ESMA_QA_730

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Additional Information

Level 1 Regulation
Benchmarks Regulation (BMR) - Regulation 2016/1011

Topic
Benchmarks Regulation

Subject Matter
Definition of a benchmark in relation to investment funds (ESMA70-145-114 Q&A_5.5)

Question
What types of investment funds are considered to be using an index for the purpose of “defining the asset allocation of a portfolio”?

ESMA Answer

05-02-2018

Original language

Article 3(1)(3) of the BMR defines a benchmark, inter alia, as an index that is used to measure the performance of an investment fund with the purpose of defining the asset allocation of a portfolio.

ESMA considers that an index is used to measure the performance of an investment fund with the purpose of defining its asset allocation when the documentation, and in particular its investment policy or investment strategy, define constraints on the asset allocation of the portfolio in relation to an index. For example the investment policy or strategy may require the investment fund to invest a percentage or the whole portfolio in securities that are constituents of an index. Investment funds using indices to measure their performance with the purpose of defining the asset allocation thus may include investment funds that are actively managed (where the manager has discretion over the composition of its portfolio subject to the investment objectives and strategies as opposed to a fund that tracks the return of the index).