AXA Investment Managers (AXA IM) is a multi-expert asset management company backed by the AXA Group, a world leader in financial protection. It manages €542 billion across all main asset classes, which include fixed income, equities, funds of hedge funds, private equity, real estate and structured finance. It operates globally from 23 countries, including 17 centres in Europe.

AXA IM manages UCITS funds in a number of EU Member States, including France, UK, Luxembourg and Ireland.

We set out below our response to certain parts of the Consultation Document published on 26 July 2012. We have also provided input to the response to be submitted by the French Asset Management Association (AFG).

Eligible assets – Box 1

(1) Do you consider there is a need to review the scope of assets and exposures that are deemed eligible for a UCITS fund?

We generally consider that the scope of assets and exposures that are deemed eligible for a UCITS fund is satisfactory – however, we are in favour of extending the scope of assets eligible under the “trash ratio” (see question 4), particularly unlisted corporate debt, which is as an important alternative to bank finance as a source of funding for SMEs.

We would also like to clarify the fact that the criteria set in the ESMA guidelines for the reduction of the counterparty risk are not applicable as eligibility criteria for assets as collateral.
(3) Do you consider there is a need to further develop rules on the liquidity of eligible assets? What kind of rules could be envisaged? Please evaluate possible consequences for all stakeholders involved.

We consider that the current framework in the UCITS directive for defining liquidity of eligible assets is sufficient:

It is the responsibility of the UCITS management company to set internal rules to manage properly the liquidity risk in line with the UCITS liquidity frequency. To the extent that each set of rules is currently appropriate for its own purpose, there is no additional requirement to develop further liquidity rules on eligible assets and especially that by trying to do so (like in current discussions regarding collateral and EPM) we could have an effect that is contrary to the targeted goal (example 20% diversification ratio in collateral leads to choosing less liquid assets in nature since interbanking collateral market is made of govies and cash, and the govies market can be distressed at some points in time). On the other hand, we could add that assets that are eligible for a certain percentage should also be eligible as collateral at least up to the ratio applicable in direct lines.

Operational risk is not negligible in a context of making distinction between direct assets and collateral.

(4) What is the current market practice regarding the exposure to non-eligible assets? What is the estimated percentage of UCITS exposed to non-eligible assets and what is the average proportion of these assets in such a UCITS’ portfolio? Please describe the strategies used to gain exposure to non-eligible assets and the non-eligible assets involved. If you are an asset manager, please provide also information specific to your business.

We think that the 10% so called “trash ratio” should allow a broader type of investments for this bucket.

As this ratio is limited to 10%, the proportion of investment that could be eligible is by essence limited. A broader scope of eligible assets could allow investment managers to deepen the diversification of the investments or permit investment in de-correlated assets for the benefit of investors. Those assets should include in particular funds of funds, alternative vehicles subject to AIFMD, hedge funds, loans, commodities, securitization vehicles not meeting the eligibility criteria and all non UCITS funds with a monthly liquidity. We believe that the 10% limit should constitute an appropriate safeguard in addition to the management company’s internal risk management policy.

Furthermore, we think that the leveraged loans market has became sufficiently mature, it benefits from more than 10 years of track record through two full credit circles and has an adequate liquidity to bring commercial loans
into the eligible assets within the 10 per cent ratio. The loans represent a powerful asset allocation tool, with many advantages such as:

- Capital preservation through security and covenants. The security and covenant package ensures that all cash flows generated by the company will be earmarked to prepay the debt first, at least until a normal leverage has been reached. In addition in case of defaults, the security offers lenders control over the company to enhance their ultimate recovery.
- Highly diversifying asset class: loans are the most traditional route by which European companies have accessed debt markets and are often the only way to get exposure to private issuers.
- Limited volatility: 6-7 per cent annualized as measured by the Credit Suisse loan index since 1990. For instance, the volatility of European leveraged loans is lower than the volatility of European yield bonds.
- Liquid market: there is a strong liquidity on the large flow names, over EUR 1 bn in size, usually boasting public rating and a more limited liquidity in mid cap and smaller transactions, whose size range from EUR 100 m to 500 m.
- Even though volumes receded significantly throughout the crisis, secondary activity remained sufficient for enabling active portfolio construction and risk management.
- Low default and recovery rate: leveraged loans default rates are well below 10 per cent since 2002 despite the crisis. In average, over ten years, Leveraged loans recovery rate were at 65 per cent against 35 per cent for bonds.
- Various risk / reward opportunities allowing active management through cycles (senior vs. subordinated, distressed vs. performing, etc)

Overall, the corporate loans are sufficiently resilient the and the loans market is wide enough to build diversified portfolios and invest substantial amounts, and is liquid enough to be actively managed within the 10% ratio.

