



European Securities and
Markets Authority

**Reply form for the
[DRAFT] Consultation Paper
On draft Implementing Technical Standards on main indices and
recognised exchanges under the Capital Requirements Regulation**





European Securities and
Markets Authority

Date: 29 September 2014



Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in the Consultation on draft Implementing Technical Standards on main indices and recognised exchanges under the Capital Requirements Regulation, published on the ESMA website ([here](#)).

Instructions

Please note that, in order to facilitate the analysis of the number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, please follow the instructions described below:

- i. use this form and send your responses in Word format;
- ii. do not remove the tags of type < ESMA_CRR_ITS_QUESTION_1> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
- iii. if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

- i. if they respond to the question stated;
- ii. contain a clear rationale, including on any related costs and benefits; and
- iii. describe any alternatives that ESMA should consider

To help you navigate this document more easily, bookmarks are available in “Navigation Pane” for Word 2010 and in “Document Map” for Word 2007.

Responses must reach us by **1 November 2014**.

All contributions should be submitted online at www.esma.europa.eu under the heading ‘Your input/Consultations’.

Publication of responses

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the heading ‘Disclaimer’.



Q1: Do you agree with the criteria proposed for an absolute test? If not what criteria would you propose?

<ESMA_CRR_ITS_QUESTION_1>

We start by outlining some key general concerns which form the backdrop to our responses below.

Overall, AFME and its members have strong reservations on the limited nature of the proposed lists of both main indices and recognised exchanges. In our view these limited lists would:

- reduce significantly the volume of eligible collateral that market participants currently use;
- impact market liquidity for securities that became ineligible;
- create an unlevel playing field problem, as the US in particular recognizes a wider range of securities; and
- produce the possibly unintended consequence that, while a stock that only just meets the absolute criteria in a developed market would be eligible collateral, a far more liquid stock in an emerging market might not.

With regards to main indices, we believe that by focusing on ‘blue chip’ equities. ESMA is in effect imposing new restrictions on the eligibility of liquid collateral, which it is not mandated to do by the CRR. The term ‘main index’ was used pre-CRR without limitation to ‘blue chip’ companies, so we would argue that ESMA is making a policy decision in Level 2 which goes beyond the Level 1 mandate. The industry already considers carefully the quality and liquidity of equity collateral it receives from counterparties, and it is this quality and liquidity of a given stock which is key. We believe that the criteria proposed should be applied to further indices which meet those criteria, so as to include the stocks making up those broad, diversified and liquid indices as eligible collateral. In this context, we note that the additional “sufficiently liquid” test in Art 194(3)(b) permits a broader range of more focused Main Indices (for example, at least one per country), as the liquidity test will automatically exclude those stocks which would constitute poor collateral.

Turning now to the criteria for the Absolute Approach, these are: 90% of constituents must meet have a free float of €500m or if the information is missing, there needs to be €1000m of market capitalisation. On that basis it seems that other non-EEA indices should have been included, although we recognise that ESMA took the approach of selecting two catch-all indices namely “STOXX Europe 600” and “MSCI World”. However we do not think these provide sufficient coverage of other markets, for example, some of the largest MSCI and Vanguard emerging indices are not looked at, which results in omitting some fairly large market cap stocks. It was also not clear in the consultation paper why ESMA has limited the list to only one index per country (except Japan and US).

Indeed, AFME members have undertaken analysis of global indices under the Absolute Approach which suggests that additional indices will pass the criteria. Please see Q5 for our presentation of this analysis.

<ESMA_CRR_ITS_QUESTION_1>

Q2: Do you agree with the criteria proposed for a relative test? If not what criteria would you propose?

<ESMA_CRR_ITS_QUESTION_2>

There is value in the adoption a relative approach in addition to an absolute approach to ensure that a significant proportion of liquid securities of each major market are selected. The relative approach seems however to have been applied to EEA markets only. It can be argued that this approach should be applied to major global markets, including all G20 countries. In the absence of a proper coverage of non-EEA markets, European banks may face a competitive disadvantage versus their non-EEA counterparts when dealing in markets where no Index has been selected (e.g. China and Russia).

