

**COMMISSION de SURVEILLANCE  
du SECTEUR FINANCIER**

In case of discrepancies between the French and the English text, the French text shall prevail.

**CSSF REGULATION NO. 10-4 TRANSPOSING COMMISSION DIRECTIVE  
2010/43/EU of 1 JULY 2010 IMPLEMENTING DIRECTIVE 2009/65/EC OF THE  
EUROPEAN PARLIAMENT AND OF THE COUNCIL AS REGARDS  
ORGANISATIONAL REQUIREMENTS, CONFLICTS OF INTEREST,  
CONDUCT OF BUSINESS, RISK MANAGEMENT AND CONTENT OF THE  
AGREEMENT BETWEEN A DEPOSITARY AND A MANAGEMENT  
COMPANY**

*(Mémorial A – No. 239 of 24 December 2010)*

The Executive Board of the Commission for the Supervision of the Financial Sector,

Considering Article 108bis of the Constitution;

Considering the amended Law of 23 December 1998 establishing the Commission for the Supervision of the Financial Sector and especially its Article 9 (2);

Considering the Law of 17 December 2010 concerning undertakings for collective investment implementing into Luxembourg law Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS);

Considering Commission Directive 2010/43/EU of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and a management company.

Decides:

CHAPTER I

**SUBJECT MATTER, SCOPE AND DEFINITIONS**

*First Article*

**Subject matter**

This Regulation states the implementing measures of the Law of 17 December 2010 concerning undertakings for collective investment;

- 1) specifying the procedures and arrangements as referred to in Article 109, paragraph (1), point a) of the Law of 17 December 2010 concerning undertakings for collective investment, and the structures and organisational requirements to minimise conflicts of interest as referred to in Article 109, paragraph (1), point b) of the Law of 17 December 2010 concerning undertakings for collective investment;
- 2) establishing criteria for acting honestly and fairly and with due skill, care and diligence in the best interests of the UCITS and the criteria for determining the types of conflicts of interest, specifying the principles required to ensure that the resources are employed effectively; and defining the steps that should be taken by management companies to identify, prevent, manage or disclose the conflicts of interest referred to in

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Article 111 of the Law of 17 December 2010 concerning undertakings for collective investment;

3) concerning the particulars that need to be included in the agreement between the depositary and management company in accordance with Articles 18, paragraph (3) and 33, paragraph (4) of the Law of 17 December 2010 concerning undertakings for collective investment; and

4) concerning the risk management process referred to in Article 42, paragraph (1) of the Law of 17 December 2010 concerning undertakings for collective investment, in particular the criteria for assessing the adequacy of the risk management process employed by the management company and the risk management policy and processes and the arrangements, processes and techniques for risk measurement and management relating to such criteria.

## *Article 2*

### **Scope**

1. This Regulation shall apply to management companies having their registered office in Luxembourg and pursuing the activity of management of undertakings for collective investment in transferable securities (UCITS) as referred to in Article 101, paragraph (2) of the Law of 17 December 2010 concerning undertakings for collective investment.

Chapter V of this Regulation shall also apply to depositaries carrying out their functions according to the provisions of Articles 17, 18, 19, 20, 21 and Articles 33, 34, 35, 36 and 37, respectively, of the Law of 17 December 2010 concerning undertakings for collective investment.

2. The provisions of this Chapter, Article 13 of Chapter II, and Chapters III, IV and VI shall apply *mutatis mutandis* to investment companies that have not designated a management company authorised pursuant to the Law of 17 December 2010 concerning undertakings for collective investment.

In those cases, the terms "management company" shall be understood as "investment company".

## *Article 3*

### **Definitions**

For the purposes of this Regulation, the following definitions shall apply in addition to the definitions set out in the Law of 17 December 2010 concerning undertakings for collective investment:

1) "client" means any natural or legal person, or any other undertaking including a UCITS, to whom a management company provides a service of collective portfolio management or services pursuant to Article 101, paragraph (3) of the Law of 17 December 2010 concerning undertakings for collective investment;

2) "Law of 17 December 2010 concerning undertakings for collective investment" means the Law of 17 December 2010 concerning undertakings for collective investment and implementing Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (recast), and amending the amended Law of 20 December 2002 concerning undertakings for collective investment; the amended Law of 3 February 2007 relating to specialised

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investment funds; and Article 156 of the amended Law of 4 December 1967 on income tax;

3) "unitholder" means any natural or legal person holding one or more units in a UCITS;

4) "relevant person" in relation to a management company, means any of the following:

a) a director, partner or equivalent, or manager of the management company,

b) an employee of the management company, as well as any other natural person whose services are placed at the disposal and under the control of the management company and who is involved in the provision by the management company of collective portfolio management,

c) a natural person who is directly involved in the provision of services to the management company under a delegation arrangement to third parties for the purpose of the provision by the management company of collective portfolio management;

5) "senior management" means the persons who effectively conduct the business of a management company in accordance with Article 102, paragraph (1), point c) of the Law of 17 December 2010 concerning undertakings for collective investment;

6) "board of directors" means the board of directors of the management company;

7) "supervisory function" means the relevant persons or body or bodies responsible for the supervision of its senior management and for the assessment and periodical review of the adequacy and effectiveness of the risk management process and of the policies, arrangements and procedures put in place to comply with the obligations under the Law of 17 December 2010 concerning undertakings for collective investment;

8) "counterparty risk" means the risk of loss for the UCITS resulting from the fact that the counterparty to a transaction may default on its obligations prior to the final settlement of the transaction's cash flow;

9) "liquidity risk" means the risk that a position in the UCITS' portfolio cannot be sold, liquidated or closed at limited cost in an adequately short time frame and that the ability of the UCITS to comply at any time with Article 11, paragraph (2) and Article 28, paragraph (1), point b) of the Law of 17 December 2010 concerning undertakings for collective investment is thereby compromised;

10) "market risk" means the risk of loss for the UCITS resulting from fluctuation in the market value of positions in the UCITS' portfolio attributable to changes in market variables, such as interest rates, foreign exchange rates, equity and commodity prices or an issuer's creditworthiness;

11) "operational risk" means the risk of loss for the UCITS resulting from inadequate internal processes and failures in relation to people and systems of the management company or from external events, and includes legal and documentation risk and risk resulting from the trading, settlement and valuation procedures operated on behalf of the UCITS.

The term "board of directors" defined in point 6 of this paragraph shall not comprise the supervisory board where management companies have a dual structure composed of a board of directors and a supervisory board.

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## CHAPTER II

### **ADMINISTRATIVE PROCEDURES AND CONTROL MECHANISM**

#### *Article 4*

#### **Subject matter and scope**

This Chapter specifies the measures which the management companies are required to take in order to meet the requirements referred to in Article 109, paragraph (1), point a) and Article 110, paragraph (1), point c) of the Law of 17 December 2010 concerning undertakings for collective investment.

