Amundi
ASSET MANAGEMENT

ASSESSMENT METHODOLOGIES FOR IDENTIFYING NON-BANK NON-INSURER GLOBAL SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

AMUNDI'S ANSWER TO FSB/IOSCO CONSULTATION

(May, 29, 2015)

Amundi is the European leader and ranks in the Top 10 worldwide in the asset management industry with AUM above €950 billion at the end of March 2015. Located in more than 30 countries, Amundi offers a comprehensive range of products covering all asset classes and major currencies. Amundi has developed savings solutions to meet the needs of more than 100 million retail clients and designs innovative, high-performing products for institutional clients which are tailored specifically to their requirements and risk profile.
The Group contributes to funding the economy by orienting savings towards company development.

Financial stability is at the heart of the development of a sound economy where savings can meet financial needs of entrepreneurs and the asset management industry participates to the good functioning of efficient capital allocation mechanisms. Therefore, Amundi welcomes FSB/IOSCO initiative to further investigate the potential existence of systemic risk in relationship to activities of NBNI entities.

As an introduction to its answer to the consultation, Amundi would like, first, to express its appreciation of the fact that FSB took into consideration some of the messages expressed by stakeholders through the first consultation in January 2014. However, we feel necessary to focus on the following 6 points that summarize our answer.

1. *We want to insist on some **specificities of asset managers** (i) acting as agent on behalf of clients who are fully aware of the risk they carry, (ii) heavily regulated and closely monitored notably in Europe with UCIITS and AIFM Directives, (iii) evolving in an environment of great competition and (iv) very much impacted by new regulations aiming at financial stability such as EMIR or soon SFTR.*

2. *Amundi feels legitimate that FSB raised the question that some **activities** in the AM industry may present systemic risk. we feel that the mapping exercise of the different activities (starting with securities financing transactions, guarantees, securitization and MMFs…) is*

very relevant and should lead to specific regulations of those activities that present risk that is not yet properly mastered.

3. *At the level of an individual fund, Amundi considers that* ***UCITS and AIFs that do not use significant leverage*** *(defined in AIFMD as an exposure potentially higher than 3 times the capital) are so strictly regulated and risk controlled that they cannot present any systemic risk.*
   The main potential systemic risk in asset management is probably the ***liquidity risk*** *(experienced in case of run or forced sales following heavy redemptions); it may be highly exacerbated by* ***excessive leverage****, imposing margin calls for example. Amundi recommends that regulators further investigate and get better evidence on the practical implementation and efficiency of the many tools available in case of a liquidity squeeze on a fund (swing pricing, fees, gates, side pockets, redemption in kind, suspension of redemption). Amundi is ready to participate in any working group on this topic.*
   The ***initial filter*** *rightly relies on the size of the fund; a filter must be simple and easy to use which implies being based on usual data such as "commitment" as calculated under AIFMD for funds. For simplicity, there should be only one threshold applicable to all funds whatever their investment universe and strategy. Actually, the filter can be a rough criterion since it is not per se an evidence of riskiness but it leads to the issuance of a first list of potential candidates.*

4. *At the level of a* ***management company*** *(MC), it is a common understanding that the reputation risk and, partly or fully, the operational risk apply at the level of the MC. Actually the asset management companies that belong to* ***financial groups*** *that have been identified as G-SIFIs are already included in the prudential regulation of their parent company and subject to specific requirements to cover these risks. They should be exempted from any new requirement in that field.*
   In our experience supervised (banking) activities such as explicit guarantee, market making or intermediation… are carried through licensed entities that are submitted to prudential regulation even if they belong to an AM group. Thus we do not see much room for systemic risk due to a MC.
   Anyway, if MCs were to be considered for being NB NI SIFIs on the basis of balance and off balance sheet amounts and also of AUM, we should avoid double counting and overlap and not take into account in the AUM all SMAs and dedicated funds managed on ***behalf of prudentially regulated entities****.*

5. ***Providers of ancillary services*** *such as valuation data should be c****onsidered of systemic importance*** *even if they are not financial institutions. Regulators have paid attention to CRAs and now turn to index administrators in the EU; data providers should be next on the list and it is time to examine their added value on proprietary versus public data, their commercial practices and their effective responsibilities.*

6. *The* ***consequences of being identified as a G-SIFI*** *should be different from those applying to insurance companies or banks G-SIFIs and adapted to the activities and risks of the*

industry; (i) resolution of a fund or a MC is not an issue; (ii) capital requirement applying to the MC consolidated in a G-SIFI group should be the reference for quasi banking activities; (iii) Asset managers provide extended reporting to regulators and we suggest that a common work on consistency in reporting items and formats be conducted to avoid duplications and conflicts of definitions; (iv) stress testing is a standard tool in the risk management procedures of an AM.