Also, the key distinction between ‘main index’ and ‘non main index’ should be on liquidity. Banks already have to haircut the collateral value to take account of volatility. We recognise that there will be potentially wide variations in liquidity between the constituents of an index, but there should at least be a broadly

comparable threshold across markets. For example, if an equity is treated as ‘main index’ in, say, the Czech Republic, equities in the UK with similar levels of liquidity (ADT) should not be ruled out, simply because there are larger / more liquid stocks in the UK market. ‘Mid cap’ indices such as the FTSE250 in the UK and the Russell 2000 in the US are highly liquid in their own right.

<ESMA_CRR_ITS_QUESTION_2>

Q3: Do you believe that there are convertible bond indices that should be specified as main indices? If so please provide details and evidence in support.

<ESMA_CRR_ITS_QUESTION_3>

Convertible bonds are in essence less risky than equity position, as there is downside protection. Therefore the additional benefit in terms of stability in value could justify more flexible requirements when it comes to liquidity. Also measuring liquidity by taking free float or capitalisation can be questioned when it comes to Convertible Bonds. Although convertible bond indices are sparse, and therefore may appear less liquid, they generally convert into liquid equity underlying. Therefore their apparent lack of liquidity using some measures may be misleading.

Against this background, we would urge ESMA to review the Joint Committee’s Draft RTS on risk-mitigation techniques for OTC-derivative contracts. Chapter 3 Article 1 of the Draft RTS stipulates criteria for eligibility of collateral for initial and variation margin. Here it refers to Article 197 (8)(a) of the CRR (which is the mandate of this consultation) in terms of eligibility of equities and convertible bonds. The relevant provisions are copied below for ease of reference. These provisions seem to observe the point we have made above by linking eligibility of convertible bonds to the liquidity of the underlying equity. We would recommend that ESMA take a similar approach in its Draft ITS, otherwise industry ends up with a two-tier framework for eligible collateral. We believe there is justifiable room for reinterpretation of Article 197(1) (f), such that this recommendation can be achieved.

(p) convertible bonds provided that they can be converted only into equities which are included in a main index as referred to in point (a) of Article 197 (8) of Regulation (EU) No 575/2013;

(q) equities included in a main index in accordance with Article 197(8)(a) of Regulation (EU) 575/2013;

In general, we would recommend consistency is ensured between:

- Eligible collateral for non-cleared OTC derivatives, mentioned above;
- Eligible collateral to be posted to qualifying CCPs (some CCPs accept equities, e.g. EUREX, as collateral which in turn will be accepted by Clearing Members from their clients); and
- Eligible collateral in other jurisdictions where relevant local regulations are deemed equivalent.

Finally, there are a number of indices covering convertibles, for example the Thomson Reuters series (see <http://thomsonreuters.com/convertible-indices/>), previously known as the UBS Convertible Indices. These differ somewhat from most cash equity indices in that pricing, composition, and other relevant information is not all freely available; some has to be paid for. However, these are some of the “main” indices covering convertibles, and there does not appear to be any requirement in the CRR which would prevent their use for defining the more liquid securities in that sector. We would therefore recommend that a selection of the main indices which do exist be adopted. The table below illustrates a listing of a major European index, the “Europe Hedged” index. A number of similar indices exist, ranging from global through regional to sectoral and country level.



Thomson Reuters Global Convertible Indices
Europe Hedged (USD) Index
Constituent List

