

**Amundi's response to CPMI/ IOSCO's
Consultative report on
Resilience and recovery of CCPs: Further guidance on PFMI
(18th October 2016)**

A listed company since November 2015 with Crédit Agricole as its majority shareholder, Amundi is the largest European Asset Manager in terms of AUM, with over 1,000 billion euros worldwide. Headquartered in Paris, France, Amundi has six investment hubs located in the world's key financial centers and is very attentive to the evolution of the market infrastructures and their contribution to financial stability. Our focus is placed on the security of assets we manage on behalf of our client investors. We do not want to put them at risk when we trade derivatives that are very useful in order to optimize performance/risk in many investment strategies. Amundi is the trusted partner of 100 million retail clients, 1,000 institutional clients and 1,000 distributors in more than 30 countries. Amundi designs innovative, high-performing products and services for all these types of clients tailored specifically to their needs and risk profile.

CCPs are a good example of infrastructures that have been placed in the midst of the new regulatory framework aiming at enhancing financial stability and reducing risk on derivatives markets. For example, EMIR in the EU foresees mandatory central clearing for OTC derivatives that are sufficiently standardized, liquid and whose price is easily accessible. As a result, CCPs concentrate the counterparty risk that was before split among different counterparties individually selected. It represents a major challenge for authorities to make sure that these infrastructures will be sufficiently strong and resilient to avoid defaulting. Any default would undoubtedly bring systemic consequences. In that respect Amundi is very appreciative of the work conducted by CPMI and IOSCO and other supervision entities to tackle the issue of risk and financial stability in FMIs. We welcome the new developments of CPMI/IOSCO's guidance that are now open for comment. Actually, the current discussion on Resilience/Recovery/Resolution is key for the entire financial community in general and for us as asset managers in particular.

Amundi does not intend today to become a direct clearing member of a CCP. We do believe that banking activities should be carried by licensed banks that present the adequate minimum capital requirements as part of a larger prudential supervision. We are clients of clearing members and are highly selective when considering the choice of partners, both clearing members and CCPs. We examine with great care the financial capacity of CCPs,

their default waterfall and the “skin in the game” that act as protection for end clients as ourselves and our client investors. This is the point of view we have as a buy side representative when answering the present consultative report.

Amundi will introduce its comments following the general structure of the report, starting with a general consideration. We shall not mention all the positive aspects we support in the report: they are many in each section which undoubtedly draw participants’ attention to key factors to enhance financial stability.

General comment:

Our main concern is to make sure that assets of our clients are not at risk when deposited in the hands of a CCP. That covers initial and variation as well as excess margins. We realize that different scenarios can happen depending on the degree of segregation that is achieved at the level of the CCP and at the level of the Clearing member we use. We also believe that it is an absolute necessity for public confidence in FMIs that protective arrangements can be made for the benefit of investors at reasonable commercial conditions.

We still wonder whether the set-up of a CCP that would be conceived as a public service with public money would not be a more attractive offer for investors. In our view it should be considered, provided this CCP would be subject to identically high standards of management as foreseen in the current regulation.

You understand that we do not want end users to contribute in any form to the replenishment of the financial situation of a CCP that meets difficulties or that defaults.

Governance:

Amundi has a strong view that CCPs should include representatives of the buy side in their governing bodies. The risk that CCPs and clearing members align their views at the expense of end clients is not minimal. For example there is a clear arbitrage between level of margins and size of the guarantee fund when designing the financial capacity of a CCP. Margins are paid by clients and fund is contributed to by members.

Be it at the level of the Board or of a representative committee that expresses recommendations to the Board, buy side should be part of the governance of a CCP. The risk Committee could be a convenient place for discussion in our opinion : sufficiently technical to avoid political issues, but sufficiently close to the market and its realities to be both constructive and efficient. Resizing margins (as mentioned in 2.2.7) is typically the kind of decision where we expect the risk Committee to have a strategic role and where we would like to be part of discussion. Please mention end users in § 2.2.18 as typically recommended participants of the risk committee !

Stress testing:

We support the remark that the credit risk should include a consideration of the solidity of the custodians where collateral is deposited. We expect though that access to central bank and CSD would help reducing risk.

