



**COUNCIL OF  
THE EUROPEAN UNION**

**Brussels, 26 March 2011**

**8158/12**

---

**Interinstitutional File:  
2011/0360 (COD)**

---

<b>EF</b>	<b>75</b>
<b>ECOFIN</b>	<b>293</b>
<b>CODEC</b>	<b>812</b>

**NOTE**

---

From: General Secretariat of the Council

To: Delegations

---

No. prev. doc.: 7658/12 EF 66 ECOFIN 258 CODEC 661

No. Cion prop.: 17329/11 EF 163 ECOFIN 815 CODEC 2148

---

Subject: Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings of collective investment in transferable securities (UCITS) and Directive 2011/61/EU on Alternative Investment Funds Managers in respect of the excessive reliance on credit ratings  
- Presidency Compromise

---

Delegations will find attached a Presidency compromise as a result of the working party meeting of 19 March 2012.

New changes are denoted by **bold underlining**. Newly deleted text is substituted by **[...]**. Changes done to Commission proposal in previous versions of the compromise text are underlined.

# **DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings of collective investment in transferable securities (UCITS) and Directive 2011/61/EU on Alternative Investment Funds Managers in respect of the excessive reliance on credit ratings**

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 53(1) thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national Parliaments,

Having regard to the opinion of the European Central Bank<sup>1</sup>,

Having regard to the opinion of the European Economic and Social Committee<sup>2</sup>,

Acting in accordance with the ordinary legislative procedure,

Whereas:

---

<sup>1</sup> OJ C , , p. .

<sup>2</sup> OJ C , , p. .

- (1) Directive 2009/65/EC of the European Parliament and of the Council<sup>3</sup> provides for regulation at Union level of undertakings of collective investment in transferable securities (UCITS). Similarly, Directive 2011/61/EU of the European Parliament and of the Council<sup>4</sup> provides for regulation at the Union level of managers of alternative investment funds (AIFs). Both directives establish prudential requirements as regards risk management by management or investment companies managing UCITS or managers of AIFs, respectively.
- (2) An effect of the financial crisis has been that investors, including UCITS and AIFs, rely excessively on credit ratings to carry out their investments on debt instruments, without necessarily conducting their own assessments of the creditworthiness of issuers of such debt instruments. In order to improve the quality of the investments made by UCITS and AIFs and, therefore, to protect investors in those funds, it is appropriate to require the persons managing UCITS and AIFs to avoid relying exclusively and automatically on external credit ratings when assessing the risk involved in the investments made by the UCITS and AIFs they manage. The general principle on the avoidance of excessive reliance on external credit ratings should therefore be integrated into the risk management processes and systems of the managers of UCITS and AIFs, and adapted to their specificities.
- (3) In order to specify further the general principle on overreliance that should be introduced into Directives 2009/65/EC and 2011/61/EU, the power to adopt acts in accordance with Article 290 of the Treaty on the Functioning of the European Union should be delegated to the Commission in particular to ensure that managers of UCITS and AIFs are effectively prevented from over-relying on external credit ratings for assessing the creditworthiness of the assets held by UCITS or AIFs. It is appropriate in this regard to amend the powers of the Commission in those Directives to adopt delegated acts in respect of the general provisions regarding risk management processes and systems employed by the managers of UCITS and AIFs. It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level.

---

<sup>3</sup> OJ L 302, 17.11.2009, p.32.

<sup>4</sup> OJ L 174, 1.7.2011, p.1.

- (4) The relevant measures should be complementary to other provisions in Regulation (EU) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies<sup>5</sup> as amended by Regulation (EU) No [xxx/xxxx] of the European Parliament and of the Council of [xxx xxx xxxx] amending Regulation (EU) No 1060/2009<sup>6</sup>. Those provisions set the general objective of reducing excessive reliance by investors on external credit ratings and should facilitate the achievement of that aim.
- (5) Since the objective of this Directive, namely to contribute to the reduction of the excessive reliance of UCITS and AIFs on external credit ratings when making their investments, cannot be sufficiently achieved at the Member State level and can therefore, by reason of the pan-Union structure and impact of the activities of UCITS, AIFs and credit rating agencies, be better achieved at the Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on the European Union. In accordance with the principle of proportionality, as set out in that Article, this Directive does not go beyond what is necessary in order to achieve those objectives.
- (6) Directive 2009/65/EC and Directive 2011/61/EU should therefore be amended accordingly,

HAVE ADOPTED THIS DIRECTIVE:

---

<sup>5</sup> OJ L 302, 17.11.2009, p. 1.

<sup>6</sup> OJ L [...], [...], p. [...].

*Article 1*  
*Amendments to Directive 2009/65/EC*

Article 51 of Directive 2009/65/EC is amended as follows:

- (1) in paragraph 1, the first subparagraph is replaced by the following:  
'A management or investment company shall employ a risk-management process which enables it to monitor and measure at any time the risk of the positions and their contribution to the overall risk profile of the portfolio. In particular, it shall not solely or mechanistically rely on external credit ratings for assessing the creditworthiness of the UCITS assets.';
- (2) in paragraph 4, point (a) is replaced by the following:  
'(a) criteria for assessing the adequacy of the risk management process employed by the management company in accordance with the first subparagraph of paragraph 1. These criteria shall [...] ensure that the management company is prevented from relying solely or mechanistically on external credit ratings for assessing the creditworthiness of the UCITS assets;'.

*Article 2*  
*Amendments to Directive 2011/61/EU*

Article 15 of Directive 2011/61/EU is amended as follows:

- (1) in paragraph 2, the first subparagraph is replaced by the following:  
'AIFMs shall implement adequate risk management systems in order to identify, measure, manage and monitor appropriately all risks relevant to each AIF investment strategy and to which each AIF is or may be exposed. In particular, AIFMs shall not solely or mechanistically rely on external credit ratings for assessing the creditworthiness of the AIF assets.';
- (2) in paragraph 5, point (a) is replaced by the following:  
'(a) the risks management systems to be employed by AIFMs in relation to the risks which they incur on behalf of the AIFs they manage. These risk management systems shall [...] prevent AIFMs from relying solely or mechanistically on external credit ratings for assessing the creditworthiness of the AIF assets.'.

*Article 3*  
*Transposition*

1. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by XX XXXX [18 months from the date of entry into force of the directive]. They shall forthwith communicate to the Commission the text of those provisions.

When Member States adopt those provisions, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. Member States shall determine how such reference is to be made.

2. Member States shall communicate to the Commission the text of the main provisions of national law which they adopt in the field covered by this Directive.

*Article 4*  
*Entry into force*

This Directive shall enter into force on the day following that of its publication in the *Official Journal of the European Union*.

*Article 5*  
*Addressees*

This Directive is addressed to the Member States.

Done at Brussels,

*For the European Parliament*  
*The President*

*For the Council*  
*The President*

---