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No.4598, 15.10.2012 **R.A.D. 370/2012**
No.4829, 07.11.2014 **R.A.D.502/2014**

THE OPEN ENDED UNDERTAKINGS FOR COLLECTIVE INVESTMENTS LAW OF 2012

Directive DI78-2012-03

Of Cyprus Securities and Exchange Commission as regards the organizational requirements, the structure, the conduct of business, conflicts of interest, risk management and content of the agreement between a depositary and a management company.

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The Securities and Exchange Commission, exercising the powers vested in it by virtue of sub-section (8) of section 10, sub-section (5) of section 41, sub-section (3) of section 51, sub-section (1) of section 110, sub-section (2) of section 112 and sub-section (6) of section 123 of the Open Ended Undertakings for Collective Investments (UCI) Law of 2012 and for the purpose of harmonization with the act of the European Union titled:

OJ: L 176, 10.07.2010, p. 42 — 'Directive 2010/43/EU of the Commission implementing Directive 2009/65/EC of the European Parliament and of the Council as regards organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and a management company',

hereby issues the following Directive:

PART I

INTRODUCTORY PROVISIONS

Short title

1. This Directive shall be cited as the Directive regarding the Conditions for Authorization and Ongoing Obligations of a Management Company and the Agreement between a Depositary and a Management Company of an Undertaking on Collective Investments in Transferable Securities of 2012.

Interpretation

2. For the purposes of this Directive, the following definitions shall apply:

'relevant person' in relation to a management company means any of the following:
a) a director, partner or equivalent, or manager of the Management Company; or
b) an employee of the management company, as well as any other natural person whose services are placed at the disposal and under the control of the management company and who is involved in the provision by the management company of collective portfolio management; or
c) a natural person who is directly involved in the provision of services to the management company under a delegation arrangement to third parties for the purpose of the provision by the management company of collective portfolio management;

'directors' means the persons defined in section 2 of the Law;

'supervisory function' means the relevant persons or body or bodies responsible for the supervision of its directors and for the assessment and periodical review of the adequacy and effectiveness of the risk management process and of the policies, arrangements and procedures put in place to comply with the obligations under the Law;

'ESMA' means the European Securities and Markets Authority defined in section 2 of the Law;

'market risk' means the risk of loss of the UCITS resulting from fluctuation in the market value of positions in the UCITS' portfolio attributable to changes in market variables, such as interest rates, foreign exchange rates, equity and commodity prices or an issuer's credit worthiness;

'counterparty risk' means the risk of loss for the UCITS resulting from the fact that the counterparty to a transaction may default on its obligations prior to the final settlement of the transaction's cash flow;

'liquidity risk' means the risk that a position in the UCITS portfolio cannot be sold, liquidated or closed at limited cost in an adequately short time frame and that the ability of the UCITS to comply at any time with subsection (1) of section 18 of the Law is thereby compromised;

'operational risk' means the risk of loss for the UCITS resulting from inadequate internal processes and failures in relation to people and systems of the management company or from external events, and includes legal and documentation risk and risk resulting from the

trading, settlement and valuation procedures operated on behalf of the UCITS;

'unit holder' means every natural or legal person that hold units or denominations of units of a UCITS or of shares of a Variable Capital Investment Company;

'Law' means the Open-Ended Undertakings for Collective Investments Law of 2012;

'CIF Law' means the Investment Services and Activities and Regulated Markets Law of 2007, as amended;

'Directive' means this Directive;

'Commission Directive DI144-2007-01' means the Directive of the Securities and Exchange Commission as regards the conditions for authorisation of a Cyprus Investment Firm;

« Commission Directive DI144-2007-02» means the Directive of the Securities and Exchange Commission for the professional competence of investment firms and the natural persons employed by them.

'client' means any natural or legal person, or any other undertaking including a UCITS or other undertakings on collective investments, to whom a management company provides a service of collective portfolio management or services pursuant to subsection (4) of section 109 of the Law;

78(I) of 2012

"personal transaction" means a trade in financial instrument effected byor on behalf of a relevant person, where at least one of the following criteria are met:

144(I) of 2007
106(I) of 2009

(a) The relevant person is acting outside the scope of the activities he carries out in that capacity,
(b) the trade is carried out for the account of any of the following persons:
(i) the relevant person,
(ii) any person with whom he has a family relationship, or with whom he has close links, or
(iii) a person whose relationship with the relevant person is such that the relevant person has a direct or indirect material interest in the outcome of the trade, other than a fee or commission for the execution of the trade

RAD384/2011

«person with whom a relevant person has a family relationship: means any of the following:

RAD385/2011

(a) the spouse of the relevant person or any person that cohabits for at least one year with the relevant person
(b) a dependent child or stepchild of the relevant person
(c) any other relative of the relevant person, who at the date of the relevant personal transaction was a member of the household of that person for at least a year;

Definitions that are used in the present directive and are not interpreted differently have the meaning specified in the Law.

Scope of application

3. (1) This Directive shall apply to management companies pursuing the activity of management of an undertaking for collective investments in transferable securities (UCITS) in accordance with subsection (2) of section 109 of the Law. Part IV of the Directive is also applicable to the depositaries carrying out their functions according to the provisions of Title 2 of Subchapter 1 of Chapter 2 of Part II of the Law.

(2) The provisions of this Part, paragraphs 9, 14 to 24, 28 to 36 and the Annexes of this Directive shall apply *mutatis mutandis* to variable capital investment companies that have not designated a management company. For the purposes of the provisions referred to in the previous sentence, the term 'management company' shall be understood as 'variable capital investment company'.

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PART II

ADMINISTRATIVE PROCEDURES AND CONTROL MECHANISMS

CHAPTER I

General Principles

General requirements on procedures and organisation

4. (1) Management companies, taking into consideration the nature, scale and complexity of their business and the nature and range of services and activities undertaken in the course of that business, shall comply with the following requirements:

(a) to establish, implement and maintain decision-making procedures and an organisational structure which clearly and in a documented manner specifies reporting lines and allocates functions and responsibilities;

(b) to ensure that their relevant persons are aware of the procedures which must be followed for the proper discharge of their responsibilities;

(c) to establish, implement and maintain adequate internal control mechanisms designed to secure compliance with decisions and procedures at all levels of the management company;

(d) to establish, implement and maintain effective internal reporting and communication of information at all relevant levels of the management company as well as effective information flows with any third party, to the extent that this is involved in the exercise of activities;

(e) to maintain adequate and orderly records of their business and internal organisation.

(2) Management companies shall establish, implement and maintain:

(a) Systems and procedures that are adequate to safeguard the security, integrity and confidentiality of information, taking into account the nature of the information in question.

(b) An adequate business continuity policy aimed at ensuring, in the case of an interruption to their systems and procedures, the preservation of essential data and functions, and the maintenance of services and activities, or, where that is not possible, the timely recovery of such data and functions and the timely resumption of their services and activities.

(c) Accounting policies and procedures that enable them, to submit to the Commission on time, within the set deadlines, or at its request, the financial reports which reflect a true and fair view of their financial position and which comply with the legislation in force (the International Financial Reporting Standards as adopted by the European Union and the requirements of the Company Law).

(3) Management companies shall monitor and, on a regular basis and at least annually, evaluate the adequacy and effectiveness of their systems, internal control mechanisms and arrangements established in accordance with subparagraphs 1 and 2, and take appropriate measures to address any deficiencies.

Resources – Accounting

5. (1) Management companies, taking into account the nature, scale and complexity of the business of the management company, and the nature and range of services and activities

procedures – Electronic systems - Complaints

undertaken in the course of that business shall:

(a) employ personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them.

(b) retain the necessary resources and expertise so as to effectively monitor the activities carried out by third parties on the basis of an arrangement with the management company, especially with regard to the management of the risk associated with those arrangements.

(c) ensure that the performance of multiple functions by relevant persons does not and is not likely to prevent those relevant persons from discharging any particular function soundly, honestly, and professionally.

(2) Management companies shall:

(a) make appropriate arrangements for suitable electronic systems so as to permit a timely and proper recording of each portfolio transaction or subscription or redemption order in order to be able to comply with paragraphs 11 and 12.

(b) ensure a high level of security during the electronic data processing as well as integrity and confidentiality of the recorded information, as appropriate.

(3) Management companies shall:

(a) ensure the employment of accounting policies and procedures as referred to in subparagraph 2 (c) of paragraph 4 so as to ensure the protection of unit-holders.

(b) UCITS accounting shall be kept in such a way that all assets and liabilities of the UCITS can be directly identified at all time. If a UCITS has different investment compartments, separate accounts shall be maintained for those investment compartments

(c) have accounting policies and procedures established, implemented and maintained, in accordance with the accounting rules of the UCITS' home Member States, so as to ensure:

(i) the proper and accurate valuation of the assets and liabilities of the UCITS, as consistent with the applicable rules,

(ii) that the calculation of the net asset value of each UCITS is accurately effected and that

(iii) subscription and redemption orders can be properly executed at that net asset value.

(4) Management companies shall establish, implement and maintain effective and transparent procedures for the reasonable and prompt handling of complaints received from investors. The information regarding these procedures shall be made available to investors. The information about each complaint and the measures taken for its resolution are recorded in a specific register. Investors shall be able to file complaints and receive the above procedures for complaints free of charge.

Complaints-handling

5A (1) For the purposes of the present paragraph:

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«complainant» means any person, natural or legal, which is eligible for lodging a complaint to a management company and who has already lodged a complaint.

«complaint» means a statement of dissatisfaction addressed to a management company by a complainant relating to the provision of investment services.

(2) A management company is required to:

(a) Apply a complaints management policy, which is defined and endorsed by the senior management and the board of directors, who will be responsible for its implementation and for monitoring the management company's compliance with it.

(b) Ensure that the complaints management policy is included in its internal operation manual as stated in its Internal Manual

(c) Ensure that the complaints management policy is available to all relevant stuff of the firm through adequate internal channels of communication.

(3) A management company must ensure that it has a complaints management function, which enables complaints to be investigated fairly and possible conflicts of interest to be identified and mitigated.

(4) A management company is required to register the complaints it receives on an internal archive, as quickly as possible, and in an appropriate manner.

(5) A management company is required to provide to the Commission information regarding the complaints it receives via Document E78-2012-11. The said Document is submitted in an electronic form to the Commission on a trimonthly basis, the details/dates of submission will be set in a Commission Circular.

(6) A management company is required to analyse, on an on-going basis, complaints-handling data , to ensure that they identify and address any recurring or systemic problems, and potential legal and operational risks, for example by:

(a) Analysing the causes of individual complaints so as to identify root causes common to types of complaints,

(b) Considering whether such root causes also affect other processes or financial means, including those not directly complained of; and

(c) Correcting, where reasonable to do so, such root causes.

(7) A management company is required to:

(a) On request or when acknowledging receipt of a complaint, provide written information regarding their complaints-handling process.

(b) Publish details of their complaints-handling process in an easily accessible manner, for example in brochure, pamphlets, contractual documents or via the management company's website.