#### *SECTION 1*

#### **General principles**

#### *Article 5*

#### **General requirements on procedures and organisation**

1. Management companies shall:

a) establish, implement and maintain decision-making procedures and an organisational structure which clearly and in a documented manner specifies reporting lines and allocates functions and responsibilities;

b) ensure that their relevant persons are aware of the procedures which must be followed for the proper discharge of their responsibilities;

c) establish, implement and maintain adequate internal control mechanisms designed to secure compliance with decisions and procedures at all levels of the management company;

d) establish, implement and maintain effective internal reporting and communication of information at all relevant levels of the management company as well as effective information flows with any third party involved;

e) maintain adequate and orderly records of their business and internal organisation.

For the purpose of the points mentioned above, management companies shall take into account the nature, scale and complexity of their business, and the nature and range of services and activities undertaken.

2. Management companies shall establish, implement and maintain systems and procedures that are adequate to safeguard the security, integrity and confidentiality of information, taking into account the nature of the information in question.

3. Management companies shall establish, implement and maintain an adequate business continuity policy aimed at ensuring, in the case of an interruption to their systems and procedures, the preservation of essential data and functions, and the maintenance of services and activities, or, where that is not possible, the timely recovery of such data and functions and the timely resumption of their services and activities.

4. Management companies shall establish, implement and maintain accounting policies and procedures that enable them, at the request of the CSSF, to deliver in a timely manner to the CSSF, financial reports which reflect a true and fair view of their financial position and which comply with all applicable accounting standards and rules.

5. Management companies shall monitor and, on a regular basis, evaluate the adequacy and effectiveness of their systems, internal control mechanisms and arrangements

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established in accordance with paragraphs (1) to (4), and shall take appropriate measures to address any potential deficiencies.

## *Article 6*

### **Resources**

1. Management companies shall employ personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them.
2. Management companies shall retain the necessary resources and expertise so as to effectively monitor the activities carried out by third parties on the basis of an arrangement with the management company, especially with regard to the management of the risk associated with those arrangements.
3. Management companies shall ensure that the performance of multiple functions by relevant persons does not and is not likely to prevent those relevant persons from discharging any particular function soundly, honestly and professionally.
4. For the purposes laid down in the preceding paragraphs (1), (2) and (3), management companies shall take into account the nature, scale and complexity of their business, as well as the nature and range of services and activities undertaken.

## *SECTION 2*

### *Administrative and accounting procedures*

## *Article 7*

### **Complaints handling**

1. Management companies shall establish, implement and maintain effective and transparent procedures for the reasonable and prompt handling of complaints received from investors.
2. Management companies shall ensure that each complaint and the measures taken for its resolution are recorded.
3. Investors shall be able to file complaints free of charge. The information regarding procedures referred to in paragraph (1) shall be made available to investors free of charge.

## *Article 8*

### **Electronic data processing**

1. Management companies shall make appropriate arrangements for suitable electronic systems so as to permit a timely and proper recording of each portfolio transaction or subscription or redemption order in order to be able to comply with Articles 15 and 16 of this Regulation.
2. Management companies shall ensure a high level of security during the electronic data processing as well as integrity and confidentiality of the recorded information, as appropriate.

## *Article 9*

### **Accounting procedures**

1. Management companies shall ensure the employment of accounting policies and procedures as referred to in Article 5, paragraph (4) of this Regulation so as to ensure the protection of unitholders.

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The accounts of the UCITS shall be kept in such a way that all assets and liabilities of the UCITS can be directly identified at all times.

If a UCITS has different investment compartments, separate accounts shall be maintained for those compartments.

2. Management companies shall have accounting policies and procedures established, implemented and maintained, in accordance with the accounting rules of the UCITS' home Member States, so as to ensure that the calculation of the net asset value of each UCITS is accurately effected, on the basis of its accounts, and that subscription and redemption orders can be properly executed at that net asset value.

3. Management companies shall establish appropriate procedures to ensure the proper and accurate valuation of the assets and liabilities of the UCITS, as consistent with the applicable rules referred to in Article 9, paragraphs (1) and (3) and Article 28, paragraphs (2) and (4) of the Law of 17 December 2010 concerning undertakings for collective investment.

### *SECTION 3*

#### *Internal control mechanisms*

##### *Article 10*

#### **Control by senior management and supervisory function**

1. Management companies, when allocating functions internally, shall ensure that senior management and, where appropriate, the supervisory function, are responsible for the management company's compliance with its obligations under the Law of 17 December 2010 concerning undertakings for collective investment.

2. The management company shall ensure that its senior management:

a) is responsible for the implementation of the general investment policy for each managed UCITS, as defined, where relevant, in the prospectus, the fund rules or the instruments of incorporation of the investment company;

b) oversees the approval of investment strategies for each managed UCITS;

c) is responsible for ensuring that the management company has a permanent and effective compliance function, as referred to in Article 11 of this Regulation, even if this function is performed by a third party;

d) ensures and regularly verifies that the general investment policy, the investment strategies and the risk limits of each managed UCITS are properly and effectively implemented and complied with, even if the risk management function is performed by third parties;

e) approves and regularly reviews the adequacy of the internal procedures for undertaking investment decisions for each managed UCITS, so as to ensure that such decisions are consistent with the approved investment strategies;

f) approves and regularly reviews the risk management policy and arrangements, processes and techniques for implementing that policy, as referred to in Article 43 of this Regulation, including the risk limit system for each managed UCITS.

3. The management company shall also ensure that its senior management and, where appropriate, its supervisory function shall:

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a) assess and regularly review the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations in the Law of 17 December 2010 concerning undertakings for collective investment;

b) take appropriate measures to remedy any deficiencies.

4. Management companies shall ensure that their senior management receives on a frequent basis, and at least annually, written reports on matters of compliance, internal audit and risk management indicating in particular whether appropriate remedial measures have been taken in the event of any deficiencies.

5. Management companies shall ensure that their senior management regularly receives reports on the implementation of investment strategies and of the internal procedures for taking investment decisions referred to in paragraph (2), points b) to e).

6. Management companies shall ensure that the supervisory function, if any, regularly receives written reports on the matters referred to in paragraph (4).

### *Article 11*

#### **Permanent compliance function**

1. Management companies shall establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the management company to comply with its obligations under the Law of 17 December 2010 concerning undertakings for collective investment, as well as the associated risks, and shall put in place adequate measures and procedures designed to minimise such risk and to enable the CSSF to exercise its powers effectively under that law.

For the purposes of the first sub-paragraph, management companies shall take into account the nature, scale and complexity of their business, as well as the nature and range of services and activities undertaken.

2. Management companies shall establish and maintain a permanent and effective compliance function which operates independently and which has the following responsibilities:

a) to monitor and, on a regular basis, to assess the adequacy and effectiveness of the measures, policies and procedures put in place in accordance with paragraph (1), and the actions taken to remedy any deficiencies in the management company's compliance with its obligations;

b) to advise and assist the relevant persons responsible for carrying out services and activities in compliance with the management company's obligations under the Law of 17 December 2010 concerning undertakings for collective investment;

3. In order to enable the compliance function referred to in paragraph (2) to discharge its responsibilities properly and independently, management companies shall ensure that the following conditions are satisfied:

a) the compliance function must have the necessary authority, resources, expertise and access to all relevant information;

b) a compliance officer must be appointed and must be responsible for the compliance function and for any reporting on a frequent basis, and at least annually, to the senior management on matters of compliance, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies;

c) the relevant persons involved in the compliance function must not be involved in the performance of the services or activities they monitor;

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d) the method of determining the remuneration of the relevant persons involved in the compliance function must not compromise their objectivity and must not be likely to do so.

