

QUESTIONNAIRE ON OPERATIONAL RISK IN COLLECTIVE INVESTMENT FUNDS

This questionnaire is part of a study sponsored by FEFSI, and undertaken by three researchers from Toulouse University: Bruno Biais, Catherine Casamatta and Jean Charles Rochet. Our goal is to analyse operational risk in the collective investment funds industry.

Thank you for agreeing to complete this questionnaire. Your answers will be very useful for our study. Of course, we will keep them completely anonymous, we will not disclose any individual answer, our paper will report only aggregated statistical data, we will share with you the results of our study, and we will be happy to take into account your feed-back.

We would be grateful if you could have the questionnaire completed and returned by **March 15 2002** to Professor Biais by e-mail at biais@cict.fr and by mail to the following address: Bruno Biais, IDEI, Toulouse University, Place Anatole France, 31000 Toulouse, France.

If you have any questions, please contact Bruno Biais, by telephone (++33-5-61 12 85 89) or e-mail.

All financial data should be reported in € **All data should be reported on a yearly basis, if possible for the year 2001.** If it is not possible to report data on this basis, please report the nearest available period / point in time.

Please indicate your name, e-mail address and telephone number: _____

Please indicate the name of company _____

Please indicate your position: _____

A) YOUR FUND MANAGEMENT COMPANY

- 1) Is your company part of a larger group? YES/NO

If yes, please give the name and main activity (e.g. banking, insurance, asset management, etc.) of the ultimate parent company: _____

- 2) If your company is part of a larger group, does your parent company guarantee losses which your customers could incur because of operational risk? YES/NO

- 3) If your company is part of a larger group, what is the main regulatory body (if any) of the parent firm of your group? _____

Please state your company's:

- 4) Number of employees: _____

- 5) Gross income (in the sense of Basel 2) * : _____

- 6) Fixed overheads † : _____

- 7) Actual economic capital (own funds): _____

- 8) Regulatory capital: _____

- 9) Total assets under management: _____

Please categorise the company's current funds by type of investment, in % of total assets:

Total Assets under Management (in % of total assets at [date])	
1. UCITS	
? Equity funds	
? Bond funds	
? Balanced funds	
? Money market funds	
2. Other types of authorised investment funds	
3. Other (e.g. discretionary mandates, ...)	

* Gross income is defined as : Net Interest Income + Net Non-Interest Income (comprising (i) fees and commission receivable less fees and commissions payable, (ii) the net result on financial operations and (iii) other income. This excludes extraordinary or irregular items).

† In the sense of Annex 4 of the Capital Adequacy Directive ; please specify what categories of costs you include in this category.

B) OPERATIONAL RISK

10) Please fill in the following table: ^(*)

(on the understanding that losses are meant in the economic sense and not only in the sense of what must be reported to the regulator)

		Please rank the risks from 1 (most likely to occur) to 13 (less likely)	Please rank the impact of a typical loss event from 1 (largest) to 13 (smallest)	Please indicate the number of losses over the last year	Please indicate the size of the largest individual loss over the last year (EUR mio)	Please indicate the total amount of losses over the last year (EUR mio)	Please indicate who is ultimately responsible for bearing the losses indicated in the preceding column (in %)		
	Type of risk						Management Company	Services Agents (Depository, Administrators, Transfer Agent)	Distribution
1	Misdealing ¹								
2	Breach of fund rules ²								
3	Failure to best execute ³								
4	Net asset value calculation error ⁴								
5	Failure to reconcile assets under custody & internal records								
6	Failure to collect all income ⁵								

^(*) Notes: ¹ Misdealing refers to errors in buying or selling. ² Rules specified in the fund prospectus, imposed by regulation, or agreed upon with the client. ³ Failure to best execute refers to a failure to obtain the best price. ⁴ Or unit trust mispricing, refers to an incorrect valuation of client or fund assets. ⁵ Including corporate action failures. ⁶ Please specify.

