European Fund and Asset Management Association

EFAMA Response to the EBA Consultation Paper (EBA/CP/2015/06) on Draft EBA Guidelines on limits on exposures to shadow banking entities which carry out banking activities outside a regulated framework under Article 395(2) of Regulation (EU) No. 575/2013

EFAMA is the representative association for the European investment management industry. We represent through our 26 national association members, 63 corporate members and 25 associate members about EUR 17 trillion in assets under management, of which EUR 11.3 trillion managed by 55,600 investment funds at end-December 2014. Over 36,100 of these funds are UCITS (Undertakings for Collective Investments in Transferable Securities) funds, as regulated under the relevant EU UCITS Directive of 2009[1], whereas the remainder are Alternative Investment Funds (AIFs), whose managers are regulated under the relevant EU Alternative Investment Fund Managers directive of 2011[2].

Preliminary comments

EFAMA and its Members appreciate the opportunity to respond to this important EBA consultation paper, targeting Guidelines on exposure limits to "shadow banking" entities carrying out "banking activities outside a regulated framework" according to the letter of Article 395(2) of the CRR[3]. We gladly note that the introductory section of the consultation paper recognises some of the virtues that "shadow banking" delivers to the real economy. We would propose that "markets-based financing" be used as a more "objective" and appropriate label in place of "shadow banking", although could accept the use of the term given the consultation's need to reflect the wording of the CRR.

Please consider the following preliminary comments, which will form the object of a more detailed elaboration in our answer to Question 1 of the consultation paper:

- Asset management entities carry out activities that are substantially different from those of credit institutions. Such differences are recognised under an independent *corpus* of sectoral EU legislation applicable only to asset management companies and their funds. Continuing to assume that certain shadow banks – among which the EBA seems to include asset managers – carry out "bank-like" activities, and would thus consequently deserve to be regulated as credit institutions, is plainly erroneous[4]. In fact, considering the forms of credit intermediation under Annex I of CRD IV (as per paragraph 9 of the EBA consultation paper), portfolio management and

[1] Please refer to Directive 2009/65/EC of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities.
[2] Please refer to Directve 2011/61/EU of 8 June 2011 on Alternative Investment Fund Managers.
[3] Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.
[4] Such interpretation would seem obvious from the wording of the fifth sub-paragraph of the Executive Summary of the consultation document at page 4 thereof.

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advice may only give rise to the relevant risks of maturity/liquidity transformation, credit risk transfer or leverage, in relation to the managed fund vehicle only (i.e. <u>not</u> in relation to the entities carrying out portfolio management or advice);

- EFAMA considers, regrettably, that the regulatory reforms aimed at improving the resilience of financial market infrastructures in Europe, as ushered by the 2012 EMIR reform[5] and accompanied by a vast array of delegated regulations and further implementing measures, have not been acknowledged or even referenced. Any further assessment by the EBA of risks between credit institutions and shadow banking entities, which fails to recognise the already substantial EMIR safeguards - i.e. timely confirmation, daily valuation, dispute resolution, reconciliation and compression of portfolios, and exchange of collateral via margin requirements – will therefore undoubtedly be incomplete;
- We fully support the proposal from the EBA to exempt entities which are within the scope of prudential consolidation and furthermore wish to clarify that the exemption should apply both to banking and insurance groups, given that these two types of groups are already regulated at EU level from prudential perspective, respectively under the CRD and the Solvency II legislation.

Q1: Do you agree with the approach the EBA has proposed for the purposes of defining shadow banking entities? In particular:

- Do you consider that this approach is workable in practice? If not, please explain why and present possible alternatives?
- Do you agree with the proposed approach to the exclusion of certain undertakings, including the approach to the treatment of funds? In particular, do you see any risks stemming from the exclusion of non-MMF UCITS given the size of the industry? If you do not agree with the proposed approach, please explain why not and present the rationale for the alternative approach(es) (e.g. on the basis of specific prudential requirements, redemption limits, maximum liquidity mismatch and leverage etc.).