We now turn to the individual response to each question.

HIGH LEVEL FRAMEWORK FOR IDENTIFYING NBNI G-SIFIs

Q2-1. In your view, is the exclusion of (i) public financial institutions, (ii) sovereign wealth funds or (iii) pension funds from the definition of NBNI financial entities appropriate? If so, please explain the rationale.

For public financial institutions and sovereign wealth funds we understand that there is an issue of sovereignty that can better be approached through international treaties than by means of regulation. Nevertheless, we consider that due to their size some may reach systemic importance. Regulators should ensure that these entities have a proper governance that prevents them from taking risky and procyclical positions and that they show some degree of transparency.

For pension funds, we do not see the reason not to keep them in the scope of investigation. We know they are large in size and they have shown their influence in areas like governance of issuers or ESG criteria which testifies of their potential impact on markets. They are bound, when managing their assets, by a strict matching of their long term liabilities, but so are insurance companies and most institutional investors. We do not share the suggestion to exempt pension funds from further assessment of their potential systemic risk without a more detailed assessment of the rationale behind.

Q2-2. Please explain any potential systemic risks associated with failure or financial distress of (i) public financial institutions, (ii) sovereign wealth funds or (iii) pension funds that, in your view, warrant their inclusion in the definition of NBNI financial entities so that NBNI G-SIFI methodologies would apply.

The first risk is common to all these institutions and relates to size: some are among the largest actors on financial markets not only for direct holdings but also on derivatives.

With respect to public financial institutions (PFI) and sovereign wealth funds there is a common element of reputation risk that directly impacts the sovereign credit of their country. On top, PFI are often instruments that governments use to implement their economic policy and to leverage the impact of their decisions. As a consequence PFI are highly sensitive institutions and should be considered as part of the sovereign risk of their country.

In the case of pension funds the consequences of a financial distress would spread immediately to all the pensioners and employees of the concerned companies or governments. The resulting drop in consumption could be extremely severe and lead to a major economic crisis. Furthermore, in terms of interconnectedness and market impact the fire sale of the very large positions held by very large pension funds could impact many actors and lead to stressed market conditions extremely rapidly. Amundi thinks that pension funds should be included in the definition of NBNI SIFIs, be it only to better assess the level of risk they really present..

Q2-3. Please explain any other NBNI financial entity types that should be excluded from the definition of NBNI financial entities so that NBNI G-SIFI methodologies would not apply and their rationale.

We will develop it later, but want to mention immediately that in our view tightly regulated funds should be excluded from the scope of the NB NI SIFI assessment. More specifically under European legislation, UCITS and AIFs without significant leverage should be considered as safe vehicles because of their rules in terms of leverage, investment diversification, liquidity, credit and counterparty risk management as well as the strict and continuous control they are subject to.

INVESTMENT FUNDS

Q6-1. Please explain any potential systemic risks associated with the financial distress or disorderly liquidation of an investment fund at the global level that are, in your view, not appropriately captured in the above description of each risk transmission channel? Are there elements that have not been adequately captured? Please explain for each of the relevant channels separately.

<u>Counterparty channel:</u> the document focuses on leverage and introduces a difference between public and private funds; first, Amundi considers that such funds as UCITS and AIFs without significant leverage are sufficiently regulated (notably in terms of leverage) and supervised to be out of scope; secondly, we feel that re-use of collateral received is probably the most concerning mechanism to create systemic risk; we think that the limitation of re-use in funds should be addressed through a specific regulation in order to avoid that funds can carry excessive leverage.

<u>Market channel:</u> with respect to market channel, we consider that the focus lies on the issue of liquidity : funds have a liability side as well as an asset side; investors are aware of the investment horizon and funds rules provide for appropriate tools (such as gates, swing pricing, contingent redemption fees, side pockets, payment in kind or suspension of redemptions) to organize an orderly resolution in case of need; technical answers exist in our view; when PIMCO bond funds faced heavy redemptions in 2014 the managers were able to meet them without difficulties and without impairing the liquidity nor the market exposure of the funds: large redemptions do not imply fire sale and systemic risk.