UBS ID	ISIN	Issue	Coupon	Maturity	Put date	Bond Currency
29758	XS0481758307	Abengoa	4.50	03-Feb-17	03-Feb-15	EUR
29787	XS0875275819	Abengoa B	6.25	17-Jan-19		EUR
29801	XS1020736069	Acciona	3.00	30-Jan-19		EUR
14646	DE000A1MLD09	Adidas	0.25	14-Jun-19	14-Jun-17	EUR
18765	FR0010771766	Air France-KLM	4.97	01-Apr-15		EUR
18992	FR0011453463	Air France-KLM	2.03	15-Feb-23	15-Feb-19	EUR
18996	FR0011527225	Alcatel-Lucent	4.25	01-Jul-18		EUR
19015	FR0011948306	Alcatel-Lucent	0.00	30-Jan-19		EUR
19016	FR0011948314	Alcatel-Lucent	0.13	30-Jan-20		EUR
32926	CH0205276790	Also (Schindler)	0.38	05-Jun-17		CHF
14766	XS1084287322	Aperam	0.63	08-Jul-21	08-Jan-19	USD
29696	XS0974057191	Aperam	2.63	30-Sep-20	30-Sep-17	USD
14420	DE000A1AYDS2	Aurubis(Salzgitter)	2.00	08-Nov-17	08-Nov-15	EUR
18224	FR0000180994	Axa	3.75	01-Jan-17		EUR
21909	XS0994784030	Azimut Holding	2.13	25-Nov-20		EUR
2366	XS0994825916	Balfour Beatty	1.88	03-Dec-18		GBP
32444	CH0107130822	Baloise	1.50	17-Nov-16		CHF
25744	BE6267379152	Bekaert	0.75	18-Jun-18		EUR
21900	XS0874832826	Beni Stablii	3.38	17-Jan-18		EUR
21906	XS0981380644	Beni Stablii	2.63	17-Apr-19		EUR
2729	XS0827594762	British Land	1.50	10-Sep-17		GBP
25057	XS1108672988	BUWOG(Immofinanz)	1.50	11-Sep-19	11-Sep-17	EUR
21905	XS0953046991	Buzzi Unicem	1.38	17-Jul-19		EUR
29800	XS0995390621	Caixa (La Caixa)	1.00	25-Nov-17		EUR
19003	FR0011600352	Cap Gemini	0.00	01-Jan-19		EUR
18999	FR0011567908	Casino(Rallye)	1.00	02-Oct-20	02-Oct-18	EUR
18985	FR0011357664	CGG	1.25	01-Jan-19		EUR
25740	BE6254178062	Cofinimmo	2.00	20-Jun-18		EUR
14475	XS0632138961	Daimler(Aabar)	4.00	27-May-16		EUR
2314	XS0628102112	Denwert London	2.75	15-Jul-16		GBP
2360	XS0954745351	Denwert London	1.13	24-Jul-19		GBP
14696	DE000A1R0VM5	Deutsche Post	0.60	06-Dec-19		EUR
14743	DE000A1YCR02	Deutsche Wohnen	0.50	22-Nov-20	22-Nov-18	EUR
14770	DE000A12UDH7	Deutsche Wohnen	0.88	08-Sep-21	08-Sep-19	EUR
14643	XS0757015606	Dialog Semiconductor	1.00	12-Apr-17		USD
19005	FR0011641034	Eurazeo(Credit)	0.00	06-Dec-16		EUR
14744	DE000A1HTR04	Evonik(Gabriel)	2.00	26-Nov-16		EUR
14764	DE000A11QGV1	Evonik(RAG)	0.00	31-Dec-18		EUR
18979	FR0011321363	Faurecia	3.25	01-Jan-18		EUR
29756	XS0457172913	FCC	6.50	30-Oct-20		EUR
18954	FR0011050111	Fonciere Regions	3.34	01-Jan-17		EUR
19004	FR0011629344	Fonciere Regions	0.88	01-Apr-19		EUR
25728	BE0933899800	Fortis 'CASHES' Perp	2.08	Perpetual		EUR
25717	XS0147484074	Fortis 'FRESH' Perp	1.56	Perpetual		EUR
14755	DE000A1YC3T6	Fresenius	0.00	24-Sep-19		EUR
14775	DE000A13R491	Fresenius Medical	1.13	31-Jan-20		EUR
14763	DE000A1ZJD18	GAGFAH	1.50	20-May-19		EUR
38124	XS0860994200	Galp (ENI)	0.25	30-Nov-15		EUR
38122	PTPETROM0005	Galp (Parpublica)	5.25	28-Sep-17	28-Sep-15	EUR
38125	XS0937410214	Galp(Amorim)	3.38	03-Jun-18	03-Dec-16	EUR
18990	XS0882243453	GDF Suez(GBL)	1.25	07-Feb-17	07-Feb-16	EUR
18977	XS0827556241	GDF Suez(Sof) UNIT	1.00	19-Sep-16		USD
18797	FR0010881573	Gecina	2.13	01-Jan-16		EUR
38412	XS0993164895	Gedeon Rich(MNV)	3.38	02-Apr-19		EUR
32448	XS0475310396	Glencore	5.00	31-Dec-14		USD
36794	NO0010701055	Golden Ocean	3.07	30-Jan-19		USD
14753	XS1036325527	Grand City Prop	1.50	24-Feb-19		EUR
25742	BE6258355120	Grp Brux Lambert	0.38	09-Oct-18		EUR
2361	XS0969485068	Gt Portland Estates	1.00	10-Sep-18		GBP
29795	XS0951366136	Iberdrola(ACS)	2.63	22-Oct-18	22-Oct-16	EUR
29802	XS1046590805	Iberdrola(ACS)	1.63	27-Mar-19	27-Mar-17	EUR
35672	XS1067081692	ICA Gruppen(Ind)	0.00	15-May-19	15-May-18	SEK
14454	XS0592528870	Immofinanz/Buwog	4.25	08-Mar-18	08-Mar-16	EUR
29796	XS0981383747	Indra Sistemas	1.75	17-Oct-18		EUR
35656	XS0579438663	Industrivarden	1.88	27-Feb-17		EUR
18950	FR0011018902	Ingenico	2.75	01-Jan-17		EUR

