Answer to FSB's

Consultative document on Shadow Banking

An integrated overview of policy recommendations

(January 2013)

Amundi is a leading asset manager, ranking second in Europe and among the top ten in the world with assets under management above 700 billions euros. It is active in many different countries and serves a diversified clientele of retail, corporate and institutional investors through a large range of products and investment solutions.

As a not prudentially regulated entity managing independent funds, Amundi comes within the scope of generally accepted definition of "shadow banking". However Amundi strongly feels that shadow banking should be clearly divided in two categories: non regulated or obviously under-regulated activities (and entities) that present a systemic risk on one hand and other activities or entities which are strictly regulated and closely supervised and do not present systemic risk. The fund management industry does belong, except for some heavily leveraged funds to the second category. This is the key message Amundi wants to express in answering the questions asked by FSB in its consultation.

Amundi is thankful to FSB for opening this consultation on Shadow Banking and to give the opportunity to market participants to express their views, in general terms in this specific consultation and with more details on the other 2 consultation papers on entities and EPM techniques.

Introduction:

Definition of shadow banking (SB) as "credit intermediation outside the regular banking system" is adequate and not negatively prejudiced. Major risks do stem from maturity transformation and leverage. Risks of contagion, of "runs" on deposit like instruments and of procyclicality are duly underlined. If they may agree on the general failure of the model "originate to distribute" through SIV, asset managers cannot share the view that the "shadow banking system is typically subject to less stringent, or no, oversight arrangements" when **the fund industry is at least as much regulated as the banking industry**. A proper appreciation of the limited risks that the holders of funds incur and of the impact of fund managers on financial market should be undertaken by FSB.

To target activities that have a systemic importance and to proportionate regulation to systemic risk seems an appropriate approach. However it seems difficult to express long term objective and give delays to reach them when markets react quickly and immediately discount steps necessary to reach long term objectives without consideration to authorised delay to "switch on".

FSB's approach to shadow banking

FSB is correct when regarding pure equity trading and foreign exchange transactions as non SB activities. It identifies 5 specific themes and requires further information on SB activities to develop a proper mapping of SB system.

- *Banks' interactions with SB entities:*

Asset managers are very much concerned that a misconception of their activities may lead to **inappropriate consolidation** of some of their activities into the perimeter of a parent bank for prudential regulation. Banks usually do not provide any guarantee in favour of clients who invest in the funds they manage or distribute and cannot be considered as sponsors. Investors are totally aware of the market risk they take when investing in funds. CNAV Money Market Funds (MMF) might have been offered as deposit like instruments which may have created some confusion in the mind of holders, but this is in the process of being solved with the recommendation of IOSCO to turn CNAV MMFs to VNAV MMFs. Seed money procured by a financial institution at the launch of a new fund should not be considered as anything else but investment with an horizon of a couple of years. Capital requirement, if any, should be determined by the type of exposure of the fund (look through approach).

- *Money Market Funds:*

Amundi shares the view that **IOSCO recommendations** on Money Market Funds published in October 2012 present a sound framework for MMFs regulation.

- *Other SB entities:*

Policy measures presented in the document to get proper information on SB activities once defined should be supported. The five areas identified as SB activities include the discrepancy between long term investments and short term liquidity. **It is part of the definition of asset management to mismatch and transform maturities**, knowing from experience that not all investors redeem at the same time thus allowing for some less liquid investments for a limited portion of the assets. The rules applying to funds and especially UCITS to ascertain liquidity should be carefully analysed by FSB to understand how the industry manages that type of risk.

- *Securitisation:*

The need to restore confidence in securitisation among investors is urgent as the economic efficiency of well structured securitisations will become more and more important in the new regulatory framework of Basel 3. Labelling, risk retention, direct information of investors, insight on the methodology used by rating agencies and transparency on rules to manage conflict of interests… are among the steps necessary to change climate. Furthermore, local or internal regulations preventing investors to hold securitisations should be lifted.

- *Securities lending and repo*

Amundi has expressed its views on WS5 consultation paper. It underlines the importance to address the issue of **securities law** in order to make it impossible to have more certificates circulating than shares issued. It stresses the fact that securities lending and repos transacted by non leveraged vehicles (like UCITS or AIF with a leverage lower than 3:1) should be exempted from numerical floors on haircuts and should benefit from any exemption that may be introduced, as they are far less risky than any bank lending activity.

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