<u>Substitutability channel:</u> Amundi does not understand how a fund could provide “such a significant service to a particular market or market segment…”; funds do not provide services but to investors;

we understand the discussion about a fund being very active, even dominant, in a specific market segment, that could generate systemic risk, but we do not followt the idea of service provision.

Q6-2. For the asset liquidation/market channel, to what extent is the potential for risk transmission heightened with respect to an individual fund that is a dominant player (e.g. its asset holdings or trading activities are significant relative to the market segment) in less liquid markets?

The dominant player concept is difficult to implement. What is a less liquid market? How could we define market segments? These are very subjective items and if we like the concept we do not think that it will be workable in a regulation. Of course size must be appreciated in a relative manner and the only relevant criterion in that respect is the ratio of liquidity expressed as the positions held in the fund to the trade volume on a specific market segment. However, trade volume is very volatile and average figures can be misleading.

Q6-3. Under what conditions might the asset liquidation/market channel apply to an individual fund in ways that are distinct from industry-wide behaviours in contributing to broader market contagion?

We would like to mention 2 cases that should be encouraged where a different approach reduces procyclicality, thus limiting the contagion risk. Funds that invest in illiquid assets (private equity or infrastructure for example) and do not offer any redemption facility to their holders are exempt from the risk of fire sale common to most funds. If long term investors support without possibility to redeem a contrarian investment strategy in a fund, they will have a contra-cyclical impact in periods of market tension. In that respect, some hedge funds may be very helpful to take a contrarian view and stabilize markets.

Q6-4. Is the proposed threshold defined for private funds appropriately calibrated? If not, please explain the possible alternative level (e.g. USD 200 billion of GNE) that could be adopted with clear rationale for adoption and quantitative data to back-up such proposed level?

Amundi thinks that the threshold should in all cases refer to the total exposure of a fund. In that respect a figure such as GNE that includes, without compensation for effective hedging, the total of all exposures of a fund should not be disregarded but is not our first choice. As it largely overestimates the real net market exposure of the fund, we consider that the level should be high and agree that 400 billlion $ is reasonable but should not be diminished.

We very much prefer the "commitment" as measured in AIFMD as a reference. It is limited to the net market exposure and becomes more and more relevant now that central clearing through CCPs develops. To decide between GNE and commitment, we feel that an assessment of the most commonly used concept is necessary. In Europe, commitment seems to be the usual reference.

We feel that the differentiation between private and traditional funds might be difficult to interpret in non US context. We suggest to use commitment for all funds as a way to combine size and leverage. However, we insist on UCITS and AIFs without significant leverage being out of the scope of identification of NB NI SIFIs.

Q6-5. In your view, which option for the proposed threshold applied to traditional investment funds is the most appropriate initial filter to capture the relevant funds for detailed assessment and why? Also, are they appropriately calibrated? Please provide evidence (data or studies) to support your argument. If you prefer Option 2, please provide a practical definition of a dominant market player that can be applied in a consistent manner.

We do not consider that there is a necessity to introduce complexity with the reference to a different level of 30 billion for those funds that have a balance sheet leverage higher than 3. A filter must be easy to implement and we consider that, but a further assessment might lead to another conclusion, "commitment" as defined in AIFMD is a global criterion that should apply to all funds.

We do not like the idea to introduce the concept of dominant player in option 2 for traditional funds. Here again it is difficult to define a concept that implies a view on what a market segment is and a measure of the liquidity on that segment. It gives room for diverging interpretation or argument and should not be considered in the definition of a threshold that leads to the inclusion on 0 list.

Q6-6. In addition to the two options for traditional investment funds, the FSB and IOSCO also considered a simplified version of Option 2 using GAUM (e.g. USD 200 billion) with no dominant player filters. Please provide your views if any on this as a potential threshold with the rationale (especially compared to the proposed two options above).

First, we would like to clarify the concept of GAUM as opposed to AUM and GNE. In the lack of clear definition by FSB of its view, we consider that GAUM includes all the assets invested in and showing on the balance sheet of the fund. It differs from AUM by the fact that debt is not taken into account in GAUM to reduce it and obtain the NAV on which the AUM is based. It also differs from GNE as this second concept captures all exposures including those that do not show on the balance sheet for their notional amount ; they are taken through derivatives.

