



The European Association of Co-operative Banks comments on

ESMA Consultation paper on the

Revision of the provisions on diversification of collateral in ESMA's guidelines on ETFs and other UCITS issues (ESMA/2013/1974)

30 January 2014

The European Association of Co-operative Banks (EACB) is the voice of the co-operative banks in Europe. It represents, promotes and defends the common interests of its 28 member institutions and of co-operative banks in general. Co-operative banks form decentralised networks which are subject to banking as well as co-operative legislation. Democracy, transparency and proximity are the three key characteristics of the co-operative banks' business model. With 3.700 locally operating banks and 71.000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 215 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 56 million members and 850.000 employees and have a total average market share of about 20%.

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The voice of 4.000 local and retail banks, 56 million members, 215 million customers

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The members of the European Association of Co-operative Banks (EACB) welcome the opportunity to respond to the ESMA Consultation paper on the "Revision of the provisions on diversification of collateral in ESMA's guidelines on ETFs and other UCITS issues".

In general, the EACB favours ESMA's intention to reconsider its position on the requirements on collateral diversification received by UCITS. Concerning the proposed amendment of paragraph 43(e) of the guidelines on ETFs and other UCITS issues (ESMA/2012/832) the EACB wishes to put forward its considerations on the basis of the consultation question:

Q1. Do you believe that ESMA should revise the rules for the diversification of collateral received by UCITS that take the form of money market funds in the context of efficient portfolio management techniques and OTC transactions? If yes, do you agree with ESMA's proposal?

As already stated above, the EACB considers that ESMA should indeed revise the rules for the diversification of collateral received by UCITS since they have significant adverse effect on UCITS collateral management.

However, it is difficult to understand, why ESMA should only revise the rules for the diversification of collateral received by UCITS that take the form of money market funds. From our viewpoint, it is important to have clear rules for all funds, not special rules for every type of funds.

In UCITS directive the rules for the investment in transferable securities issued or guaranteed by a Member State (and/or some third countries, local authorities and public international bodies) are the same for all types of funds without any distinction. We see no reason why the guidelines should follow a different approach when it comes to the diversification of collateral and make a distinction between MMF and other UCITS in that regard.

To the contrary, we consider that ESMA should foresee that no issuer diversification is necessary if the collateral takes the form of government securities for all UCITS funds, as envisaged in policy option 2 considered by ESMA.

In line with the above, we would support policy option 2, where the same rules stand for all the funds, namely applying the same exemption for all UCITS.

Q2. Do you think that ESMA should introduce additional safeguards for government bonds received as collateral (such as a specific issuer limit) in order to ensure a certain level of diversification? Please give reasons for your answer.

It is EACB view that the UCITS Directive (Directive 2009/65/EC) already prescribes the rules on the diversification for UCITS funds. These rules should also cover collateral that takes the form of government securities. If the need to change these rules is identified, such changes should be introduced in the UCITS Directive, before ESMA can provide appropriate guidance on any such additional requirements in the context of its guidelines.



Q3. Do you agree with the proposed requirement to diversify the government securities across at least six different issues?

Again, as already stated under Q2, the basic rules for the diversification are to be found in UCITs directive. We understand that ESMA bases its proposal on UCITs directive and the rules on diversification for government securities envisaged therein. However, the EACB would like to express its reservation on whether it would be operationally important to impose this requirement for collateral in the form of government securities.

Contact:

The EACB trusts that its comments will be taken into account.

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