(c) Provide clear, accurate and up-to-date information about the complaints-handling process which includes:

(i) Information of how to lodge a complaint (e.g. the type of information to be provided by the complainant, the identity and contact details of the

person or department to whom the complaint should be directed),

(ii) The process that will be followed when handling a complaint (e.g. when the complaint will be acknowledged , indicative handling time, the availability (where applicable) to contact the Commission or the Financial Ombudsman or ADR mechanism or the relevant Courts).

L84(I)/2010

(d) Keep the complainant informed about further handling of the complaint.

(8) In case where a management company receives a complaint it is required to:

(a) Gather and investigate all relevant evidence and information regarding the complaint.

(b) Communicate in plain language which is clearly understood.

(c) Provide a response without any unnecessary delay. When an answer cannot be provided within the expected time limits, the management company should inform the complainant about the causes of the delay and indicate when the management company's investigation is likely to be completed.

(d) When providing a final decision that does not fully satisfy the complainant's demands, to notify in writing the complainant using a thorough explanation of its position on the complaint and set out the complainant's option to maintain the complaint e.g through the Commission, the Financial Ombudsman, ADR Mechanism, or the relevant Courts.

CHAPTER II

Internal Control – Control Mechanisms – Risk Management

Control by senior management and supervisory function

6. (1) Management companies when allocating functions internally shall ensure that senior management and, where appropriate, the supervisory function, are responsible for the management company's compliance with its obligations under the Law. Specifically MCs ensure that its senior management:

(a) is responsible for the implementation of the general investment policy for each managed UCITS, as defined, where relevant, in the prospectus, the fund rules or the instruments of incorporation of the investment company

(b) oversees the approval of investment strategies for each managed UCITS

(c) is responsible for ensuring that the management company has a permanent and effective compliance function , as referred to in paragraph 7**,** even if this function is performed by a third party

(d) ensures and verifies on a periodic basis that the general investment policy, the investment strategies and the risk limits of each managed UCITS are properly and effectively implemented and complied with, even if the risk management function is performed by third parties;

(e) approves and reviews on a periodic basis the adequacy of the internal procedures for undertaking investment decisions for each managed UCITS, so as to ensure that such decisions are consistent with the approved investment strategies;

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(f) approves and reviews on a periodic basis the risk management policy, as referred to in paragraph 28, and arrangements, processes and techniques for implementing that policy including the risk limit system for each managed UCITS.

(2) The management company shall also ensure that its senior management and, where appropriate, its supervisory function shall:

(a) assess and periodically review the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations in the Law

(b) take appropriate measures to address any deficiencies.

3. Management companies shall ensure that their senior management receives on a frequent basis, and at least annually, written reports

(a) on matters of compliance, internal audit and risk management indicating in particular whether appropriate remedial measures have been taken in the event of any deficiencies.

(b) on the implementation of investment strategies and of the internal procedures for taking investment decisions referred to in points (b) to (e) of subparagraph 1.The supervisory function, if any, receives on a regular basis written reports on the matters referred to in the above point (a).

Permanent Compliance Function

7. (1) Management companies, taking into account the nature, scale and complexity of the business of the company, and the nature and range of services and activities undertaken in the course of that business, shall establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the management company to comply with its obligations under the Law, as well as the associated risks, and put in place adequate measures and procedures designed to minimise such risk and to enable the Commission to exercise its powers effectively under the Law.

(2) Management companies shall establish and maintain a permanent and effective compliance function which operates independently and which has the following responsibilities:

(a) to monitor and, on a regular basis, to assess the adequacy and effectiveness of the measures, policies and procedures put in place in accordance with subparagraph 1, and the actions taken to address any deficiencies in the management company's compliance with its obligations

(b) to advise and assist the relevant persons responsible for carrying out services and activities to comply with the management company's obligations under the Law.

(3) In order to enable the compliance function referred to in subparagraph 2 to discharge its responsibilities properly and independently, management companies shall ensure that the following conditions are satisfied:

(a) the compliance function must have the necessary authority, resources, expertise and access to all relevant information;

(b) a compliance officer must be appointed and must be responsible for the compliance function and for any reporting on a frequent basis, and at least annually, to the senior management on matters of compliance, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies

(c) the relevant persons involved in the compliance function must not be involved in the performance of services or activities they monitor

(d) the method of determining the remuneration of the relevant persons involved in the compliance function must not compromise their objectivity and must not be likely to do so.

(4) A management company shall not be required to comply with point (c) or point (d) of the previous subparagraph where it is able to demonstrate that in view of the nature, scale and complexity of its business, and the nature and range of its services and activities, that requirement is not proportionate and the compliance function is still efficient.

Internal Audit Function

8. (1) Management companies, where appropriate and proportionate in view of the nature, scale and complexity of their business and the nature and range of collective portfolio management activities undertaken in the course of that business, shall establish and maintain an internal audit function which is separate and independent from the other functions and activities of the management company.

2. The internal audit function shall have the following responsibilities:

(a) to establish, implement and maintain an internal audit plan to examine and evaluate the adequacy and effectiveness of the management company's systems, internal control mechanisms and arrangements

(b) to issue recommendations based on the result of work carried out in accordance with point (a) above

(c) to verify compliance with the recommendations referred to in point (b) above

(d) to report in relation to internal audit matters in accordance with subparagraph 3 of paragraph 6.

Risk Management Function

9. 1. Management companies, where appropriate and proportionate in view of the nature, scale and complexity of their business and the nature and range of collective portfolio management activities undertaken in the course of that business, and the UCIS they manage, shall establish and maintain a permanent risk management function that is hierarchically and functionally independent from other operating units of the company.

2. Management companies shall take every appropriate measure to safeguard that conflicts of interest are prevented or handled so as to allow an independent performance of the risk management function and the compliance of this function to the requirements of Article 41 of the Law.

3. The permanent risk management function shall:

(a) implement the risk management policy and procedures

(b) ensure compliance with the UCITS risk limit system, including statutory limits concerning global exposure and counterparty risk in accordance with paragraphs 30, 31 and 32

(c) provide advice to the board of directors as regards the identification of the risk profile of each managed UCITS

(d) provide regular reports to the board of directors and, where it exists, the supervisory function, on:

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(i) the consistency between the current levels of risk incurred by each managed UCITS and the risk profile agreed for that UCITS

(ii) the compliance of each managed UCITS with relevant risk limit systems

(iii) the adequacy and effectiveness of the risk management process, indicating in particular whether appropriate remedial measures have been taken in the event of any deficiencies

(e) provide regular reports to the senior management outlining the current level of risk incurred by each managed UCITS and any actual or foreseeable breaches to their limits, so as to ensure that prompt and appropriate action can be taken

(f) review and support, where appropriate, the arrangements and procedures for the valuation of OTC derivatives as referred to in paragraph 34.

4. The permanent risk management function shall have the necessary authority and access to all relevant information necessary to fulfil the tasks set out in subparagraph 3.

CHAPTER III

Personal Transactions – Recording of Transactions – Recordkeeping requirements

Personal Transactions

10. (1) Management companies shall establish, implement and maintain adequate arrangements aimed at preventing the following activities in the case of any relevant person who is involved in activities that may give rise to a conflict of interest, or who has access to inside information within the meaning of Article 5 of the insider dealing and market manipulation (market abuse) Law or to other confidential information relating to UCITS or transactions with or for UCITS by virtue of an activity carried out by him on behalf of the management company:

N. 116(I)/2005
N. 191(I)/2007

(a) entering into a personal transaction which fulfils at least one of the following criteria:

(i) that person is prohibited from entering into that personal transaction within the meaning of the insider dealing and market manipulation (market abuse) Law,

(ii) it involves the misuse or improper disclosure of confidential information;

(iii) it conflicts or is likely to conflict with an obligation of the management company under the Law or under the provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters Law.

(b) advising or procuring, other than in the proper course of his employment or contract for services, any other person to enter into a transaction in financial instruments which, if a personal transaction of the relevant person, would be covered by point (a) of this paragraph or by points (a) or (b) of paragraph 27 (2) of the Commission's Directive DI144-2007-01 or of paragraph 26(3) of the Commission's Directive DI144-2007-02, or would otherwise constitute a misuse of information relating to pending orders;

(c) disclosing, other than in the normal course of his employment or contract for services and without prejudice to Article 9(1)(b) of the insider dealing and market manipulation (market abuse) Law, any information or opinion to any other person if the relevant person knows, or reasonably ought to know, that as a result of that disclosure that other person will or would be likely to take either of the following steps:

(i) to enter into a transaction in financial instruments which, where a personal transaction of the relevant person would be covered by point (a) of this sup-paragraph or by points (a) or (b) of paragraph 27 (2) of the Commission's Directive DI144-2007-01 or of paragraph 26(3) of the Commission's Directive DI144-2007-02, or would otherwise constitute a misuse of information relating to pending orders;

(ii) to advise or procure another person to enter into such a transaction.

(2) The arrangements required under subparagraph 1 shall in particular be designed to ensure that:

(a) each relevant person is aware of the restrictions on personal transactions, and of the measures established by the management company in connection with personal transactions and disclosure, in accordance with subparagraph 1.

(b) the management company's Board of Directors is informed promptly of any personal transaction entered into by a relevant person, either by notification of that transaction or by other procedures enabling the management company to identify such transactions. Where certain activities or functions are performed by third parties, the management company shall ensure that the entity performing the activity maintains a record of personal transactions entered into by any relevant person and provides that information to the management company promptly on request

(c) a record is kept of the personal transaction notified to the management company or identified by it, including any authorisation or prohibition in connection with such a transaction.

(3) Subparagraphs 1 and 2 shall not apply to the following kinds of personal transactions:

(a) personal transactions effected under a discretionary portfolio management service where there is no prior communication in connection with the transaction between the portfolio manager and the relevant person or other person for whose account the transaction is executed;

(b) personal transactions in UCITS or units in collective undertakings that are subject to supervision under the law of a Member State which requires an equivalent level of risk spreading in their assets, where the relevant person and any other person for whose account the transactions are effected are not involved in the management of that undertaking.

Recording of portfolio transactions

11. (1) Management companies shall keep, for each UCITS managed, or if there are different investment compartments for each investment compartment, a record of portfolio transactions, in which, the transactions on behalf of the UCTIS or its investment compartment are recorded, without delay, with information which is sufficient to reconstruct the details of the order and the executed transaction.

(2) The record referred to in subparagraph 1 shall include:

(a) the name or other designation of the UCITS or its investment compartment and of the person acting on account of the UCITS or its investment compartment

(b) the details necessary to identify the financial instrument in question

(c) the quantity of the financial instrument in question

(d) the type of the order or transaction;

(e) the executed price of the financial instrument

(f) the date and exact time of the transmission of the order and name or other designation of the person to whom the order was transmitted and the name of the person transmitting the order.

(g) the date and exact time of the transmission of the decision to deal and execution of the transaction and name or other designation of the person executing
the transaction

(h) where applicable, the reasons for the revocation of an order

(i) for executed transactions, the counterparty and execution venue identification. An ‘execution venue’ shall mean a regulated market, a multilateral trading facility, a systematic internaliser as referred to in the Investment Firms Law, or a market maker or other liquidity provider or an entity that performs a similar function in a third country to the functions performed by any of the foregoing.