We do not like the idea of introducing GAUM, which is not a standard reference in the industry, as the final reference to determine which funds should be put on 0 list. We encourage FSB to take commitment as the real measure of risk resulting from the global participation on the markets and to stick to it for all the funds.

Q6-7. Please explain any proposed revised indicators set out above that, in your view, are not appropriate for assessing the relevant impact factors and its reasoning.

Amundi is concerned with the complexity of the proposed set of criteria. We are discussing indicators that should be presented to NCAs in order for them to assess the potentiality of systemic risk coming from an entity that is above the initial size filter. We feel that at this stage the only viable way is for entities and authorities to collaborate and decide which indicators should be monitored and which are *not relevant, structurally or temporarily. At the end, it is probable that a large majority of the listed indicators will not be used for a given entity. Conversely qualitative comments would be very helpful in the process of assessment and should be required by NCAs. Our comments below point out those indicators that seem more relevant.*

<u>Interconnectedness</u>: it should be clarified that the proposed indicators are partially alternative ones; one ratio such as commitment to NAV to assess the leverage is sufficient and 2-1, 2-2 and 2-3 should be alternatives for this ratio; the counterparty risk measured in 2-5 is an indicator that could have 2-4 as a substitute; the indicators 2-6 and 2-7 are interesting but we woule disregard them : one may argue that the more you work with G-SIFIs the better protected you are because of the requirements specific to G-SIFIs that ensure their financial solidity; for the role of institutional investors in open funds, we feel that they are professional investors that understand markets and are able not to overreact and thus to create some stability in a fund.

<u>Substitutability</u>: suggested indicators are very difficult to implement as we consider that the concept of market segment is too subjective. Furthermore we believe that substitutability is not a relevant channel in the asset management industry: clients are offered many different investment possibilities and they decide to invest or divest as they wish to seize the best opportunities and reallocate in consideration of a risk /return ratio that does not require them to stick to a given market segment.

<u>Complexity:</u> indicator 4-1 suggests that derivatives are complex and we cannot share that view at a time when central compensation reduces their risk; we totally agree that HFT is a risk factor of systemic importance when you consider the market share of these algorithms that generate orders without any intention to maintain for any significant time the positions they may create; in our view FSB should aim at a limitation of HFT through the introduction of a minimum tick size and the suppression of any subsidies by trading venues. See the following question for comments on the liquidity ratios.

<u>Global activity</u>: we tend to consider that the more diversified your clientele, your counterparties and the instruments you invest in, the lower the risk of having a dominant position and the better for the financial stability; we agree that from an operational point of view the number of jurisdictions where the fund has counterparties is a good indicator of the complexity of potential litigations.

Q6-8. What alternative indicators should be added and why would they be more appropriate? For example, do you see any benefits in adding price-based indicators? If so, please explain the rationale for inclusion and possible definitions of such indicators.

Amundi considers that liquidity is a key factor that should be examined in itself and not through a series of indicators under "complexity". AMs risk departments monitor the liquidity risk of funds and know that liquidity has to be considered as a dynamic adjustment between assets and liabilities.

Indicator 4-4 can be satisfactory if and only if it is conceived as a qualitative assessment and not a series of reference ratios; liquidity management is a dynamic process and information from the liability side, i.e. prospective subscriptions or redemptions that can only be estimates is determinant of the best liquidity profile.

Indicator 4-5 is interesting to give an advance warning on the risk of sales by the AM to face margin calls in the case of a leveraged fund; it provides information very much linked to leverage. However, if we want to anticipate margin calls it is more appropriate to refer to Net Notional Exposure (and not GNE) so as to take into consideration correlated assets and hedged positions. If NNE is not available GNE might be a proxy, but we have to keep in mind that it overestimates the positions and should be interpreted with prudence. We suggest not to use 4-5.

Indicator 4-6 aims at measuring the risk that a fund may have difficulties in meeting margin calls in adverse market conditions. The fund has several ways to face margin calls starting by unwinding derivative positions and ranging from using existing available cash (what the ratio would measure), repoing assets, borrowing cash, selling instruments,… not to mention receiving subscriptions. In our experience the indication of the level of cash immediately available is significant for investors especially because they want to check that the fund is fully invested. We do not see it as a fair indicator of the risk exposure to adverse market conditions which is much better measured through a leverage ratio.

Indicator 4-7 raises the question of the definition of less liquid assets; we support the reference to the valuation rules to determine when an asset is less liquid.

