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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 - Fund of funds

Question
Is the look-through approach compulsory for the calculation of global exposure when UCITS invest in other funds?

ESMA Answer

01-07-2012

Original language

[ESMA 34-43-392 UCITS Q&A, section 5, Q&A 4]

No. For the purpose of calculating global exposure, a look-through approach is not compulsory when UCITS invest in other funds. As an alternative, UCITS may treat the NAV of the target fund as an equity and use it as a substitute in the calculation of global exposure, in particular when the VaR Approach is used.

This method may only be used if the risk management function can prove and document that this approach does not lead to an inaccurate picture of the fund of funds. In addition, UCITS fund of funds structures have to comply with all due diligence and risk management requirements laid down in the UCITS framework (Directive 2009/65/EC, Directive 2010/43/EU and the CESR guidelines on Risk Management principles for UCITS[1]). Finally, the method chosen by the UCITS should be disclosed in the prospectus.

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[1] CESR guidelines on Risk Management principles for UCITS – Ref. CESR/09-178, https://www.esma.europa.eu/sites/default/files/library/2015/11/09_178.pdf