EFAMA disagrees with the proposed approach for defining shadow banking entities. Our opinion stems from the following set of considerations:

1 On the EBA's two-pronged definition of "shadow banking entities"

With regard to the future Guidelines' scope, Article 395(2) of the CRR expressly limits the exposures to "shadow banking entities which carry out **banking activities outside a regulated framework**" (emphasis added by EFAMA). Acknowledging that the CRR presently does not offer a legal definition of either "shadow banking entities" nor of "banking activities", the EBA proposed a two-pronged definition of the former, provided two conditions are satisfied: (i) they are involved in credit intermediation through the activities listed in Annex I of the CRD IV[6], which in turn would generate

[5] Please refer to the European Market Infrastructure Regulation (EMIR) - Regulation (EU) No. 648/2012 - of 4 July 2012 on OTC derivatives, central counterparties and trade repositories, accompanied by a raft of implementing measures entrusted to the European Securities Markets Authority (ESMA).
[6] Among the credit intermediation activities mentioned in the list, we note "portfolio management and advice".

the four types of risks identified in the FSB's own recent work around shadow banking[7]; and (ii) are not within the scope of prudential consolidation or "solo" prudential requirements[8].

Taking both points separately, EFAMA would recognise that, with regard to (i), credit intermediation is provided via portfolio management activities exercised at the fund level only. In other words, such risks do not materialise on the balance sheet of the service provider, i.e. the asset management company or advisor, responsible respectively for managing clients' assets or advising them on their investment allocation[9]. Also, EFAMA would stress that client's assets are legally segregated from the asset manager's or advisor's own assets and held in either client accounts or, in case of investment funds, in segregate accounts held by an appointed depositary. As a result, risk transmission to the service provider is not possible. In line with the analysis made by the relevant FSB work stream (WS3) around the risks from asset management activities of open-end funds, we would moreover invite the EBA to consider the adequate set of regulatory tools, as identified in the 2013 FSB *Policy Framework* and to be implemented by all FSB jurisdictions.

With regard to (ii), we strongly disagree with the assumption that asset management entities, regardless of whether UCITS funds or not, would fall outside of "an appropriate and sufficiently robust framework" (see paragraph 10 of the consultation paper). As we shall explain in the next section and for the same reasons the EBA has rightly considered UCITS funds to fall outside its definition of shadow banking entities, the EU AIFM regime for alternative investment fund managers (and their funds) and the upcoming EU Money Market Funds Regulation share many of the "prudential" traits of the UCITS regulation and should therefore not – both logically and factually – be labelled as shadow banks. In light of these important considerations and due to the fact that only the first "limb" of the definition (i) would correctly apply to European collective investment undertakings (i.e. to the funds and not to their asset management companies), these undertakings' exclusion from the proposed definition should be an evident and reasonable outcome. Consequently we strongly advocate that AIFs and MMFs alike be added to the list of excluded entities under paragraph 6, point 3, letter k) of the "Definitions" section of the draft Guidelines.

2 Prudential requirements applicable to European asset managers/funds

We notice that the term "prudential requirements" are cited at length throughout the consultation paper, although there is no clear definition of what is more precisely meant with this term. We turn to Article 1 of the CRR to obtain a better appreciation of the term "prudential", as relevant in this

[7] Please refer to the FSB *Policy Framework for Strengthening Oversight and Regulation of Shadow Banking Entities* of 29 August 2013.

[8] In the EBA's draft Cost-Benefit Analysis / Impact Assessment accompanying the consultation paper, we would support the EBA's preferred choice of the relevant "Option 3" and additionally highlight that, regardless of consolidation, it is on the basis of the "solo" prudential requirements that AIFMs (and their funds) and EU MMFs should count among the "excluded undertakings" (like UCITS management companies and their funds).

[9] Portfolio management and advice are investment services regulated on separate grounds under the EU MiFID framework. These services are primarily performed by asset managers being authorised investment firms subject to a separate set of prudential rules with respect to CRD. In addition, portfolio management and advice may also be provided by other qualified market participants such as fund managers authorised for the purpose of collective portfolio management under the UCITS Directive or the AIFM Directive, or also by credit institutions.

context. Accordingly, prudential requirements would grossly equate with a regulatory framework prescribing:

(a) Own funds requirements relating to entirely quantifiable, uniform and standardised elements of credit risk, market risk, operational risk and settlement risk;
(b) Requirements limiting large exposures;
(c) Liquidity requirements relating to entirely quantifiable, uniform and standardised elements of liquidity risk;
(d) Reporting requirements related to points (a), (b) and (c) and to leverage;
(e) Public disclosure requirements.

