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**The Open-Ended Undertakings for Collective Investment (UCI) Law of 2012**

Directive DI 78-2012-18

Of the Cyprus Securities and Exchange Commission as regards capital guaranteed or performance guaranteed UCITS or UCITS with protection of invested capital

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The Cyprus Securities and Exchange Commission in the exercise of the powers vested therein under Section 47(4) of the Open-Ended Undertakings for Collective Investment (UCI) Law of 2012 issues the following Directive:

Short Title	1. The present Directive shall be cited as the Directive of 2012 on capital guaranteed UCITS or performance guaranteed UCITS or UCITS with protection of invested capital and on related matters.
Interpretation	2. «Guarantee of the capital invested in the UCITS at a percentage of 100%» means that the guarantee ensures that the investor will receive, in any case and upon occurrence of the conditions for activating the guarantee, the whole amount invested by the investor in the UCITS without any amount being withheld, in particular not for paying any commissions or expenses of whatever type.  «Performance lock-up» means acknowledgement of performance from the participation in a UCITS as definite in favour of the unit-holder, creating the obligation to pay to the unit-holder the amount corresponding to that performance, provided the agreed conditions are fulfilled.
78(I) tou 2012	«Law» means the Open-Ended Undertakings for Collective Investment (UCI) Law of 2012.

«Capital protection» means the implementation of an investment policy or the use of instruments or techniques for UCITS efficient portfolio management, with the aim of securing the value of the capital invested in the UCITS in whole or in part.

«Protection of the capital invested in the UCITS at 100%» means that the protection aims to ensure the total value of that capital, so that it can be returned to the unit-holder free of any commission or expenses of whatever type.

Terms used herein and not being interpreted differently have the meaning ascribed to them in the Law.

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| Scope of application  | 3. | The present Directive applies to UCITS offering either a guarantee on the capital invested in the UCITS and/or on the performance of the UCITS or protection of the capital invested in the UCITS  |
| Operation license of a capital guaranteed or a performance guaranteed UCITS | 4. | <p>(1) The Management Company when applying for being granted an operation license for a capital or performance guaranteed UCITS, also submits to the Commission, in addition to the documents required under Section 8 of the Law:</p> <ul style="list-style-type: none"><li>(a) declaration by the credit institution granting the guarantee confirming that the credit institution accepts to be bound by the guarantee, under the conditions specified in the Regulation or the constitutional documents of the UCITS and in the Prospectus as well as in the Key Investor Information Document and in the subscription form, if applicable.</li><li>(b) special report, which is co-signed by an auditor and which specifies and assesses the conditions of the guarantee by means of analytical examples as well as the obligations undertaken by the UCITS as a result of the guarantee and any other element, which will allow the Commission to obtain clear view of the situation, in order for it to grant the operation license to the UCITS.</li></ul> <p>(2) In case where, during the procedure for granting the UCITS operation license, a particular from those referred to under sub-paragraph 1 point a) changes, in such a way that a condition of the guarantee gets modified, then the Management Company must submit a new declaration by the credit institution, regarding its commitment from the guarantee under the new terms having occurred, to the Commission as well as the report of sub-paragraph 1 point b), in order for it to comprise the new terms.</p> <p>(3) Any change to the conditions of the guarantee following granting of the operation license of the UCITS and the distribution of its units, is not allowed.</p> |
| Statement of guarantee or protection in the name or denomination            | 5. | (1) A statement of capital or performance guarantee of the UCITS in its name or denomination is allowed, only if there is at least a guarantee of 100% of the invested capital,  |

of the UCITS

applicable to all classes of its units.

(2) A statement of protection of the capital invested in the UCITS in its name or denomination is allowed only if the protection covers 100% of the invested capital, applicable to all classes of its units.

Guarantee linked to specific classes of units or investment compartments of the same UCITS

6. (1) It is allowed that the guarantee be linked to one or more classes of units of the same UCITS under the condition that in the latter case, the guarantee will be granted to the unit-holders of the various classes under the same conditions, with a differentiation per class as to the performance of units or commissions to be paid being possible.