		Please rank the risks from 1 (most likely to occur) to 13 (less likely)	Please rank the impact of a typical loss event from 1 (largest) to 13 (smallest)	Please indicate the number of losses over the last year	Please indicate the size of the largest individual loss over the last year (EUR mio)	Please indicate the total amount of losses over the last year (EUR mio)	Please indicate who is ultimately responsible for bearing the losses indicated in the preceding column (in %)		
	Type of risk						Management Company	Services Agents (Depositary, Administrators, Transfer Agent)	Distribution
7	Settlement problems or counterparty failure								
8	Performance fees calculation error								
9	Subscription/redemption mistake								
10	IT system failure								
11	Fraud								
12	Failure to meet guarantees								
13	Other risks ⁶								

11) Who finances the loss suffered by the management companies (starting with 1 for the most used)?

- ? Capital _____
- ? Insurance _____
- ? Parent firm guarantees _____
- ? Internal profits _____

C) RELATIONSHIP WITH DEPOSITARIES AND SERVICE AGENTS

- 12) What proportion of the company's assets under management (investment funds) is held by depositaries outside your group? _____
- 13) What is the proportion of the company's assets under management (investment funds) evaluated by an administrator outside your group? _____
- 14) What is the proportion of subscription and redemption handled by a transfer agent outside your group?

- 15) How much does your management company pay each year in basis points for:
- ? Depositary services: _____
- ? Administration services: _____
- ? Transfer agent services: _____
- ? Other services (please specify): _____

D) FUND MANAGERS *

- 16) What's the relative weight of the fixed and variable components in the compensation of fund managers in your company? _____
- 17) For a typical year, what is the turnover of fund managers in your company? _____
- 18) For a typical year, among the managers leaving your company, please state the % who do so for the following possible reasons:
- ? They caused large operational losses _____ %
 - ? The performance of their fund was insufficient _____ %
 - ? They were lured away by a competitor _____ %
- 19) Please rank the following different criteria for the variable part of the compensation of fund managers (from 1 – most important- to 4 – least important):
- ? Performance _____
 - ? Sales _____
 - ? Contribution to the company's operations _____
 - ? Other (please specify) _____

* In this questionnaire, fund managers designate the managers responsible for picking the funds' assets.

E) RISK CONTROL SYSTEMS

20) Please list/briefly describe the key control for each of these risks:

	Type of risk	Internal control	External control (e.g. by depositary, auditor, regulator, etc...)
1	Misdealing		
2	Breach of fund rules		
3	Failure to best execute		
4	Net asset value calculation error/Unit trust mispricing		
5	Failure to reconcile assets under custody & internal records		
6	Failure to collect all income (including corporate action failures)		

	Type of risk	Internal control	External control (e.g. by depositary, auditor, regulator, etc...)
7	Settlement problems or counterparty failure		
8	Performance fees & calculation error		
9	Subscription / redemption mistake		
10	IT systems failure		
11	Fraud		
12	Failure to meet guarantees		
13	Other risks (please specify)		

21) What is the number of people currently employed by your company on formal compliance activities and control? _____

22) How much to you anticipate spending on these activities over the next 12 months (in number of staff)?

23) Please describe briefly the respective roles played by internal and external risk control systems (e.g. How do they differ? Do they perform similar functions? Are they complementary?)

24) On a monthly basis, with what frequency do checks conducted by the depositary/trustee expose weak spots in the fund management process? _____

25) What is the frequency of mistakes made by the depositary (on a monthly basis): _____

26) Please indicate the extent to which you agree with the following statements:

“The younger the fund or the fund manager, the more important the (external and internal) risk control and compliance systems.”

?	?	?	?	?	?	?
1	2	3	4	5	6	7
I fully agree					I totally disagree	

“The better the past performance of the fund, the more important the (external and internal) risk control and compliance systems.”

?	?	?	?	?	?	?
1	2	3	4	5	6	7
I fully agree					I totally disagree	
