

**BNP Paribas Investment Partners response to FSB-IOSCO consultative document on
assessment Methodologies for Identifying Non-Bank Non-Insurer
Global Systemically Important Financial Institutions**

BNP Paribas Investment Partners is grateful for the opportunity to respond to FSB-IOSCO consultative document on assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions (SIFIs).

We are the holding parent company of most BNP Paribas Group's asset management companies (about 40), managing or advising about 475 bn Euros as a whole, but with a very diversified footprint in terms of locations and asset classes. We have reorganized ourselves very recently in three "business lines" dedicated to Institutions, Retail distribution and Emerging Countries.

These business lines experience a large autonomy; in particular the investment decisions are made at each individual country level and , even more , at entity level where we have specialised teams managing specific asset classes (for example in the US, one firm is dedicated to Fixed income, another one to US or Global equities).

Our sole activity is managing portfolios on behalf of third parties; through funds or mandates. We have a fiduciary duty toward them. As it is the case for our colleagues and peers, assets do not belong to us, they remain the ownership of investors and are kept by a depositary ; we do not do not perform proprietary trading activities.

We generally would make ours most comments which our industry bodies, mainly the French AFG and EFAMA, their European counterpart, have issued in responding to /FSB/IOSCO paper on Non-Bank Non-Insurer Global Systemically Important Financial Institutions, especially when they describe what are the key factors which could play a role in extending the risks at such a point it would become systemic; consequently we won't repeat what they has been stated in details in response to the detailed questions which were raised by FSB-IOSCO.

We prefer to shortly put forward our views on the approach which is proposed by FSB-IOSCO and explain why we generally consider it is relevant and why it would not be justified to go beyond in terms of scope.

We first agree that, when speaking about asset management, among the key factors which could entail systemic risk, two of them only are of particular relevance and importance: size and interconnectedness.

During the financial crisis years, runs that some very significant money market funds faced made absolutely necessary for some public authorities to decide emergency measures which were to prevent the extension of risks which were obviously potentially systemic ones. Those funds were very big ones, and we consider that deciding such funds are tomorrow G-SIFIS is justified, especially for CNAV money market funds given their peculiar nature; we also note that policy makers are taking steps to regulate those funds in general, and this orientation concurs with qualifying very large MMFs as systemic.

Perhaps more importantly, some important funds are using techniques which could impact also their environment in a negative way: indeed leveraging techniques might have an impact on counterparties. We understand that FSB IOSCO refers to them when considering the interconnectedness criteria and we agree it is very relevant to capture those funds which are important by their size and which use leverage within the SIFIs.

As far as substitutability is concerned, we are of the opinion that asset management companies are indeed very substitutable one to another and that it is a key element when discussing the idea of including them or not in the scope: as stated before the asset we manage do not belong to asset managers but to their clients. If we stick to the idea- a very right one in our view- that systemic risk is primarily linked to the leverage and/or the size, we come to the conclusion that the key clients who might impact the liabilities are professional clients (among them pension funds, financial institutions, large corporate etc.); those clients are very “hands on” and do not hesitate to transfer their assets from an asset manager to another; it does not mean that the transfer means shifts in terms of holdings; the market impacts of such transfer are easily absorbed and no systemic impact of those transfer has been evidenced in the past. A very good example of this assessment occurred recently with the internal moves that took place within Pimco: even though their main fund suffered in a short timeframe about 43bn USD, the market did not suffer from any trouble. The reason why is that clients decided to move their portfolios to other providers –or to internalize their management. It shows that asset managers are very substitutable. Thus this criteria is a kind of counter element in favour of asset managers; it does not qualify them as systemic, and on the opposite, it shows that **FSB-IOSCO is very right when limiting the scope of SIFIs to funds and not extending it to asset managers companies.**

Complexity and global activities are, from our point of view, less relevant factors, or, to tell it differently, less useful to practically include or not asset management activities in the scope of SIFIs. If we can assume that some complex techniques, for example, might entail some risks, it is far from true that all of them are risky, and especially that they would disseminate risks to the global financial system. It would be very difficult to precisely define what is complex or not complex, and far more to qualify those ones which are generating risk. The same comment is valid for “global activities”. We do not recommend FSB-IOSCO follows that route which would be very questionable.

Finally, we support FSB-IOSCO approach, which is pragmatic , reasonable, and manageable for regulators as well as for the industry since it is meaningful and straightforward and easily applicable.

We understood that when proposing to include both funds and hedge funds in the scope, FSB-IOSCO refers implicitly to the size and also to the leverage, and this is in our view fully consistent with what we highlighted as the key factors of potential systemic risks.

Referring to a size above 100 bn USD for one fund is reasonable provided it is applicable to a fund having one specific investment strategy and not to a fund with many sub-funds belonging to the same legal structure. Referring to hedge funds with GNE between 400-600bn USD is also understandable, even though in Europe AIFMD provisions impose special requirements on funds which indeed would have a leverage above 3.

We would like to make one last comment in case there are discussions about the inclusion of asset managers as such in the scope.

We already mentioned it was not a relevant approach as the substitutable nature of asset managers is enough to prevent the impacts of reputational risks –as proven by recent developments on the marketplace; in addition this criteria would not be helpful in practice.

Using the word “asset manager” is a short cut; the same word covers indeed a very wide range of situations, from individual firms (in general very small ones) to groups with a lot of individual companies, managing a lot of different portfolios, different investment strategies etc... If we come to our situation, which does not differ much from our peers under that respect, what would be the right criteria if the size of “asset manager” was to be decisive? It would be really very questionable if it was considered globally, as each entity is autonomous, is bound to local rules when managing funds, is a collection of investment decisions which are determined by specific analysis, has to comply to criterias which are described by the clients etc...

FSB-IOSCO has taken a right approach when proposing a straightforward approach which excludes a kind of grocers’ approach which otherwise would be necessary. We just hope that this road will be followed after the consultation process is over.

Given the issues identified above, and the importance of the task at hand, we propose that further consultation on a revised methodology would be appropriate before finalizing an approach.

We hope these comments are useful as the FSB and IOSCO consider the way forward in this area. Given the complexity of these issues, we believe direct dialogue with the industry is essential and appreciate the FSB and IOSCO’s willingness to engage in that dialogue.

Should you have any questions on the issues raised in this letter, do not hesitate to contact François DELOOZ (francois.delooz@bnpparibas.com)