



**CYPRUS SECURITIES AND EXCHANGE COMMISSION**

**DIRECTIVE DI200-2004-09 OF 2011  
OF THE SECURITIES AND EXCHANGE COMMISSION RELATING TO THE SPECIFICATION OF  
INFORMATION CONTAINED IN THE SIMPLIFIED PROSPECTUS**

**CLASSIFICATION OF ARTICLES**

1. Short title
2. Interpretation
3. Interpretation of 'short definition of UCITS' objectives'
4. Interpretation of 'UCITS' investment policy'
5. Interpretation of 'brief assessment of the fund's risk profile'
6. Interpretation of 'UCITS' historical performance'
7. Interpretation of 'tax regime'
8. Interpretation of 'entry and exit commissions and other possible expenses or commissions'
9. Repeal of Directive UCITS 01/2006
10. Entry into force

**ANNEXES**

Annex I - Total Expense Ratio (TER)

Annex II – Portfolio Turnover Rate

**In the exercise of the powers vested in it by clause (4) of Article 37 of the Open-ended Undertakings for Collective Investments in Transferable Securities (UCITS) and Related Issues Law of 2004, the Commission hereby issues the following Directive:**

- |                       |    |   |
|-----------------------|----|---|
| <b>Short title</b>    | 1. | This Directive shall be cited as the Specification of Information Contained in the Simplified Prospectus Directive of 2011.   |
| <b>Interpretation</b> | 2. | <p>(1) In this Directive, unless the context otherwise requires:</p> <p>'Simplified Prospectus' means the Simplified Prospectus the content of which is specified in TYPE III of the First Annex to the Law;</p> <p>'Law' means the Open-ended Undertakings for Collective Investments in Transferable Securities (UCITS) and Related Issues Law of 2004, as applicable;</p> <p>(2) Without prejudice to the provisions of clause (1), terms used in the Directive and which are not otherwise interpreted, have the meaning attributed to them by the Law;</p> <p>(3) Any reference to the Law in this Directive also includes the procedural acts issued by virtue of the same;</p> |

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- Interpretation of 'short definition of UCITS' objectives'**
3. In relation to the short definition of UCITS' objectives (paragraph (1) of Part B of the Simplified Prospectus), the following minimum information must be provided:
- (a) A concise and appropriate description of the outcomes sought for any investment in the UCITS (e.g. attainment of long-term capital growth or collection of income);
  - (b) A clear statement of any guarantees offered by third parties to protect investors and any restrictions on those guarantees;
  - (c) A statement, where relevant, that the UCITS is intended to track an index/indices ('tracking of index/indices') and sufficient information on the index/indices and on the extent or degree of tracking pursued.
- Interpretation of 'UCITS' investment policy'**
4. In relation to the UCIT's investment policy (paragraph (2) of Part B of the Simplified Prospectus), where relevant, the following minimum information must be provided:
- (a) Reference to the main categories of the financial instruments which are the object of the UCITS' investment (e.g. transferable securities, units in UCITS or other Collective Investment Undertakings, money market instruments and financial derivative instruments);
  - (b) Whether the UCITS has a particular strategy in relation to any industrial, geographic or other market sectors or specific classes of assets (e.g. investments in financial instruments of emerging markets);
  - (c) Where relevant, a warning that, whilst the actual portfolio composition is required to comply with the broad legal and statutory rules and limits, risk concentration may occur in respect of certain sub-classes of assets and economic and geographic sectors;
  - (d) If the UCITS invests in bonds, an indication of whether they are corporate or government, their duration and the rating requirements;

- (e) If the UCITS uses financial derivative instruments, an indication of whether this is done in pursuit of the UCITS' objectives or for hedging purposes only;
- (f) Whether the UCITS' management style contemplates some reference to a benchmark; and, in particular, whether the UCITS has an 'index tracking' objective, with an indication of the strategy to be pursued to achieve this. In case the UCITS' exposure to an issuer may exceed the 10% of the net value of its assets, in accordance with the Law, this must be clearly stated;
- (g) Whether the UCITS' management style is passive or active. In case the UCITS adopts the tactical asset allocation with a high frequency of portfolio adjustments, this must be stated.

**Interpretation of 5. 'brief assessment of the fund's risk profile'**

In relation to the brief assessment of the fund's risk profile (paragraph (2) of Part B of the Simplified Prospectus), the following minimum information must be provided:

- (1)
  - (a) A statement to the effect that the value of investments may fall or rise and that investors may get back less than the amount of their initial investment;
  - (b) A statement that details of all the risks mentioned in the Simplified Prospectus may be found in the full prospectus;
  - (c) A brief and concise description of any risk investors may face in relation to their investment provided such risk may significantly affect their income. The calculation of the said risk must be based on risk impact and probability.
- (2) The description referred to in paragraph (c) of clause (1) of this Article must include a brief and understandable explanation of all risks relating to the UCITS and must, as a minimum, include the following risks:
  - (a) The risk that the entire market or an asset class will decline thus affecting the prices and values of the assets (market risk);