However, the CSSF shall not require a management company to comply with point c) or point d) of the first sub-paragraph where the management company is able to demonstrate that in view of the nature, scale and complexity of its business, and the nature and range of its services and activities, that requirement is not proportionate and that its compliance function continues to be effective.

### *Article 12*

#### **Permanent internal audit function**

1. Management companies, where appropriate and proportionate in view of the nature, scale and complexity of their business as well as the nature and range of collective portfolio management activities undertaken in the course of that business, shall establish and maintain an internal audit function which is separate and independent from their other functions and activities.

2. The internal audit function referred to in paragraph (1) shall have the following responsibilities:

a) to establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the management company's systems, internal control mechanisms and other arrangements;

b) to issue recommendations based on the result of work carried out in accordance with point a);

c) to verify compliance with the recommendations referred to in point b);

d) to report in relation to internal audit matters in accordance with Article 10, paragraph (4) of this Regulation.

### *Article 13*

#### **Permanent risk management function**

1. Management companies shall establish and maintain a permanent risk management function.

2. The permanent risk management function referred to in paragraph (1) shall be hierarchically and functionally independent from operating units.

However, the CSSF may allow a management company to derogate from that obligation where the derogation is appropriate and proportionate in view of the nature, scale and complexity of the management company's business and of the UCITS it manages.

A management company shall be able to demonstrate that appropriate safeguards against conflicts of interest have been adopted so as to allow an independent performance of risk management activities, and that its risk management process satisfies the requirements of Article 42 of the Law of 17 December 2010 concerning undertakings for collective investment.

3. The permanent risk management function shall:

a) implement the risk management policy and procedures;



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b) ensure compliance with the UCITS' risk limit system, including statutory limits concerning global exposure and counterparty risk in accordance with Articles 46, 47 and 48 of this Regulation;

c) provide advice to the board of directors as regards the identification of the risk profile of each managed UCITS;

d) provide regular reports to the board of directors and, where it exists, the supervisory function, on:

- i) the consistency between the current levels of risk incurred by each managed UCITS and the risk profile agreed for that UCITS,
- ii) the compliance of each managed UCITS with relevant risk limit systems,
- iii) the adequacy and effectiveness of the risk management process, indicating in particular whether appropriate remedial measures have been taken in the event of any deficiencies;

e) provide regular reports to the senior management outlining the current level of risk incurred by each managed UCITS and any actual or foreseeable breaches of their limits, so as to ensure that prompt and appropriate action can be taken;

f) review and support, where appropriate, the arrangements and procedures for the valuation of OTC derivatives as referred to in Article 49 of this Regulation.

(4) The permanent risk management function shall have the necessary authority and access to all relevant information necessary to fulfil the tasks set out in paragraph (3).

### *Article 14*

#### **Personal transactions**

1. Management companies shall establish, implement and maintain adequate arrangements aimed at preventing the following activities in the case of any relevant person who is involved in activities that may give rise to a conflict of interest, or who has access to inside information within the meaning of Article 1, paragraph (1) of the Law of 9 May 2006 on market abuse or to other confidential information relating to UCITS or transactions with or for UCITS by virtue of an activity carried out by him on behalf of the management company:

a) entering into a personal transaction which fulfils at least one of the following criteria:

- i) the Law of 9 May 2006 on market abuse prohibits this person from entering into that personal transaction;
- ii) it involves the misuse or improper disclosure of confidential information;
- iii) it conflicts or is likely to conflict with an obligation of the management company under the Law of 17 December 2010 concerning undertakings for collective investment or under the Law of 13 July 2007 on markets in financial instruments;

b) advising or procuring, other than in the proper course of his employment or contract for services, any other person to enter into a transaction in financial instruments which, if a personal transaction of the relevant person, would be covered by this paragraph, point a) or Article 28, paragraph (2), points a) or b) of the Grand-Ducal Regulation of 13

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July 2007 relating to organisational requirements and rules of conduct in the financial sector, or would otherwise constitute a misuse of information relating to pending orders;

c) disclosing, other than in the normal course of his employment or contract for services and without prejudice to Article 9, sub-paragraph one of the Law of 9 May 2006 on market abuse, any information or opinion to any other person if the relevant person knows, or reasonably ought to know, that as a result of that disclosure that other person will or would be likely to take either of the following steps:

- i) to enter into a transaction in financial instruments which, where a personal transaction of the relevant person would be covered by this paragraph, point a) or by Article 28, paragraph (2), points a) or b) of the Grand-Ducal Regulation of 13 July 2007 relating to organisational requirements and rules of conduct in the financial sector, or would otherwise constitute a misuse of information relating to pending orders;
- ii) to advise or procure another person to enter into such a transaction.

2. The arrangements required under paragraph (1) shall in particular be designed to ensure that:

a) each relevant person covered by paragraph (1) is aware of the restrictions on personal transactions, and of the measures established by the management company in connection with personal transactions and disclosure, in accordance with paragraph (1);

b) the management company is informed promptly of any personal transaction entered into by a relevant person, either by notification of that transaction or by other procedures enabling the management company to identify such transactions;

c) a record is kept of the personal transaction notified to the management company or identified by it, including any authorisation or prohibition in connection with such a transaction.

For the purposes of point b) of the first sub-paragraph, where certain activities are performed by third parties, the management company shall ensure that the entity performing the activity maintains a record of personal transactions entered into by any relevant person and provides that information to the management company promptly on request.

3. Paragraphs (1) and (2) shall not apply to the following kinds of personal transactions:

a) personal transactions effected under a discretionary portfolio management service where there is no prior communication in connection with the transaction between the portfolio manager and the relevant person or other person for whose account the transaction is executed;

b) personal transactions in UCITS or units in collective undertakings that are subject to supervision under the law of a Member State which requires an equivalent level of risk spreading in their assets, where the relevant person and any other person for whose account the transactions are effected are not involved in the management of that undertaking.

4. For the purposes of paragraphs (1), (2) and (3) of this Article, "personal transaction" shall have the same meaning as in Article 11 of the Grand-Ducal Regulation of 13 July 2007 relating to organisational requirements and rules of conduct in the financial sector.

