Amundi’s answer to the Consultative Document issued by the Basel Committee on Banking Supervision on Leverage ratio treatment of client cleared derivatives

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Amundi is Europe’s largest asset manager by assets under management and ranks in the top 10 globally. It manages more than 1.470 trillion euros of assets across six main investment hubs. Amundi offers its clients in Europe, Asia-Pacific, the Middle East and the Americas a wealth of market expertise and a full range of capabilities across the active, passive and real assets investment universes. Clients also have access to a complete set of services and tools. Headquartered in Paris, and listed since November 2015, Amundi is also the 1st asset manager in Europe by market capitalization.

Thanks to its unique research capabilities and the skills of close to 4,500 team members and market experts based in 37 countries, Amundi provides retail, institutional and corporate clients with innovative investment strategies and solutions tailored to their needs, targeted outcomes and risk profiles.

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Derivatives are part of the investment strategy in many portfolios either as a way to reduce risk through hedging or as a means to get exposure in the most efficient way, particularly when considering liquidity and cost. Amundi supports the legislators approach to build a strong framework through EMIR to address specific risks of derivatives. Daily margin calls and exchange of collateral together with frequent resets are common practice and totally automated when using a CCP. We access CCPs through Members and so far Amundi has not decided to be a direct member of a CCP. Consequently we are very attentive to the possibility to access CCPs in good conditions. We insist on participants like us not being penalized in comparison to member firms in terms of eligibility of collateral, level of haircuts, advanced information on changes in the CCP’s rules… We also are very sensitive to commercial terms we can negotiate with Clearing Members and we pay very high attention to their service quality and financial strength when selecting them as partners for our funds and portfolios.

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We noticed that investment banks that offer clearing services to market participants often find that the risk / return ratio of this activity is questionable when dealing with smaller counterparties. Funds are for most of them small financial counterparties and even large asset managers that run hundreds of funds have to concentrate their activities with a very small number of Clearing Members in order to get reasonable terms and conditions. Smaller firms face more difficulties in their quest for a Clearing Member. The impact of the Leverage ratio calculation is not marginal in this general attitude. Of course there are other considerations linked to the contribution to the default fund and the capital of the CCP, the mandatory participation to the auctions when asked, the operational risk resulting from the management of intraday calls… But the double counting of risk exposures (that compensate in terms or risk) when calculating the leverage ratio is one factor that is most difficult to understand for end clients in a prudential regulation. The consequences for the asset management industry is (i) to suffer higher prices that reduce the performance for investors, (ii) to experience a distortion in the access to derivative markets and (iii) not to be on a level playing field with other market participants. It appears that some asset managers have even found it difficult to contract with a Clearing Member when they have an obligation or a will to centrally compensate their transactions on derivatives. This hurts the regulators push to incentivize central clearing and goes against the overarching objective of financial stability.

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Not being experts in the technicalities of Banking regulation, we do not comment on the proposed changes in the leverage ratio regulation. However, we welcome and support the Basel Committee's initiative to propose *revisions to leverage ratio standard text to implement client initial margin offset of potential future exposure for client cleared derivatives* as well as *revisions to leverage ratio standard text to implement use of unmodified SA-CCR to measure exposures to client cleared derivatives.* We have a clear preference for option 3 which covers both initial and variation margins in order to gain total transparency and level playing field.

Amundi has from the first discussions on EMIR expressed the view that the issue of segregation was of utmost importance when considering financial stability. We advocated that CCPs should, as required, propose Individual Segregation Arrangements (ISA) that would bring real comfort tomanage portability in case of crisis. We made clear that in our view LSOC did not provide such comfort in case of default of the clearing Member. Our concern that true ISA would be difficult to implement at a reasonable cost was confirmed in reality. Nevertheless, we think that it is relevant to keep in mind that segregation in the books of the CCP gives to the end client a direct contact with the CCP which is in turn able to identify and monitor its positions independently from those of the Clearing Member. For an asset manager the segregation of its margins away from the own account of the Clearing Member (as suggested in the consultation document) is only a first step. We favour more complete segregation mechanisms that would protect our portfolios from the contagion of other clients of the same clearer which would share the same omnibus account. Typically, an asset manager is interested in having an omnibus account exclusively used by the funds or portfolios it manages and which are under its responsibility. We are, however, conscious that it is not a view that is largely shared nor implemented today and we support the first step towards segregation that is proposed : separate accounts for clients and for own account trades.

With respect to the possibility to limit re-use of collateral by the bank, it should be clear that any type of re-use (except for collateral with the CCP) will create a new exposure and, hence, impact the leverage ratio. We do not ask for a neutralization of re-used collateral in the calculation of the leverage ratio, but limit our recommendation to the case when the collateral posted by the end client with a view to match CCP's rules is directly transferred to this CCP. The excess collateral that is not posted to the CCP, because of the compensation resulting from the omnibus account mechanism or for any other reason, should not be offset in the calculation of the leverage ratio. This approach will indirectly favour the development of segregation of accounts, since it reduces the advantage of compensation through omnibus accounts. Thereby it will enhance financial stability.

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