(2) If the guarantee or the protection are linked to the units of certain only investment compartments of the same UCITS, an indication regarding the guarantee or the protection, whatever applicable, is allowed to be added only in the name of those investment compartments.

Obligations of special disclosure towards investors regarding the terms of the guarantee

7. (1) The Management Company informs the investor, prior to submitting a subscription order to the UCITS, depending on the case:

- (a) on the extent and the terms of the guarantee or on the implementation of the protection mechanisms of the invested capital, in such a way, so that the investor be in a position to adequately understand the functioning of the guarantee or of the protection,
- (b) on the commissions' policy of the UCITS, in particular on the fact that, if applicable, the participation in the UCITS is charged with an enhanced subscription or management fee, because of the existence of the protection or the guarantee and that redemption of units of the UCITS in another time period than those specified may be subject to enhanced commissions.

(2) If the guarantee or the protection apply only to one or more classes of units of the UCITS, then it must be made clear to the investors that the guarantee or the protection applies only to the units of those classes.

Guarantee granted directly to each unit-holder

8. (1) In case the guarantee is granted directly to each unit-holder and the unit-holder must, in order to benefit from the guarantee, ask for the redemption or repurchase of its units at a specific time period or date, then the Management Company informs the investor, when submitting an application for subscribing to the UCITS, on the guaranteed amount to be received upon redemption or repurchase, as well as on the time period or the date/dates, at which a redemption or repurchase request has to be submitted, in order for the investor to benefit from the guarantee. If the activation of the guarantee is subject to redemption or repurchase order by the unit-holder, the Management Company must timely inform the unit-holder and, in every case before the unit-holder submits the order, on the risks that may result from the redemption or

repurchase.

(2) In case the guarantee is granted directly to the unit-holder, then the Management Company hands over to the investor, together with the subscription form to the capital guaranteed or performance guaranteed UCITS, a declaration by the credit institution granting the guarantee, with which it confirms that it accepts its commitment resulting from the guarantee, under the conditions specified in the Regulation or the constitutional documents of the UCITS and in the Prospectus as well as in the Key Investor Information Document and in the subscription form, if applicable.

(3) In case the guarantee is granted directly to the unit-holder, the application form for subscribing to the UCITS must also comprise a declaration by the investor that it accepts the terms of the guarantee under the conditions specified in the Regulation or the constitutional documents of the UCITS and in the Prospectus as well as in the Key Investor Information Document and in the subscription form, if applicable

(4) In case the amount of the guarantee is to be paid directly to the unit-holder any information relating to the performance of its investment shall separately mention any amounts paid-out to the investor as a result of the guarantee, if applicable.

Particular content of the UCITS documents

9. (1) The Regulation or the constitutional documents of a capital guaranteed or performance guaranteed UCITS shall also at least mention, in addition to the particulars required under Sections 26 and 33 of the Law:

- (a) The credit institution granting the guarantee
- (b) the extent and the period of validity of the guarantee, with a special indication whether the guarantee is granted to the UCITS or directly to the unit-holder,
- (c) any reference index, if applicable, on the grounds of which the amount due corresponding to the guaranteed performance of the UCITS shall be calculated, which benchmark has to be sufficiently diversified, representative for the relevant market and adequately published,
- (d) the obligations undertaken by the UCITS as a result of the guarantee, the cost of the guarantee included,
- (e) the conditions under which the guarantee becomes activated, in particular whether any action by the unit-holder is required, whether the guarantee shall be valid throughout the entire period of participation in the UCITS, whether its activation takes place upon a redemption or repurchase request addressed by the unit-holder at any time or whether the guarantee shall be activated following the lapse of a certain period of time or at predetermined intervals with a "performance lock-up", if applicable, or under conditions to be re-determined at the end of each period or whether the activation of the guarantee requires the lapse of a certain period of time, during which no redemption or repurchase request shall be submitted,
- (f) any limited period of time, during which units of the UCITS will be offered.

