (see also our reply to Q6-6.).

**Q6-6. For “cross-jurisdictional activities”, should “the fund’s use of service providers in other jurisdictions (e.g. custody assets with service providers in jurisdictions other than where its primary regulator is based)” be used?**

We do not believe that the “fund’s use of service providers in other jurisdictions” is necessarily a meaningful indicator of its systemic relevance. To the contrary, we would argue that a large fund operating in different countries is less risky than a large fund operating in a single country, as geographical diversification could help reduce the risk borne in each country.

**Q6-7. Is the definition of “net AUM” and “GNE” appropriate for assessing the “size” (indicators 1-1 and 1-2)?**

We agree that “net AUM” is an appropriate indicator for assessing the size of an investment fund (see however our comments under Q2-1. above concerning the relevance of criteria based exclusively on size as an initial filter to narrow the assessment pool of potential G-SIFIs).

To the contrary we do not believe that “GNE” is a relevant indicator (please refer to our answer to Q3-4.).

**Q6-8. Is the definition of “investment strategies” sufficiently clear for assessing the “substitutability” (indicator3-3)?**

As we do not consider the substitutability channel to be relevant for investment funds (see our reply to Q.2-1.), we do not see the need to provide a definition of the notion of “investment strategies” and have not commented further.

**Q6-9. Would collecting or providing any of the information included in the indicators present any practical problems? If so, please clarify which items, the practical problems, and possible proxies that could be collected or provided instead.**

Yes, indeed. Not all the proposed indicators are readily available – the collection of the necessary data will most probably involve substantial additional costs for fund managers.

In order to minimize these costs, data collection by regulators should as much as possible be based on already existing reporting (e.g. AIFMD reporting requirements), including reporting by banks. The extensive reporting obligations to which European funds (e.g. UCITS or AIFs) are already subject should already be sufficient to enable the competent authorities to make an in-depth analysis of these entities. Additional reporting requirements should be avoided as regulators and central banks will have sufficient data for their analysis. Furthermore, duplicative fund reporting to different regulators (such as the FSB for instance) should also be avoided. Regulators worldwide should be enabled to exchange and share the required data.

**Q6-10. Are there additional indicators that should be considered for assessing the relevant impact factors? For example, should “the fund’s dominance in a particular strategy (as measured by its percentage of net AUM as compared to the total AUM)” also be considered for “substitutability”? Similarly, should “leverage” or “structure” of a fund also be considered for assessing “complexity”? Please explain the possible indicators and the reasons why they should be considered.**

No.

**Q6-11. Should certain indicators (or impact factors) be prioritized in assessing the systemic importance of investment funds? If so, please explain which indicator(s) and the reasons for prioritization.**

As already explained above (see Q2-1.), we believe that the focus should primarily be on highly leveraged investment funds of a significant size.

Brussels, 7 April 2014

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