Recording of subscriptions and redemptions orders of UCITS

12. (1) Management companies shall keep, for every UCITS or where appropriate every investment compartment managed an electronic record of subscription and redemption orders in which they shall record immediately after receipt of any such order.

(2) That record of subparagraph 1 shall include:

(a) the relevant UCITS or its investment compartment

(b) the person giving or transmitting the order and the person receiving the order;

(c) the date and time of the order;

(d) the terms and means of payment

(e) the type of the order

(f) the date and exact time of execution of the order;

(g) the number of units subscribed or redeemed;

(h) the subscription or redemption price for each unit;

(i) the total subscription or redemption value of the units;

(j) the gross value of the order including charges for subscription or net amount after charges for redemption.

Recordkeeping requirements

13. (1) Management companies shall ensure the retention of the records referred to in paragraphs 11 and 12 for a period of at least 5 years from the date of total redemption of the equivalent units .However, the Commission may, in exceptional circumstances, require management companies to retain any or all of those records for a longer period, determined by the nature of the instrument or portfolio transaction, where it is necessary to enable the authority to exercise its supervisory functions under the Law.

2. The records of paragraphs 11 and 12 shall be retained in a medium that allows

(a) the safe storage of the information.

(b) the ability to reconstitute each key stage of the processing of each portfolio transaction

(c) it must be possible for any corrections or other amendments, and the contents of the records prior to such corrections or amendments, to be easily ascertained and it must not be possible for the records to be otherwise manipulated or altered

(d) the Commission must be able to access them readily.

(3) Where the management company transfers its responsibilities in relation to the UCITS or its investment compartment to another management company, the previous ones ensures full access to the records of paragraphs 11 and 12 to the new one for the past 5 years from the date of total redemption of the equivalent units or for a longer period if asked by the Commission as per subparagraph 1.

(4) Following the termination of the authorisation of a management company, the management company shall retain the records of paragraphs 11 and 12 for the outstanding term of the 5-year period years from the date of total redemption of the equivalent units or for a longer period if asked by the Commission as per subparagraph 1

CHAPTER IV

Conflicts of Interest

Identification of Conflicts of Interest

14. (1) Management companies shall establish, implement and maintain procedures for the identification of conflicts of interest situations where the management company, a relevant person or any other person, directly or indirectly, linked by way of control to the management company, as referred to in Article 2 of the Law, is in conflict of interest with the UCITS interest in the course of providing the service of collective portfolio management or the activities of Article 109(4) of the Law. To establish the existence of conflicts of interest management companies take into account, the interests of the management company, including those that derive from being part of a group or from the provision of services and activities and the duties of the management company to the UCITS and its unit holders, as well as the interests of the UCIT and the interests of other clients of the management company.

2. Indicative conflicts of interest situations include:

(a) the management company or the person referred to in subparagraph 1 is likely to make a financial gain, or avoid a financial loss, at the expense of the UCITS;

(b) the management company or the person referred to in subparagraph 1 has an interest in the outcome of a service or an activity provided to the UCITS or another client or of a transaction carried out on behalf of the UCITS or another client, which is distinct from the UCITS interest in that outcome

(c) the management company or the person referred to in subparagraph 1 has a financial or other incentive to favour the interest of another client or group of clients over the interests of the UCITS;

(d) the management company or the person referred to in subparagraph 1 carries on the same activities for the UCITS and for another client or clients which are not UCITS;

(e) the management company or the person referred to in subparagraph 1 receives or will receive from a person other than the UCITS an inducement in relation to collective portfolio management activities provided to the UCITS, in the form of monies, goods or services, other than the standard commission or fee for that service.

Conflicts of Interest policy and procedures

15. (1) Member States shall require management companies to establish, implement and maintain an effective conflicts of interest policy. That policy shall be set out in writing from the Board of Directors and shall be appropriate to the size and organisation of the management company and the nature, scale and complexity of its business. Where the management company is a member of a group, the policy shall also take into account any circumstances of which the company is or should be aware which may give rise to a conflict of interest resulting from the structure and business activities of other members of the group.

(2) The conflicts of interest policy shall include the following:

(a) the identification of, with reference to the collective portfolio management activities carried out by or on behalf of the management company, the circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of the UCITS or one or more other clients;

(b) procedures to be followed and measures to be adopted in order to manage such conflicts.
(3) The procedures and measures of subparagraph (2) (b) are designed to ensure that relevant persons engaged in different business activities involving a conflict of interest carry on those activities at a level of independence appropriate to the size and activities of the management company and of the group to which it belongs and to the materiality of the risk of damage to the interests of clients.

(4) The procedures to be followed and measures to be adopted in accordance with subparagraph (2) (b) shall include , without excluding additional procedures or measures where necessary and appropriate, the following to ensure the requisite degree of independence as referred to in subparagraph 3:

(a) effective procedures to prevent or control the exchange of information between relevant persons engaged in collective portfolio management activities involving a risk of a conflict of interest where the exchange of that information may harm the interests of one or more clients

(b) the separate supervision of relevant persons whose principal functions involve carrying out collective portfolio management activities on behalf of, or providing services to, clients or to investors whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the management company

(c) the removal of any direct link between the remuneration of relevant persons principally engaged in one activity and the remuneration of, or revenues generated by, different relevant persons principally engaged in another activity, where a conflict of interest may arise in relation to those activities

(d) measures to prevent or limit any person from exercising inappropriate influence over the way in which a relevant person carries out collective portfolio management activities;

(e) measures to prevent or control the simultaneous or sequential involvement of a relevant person in separate collective portfolio management activities where such involvement may impair the proper management of conflicts of interest.

(5) Management companies shall keep and regularly update a record of the types of collective portfolio management activities undertaken by or on behalf of the management company in which a conflict of interest entailing a material risk of damage to the interests of one or more UCITS or other clients has arisen or may arise.

(6) Management companies shall adopt, implement and maintain adequate arrangements for informing senior management or other competent internal bodies, about any weaknesses or deficiencies of the organisational or administrative internal procedures and arrangements to prevent or manage conflicts of interest situations or to prevent , with reasonable certainty, the material damage to the interests of the UCITS or its unit-holders so as they can take the appropriate measures to ensure that the company will operate, in any case, exclusively in the best benefit of the UCITS and its unit-holders. The management company shall report to investors, through a stable medium, the measures taken in accordance with the previous sentence including the justification for these measures.

Strategies for the exercise of voting rights

16. (1) Management companies shall develop adequate and effective strategies for determining when and how voting rights attached to instruments held in the managed portfolios are to be exercised, to the exclusive benefit of the UCITS concerned.

(2) The strategy referred to in subparagraph 1 shall be notified to investors in a summary form , indicating that they may request it and receive it free of charge in detailed form, and shall determine at least measures and procedures for:

(a) monitoring relevant corporate events;

(b) ensuring that the exercise of voting rights is in accordance with the investment objectives and policy of the relevant UCITS;

(c) preventing or managing any conflicts of interest arising from the exercise of voting rights

PART III

CODE OF CONDUCT

No.4598, 15.10.2012 **R.A.D. 370/2012**
No.4829, 07.11.2014 **R.A.D.502/2014**

CHAPTER I

General principles

Duty to act in the best interest of UCITS and their unit-holders

17. (1) Management companies shall ensure that unit-holders of managed UCITS are treated fairly. Management companies shall refrain from placing the interests of any group of unit-holders above the interests of any other group of unit-holders.

(2) Management companies shall apply appropriate policies and procedures for preventing malpractices (market timing και late trading) that might reasonably be expected to affect the stability and integrity of the market.

(3) Management companies shall ensure that fair, correct and transparent pricing models and valuation systems are used for the UCITS they manage, in order to comply with the duty to act in the best interests of the unit-holders. Management companies must be able to demonstrate, upon request from anyone enforcing his rights and in particular the Commission, the competent authorities of another Member State if applicable, the UCITS or its unit-holders, that the UCITS portfolios have been accurately valued and in a way to prevent undue costs to the UCITS and its unit-holders.

Due Diligence requirements

18. (1) Management companies shall ensure a high level of diligence in the selection and ongoing monitoring of investments, in the best interests of UCITS and the normal functioning and integrity of the market and shall have adequate knowledge and understanding of the assets in which the UCITS are invested

(2) Management companies shall establish written policies and procedures on due diligence as referred to in subparagraph 1 and implement effective arrangements for ensuring that investment decisions on behalf of the UCITS are carried out in compliance with the objectives, investment strategy and risk limits of the UCITS.
(3) Management companies when implementing their risk management policy, and where it is appropriate after taking into account the nature of a foreseen investment, shall formulate forecasts and perform analyses concerning the investment's contribution to the UCITS portfolio composition, liquidity and risk and reward profile before carrying out the investment. The analyses must only be carried out on the basis of reliable and up-to-date information, both in quantitative and qualitative terms.

(4) Management companies shall exercise due skill, care and diligence when entering into, managing or terminating any arrangements with third parties in relation to the performance of risk management activities. Before entering into such arrangements, management companies shall take the necessary steps in order to verify that the third party has the ability and capacity to perform the risk management activities reliably, professionally and effectively. The management company shall establish methods for the on-going assessment of the standard of performance of the third party.

CHAPTER II

Handling of subscription and redemption orders

Confirmation of the execution of orders

19. (1) Where management companies have carried out a subscription or redemption order from a unit-holder, they must notify the unit-holder, by means of a durable medium, confirming execution of the order as soon as possible, and no later than the first business day following execution or, where the confirmation is received by the management company from a third party, no later than the first business day following receipt of the confirmation from the third party. However, the first subparagraph shall not apply where the notice would contain the same information as a confirmation that is to be promptly dispatched to the unit-holder by

another person.

The information regarding confirmation of executed orders of Article 19 of the Commission's Directive DI144-2007-02 are considered equivalent for the application of the previous sentence.

(2) The confirmation notice referred to in sub-paragraph 1 shall, where applicable, include the following information:

(a) the management company identification;

(b) the name or other designation of the unit-holder;

(c) the date and time of receipt of the order and method of payment;

(d) the date of execution;

(e) the UCITS identification

(f) the nature of the order (subscription or redemption);

(g) the number of units involved;

(h) the unit value at which the units were subscribed or redeemed;

(i) the reference value date;

(j) the gross value of the order including taxes, fees or other charges for subscriptions or net amount of the order after taxes, fees or other charges for redemptions;

(k) a total sum of the commissions and expenses charged and, where the investor so requests, an itemised breakdown.

(3) Where orders for a unit-holder are executed periodically, management companies shall either take the action specified in subparagraph 1 or provide the unit-holder, at least once every 6 months, with the information listed in paragraph 2 in respect of those transactions.

(4) Management companies shall supply the unit-holder, upon request, with information about the status of his order.

CHAPTER III

Execution of orders on behalf of UCITS

Execution of orders from the Management company – Execution policy

20. (1) Management companies when executing decisions to deal on behalf of the managed UCITS in the context of the management of their portfolios shall act in the best interests of the UCITS and its unit-holders.