- (b) The risk that an issuer or counterparty will default (credit risk);
  - (c) The risk that a settlement in a transfer system does not take place as expected because a counterparty does not pay or deliver on time or as expected (settlement risk);
  - (d) The risk that a position cannot be liquidated in a timely manner and at a reasonable price (liquidity risk);
  - (e) The risk that the investment's value will be affected by changes in exchange rates (exchange or currency risk);
  - (f) The risk of loss of assets held in custody that could result from the insolvency, negligence or fraudulent action of the custodian or of a sub-custodian (custody risk);
  - (g) Risks related to the concentration of assets or markets.
- (3) The description referred to in paragraph (c) of clause (1) of this Article must also mention, where relevant and material, as a minimum, the following risk *factors* which may affect the product:
- (a) Performance risk, including the variability of risk levels depending on the individual UCITS' choices and the existence or absence of, or restrictions on, any guarantees given by third parties;
  - (b) Risks to capital, including potential risk of erosion resulting from redemptions of units and distributions in excess of investment returns;
  - (c) Exposure to the performance of the provider/third-party guarantor, where investment in the product involves direct investment in the provider, rather than in assets held by the provider;

- (d) Inflexibility, both within the product (including early surrender risk) and constraints on switching to other providers;
  - (e) Inflation risk;
  - (f) Lack of certainty that environmental factors, such as a tax regime, will persist.
- (4) In view of avoiding a misleading presentation of the relevant risks, the information relating to clauses (2) and (3) must be provided in such a way as to prioritise the said risks, based on scale and materiality, so as to better highlight the individual risk profile of the UCITS.

Provided that where the net value of the UCITS is likely to have high volatility due to the composition of its portfolio or its portfolio management techniques, this must be clearly stated.

**Interpretation of 6. 'the UCITS' historical performance'**

In relation to the disclosure of the UCITS' historical performance (paragraph (3) of Part B of the Simplified Prospectus) and the warning that 'an investment in UCITS' units does not have a guaranteed return and that past returns do not guarantee future ones', the following minimum information must be provided:

- (a) The UCITS' historical performance, as presented using a bar chart showing annual returns for the last ten full consecutive years. If the UCITS has been in existence for fewer than ten years but at least for a period of one year, it is recommended that the annual returns be given for as many years as are available. The UCITS' annual returns are calculated net of tax and charges, excluding the entry and exit commissions. This must be clearly stated.
- (b) If a UCITS is managed according to a benchmark, or if its cost structure includes a performance fee depending on a benchmark, the information on the historical performance of the UCITS must include a comparison with the historical performance of the benchmark according to which the UCITS is managed or the performance fee is calculated. This comparison is made by representing the historical performance of the benchmark and that of the UCITS on the same bar chart.

- (c) Presentation of the cumulative average performance of the UCITS for the period of three, five and ten years. Where paragraph (b) applies, presentation of the comparison of the cumulative average performance of the UCITS with the cumulative average performance of the benchmark.

**Interpretation of 7.  
'tax regime'**

In relation to the UCITS' tax regime (paragraph (1) of Part C of the Simplified Prospectus), the Simplified Prospectus must contain the following information:

- (a) The tax regime applicable to the UCITS in the Republic;
- (b) A statement which recalls that the 'regime of taxation of the income or capital gains received by individual investors depends on the tax law applicable to the personal situation of each individual investor' and that 'if investors are unclear as to their fiscal situation, they should seek professional advice'.

**Interpretation of  
'entry and exit  
commissions  
and other  
possible  
expenses or  
commissions'**

8. In relation to the entry and exit commissions and other possible expenses or commissions, distinguishing between those to be paid by the unit holder and those to be paid out of the UCITS' assets (paragraphs (2) and (3) of Part C of the Simplified Prospectus), the Simplified Prospectus must contain the following information:

- (a) Disclosure, at least once a year, of the total Expense Ratio (TER) calculated as indicated in Annex I of this Directive except for newly established UCITS where a TER cannot yet be calculated;
- (b) Disclosure, on an ex ante basis, of the expected cost structure, with reference to all costs available according to the list set forth in paragraph 2.2. of Annex I of this Directive, so as to provide investors, insofar as possible, with an estimate of the expected cost, taking into consideration the maximum level of expenses and commissions to be charged to the UCITS. The actual cost must be less or equal to this expected cost;
- (c) Disclosure of all entry and exit commissions and other expenses paid directly by the investor;
- (d) Reference to all the other costs not included in the TER, including transaction costs;
- (e) Reference to the Portfolio Turnover Rate, calculated according to Annex II of this Directive, as an additional indication of the importance of transaction costs;
- (f) Reference to the existence of fee-sharing agreements and soft commissions, as defined in paragraphs 5.1 and 5.2 of Annex I of this Directive respectively.

Provided that, the UCITS must ensure that the existing fee-sharing agreements and related fee arrangements are to the exclusive benefit of the UCITS. In addition, the Simplified Prospectus must make reference to the full Prospectus, where detailed information is provided on the above arrangements, and which must enable all investors to understand to whom expenses are payable and how any conflict of interest will be best resolved so as to protect their interests.

Further provided that, the TER and the Portfolio Turnover Rate are included in the Simplified Prospectus or attached to it, in the same document which contains the information on historical performance.