In addition, we think that commodities should also be included in the 10% "trash ratio" as they are considered as a real diversifying asset class that increases the level of the efficient frontier when combined with other asset classes authorized in the UCITS environment. Moreover, many clients do not understand why we propose products that essentially exclude commodities therefore reducing the quality of the offer. The commodity asset class is generally considered as having a low historical correlation to other asset classes and as increasing diversification in a portfolio.

In the present time, the exposure to commodities is mainly allowed through diversified indices or sub-indices. This results in getting de facto exposure to underlying constituents with predetermined weights and maturities which may not be the ones sought by the investment manager. Getting exposure to the commodity asset class through stocks of companies linked to the commodity market (or through currencies of countries that produce some commodities such as the CAD or AUD) brings into the fund portfolio numerous unwanted bias and specific risks.
We believe that permitting investment into cash-settled futures for the major international commodities (Oil (Brent and WTI), Gold, Silver, and Copper) would add diversification and de-correlation to a portfolio. Those instruments are traded on a very liquid market and are at least as liquid as the other instruments which are currently used to get exposure to the commodities asset class.

(5) Do you consider there is a need to further refine rules on exposure to non-eligible assets? What would be the consequences of the following measures for all stakeholders involved:
- Preventing exposure to certain non-eligible assets (e.g. by adopting a "look through" approach for transferable securities, investments in financial indices, or closed ended funds).
- Defining specific exposure limits and risk spreading rules (e.g. diversification) at the level of the underlying assets.

We agree that exposure to certain non-eligible assets should be prevented by taking a look-through approach, but only where these are not traditional asset classes.

(6) Do you see merit in distinguishing or limiting the scope of eligible derivatives based on the payoff of the derivative (e.g. plain vanilla vs. exotic derivatives)? If yes, what would be the consequences of introducing such a distinction? Do you see a need for other distinctions?

We do not think that such a distinction should be made. We do not believe that exotic derivatives are per se more risky than plain vanilla derivatives as long as the management company has put in place appropriate risk management procedures addressing potential risks. What is important is the transparency of the pay off and the explanation of how it works and its costs to the unitholders. Plain vanilla pay off could be riskier than exotic pay off if not understood by the unitholder because not clearly explained or if bought by the fund being tied to one counterparty with no tender offer. It is important that no matter what is the pay off, the fund shall be able to buy it under a tender offer.

(7) Do you consider that market risk is a consistent indicator of global exposure relating to derivative instruments? Which type of strategy employs VaR as a measure for global exposure? What is the proportion of funds using VaR to measure global exposure? What would be the consequence for different stakeholders of using only leverage (commitment method) as a measure of global exposure? If you are an asset manager, please provide also information specific to your business.

First of all, the majority of our funds do not use VaR as a measure of Global Exposure and use a commitment approach. Nevertheless, some of our funds require the use of Absolute VaR as a measure of the Global Exposure.
The choice for using a VaR approach for a given fund may be appropriate for funds for which a commitment approach does not adequately capture the market risk of the portfolio (in particular when a combination of derivatives strategies are used for achieving the investment objective).

As of August 31, 2012, 10% of the AUM of our French UCITS have adopted the VaR approach. Generally, the VaR approach is used for absolute return funds, ALM funds or funds implementing volatility based strategies. Since those funds can be useful tools in a client portfolio (for instance, funds providing a diversifying and/or decorrelated exposure within a client portfolio), we do believe that it is important to keep the VaR approach available within UCITS since it is an adequate global risk measure for those funds.

Secondly, the VaR approach should not be seen as a standalone VaR figure since it also encompasses a full set of risk measures (such as stress testing and ex post back testing as currently implemented under the ESMA Guidelines on Risk Measurement and the Calculation of Global Exposure and Counterparty Risk for UCITS) independently implemented by a risk management department.

However, we would like to stress that the current methodology used for calculating the leverage into a fund using the VaR approach (sum of the notional of the derivative instruments) is not appropriate. The current “leverage measure” may under certain circumstances show irrelevant figures (i.e. potentially high level of leverage). For illustration, please be aware that you can have in a fund using the VaR approach a “measure of leverage” that is very high due to the fact this fund is partly using derivatives as hedging instruments, and such instruments (while being offset in the commitment approach) are accounted in the Fund using the VaR approach in the “leverage measurement”. For instance you can also have in a fund using the VaR approach, a cash + IRS position within your portfolio and count the notional of IRS as “leverage”, which is not leverage economically speaking if the buying of the IRS is associated with the corresponding cash position. As such it could mislead investors on the types of risk that an investment would carry.