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## *Article 15*

### **Recording of portfolio transactions**

1. Management companies shall ensure, for each portfolio transaction relating to UCITS, that a record of information which is sufficient to reconstruct the details of the order and the executed transaction is produced without delay.
2. The record referred to in paragraph (1) shall include:
  - a) the name or other designation of the UCITS and of the person acting on account of the UCITS;
  - b) the details necessary to identify the instrument in question;
  - c) the quantity;
  - d) the type of the order or transaction;
  - e) the price;
  - f) for orders, the date and exact time of the transmission of the order and name or other designation of the person to whom the order was transmitted, or for transactions, the date and exact time of the decision to deal and execution of the transaction;
  - g) the name of the person transmitting the order or executing the transaction;
  - h) where applicable, the reasons for the revocation of an order;
  - i) for executed transactions, the counterparty and execution venue identification.

For the purposes of point i) of the first sub-paragraph, an "execution venue" shall mean a regulated market as referred to under Article 1, paragraph (11) of the Law of 13 July 2007 on markets in financial instruments, a multilateral trading facility as referred to in Article 1, paragraph (18) of that law, a systematic internaliser as referred to in Article 1, paragraph (8) of that law, or a market maker or other liquidity provider or an entity that performs a similar function in a third country to the functions performed by any of the foregoing.

## *Article 16*

### **Recording of subscription and redemption orders**

1. Management companies shall take all reasonable steps to ensure that the received UCITS subscription and redemption orders are centralised and recorded immediately after receipt of any such order.
2. That record shall include information on the following:
  - a) the relevant UCITS;
  - b) the person giving or transmitting the order;
  - c) the person receiving the order;
  - d) the date and time of the order;
  - e) the terms and means of payment;
  - f) the type of the order;
  - g) the date of execution of the order;
  - h) the number of units subscribed or redeemed;
  - i) the subscription or redemption price for each unit;

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- j) the total subscription or redemption value of the units;
- k) the gross value of the order including charges for subscription or net amount after charges for redemption.

### *Article 17*

#### **Recordkeeping requirements**

1. Management companies shall ensure the retention of the records referred to in Articles 15 and 16 of this Regulation for a period of at least 5 years.

However, the CSSF may, in exceptional circumstances, require management companies to retain any or all of those records for a longer period, determined by the nature of the instrument or portfolio transaction, where it is necessary to enable the CSSF to exercise its supervisory functions under the Law of 17 December 2010 concerning undertakings for collective investment.

2. Following the termination of the authorisation of a management company, the CSSF may require the management company to retain the records referred to in paragraph (1) for the outstanding term of the 5-year period.

Where the management company transfers its responsibilities in relation to the UCITS to another management company, the CSSF may require that arrangements are made that such records for the past 5 years are accessible to that company.

3. The records shall be retained in a medium that allows the storage of information in a way accessible for future reference by the CSSF, and in such a form and manner that the following conditions are met:

- a) the CSSF must be able to access them readily and to reconstitute each key stage of the processing of each portfolio transaction;
- b) it must be possible for any corrections or other amendments, and the contents of the records prior to such corrections or amendments, to be easily ascertained;
- c) it must not be possible for the records to be otherwise manipulated or altered.

### CHAPTER III

#### **CONFLICTS OF INTEREST**

### *Article 18*

#### **Subject matter and scope**

This Chapter specifies the provisions which the management companies are required to take in order to comply with Article 109, paragraph (1), point b) and Article 111, point d) of the Law of 17 December 2010 concerning undertakings for collective investment.

### *Article 19*

#### **Criteria for the identification of conflicts of interest**

1. For the purposes of identifying the types of conflicts of interest that arise in the course of providing services and activities and whose existence may damage the interests of a UCITS, management companies shall take into account, by way of minimum criteria, the question of whether the management company or a relevant person, or a person directly or indirectly linked to the management company by way of control, is in any of the following situations, whether as a result of providing collective portfolio management activities or otherwise:

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a) the management company or that person is likely to make a financial gain, or avoid a financial loss, at the expense of the UCITS;

b) the management company or that person has an interest in the outcome of a service or an activity provided to the UCITS or another client or of a transaction carried out on behalf of the UCITS or another client, which is distinct from the UCITS' interest in that outcome;

c) the management company or that person has a financial or other incentive to favour the interests of another client or group of clients over the interests of the UCITS;

d) the management company or that person carries on the same activities for the UCITS and for another client or clients which are not UCITS;

e) the management company or that person receives or will receive from a person other than the UCITS an inducement in relation to collective portfolio management activities provided to the UCITS, in the form of monies, goods or services, other than the standard commission or fee for that service.

2. Management companies, when identifying the types of conflicts of interest, shall take into account:

a) the interests of the management company, including those deriving from its belonging to a group or from the performance of services and activities, the interests of the clients and the duty of the management company towards the UCITS;

b) the interests of two or more managed UCITS.

### *Article 20*

#### **Conflicts of interest policy**

1. Management companies shall establish, implement and maintain an effective conflicts of interest policy. That policy shall be set out in writing and shall be appropriate to the size and organisation of the management company and the nature, scale and complexity of its business.

Where the management company is a member of a group, the policy shall also take into account any circumstances of which the company is or should be aware which may give rise to a conflict of interest resulting from the structure and business activities of other members of the group.

2. The conflicts of interest policy established in accordance with paragraph (1) shall include the following:

a) the identification, with reference to the collective portfolio management activities carried out by or on behalf of the management company, of the circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of the UCITS or one or more other clients;

b) procedures to be followed and measures to be adopted in order to manage such conflicts.

### *Article 21*

#### **Independence in conflicts management**

1. The procedures and measures provided for in Article 20, paragraph (2), point b) of this Regulation shall be designed to ensure that relevant persons engaged in different business activities involving a conflict of interest carry on those activities at a level of independence appropriate to the size and activities of the management company and of

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the group to which it belongs and to the materiality of the risk of damage to the interests of clients.

2. The procedures to be followed and measures to be adopted in accordance with Article 20, paragraph (2), point b) of this Regulation shall include the following where necessary and appropriate for the management company to ensure the requisite degree of independence:

a) effective procedures to prevent or control the exchange of information between relevant persons engaged in collective portfolio management activities involving a risk of a conflict of interest where the exchange of that information may harm the interests of one or more clients;

b) the separate supervision of relevant persons whose principal functions involve carrying out collective portfolio management activities on behalf of, or providing services to, clients or to investors whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the management company;

c) the removal of any direct link between the remuneration of relevant persons principally engaged in one activity and the remuneration of, or revenues generated by, different relevant persons principally engaged in another activity, where a conflict of interest may arise in relation to those activities;

d) measures to prevent or limit any person from exercising inappropriate influence over the way in which a relevant person carries out collective portfolio management activities;

e) measures to prevent or control the simultaneous or sequential involvement of a relevant person in separate collective portfolio management activities where such involvement may impair the proper management of conflicts of interest.

Where the adoption or the practice of one or more of those measures and procedures does not ensure the requisite degree of independence, management companies shall adopt such alternative or additional measures and procedures as will be necessary and appropriate for those purposes.

### *Article 22*

#### **Management of activities giving rise to detrimental conflict of interest**

1. Management companies shall keep and regularly update a record of the types of collective portfolio management activities undertaken by or on behalf of the management company in which a conflict of interest entailing a material risk of damage to the interests of one or more UCITS or other clients has arisen or, in the case of an ongoing collective portfolio management activity, may arise.

