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AFG response to the European Commission's consultation on 'A possible recovery and resolution framework for financial institutions other than banks'

General comments

The Association Française de la Gestion financière (AFG)[1] is grateful for the opportunity to answer to the European Commission's on 'A possible recovery and resolution framework for financial institutions other than banks'.

AFG shares the view of the Financial Stability Board (FSB) and the G20 that tools should be designed to safeguard financial stability, ensure the continuity of any critical financial services, avoid any unnecessary destruction of the value, and minimise cots for taxepayer.

The collective European asset management industry is tightly regulated both at the activity and actor levels with materially reduced non-financial risks. The regulatory framework in place concerning

[1] The Association Française de la Gestion financière (AFG) represents the France-based investment management industry, both for collective and discretionary individual portfolio managements. Our members include 425 management companies as of end January 2012. They are entrepreneurial or belong to French or foreign banking, insurance or asset management groups. AFG members manage 2,650 billion euros as of end December 2011, making the Paris Fund Industry the leader in Europe for the financial management of collective investments. In the field of collective investment, our industry includes – beside UCITS – employee savings funds, schemes and products such as regulated hedge funds/funds of hedge funds, private equity funds, real estate funds and socially responsible investment. AFG is of course an active member of the European Fund and Investment Management Association (EFAMA) and of PensionsEurope. AFG is also an active member of the International Investment Funds Association (IIFA).

investment funds and their management entities is sufficiently ensuring the protection of investors' interests and at the same time preventing the creation of systemic risks and implications. It is a highly transparent industry that plays a stabilizing role for the economy, and as such is not to be captured in the crisis management or recovery and resolution scope.

All French funds are strictly regulated and monitored. In Europe, collective investment funds are regulated by the UCITS Directive and by the AIFM Directive that comes into force in July 2013. Leverage effect, maturity and liquidity transformation as well as credit risk exposure are tightly limited. In this respect, it must be stressed that any uncontrolled risks coming from the excessive use of techniques, which are neither limited nor monitored, cannot incur in UCITS funds or nationally regulated and monitored soon under the AIFM Directive.

AFG understands that the purpose of this consultation is to find which activities, other than those already covered, are likely to be systemically relevant at the point of failure. AFG points out that fund management firms act as agent for their clients and not trade on their own account. Clients' assets are not in the managers balance sheets, are segregated and placed with a custodian, thus are not affected in case of management firm's insolvency. Moreover, their business model does not involve provision of credit or acceptance of deposits, which makes it even clearer that their operational risks are unlikely to migrate to the broader financial system in case of their insolvency.

In terms of size the average size of asset managers in the EU is relatively small, particularly when compared to the size of EU capital markets and the size of balance sheets even of small credit institutions. In terms of interconnectedness it should be stressed that the asset management business is mostly funded through management fees and other markets participants do no tend to have large holdings of securities issued by asset managers or otherwise be heavily exposed to them. The interconnectedness with the banking system is mostly limited to counterparty risk. Asset managers cannot finance investments from bank borrowing due to regulatory imposed leverage limits.

If, as it is said in this consultation, a failure is considered to be the occurrence or imminent threat of a debilitating financial event due for exemple to insurmountable losses or overwhelming technical problems, AFG wants to highlight that no management firm did default as a result of the crisis. No French taxpayer and Central bank money was committed to support investment funds during the recent financial crisis and no guarantee programs were created in France to insure investment funds.

AFG does not consider then that investment funds fall under the scope of the 5.2 chapter as they don't contribute to build-up or transmission of risks that may have systemic consequences. The investment funds industry did a lot of improvement in regulation framework at the European level and is still under consultations on similar topics. Supervisors already have the appropriate tools necessary to monitor the various types of risks related to investment management and when deemed necessary to intervene. Therefore AFG firmly believes that there is no reason in subjecting asset managers to such a regime by virtue of their business model.

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Sincerely Yours,

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