We understand that the “leverage measure” has been created to have a common indicator of leverage for the funds using the VaR Approach. We believe that either the obligation to disclose a leverage level for VAR funds should be removed as being irrelevant, or at a minimum that the leverage measurement should be consistent with the commitment approach.

(8) Do you consider that the use of derivatives should be limited to instruments that are traded or would be required to be traded on multilateral platforms in accordance with the legislative proposal on MiFIR? What would be the consequences for different stakeholders of introducing such an obligation?
Currently the UCITS regulation provides a comprehensive framework when using OTC or listed derivatives:

- the underlying of the derivatives consists in instruments directly eligible to the UCITS fund
- counterparties to OTC derivatives are subject to prudential regulation
- derivatives valuation must be checked daily and potentially liquidated at any time
- the counterparty risk to one counterparty is limited to 10% when the counterparty is a credit institution of high quality.

We believe that this framework ensures already a filter on the derivatives that may be entered by UCITS and therefore we do not see any added value to restrict to derivatives traded only on multilateral platforms.

**OTC derivatives – Box 3**

(1) *When assessing counterparty risk, do you see merit in clarifying the treatment of OTC derivatives cleared through central counterparties? If so, what would be the appropriate approach?*

Yes we think it is appropriate to confirm that OTC derivatives cleared through CCP do not create any counterparty risk as long as there is a margining policy put in place by such CCP.

(2) *For OTC derivatives not cleared through central counterparties, do you think that collateral requirements should be consistent between the requirements for OTC and EPM transactions?*

In our opinion, EPM transactions and OTC derivatives are not of the same nature so the collateral requirements linked to these 2 techniques should be different.

- collateral received under OTC derivatives are generally of high quality to provide for a counterparty risk reduction.
- securities received under EPM can be broader and are used for the purpose of the UCITS management.

Therefore we consider that collateral should not be treated the same way. Generally speaking, we believe that the eligibility criteria for collateral should not include quantitative limits but should be assessed by the management company and its risk department based in particular on the liquidity / valuation / decorrelation / enforceability principles.

(5) *What would be the benefits and costs for all stakeholders involved of requiring calculation of counterparty risk and issuer concentration of the UCITS on an at least daily basis?*
We think there should be a balance between the frequency for computing the counterparty risk and issuer concentration. A good compromise would be to run the computation at the NAV determination frequency.

For UCITS with daily liquidity, computing the counterparty risk and issuer concentration on a frequency higher than daily does not bring any value but additional costs. Settlement of collateral generally occurs on T+3 (with the possibility to request on demand T+1).

**Extraordinary liquidity management tools – Box 4**

(2) Do you see a need to further develop a common framework, as part of the UCITS Directive, for dealing with liquidity bottlenecks in exceptional cases?

Exceptional circumstances should be agreed by supervisors. ESMA should develop a common framework to ensure consistency between Member States.

(3) What would be the criteria needed to define the "exceptional case" referred to in Article 84(2)? Should the decision be based on quantitative and/or qualitative criteria? Should the occurrence of "exceptional cases" be left to the manager's self-assessment and/or should this be assessed by the competent authorities? Please give an indicative list of criteria.

It should be assessed by the competent authorities, based on guidance that should be developed by ESMA (after full public consultation).

(4) Regarding the temporary suspension of redemptions, should time limits be introduced that would require the fund to be liquidated once they are breached? If yes, what would such limits be? Please evaluate benefits and costs for all stakeholders involved.

Fixed time limits may not always be in the best interests of the majority of investors. If time limits are prescribed, this should be subject to an override with the agreement of supervisors.

(5) Regarding deferred redemption, would quantitative thresholds and time limits better ensure fairness between different investors? How would such a mechanism work and what would be the appropriate limits? Please evaluate benefits and costs for all the stakeholders involved.

See above.
(1) What advantages and drawbacks would a depositary passport create, in your view, from the perspective of: the depositary (turnover, jobs, organisation, operational complexities, economies of scale ...), the fund (costs, cross border activity, enforcement of its rights ...), the competent authorities (supervisory effectiveness and complexity ...), and the investor (level of investor protection)?

A depositary passport would enable fund management groups to use the same depositary for all their funds domiciled in different EU jurisdictions, and may enable them to negotiate favourable terms for investors based on economies of scale.