UBS ID	ISIN	Issue	Coupon	Maturity	Put date	Bond Currency
2186	331843523	Inmarsat	1.75	16-Nov-17	16-Nov-14	USD
2355	933556952	Intl Cons Air	1.75	31-May-18		EUR
2730	834486796	Intu Properties	2.50	04-Oct-18		GBP
18921	3010941427	Kering(Misarte)	3.25	01-Jan-16		EUR
14435	0A1GKFA1	Kloeckner & Co	2.50	22-Dec-17	22-Dec-15	EUR
14760	0LEG1CBS	LEG Immobilien	0.50	01-Jul-21	01-Jul-19	EUR
38382	563898062	Lukoil	2.63	16-Jun-15		USD
36788	010679152	Marine Harvest	2.38	08-May-18		EUR
36797	010710395	Marine Harvest	0.88	06-May-19		EUR
19017	011973577	Maurel et Prom	1.63	01-Jul-19		EUR
29757	469533631	Melia Hotels	5.00	18-Dec-14		EUR
29791	909782921	Melia Hotels	4.50	04-Apr-18		EUR
18448	010449264	Michelin	0.00	01-Jan-17		EUR
38329	247761827	MOL (Magnolia)	4.00	Perpetual		EUR
38413	027633434	MOL(CEZ)	0.00	04-Aug-17		EUR
18774	010814061	Neopost	3.75	01-Feb-15		EUR
18763	010771444	Nexans	4.00	01-Jan-16	01-Jan-15	EUR
18973	011208115	Nexans	2.50	01-Jan-19	01-Jun-18	EUR
19018	011983105	Nexity	0.63	01-Jan-20		EUR
29797	989390249	NH Hoteles	4.00	08-Nov-18		EUR
27393	849477178	Nokia	5.00	26-Oct-17		EUR
29695	974154550	OCI	3.88	25-Sep-18		EUR
18932	010973057	Orpea	3.88	01-Jan-16		EUR
18997	011534874	Orpea	1.75	01-Jan-20		EUR
32818	827817221	Pargesa (BNP)	0.25	21-Sep-15		EUR
32895	906876114	Pargesa(BNP)	0.25	27-Sep-15		EUR
2275	482875811	Petropavlovsk	4.00	18-Feb-16		USD
18767	010773226	Peugeot	4.45	01-Jan-16		EUR
21911	1997536411	Pirelli(Schem)	0.25	29-Nov-16		EUR
2348	849021877	Prem Oil(Fin)	2.50	27-Jul-18		USD
21903	901332337	Prysman	1.25	08-Mar-18		EUR
42852	046477235	Qiagen	0.38	19-Mar-19		USD
42853	046477581	Qiagen	0.88	19-Mar-21		USD
29803	063399700	Sacyr Vallehermoso	4.00	08-May-19		EUR
21920	069899232	Safilo Group	1.25	22-May-19		EUR
27394	040531904	Sampo(Solidium)	0.00	04-Sep-18		EUR
35669	005794880	SAS AB	3.63	01-Apr-19		SEK
38405	8334475161	Severstal(Holdgrove)	1.00	24-Sep-17	24-Sep-15	USD
14371	00A022BL6	SGL Carbon	3.50	30-Jun-16		EUR
14653	0A1ML4A7	SGL Carbon	2.75	25-Jan-18		EUR
14638	0A1GOWA1	Siemens Basket Unit	1.05	16-Aug-17		USD
14639	0A1GOWC7	Siemens Basket Unit	1.65	16-Aug-19		USD
21901	877820422	Snam(ENI)	0.63	18-Jan-16		EUR
38127	076005153	Sonae Sgps	1.63	11-Jun-19		EUR
2327	695144567	Stan Chart(Tema)	0.00	24-Oct-14		SGD
21923	083956307	STMicroelectronics	0.00	03-Jul-19		USD
21924	083957024	STMicroelectronics	1.00	03-Jul-21		USD
36784	010657968	Subsea 7 (Siem)	1.00	12-Sep-19	12-Sep-16	USD
36785	010661168	Subsea 7 SA	1.00	05-Oct-17		USD
19011	011766120	Suez Environ	0.00	27-Feb-20		EUR
32979	1227342232	Swiss Life Hdg	0.00	02-Dec-20		CHF
32449	1087741156	Swiss Prime Site	1.88	20-Jan-15		CHF
32587	1131196237	Swiss Prime Site	1.88	21-Jun-16		CHF
18924	010962704	Technip	0.50	01-Jan-16		EUR
18972	011163864	Technip	0.25	01-Jan-17		EUR
27392	1761797868	TeliaSonera(Solid)	0.50	29-Sep-15		EUR
38378	484654040	TMK	5.25	11-Feb-15		USD
14457	0TUAG158	TUI	2.75	24-Mar-16		EUR
2289	503743949	TUI Travel	4.90	27-Apr-17	27-Oct-15	GBP
18980	011321330	Unibail	0.75	01-Jan-18		EUR
19019	011521673	Unibail	0.00	01-Jul-21	01-Jul-19	EUR
2256	434722087	Vedanta Resources	5.50	13-Jul-16		USD
18775	010814731	Vinci(Artemis)	4.25	01-Jan-15		EUR
29686	350864192	Wereldhave	2.88	18-Nov-15		EUR
29699	069846381	Wereldhave	1.00	22-May-19		EUR

