

COLLECTIVE INVESTMENT SCHEMES OTHER THAN UCITS

Techniques and instruments for the purpose of efficient portfolio management

General Conditions

1. Techniques and instruments utilised for the purposes of efficient portfolio management may be used only in accordance with the investment objectives of a collective investment scheme.
2. Any such technique or instrument must be one which (alone or in combination with one or more other techniques or instruments) is reasonably believed by the manager to be economically appropriate to the efficient portfolio management of a scheme.
3. The prospectus must disclose a scheme's intention to utilise these techniques and instruments and the periodic reports must indicate how they have been utilised.
4. The use of techniques and instruments contained in this notice is subject to the following conditions and limits. Use of any other techniques and instruments may be considered by the Authority, as appropriate, on a case by case basis.

Derivative Contracts

5. Call options may be purchased on condition that the exercise value of the option is at all times held by a scheme in cash or securities with a maturity of three months or under. However, uncovered call options may be purchased on the condition that the exercise value of the call options purchased in this way does not exceed 10 per cent of the net asset value of a scheme.

6. Generally, call options may be written (sold) on condition that a scheme at all times maintains ownership of the security which is the subject of the call option. Index call options may be written provided that all of the assets of a scheme, or a proportion which may not be less in value than the exercise value of the call option written, can reasonably be expected to behave in terms of price movement in the same manner as the options contract. However, uncovered call options may be written on the condition that the aggregate exercise value of all call options sold in this way does not exceed 10 per cent of the net asset value of a scheme.
7. Put options may be purchased on condition that the security which is the subject of the put option remains at all times in the ownership of a scheme. Index put options may be purchased provided that all of the assets of a scheme, or a proportion of such assets, which may not be less in value than the exercise value of the put option purchased, can reasonably be expected to behave in terms of price movement in the same manner as the options contract. Uncovered put options may be purchased on the condition that the exercise value of the put options purchased in this way does not exceed 10 per cent of the net asset value of a scheme.
8. Put options may be written (sold) on condition that the exercise value of the option is at all times held by a scheme in cash or securities with a maturity of three months or under.
9. Futures contracts may be sold on condition that either the security which is the subject of the contract remains at all times in the ownership of a scheme, or on condition that all of the assets of a scheme or a proportion of such assets, which may not be less in value than the exercise value of the futures contracts sold, can reasonably be expected to behave in terms of price movement, in the same manner as the futures contract.

10. Futures contracts may be purchased on condition that the exercise value of the contract is at all times held by a scheme in cash or securities with a maturity of three months or under. However, a scheme which invests directly in both the fixed income and equity markets may purchase futures contracts on condition that the aggregate net exposure of the scheme is not greater than that which would be achieved through the direct investment of all of the scheme's assets in the underlying securities. In such cases the scheme must clearly provide for such an active asset allocation strategy in its investment objectives.
11. The total amount of premium paid or received for options together with the amount of initial margin paid for futures contracts may not exceed 10 per cent of the net asset value of a scheme.
12. Conditions 5 to 11 above do not apply to a transaction which is being effected to close out an existing position.
13. Option, interest rate swap and exchange rate swap contracts transacted over the counter (OTC contracts) are permitted subject to the following additional requirements:
 - (a) the counterparty has shareholders' funds in excess of €125 million or equivalent in foreign currency;
 - (b) the name of the counterparty is disclosed in the subsequent half-yearly or annual report issued by a scheme;
 - (c) the manager is satisfied that the counterparty (i) has agreed to value the transaction at least weekly, and (ii) will close out the transaction at the request of the manager at a fair value; and
 - (d) initial outlay in respect of OTC derivatives to any one counterparty must not exceed 5 per cent of the net asset value of a scheme.

Other OTC contracts may be permitted by the Authority on a case by case basis.

14. The net maximum potential exposure created by such techniques and instruments or created through borrowing, under the conditions and within the limits contained in NU 3, or through both of these together, shall not exceed 25 per cent of the net asset value of a scheme.

Use of Repurchase/Reverse Repurchase and Stocklending Agreements

For the purposes of this section, “relevant institutions” refers to those institutions specified in paragraphs 2(i), (ii) and (iii), NU 13.

