AMUNDI'S ANSWER TO THE CONSULTATION

LAUNCHED BY FSB ON

Possible Measures on Non-Cash Collateral Re-Use

(April 22nd, 2016)

Amundi is the leading asset manager in Europe and ranks in the top 10 of the industry worldwide, with assets under management above € 985 billion at the end of 2015. Located at the heart of the main investment regions 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 worldwide and designs innovative, high-performing products which are tailored specifically to the requirements and risk profile of institutional and corporate clients. Amundi is a listed company with Credit Agricole Group as its majority shareholder.

Amundi is very much concerned with the discussion about market-based finance and all the fears that the expression "shadow banking" conveys, which are in our opinion largely unjustified as far as asset management is concerned. More specifically, when reading the consultation document on non-cash collateral re-use, we are thankful to the FSB for the opportunity that it offers to bring elements that may help clarify some specificities of the asset management industry.

We would like to underline the following key points that constitute the basis of our understanding on the matter:

1. Amundi totally supports the analysis that led to the conclusion that Re-Use potentially carries risks of a systemic nature; as a consequence, we believe that FSB is right to collect data and discuss measures to assess these risks;
2. We think that the limitation of the scope on SFTs should be reassessed; in our opinion collateral exchanged in the framework of SFTs is the most complex part of the business when compared to OTC non cleared derivatives;
3. We strongly oppose any measurement that would constantly and largely overstate the proportion of collateral re-used, as would the proposed third option called *indirect approximation of re-use*; we know that any regulatory approach based on approximate data is misleading and generally leads to inappropriate analysis and wrong policy decisions;
4. We insist on the necessity to capitalize on preexisting data collection processes and believe that, in Europe, the use of TRs (that have been introduced under EMIR) in order to collect data on SFTs is commendable;
5. As a general rule and with the exception of hedge funds, asset managers rarely use SFTs to leverage their portfolios; re-use is totally forbidden for UCITS according to ESMA guidelines;

Siège social : 90, boulevard Pasteur - 75015 Paris - France
Adresse postale : 90, boulevard Pasteur - CS 21 564 - 75730 Paris Cedex 15 - France
Tél. : +33 (0)1 76 33 30 30 - amundi.com

fund managers use Efficient Portfolio Management, mostly reverse repo to secure their cash holdings and securities lending in order to increase the return for their client investors; consequently, asset management is not an issue in terms of financial stability and should not, with the exception of hedge funds, be the focus of any regulation; a proportionate “light regime” of reporting should be provided for European UCITS and AIFs that do not use significant leverage;

6. Amundi knows that any reporting is a matter of details that implies heavy costs; in that respect a profound and confident discussion with the industry is the best way for regulators to produce a workable framework at an acceptable cost.

We now turn to the specific questions of the consultation and will answer to those where we feel we may provide comments of interest for authorities.

X x X

Q1. Does the proposed scope of transactions for data collection (Scope A) provide a practical basis for the meaningful measure of non-cash collateral re-use? If not, please explain how you think the scope should be broadened and the reasons why this alternative scope is more appropriate than the proposed scope.

Amundi agrees that a step by step approach can be followed, but believes that a large scope is the final objective. We further consider that in operational terms, reporting data on SFTs is a very complex task. The implementation of SFT Regulation in the European Union represents a real challenge and many technical points have to be clarified, especially in the case of pooling of collateral. For example it appears that reporting end of day position is workable when intraday continuous reporting of transactions is inefficient and overly burdensome since amendments are very numerous. We suggest that if a carve-out were introduced it should not apply to operations but entities, specifically funds that do not carry significant leverage (i.e. European UCITS and AIFs that are not hedge funds).

Q2. Are there any practical issues (e.g. updating current business practices, IT systems) in relation to the three measures of collateral re-use that are set out in this Section? Are there any ways to improve these measures?

Practically, the result that option 3 would provide is not adequate. It would show such a constant and broad overestimation of re-use that it would lead to wrong analysis and improper conclusions. The measure should be disregarded even if it were the easiest to implement.
Option 1 foresees an exact reporting for each transaction of the status of the collateral : own assets or re-use. For securities lending transactions, re-use has to be considered not at the level of the transaction but of the pool of collateral that is used.
There is a major difference in practice between repos that are concluded under a GMRA master agreement that foresees an identification of collateral at the level of each contract and securities loans. According to the GMSL master agreement which is the usual reference, collateral is considered globally to cover the exposition that exist between 2 counterparties on all their existing transactions. Regulators should take that major difference in consideration and it is not advisable what is not the current practice for legal reasons.