<ESMA_CRR_ITS_QUESTION_3>

Q4: Do you believe that for equities the list should include both those that meet the absolute test and those that meet the relative test? If not which test do you think should be used?

<ESMA_CRR_ITS_QUESTION_4>

We recommend a combined approach which includes indices which fulfil either the relative or absolute approach.

<ESMA_CRR_ITS_QUESTION_4>

Q5: Do you agree with the list of indices in the Annex? If you believe there should be additions please provide details, say what criteria they meet, and provide evidence in support.

<ESMA_CRR_ITS_QUESTION_5>



Since ESMA has been required to provide a list of indices rather than, for example to set guidelines for institutions to determine for themselves which indices are main-indices, we believe that:

- The list of indices should be as wide ranging as possible. Limiting the list to one index per country bears the risk of having some equities excluded for belonging to the ‘wrong’ index.
- The criteria should be applied to all known indices. In particular, the relative approach should not be limited to the EEA indices (*please see below analysis of indices that meet the ESMA criteria and yet are not included in the proposed list*).
- There needs to be a regular review process to accommodate structural changes of existing indices or new indices, which should allow industry participants to propose indices as qualifying main indices when it can be demonstrated that they meet the relevant criteria
- Also, to avoid an uneven playing field we suggest that non-EEA regulation determination of main-indices should be considered as valid for the purpose of the CRR if the local non-EEA country regulation is deemed as equivalent. It will avoid putting European institutions at a disadvantage compared to non-EEA peers.