We would invite the EBA to consider, more specifically, how the above requirements are already met under the AIFM and (future) MMF regulatory regimes, which in parallel also reflect the substantial differences between asset management and banking activities. In our opinion, these comprehensive regimes, contrary to the EBA's preliminary conclusions, are sufficiently robust to contain the identified shadow banking risks, especially from a micro-prudential perspective (see paragraph 23 of the consultation paper).

2.1 Prudential requirements under the AIFM Directive relating to AIFs

Regarding own funds under letter (a) in the AIF (and broader fund) context, the EBA should recognise that AIFs and other investment funds do not need capital requirements at the vehicle level, since they are fully funded by the own capital of their investors. Investments by AIFs are subject to clear limits on leverage imposed either by national regulation or by the fund rules[10]. In this context, it should be noted that AIFs are already considered to apply leverage on a substantial basis if the exposure to market risk exceeds 300% of the fund's NAV according to the commitment approach[11]. In addition, the competent NCA is entitled to impose limits on the level of leverage employed by AIFs or other restrictions in terms of AIF management if deemed necessary for systemic reasons[12].

Relevant to rules limiting large exposures under letter (b), the AIFM equivalent of a large exposures regime would correspond to the prudential enhancements foreseen for AIFs that employ leverage on a "substantial basis", i.e. above three-times the AIF's net asset value (NAV). These are specified under Article 24(4) of the directive and consist in more extensive reporting requirements on the overall level of leverage employed by each AIF, a break-down between leverage arising from borrowing of cash or securities and leverage embedded in financial derivatives, and the extent to which the AIF's assets have been reused under leveraging arrangements[13]. Such information is intended to allow the competent national authorities to make a determination as to the build-up of systemic risk in the

[10] Please refer to Articles 15(4), 23(5), 25(3) of the AIFM Directive.
[11] Article 111(1) of Regulation (EU) 231/2013 implementing the AIFM Directive.
[12] Please refer to Article 25(3) of the AIFM Directive.
[13] Such information also includes the identity of the five largest sources of borrowed cash or securities for each of the AIFs managed by the AIFM, and the amounts of leverage received from each of those sources for each of those AIFs.

financial system or as to the likelihood of disorderly markets[14]. As for credit institutions for the purpose of applying additional limits to their exposures *vis-à-vis* non-bank entities, as discussed in the consultation paper, the AIFM Directive and delegated Regulation clearly foresee a specific regime for exposures – defined in terms of leverage and as measured on the basis of a dual approach – to be limited both with and without the intervention of the competent authority. We therefore deem requirement (b) to be satisfied as well.

As to liquidity risk requirements, again, the AIFM Directive requires a robust liquidity management system under its Article 16(1). The following passage is for instance highly indicative in this regard:

> *AIFMs shall […] employ an appropriate* ***liquidity management system*** *and adopt procedures which enable them to monitor the liquidity risk of the AIF and to ensure that the liquidity profile of the investments of the AIF* ***complies with its underlying obligations****. AIFMs shall regularly conduct* ***stress tests, under normal and exceptional liquidity conditions****, which enable them to assess the liquidity risk of the AIFs and monitor the liquidity risk of the AIFs accordingly* (emphasis added by EFAMA).

On this basis, for each AIF managed, the manager must ensure that the liquidity profile and the redemption policy are consistent at all times, as per the following paragraph (2). The accompanying delegated Regulation further consolidates these provisions in the form of qualitative and quantitative risk limits[15], the appropriate design of liquidity stress-testing tools[16], of liquidity monitoring tools, as well as of escalation procedures[17]. On these grounds, one can assume that condition (c) has also been largely met.

From a reporting perspective, Article 24 of the directive distinguishes two kinds of reporting obligations to competent authorities: regular and “on request”. The former include the percentage of an AIF’s assets which are subject to special arrangements arising from their illiquid nature; arrangements for managing the liquidity of the AIF; the current risk profile of the AIF and the risk management systems employed by the AIFM to manage market risk, liquidity risk, counterparty risk and other risks including operational risk; information on the main categories of assets in which the AIF invested; and the results of the stress tests performed in accordance with the afore-cited clauses. On request, the manager must provide an annual report of each AIF managed and of each AIF marketed by it in the EU for each financial year, a detailed list of all AIFs which the AIFM manages by

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[14] As to the more detailed determinations national competent authorities may make, we invite the EBA to consider Article 112 of the relevant delegated Regulation (EU) No 231/2013. Among these are determinations tied to gauging the pro-cyclical effects of a leveraged AIF’s investment strategy, it’s potential to cause “downward spirals” in asset prices, together with other market “contagion” effects.