Q6-9. What are the practical difficulties (e.g. data availability, comparability) if any with collecting data related to these indicators? Please clarify which items, the practical problems, and possible proxies that could be collected or provided instead.

Amundi reiterates its view that FSB should keep in mind the aim of the indicators. The size factor is to start a 0 list of potential G-SIFIs among funds. It must be very simple to implement and unquestionable in order to be used as an initial filter. The other factors and indicators are not designed to assess the real risks taken by a fund but to gain an idea of its exposure to the market in general. These are not criteria for developing a new regulation with specific and detailed requirements. Indicators must consequently not be numerous and all must be easy to produce consistently, even if they might not be all readily available today.

In that perspective, we support the idea of having:

- *two indicators under interconnectedness, one for leverage (preferably Commitment to NAV) and the other for counterparty risk (2-5);*
- *one focusing on liquidity under substitutability and expressing (as 3-2) the time to liquidate a position without representing more than a percentage of the daily average volume traded;*
- *two under complexity : re-use (indicator 4-2) as a type of leverage that brings specific risk and the liquidity profile (indicator to be created) based on data on history of subscriptions/redemptions and the availability of cash in the fund immediately or through a sale with a limited market impact;*
- *one for complexity resulting from cross jurisdictional activities: indicator 5-3 of the number of jurisdictions where the fund has counterparties.*

Furthermore, if HFT activities are not to be limited by a specific regulation their usage within a fund should definitely be considered as a factor of systemic risk. A yes or no approach should be sufficient *to identify the risk, provided that a clear distinction has been established between algorithms used for the purpose of executing orders generated by human managers and those that initiate orders automatically.*

With this philosophy, we think that regulators could build a list of G-SIFI funds and then further investigate on a more appropriate basis the risks of each fund that could require a close monitoring.

Q6-10. For "size", should GNE be adjusted? If so, please explain how GNE should be adjusted and the practicality of such adjustment (e.g. data availability).

Amundi believes that if GNE is not the best indicator, and we would prefer net exposure measured as commitment under AIFMD. However if GNE is taken to capture size, we insist on the following two points:

- *GNE should be defined and interpreted in an harmonised way worldwide,*
- *GNE largely overestimates the market risk incurred by a fund and the proposed threshold of 400 billion should not be reduced.*

We also insist on our suggestion to investigate what is the most common reference in the industry before deciding between GNE and commitment.

Q6-11. For "interconnectedness", should financial leverage measured separately from synthetic leverage?

No. We do not need more than a rough estimate of the leverage of a fund in order to assess whether it may represent a systemic risk. In our answers we suggest that commitment, the most significant in terms or market risk, should be used as a measure of leverage (preferably to GNE). Of course balance sheet leverage and exposure leverage are not similar in essence and could be differentiated in the further analysis, but not as an indicator of potential systemic risk (which is a high level concept).

ASSET MANAGERS

Q7-1. Please describe any activities or services conducted by asset managers other than described above. In particular, please explain any other activities that, in your view, should be included in the scope.

Amundi shares the analysis made by FSB that the core activity of an asset manager, portfolio management of fund or SMAs, is an agency business. It acts as principal to the very limited extent of (the low risk) management of its own capital which may be used to seed new funds.

FSB mentions activities like guarantees, SFTs or intermediation that can bring specific market and counterparty risk and may justify capital requirement. We consider that they are marginal for most asset management groups and should remain so.

Q7-2. Please explain any potential systemic risks associated with the financial distress or default of an asset manager at the global level that are, in your view, not appropriately captured in the above description of each risk transmission channel. Are there elements of the relevant channel that have not been adequately captured? Please explain for the relevant channel separately.

Globally, Amundi thinks that when they carry activities that are not agency portfolio management, asset managers could be considered for prudential regulation. Of course, entities consolidated in a group that is a G-SIFI are already compliant and out of scope.

Q7-3. For the exposure/counterparty channel, to what extent does the assessment adequately describe the types of risks posed by asset managers' activities, such as securities lending, distinct from individual funds? Are there other activities that warrant further assessment?

Amundi is not aware of asset managers acting as lending agent and ready to indemnify lenders in the case of failing counterparty.

With seed money, the individual amounts are usually limited and conceived as temporary. However, it is wise to supervise that the risk taken on that behalf will not threaten the own capital necessary for the asset manager to conduct its business.

Counterparty risk is more and more mitigated through margin calls and exchange of collateral.