(2) If you are a fund manager or a depositary, do you encounter problems stemming from the regulatory requirement that the depositary and the fund need to be located in the same Member State? If you are a competent authority, would you encounter problems linked to the dispersion of supervisory functions and responsibilities? If yes, please give details and describe the costs (financial and non-financial) associated with these burdens as well as possible issues that a separation of fund and depositary might create in terms of regulatory oversight and supervisory cooperation.

As a fund manager we do not encounter particular problems with having the depositary and the fund located in the same Member State, as this has been the situation for many years. The case for this is strengthened whilst the role of the depositary has national specificities, but this would fall away if there was full harmonisation.

(3) In case a depositary passport were to be introduced, what areas do you think might require further harmonisation (e.g. calculation of NAV, definition of a depositary's tasks and permitted activities, conduct of business rules, supervision, harmonisation or approximation of capital requirements for depositaries...)?

The UCITS depositary regime should be harmonised, just as the UCITS management company regime is harmonised. This includes NAV calculation, tasks, CBR, supervision and capital requirements. But this does not necessarily entail similar harmonisation of the AIFMD depositary regime.

(4) Should the depositary be subject to a fully-fledged authorisation regime specific to depositaries or is reliance on other EU regulatory frameworks (e.g., credit institutions or investment firms) sufficient in case a passport for depositary functions were to be introduced?
Depositaries should be subject to a specific fully fledged regime of authorisation and supervision.

(5) Are there specific issues to address for the supervision of a UCITS where the depositary is not located in the same jurisdiction?

In a true single market this should not pose difficulties provided there is full co-operation between supervisors.

Money market funds – Box 6

(1) What role do MMFs play in the management of liquidity for investors and in the financial markets generally? What are close alternatives for MMFs? Please give indicative figures and/or estimates of cross-elasticity of demand between MMFs and alternatives.

MMFs provide an in-house investment option for “cash” investment in a portfolio, which may be more appropriate than having all cash investment concentrated in a bank. MMFs are a major investor in short term commercial paper, providing an essential alternative source of finance for business, and liquidity in this market.

(5) Do you agree that MMFs, individually or collectively, may represent a source of systemic risk (‘runs’ by investors, contagion, etc…) due to their central role in the short term funding market? Please explain.

We do not consider that VNAV MMFs represent a source of systemic risk.

(6) Do you see a need for more detailed and harmonised regulation on MMFs at the EU level? If yes, should it be part of the UCITS Directive, of the AIFM Directive, of both Directives or a separate and self-standing instrument? Do you believe that EU rules on MMF should apply to all funds that are marketed as MMF or fall within the European Central Bank's definition15?

There should be specific rules for UCITS MMFs. Any other non-UCITS MMFs would not be governed by these rules, but would be covered by AIFMD.

MMF valuation and capital – Box 7

(2) Should CNAV MMFs be subject to additional regulation, their activities reduced or even phased out? What would the consequences of such a measure be for all stakeholders involved and how could a phase-out be implemented while avoiding disruptions in the supply of MMF?
AXA IM offers only VNAV funds. We agree CNAV funds should be subject to additional regulation, but do not believe they should be phased out.

(4) Should valuation methodologies other than mark-to-market be allowed in stressed market conditions? What are the relevant criteria to define “stressed market conditions”? What are your current policies to deal with such situations?

The same principles should apply to UCITS MMFs as apply to other UCITS.

Liquidity and redemptions – Box 8

(2) Do you think that imposing a liquidity fee on those investors that redeem first would be an effective solution? How should such a mechanism work? What, if any, would be the consequences, including in terms of investors' confidence?

A liquidity fee should only work in the manner of a dilution levy, to ensure fairness between investors. We do not agree with its use as a deterrent to redemption.

(3) Different redemption restrictions may be envisaged: limits on share repurchases, redemption in kind, retention scenarios etc. Do you think that they represent viable solutions? How should they work concretely (length and proportion of assets concerned) and what would be the consequences, including in terms of investors' confidence?

All of these offer viable solutions. The issue is whether to prescribe them as a standard for all UCITS MMFs, or to allow competition and market forces to operate, based on managers selecting and disclosing the measures which they may use. We would favour the latter, but there is a risk that this may not be properly understood by some investors.

(4) Do you consider that adding liquidity constraints (overnight and weekly maturing securities) would be useful? How should such a mechanism work and what would be the proposed proportion of the assets that would have to comply with these constraints? What would be the consequences, including in terms of investors' confidence?

