Amundi's answer to CPMI/IOSCO discussion paper on Central counterparty default management auctions

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Amundi is Europe's largest asset manager by assets under management and ranks in the top 10 globally. It manages 1,476 billion euros (end of Q1) of assets across six main investment hubs in Boston, Dublin, London, Milan, Paris and Tokyo. 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, Amundi was listed in November 2015.

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.

Amundi uses CCPs for funds and clients' accounts it manages. Amundi accesses CCPs via selected Clearing Members (CM) and does not intend at the present time to become a member itself. However, we keep an attentive eye on the possibility proposed by some CCPs to apply for indirect or sponsored membership. Our main objective is to best serve the interest of our client investors and in that respect to support all regulatory initiative that reinforces investors' protection and enhances market stability and global confidence. The price argument is also part of the equation when it comes to assess clients' best interest.

Amundi will not answer the list of questions raised in the discussion paper, but prefers to submit limited comments of a buy side participant. We will on the one hand express general views on our approach to the role of CCPs and concentrate on chapter 6.

1. How do we see resilient CCPs?

The discussion about default management auctions relies on the assumption that the concerned CCP is able to face the default of one or several CMs and manages the book matching via default

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management auctions. Amundi would like to start by repeating its constant concern that some provisions may help to limit the probability and the extension of such auctions. We will mention 3 different steps that may have a real impact on the matter.

Shareholders have to put skin in the game and clients' assets must be protected: when assessing the quality of a CCP, we pay attention on the default waterfall and the way client's assets are protected. We cannot accept any haircut of margins, be they initial, variation or excess margins. It is perceived as a confiscation to face a crisis which is totally independent of our action. Asset managers pay a fee for the services provided by a CCP via a CM. In some cases central clearing is a regulatory requirement. The consequence of EMIR for example should not be to increase the risk for our clients in contradiction with the initial objective to reduce it. Shareholders of the CCP have to resolve the financial difficulties of their company. Users, exactly like taxpayers, should not be part of the default waterfall of the CCP, except via their CM.

Liquidity requires access to central bank money: Amundi prefers CCPs to have a banking license that gives direct access to the central bank for the currencies of the derivatives and trades cleared. For example, we highly value the possibility for € denominated trades to be cleared via a CCP having access to ECB.

Effective portability implies effective segregation: it is true that individual segregation agreements (ISA) are not the most common practice to date. But the rapid development of central clearing and the very limited access of end clients to information on CCP management (especially advance notice of foreseen changes in CCP rules and models) and on CCP CMs raises the issue of portability. For a client, it is not possible to have portability without having a clear and undisputable view on its assets shared at the level of the CCP. Only ISA gives the CCP a direct view on the client's positions and assets. We do not ask for individual segregation at the level of each fund, but are clear that the segregation of assets of several or all funds run by the same asset manager, for example, will help portability. Our concern is at the moment about the difficulties to implement such ISAs in practice at reasonable commercial conditions.

2. **As a client are we ready to participate to auctions?**

It is highly improbable that a fund manager have appetite to bid for the total portfolio of a defaulting CM. Asset managers may, conversely, be very interested in some holdings. A given sub-portfolio may be sufficiently narrowly determined to respond to an investment trend of a fund manager. In that case the auction might be a good opportunity to acquire assets rapidly and at a reasonable price. For asset managers the most appropriate way to participate is indirect participation via a CM either in an informal way by expressing an interest and a price level or formally by placing an order. We acknowledge the risk of conflicting interests if the CM is willing to bid on the same sub-portfolio.

Direct participation requires expertise on CCP's default management and auctions rules and the tools effectively used which exceeds the capacity of most AM firms. We agree that legal readiness and operational readiness of clients are effective barriers for a direct participation. The same with participation to tests and firedrill exercises. Any obligation to put additional margin or to participate to the default fund would certainly be a strong repellant to a participation to an auction. We understand that rapidity and confidentiality are of the essence of a successful auction but believe that the information leakage issue should not be overestimated. Among professionals a confidentiality engagement such as a NDA is common practice that is well understood and respected, the consequence of its violation being very damageable. The introduction of 2 way pricing is probably not the best way to have the most competitive bids in the auction.

Furthermore, at the time of the auction as in general, we ask for a fair information of participants to the CCP who are not CMs. When buy-side representatives are invited to seat on a stakeholders' group they have strict confidentiality rules and it eventually turns this participation into a disadvantage in terms of information that has to be kept for themselves by the participants. End clients need transparency and advance notice of the CCP rules and models evolutions. Auctions as well should not be a black box for end clients. The process should be disclosed and some kind of, at least post trade, transparency should be introduced.

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