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01/07/2012

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Additional Information

Level 1 Regulation

Undertakings for Collective Investment in Transferable Securities Directive (UCITS) Directive 2009/65/EC

Topic

UCITS global exposure

Subject Matter

Risk Measurement and Calculation of Global Exposure and Counterparty Risk for UCITS - Hedging strategies

Question

Can the following strategy be qualified as a hedging strategy as defined in CESR's guidelines?

A portfolio management practice which aims to reduce the credit risk of a corporate or government bond portfolio through purchased Credit Default Swaps (CDS). Note that in this case the portfolio interest rate risk would remain un-hedged.

ESMA Answer

01-07-2012

Original language

[ESMA 34-43-392 UCITS Q&A, section 5, Q&A 1b]

Yes, but only if the corporate or government bond and the purchased CDS relate to the same issuer.