Q7-4. For the asset liquidation/market channel, to what extent and under what circumstances might reputational or operational risks of the asset manager impact the entity's individual funds, contributing to high redemptions? How might it impact the transfer of SMAs?

There is no standard scenario in that matter. Take the example of PIMCO who faced heavy redemptions and several departures of key managers in 2014/2015 without being further damaged. Any risk when it materializes brings with it the risk that reputation might be impaired. Professional crisis management and communication are key to avoid negative effects.

For open funds clients may ask for redemption according to the prospectus of the fund if they are not satisfied. Assets are not at risk as they are in the hands of the depositary who is responsible for their custody and the supervision of the fund. In case of run, the AM may use gates, side pockets, suspend redemptions or propose redemption in specie… according to the terms of the prospectus. These are the tools that are at hand in order to avoid risk to spread and become systemic. Used under the supervision of the NCA, they seem efficient to organize an orderly liquidation of a fund.

In the case of SMAs and dedicated funds, the client may change AM. Assets are held in a bank acting as custodian and/or depositary. They are secured there and the AM provides a service that many competitors are keen to take over. To change manager is simple administrative work and contracts usually stipulate arrangements for the period the effective transfer will require. Usually, the earlier AM will act on instructions of the new AM as long as the transfer has not been finalised. The interim period is expected to last a couple of weeks or, at worst, months. For SMAs there is no risk of *fire sale, but a possibility to change Asset Manager (without market impact) and/or custodian. No systemic risk to be afraid of, as long as the end investor does not change its investment strategy.*

Q7-5. For the critical function/substitutability channel, are there any emerging activities that might be critical to a portion of financial clients that might in turn impair market functioning or risk management if no longer provided? Other than managing assets as an agent (i.e. core function), to what extent do asset managers engage in activities that may be relied upon by investors, financial institutions and corporations, and which are difficult to readily substitute?

Yes, there are critical functions for the smooth functioning of financial markets and more specifically the asset management industry. Valuation is a key function for AMs who have to publish daily NAV of their funds. Public data such as market prices published by Regulated Markets are more and more challenged by other data which are not accessible without a higher fee. There is a very limited number of providers and that scarcity creates a critical situation in case of failure of one of those few participants to the oligopoly.

As an illustration, Amundi is very much concerned with Solvency 2 and CRD regulations. On one hand, clients want AMs to report to them data necessary for their own regulatory reporting (transparency rule) and, on the other hand, data providers consider that some of these data are proprietary and should not be transferred without a distribution license. The subject of reasonable unique payment is far from resolution today.
In terms of systemic risk, any error in contributed data would impact not only NAV calculation but also risk control instruments, margin calls and exchange of collateral… Enough to be systemic! Regulators have already regulated CRAs and, in Europe, benchmark administrators will soon be regulated. We urge FSB to address the case of data providers of systemic importance and suggest a regulation of their internal organization, the extent of their proprietary rights, their commercial approach and their effective responsibilities.

Q7-6. Please explain any practical difficulties in applying the above proposed thresholds for an initial filter of the asset manager universe and limiting the pool of asset managers for which more detailed data will be collected and to which the sector-specific methodology (set out in Section 7.4) will be applied.

The paper mentions two thresholds: a consolidated balance sheet higher than 100 billion $ and/or assets under management in excess of 1 trillion $. They are apparently easy to capture and we would like to shortly comment them. Since they are thresholds to determine which entities should be put on 0 list and analysed more deeply, we consider that the criteria should be alternative and we suggest that if either one or the other is reached the AM should be examined as a potential SIFI.

The two thresholds address different types of risk. The balance sheet criterion evidences the size of risk that an AM may take for its own account. The figure of 100 billion $ seems adequate as it will only capture those entities that have a significant size. We are not in a position to estimate if there will be any AM captured under this criterion. We consider that if the threshold of 100 billion is adequate in terms of systemic risk control, any quasi-banking activity should be prudentially regulated based on banking regulation.