We want to stress that when assessing the quality of a CCP and before deciding to use it, we pay attention to its capacity to access liquidity in our reference currency, in a vast majority of cases €. We think that access to central bank money is the only way to have continuous access to liquidity even in other currencies as central banks have credit facilities between them. We value the fact that a CCP is a licensed bank with access to central bank as a major advantage that is far more important than the result of any liquidity stress test.

Coverage:

Amundi agrees that cover 1 and cover 2 are a minimum. But we do not like the link established with the risk tolerance of the CCP when designing the acceptable coverage. We do not think that a CCP should discuss its risk appetite as a standard financial firm: its risk appetite should be nil in all occasions. So should its risk tolerance.

Margin:

The discussion about the appropriate MPOR developed in Europe when ESMA suggested that the minimum regulatory requirement of 2 days under EMIR could be abandoned in favour of 1 day in case of gross margining. First, we think that the idea to make regulation more flexible to help international recognition is debatable: should it not be considered the other way around with the less conservative regulation, in that case the US, moving to match the more demanding one, in this case the EU ? Second, ESMA established a link with the level of margin deposited, gross or net, to substantiate its suggestion for reducing MPOR to one day. We consider that it makes sense and would suggest that IOSCO and CPMI incorporate this dimension in their work. Omnibus net account is less protective than Omnibus gross and LSOC is less protective than effective individual segregation. To answer the question of uniformity of rule for a CCP raised in 5.2.8, we believe that the introduction of a reference to the type of segregation arrangement signed could solve the issue. We suggest that only a very limited number of scenarios be considered, possibly 3: net omnibus, omnibus gross and individual segregation including new offers of quasi membership or ISA Direct.

To mitigate procyclicality, we suggest to incentivize CCPs to accept a very large number of assets as collateral, with the appropriate haircut. The larger the eligible collateral, the less sensitive to market runs and squeezes. We agree that the stability of eligible collateral and haircuts largely contributes to financial stability overall.

Contribution to losses:

Whatever the type of loss, default related or operational, the cost must be borne by members and shareholders only. No end investors' nor taxpayers' money should be called for contribution. We think that taxpayers money should not be considered exclusively through the tax they pay, but also through all types of payments that they could indirectly be required to do. Clients' savings, that is held through buy side products, are to be exempt from any indirect taxation resulting from participation in the default waterfall of a CCP.

Recovery:

We believe that, despite the fact that the report does not discuss the resolution of CCPs, there is no word on the continuum that goes from recovery to resolution. It is a very sensitive

point where the market confidence may suddenly disappear if authorities keep on expecting recovery when markets believe that the chances of success are too low and resolution should be decided without further delay. We suggest that the resolution authority be associated from the start in any process of recovery : we believe that it would help supervisory and resolution authorities to better anticipate what would be the most efficient route to maintain financial stability and monitor the situation on a continuous basis.

As we have made very clear our view that end users of CCPs should not participate in the allocation of losses and the replenishment of capital sources we shall only comment here the reestablishment of a matched book. We agree with the last remark in § 7.2.7 that complete tear-up should be avoided. Tear-up or forced allocation would put our portfolios, and ultimately our client investors, in a position where they might be exposed when thinking that they are hedged. This type of uncertainty creates non manageable risk. What is of importance for us is to be able to rapidly identify which are the consequences of a recovery procedure (and not what they might be) for our portfolios. Risk management relies on exact data and cannot suffer uncertainty on exposures. And asset management is largely a question of risk management.

Other considerations: answers to questions asked in the final section of the cover letter.

Yes, Amundi considers the Risk Committee as an essential part of the governance of a CCP. It should include members of the buy side, i.e. end clients of a CCP. Issuing a guidance on the role and composition of the Risk Committee is of high importance in our view. It would further help the Board in articulating its work on some of the most technical issues it is responsible for.

We believe that the legal structure of a CCP should be addressed, be it only to list all the advantages that a CCP run as a public service with a not for profit organization would present.

On the issue of allocation of default fund requirements among members, we see the advantages of a repartition based on the proportion of risk brought to the CCP in terms of alignment of interest and education. Our main concern though is to make sure that clearing members will not pass the cost on to all their end clients without considering the level of risk they bring.

It is an evidence that only prefunded financial resources are immediately available and Amundi has a clear preference for incentivizing CCPs to call most, not to say all, their financial resources. We further think that a CCP should have access to a central bank in order to benefit from risk free deposit facilities.

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