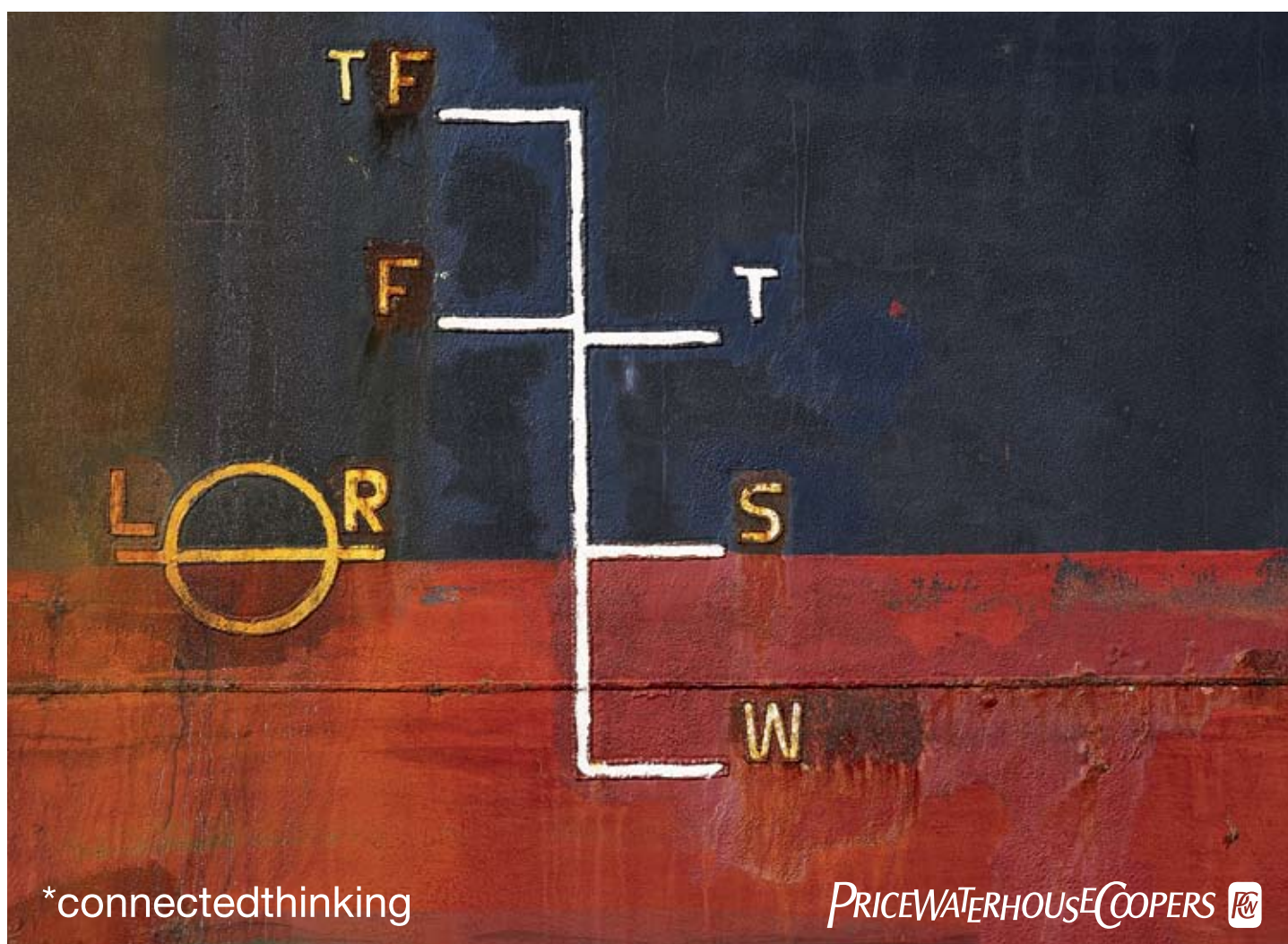
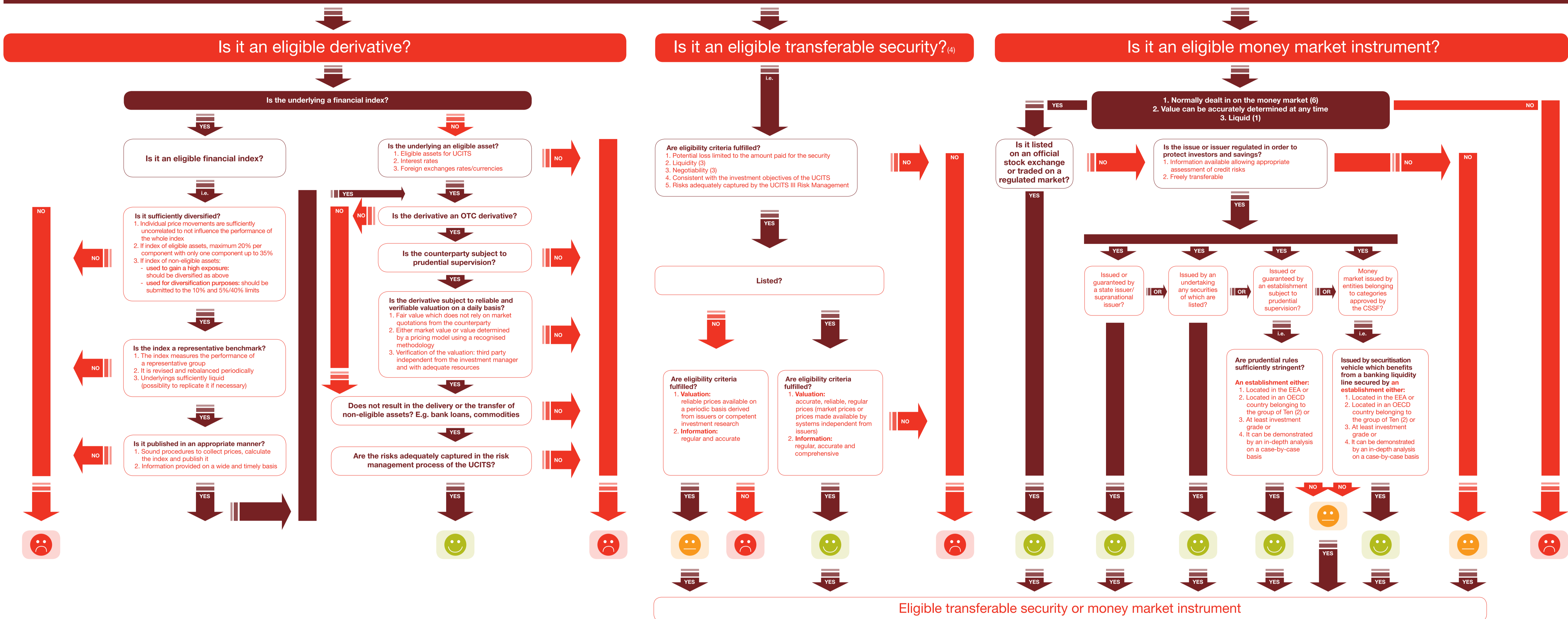


