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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 - Concentration rules

Question
Article 54 of Directive 2009/65/EC permits competent authorities to authorise UCITS to invest up to 100% of their assets in transferable securities issued by certain issuers e.g. sovereigns. In such cases the UCITS must hold securities from at least six different issues

and securities from any single issue shall not exceed 30% of its total assets.
Should this diversification rule apply on the basis of the net assets of the UCITS or on a gross basis?

ESMA Answer

01-07-2012

Original language

[ESMA 34-43-392 UCITS Q&A, section 5, Q&A 3]

The 100% diversification limit of Article 54 should be applied on the net assets (i.e. exposure to assets referred to in this article is limited to 100% of the net asset value) as all investment restrictions applicable to UCITS, including the diversification limits of Article 54, have to be applied with reference to their net assets and because any exposure beyond 100% to a sovereign issuer cannot be considered as 'equivalent protection' with regard to Article 52.

Furthermore, it is explicitly clarified that any exposure taken to assets referred to in Article 54, including through derivatives (e.g. bond future contracts such as Euro. Bund Future, 10 Year US T-Note future) and any efficient portfolio management techniques (e.g. reinvestment of cash collateral) must be included when calculating the limit of 100% according to Article 54.