Q3. For the first measure, are there any practical issues in reporting whether collateral you posted is in the form of "own assets" or in the form of assets that were received as collateral in a previous transaction?

At first sight, the difficulty in reporting is not to source the nature of the collateral posted but to properly manage pools of collateral. A cost /efficiency analysis should conclude to the recommendation by FSB of a single sided reporting. For example, it would be unduly burdensome to require a receiver of collateral to report whether it receives own assets or re-used securities.

Q4. Are there other measures of collateral re-use that the FSB should consider for financial stability purposes?

Amundi wants the third option to be disregarded as a gross overstatement of the re-use. We think that depending on the wished precision and granularity and on the nature of transactions, reporting options 1 or 2 should apply.

Q5. Do you have views on any of the six metrics related to collateral re-use that are set out in this Section? If so, please indicate the metric(s) and explain the views you have.

We believe that the most important factor is not the way the measure is expressed but the quality of the data. In that respect we insist on the fact that only options 1 and 2 (exact and global percentage per type of collateral) can bring reasonably precise results. We further consider that the aggregation should be considered at different levels: jurisdiction, per type of collateral, by type of counterparty… We believe that concentration ratio (see 4.4) of re-use of collateral is relevant for market supervision if concerned entities are individually identified. But the most significant measure in our view are the collateral re-use at the jurisdiction level (4.1), the collateral re-use rate (4.2) and the collateral multiplier (4.6). They allow for a reasonable estimate of the degree of leverage provided by re-use. The re-use reliance rate (4.3) is a complement interesting when looking at the counterparty risk which cannot easily be assessed at a global level. Finally, we think that the collateral circulation length (4.5) is directly derived from the re-use rate and is not a relevant concept as collateral is not intended to circulate but to protect counterparties.

Q6. Are there any other metrics related to collateral re-use that the FSB should consider for financial stability purposes? If so, please define the metric(s) and explain how the metric could be used for financial stability purposes.

As a complement to the assessment of the jurisdiction of a transaction, we consider that data could be aggregated at the level of the NCA for each counterparty in order to capture the concentration among home member States.

Q7. In your view, are the data elements set out in Table 1 appropriate for calculating the collateral re-use measures in Section 3? Are there alternative data elements that the FSB should consider? If so, please explain the data elements and the reasons.

Yes. However we think that the approximated measure as described under option 3 should be disregarded and as a consequence we suggest to delete all the data that refer to that option only. Furthermore, we think that it is not for the reporting entity to provide data on its top 5 counterparties but for the Authority to obtain it from TRs or any other central register.

Q8. Are there any practical issues on the data elements for calculating the collateral re-use measures that are set out in Table 1?

Q9. In your view, should the collateral types for measuring collateral re-use align with those set out in the November 2015 global securities financing data standards as set out in Table 1? If not, please explain which collateral types you think are appropriate for the collateral re-use measure(s).

Q10. Are there any views on the data architecture issues related to measuring collateral re-use as set out in this Section? Do you see any statistical issues arising as a result of the proposed aggregation approach?

We have just one comment on table 3 where we find it difficult for entity B to re-use a total of 35 when it posted collateral for 30 only.

Q11. Are there any other views on other aspects of this document?

Amundi insists on the cost that stems from the different reporting obligations that asset managers face. Our experience is that set–up cost is heavy and that implementation requires proper planning and appropriate delays for IT preparation. We have not been able to see economies of scale in the addition of different layers of reporting in the recent years.
We furthermore believe that a single sided reporting approach is more efficient and less costly as it eliminates all the rejected reports that result from small and non-relevant discrepancies between dual sided reports. Instead of better quality, authorities that require dual sided reporting, get incomplete reports, that are partially completed with further delay on the price of undue expenses imposed on market participants. In terms of supervision of financial stability larger coverage is far more important than accurateness of peripheral data.

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