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Basel Committee on Banking Supervision

Paris, 15 May 2017

AFG comments on the Basel Committee on Banking Supervision's second consultation on Guidelines regarding the Identification and management of step-in risk

AFG's highlights

The Association Française de la Gestion financière (AFG)[1] is grateful for the opportunity given to comment on BCBS's second consultation on the near-final Guidelines regarding the issue of the Identification and measurement of step-in risk.

Our association represents French asset managers whose activities are stricly regulated by European and local laws (directives, regulations, etc). We had expressed with the occasion of the first consultation in March 2016 our worry of a risk of rule duplication as asset management activities could have been wrongly captured by the step-in risk framework. Our members would like to express their satisfaction with regards to the progress achieved in this new consultation on a major aspect which is the recognition of the "agency" nature of the asset management business model and specific regulatory framework.

Indeed, a key feature to be taken into consideration when assessing any prossible framework for step-in risk is the fact that asset managers act as agents for clients that pay them to run their money according to the risk/return profile they agree upon. This means there is no risk on the balance sheet of the asset manager. Also, main links with banking entities are contractual ones and from this perspective, it makes no difference to contract with an entity of the same group or not. The probability of occurence of such a risk with our type of business is very tiny and meaningful situations that can be identified very scarce.

We continue to advocate strongly that the bulk of asset management funds do not constitute a case for step-in risk. European funds (such as UCITS or locally regulated AIFs) benefit from tight rules

[1] The Association Française de la Gestion financière (AFG) represents the France-based investment management industry, both for collective and discretionary individual portfolio managements. 600 management companies are based in France. AFG members manage 3,000 billion euros, making the Paris fund industry a leader in Europe for the financial management of collective investments (with 1,500 billion euros managed from France, i.e. 19% of all EU assets managed in the form of investment funds). In the field of collective investment, our industry includes – beside UCITS – the whole range of AIFs, such as: employee savings schemes, regulated hedge funds/funds of hedge funds, private equity funds, real estate funds and socially responsible investment funds. AFG is an active member of the European Fund and Asset Management Association (EFAMA) and of PensionsEurope. AFG is also an active member of the International Investment Funds Association (IIFA).

(valuation, investment management and risk spreading ratios, asset eligibility restrictions, reporting and disclosure requirements etc) that are highly protective for investors and cannot be considered as shadow banking.

We would like to bring forward some specific considerations pertaining to the provisions of this second consultation.

- AFG agrees with the remarks made by EFAMA in its answer to this consultation.
- Regarding the entity types listed under Annex 2 for which greater scrutiny from the consolidating institution would be warranted, we definitely exclude regulated funds such as: (in Europe) UCITS, nationally regulated AIFs, regulated AIFs (such as money market funds, ETFs, etc) and all AIFs that are not substantially leveraged.
- More particularly, regarding the money market funds, it should be taken into account the fact that the European Money Market Funds Regulation to be officially published next month bans explicitly any form of sponsor support. Consequently, we strongly support EFAMA's argument that money market funds offered by an intra-group asset management subsidiary should not, at least in Europe, be classified as contingent funding obligations for the purpose of calculating a bank parent's Liquidity Coverage Ratio (LCR) as per paragraph 82. Similarly, we agree to dismiss the considerations under the following paragraph 83 with regard to the Net Stable Funding Ratio (NFSR) and urge regulators to reassess to which extent short term funding provided by MMFRs to banks can be considered as stable.
- Regarding the liquidity management tools mentioned, like redemption gates that the French AMF authorises for use in the French open ended funds since March of this year, we totally agree of their role in stabilizing markets and further reducing the probability of a need of step-in.
- As AFG has always advocated, we continue to dismiss the hypothesis of a "first-mover" advantage within funds. The only occurrence of such a hypothesis was clearly identified in relation to the historical form of constant NAV (CNAV) money market funds in the aftermath of the 2008 financial crisis. The issue was the implicit guarantee linked to this unique constant valuation model. Heavy reforms on this type of MMFs have been performed since then. Apart this exception, all the other funds pass on the financial market risks to investors, who are made aware of the risks taken with their investment through extensive transparency requirements.
- We believe that step-in risk is difficult to model and that some assumptions, notably on the reputational risk, seem oversimplified and may prove to be wrong more often than they achieve to capture a risky situation. In addition, we totally share EFAMA's argument on the moral hazard risk linked to the ex-ante identification and quantification of non-contractual potential sources of step-in.
- We believe that any envisaged framework should only work as a "safety net", knowing there is already appropriate regulation.

If you need any further information, please don't hesitate to contact me at +33.1.44.94.94.31 (a.gurau.audibert@afg.asso.fr).

Sincerely Yours,

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