The second criterion, AUM, refers to the global activity of an AM as an agent. Therefore the level must be very high because it is a consolidated view of individual risks that should be supervised at the level of each large and SI fund. Nevertheless, we consider that it makes sense to maintain such a criterion not only because AUMs are data easy to access but also because it is a proper way to estimate the potential of market impact of a firm if all its managers were to act simultaneously in the same way. Even if it is a theoretical hypothesis we consider that it is reasonable to assess those AMs with very high AUMs. In that respect the figure of 1 trillion would be correct if it were made clear that SMAs and funds dedicated to entities subject to prudential regulation are not included in the total AUM. As a matter of fact, most mandates are signed by institutions that are prudentially regulated such as insurance companies and banks. They consolidate their holdings in their regulatory reporting and supervisors have a clear view on them. We insist on the fact that there is no need for duplication of controls and that what is once consolidated at the level of the client should not be considered at the level of the asset manager. We suggest that FSB clarify this point explicitly. Conversely, we do not advocate for an exclusion of mandates signed by sovereign wealth funds for example or pension funds when calculating the relevant AUM.

Q7-7. Please provide alternative proposals, if any, for a more appropriate initial filter (with the rationale for adoption and quantitative data to back-up such proposals).

The first question to address is "Why should we look for other factors"? It leads to the following comments:

- *The objective of other criteria would be to re-capture entities that would have split their funds in order that they might not be individually captured. In that respect the introduction of leverage figures might be relevant. Commitment is probably a more adequate reference than AUMs. A threshold of 3 billion "commitment" (if a prior assessment concludes that commitment is more easily available and commonly used than GNE), would be a better alternative than the 1 trillion AUM figure.*
- *Another point could be to prefer an approach where AUMs would be established, with a threshold of 400 billion, on the basis of large families of funds (a concept mentioned in the first consultation paper which is quite sensible when funds are managed by the same team even if not by the same individual manager). The difficulty lies probably in the control of what constitutes a family of funds. We suggest to take a large view more than a highly granular one in order to identify a very small number of families corresponding to the main asset classes.*
- *The appropriate level to have a global view is where there is a risk of common behavior on all the portfolios at the same time; it can be argued that the firm represented by the AUM is not the proper level; families of funds might be more relevant ; a risk control platform might be even more relevant when it is the place where can be initiated an alert that may be mechanically be relied upon and may lead to identical decisions: the AUM of such an entity could be considered to identify as potentially systemic all the participant AMs.*

Q7-8. Please explain any proposed indicators set out above that, in your view, are not appropriate for assessing the relevant impact factors and its reasoning. What alternative indicators should be added and why would they be more appropriate?

The set of 8 indicators has the main advantage of not being to diversified and, hence, could be expected to be easily implemented. We believe that it is the proper route to follow to limit the number of indicators. However, we do not see the relevance of indicator 3-1. If an AM engages to a large extent to a business other than fund management it will at first sight be captured by the size threshold.

The degree of reliance of other institutions on its services and the lack of alternative are not captured by the proportion of activities in the total turnover of the AM. They are material facts and even the service concerned represents a small revenue, it can be crucial for the industry.

In order to assess the complexity of the firm we suggest to add to the examination of the organisational structure of the group the list of its licensed or supervised activities. In our view, it is an easy way to capture the absence (or existence) of regulatory supervision on each entity. It is a sign of reduced complexity and better supervision. However, we reiterate that the existence of a resolution plan is not the issue : the transfer of clients' assets is not impacted in case of resolution of the AM since the depositary is in charge and is responsible for the existence of the assets, not the AM.

Q7-9. What are the practical difficulties (e.g. data availability, comparability) if any with collecting data related to these indicators? Please clarify which items, the practical problems, and possible proxies that could be collected or provided instead.

We can anticipate two types of difficulties: confidentiality and qualitative assessment of some indicators. Even if we do not share that view, we believe that the commercial agreements to guarantee a performance or a capital to investors might be considered by some AMs as confidential even on an aggregated basis. Indicator 3-2 refers to "common strategy". If we easily understand the concept and can illustrate it in many instances, we are aware that it is subject to discussion. The granularity of the investment segment that is considered as a strategy is debatable. We suggest that this indicator be accepted as a declarative and qualitative indicator.

Q7-10. Which of the proposed indicators set out above, in your view, should be prioritised in assessing the systemic importance of an asset manager?

After the filter of size, we think that the priorities should run as follows:

- *Organisational structure (4-1) as a way to understand the activities other than portfolio management carried by the AM and start an appropriate cartography of risks;*
- *Leverage ratio (2-1) as a key indicator of the exposure to markets compared to shareholders equity.*

These two indicators are sufficient to improve the assessment of the potential existence of systemic risk. The other indicators could be considered as further questions to learn more about the organisation.

Contact at Amundi:
Frédéric BOMPAIRE
Public affairs
frederic.bompaire@amundi.com
Tel: +33 1 7637 9144