Eligibility of financial instruments under UCITS III*

Grand-Ducal Regulation of February 8, 2008
transposing the Directive 2007/16/EC
on eligible assets



Eligibility of financial instruments under UCITS III*



What do the smileys mean?

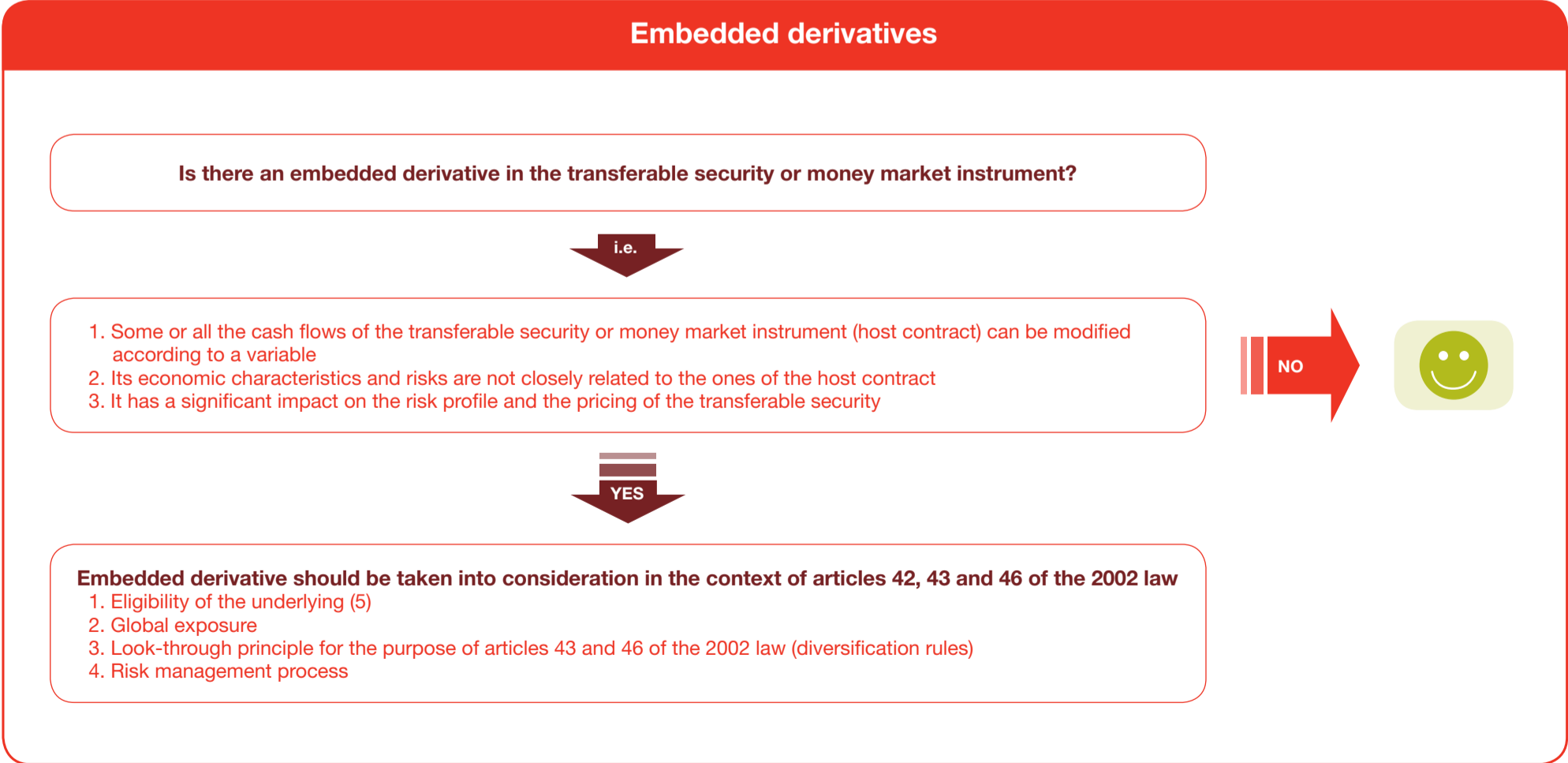
- 😊 Eligible
- 😬 Eligible within the trash ratio of 10% (article 41(2)a) of the 2002 law
- 😞 Not eligible

