Counterparty risk – Collateral Risk Management Framework

1. Provisions

As required by regulations, the contents of this section are also reproduced and published separately in a document entitled "**Counterparty Risk Policy**" made available to Amundi investor clients.

1.1 Introduction

For the purpose of this document, Counterparty Risk is defined as the risk that a counterparty might default to the detriment of the Amundi portfolios engaged in transactions with this counterparty.

Such risk is not desired as a performance driver, contrary to Issuer Risk or Market Risk (interest rates, credit, forex, etc.)

This risk must be mitigated through various techniques described in this document.

1.2 Scope of Application

This Counterparty Risk Management Framework applies to all portfolios managed by Amundi (Amundi AM and Affiliates).

1.3 Transactions and Market Participants Concerned

Counterparty Risk is involved in any of the transactions pertaining to:

- OTC derivatives, bilateral or centrally cleared, including FX Forwards and TBAs
- Security lending (and borrowing collateralized)
- Repos, Reverse Repos,
- Non-PVP[1] forex settlements and non-DVP[2] security trades
- P-Notes and equivalent Delta One securities

On the opposite, Counterparty Risk is considered as virtually non-existent in the following types of transactions:

- DVP[1] security trades and listed (cleared) derivative transactions, with brokers that are pure intermediaries (risk netted at the CCP / CSD level);

[1] P*VP (Payment vs. Payment): the Continuous Linked Settlement (CLS) platform nets each participant's eligible FX trades by concurrently matching currency cash transfers.*

- PVP[2] spot forex transactions & settlements.

Counterparty Risk also exists with market participants such as:

- Central Counterparty, or Clearing Houses, (referred to as CCPs);
- Clearers (members of CCPs) or market infrastructures;
- Central Security Depositaries (referred to as CSDs).

These structures aim at reducing risk. Remaining risks, often systemic, may be mitigated through selection and allocation, where several actors co-exist.

Term deposits and loans are excluded from the scope of this policy; the risk borne by these transactions is regarded as Issuer Risk. Contrary to Counterparty Risk, bank or corporate credit risk exposures through term deposits or loans are considered as investment performance drivers, as is bond risk exposure; exposure limits are thus calibrated and established in investment processes.

Although risk is not nil, Custodians are not covered in this document. Indeed, the assets that Custodians are entrusted with are parked in segregated accounts and are generally protected by ring-fencing regulations.

1.4 COUNTERPARTY RISK MITIGATION TECHNIQUES

1.4.1 Risk Compression

Risk compression is used to reduce settlement or exposure risk whenever possible:

- Systematic use of DVP settlement on markets offering the opportunity;
- Use of the CLS payment vs. payment platform for Forex settlements as often as practically possible;
- Voluntary (as opposed to mandatory) clearing of OTC derivatives, if it enables to find better prices or liquidity and compress exposures; it entails additional risk, due to the payment of Initial Margins to the CCP.

1.4.2 Master Agreements

Master agreements (whether ISDA, FBF, GMSLA, etc.) aim at securing a protective legal framework. They are systematically established for the transactions involving:

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[2] *DVP (Delivery vs. Payment): simultaneous exchange of cash and securities, removes settlement risk.*

- OTC derivatives (incl. Forex derivatives),
- Security lending,
- Repos.

In particular, Master Agreements provide close-out netting in the case a counterparty defaults.

Risk terms included in Master Agreements are established at Amundi level and are submitted to the approval of the Group Risk Committee. Amundi Legal teams have responsibility for including these predefined risk parameters in the contracts and escalating any issue with the Risk and Trading teams.

1.4.3 Collateralisation

Transactions involving OTC derivatives (including any type of Forex derivatives, as Forex forwards), security lending and repos are systematically collateralized. TBA transactions are collateralized as well.

Similarly to the process regarding the set-up of Master Agreements, Collateral Terms are established at Amundi level and submitted to the approval of the Group Risk Committee.
Likewise, Amundi Legal teams have responsibility for including these terms in the Collateral Conventions and escalating any issue with the Risk and Trading teams.

Many regulators require asset managers to have a collateral framework ("Collateral Policy"), describing the assets to be used as collateral and the haircuts to be applied to collateral. Amundi has opted for establishing a policy that applies to all the portfolios under the Group's management, independent of their jurisdiction. The terms of this policy are subject to the approval of the Group Risk Committee.

The guiding principles of Amundi's collateral framework are:

- Collateral received in cash and securities must be:
  (i) subject to adequate haircuts protecting them from adverse market movements (percentage deducted from the market value of securities given as collateral. Its purpose is to reduce the risk of loss in the event of default by the counterparty. The parameters influencing the haircut policy are the nature of the security received, its maturity and the credit quality of the issuer).

- Collateral received in securities must be:
  (i) highly liquid;
  (ii) highly rated (bonds);
  (iii) easily measurable;
  (iv) with a market value sufficiently de-correlated from any market effect resulting from the default of the counterparty involved;

(v) reasonably diversified.

- Collateral received must not be used to leverage the portfolio:
  (i) re-investment of cash collateral solely in Govies and cash-like assets;
  (ii) re-use of collateral prohibited.

- Only symmetrical and strictly segregated Initial Margins, or Independent Amounts, are generally allowed.

1.4.4 Selection & Exposure Limits

An additional way to reduce counterparty risk is to carefully screen the counterparties Amundi chooses to transact with and to set global exposure limits.

The selection and limitation process is governed by the Credit Risk Committee, acting by delegation of the Group Risk Committee.

A list of Authorized Counterparties is established centrally and applies to all portfolios managed by Amundi (Amundi AM and Affiliates).

Candidate counterparties – sponsored by Trading teams or Investment teams – are examined at individual legal entity level (as opposed to banking group level).

Exposure limits are defined, at each counterparty banking group level:
- *Settlement risk limit*: ∑ Payments to receive, by settlement date, for non CLS Forex trades;
- *Variation risk limit*: current + potential future exposure: ∑ MTM[3] – Collateral + Add-on[4]

Note: At portfolio level, concentration risk (market, country, issuer) is addressed via dispersion rules imposed by regulations, prospectus/investment management agreement guidelines and restrictions, and internal investment risk frameworks.

Clearers of OTC derivative or listed derivative transactions must be on the Authorised Counterparties list approved by the Credit Risk Committee.

CCPs of cleared OTCs must be approved by the Credit Risk Committee; CCPs that are the only choice for a given instrument are de facto authorized.

1.4.5 Protective Clearing Account Structure

[3] Sum of the market value of the contracts, netted per portfolio and counterparty.
[4] Add-on = potential future risk = potential future unrealised gains appearing between the counterparty's default date and the unwinding of the transactions. Add-ons are computed according to the Basle banking regulation (CEM method), as a percentage of outstanding notional, and vary with the maturity and underlying asset.

For transactions involving listed derivatives or cleared OTC derivatives, Amundi aims at setting up a protective account structure.

Amundi strives to set up Omnibus Gross Accounts dedicated to Amundi portfolios, or Individually Segregated Accounts (ISA) for larger and/or more sensitive portfolios.

1.5 MONITORING

Several Amundi teams are involved with ensuring that the principles set out in this document are duly enforced. Their roles and the details of the controls carried out are described in internal Amundi reference procedures covering the different items described in Section 6.3 above.

1.6 REGULATORY REQUIREMENTS

This document is established in accordance with the following main regulatory requirements:

- UCITS directive and ESMA guidelines on Collateral
- AIFM directive
- EMIR and Dodd-Franck regulations
- SFTR regulation