The choice is between mandating liquidity constraints, even when markets are favourable and funds are growing, which may adversely impact performance, and requiring managers to use their discretion appropriate to the circumstances and market conditions. We favour the second option.
Do you think that the 3 options (liquidity fees, redemption restrictions and liquidity constraints) are mutually exclusive or could be adopted together?

Consistent with our responses above, we do not support liquidity fees, and would require managers to adopt their own approach based on a combination of redemption restrictions and liquidity constraints.

Investment criteria and rating – Box 9

Do you think that the definition of money market instruments (Article 2(1)(o) of the UCITS Directive and its clarification in Commission Directive 2007/16/EC) should be reviewed? What changes would you consider?

Consistent with the policy of reducing regulatory reliance on external credit ratings, we would support greater emphasis on internal credit assessment.

Should it be still possible for MMFs to be rated? What would be the consequences of a ban for all stakeholders involved?

It should be possible for MMFs to be rated, as many investors, particularly retail investors and often their advisers too, do not have the ability to make credit assessments for themselves, and both portfolios and creditworthiness may change suddenly.

What would be the consequences of prohibiting investment criteria related to credit ratings?

It could be harder for some issues to be accepted by investment managers if information is less readily available for internal credit assessment. Some management groups may not have the numbers and quality of staff to perform a full range of credit assessments, which may reduce demand for, and liquidity of, certain securities. Some managers may withdraw from the market, or limit their product offerings, as a result.

MMFs are deemed to invest in high quality assets. What would be the criteria needed for a proper internal assessment? Please give details as regards investment type, maturity, liquidity, type of issuers, yield etc.

Long term investments

What options do retail investors currently have when wishing to invest in long-term assets? Do retail investors have an appetite for long-term investments? Do fund managers have an appetite for developing funds that enable retail investors to make long-term investments?
AXA IM has a strong appetite to develop funds which enable retail investors to make long term investments. Indeed, long term products constitute a solution to the retirement needs.

In addition, adding alternative assets such as long term assets into an allocation enhances the benefits of diversification by improving the long term risk/return profile of the investment.

Whilst listed equities and government and corporate debt may be considered long term investments, we understand this question to relate to investments such as infrastructure investments, unlisted (private) equity and private debt, which may be intended to be held until maturity rather than regularly traded on a liquid market. Investment in these asset classes can stimulate economic growth, and such long term investment may be suitable for retirement savings, but as part of a diversified and balanced portfolio.

As noted, they are typically relatively illiquid, and often subject to higher levels of market risk than existing UCITS.

We do not agree that socially responsible investments are necessarily long term in perspective, and long term investments are not necessarily socially responsible.

(2) Do you see a need to create a common framework dedicated to long-term investments for retail investors? Would targeted modifications of UCITS rules or a stand-alone initiative be more appropriate?

Using a label inspired from UCITS could be appropriate, with specific rules in terms of liquidity and valuation. Indeed, currently UCITS restricts the investment into liquid assets and impose the possibility for investors to redeem their investments at least twice a month. Those constraints are hardly compatible as such with the long-term investment objective which is the objective of a portion of retail investors especially in a context of Defined Contribution retirement plan. We therefore highly welcome the opportunity to create a common European level playing field for retail investors in long term investments. We think it is also important to create a common framework at the European level replicating the passport principle.

If a common EU framework is to be developed for long term retail funds, this should draw on the UCITS framework. But the funds should not be UCITS, as they would have a very different liquidity and risk profile, and to treat them as UCITS is likely to weaken the UCITS brand. We would therefore favour a stand alone initiative. Fund sales should be subject to investment advice based on KYC and suitability requirements, and there should be a minimum initial investment and holding.
(3) Do you agree with the above list of possible eligible assets? What other type of asset should be included? Please provide definitions and characteristics for each type of asset.

We agree with the above list of eligible assets of private equity, real estate, infrastructure, loans, to which could be added alternative investments such as hedge funds. In particular, loans to corporates should be part of the eligible assets for such funds. Indeed, such assets provide alternatives for investors to bank deposits, constitute an alternative funding for the real economy, and a source of diversification from the banking system.

But if these kinds of assets are to be included it would make sense to also include direct and indirect real estate as an eligible asset class. Eligible assets should be restricted to those supporting the growth agenda, and so assets such as art, fine wines, antiques and classic cars should not be eligible.

(4) Should a secondary market for the assets be ensured? Should minimum liquidity constraints be introduced? Please give details.