2. Where the organisational or administrative arrangements made by the management company for the management of conflicts of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of UCITS or of its unitholders will be prevented, the senior management or other competent internal body of the management company is promptly informed in order for them to take any necessary decision to ensure that in any case the management company acts in the best interests of the UCITS and of its unitholders.

3. The management company shall report situations referred to in paragraph (2) to investors by any appropriate durable medium and give reasons for its decision.

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## *Article 23*

### **Strategies for the exercise of voting rights**

1. Management companies shall develop adequate and effective strategies for determining when and how voting rights attached to instruments held in the managed portfolios are to be exercised, to the exclusive benefit of the UCITS concerned.

2. The strategy referred to in paragraph (1) shall determine measures and procedures for:

a) monitoring relevant corporate events;

b) ensuring that the exercise of voting rights is in accordance with the investment objectives and policy of the relevant UCITS;

c) preventing or managing any conflicts of interest arising from the exercise of voting rights.

(3) A summary description of the strategies referred to in paragraph (1) shall be made available to investors.

Details of the actions taken on the basis of those strategies shall be made available to the unitholders free of charge and on their request.

## **CHAPTER IV**

### **RULES OF CONDUCT**

## *Article 24*

### **Subject matter and scope**

This Chapter specifies the provisions which the management companies are required to take, in order to meet the requirements of Article 111, points a) and b) of the Law of 17 December 2010 concerning undertakings for collective investment.

## *SECTION 1*

### ***General principles***

## *Article 25*

### **Duty to act in the best interests of UCITS and their unitholders**

1. Management companies shall ensure that unitholders of managed UCITS are treated fairly.

Management companies shall refrain from placing the interests of any group of unitholders above the interests of any other group of unitholders.

2. Management companies shall apply appropriate policies and procedures for preventing malpractices that might reasonably be expected to affect the stability and integrity of the market.

3. Without prejudice to any other provisions of Luxembourg law, management companies shall ensure that fair, correct and transparent pricing models and valuation systems are used for the UCITS they manage, in order to comply with the duty to act in the best interests of the unitholders. Management companies must be able to demonstrate that the UCITS' portfolios have been accurately valued.

4. Management companies shall act in such a way as to prevent undue costs being charged to the UCITS and its unitholders.

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## *Article 26*

### **Due diligence requirements**

1. Management companies shall ensure a high level of diligence in the selection and ongoing monitoring of investments, in the best interests of UCITS and the integrity of the market.
2. Management companies shall ensure they have adequate knowledge and understanding of the assets in which the UCITS are invested.
3. Management companies shall establish written policies and procedures on due diligence and implement effective arrangements for ensuring that investment decisions on behalf of the UCITS are carried out in compliance with the objectives, investment strategy and risk limits of the UCITS.
4. Management companies when implementing their risk management policy, and where it is appropriate after taking into account the nature of a foreseen investment, shall formulate forecasts and perform analyses concerning the investment's contribution to the UCITS' portfolio composition, liquidity and risk and reward profile before carrying out the investment. These analyses must only be carried out on the basis of reliable and up-to-date information, both in quantitative and qualitative terms.

Management companies shall exercise due skill, care and diligence when entering into, managing or terminating any arrangements with third parties in relation to the performance of risk management activities. Before entering into such arrangements, management companies shall take the necessary steps in order to verify that the third party has the ability and capacity to perform the risk management activities reliably, professionally and effectively. The management company shall establish methods for the on-going assessment of the standard of performance of the third party.

## *SECTION 2*

### ***Handling of subscription and redemption orders***

## *Article 27*

### **Reporting obligations in respect of execution of subscription and redemption orders**

1. Where management companies have carried out a subscription or redemption order from a unitholder, they must notify the unitholder, by means of a durable medium, confirming execution of the order as soon as possible, and no later than the first business day following execution or, where the confirmation is received by the management company from a third party, no later than the first business day following receipt of the confirmation from the third party.

However, the first sub-paragraph shall not apply where the notice would contain the same information as a confirmation that is to be promptly dispatched to the unitholder by another person.

2. The notice referred to in paragraph (1) shall, where applicable, include the following information:
  - a) the management company identification;
  - b) the name or other designation of the unitholder;
  - c) the date and time of receipt of the order and method of payment;
  - d) the date of execution;



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- e) the UCITS identification;
  - f) the nature of the order (subscription or redemption);
  - g) the number of units involved;
  - h) the unit value at which the units were subscribed or redeemed;
  - i) the reference value date;
  - j) the gross value of the order including charges for subscription or net amount after deduction of charges for redemptions;
  - k) a total sum of the commissions and expenses charged and, where the investor so requests, an itemised breakdown.
3. Where orders for a unitholder are executed periodically, management companies shall either take the action specified in paragraph (1) or provide the unitholder, at least once every 6 months, with the information listed in paragraph (2) in respect of those transactions.
4. Management companies shall supply the unitholder, upon request, with information about the status of his order.

### *SECTION 3*

#### ***Best execution***

##### *Article 28*

#### **Execution of decisions to deal on behalf of the managed UCITS**

1. Management companies shall act in the best interests of the UCITS they manage when executing decisions to deal on behalf of the managed UCITS in the context of the management of their portfolios.
2. For the purposes of paragraph 1, management companies shall take all reasonable steps to obtain the best possible result for the UCITS, taking into account price, costs, speed, likelihood of execution and settlement, order size and nature, or any other consideration relevant to the execution of the order. The relative importance of such factors shall be determined by reference to the following criteria:
- a) the objectives, investment policy and risks specific to the UCITS, as indicated in the prospectus or, as the case may be, in the management regulations or instruments of incorporation of the UCITS;
  - b) the characteristics of the order;
  - c) the characteristics of the financial instruments that are the subject of that order;
  - d) the characteristics of the execution venues to which that order can be directed.
3. Management companies shall establish and implement effective arrangements for complying with the obligation referred to in paragraph (2). In particular, management companies shall establish and implement a policy to allow them to obtain, for UCITS orders, the best possible result in accordance with paragraph (2).

Management companies shall obtain the prior consent of the investment company on the execution policy. Management companies shall make available appropriate information to unitholders on the policy established in accordance with this Article and on any material changes to their policy.

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4. Management companies shall monitor on a regular basis the effectiveness of their arrangements and policy for the execution of orders in order to identify and, where appropriate, correct any deficiencies.

In addition, management companies shall review the execution policy on an annual basis. A review shall also be carried out whenever a material change occurs that affects the management company's ability to continue to obtain the best possible result for the managed UCITS.

5. Management companies shall be able to demonstrate that they have executed orders on behalf of the UCITS in accordance with the management company's execution policy.

### *Article 29*

#### **Placing orders to deal on behalf of UCITS with other entities for execution**

1. Management companies shall act in the best interests of the UCITS they manage when placing orders to deal on behalf of the managed UCITS with other entities for execution, in the context of the management of their portfolios.