We are concerned that the universe of equity collateral which EEA banks are allowed to accept would be materially reduced if the current draft list of “main indices” were to be adopted. Market-wide information is not available as no impact study has been performed, but we estimate that the reduction could affect a substantial proportion of currently used collateral; this would clearly place EEA banks at a major competitive disadvantage as other jurisdictions are adopting more flexible approaches.

We recognise that of course collateral taken needs to be of acceptable quality and liquid. However liquidity in the equity markets is widespread and good liquidity extends well beyond the very top “blue chip” shares in each venue. We have applied the criteria proposed by ESMA to a wide range of additional indices, and have found that many of them meet the same criteria. So for example:

- indices meeting (on our analysis) the “absolute” criteria¹ designed to identify pools of stock which are themselves inherently liquid include the FTSE World, MSCI Emerging Markets, Dow Jones US, CNX 100, as well as a range of regional, sector or country indices; and
- those meeting the “relative” criteria² designed to identify indices closely representing the larger stocks in a specific market or venue include MSCI North America IMI, Russell 3000, MSCI Pacific IMI, MSCI Kokunai IMI, 1500Hang Seng Comp 1, and others

We recognise that ESMA have already looked at a number of indices, and have for example removed some which would have been entirely covered by others on the list. We also understand that maintaining a very long list of indices would be operationally burdensome. And finally, that the “absolute” and “relative” criteria are intended to identify two broad groups of stock relevant to this exercise for different reasons, rather than to be used as blanket benchmarks independent of the index to which they are being applied.

However the analysis suggests that the significant gap between the currently proposed range of eligible stocks and that viewed as acceptable by the industry can be closed materially by adding a relatively low number of additional “main indices”, and that this can be done (with one possible special case, discussed further below) while working within the liquidity criteria proposed by ESMA in the consultation paper. In other words, the requirements set out for the liquidity of the stocks being taken as collateral would not be

¹ An index would qualify if at least 90% of its constituent stocks have (a) a free float greater than €500m, or (b) market capitalisation of more than €1bn

² The index must (a) include less than 50% of companies trading on a venue, and have 90% of its stocks with daily turnover above €100,000; AND (b) meet at least two of : (i) index capitalisation > 40% market capitalisation, (ii) index turnover > 40% market turnover, (iii) the index underlies an exchange-traded derivative



compromised, but the fact that that liquidity exists more broadly than the proposed list of indices suggests would be recognised.

There are many different combinations of additional indices which could be proposed; we lay out here three approaches which we believe would each substantially address the mismatch, but which differ in terms of the type and size of indices involved, and the exact degree of coverage they provide. But each, we believe would close a substantial part (but by no means all) of the “eligibility gap”

- 1) First, we suggest a grouping of further 30 indices, chosen to cover as much as possible of the stock we believe is missed by the initial list, but seeking to limit reliance on very wide indices. Nearly all the global and regional indices we do propose meet the absolute criteria, while the country-level indices meet the relative requirements. Clearly avoiding the very widest indices implies a greater number of comparatively narrower ones will be required to cover additional regional, sector or country-level indices and/or to plug specific gaps, which may be an administrative overhead; this trade-off would be for ESMA to consider.

Note one exception on the criteria; we have included the NYSE ARCA CHINA INDEX as it includes a meaningful population of stock not included in other Chinese indices, and fails the absolute criteria by just one stock out of a relatively focused total number of 26.

