



FINANCIAL REGULATOR
Rialtóir Airgeadais

UCITS NOTICES

UNDERTAKINGS FOR COLLECTIVE INVESTMENT IN
TRANSFERABLE SECURITIES AUTHORISED UNDER
EUROPEAN COMMUNITIES (UNDERTAKINGS FOR COLLECTIVE
INVESTMENT IN TRANSFERABLE SECURITIES) REGULATIONS 2003

April 2008

UCITS 12.3**Undertakings for Collective Investment in Transferable Securities****Techniques and Instruments, including Repurchase/Reverse Repurchase Agreements and Stock Lending, for the purposes of efficient portfolio management**

For the purposes of this Notice, “relevant institutions” refers to those institutions specified in sub-paragraphs 1.4(i), (ii) and (iii) of Notice UCITS 9.

1. UCITS may employ techniques and instruments relating to transferable securities and money market instruments subject to the Regulations and to conditions imposed by the Financial Regulator.
2. Techniques and instruments which relate to transferable securities or money market instruments and which are used for the purpose of efficient portfolio management shall be understood as a reference to techniques and instruments which fulfil the following criteria:
 - (a) they are economically appropriate in that they are realised in a cost-effective way;
 - (b) they are entered into for one or more of the following specific aims:
 - (i) reduction of risk;
 - (ii) reduction of cost;
 - (iii) generation of additional capital or income for the UCITS with a level of risk which is consistent with the risk profile of the UCITS and the risk diversification rules set out in Notice UCITS 9;
 - (c) their risks are adequately captured by the risk management process of the UCITS, and
 - (d) they cannot result in a change to the UCITS' declared investment objective or add substantial supplementary risks in comparison to the general risk policy as described in its sales documents.
3. Financial derivative instruments used for efficient portfolio management, in accordance with paragraph 1, must also comply with the provisions of Notice UCITS 10 and Guidance Note 3/03.

Repurchase/Reverse Repurchase agreements and Stock Lending

4. Repurchase/reverse repurchase agreements, (“repo contracts”) and stock lending may only be effected in accordance with normal market practice.
5. Collateral obtained under a repo contract or stock lending arrangement must be liquid and in the form of one of the following:
 - (i) cash;
 - (ii) government or other public securities;
 - (iii) certificates of deposit issued by relevant institutions;
 - (iv) bonds/commercial paper issued by relevant institutions or by non-bank issuers where the issue and issuer are rated A1 or equivalent;
 - (v) letters of credit with a residual maturity of three months or less, which are unconditional and irrevocable and which are issued by relevant institutions;
 - (vi) equity securities traded on a stock exchange in the EEA, Switzerland, Canada, Japan, the United States, Jersey, Guernsey, the Isle of Man, Australia or New Zealand.
6. Until the expiry of the repo contract or stock lending arrangement, collateral obtained under such contracts or arrangements:
 - (i) must be marked to market daily;
 - (ii) must equal or exceed, in value, at all times the value of the amount invested or securities loaned;
 - (iii) must be transferred to the trustee, or its agent; and
 - (iv) must be immediately available to the UCITS, without recourse to the counterparty, in the event of a default by that entity.

Paragraph (iii) is not applicable in the event that a UCITS uses tri-party collateral management services of International Central Securities Depositories and relevant institutions which are generally recognised as specialists in this type of transaction. The trustee must be a named participant to the collateral arrangements.

7. **Non-cash collateral:**
 - (i) cannot be sold or pledged;
 - (ii) must be held at the risk of the counterparty; and

(iii) must be issued by an entity independent of the counterparty.

8. Cash collateral:

Cash may not be invested other than in the following:

- (i) deposits with relevant institutions;
- (ii) government or other public securities;
- (iii) certificates of deposit as set out in paragraph 5 (iii) above;
- (iv) letters of credit as set out in paragraph 5 (v) above;
- (v) repurchase agreements, subject to the provisions herein;
- (vi) daily dealing money market funds which have and maintain a rating of AAA or equivalent. If investment is made in a linked fund, as described in paragraph 1.3 of Notice UCITS 9, no subscription, conversion or redemption charge can be made by the underlying money market fund.

9. In accordance with paragraph 2(d) of this Notice, invested cash collateral held at the risk of the UCITS, other than cash collateral invested in government or other public securities or money market funds, must be invested in a diversified manner. A UCITS must be satisfied, at all times, that any investment of cash collateral will enable it to meet with its repayment obligations
10. Invested cash collateral may not be placed on deposit with, or invested in securities issued by, the counterparty or a related entity.
11. Notwithstanding the provisions of paragraph 6(iii), a UCITS may enter into stock lending programmes organised by generally recognised International Central Securities Depositories Systems provided that the programme is subject to a guarantee from the system operator.
12. The counterparty to a repo contract or stock lending arrangement must have a minimum credit rating of A2 or equivalent, or must be deemed by the UCITS to have an implied rating of A2. Alternatively, an unrated counterparty will be acceptable where the UCITS is indemnified against losses suffered as a result of a failure by the counterparty, by an entity which has and maintains a rating of A2 or equivalent.

13. A UCITS must have the right to terminate the stock lending arrangement at any time and demand the return of any or all of the securities loaned. The agreement must provide that, once such notice is given, the borrower is obligated to redeliver the securities within 5 business days or other period as normal market practice dictates.

14. Repo contracts, stock borrowing or stock lending do not constitute borrowing or lending for the purposes of Regulation 70 and Regulation 71 respectively.