(2) Management companies shall establish and implement an order execution policy, that includes effective procedures and takes all reasonable steps to obtain the best possible result for the UCITS in accordance with subparagraph 1, taking into account every factor associated with the transaction especially the price, the possibility of immediate execution, the speed of execution or the likelihood of failure to execute, the liquidity, the commissions and costs, the order size and nature, the average size of orders, the market participants, the client's preferences, the negotiating power, the possibility of price improvement, the access cost and settlement capabilities. The weight by which the factors of the previous sentence

are taken into consideration shall be determined by reference to the following criteria:

(a) the objectives, investment policy and risks specific to the UCITS, as indicated in the prospectus or as the case may be in the fund rules or articles of association of the UCITS

(b) the characteristics of the order;

c) the characteristics of the financial instruments that are the subject of that order;

(d) the characteristics of the execution venues to which that order can be directed.

(3) Management companies shall monitor on a regular basis the effectiveness of their arrangements and policy for the execution of orders, especially in regard to selection, monitoring and evaluation of the execution venues, taking into account every factor associated with the transaction, in particular, among others, the factors referred to in sub-paragraph 2 in order to identify and, where appropriate, correct any deficiencies. Without prejudice to the previous sentence, management companies shall review the arrangements and the execution policy on an annual basis. A review shall also be carried out whenever a material change occurs that affects the management company's ability to continue to obtain the best possible result for the managed UCITS.

(4) The management company shall make available appropriate information to unit-holders on the policy established and on any material changes to the policy. If the managed UCITS is an Investment Company of Variable Capital it shall receive the consent of the management Company in regard to the order execution policy and any material changes to it.

(5) Management companies shall always be able to demonstrate, to anyone that exercises his legal right and in particular to the Commission or, if applicable, to the competent authorities of another Member State or the UCITS and its unit-holders, that they have executed orders on behalf of the UCITS in accordance with the adopted and implemented execution policy.
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Execution of orders by another entity

21. (1) Management companies shall act in the best interests of the UCITS they manage and their unit-holders when placing orders to deal on behalf of the managed UCITS with other entities for execution, in the context of the management of their portfolios.

(2) In complying with sub-paragraph 1,Management companies take all reasonable steps to obtain the best possible result for the UCITS taking into account every factor mentioned in paragraph 20 (2) . The weight that the factors of the previous sentence are taken into consideration shall be determined by reference to paragraph 20(2) (a) to (d).

(3)The order execution policy established and implemented in accordance with paragraph 20 shall include measures and procedures that ensure compliance with the obligation of subparagraph 21(1). The policy shall identify, in respect of each class of instruments, the entities with which the orders may be placed. The management company shall only enter into arrangements for execution where such arrangements are consistent with obligations laid down in this paragraph
.

(4) Management companies shall monitor on a regular basis the effectiveness of the policy established in accordance with subparagraph 3 and, in particular, the execution quality of the entities identified in that policy and, where appropriate, correct any deficiencies. In addition, management companies shall review the policy on an annual basis. Such a review shall also be carried out whenever a material change occurs that affects the management company's ability to continue to obtain the best possible result for the managed UCITS

(5) Management companies shall be able to demonstrate that they have placed orders on behalf of the UCITS in accordance with the policy established in accordance with subparagraph 3.

Rules regarding the execution of orders

22. (1) Management companies shall establish, implement and maintain procedures and arrangements, when acting to carry out a UCITS order to buy or sell financial instruments on behalf of the managed UCITS, which provide for the prompt, fair and expeditious execution of portfolio transactions on behalf of the UCITS. The procedures and arrangements of the previous sentence, which include the case of transmitted orders by the management company to another entity, shall satisfy the following conditions:

(a) ensure that orders executed on behalf of UCITS are promptly and accurately recorded and allocated to each UCITS or its investment compartment.

(b) execute otherwise comparable UCITS orders sequentially and promptly unless the characteristics of the order or prevailing market conditions make this impracticable, or the interests of the UCITS require otherwise.
(2) Financial instruments or sums of money, received in settlement of the executed orders shall be promptly and correctly delivered to the account of the appropriate UCITS or its investment compartment.

(3) Management companies shall not misuse information relating to pending UCITS orders, and shall take all reasonable steps to prevent the misuse of such information by any of its relevant persons.

Aggregation and allocation of orders

23. (1) Management companies when acting to carry out a UCITS order may aggregate the order with an order of another UCITS or another client or with an order on their own account, subject the following conditions are met:

(a) it must be unlikely that the aggregation of orders will work overall to the disadvantage of any UCITS or clients whose order is to be aggregated;

(b) an order allocation policy must be established implemented and maintained, providing in sufficiently precise terms for the fair allocation of aggregated orders, including how the volume and price of orders determines allocations and the treatment of partial executions.

(2) Where a management company aggregates a UCITS order with one or more orders of other UCITS or clients and the aggregated order is partially executed, it allocates the related trades in accordance with its order allocation policy.If the aggregated transactions include transactions for own account the related trades shall not be allocated in a way that is detrimental to the UCITS or another client. Where a management company aggregates an order of a UCITS or another client with a transaction for own account and the aggregated

order is partially executed, it allocates the related trades to the UCITS or other client in priority over those for own account.

However, if the management company is able to demonstrate that it would not have been able to carry out the order on such advantageous terms without aggregation, or at all, it may allocate the transaction for own account proportionally, in accordance with the policy as referred to in subparagraph 1(b).

CHAPTER IV

Inducements

Safeguarding the best interests of UCITS

24. (1) Management companies shall not be regarded as acting honestly, fairly and professionally in accordance with the best interests of the UCITS if, in relation to the activities of investment management and administration to the UCITS, they pay or are paid any fee or commission, or provide or are provided with any non-monetary benefit, other than the following:

(a) a fee, commission or non-monetary benefit paid or provided to or by the UCITS or a person on behalf of the UCITS;

(b) a fee, commission or non-monetary benefit paid or provided to or by a third party or a person acting on behalf of a third party, where the following conditions are satisfied:

(i) the existence, nature and amount of the fee, commission or benefit, or, where the amount cannot be ascertained ,the method of calculating that amount, must be clearly disclosed to the UCITS in a manner that is comprehensive, accurate and understandable, prior to the provision of the relevant service

(ii) the payment of the fee or commission, or the provision of the non-monetary benefit must be designed to enhance the quality of the relevant service and not impair compliance with the management company's duty to act in the best interests of the UCITS

(c) proper fees which enable or are necessary for the provision of the relevant service, including custody costs, settlement and exchange fees, regulatory levies or legal fees, and which, by their nature, cannot give rise to conflicts with the management company's duties to act honestly, fairly and professionally in accordance with the best interests of the UCITS and its unit-holders.

(2) For the purposes of subparagraph 1(b)(i), management companies may disclose the essential terms of the arrangements relating to the fee, commission or nonmonetary benefit in summary form, provided that the management company undertakes to disclose further details at the request of the unit-holder.

PART IV

PARTICULARS OF THE STANDARD AGREEMENT

BETWEEN A DEPOSITARY AND A MANAGEMENT COMPANY

The present English text is for information purposes only and is not legally binding. The legally binding document is in the Greek language.

No.4598, 15.10.2012 **R.A.D. 370/2012**
No.4829, 07.11.2014 **R.A.D.502/2014**

Elements related to the exchange of information

25. (1) The agreement between the depositary and the management company, referred to in this Chapter as the 'parties to the agreement', which is in writing as referred to in article 10(7) of the Law and which covers one or more or the total of the UCITS managed and is governed by the laws of the UCITS home Member State, includes the name of the UCITS and least the following particulars related to the services provided by and procedures to be followed by the parties to the agreement:

(a) a description of the procedures, including those related to the safe-keeping, to be adopted for each type of asset of the UCITS entrusted to the depositary

(b) a description of the procedures to be followed where the management company envisages a modification of the fund rules or prospectus of the UCITS, and identifying when the depositary should be informed, or where a prior agreement from the depositary is needed to proceed with the modification

(c) a description of the means and procedures by which the depositary will transmit to the management company all relevant information that the management company needs to perform its duties including a description of the means and procedures related to the exercise of any rights attached to financial instruments, and the means and procedures applied in order to allow the management company and the UCITS to have timely and accurate access to information relating to the accounts of the UCITS;

(d) a description of the means and procedures by which the depositary will have access to all relevant information it needs to perform its duties

(e) a description of the procedures by which the depositary has the ability to enquire into the conduct of the management company and to assess the quality of information transmitted, including by way of on-site visits;

(f) a description of the procedures by which the management company can review the performance of the depositary in respect of the depositary's contractual obligations.

(2) The parties to the agreement of subparagraph 1 may specify the means and procedures referred to in points (c) and (d) of the above subparagraph in a separate written agreement

(3) The agreement referred to in subparagraph 1 includes at least the following elements related to the exchange of information and obligations on confidentiality and the prevention of money laundering and the financing of terrorism in that agreement:

(a) a list of all the information that needs to be exchanged between the UCITS, its management company and the depositary related to the subscription, redemption, issue, cancellation and repurchase of units of the UCITS

(b) the confidentiality obligations applicable to the parties to the agreement

The obligations referred to in subparagraph 1(b) shall be drawn up so as not to impair the ability of either the competent authorities of a management company's home Member State or the competent authorities of the UCITS home Member State in gaining access to relevant documents and information.

(c) Information on the tasks and responsibilities of the parties to the agreement in respect of obligations relating to the prevention of money laundering and the financing of terrorism, where applicable.

(4) In cases where the parties to the agreement referred to in subparagraph 1 agree to the use of electronic transmission for part or all of information that flows between them, the agreement contains provisions ensuring that a record is kept of such information.

Elements related to the delegation of duties to third parties

26. Where the depositary or the management company envisage delegating to third parties to carry out their respective duties, the agreement referred to in paragraph 25(1)shall include at least the following particulars:

(a) an undertaking by both parties to the agreement to provide details, on a regular basis, of any third parties appointed by the depositary or the management company to carry out their respective duties;

(b) an undertaking that, upon request by one of the parties, the other party will provide information on the criteria used for selecting the third party and the steps taken to monitor the activities carried out by the selected third party;

(c) a statement that a depositary's liability as referred to in Article 12 of the Law shall not be affected by the fact that it has entrusted to a third party all or some of the assets in its safe-keeping.

Elements related to potential amendments and the termination of the agreement

27. The agreement referred to in paragraph 25(1) includes at least the following particulars related to:

(a) the period of validity of the agreement in case of limited duration or an indication that the agreement is of unlimited duration if applicable

(b) the conditions under which the agreement may be amended or terminated;

(c) the conditions which are necessary to facilitate transition to another depositary and, in case of such transition the procedure by which the depositary shall send all relevant information to the other depositary.

PART V

RISK MANAGEMENT

CHAPTER I

Risk management policy and procedures- Measurement and Management of Risk

Risk management policy and

28. (1) Management companies shall establish, implement and maintain an adequate and documented risk management policy which is in writing and manages the risks that the UCITS they manage are or might be exposed to. The risk management policy shall be

procedures

proportionate to the nature, scale and complexity of the business of the management companies and of the UCITS they manage and shall include the necessary procedures to evaluate the exposure of each UCITS managed to risks, particularly market risk, liquidity and counterparty risk as well as operational risks that might have a material impact on the managed UCITS.