Suggested additional indices: option 1

Index Type	Cusip	Name	Test passed
World/sector	PQ10XQ1KT01	FTSE DEVELOPED INDEX	ABSOLUTE
World/sector	ZAF160713401	FTSE RAFI EMERGING MARKETS	ABSOLUTE
Regional	SP18RMRHQ0DD	MSCI Pacific IMI USD Gross	RELATIVE
World/sector	ZAF178S5D904	MSCI EM 50	ABSOLUTE
Regional	PQ10AHRK00	STOXX ASIA/PACIFIC 600	ABSOLUTE
Regional	PQ10XWT3T401	AC EUROPE & MIDDLE EAST-302200	ABSOLUTE
Regional	PQ10XQ1KXM01	FTSE EUROPE INDEX	ABSOLUTE
Regional	SP18F7PAA0CS	S&P LATIN AMERICA 40 TR EUR	ABSOLUTE
Regional	ZAF15R5YHM00	MSCI NORTH AMERICA IMI TOTAL RETURN INDEX	RELATIVE
Country	PS20TGB4FB0C	RUSSELL 3000	RELATIVE
Country	ZAF138NSFP0U	RUSSELL NOMURA TOTAL MARKET	RELATIVE
Country	ZAF128B20401	MSCI KOKUNAI IMI 1500 INDEX	BOTH
Country	PQ10YW5YNN01	HANG SENG COMP I	RELATIVE
Country	PQ1107YFMM00	NYSE ARCA CHINA INDEX	FAILS ABSOLUTE ON ONE STOCK
Country	ZAF10WD52L01	SMI EXPANDED TR	BOTH
Country	PQ10V3WMCV07	RUSSIAN TRADED INDEX USD (RTX USD)	ABSOLUTE
Country	PS20TGB4H12J	BOVESPA	ABSOLUTE
Country	PQ10A93R0B00	MSCI US IMI	RELATIVE
Country	PS20TGB4GH1S	MSCI-PHILIPPINES	RELATIVE
Country	PS20TGB4H12Q	S&P/TSX INDEX	RELATIVE
Country	PQ10Y8B5QD01	MSCI INDONES F	RELATIVE
Country	PQ10TK4RXY01	JAKARTA SE LIQUIDITY 45 INDEX	RELATIVE
Country	PQ10XFSF8301	S&P/ASX 300 MICEX	RELATIVE
Country	PQ10VR6Q2500	RTS1 INDEX	RELATIVE
Country	GDJ11198GP01	MSCI TAIWAN	RELATIVE
Country	PQ10Y8B5ST01	MSCI INDIA	RELATIVE
Country	ZAF1810X8F01	MSCI SOUTH AFRICA INDEX - EUR - NET	RELATIVE
Country	PQ10ZC6K8G01	Johannesburg INDUSTRIAL 25	RELATIVE
Country	PQ10V3WMCV07	RUSSIAN TRADED INDEX USD (RTX USD)	ABSOLUTE

- 2) An alternative, designed to reduce the number of indices to be managed by introducing some of the broader World indices, and seeking to choose those meeting the absolute criteria, could be as follows:

Suggested additional indices: option 2



Index Type	Cusip	Name	Test passed
World	PQ10TH1TP502	FTSE WORLD INDEX - WORLDS	ABSOLUTE
World	PQ30ZY7PSL00	MSCI ACWI	ABSOLUTE
World/Sector	PO10ZCYK9300	MSCI EMERGING MARKETS INDEX	ABSOLUTE
Regional	SP18RMRHQ0DD	MSCI Pacific IMI USD Gross	RELATIVE
World/Sector	ZAF178S5D904	MSCI EM 50	ABSOLUTE
Country	PS20TGB4FB0C	RUSSELL 3000	RELATIVE
Country	ZAF128B20401	MSCI KOKUNAI IMI 1500 INDEX	BOTH
Country	PQ10YW5YNN01	HANG SENG COMP I	RELATIVE
Country	PQ1107YFMM00	NYSE ARCA CHINA INDEX	FAILS ABSOLUTE ON ONE STOCK
Country	ZAF10WD52L01	SMI EXPANDED TR	BOTH
Country	PS20TGB4FA0W	ISE National-030	RELATIVE
Country	ZAF11SXTW401	CNX 100	ABSOLUTE

- 3) The third option, seeking to minimise the number of indices used, would be based on a relatively small set of additional broad indices designed to address the majority of the mismatch and using the Dow Jones World Index as its starting point.