2. Management companies shall take all reasonable steps to obtain the best possible result for the UCITS taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order. The relative importance of such factors shall be determined by reference to Article 28, paragraph (2) of this Regulation.

For those purposes, management companies shall establish and implement a policy to enable them to comply with the obligation referred to in the first sub-paragraph. The policy shall identify, in respect of each class of instruments, the entities with which the orders may be placed. Management companies shall only enter into arrangements for execution where such arrangements are consistent with obligations laid down in this Article. Management companies shall make available to unitholders appropriate information on the policy established in accordance with this paragraph and on any material changes to this policy.

3. Management companies shall monitor on a regular basis the effectiveness of the policy established in accordance with paragraph (2) and, in particular, the execution quality of the entities identified in that policy and, where appropriate, correct any deficiencies.

In addition, management companies shall review the policy on an annual basis. Such a review shall also be carried out whenever a material change occurs that affects the management company's ability to continue to obtain the best possible result for the managed UCITS.

4. Management companies shall be able to demonstrate that they have placed orders on behalf of the UCITS in conformity with the policy established in accordance with paragraph (2).

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## *SECTION 4*

### *Handling of orders*

#### *Article 30*

##### **General principles**

1. Management companies shall establish and implement procedures and arrangements which provide for the prompt, fair and expeditious execution of portfolio transactions on behalf of the UCITS.

The procedures and arrangements implemented by management companies shall satisfy the following conditions:

a) they shall ensure that orders executed on behalf of UCITS are promptly and accurately recorded and allocated;

b) they shall execute otherwise comparable UCITS orders sequentially and promptly unless the characteristics of the order or prevailing market conditions make this impracticable, or the interests of the UCITS require otherwise.

Financial instruments or sums of money, received in settlement of the executed orders shall be promptly and correctly delivered to the account of the appropriate UCITS.

2. Management companies shall not misuse information relating to pending UCITS orders, and shall take all reasonable steps to prevent the misuse of such information by any of its relevant persons.

#### *Article 31*

##### **Aggregation and allocation of trading orders**

1. Management companies are not permitted to carry out a UCITS order in aggregate with an order of another UCITS or another client or with an order on their own account, unless the following conditions are met:

a) it must be unlikely that the aggregation of orders will work overall to the disadvantage of any UCITS or clients whose order is to be aggregated;

b) an order allocation policy must be established and implemented, providing in sufficiently precise terms for the fair allocation of aggregated orders, including how the volume and price of orders determines allocations and the treatment of partial executions.

2. Where a management company aggregates a UCITS order with one or more orders of other UCITS or clients and the aggregated order is partially executed, it shall allocate the related trades in accordance with its order allocation policy.

3. Management companies which have aggregated transactions for own account with one or more UCITS or other clients' orders shall not allocate the related trades in a way that is detrimental to the UCITS or another client.

4. Where a management company aggregates an order of a UCITS or another client with a transaction for own account and the aggregated order is partially executed, it shall allocate the related trades to the UCITS or other client in priority over those for own account.

However, if the management company is able to demonstrate to the UCITS or its other client on reasonable grounds that it would not have been able to carry out the order on such advantageous terms without aggregation, or at all, it may allocate the transaction for

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own account proportionally, in accordance with the policy as referred to in paragraph (1), point (b).

## *SECTION 5*

### ***Inducements***

#### *Article 32*

#### **Safeguarding the best interests of UCITS**

1. Management companies will not be regarded as acting honestly, fairly and professionally in accordance with the best interests of the UCITS if, in relation to the activities of investment management and administration of the UCITS, they pay or are paid any fee or commission, or provide or are provided with any non-monetary benefit, other than the following:

a) a fee, commission or non-monetary benefit paid or provided to or by the UCITS or a person on behalf of the UCITS;

b) a fee, commission or non-monetary benefit paid or provided to or by a third party or a person acting on behalf of a third party, where the following conditions are satisfied:

- i) the existence, nature and amount of the fee, commission or benefit, or, where the amount cannot be ascertained, the method of calculating that amount must be clearly disclosed to the UCITS in a manner that is comprehensive, accurate and understandable, prior to the provision of the relevant service;
- ii) the payment of the fee or commission, or the provision of the non-monetary benefit must be designed to enhance the quality of the relevant service and not impair compliance with the management company's duty to act in the best interests of the UCITS;

c) proper fees which enable or are necessary for the provision of the relevant service, including custody costs, settlement and exchange fees, regulatory levies or legal fees, and which, by their nature, cannot give rise to conflicts with the management company's duties to act honestly, fairly and professionally in accordance with the best interests of the UCITS.

2. The management company, for the purposes of paragraph (1), point b) i), may disclose the essential terms of the arrangements relating to the fee, commission or non-monetary benefit in summary form, provided that the management company undertakes to disclose further details at the request of the unitholder and provided that it honours that undertaking.

## CHAPTER V

### **PARTICULARS OF THE STANDARD AGREEMENT BETWEEN A DEPOSITARY AND A MANAGEMENT COMPANY**

#### *Article 33*

#### **Subject matter and scope**

This Chapter specifies the content of the agreement which the management company and the depositary shall enter into according to Article 18, paragraph (3) and Article 33,

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paragraph (4) of the Law of 17 December 2010 concerning undertakings for collective investment.

### *Article 34*

#### **Elements related to the procedures to be followed by the parties to the agreement**

The depositary and the management company, referred to in this Chapter as the "parties to the agreement", shall include in the written agreement referred to in either Article 18, paragraph (3) or Article 33, paragraph (4) of the Law of 17 December 2010 concerning undertakings for collective investment at least the following particulars related to the services provided by and procedures to be followed by the parties to the agreement:

a) a description of the procedures, including those related to the safekeeping, to be adopted for each type of asset of the UCITS entrusted to the depositary;

b) a description of the procedures to be followed where the management company envisages a modification of the management regulations or instruments of incorporation or prospectus of the UCITS, and identifying when the depositary should be informed, or where a prior agreement from the depositary is needed to proceed with the modification;

c) a description of the means and procedures by which the depositary will transmit to the management company all relevant information that the management company needs to perform its duties including a description of the means and procedures related to the exercise of any rights attached to financial instruments, and the means and procedures applied in order to allow the management company and the UCITS to have timely and accurate access to information relating to the accounts of the UCITS;

d) a description of the means and procedures by which the depositary will have access to all the relevant information it needs to perform its duties;

e) a description of the procedures by which the depositary has the ability to enquire into the conduct of the management company and to assess the quality of information transmitted, including by way of on-site visits;

f) a description of the procedures by which the management company can review the performance of the depositary in respect of the depositary's contractual obligations.

### *Article 35*

#### **Elements related to the exchange of information and to obligations on confidentiality and money-laundering**

1. The parties to the agreement referred to in either Article 18, paragraph (3) or Article 33, paragraph (4) of the Law of 17 December 2010 concerning undertakings for collective investment shall include at least the following elements related to the exchange of information and obligations on confidentiality and money laundering in that agreement:

a) a list of all the information that needs to be exchanged between the UCITS, its management company and the depositary related to the subscription, redemption, issue, cancellation and repurchase of units of the UCITS;

b) the confidentiality obligations applicable to the parties to the agreement;

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c) information on the tasks and responsibilities of the parties to the agreement in respect of obligations relating to the prevention of money laundering and the financing of terrorism, where applicable.