(2) The risk management policy of subparagraph 1shall include at least the following elements:

(a) the techniques, tools and arrangements that enable them to comply with the obligations set out in paragraphs 29 and 30

(b) the allocation of responsibilities within the management company pertaining to risk management

(3) Management companies shall ensure that the risk management policy referred to in subparagraph 1states the terms, contents and frequency of reporting of the risk management function referred to in paragraph 9 to the board of directors and to senior management and, where appropriate, to the supervisory function.

(4) Management companies shall assess, monitor and periodically review:

(a) the adequacy and effectiveness of the risk management policy and of the arrangements, processes and techniques referred to in paragraphs 29 and 30.

(b) the level of compliance by the management company with the risk management policy and with arrangements, processes and techniques referred to in paragraphs 29 and 30

(c) the adequacy and effectiveness of measures taken to address any deficiencies in the performance of the risk management process.

(5) Management companies shall notify to the Commission the established, implemented and maintained risk management policy and procedures and any material changes to the policy or procedures. The Commission shall review the policy and the procedures and may demand from the management company any change justified for the protection of the interests of the UCITS managed and its unit-holders.

Measurement and management of Risk

29. (1) Management companies shall adopt adequate and effective arrangements, processes and techniques which are proportionate to the nature, scale and complexity of the business of the management companies and of the UCITS they manage and are consistent with the UCITS risk profile, in order to:

(a) measure and manage at any time the risks which the UCITS they manage are or might be exposed to

(b) ensure compliance with limits concerning global exposure and counterparty risk, in accordance with paragraphs 30 and 32.

(2) For the purposes of subparagraph 1, management companies shall take the following actions for each UCITS they manage:

(a) put in place such risk measurement arrangements, processes and techniques as are necessary to ensure that the risks of taken positions and their contribution to the overall risk profile are accurately measured on the basis of sound and reliable data and that the risk

measurement arrangements, processes and techniques are adequately documented;

(b) conduct, where appropriate, periodic back-tests in order to review the validity of risk measurement arrangements which include model-based forecasts and estimates;

(c) conduct, where appropriate, periodic stress tests and scenario analyses to address risks arising from potential changes in market conditions that might adversely impact the UCITS;

(d) establish, implement and maintain a documented system of internal limits concerning the measures used to manage and control the relevant risks for each UCITS taking into account all risks which may be material to the UCITS as referred to in subparagraphs 1-3 of paragraph 28 and ensuring consistency with the UCITS risk-profile;

(e) ensure that the current level of risk complies with the risk limit system as set out in point (d) for each UCITS;

(f) establish, implement and maintain adequate procedures that, in the event of actual or anticipated breaches to the risk limit system of the UCITS, result in timely remedial actions in the best interests of unit-holders

(3) Management companies employ an appropriate liquidity risk management process in order to ensure that each UCITS they manage is able to comply at any time with Article 18(1) of the Law .Where appropriate, management companies shall conduct stress tests which enable assessment of the liquidity risk of the UCITS under exceptional circumstances.

(4) Management companies shall ensure that for each UCITS they manage the liquidity profile of the investments of the UCITS is appropriate to the redemption policy laid down in the fund rules or the instruments of incorporation or the prospectus.

Calculation of global exposure

30. (1) Management companies shall calculate the global exposure of a managed UCITS as referred to in Article 41(3) and (4) of the Law on a daily basis, as either of the following:

(a) the incremental exposure and leverage generated by the managed UCITS through the use of financial derivative instruments including embedded derivatives pursuant to the last sentence of Article 41(4) of the Law, which may not exceed the total of the UCITS net asset value.

(b) the market risk of the UCITS portfolio

(2) Management companies may calculate global exposure by using the commitment approach, the value at risk approach or other advanced risk measurement methodologies, for which ESMA has issued guidelines and in accordance with the guidelines, as may be appropriate. For the purposes of this provision, ‘value at risk’ shall mean a measure of the maximum expected loss at a given confidence level over a specific time period. In each case management companies shall ensure that the method selected to measure global exposure is appropriate, taking into account the investment strategy pursued by the UCITS and the types and complexities of the financial derivative instruments used, and the proportion of the UCITS portfolio which comprises financial derivative instruments.

(3) Where a UCITS in accordance with Article 41(2) of the Law employs techniques and instruments including repurchase agreements or securities lending transactions in order to generate additional leverage or exposure to market risk, management companies shall take these transactions into consideration when calculating global exposure.

(4) The use of the commitment approach or theVaR approach or any other methodology to calculate global exposure does not exempt the management company from the requirement to establish appropriate internal risk management measures and limits. The methodology applied should cover also the exposure of transactions related to efficient portfolio management techniques.

Commitment approach

31. (1) Where the commitment approach is used for the calculation of global exposure management companies shall:

(a) apply this approach to all financial derivative instrument positions including embedded derivatives as referred to in the last sentence of Article 41(4) of the Law, whether used as part of the UCITS general investment policy, for purposes of risk reduction or for the purposes of efficient portfolio management as referred to in Article 41(2) of the Law.

(b) convert each financial derivative instrument position into the market value of an equivalent position in the underlying asset of that derivative (standard commitment approach) and

(c) temporary borrowing arrangements entered into on behalf of the UCITS in accordance with Article 50 of the Law need not be included in the global exposure calculation.

(2) Management companies may apply other calculation methods which are equivalent to the standard commitment approach. Management companies may take account of netting and hedging arrangements when calculating global exposure, where these arrangements do not disregard obvious and material risks and result in a clear reduction in risk exposure.

(3) Where the use of financial derivative instruments does not generate incremental exposure for the UCITS, the underlying exposure need not be included in the commitment calculation.

Counterparty risk and issuer concentration

32. (1) Management companies shall ensure that counterparty risk arising from an over-the-counter (OTC) financial derivative instrument is subject to the limits set out in Article 42 of the Law and shall use the commitment approach in calculating the above limits. With respect to the exposure arising from OTC derivatives transactions as referred to in Article 42 (1), (2) and (3) of the Law management companies shall include in the calculation any exposure to OTC derivative counterparty risk.

(2) In calculating the counterparty risk, in accordance with the limits of Article 42 (4) of the Law, management companies shall use the positive mark-to-market value of the OTC derivative contract with that counterparty. Management companies may net the derivative positions of a UCITS with the same counterparty, provided that they are able to legally

enforce netting agreements with the counterparty on behalf of the UCITS. Netting shall only be permissible with respect to OTC derivative instruments with the same counterparty and not in relation to any other exposures the UCITS may have with that same counterparty.

(3) Management companies may reduce the UCITS exposure to a counterparty of an OTC derivative transaction through the receipt of collateral. Collateral received shall be sufficiently liquid so that it can be sold quickly at a price that is close to its pre-sale valuation.

(4) Management companies shall take collateral into account in calculating exposure to counterparty risk as referred to in Article 42(4) of the Law when the management company passes collateral to OTC counterparty on behalf of the UCITS. Collateral passed may be taken into account on a net basis only if the management company is able to legally enforce netting arrangements with this counterparty on behalf of the UCITS.

(5) The specific details regarding the calculation of counterparty risk are referred to in Appendix III.

Settlement obligations of derivative transactions

33. (1) The UCITS must at all times be able to fulfill its obligations arising from its transactions in derivatives and which create payment obligations in cash or in kind. In particular:

(a) In the case of derivative transactions that are settled with physical delivery of the underlying security, either by default or following the choice of the UCTIS counterparty, at the maturity date or the exercise date and in the case physical delivery is customary for the specific underlying the UCITS *must*:

(i) Include the underlying security in its portfolio as cover or

(ii) When the Management Company judges the particular security is sufficiently liquid then may provide as cover an adequate amount of cash equivalent subject to the condition that these case equivalent will be available at any moment for the purchase of the underlying security to be physically delivered

(b) In the case of derivative transactions that are cash settled, either by default or following the choice of the UCTIS, the UCITS must have adequate cash equivalent so as to be able to settle the transactions.

(2) Cash equivalent in accordance with subparagraph 1 are:

a) cash,

b) credit securities of investment grade or accompanied by appropriate credit protection measures i.e. security margins or

c) equity securities included in a main index as long as they can be readily converted into cash in a short period of time and at a price not significantly deviant from its current market price

(3) The management company ensures that the cover in accordance with subparagraphs (1) and (2) is adequate so as to be in a position to meet its obligations.

(4) The risk management function monitors the UCITS derivative transactions so as to ensure that they are adequately covered

CHAPTER II

Procedures for the valuation of the OTC derivatives – Information on derivative instruments

Valuation of OTC derivatives

34. (1) Management companies shall verify that UCITS exposures to OTC derivatives are assigned fair values that do not rely only on market quotations by the counterparties of the OTC transactions and which fulfil the criteria set out in paragraph 9 of the Commission's DI78-2012-13

(2) Management companies shall establish, implement and maintain arrangements and procedures which ensure appropriate, transparent and fair valuation of UCITS exposures to OTC derivatives and ensure that the fair value of OTC derivatives is subject to adequate, accurate and independent assessment. Management companies shall comply with the requirements set out in subparagraph (1)(b) of paragraph 5 and in subparagraph 4 of paragraph 18 when arrangements and procedures concerning the valuation of OTC derivatives involve the performance of certain activities by third parties. The valuation arrangements and procedures shall be adequately documented.

(3) For the purposes of subparagraphs 1 and 2, the risk management function shall be appointed with specific duties and responsibilities

(4) The specific details regarding the valuation of OTC derivatives are referred to in Appendix IV.

Obligations on investor information

35. (1) The prospectus and the annual report of the UCITS must state which method is used for the calculation of the global exposure, specifically the commitment approach, the relative or the absolute VaR.

(2) If the Management company is applying The VaR approach for the calculation of the global exposure the prospectus and the annual report make reference to:

(a) The expected level of leverage, which is calculated as the sum of the notional value of the derivative transactions of the UCITS as well as the possibility of higher leverage in accordance with Appendix V.

(b) Information regarding the reference portfolio of the UCITS in accordance with the rules of Appendix VI.

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(3) If the management company is applying the VaR approach for the calculation of the global exposure the annual report makes reference in addition to above requirements to the following in accordance with Appendix VII:

(a) The VaR measurement including information about lowest, highest and average VaR during the financial year as well as the model and the parameters used for the measurement calculation and

(b) The level of leverage, in accordance with subparagraph (2) (a), during the specific financial year.

(4) The prospectus of the UCITS for which the management company applies the commitment approach in accordance with point F of Appendix I for the calculation of the global exposure includes the following:

(a) Complete disclosure regarding the investment policy of the UCITS, the underlying securities exposure from derivative transactions and the settlement types of the derivative transactions in a simple language so as to be easily understood by the investors and

(b) Clear warning informing investors that will redeem their units before the UCITS maturity that they lose their right to the predetermined payoff and that it is possible to suffer significant losses

Submission of information regarding derivatives

36. (1) Management companies shall submit to the Commission, within 2 months from the end of the financial year, reports containing information which reflects a true and fair view:

(a) of the types of derivative instruments used for each managed UCITS

(b) their underlying risks

(c) the quantitative limits and the methods which are chosen to estimate the risks associated with the derivative transactions

(2) The Commission shall review the management companies 'compliance with the above report's including regularity and completeness of the information referred to in subparagraph 1 and may intervene where appropriate.

