



SJ – n° 2386/Div.

Mr Michel Prada
Chairman
IOSCO Technical Committee
C/ Oquendo 12
28006 Madrid
Spain

23 April, 2008

Re: AFG (French Asset Management Association)'s comments regarding the Joint Forum Consultative Document on Credit Risk Transfer (Developments from 2005 to 2007)

Dear Mr Prada,

The Association Française de la Gestion financière (AFG)¹ would like to thank the Joint Forum for the work it has carried out on Credit Risk Transfer, and welcomes the opportunity to comment on it.

For your information, let us recall that AFG; a member of EFAMA, is also one of the 35 members of the International Investment Funds Association (IIFA) and actively contributes to building a reinforced dialogue between IIFA and IOSCO.

1. General Comments

Being professional investors acting on behalf of third party investors, AFG members pay particular attention to the current regulatory debate surrounding Credit Risk Transfer instruments.

¹ The Association Française de la Gestion financière (AFG)¹ represents the France-based investment management industry, both for collective and discretionary financial portfolio managements. Our members include 405 management companies and 673 investment companies. These management companies are entrepreneurial or belong to French or foreign banking, insurance or asset management groups. AFG members are managing more than 2500 billion euros in the field of investment management, *making the French collective investment fund industry the leader in Europe* (with nearly 1500 billion euros managed, i.e. 21% of all EU investment funds assets under management, wherever the funds are domiciled in the EU) *and the second at worldwide level after the US*. In the field of collective investment, our industry includes – besides UCITS – the employee savings scheme funds and products such as regulated hedge funds/funds of hedge funds, private equity funds and real estate funds. AFG is of course an active member of the European Fund and Asset Management Association (EFAMA) and of the International Investment Funds Association (IIFA).

Obviously, investment fund managers represented by AFG are responsible for the investment choices they make, but they need to rely on fair information regarding their investments.

Therefore, a large part of safety surrounding CRT instruments relies on information to be delivered by issuers/structurers and CRAs.

2. Regarding Joint Forum Recommendations (Section 10)

We widely support the amended Joint Forum Recommendations.

However, we wish to make the following comments:

- Investment funds managers are already highly regulated in the areas of risk management and disclosure regarding credit risk transfer instruments. We therefore don't see any need for requiring additional provisions as compared to the 2005 Recommendations.
- Regarding Senior Management Review and Credit Analysis, investment fund managers are already complying with regulatory requirements – submitted to national regulators – regarding their abilities to understand and invest in such products. For instance in many jurisdictions, investment fund managers are responsible for the correct assessment of the products, which can be either carried out in-house or outsourced, under the monitoring of national regulators. However, as already said and as it will be mentioned later on, the crucial issue is to ensure access to fair information from structurers and CRAs, as investment fund managers, for structural reasons in the market, suffer an asymmetry of information. Regarding Credit Analysis as such, we consider it must be carried out primarily by CRAs and not by investment managers.
- Regarding Stress Testing, we consider that the liquidity risk is already incorporated today in the price of the relevant securities, i.e. what we call “risk premium”.
- Regarding Risk Measurement, and as already mentioned above, investment fund managers have already to comply with rules on risk management. In particular, many jurisdictions all over the world impose asset diversification rules to be applied to investment funds.
- Regarding Concentration Risk, we agree once again on the principle but investment fund managers have not necessarily access to a good view on undue concentrations in CRT products. Regarding their own market positions, investment funds have market position limits to comply with.
- Regarding Complex Products, in many jurisdictions investment fund managers are required by national regulators to have the capacity to risk-manage and value their complex CRT positions – and it is a condition for their agreement by the regulator to invest in CRT products. As a complement, and still in many jurisdictions, the auditors ensure an independent assessment of valuation methodology/process.

- Regarding Valuation and Accounting, investment fund managers are responsible of the fair value of the portfolios, even if the valuation process may be outsourced in some cases. In addition, as mentioned above, auditors assess the quality of such valuation.
- Regarding Model Validation, such validation is already agreed and monitored by national regulators for investment fund managers.
- Regarding Structured Finance and Corporate Ratings, we agree that CRAs should differentiate ratings on structured finance securities from ratings on corporate bonds, by using different symbologies. But we don't agree on the need for market participants – at least for investment fund managers – to also differentiate between the two types of ratings: for us it should be done by CRAs. However, we support Joint Forum's idea to work together with CRAs to produce supplementary measures that provide the information needed to allow investors to make more informed decisions about the risk of structured finance securities.

In addition, we think that beyond differentiating the ratings through different symbologies, CRAs should explain in clear warnings the meanings of their relevant ratings and rating scales – and what they do not mean.

We agree that investors should supplement external credit ratings with their own robust analysis, as ratings cannot be considered as the panacea. But we don't agree on requiring specific assessments of whether assumptions made by the CRAs in determining the ratings are reasonable: it is for CRAs to justify their choice of assumptions and to make them reasonable. If investors are required to carry out such a comprehensive and lengthy task, we could then wonder what would be the added value of still using external ratings? We therefore suggest that this task be carried out by the CRAs themselves, under the checking/monitoring of reasonability of such assumptions by national regulators – in particular, as regulators introduced themselves regulatory references to ratings.

Therefore, we also strongly support Joint Forum Report's statement that supervisory authorities should review their use of credit ratings to determine if they need to clarify the distinction between corporate and structured finance ratings.

- Regarding Counterparty Risk, already today in several parts of the world, investment fund managers are required to cumulate the counterparty risk and the issuer risk. For instance in France, investment fund managers have to comply with "Activity Programmes" imposed by the national regulator and also with maximal financial commitment limits.
- Regarding Use of Material Non-Public Information, we approve Joint Forum Paper's statement. Let us stress that investment fund managers, in the vast majority of jurisdictions, avoid a wide range of conflicts of interest by being prevented from many activities which might generate such conflicts – or even more, by being

structured as legally separate entities (i.e. Management Companies) from brokerage, banking or insurance entities for instance.

- Regarding Settlement Risk, already today investment fund managers have established Cash Settlement Protocols in many regions or countries.
- Regarding Trade Automation and Workouts, we have no comments to express.
- Regarding Funding Liquidity Risk, as far as SIVs are concerned, we agree on Joint Forum's Paper position on the need to manage the liquidity risk inherent in funding CRT assets with short-term liabilities.
- Regarding Disclosure, we don't agree on the need to increase efforts to provide meaningful disclosures with respect to market participants' CRT activities, as long as investment funds managers are concerned, as final investors are already informed through the so-called "Simplified Prospectus".
- Regarding Supervisory Requirements, we consider that investment fund managers should not be targeted as structured credit exposures are not within their balance sheets, as investment fund managers are asset *managers* acting on behalf of third parties, and not asset *owners*.
- Regarding Supervisory Oversight, we agree with the Joint Forum's Paper position.

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If you wish to discuss the contents of this letter with us, please contact myself at 01 44 94 94 14 (e-mail: p.bollon@afg.asso.fr), or Stéphane Janin, Head of International Affairs Division at 01 44 94 94 04 (e-mail: s.janin@afg.asso.fr).

Yours sincerely,

Pierre BOLLON