[15] See Article 44(2) letter c) thereof.

[16] See Article 48 thereof, where, *inter alia*, stress tests are to be conducted on the basis of reliable and up-to-date information; simulate a shortage of liquidity of the assets in the AIF and atypical redemption demands; cover market risks and any resulting impact, including on margin calls, collateral requirements or credit lines; account for valuation sensitivities under stressed conditions; and be conducted at a frequency which is appropriate to the nature of the AIF, taking in to account the investment strategy, liquidity profile, type of investor and redemption policy of the AIF.

[17] See Article 47(1) and (3) thereof.

the end of each quarter, as well as the extensive information of leverage levels described above. Condition (d) is in our view also abundantly met on the basis of such extensive reporting requirements to authorities, apart from the extensive notifications that are required for the purpose of initial authorisation.

Finally, condition (e) is also satisfied after considering the comprehensive requirements governing investor disclosures under Article 23 of the AIFM Directive and which we confidently leave to the EBA's appreciation for the conciseness of our response.

On the basis of this evidence, we strongly recommend that the EBA reconsider its preliminary findings and exclude AIFs from the definition of "shadow banking entities" in line with its proposed two-pronged definition. We would finally draw EBA's attention to the paradoxical conclusion in the wording of paragraph 10 of the consultation paper: it appears the EBA's interpretation, based purely on "equivalence", leads to an exemption for non-EU, third country asset management companies (and their funds) from being considered as shadow banks. Such outcome would be in utter disregard of the above AIFM requirements and lead to a situation where a sizeable part of the European buy-side industry is "shadow banking", whereas its non-EU competitors are not (!).

2.2 Prudential requirements for (future) EU MMFs

Concerning EU MMFs, we turn to analyse these specific, open-end vehicles with the same method as for AIFs, recalling the extensive reforms that have already been adopted by regulators – in light of the October 2012 IOSCO Recommendations[18] - in numerous jurisdictions around the world, including most notably in the U.S. between 2010 and 2014, as well as in the EU with the European Commission's September 2013 proposal for a regulation[19] and whose outcome at the time of writing is still pending between the two arms of the EU Legislator[20]. Although we appreciate EBA's openness to eventually exclude European MMFs from the definition shadow banking entities under CRR – as demonstrated during the public hearing at the EBA's premises on 18 May 2015 – we nevertheless wish to challenge the approach reflected in the consultation paper (see specifically paragraph 14 thereof).

In light of the proposed two-pronged definition of shadow banking entities and acknowledging the specific types of risks proper to open-end funds identified by the FSB, there are evident features of the EU MMF Regulation proposal – to be analysed on the basis of the European Parliament's recently adopted text - that do make European MMFs "prudentially" regulated. Firstly, EFAMA would recognise that already the fact that a large majority of MMF vehicles in Europe are UCITS – approximately 90% of the available offer – would exclude them in light of the application of relevant UCITS requirements[21].

[18] Please refer to IOSCO's Final Report on *Policy Recommendations for Money Market Funds*; available at: http://www.iosco.org/library/pubdocs/pdf/IOSCOPD392.pdf

[19] Please refer to the European Commission's proposal for a *Regulation on Money Market Funds* of 4 September 2014; available at: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013PC0615&from=EN

[20] The European Parliament voted on the MMF Regulation in its plenary session on 29 April 2015, however, the Council has yet to agree its "General Approach" on the file. The Parliament's voted text is available at: http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P8-TA-2015-0170#BKMD-173

[21] For the remainder, i.e. MMFs that are structured as AIFs, we make analogous considerations as above.

Complementing such requirements are the following features as drawn from the document voted in April 2015 by the European Parliament at its plenary session and attempting to reflect the key prudential requirements of CRR as outlined above:

(a) For own fund requirements, those of UCITS predominantly apply for the most part, including those tied to initial capital, as provided for under Article 7 of the UCITS Directive (2009/65/EC as recently amended) and with definitions referencing the CRD directly;
(b) For limits to large exposures, the very liquid nature of an MMF vehicle excludes these *in toto*, as with leverage, with diversification being of paramount importance and the object of very specific legal requirements, reflected in Article 14 of the Parliament's adopted Report as follows:
  - An MMF cannot invest more than 5% of its assets in either a money market instrument issued by the same body or deposits made with the same credit institution;
  - Aggregate exposure of a public debt MMF or a standard MMF cannot combine more than 8% of its assets in a single body in investments in money market instruments issued by that body, deposits made by that body or financial derivative instruments giving counterparty risk exposure to that body;
  - The aggregate of all exposures to securitisations shall not exceed 10% of assets of MMF
  - The aggregate risk exposure to the same counterparty of the MMF stemming from derivative transactions shall not exceed 5% of its assets; and
  - The aggregate amount of cash provided to the same counterparty of a MMF in reverse repo agreements shall not exceed 10% of its assets;
(c) In terms of liquidity requirements, Articles 21 and 22 establish portfolio liquidity rules for short-term and standard MMFs respectively:
  - Portfolio to be composed of at least 10% daily maturing assets and 20% weekly maturing assets for both short-term and standard MMFs; and
  - For both types of MMFs, liquidity requirements are to be increased by 5% of the assets of the MMF valued using amortised cost accounting (daily) and 10% of the assets of the MMF valued using amortised cost accounting (weekly);
(d) Concerning reporting requirements to competent national authorities, the relevant Article 38 of the Parliament's Report requires that, for each MMF managed, the manager must report information to the competent authority at least on a quarterly basis. Such notifications include the type and characteristics of the MMF, its portfolio indicators, the results of its liquidity stress tests, information on the assets held in the portfolio as well as the liabilities. A subsequent step, sees national competent authorities share this information with ESMA;
(e) Finally, Article 37 requires that the following meaningful contents be shared with investors, including:
  - The liquidity, credit profile and portfolio composition, the weighted-average maturity (WAM) and weighted-average life (WAL) of the fund, as well as the cumulative concentration of top 5 investors;
  - For public debt CNAV MMFs, retail CNAV MMFs and Low Volatility NAV (LVNAV) funds, these are to disclose, *inter alia*, the total value of their assets, their maturity breakdown, the proportion of assets in portfolio reaching the maturity of one day/one week, the net yield, etc.; and

- All MMFs are to also disclose information on eventual money market instruments and securitisations (if applicable) issued by the MMF's sponsor[22], or eventual exposures to the MMF if the sponsor is a counterparty to derivative transactions.

In light of these extensive requirements and despite their final wording not having been yet settled by the EU Legislator, we dissent with the consultation paper's claims – specifically under the relevant paragraph 14 - that not enough has been done to contain the potential risks arising from MMFs, as well as with the assumption that, because on average MMFs are larger than other non-MMF UCITS funds, the former would in theory be "riskier". Although removed from the object of this consultation, EFAMA, together with a consistent majority of our Members, has replied to the recent FSB/IOSCO consultation around the assessment methodologies for identifying non-bank, non-insurer (NBNI) globally systemically important financial institutions (G-SIFIs) by recommending that "size" should not be relied upon as an indicator of systemic importance[23]. As a final observation, we consider that the references to the conclusions of the IOSCO and of the ESRB under paragraph 14 of the consultation paper, warning of the risks behind MMFs, appear outdated in light of the significant changes brought to the industry via implemented and proposed new regulation.

2.3 Prudential regulation of UCITS and AIF managers

UCITS and AIF managers' core activity is (collective) portfolio management which occurs on account of fund investors/clients and does not entail any risks for the fund managers' balance sheets for the reasons explained above. In addition, UCITS and AIF managers are admitted to a limited range of ancillary activities such as investment advice, safekeeping of fund units or, in case of AIFM, reception and transmission of orders which generally do not involve any risks associated with shadow banking. On the other hand, UCITS and AIF managers are subject to sector-specific prudential regulation involving a mandatory authorisation by the NCA[24]. As part of the authorisation process, UCITS and AIF managers are i.a. required to have sufficient initial capital and own funds, to present a sound business plan and to demonstrate a sufficiently good reputation and experience of the persons effectively conducting their business, as well as the suitability of their shareholders[25].

Taking into regard these characteristics, it should be clear that UCITS and AIF managers do not fulfil either of the criteria for shadow banking entities as specified in section 3.1.2, paragraph 7 of the consultation paper. Nonetheless, in view of the inclusion of portfolio management and advice in the range of relevant activities (please refer to our comments in Section 1 above), UCITS and AIF managers should by no means be classified as shadow banking entities and their relationship to credit institutions be constrained by exposure limits.