PART VI
OWN FUNDS

Own Funds

37. The own funds of management companies that provide the services of article 109(4) of the Law are determined, in addition to the requirements of article 110 of the Law, in accordance with the Commission's Directive DI144-2007-05 regarding capital adequacy of investment firms.

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PART VII
FINAL PROVISIONS

Entry into force 38. This directive enters into force from the date of its publication in the Official Journal of the Republic.

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APPENDIX I

Calculation of UCITS global exposure using the commitment approach

A. Commitment approach

1. The calculation of the UCITS exposure to market risk, in accordance with the commitment approach, is in accordance with the rules of paragraph 31 of the directive, taking into consideration the relevant rules of Type I in the current appendix. The total of the global exposure of the UCITS of the transactions in derivatives is the sum of the exposure of each derivative transaction after consideration of the netting and hedging outcome in accordance with points B, C and D of the current Appendix.

2. The commitment conversion methodology for standard derivatives is always the market value of the equivalent position in the underlying asset. This may be replaced by the notional value or the price of the futures contract where this is more conservative. For non-standard derivatives, where it is not possible to convert the derivative into the market value or notional value of the equivalent underlying asset, an alternative approach may be used provided that the total amount of the derivatives represent a negligible portion of the UCITS portfolio.

3. In calculating global exposure as per points A.1 and 2 the commitment from each derivative is translated to the base currency of the UCITS if appropriate. If currency derivative legs are both in currencies different than the UCITS base currency then both legs are translated to the UCITS base currency and are included in the calculation.

4. In applying the commitment approach include obligations from the use of efficient portfolio management techniques.

5. A financial derivative instrument is not taken into account when calculating the commitment if it fulfils all of the following characteristics:

(a) It swaps the performance of financial assets held in the UCITS portfolios for the performance of other reference financial assets;

(b) It totally offsets the market risk of the swapped assets held in the UCITS portfolio so that the UCITS performance (e.g. performance of the net asset value) does not depend on the performance of the swapped assets; and

(c) It includes neither additional optional features, nor leverage clauses nor other additional risks as compared to a direct holding of the reference financial assets.

6. A financial derivative instrument is not taken into account when calculating the commitment if it meets both of the following conditions:

(a) The combined holding by the UCITS of a financial derivative instrument relating to a financial asset and cash which is invested in risk free assets is equivalent to holding a cash position in the given financial asset.

(b) The financial derivative instrument is not considered to generate any incremental exposure and leverage or market risk.

B. Netting and hedging arrangements

1. When calculating global exposure using the commitment approach, netting and hedging arrangements may be taken into account to reduce global exposure.

2. Netting arrangements are defined as combinations of trades on financial derivative instruments and/or security positions which refer to the same underlying asset, irrespective – in the case of financial derivative instruments – of the contracts' due date; and where the trades on financial derivative instruments and/or security positions are

concluded with the sole aim of eliminating the risks linked to positions taken through the other financial derivative instruments and/or security positions

3. Hedging arrangements are defined as combinations of trades on financial derivative instruments and/or security positions which do not necessarily refer to the same underlying asset and where the trades on financial derivative instruments and/or security positions are concluded with the sole aim of offsetting risks linked to positions taken through the other financial derivative instruments and/or security positions

4. If the management company uses a conservative calculation of the commitment for each financial derivative instrument, hedging and netting arrangements cannot be taken into account to reduce commitment on the derivatives involved if it results in an underestimation of the global exposure.

C. Netting

1. A management company may net positions:

(a) between financial derivative instruments, provided they refer to the same underlying asset, even if the maturity date of the financial derivative instruments is different;

(b) between a financial derivative instrument (whose underlying asset is a transferable security, money market instrument or a collective investment undertaking) and that same corresponding underlying asset;

2. UCITS that invest primarily in interest rate derivatives may make use of specific duration netting rules in order to take into account the correlation between the maturity segments of the interest rate curve. The duration-netting rules cannot be used if it would lead to an incorrect assessment of the risk profile of the UCITS. UCITS availing of these netting rules should not include other sources of risk (e.g. volatility) in their interest rate strategy. The use of these duration-netting rules cannot generate any unjustified level of leverage through investment in short-term positions.

3. The interest rate derivative conversion to the equivalent position of the underlying is done in accordance with the methodology and rules of Type II of the current Appendix.

4. When the Management company makes use of the specific duration netting rules it may also apply hedging arrangements in accordance with point D. However only interest rate derivatives not included in hedging arrangements may make use of the specific duration netting rules.

D. Hedging

1. Hedging arrangements may only be taken into account when calculating global exposure if they offset the risks linked to some assets and, in particular, if they comply with all the criteria below:

(a) investment strategies that aim to generate a return should not be considered as hedging arrangements;

(b) there should be a verifiable reduction of risk at the UCITS level.

(c) the risks linked to financial derivative instruments, i.e., general and specific if any, should be offset;

(d) they should relate to the same asset class; and

(e) they should be efficient in stressed market conditions.

2. Without prejudice the above criteria, financial derivative instruments used for currency hedging purposes (i.e. that do not add any incremental exposure, leverage and/or other market risks) may be netted when calculating the UCITS global exposure.

3. For the avoidance of doubt, no market neutral or long/short investment strategies will comply with all the criteria laid down above.

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E. Efficient Portfolio Management Techniques

1. If UCITS are authorised to undertake repurchase transactions or securities lending transactions in order to generate additional leverage through the reinvestment of collateral, these transactions must be taken into consideration for the determination of the global exposure.

2. UCITS that reinvest collateral in financial assets that provide a return in excess of the risk-free return, must include in their global exposure calculations:

a) the amount received if cash collateral is held; and

b) the market value of the instrument concerned if non-cash collateral is held

3. Any global exposure generated will be added with the global exposure created through the use of derivatives and the total of these must not be greater than 100% of the NAV of the UCITS.

4. Any further use of collateral as part of another repurchase transaction or securities lending transactions must be similarly treated and included in the global exposure calculation of the UCITS.

F. Special provisions for Structured UCITS

1. Management companies may calculate global exposure using the commitment approach, as specified in point F (3) of the current Appendix for UCITS which comply in full with the criteria in point F (2) of the current Appendix.

2. The criteria are:

a) the UCITS is passively managed and structured to achieve at maturity the pre-defined payoff and holds at all times the assets needed to ensure that this pre-defined payoff will be met;

b) the UCITS is formula-based and the pre-defined payoff can be divided into a limited number of separate scenarios which are dependent on the value of the underlying assets and which offer investors different payoffs;

c) the investor can only be exposed to one payoff profile at any time during the life of the UCITS;

d) the use of the commitment approach as described in point F 3 of the current Appendix to calculate global exposure is appropriate taking into account the requirements of subparagraph 2 paragraph 30 and the provisions of Appendices I and II, as to the scenarios referred to point b above.

e) the UCITS has a final maturity not exceeding 9 years;

f) the UCITS does not accept new subscriptions from the public after the initial marketing period;

g) the maximum loss the UCITS can suffer when the portfolio switches from one payoff profile to another must be limited to 100% of the initial offer price; and

h) the impact of the performance of a single underlying asset on the payoff profile when the UCITS switches from one scenario to another complies with the diversification requirements of the UCITS Directive based on the initial net asset value of the UCITS.

3. The commitment approach as the method of calculation of the global exposure of a UCITS that is in accordance with the criteria of point F 2 is applied, in derogation of the provisions of Appendix I point A to E, subject to the following rules:

a) The formula-based investment strategy for each pre-defined payoff is broken down into individual payoff scenarios.

b) The financial derivative instruments implied in each scenario are assessed to establish whether the derivative may be excluded from the calculation of global exposure under the provisions of points A 5 and 6 of the current Appendix.

c) Finally the UCITS calculates the global exposure of the individual scenarios to assess compliance with the global exposure limit of 100% of NAV.

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TYPE I

Conversion Rules

1. The following steps must be taken by a UCITS when calculating global exposure using the commitment approach:

a. Calculate the commitment of each individual derivative (as well as any embedded derivatives and leverage linked to EPM techniques).

b. Identify netting and hedging arrangements. For each netting or hedging arrangement, calculate a net commitment as follows :

- Gross commitment is equal to the sum of the commitments of the individual financial derivative instruments (including embedded derivatives) after derivative netting;

- If the netting or hedging arrangement involves security positions, the market value of security positions can be used to offset gross commitment;

- The absolute value of the resulting calculation is equal to net commitment.

c. Global exposure is then equal to the sum of:

- The absolute value of the commitment of each individual derivative not involved in netting or hedging arrangements; and

- The absolute value of each net commitment after the netting or hedging arrangements as described above; and

- The sum of the absolute values of the commitment linked to EPM techniques

2. The calculation of gross and net commitment must be based on an exact conversion of the financial derivative position into the market value of an equivalent position in the underlying asset of that derivative.

Conversion methodologies – Standard Derivatives

3. The following conversion methods should be applied to the non-exhaustive list of standard derivatives below.

• Futures
- Bond Future:
Number of contracts * notional contract size * market price of the cheapest-to-deliver reference bond
- Interest Rate Future:
Number of contracts * notional contract size
- Currency Future:
Number of contracts * notional contract size
- Equity Future:
Number of contracts * notional contract size * market price of underlying equity share
- Index Futures:
Number of contracts * notional contract size * index level

• Plain Vanilla Options (bought/sold puts and calls)
- Plain Vanilla Bond Option:
Notional contract value * market value of underlying reference bond * delta
- Plain Vanilla Equity Option:
Number of contracts*notional contract size* market value of underlying equity share * delta
- Plain Vanilla Interest Rate Option:
Notional contract value * delta
- Plain Vanilla Currency Option:
Notional contract value of currency leg(s) * delta
- Plain Vanilla Index Options:
Number of contracts*notional contract size* index level * delta
- Plain Vanilla Options on Futures:
Number of contracts*notional contract size* market value of underlying asset * delta

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- Plain Vanilla Swaptions:
Reference swap commitment conversion amount (see below) * delta
- Warrants and Rights:
Number of shares/bonds * market value of underlying referenced instrument * delta

• Swaps
- Plain Vanilla Fixed/Floating Rate Interest Rate and Inflation Swaps
Market value of underlying (the notional value of the fixed leg may also be applied)
- Currency Swap:
Notional value of currency leg(s)
- Cross currency Interest Rate Swaps:
Notional value of currency leg(s)
- Basic Total Return Swap:
Underlying market value of reference asset(s)
- Non-Basic Total Return Swap:
Cumulative underlying market value of both legs of the TRS
- Single Name Credit Default Swap:
Protection Seller – The higher of the market value of the underlying reference asset or the notional value of the Credit Default Swap.
Protection Buyer – Market value of the underlying reference asset
- Contract for Differences:
Number of shares/bonds * market value of underlying referenced instrument

• Forwards
- FX forward:
Notional value of currency leg(s)
- Forward Rate Agreement:
Notional value

• Leveraged exposure to indices or indices with embedded leverage
A derivative providing leveraged exposure to an underlying index, or indices that embed leveraged exposure to their portfolio, must apply the standard applicable commitment approach to the assets in question.