What do the footnotes mean?

- Converted into cash within 7 business days
- Group of Ten: Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States
- Presumption of liquidity and negotiability when a transferable security is admitted to an official stock exchange
- Closed-ended funds are considered as eligible assets for UCITS provided that:
 - they comply with the eligibility criteria applicable to transferable securities
 - they are subject to corporate governance mechanisms (right to vote in the essential decision making processes of the fund, right to control the investment policy)
 - the asset management activities are carried out by an entity subject to national regulation designed to protect investors
- Eligible assets for UCITS (transferable securities, money market instruments, shares/units of UCITS/UCIs, bank deposits, derivatives), financial indices, interest rates, foreign exchange rates or currencies
- Financial instruments which
 - have a maturity at issuance up to and including 397 days
 - have a residual maturity of up to and including 397 days
 - undergo regular yield adjustments in line with the money market conditions at least every 397 days
 - have a risk profile which corresponds to that of instruments which have a maturity of up to and including 397 days or are subject to a yield adjustment

Key Restriction Reminders

- No borrowing/overdraft for purposes of securities acquisitions
- Leveraged loans are not eligible for UCITS funds as they do not qualify as transferable securities
- Open-ended hedge funds and real estate funds are eligible for UCITS funds up to 10% of the net assets foreseen under article 41(2)a) of the 2002 law provided that they are regulated, submitted to an equivalent supervision and that they comply with article 2 of the Implementing Directive 2007/16/EC on eligible assets (i.e. valuation, information, liquidity, ...)
- 5%/10%/40% limits are measurable at issuer level whereas the 20% combined limit is measurable at group level
- The global exposure of a UCITS to financial derivative instruments may not exceed 100% of its net assets
- The global exposure can be measured using the commitment approach or a VaR method depending on whether a UCITS is sophisticated or not
- In case of Relative VaR, the VaR of a UCITS may not exceed twice the VaR of a reference portfolio
- In case of Absolute VaR, the VaR threshold fixed by the UCITS on the basis of its investment policy and risk profile may not exceed 20%



Your challenges

- Assessing the compliance of your investment strategies with legal and statutory rules
- Understanding the new innovative products taking advantages of all UCITS III opportunities (e.g. extended use of financial derivatives, complex strategies, ...)
- Monitoring the eligibility and regulatory treatment applicable to financial products and financial derivative instruments
- Implementation of a sound risk management process
- Ensuring that investments are made on eligible markets

PricewaterhouseCoopers solutions

- Sharing with you our in-depth technical expertise
 - Access to a web-based database which provides a library of investment compliance-related information (i.e. technical advice, CSSF's opinions, eligible market reviews, directives, laws, circulars, ...)
 - Ad-hoc technical advice on any particular compliance issues you may have
- Topic related trainings tailored to your very specific individual needs (e.g. eligible assets, derivatives and risk management process, ...)
- Compliance monitoring/system reviews to assess
 - Actual investment strategies against stated investment policy as per official documents
 - Robustness of operational controls
- Risk management process reviews for sophisticated UCITS
- Financial emerging market reviews to assess their eligibility given the Luxembourg requirements