15. Repurchase / reverse repurchase agreements, (“repo contracts”) and stocklending agreements may only be effected in accordance with normal market practice.
16. Collateral obtained under a repo contract or stocklending agreement must be 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;
 - (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) DBVs (deliveries by value) within the Crest clearing system, or comparable Central Securities Depositories Systems instruments, provided that:
 - they are subject to a concentration limit;
 - the subject securities fall into one of the categories listed under (ii) to (v) above, or the securities are a constituent part of a recognised index such as the FTSE 100; and
 - the subject securities are consistent with the investment objectives and policies of the scheme.
17. Until the expiry of the repo contract or stocklending transaction, collateral obtained under such contracts or transactions
- (i) must equal or exceed, in value, at all times the value of the amount invested or securities loaned;

- (ii) must be transferred to the trustee, or its agent;
- (iii) must be held at the credit risk of the counterparty; and
- (iv) must be immediately available to the scheme, without recourse to the counterparty, in the event of a default by that entity.

Non-cash collateral:

- (i) cannot be sold or pledged;
- (ii) must be marked to market daily;
- (iii) must be issued by an entity independent of the counterparty; and
- (iv) must be diversified such that no more than 10 per cent of the collateral may be represented by the securities of any one issuer. This limit will not apply to government or other public securities. Such limit is increased to 30 per cent in respect of securities of, or instruments issued by, or other obligations of relevant institutions. Where appropriate, the credit quality of the non-cash collateral must be consistent with the investment objectives and policies of the scheme.

Cash collateral:

Cash may not be invested other than in the following:

- (i) deposits, which are capable of being withdrawn within 5 working days, or such shorter time as may be dictated by the repo contract or stocklending agreement. The holding of cash on deposit is subject to the provisions of paragraph 2, NU 13. Cash may not be held on deposit with the counterparty or with a related institution;
- (ii) government or other public securities;
- (iii) certificates of deposit as set out in paragraph 16 (iii) above;
- (iv) letters of credit as set out in paragraph 16 (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 7(b), NU 13, no subscription or redemption charge can be made by the underlying money market fund.

17A. Notwithstanding the provisions of paragraph 17, a scheme may enter into stocklending programmes organised by generally recognised Central Securities Depositories Systems provided that the programme is subject to a guarantee from the system operator.

18. The counterparty to a repo contract or stocklending agreement must have a minimum credit rating of A2/P2 or equivalent, or must be deemed by the scheme to have an implied rating of A2/P2. Alternatively, an unrated counterparty will be acceptable where the scheme 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/P2.
19. A scheme must have the right to terminate the stocklending agreement 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.
20. Repo contracts or stocklending agreements do not constitute borrowing or lending for the purposes of NU 3 or NU 8 respectively.

Protection against Exchange Rate Risk

21. A scheme may employ techniques and instruments intended to provide protection against exchange rate risks, including cross-currency hedging, in the context of the management of its assets and liabilities provided that:
 - (i) the exposure of the scheme to foreign currency risk must not be leveraged in any way;
 - (ii) the intention to enter into such transactions should be fully disclosed in the scheme's prospectus, including disclosure regarding the currencies into which the scheme's currency exposure may be transformed; and
 - (iii) the periodic reports should indicate how these transactions have been utilised.

COLLECTIVE INVESTMENT SCHEMES OTHER THAN UCITS

Money market schemes

A collective investment scheme, the sole object of which is the investment in money market instruments, is subject to the following rules in addition to the general rules for all collective investment schemes which are not disapplied below.

1. At least 80 per cent of the assets of the scheme must consist of securities or deposits which have a maturity at date of acquisition of not greater than one year.
2. No more than 5 per cent of the net asset value of the scheme may be invested in the debt securities of companies, other than banks, with a credit rating of less than A1/P1.
3. The prospectus of the scheme must contain a risk warning drawing attention to the difference between the nature of a deposit and the nature of an investment in a money market scheme with particular reference to the risk that the principal invested in a money market scheme is capable of fluctuation.