Conversion Methodologies – Embedded Derivatives

4. The following conversion method should be applied to the non-exhaustive list below of financial instruments which embed derivatives.
- Convertible Bonds:
Number of referenced shares * market value of underlying reference shares * delta
- Credit Linked Notes:
Market value of underlying reference asset(s)
- Partly Paid Securities:
Number of shares/bonds * market value of underlying referenced instruments
- Warrants and Rights:
Number of shares/bonds * market value of underlying referenced instrument * delta

Conversion Methodologies – Non-Standard (Exotic) Derivatives

5. The following instruments are given as examples of non-standard derivatives with the related commitment methodology to be used.
- Variance Swaps
Variance swaps are contracts that allow investors to gain exposure to the variance (squared volatility) of an underlying asset and, in particular, to trade future realized (or historical) volatility against current implied volatility. According to market practice, the strike and the variance notional are expressed in terms of volatility. For the variance notional, this gives:
Variance notional = vega notional / 2 x strike

The vega notional provides a theoretical measure of the profit or loss resulting from a 1% change in volatility.
As realised volatility cannot be less than zero, a long swap position has a known maximum loss. The maximum loss on a short swap is often limited by the inclusion of a cap on volatility.
However without a cap, a short swap's potential losses are unlimited.

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The conversion methodology to be used for a given contract at time t is:

Variance Notional * (current) Variance t (without volatility cap)
Variance Notional * min [(current) Variancet; volatility cap2] (with volatility cap)
whereby: (current) variance t is a function of the squared realized and implied volatility, more precisely:

*(current) variance t = t/T *realized volatility (0,t) 2 * implied volatility (t,T) 2*

- Volatility Swaps

By analogy with the variance swaps, the following conversion formulae should be applied to volatility swaps:
Vega Notional * (current) Volatility t (without volatility cap)
Vega Notional * min [(current) Volatility t; volatility cap] (with volatility cap)
Whereby the (current) volatility t is a function of the realized and implied volatility.

6. Barrier (knock-in knock-out) Options

Number of contracts * notional contract size * market value of underlying equity share*maximum delta
Whereby the maximum delta is equal to the highest (if positive) or lowest (if negative) value that the delta of the option may attain taking into account all possible market scenarios.

Type II

A UCITS interest rate derivative should be converted into its equivalent underlying asset position according to the following methodology:

1. Allocate each interest rate financial derivative instrument to the appropriate range (‘bucket’) of the following maturity-based ladder:

Bucket	Maturities range in years
1	0-2
2	2-7
3	7-15
4	>15

2. Calculate the equivalent underlying asset position of each interest rate derivative instrument as its duration divided by the target duration of the UCITS and multiplied by the market value of the underlying asset:

Equivalent underlying asset position = Duration FDI / target duration X MtM underlying

where:
- *duration FDI* is the duration (sensitivity to interest rates) of the interest rate derivative instrument,
- *target duration* is in line with the investment strategy, the directional positions and with the expected level of risk at any time and will be regularised otherwise. It is also in line with the portfolio duration under normal market conditions.
- underlying *MtM* is the market value of the underlying asset as detailed in the rules of Type I of Appendix I.

(c) Net the long and short equivalent underlying asset positions within each bucket. The amount of the former which is netted with the latter is the *netted position* for that bucket.

(d) Net the amount of the remaining unnetted long (or short) position in the bucket *(i)*with the amount of the remaining short (long) position remaining in the bucket *(i+1)*

(e) Net the amount of the unnetted long (or short) position in the bucket *(i)* with the amount of the remaining short (long) position remaining in the bucket *(i+2)*.

(f) Calculate the netted amount between the unnetted long and short positions of the two most remote buckets.

(g) The UCITS calculates its total global exposure as the sum of:

(a) 0% of the netted position for each bucket;
(b) 40% of the netted positions between two adjoining buckets *(i*) and *(i+1)*;
(c) 75% of the netted positions between two remote buckets separated by another one, meaning buckets *(i)* and *(i+2)*;
(d) 100% of the netted positions between the two most remote buckets; and
(e) 100% of the remaining unnetted positions.

4. A UCITS making use of the duration-netting rules, which are optional, can still make use of the hedging framework of point D of Appendix I. However, only the Interest rate derivatives which are not included in hedging arrangements can still make use of duration-netting rules.

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APPENDIX II

Calculation of UCITS global exposure using the Value at Risk approach

A. Mandatory application of the Value at Risk approach

1. Subject to point A.2 of the current Appendix, the management company implements for the total of the UCITS positions the VaR approach, setting a maximum VaR limit appropriate to the UCITS risk profile supported by a stress testing program, when all the following conditions are met:

a) The UCITS adopts in a significant degree a complex investment strategy

b) is exposed in a significant degree to exotic derivatives

c) the commitment approach does not fully capture the market risk of the portfolio

2. The management company may, in the cases of A. 1 of the current Appendix, apply other advanced methodologies as specified by ESMA as suitable for application.

B. Choice between Absolute and Relative VaR

1. For the purpose of calculating the global exposure of the UCITS the management company uses either the relevant VaR or the Absolute VaR taking into consideration the risk profile and investment strategy being pursued and the types and complexity of the financial instruments used

2. The VaR model should provide for completeness and it should assess the risks with a high level of accuracy. In particular:

a) all the positions of the UCITS portfolio should be included in the VaR calculation.

b) the model should adequately capture all the material market risks associated with portfolio positions and, in particular, the specific risks associated with financial derivative instruments. For that purpose, all the risk factors which have more than a negligible influence on the fluctuation of the portfolio's value should be covered by the VaR model.

c) the quantitative models used within the VaR framework (pricing tools, estimation of volatilities and correlations, etc) should provide for a high level of accuracy.

d) all data used within the VaR framework should provide for consistency, timeliness and reliability.

3. The management company should be able to demonstrate that the VaR approach it has chosen in accordance with the previous sentence and it uses is appropriate for the specific UCITS.

4. The VaR model used for global exposure calculation purposes should take into account, as a minimum, general market risk and, if applicable, idiosyncratic risk. The event (and/or default) risks to which a UCITS is exposed following its investments should be taken into account, as a minimum, in the stress testing program as referred to in point Z of the current Appendix

5. If the proposed risk measurement framework should prove inadequate, the Commission may to require stricter measures for such UCITS.

C. Relative VaR

1. In accordance with the relative VaR approach the global exposure of the UCITS is calculated as follows:

a) Calculate the VaR of the UCITS' current portfolio (which includes derivatives);
b) Calculate the VaR of a reference portfolio;
c) Check that the VaR of the UCITS portfolio is not greater than twice the VaR of the reference portfolio in order to ensure a limitation of the global leverage ratio of the UCITS to 2. This limit can be presented as follows:

(VaR UCITS VaR Reference Portfolio) / VaR Reference Portfolio × 100 ≤ 100%

2. The reference portfolio and the related processes should comply with the following criteria:

a) The reference portfolio should be unleveraged and should, in particular, not contain any financial derivative instruments or embedded derivatives, except that;

i)a UCITS engaging in a long/short strategy may select a reference portfolio which uses financial derivative instruments to gain the short exposure;

ii) a UCITS which intends to have a currency hedged portfolio may select a currency hedged index as a reference portfolio.

b) The risk profile of the reference portfolio should be consistent with the investment objectives, policies and limits of the UCITS' portfolio;

c) If the risk/return profile of a UCITS changes frequently or if the definition of a reference portfolio is not possible, then the relative VaR method should not be used.

d) The process relating to the determination and the ongoing maintenance of the reference portfolio should be integrated in the risk management process and be supported by adequate procedures. Guidelines governing the composition of the reference portfolio should be developed. In addition, the actual composition of the reference portfolio and any changes should be clearly documented.

D. Absolute VaR

1. The absolute VaR approach limits the maximum VaR that a UCITS can have relative to its Net Asset Value (NAV).

2. The absolute VaR of a UCITS cannot be greater than 20% of its NAV

3. In the case a UCITS applying absolute VaR approach uses other calculation parameters than the ones in point E of the current Appendix it must adjust (rescale) the 20% limit to the particular holding period and/or confidence interval. The rescaling can only be done under the assumption of a normal distribution with an identical and independent distribution of the risk factor returns by referring to the quantiles of the normal distribution and the square root of time rule.

E. Calculation parameters for the absolute and relative VaR

1. The calculation of the absolute and relative VaR should be carried out in accordance with the following parameters:

(a) one-tailed confidence interval of 99 %;

(b) holding period equivalent to 1 month (20 business days);

(c) effective observation period (history) of risk factors of at least 1 year (250 business days)unless a shorter observation period is justified by a significant increase in price volatility (for instance extreme market conditions);

(d) quarterly data set updates, or more frequent when market prices are subject to material changes;

(e) at least daily calculation.

2. A confidence interval and/or a holding period differing from the default parameters of point 1 above may be used by the management company provided the confidence interval is not below 95% and the holding period does not exceed 1 month (20 days).

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F. Back testing program

1. The management company should monitor the accuracy and performance its VaR model (i.e. prediction capacity of risk estimates), by conducting a back testing program.

2. The back testing program should provide for each business day a comparison of the one-day value-at-risk measure generated by the UCITS model for the UCITS' end-of-day positions to the one-day change of the UCITS' portfolio value by the end of the subsequent business day.

3. The management company should carry out the back testing program at least on a monthly basis, subject to always performing retroactively the comparison for each business day in paragraph 2.

4. The management company should determine and monitor the 'overshootings' on the basis of this back testing program. An 'overshooting' is a one-day change in the portfolio's value that exceeds the related one-day value-at-risk measure calculated by the model. If the back testing results reveal a percentage of 'overshootings' that appears to be too high, the management company should review the VaR model and make appropriate adjustments.

5. The management company's Board of Directors and senior management should be informed at least on a quarterly basis, if the number of overshootings of point F. 4 for the most recent 250 business days exceeds 4 in the case of a 99% confidence interval. This information should include a report containing an analysis and explanation of the sources of 'overshootings' and a statement of what measures if any were taken to improve the accuracy of the model.

6. The management company's Board of Directors or its senior management informs the Commission the overshootings of point F.5 of the current Appendix together with the relevant report.

7. The Commission may request from the management company to take measures for dealing with the overshootings of point F.5 of the current Appendix and impose a more frequent reporting to the Board of Directors, senior management and the Commission

G. Stress Testing program

1. The management company, for each UCITS using the VaR approach, should conduct a rigorous, comprehensive and risk adequate stress testing program in accordance with the requirements set out in point 2 below. The stress testing program should be designed to measure any potential major depreciation of the UCITS value as a result of unexpected changes in the relevant market parameters and correlation factors.

2. The stress tests should be adequately integrated into the risk management process implemented by the management company for the UCITS and the results should be considered when making investment decisions for the UCITS.

3. The design of the stress tests should be adapted in line with the composition of the UCITS and the market conditions that are relevant for the UCITS and should be carried out on a regular basis, at least once a month. Additionally, they should be carried out whenever a change in the value or the composition of a UCITS or a change in market conditions makes it likely that the test results will differ significantly.