(2) The Prospectus of a capital guaranteed or performance guaranteed UCITS, shall, in addition to the particulars required under Section 56 of the Law in conjunction with Type I of the Annex to the Law, contain at least:

- (a) Specification of the particulars contained in the Regulation or the constitutional documents of the UCITS, in accordance with Subparagraph (1), by means of examples or scenarios that will help the investor to fully understand the functioning of the guarantee,
- (b) the extent to which the amount to be paid to unit-holder as guaranteed, shall also comprise subscription commissions or not, redemption or repurchase fees, as well as management fees or any expenses, if applicable,
- (c) a special statement as to any time periods, during which the unit-holder has to ask for the redemption or repurchase of its units, in order to benefit from the guarantee or as to any other action to be taken by the unit-holder regarding the activation of the guarantee,
- (d) the means of timely communication to unit-holders of any action, which has to be undertaken by them, in order for the guarantee to become activated,
- (e) the pursued and the feasible risk/reward ratio of the UCITS, with a clear description of the lowest and highest guarantee limits,
- (f) the fees'/commissions' policy of the UCITS, by emphasizing on the fact stated under Subparagraph (1) alternative (b) of paragraph 7, regarding subscription, redemption and management fees,
- (g) information that will make clear to the investor the real cost of the guarantee or the method or methods for calculating that cost, and
- (h) following warnings:
  - (i) That the investment in the said UCITS carries the perspective of remaining in this UCITS until the end of the period indicated in the Prospectus and in the other documents (until the end of the period for which the UCITS has been constituted), whereas exiting the UCITS prior to this date (the end of the period for which the UCITS has been constituted) may have negative consequences on the unit-holder.
  - (ii) That apart from the date or the dates, during which the guarantee can be activated, the redemption or repurchase price of units is subject to the performance of the markets and may differ from the guaranteed price (value). If reference is made to an index, the redemption price may deviate from the performance of the index.
  - (iii) Warning that payment of the guarantee depends on the solvability of the guarantor.

(3) The Prospectus of a UCITS aiming at protection of the capital invested in this UCITS, shall also state, in addition to the particulars required under Section 56 of the Law in conjunction with Type I of the Annex to the Law:

- (a) The special methods and the instruments or techniques used for the efficient portfolio management of the UCITS, with the aim of securing the value of the invested capital in whole or in part,
- (b) the pursued and the feasible risk/reward ratio of the UCITS, with a clear description of the lowest and highest protection limits,
- (c) information that will make clear to the investor the real cost of the protection or the method or methods for calculating that cost and
- (d) the following warnings:
  - (i) That the investment in the said UCITS carries the perspective of remaining in this UCITS until the end of the period indicated in the Prospectus and in the other documents (until the end of the period for which the UCITS has been constituted), whereas exiting the UCITS prior to this date (the end of the period for which the UCITS has been constituted) may have negative consequences on the unit-holder
  - (ii) That despite the implementation of mechanisms and protection techniques of the capital invested in the UCITS, the redemption or repurchase price of units is subject to the performance of the markets and that the protection of the capital does not offer any assurance that the unit-holder will receive, upon redemption or repurchase of its units the amount invested in the UCITS or the amount corresponding to the percentage of the protected capital invested in the UCITS.

Special obligations of the Management Company

10. (1) The Management Company has always in place the technical means and the required organisational structure and applies the necessary, in its judgment, procedures, so as to be in a position to monitor the techniques and instruments used for effective portfolio management of the UCITS and for the valuation of those instruments by an independent entity. The method and the valuation model used have to be made available to the Depositary and the Auditor of the UCITS.

(2) The Management Company ensures for the information of the unit-holders regarding the terms of the guarantee and exercises control over the marketing network regarding the information offered by it in respect of the guarantee.

Entry into force

11. The Present Directive shall enter into force following its publication in the Official Gazette of the Republic.