2. The obligations referred to in paragraph 1 b) shall be drawn up so as not to impair the ability of either the CSSF or the competent authorities of a management company's home Member State in gaining access to relevant documents and information.

### *Article 36*

#### **Elements related to the appointment of third parties**

Where the depositary or the management company envisage appointing third parties to carry out their respective duties, both parties to the agreement referred to either in Article 18, paragraph (3) or Article 33, paragraph (4) of the Law of 17 December 2010 concerning undertakings for collective investment shall include at least the following particulars in that agreement:

a) an undertaking by both parties to the agreement to provide details, on a regular basis, of any third parties appointed by the depositary or the management company to carry out their respective duties;

b) an undertaking that, upon request by one of the parties, the other party will provide information on the criteria used for selecting the third party and the steps taken to monitor the activities carried out by the selected third party;

c) a statement that a depositary's liability as referred to in Article 19 or Article 35 of the Law of 17 December 2010 concerning undertakings for collective investment shall not be affected by the fact that it has entrusted to a third party all or some of the assets in its safekeeping.

### *Article 37*

#### **Elements related to potential amendments and the termination of the agreement**

The parties to the agreement referred to in either Article 18, paragraph (3) or Article 33, paragraph (4) of the Law of 17 December 2010 concerning undertakings for collective investment shall include in that agreement at least the following particulars related to amendments and the termination of the agreement:

a) the period of validity of the agreement;

b) the conditions under which the agreement may be amended or terminated;

c) the conditions which are necessary to facilitate transition to another depositary and, in case of such transition the procedure by which the depositary shall send all relevant information to the other depositary.

### *Article 38*

#### **Applicable law**

The parties to the agreement referred to either in Article 18, paragraph (3) or Article 33, paragraph (4) of the Law of 17 December 2010 concerning undertakings for collective investment shall specify that Luxembourg law applies to that agreement.

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## *Article 39*

### **Electronic transmission of information**

In cases where the parties to the agreement referred to in either Article 18, paragraph (3) or Article 33, paragraph (4) of the Law of 17 December 2010 concerning undertakings for collective investment agree to the use of electronic transmission for part or all of information that flows between them, such agreement shall contain provisions ensuring that a record is kept of such information.

## *Article 40*

### **Scope of the agreement**

The agreement referred to in either Article 18, paragraph (3) or Article 33, paragraph (4) of the Law of 17 December 2010 concerning undertakings for collective investment may cover more than one UCITS managed by the management company. In such cases, the agreement shall list the UCITS covered.

## *Article 41*

### **Service level agreement**

Parties to the agreement may either include details of means and procedures referred to in Article 34, points c) and d) of this Regulation in the agreement referred to in either Article 18, paragraph (3) or Article 33, paragraph (4) of the Law of 17 December 2010 concerning undertakings for collective investment or in a separate written agreement.

## **CHAPTER VI**

### **RISK MANAGEMENT**

## *Article 42*

### **Subject matter and scope**

This Chapter specifies the risk management policy and risk measurement to be put in place by a management company incorporated under Luxembourg law in order to comply with Article 42, paragraph (1) of the Law of 17 December 2010 concerning undertakings for collective investment.

## *SECTION 1*

### ***Risk management policy and risk measurement***

## *Article 43*

### **Risk management policy**

1. Management companies shall establish, implement and maintain an adequate and documented risk management policy which identifies the risks the UCITS they manage are or might be exposed to.

The risk management policy shall comprise such procedures as are necessary to enable the management company to assess for each UCITS it manages the exposure of that UCITS to market, liquidity and counterparty risks, and the exposure of the UCITS to all other risks, including operational risks, which may be material for each UCITS it manages.

Management companies shall address at least the following elements in the risk management policy:

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a) the techniques, tools and arrangements that enable them to comply with the obligations set out in Articles 45 and 46 of this Regulation;

b) the allocation of responsibilities within the management company pertaining to risk management.

2. Management companies shall ensure that the risk management policy referred to in paragraph (1) states the terms, contents and frequency of reporting of the risk management function referred to in Article 13 of this Regulation to the board of directors and to senior management and, where appropriate, to the supervisory function.

3. For the purposes of paragraphs (1) and (2), management companies shall take into account the nature, scale and complexity of their business and of the UCITS they manage.

### *Article 44*

#### **Assessment, monitoring and review of risk management policy**

1. Management companies shall assess, monitor and periodically review:

a) the adequacy and effectiveness of the risk management policy and of the arrangements, processes and techniques referred to in Articles 45 and 46 of this Regulation;

b) the level of compliance by the management company with the risk management policy and with the arrangements, processes and techniques referred to in Articles 45 and 46 of this Regulation;

c) the adequacy and effectiveness of measures taken to address any deficiencies in the performance of the risk management process.

2. Management companies shall notify the CSSF of any material changes to the risk management process.

### *SECTION 2*

#### ***Risk management processes, Counterparty risk exposure and issuer concentration***

### *Article 45*

#### **Measurement and management of risk**

1. Management companies shall adopt adequate and effective arrangements, processes and techniques in order to:

a) measure and manage at any time the risks which the UCITS they manage are or might be exposed to;

b) ensure compliance with limits concerning global exposure and counterparty risk, in accordance with Articles 46 and 48 of this Regulation.

These arrangements, processes and techniques shall be proportionate to the nature, scale and complexity of the business of the management companies and of the UCITS they manage and be consistent with the UCITS' risk profile.

2. For the purposes of paragraph (1), management companies shall take the following actions for each UCITS they manage:

a) put in place such risk measurement arrangements, processes and techniques as are necessary to ensure that the risks of taken positions and their contribution to the overall risk profile are accurately measured on the basis of sound and reliable data and



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that the risk measurement arrangements, processes and techniques are adequately documented;

b) conduct, where appropriate, periodic back-tests in order to review the validity of risk measurement arrangements which include model-based forecasts and estimates;

c) conduct, where appropriate, periodic stress tests and scenario analyses to address risks arising from potential changes in market conditions that might adversely impact the UCITS;

d) establish, implement and maintain a documented system of internal limits concerning the measures used to manage and control the relevant risks for each UCITS taking into account all risks which may be material to the UCITS as referred to in Article 43 of this Regulation and ensuring consistency with the UCITS risk profile;

e) ensure that the current level of risk complies with the risk limit system as set out in point (d) for each UCITS;

f) establish, implement and maintain adequate procedures that, in the event of actual or anticipated breaches to the risk limit system of the UCITS, result in timely remedial actions in the best interests of unitholders.

3. Management companies shall employ an appropriate liquidity risk management process in order to ensure that each UCITS they manage is able to comply at any time with Article 11, paragraph (2) or Article 28, paragraph (1), point b) of the Law of 17 December 2010 concerning undertakings for collective investment.