Suggested additional indices: option 3

	Cusip	Name	Test passed
World	PQ10VQSPVC01	DJ WORLD STOCK	NEITHER
Regional	SP18RMRHQ0DD	MSCI Pacific IMI USD Gross	RELATIVE
World/Sector	ZAF178S5D904	MSCI EM 50	ABSOLUTE
Country	PS20TGB4FB0C	RUSSELL 3000	RELATIVE
Country	ZAF128B20401	MSCI KOKUNAI IMI 1500 INDEX	BOTH
Country	PQ10YW5YNN01	HANG SENG COMP I	RELATIVE
Country	PQ1107YFMM00	NYSE ARCA CHINA INDEX	FAILS ABSOLUTE ON ONE STOCK
Country	ZAF10WD52L01	SMI EXPANDED TR	BOTH

This approach minimises the number of indices to maintain, and provides good coverage of collateral used; however the Dow Jones World does not strictly meet the liquidity criteria. However, we would suggest this is something of a special case: it fails the relative criteria as its capitalisation is less than 40% of the market and we have not found a listed derivative on it. However its turnover well exceeds 40% of the market at 65%; the number of companies it covers is only about 20% of the total and 93% of these companies have daily turnover of more than €100,000. So in fact the index seems to be a very good example of one representing a relatively small number of the most actively traded stocks in the sector it represents. The low percentage of total market capitalisation reflects the denominator of the equation; in this case we are comparing an index to the entire global stock market. We believe therefore that the DJ World index fits the intent of the criteria and should be included.

Otherwise, as outlined above, the other indices listed have been chosen as, on our analysis, they meet the liquidity criteria proposed by ESMA and thus should be equally acceptable as a mechanism for defining which individual stocks are acceptable. A summary of how the indices compare to the criteria is set out in Appendices 1 and 2 (Note: This is industry's analysis based on best efforts and data which we have extracted from various sources, but we would expect that ESMA or other authorities would verify it for themselves before relying on it).

There do remain overlaps both between the indices listed above and between them and those already proposed by ESMA; however, each index proposed above still adds to the total pool of acceptable collateral. The exact impact of adding or removing a given index will depend on the portfolio to which the analysis is being applied, but we estimate that alternatives 1-3 above would substantially address the collateral shortfall which would result from application of the original proposed list.

Please note that we have not yet looked at overlap between the indices originally proposed and those listed here; it may well be that further efficiencies can be found as the work progresses.

<ESMA_CRR_ITS_QUESTION_5>



Q6: Do you agree with ESMA’s approach on how to specify recognised exchanges? Please give reasons for your answer

<ESMA_CRR_ITS_QUESTION_6>

The approach outlined in the Draft ITS is consistent with the criteria stipulated under the CRR definition of ‘Recognised Exchange’ in Article 4(72). We recognise that ESMA may be constrained by the definition of “regulated market” in Article 4(92) of CRR which references the definition in point (14) of Article 4 of MiFID (Directive 2004/39/EC). However, we understand that this has led to the European Commission instructing ESMA to exclude non-EEA exchanges which we strongly object to. MiFID and CRR have different objectives, and we believe that this should be considered in the approach to specify recognised exchanges.

<ESMA_CRR_ITS_QUESTION_6>

Q7: Do you agree with the concrete list of recognised exchanges as proposed?

<ESMA_CRR_ITS_QUESTION_7>

We have strong objections to the exclusion of non-EEA exchanges. We understand that the European Commission has taken an interpretation of CRR Article 197(8) to mean that a concrete list of recognised exchanges must be delivered in the Draft ITS. We also understand that recognition of non-EEA exchanges is dependent on equivalence assessments, which are currently outstanding; such a concrete list cannot by definition include non-EEA exchanges at this time. When the necessary equivalence assessments are complete, to the extent that non-EEA exchanges are then recognised and meet the criteria of the Draft ITS, it would require multiple legislative processes to amend the ITS on an ongoing basis. To avoid this unhelpful scenario, we would recommend that ESMA future-proofs this ITS by including a provision that allows the list to be amended in the future by ESMA as and when exchanges meet, or otherwise, the relevant criteria.

Finally, since the adoption of the ITS will lead to non-EEA / non-main index equities being regarded as ineligible as collateral, we suggest the adoption of a grandfathering period whereby all currently eligible collateral will remain so for a period of time. The grandfathering period should be long enough to allow for all equivalence assessment to be completed.

<ESMA_CRR_ITS_QUESTION_7>