Amundi
ASSET MANAGEMENT

PUBLIC COMMENT ON CONSULTATION REPORT

ON RISK MITIGATION STANDARDS FOR

NON-CENTRALLY CLEARED OTC DERIVATIVES

(IOSCO, October 17, 2014)

INTRODUCTION

Amundi is a leading asset manager ranking first in France and Europe and 10th in the world, with assets under management above 820 billion € at the end of June 2014. Established in more than 30 countries, Amundi offers a comprehensive range of products covering all asset classes and major currencies. It serves more than 100 million retail clients worldwide and offers investment solutions for institutional clients specifically designed to meet their needs and risk profile.

Amundi totally supports international initiatives to enhance financial stability and, as part of it, to reduce risk on derivatives. The introduction of EMIR in Europe is a major step in that direction and we feel that the implementation of the reporting requirements and the procedures on immediate confirmation, reconciliation, daily valuation, dispute resolution and compression do improve market security. The push towards central clearing and the soon to be introduced clearing obligations, as proposed by ESMA, shall be another step in the right direction. However, it puts a heavy responsibility on the shoulders of regulators and supervisors that have to define a solid regulatory framework and assure a close and constant supervision of CCPs : these are central market infrastructures and buy-side clients insist on the necessity for them to be above all and any suspicion of possible default.

With regards to non-centrally cleared OTC derivatives, Amundi followed the conclusions of the September 2013 report published by BIS and IOSCO and participated to the joint consultation conducted by European authorities in July 2014. We have a strong view that if the proposed regulations are implemented they will comply with the standards expressed in the present Consultation Report.

X x X

COMMENTS

Amundi wishes to express the following comments based on its own experience. They are presented as general remarks and do not always refer to one specific principle. They are more answers to the (e) in § xi of the introduction of the report, as they express practical concerns. However some points are

suggestions for the introduction of additional risk mitigation techniques as mentioned in (d) or expansion of proposed standards, with reference to (c).

1. **Amundi supports the final report of September 2013 and its proposed application in Europe :** in particular (i) the phase in period from 2015 to 2019, (ii) the exclusion of counterparties that have less than 8 billion € notional amount of non-cleared derivatives, (iii) the reduction of the margin requirement by 50 million, (iv) the reaffirmation that funds are independent entities, (v) the preference for a large range of eligible collateral provided that appropriate haircuts are determined…However, Amundi suggests that the initial phase-in period starts after the obligation to compensate IRS is implemented, what should be, in Europe, second half of 2015 for CCP member firms and one year later for other financial institutions.

2. **Proportionality should be mentioned in the standards:** proportionality to the level of risk appears as a possibility for Authorities in explanatory note 1.4. It should in our view be put as a strong principle that is overarching all standards. More specifically, we would recommend that it be explicitly referred to in standard 1 and 8 : the addition of the words "**in a proportionate manner"** at the end of both standards would be sufficient. In standard 7, the reference to the materiality test that is mentioned in 7.1 could also be included in the standard itself.

3. **No back loading of existing deals:** Amundi insists on the fact that, at the time of implementation of an obligation to collateralize, existing OTC derivative transactions should remain out of scope. The modification of such an important parameter as the collateral will undoubtedly change the economic equilibrium of the transaction and put counterparties in an unnecessarily difficult position.

4. **Genuine amendment is not novation :** furthermore, when a minor characteristic of a transaction is amended it should not be considered as a novation that implies, if done after the implementation date, a modification in the collateral policy of the deal. Here again it would impair the economics of the initial transaction and the consequence in absence of clarification would be a deterioration of the price for the investor (the fund in our case) because the counterparty might include the risk of a modification in its initial pricing. Of course, it should be limited to non-substantive amendments so as to prevent counterparties to avoid collateralisation through a succession of amendments. The reference to "genuine amendments" as defined in the BCBS/IOSCO final report (§ 8.9 and footnote 20, p24) would be effective to limit the risk of circumvention of the regulation. To bring an example, structured funds may rely on a total return swap that will have a notional amount equivalent to the Assets of the fund; when holders redeem (and we see it at a rate of some percentage points yearly) despite their initial agreement to invest till the maturity of the fund, the size of the swap must be adjusted : it is typically a transaction that should not be considered as a novation.

5. **Reporting :** we know that reporting is a common practice in the US, in Europe and in different Asian countries. However, we suggest that it be reaffirmed as a standard that enables authorities to gain a global view on OTC derivative transactions. Furthermore, the standard should introduce the idea that aggregating all reportings in one single repository will be a necessity and should be organized.

6. **Investor's protection :** Amundi would like standards to refer to the organisational procedures for exchange of collateral. These are key to ensure proper protection to counterparties. More specifically,

we think that :

- collateral should be defined as a deposit of cash or eligible securities made on an account that both grants to the beneficiary direct access to the collateral in case of default of its counterparty and reversely protects the constituent from the failure of its counterparty;
- the principle of exchange of initial margin by both sides should be reaffirmed;
- the possibility to use a third party depositary to avoid to increase counterparty risk by the amount of the margin deposited should be clearly referred to as a good practice and authorities should be recommended to introduce it.

7. Valuation: if we totally agree with footnote 10 that nobody should be compelled to disclose confidential/proprietary information, we think that the agreement between counterparties referred to in 4.7 should include not only process and methodology but also sources of data, as it is a key element for valuation. Furthermore, we consider that in case of unavailability of valuation the only efficient recommendation under 4.8 would be for counterparties to discuss and agree on a common decision. Any alternative method or source may just not be available either at the time of deficiency of the original method.

8. Annex 1: Amundi understands that the Annex does not intend to present an exhaustive list of relevant items that should be put in the confirmation. However, we stress that a specific reference to a Master Agreement would greatly improve the legal security of the confirmation (and the deal).

X x X

Contact at Amundi :
Frédéric BOMPAIRE
Public Affairs
Amundi
90 Boulevard Pasteur
75015 PARIS
frederic.bompaire@amundi.com
+ 33 (0)1 7637 9144