4. The stress tests:

a) should cover all risks which affect the value or the fluctuations in value of the UCITS to any significant degree. In particular, those risks which are not fully captured by the VaR model used should be taken into account.

b) should be appropriate for analyzing potential situations in which the use of significant leverage would expose the UCITS to significant downside risk and could potentially lead to the default of the UCITS

c) should focus on those risks which, though not significant in normal circumstances, are likely to be significant in stress situations, such as the risk of unusual correlation changes, the illiquidity of markets in stressed market situations or the behaviour of complex structured products under stressed liquidity conditions.

5. Management companies shall implement clear procedures relating to the design of, and ongoing adaptation of the stress tests, for each UCITS managed, so as to comply with the conditions of points G 1-4 of the current Appendix. The management company must be able to demonstrate the suitability of the implemented stress testing program. Completed stress tests together with their results should be kept in a record.

6. Deviations from the stress testing program are permitted only in exceptional cases and subject to reasonable justification from the management company.

H. Duties and responsibilities

1. The application of the VaR approach is part of the responsibilities of the risk management function and includes:

(a) sourcing, testing, maintaining and using the VaR model on a day-to-day basis

(b) ensuring on a continuous basis that the model is adapted to the UCITS' portfolio

(c) performing continuous validation of the model to ensure the accuracy of its adaptability.

(d) validating the VaR model to be used by the company, before it is submitted for approval to senior management and the board of Directors, in accordance with point H 3 (a) of the current appendix together with the relevant report for its appropriateness, sufficiency and compliance with. the rules of the current Appendix.

(e) ensuring compliance with the obligations of the current Appendix.

(f) supervising the process relating to the determination of the reference portfolio if the UCITS reverts to a relative VaR approach;

(g) setting in place a system of VaR limits consistent with the UCITS risk profile and monitors and controls the VaR limits

(h) monitoring on a regular basis the level of leverage generated by the UCITS;

(i) producing on a regular basis reports relating to the current level of the VaR measure, including back testing and stress testing, for the Board of Directors, Senior Management and the Supervisory function if necessary.

2. The VaR model and the related outputs should represent an integral part of the daily risk management work. In addition, they should be integrated in the regular investment process lead by the investment managers as part of the risk management program to keep the UCITS risk profile under control and consistent with its investment strategy.

3. The Board of Directors of the management company:

a) validates the VaR model and any changes to it in order to ensure that it is always appropriate, sufficient and in compliance with the requirements of the current Appendix

b) validates the reference portfolio in the case of relative VaR application

c) evaluates the tests conducted in accordance with points F and G of the current Appendix and if necessary according to the results of the test approve the improvement of the model.

d) approves the limits set by the risk management function in accordance with point H. 1(g) of the current Appendix before their implementation.

e) evaluated the reports presented by the risk management function in accordance with point H. 1(i) of the current Appendix and

f) bears the final responsibility for the compliance with the current Appendix.

4. Following initial development, the model should undergo a validation by a party independent of the building process for ensuring that the model is conceptually sound and captures adequately all material risks. This validation process must also be carried out following any significant change to the model. A significant change could relate to the use of a new product by the UCITS, the need to improve the model following the back testing results, or a decision taken by the UCITS to change certain aspects of the model in a significant way.

I. Documentation

The documentation requirements referred to in paragraph 29 (2) should be taken to include an adequate documentation of the VaR model and the related processes and techniques, thereby covering, among others:

a) the risks covered by the model

b) the model's methodology

c) the mathematical assumptions and foundations

d) the data used

e) the accuracy and completeness of the risk assessment

f) the methods used to validate the model

g) the back testing process and the stress testing process

h) the validity range of the model and

i) the operational implementation.

J. Additional safeguards and disclosure

1. Management companies which calculate global exposure using a VaR methodology should regularly monitor their leverage.

2. Management companies should supplement the VaR / Stress Testing framework, where appropriate by taking into account the risk profile and the investment strategy being pursued, with other risk measurement methods

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APPENDIX III

Counterparty risk and Issuer concentration

A. Calculation of counterparty risk

1. The counterparty risk is calculated in accordance with the rules of paragraph 32. For the calculation of the counterparty risk in accordance with Articles 42 (1) και (4) of the Law include the Initial margin and variation margin posted to a broker relating to exchange-traded or OTC derivatives which is not protected in the case of the insolvency of the broker..

2. UCITS transactions in exchange traded derivatives are exempted from the calculation when the following conditions are cumulatively met:

a) Covered by an appropriate execution guarantee

b) Daily valuation of the market price of the positions

c) Daily setting of margin requirements

3. When calculating counterparty risk exposure for the purposes of the limits of Articles 42 (3) και (4) of the Law, the management company must establish whether its exposure is to OTC counterparty, a broker or a clearing house.

B. Collateral

1. Subject to paragraphs 32 (3) και (4) collateral may be used to reduce counterparty risk exposure provided it complies with the following set of high-level principles at all times:

a) Liquidity – any collateral posted must be sufficiently liquid in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a highly liquid marketplace with transparent pricing. Additionally collateral with a short settlement cycles is preferable to a long settlement cycles as assets can be converted into cash more quickly.

b) Valuation – collateral must be capable of being valued on at least a daily basis. An inability to value collateral through independent means would clearly place the UCITS at risk, and this would also apply to'mark to model' valuations and assets that are thinly traded.

c) Issuer credit quality should be of very high credit rating.

d) There is no correlation between the OTC counterparty and the collateral received.

e) Collateral diversification in regard to issue, industry and geographical exposure.

f) Appropriate legal framework and operating procedures in regard to the management of the collateral.

g) collateral must be held by a third party custodian which is subject to prudential supervision, and which is either unrelated to the provider or is legally secured from the consequences of a failure of a related party.

h) Collateral must be fully enforced by the UCITS at any time without reference to or approval from the counterparty.

i) Non-cash collateral cannot be sold, re-invested or pledged.

j) Cash collateral can only be invested in risk-free assets.

2. UCITS may disregard the counterparty risk on condition that the value of the collateral, valued at market price and taking into account appropriate discounts, exceeds the value of the amount exposed to risk at any given time.

3. For the valuation of collateral presenting a significant risk of value fluctuation, the management company should apply prudent discount rates based on the level of risk.

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C. Issuer concentration

1. When calculating issuer-concentration risk the financial derivative instrument (including embedded financial derivative instruments) must be taken into consideration for the calculation of the resultant position exposure. This position exposure must be taken into account in the issuer concentration calculations. It must be calculated using the commitment approach when appropriate or the maximum potential loss as a result of default by the issuer if more conservative. It must be calculated for the UCITS, regardless of whether the management company uses VaR for global exposure purposes.

2. When calculating the issuer concentration limit of 20% specified in Article 42(3) of the law include any net exposure to a counterparty generated through a stock-lending or repurchase agreement, net exposure being understood as the amount receivable by the UCITS less any collateral provided to the UCITS

3. Exposures created through the reinvestment of collateral must also be taken into account in the issuer-concentration calculation.

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APPENDIX IV

Valuation of OTC Derivatives

1. The management company must be able to determine with reasonable accuracy the fair value of the OTC derivatives for their entire life span.

2. The valuation of the OTC derivatives is done in accordance with the provisions of paragraph 34 and the following rules:

a) The valuation is based on current prices, determined in a reliable manner, or if such prices are not available in accordance with a valuation model that uses an appropriate and widely accepted methodology.

b) The confirmation of the valuation is performed by one of the following entities:

i) A suitable third person that is independent from the UCITS’ OTC derivative counterparty and the valuation will be performed with the appropriate frequency and methods that will allow the control of the confirmation from the management company

ii) An independent department, from the investment management activity, of the management company that will be adequately staffed and organised for this purpose and which will use data provided by third parties, independent from the management company and the UCITS before their use for valuation purposes, provided that the data is audited by the management company to ensure their reliability.

3. If the valuation of the OTC derivative in accordance with point A. 2. of the current Appendix is not possible the UCITS may not enter into a transaction on the particular derivative even if it would be compatible with its investment policy.

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APPENDIX V

Valuation and disclosure of the expected level of leverage

Leverage is determined after taking into consideration the derivative agreements entered into by the UCITS, the reinvestment of received (in cash) collateral, as per Appendix I point E, and any other use of collateral in the framework of efficient portfolio management transactions and in particular in relation to any transactions of fixed income securities borrowing or transaction involving collateral repurchase.

The total of the nominal value of the derivatives is used as reference for determining the level of leverage to be disclosed in the prospectus. If the derivative has no nominal value then the market value of the equivalent position of the underlying asset will be used.

Alternatively, instead of the total of the nominal value the commitment approach, in accordance with Appendix I, can be used as reference for determining the level of leverage. The method of leverage calculation (total of nominal value or commitment approach) will be specified in combination with the level of leverage.

The UCITS may provide clarifications in regard to the level of leverage. The prospectus includes a distinct statement which it specifies if derivative transactions can be used for hedging purposes or as part of the investment policy of the UCITS and clarifies the possible impact of derivatives usage on the risk profile. In addition, if the UCITS net asset value is subject to increased volatility as a result of the portfolio composition or the portfolio management techniques that may be used, the prospectus includes a distinct statement that draws attention to the above UCITS characteristic.

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APPENDIX VI

Content of information about the reference portfolio of a UITS applying the relevant VaR approach

The UCITS that uses the relevant VaR approach to calculate global exposure should disclose in its prospectus information about the reference portfolio to allow investors to have a clear and precise view of the reference portfolio's risk profile.

In the case the reference portfolio is based on an index or combination of indices the UCITS should disclose in its prospectus either the name of the index/indices (the percentage of each index where appropriate) or information about the index (or indices) that describes the elements that determine the risk profile of the portfolio, such as:

- The types of transferable securities
- The country/geographical region
- The industry
- The type of issuer (i.e. sovereign, corporate, banking institutions)
- The capitalisation category (i.e. blue chip, medium, small)
- The credit worthiness
- The percentage of the securities that bear the same characteristics.

In case the reference portfolio is based on a group of assets, the prospectus includes information based on the above elements.

In addition the UCITS evaluates the investors' interest for additional information about the reference portfolio either through the prospectus or through a website or directly from the management company.

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APPENDIX VII

Transparency regarding risk level in the annual report

The clarifications disclosed in accordance with the rules of Appendices V and VI, are included in the annual report of the UCITS, in regard to the level of leverage and the information about the reference portfolio (in the case of relevant VaR)

The information about VaR implementation are provided with reference either to the legal limits of 200% in the case of relevant VR or 20% in the case of absolute VaR or in the case of determined lower limits with reference to both the legal and determined limits. In any case, the UCITS determine with accuracy the referenced limits of the VaR levels. In addition if the annual report contains information about the upper limits these information include the levels of the calculated limits.

The information about VaR (lowest, highest and average utilisation) is based on all VaR models applied during the financial year.

In regard to the leverage levels employed the UCITS may for example use as basis for the annual report information the average utilisation during the last financial year. The relevant data shall refer at least on a two months basis.