Where appropriate, management companies shall conduct stress tests which enable assessment of the liquidity risk of the UCITS under exceptional circumstances.

4. Management companies shall ensure that for each UCITS they manage the liquidity profile of the investments of the UCITS is appropriate to the redemption policy laid down in the management regulations or the instruments of incorporation or the prospectus.

### *Article 46*

#### **Calculation of global exposure**

1. Management companies shall calculate the global exposure of a managed UCITS as referred to in Article 42, paragraph (3) of the Law of 17 December 2010 concerning undertakings for collective investment as either of the following:

a) the incremental exposure and leverage generated by the managed UCITS through the use of financial derivative instruments including embedded derivatives pursuant to Article 42, paragraph (3), fourth sub-paragraph of the Law of 17 December 2010 concerning undertakings for collective investment, which may not exceed the total of the UCITS net asset value;

b) the market risk of the UCITS portfolio.

2. Management companies shall calculate the UCITS' global exposure at least on a daily basis.

3. Management companies shall calculate the global exposure by using the commitment approach, the-value-at-risk approach or other advanced risk measurement methodologies as may be appropriate. For the purposes of this provision, "value-at-risk"

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shall mean a measure of the maximum expected loss at a given confidence level over a specific time period.

Management companies shall ensure that the method selected to measure global exposure is appropriate, taking into account the investment strategy pursued by the UCITS and the types and complexities of the financial derivative instruments used, and the proportion of the UCITS' portfolio which comprises financial derivative instruments.

4. Where a UCITS in accordance with Article 42, paragraph (2) of the Law of 17 December 2010 concerning undertakings for collective investment employs techniques and instruments including repurchase agreements or securities lending transactions in order to generate additional leverage or exposure to market risk, the management company shall take these transactions into consideration when calculating global exposure.

### *Article 47*

#### **Commitment approach**

1. Where the commitment approach is used for the calculation of global exposure, management companies shall apply this approach to all financial derivative instrument positions including embedded derivatives as referred to in the fourth sub-paragraph of Article 42, paragraph (3) of the Law of 17 December 2010 concerning undertakings for collective investment, whether used as part of the UCITS general investment policy, for the purposes of risk reduction or for the purposes of efficient portfolio management as referred to in Article 42, paragraph (2) of that Law.

2. Where the commitment approach is used for the calculation of global exposure, management companies shall convert each financial derivative instrument position into the market value of an equivalent position in the underlying asset of that derivative (standard commitment approach).

Management companies may apply other calculation methods which are equivalent to the standard commitment approach.

3. Management companies may take account of netting and hedging arrangements when calculating global exposure, where these arrangements do not disregard obvious and material risks and result in a clear reduction in risk exposure.

4. Where the use of financial derivative instruments does not generate incremental exposure for the UCITS, the underlying exposure need not be included in the commitment calculation.

5. Where the commitment approach is used, temporary borrowing arrangements entered into on behalf of the UCITS in accordance with Article 50 of the Law of 17 December 2010 concerning undertakings for collective investment need not be included in the global exposure calculation.

### *Article 48*

#### **Counterparty risk and issuer concentration**

1. Management companies shall ensure that counterparty risk arising from an over-the-counter (OTC) financial derivative instrument is subject to the limits set out in Article 43 of the Law of 17 December 2010 concerning undertakings for collective investment.

2. When calculating the UCITS' exposure to a counterparty in accordance with the limits as referred to in Article 43, paragraph (1) of the Law of 17 December 2010

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concerning undertakings for collective investment, management companies shall use the positive mark-to-market value of the OTC derivative contract with that counterparty.

Management companies may net the derivative positions of a UCITS with the same counterparty, provided that they are able to legally enforce netting agreements with the counterparty on behalf of the UCITS. Netting shall only be permissible with respect to OTC derivative instruments with the same counterparty and not in relation to any other exposures the UCITS may have with that same counterparty.

3. Management companies may reduce the UCITS' exposure to a counterparty of an OTC derivative transaction through the receipt of collateral. Collateral received shall be sufficiently liquid so that it can be sold quickly at a price that is close to its pre-sale valuation.

4. Management companies shall take collateral into account in calculating exposure to counterparty risk as referred to in Article 43, paragraph (1) of the Law of 17 December 2010 concerning undertakings for collective investment when the management company passes collateral to OTC counterparty on behalf of the UCITS. Collateral passed may be taken into account on a net basis only if the management company is able to legally enforce netting arrangements with this counterparty on behalf of the UCITS.

5. Management companies shall calculate issuer concentration limits as referred to in Article 43 of the Law of 17 December 2010 concerning undertakings for collective investment on the basis of the underlying exposure created through the use of financial derivative instruments pursuant to the commitment approach.

6. With respect to the exposure arising from OTC derivatives transactions as referred to in Article 43, paragraph (2) of the Law of 17 December 2010 concerning undertakings for collective investment, management companies shall include in the calculation any exposure to OTC derivative counterparty risk.

### *SECTION 3*

#### *Procedures for the valuation of the OTC derivatives*

##### *Article 49*

#### **Procedures for the assessment of the value of OTC derivatives**

1. Management companies shall verify that UCITS' exposures to OTC derivatives are assigned fair values that do not rely only on market quotations by the counterparties of the OTC transactions and which fulfil the criteria set out in Article 8, paragraph (4) of the Grand-Ducal Regulation of 8 February 2008 relating to certain definitions of the amended Law of 20 December 2002 on undertakings for collective investment and implementing Directive 2007/16/EC.

2. For the purposes of paragraph (1), management companies shall establish, implement and maintain arrangements and procedures which ensure appropriate, transparent and fair valuation of UCITS' exposures to OTC derivatives.

Management companies shall ensure that the fair value of OTC derivatives is subject to adequate, accurate and independent assessment.

The valuation arrangements and procedures shall be adequate and proportionate to the nature and complexity of the OTC derivatives concerned.

Management companies shall comply with the requirements set out in Article 6, paragraph (2) and in the second sub-paragraph of Article 26, paragraph (4) of this

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Regulation when arrangements and procedures concerning the valuation of OTC derivatives involve the performance of certain activities by third parties.

3. For the purposes of paragraphs (1) and (2), the risk management function shall be appointed with specific duties and responsibilities.

4. The valuation arrangements and procedures referred to in paragraph (2) shall be adequately documented.

### *SECTION 4*

#### *Transmission of information on derivative instruments*

##### *Article 50*

##### **Reports on derivative instruments**

Management companies shall deliver to the CSSF, at least on an annual basis, reports containing information which reflects a true and fair view of the types of derivative instruments used for each managed UCITS, the underlying risks, the quantitative limits and the methods which are chosen to estimate the risks associated with the derivative transactions.

##### *Article 51*

##### **Publication**

This Regulation will be published in the Mémorial and on the website of the CSSF. This Regulation will become effective for UCITS governed by the Law of 17 December 2010 concerning undertakings for collective investment as from the day of its coming into force.

Luxembourg, 22 December 2010

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