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[22] Where the latter is a credit institution, also cash deposits with that sponsor.

[23] EFAMA's views with regard to this important consultation around the perceived "systemic" nature of asset management entities can be found on our website; available at: http://www.efama.org/Publications/15-4064_EFAMAReplyto2ndconsultationonNBNIG-SIFIs.pdf

[24] With the exception of small AIFM (managing unleveraged closed-ended AIFs with aggregated AuM not exceeding EUR 500 Million) and AIFM managing solely group-owned assets not exceeding EUR 100 Million which are only subject to registration with the authorities, cf. Article 3(2) and (3) of the AIFM Directive.

[25] Please refer to Article 7(1) and (2) of the UCITS Directive, as well as Article 7(2) letter c) and Article 8(1) of the AIFM Directive.

On balance, we therefore see a clear case for considering authorised UCITS and AIF managers as excluded undertakings under sub-paragraph 3 letter e) of the proposed "Definitions" section, as they are indeed "subject to prudential and supervisory requirements comparable to those applied to institutions in terms of robustness". We would welcome a clarification (via a specific sub-paragraph) that authorised UCITS and AIF managers are to benefit from the exemption under the aforementioned sub-paragraph 3 letter e).

3 Exposures of EU credit institutions to asset managers/funds

In terms of mitigating risks to credit institutions arising from exposures to shadow banking entities, the narrative of the consultation paper does not sufficiently specify what type of exposure raises most concerns. Is it pure investment risk, where a bank invests as an investor into a collective fund or into an individually managed account? Or does the exposure derive from the ownership of a specific stake in an asset management company subsidiary? Or is it exposure in terms of counterparty risk, where the bank would be taking on derivative exposures vis-à-vis a fund, or where the two entities are counterparties to a securities financing transaction (e.g. repo or a securities lending transaction)? These exposures deserve to be defined as, depending on the type of transaction, there are several legal and operational risk mitigating factors in place, making a one-size-fits-all approach *via* a broad categorisation of the term "exposure" not viable. These factors range from the concentration and counterparty exposure limits of the UCITS Directive, to the risk management requirements under the AIFM Directive, from the risk-mitigating requirements of EMIR to the minimum haircuts proposed by the FSB for non-centrally cleared securities financing transaction in October 2014[26]. When considering risks from non-bank entities, the EBA should duly and carefully consider these measures as complementary to the types of exposures defined and envisaged in the relevant part of the CRR (Part Three, Title II, Chapter 2) without applying the risk weights or degrees of risk[27].

EFAMA deems it unfortunate that the EBA has also not duly considered the Commission's legislative proposal on structural measures improving the resilience of EU credit institutions (herewith the "Banking Structural Reform"), published on 29 January 2014. At the time of writing, such proposal is being discussed by the two branches of the EU Legislator. On the basis of the Commission's original proposal - specifically Article 6 thereof – an EU credit institution is barred from (i) acquiring or retaining shares of an AIF; (ii) investing in derivatives, certificates, indices or any other financial instrument the performance of which is linked to shares or units of AIFs; and (iii) hold any units or shares in an entity that engages in proprietary trading or acquires units or shares in AIFs. Working proposals of the text are apparently oriented in favour of limiting the above restrictions to those AIFs that employ leverage on a "substantial basis", according to Article 111 of the AIFM Directive's implementing regulation. EFAMA would support this interpretation, also in line with our contributions to the FSB/IOSCO debate

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[26] Please refer to the FSB *Strengthening Oversight and Regulation of Shadow Banking Regulatory framework for haircuts on non-centrally cleared securities financing transactions* of 14 October 2014; available at: http://www.financialstabilityboard.org/2014/10/r_141013a/

[27] For instance, equity exposures are qualified as risk exposures, Articles 147, 133 and 155 of the CRR. In the context of equity exposures to an asset management company it is of utmost importance to take into account that the latter are subject to strict regulatory requirements and are under stringent supervisory monitoring.

which identify high levels of leverage as a clear risk factor for any institution that is either invested or acts as a counterparty to an AIF. With respect to the Banking Structural Reform proposal, we also wish to clarify that the provision of funding, hedging and investment services by an EU credit institution to AIF clients is not to be considered as proprietary trading, but may call for the EBA's considered aggregate or individual limits where the AIF is "substantially" leveraged.

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Brussels, 19 June 2015
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