A secondary market facilitates valuation and trading. But it depends whether these are considered important features of such products if they are to be outside the UCITS regime. Illiquid investments may be more suited to closed end funds, with a secondary market for the fund being more important than a secondary market for the underlying assets.

We are of the view that the most important is not the liquidity of assets per say, but the monitoring of the potential mismatch between clients needs and the liquidity of the assets. Therefore, an open-ended fund created for long term purposes and designed to be retained by investors should be able to invest in a bucket of for example 20 – 30 % of long term investments. This should enable asset managers to monitor actively the liquidity risk in the portfolio, i.e. take into account the maturity of the assets and track investor’s behaviours to anticipate in/outflows.

Liquidity requirements should be compatible with the long-term investment objective. It seems fair to create a lock-up period during the investment phase and then a soft landing through payment of dividends in a second phase, but in the same time keeping in mind the necessity to offer minimum liquidity to retail investors.

(5) What proportion of a fund’s portfolio do you think should be dedicated to such assets? What would be the possible impacts?

It depends whether the funds are open or closed ended, and whether they are intended to be frequently traded during their life.
Depending on the risk and liquidity profile of the fund, long term investments could potentially constitute an important part of the assets, i.e. 20 – 30 %. Nevertheless, a strong diversification should help improve risk / return of the portfolio.

(6) What kind of diversification rules might be needed to avoid excessive concentration risks and ensure adequate liquidity? Please give indicative figures with possible impacts.

Such funds may have very different risk profiles and investment horizons. Diversification of risk based on portfolio theory is important, but this does not ensure liquidity.

(7) Should the use of leverage or financial derivative instruments be banned? If not, what specific constraints on their use might be considered?

When developing a new product which already has relatively low liquidity and high market risk, we believe that leverage and financial derivatives should be permitted to allow managers to manage risk and return within the parameters set for the fund. However, their use should be subject to restrictions related to both scale and purpose.

The use of derivatives instruments is very important for these types of strategies investing in long term assets because they are a tool enabling asset managers to match assets and liabilities characteristics. For instance, the hedging / exposure to interest rate risk or inflation risk for very long term maturities can be crucial for the management of a long term portfolio. Leverage should not be banned, but the same rules as for the actual UCITS should be maintained, with the exception that the commitment could be calculated only at inception in order to limit the valuation impact on the calculation of the commitment.

(8) Should a minimum lock-up period or other restrictions on exits be allowed? How might such measures be practically implemented?

If these are to be open ended funds, then a minimum lock-up period and restrictions on exits should be allowed.

A minimum lock up which could depend on the recommended retention period of the fund should be established. The way to implement them could be via tax incentive or regulatory environment limiting the redemptions, or by making these products eligible to retirement oriented plans (like PERCO in France). The initiative to create such retail investment funds should be coupled with a European initiative to promote retirement/long term accounts.
(9) To ensure high standards of investor protection, should parts of the UCITS framework be used, e.g. management company rules or depositary requirements? What other parts of the UCITS framework are deemed necessary?

The UCITS management company and depositary framework, which has now been extended to AIFs, provides a good framework, but may need to be adapted depending on the categories of assets which are eligible.

(10) Regarding social investments only, would you support the possibility for UCITS funds to invest in units of EuSEF? If so, under what conditions and limits?

EuSEFs were designed as products for professional investors with a high minimum investment. It would therefore be inconsistent to allow their inclusion in UCITS, other than in the 10% “trash bucket”.

**UCITS IV improvement**

1 Do you think that the identified areas (points 1 to 4) require further consideration and that options should be developed for amending the respective provisions? Please provide an answer on each separate topic with the possible costs / benefits of changes for each, considering the impact for all stakeholders involved.

Self-managed investment companies: Article 12 level 2 measures should apply to all UCITS including self managed companies.

Master-feeder structures: Similar information should apply to a feeder converting into an ordinary UCITS.

Fund mergers: The time limits should be clarified, but the total time should be kept to a reasonable maximum, say 30 days.

Notification procedure: We support these improvements.

2 Regarding point 5, do you consider that further alignment is needed in order to improve consistency of rules in the European asset management sector? If yes, which areas in the UCITS framework should be further harmonised so as to improve consistency between the AIM Directive and the UCITS Directive? Please give details and the possible benefits and costs.

Alignment with AIFM Directive: We support alignment. Many UCITS managers also manage AIFs and it is complex, costly and inefficient to have different standards except where there are genuine differences warranting different treatment. This should apply also to ESMA guidance, for example on remuneration.