**Repeal of  
Directive UCITS  
01/2006 of 2006**

**9.**

The Commission's Directive for the specification of information contained in the simplified prospectus, with reference Regulatory Administrative Decision (Κ.Δ.Π.) 147/2006, is hereby repealed and substituted by the present Directive.

**Official Gazette  
of the Republic,  
Annex III(I):  
31.03.2006**

**Entry into force**

**10.**

This Directive shall enter into force as of its publication in the Official Gazette of the Republic.

## **ANNEX I**

### **Total Expense Ratio (TER)**

#### **1. Definition and method of calculation of the TER:**

The Total Expense Ratio (TER) of a UCITS is equal to the ratio of the UCITS' total operating costs (paragraph 2) to its average net assets (paragraph 3). The TER is calculated ex post, on an annual basis, and corresponds to the UCITS' fiscal year. This calculation may also be made for other time periods.

In all cases, the Simplified Prospectus must make clear reference to an information source (e.g. to the UCITS' website) where investors may obtain relevant information on past years/periods in relation to the TER.

#### **2. Calculation of the UCITS' total operating costs:**

2.1 The total operating costs are all the expenses which come in deduction of a UCITS' assets and which are shown in a UCITS' annual audited report for the relevant fiscal period. They are assessed on an 'all taxes included' basis, which means that the gross value of expenses must be used.

2.2 Operating costs include all legitimate expenses of the UCITS, whatever their basis of calculation (e.g. flat fee, asset-based, transaction-based), such as:

- Management costs including performance fee, which must also be disclosed separately and be expressed as a percentage of the average net value of assets;
- Administration costs;
- Fees linked to depository duties;
- Audit fees;
- Payments to shareholder services providers including payments to the UCITS' transfer agent and payments to brokers-dealers who are record owners of the UCITS' shares and provide sub-accounting services to the beneficial owners of the UCITS shares;
- Payments to attorneys;
- Any distribution or unit cancellation costs charged to the UCITS;
- Registration fees and other regulatory expenses;

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- Any additional remuneration of the management company (or of any other party) corresponding to certain fee-sharing agreements in accordance with paragraph 5.1 of the Annex.

2.3 Total operating costs do not include:

- Transaction costs incurred by a UCITS in connection with transactions on its portfolio (including fees, taxes and all types of charges related to stock exchange transactions);
- Interest on borrowing;
- Payments made for the use of financial derivative instruments;
- Entry/exit commissions and any other commissions paid directly by investors;
- Soft commissions in accordance with paragraph 5.2 of the Annex.

**3. Calculation of the UCITS' average net assets:**

The UCITS' average net assets must be calculated using figures that are based on the UCITS' net assets as they arise from the daily calculation of the UCITS' net assets value.

**4. Other matters to be taken into consideration when calculating the TER**

- 4.1 Circumstances or events which could lead to the disclosure of misleading evidence.
- 4.2 Tax reliefs are not taken into account when calculating the TER
- 4.3 The method of calculation of the TER must be approved by the UCITS' auditors.

**5. Fee-sharing and soft commission agreements:**

5.1 'Fee-sharing agreements'

Fee-sharing agreements are those agreements where a contracting party, which is remunerated either directly or indirectly by the assets of a UCITS, agrees to share its fee with another contracting party to the effect that this other party covers, through the said fee-sharing agreement, its expenses which are normally covered, either directly or indirectly, by the UCITS' assets.

The following agreements are considered to be fee-sharing agreements in the sense of the previous paragraph:

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(a) Fee-sharing agreements on transactions costs, made between a UCITS management company and a broker and by which the broker agrees to share with the management company the commissions on the transactions paid to him by the UCITS for the conduct of its transactions.

(b) Fee-sharing agreements in the case of UCITS which invest in a UCITS or other Collective Investment Undertakings (hereinafter called 'CIUs') (case of funds of funds). These are agreements between a management company of a UCITS and another UCITS or CIU (or its management company) according to which, if the said UCITS invests in the UCITS or the CIU, part of the commissions charged to the said UCITS as a result of this investment (either directly – entry/exit commissions or indirectly – TER) will be paid by the UCITS or the CIU in which the investment is made (or by its management company) to the UCITS' management company.

It regularly results from fee-sharing agreements on expenses that are generally not included in the TER, that the management company or another party is actually meeting, in all or in part, operating costs that should normally be included in the TER. They should therefore be taken into account when calculating the TER, by adding to the total operating costs any remuneration of the management company (or another party) that derives from such fee-sharing agreements.

There is no need to take into account fee-sharing agreements on expenses which are already in the scope of the TER.

## 5.2 'Soft commissions'

Soft commissions are all financial gains except those relating to the provision of liquidation and execution services, which an asset administrator receives in relation to the payments of commissions made by a UCITS for transactions on transferable securities included in its portfolio. Soft commissions are usually received by or through the broker who made the transaction.

Soft commissions should be left outside the scope of the TER.

## **6. UCITS investing in UCITS or in other Collective Investment Undertakings (hereinafter called 'CIUs'):**

When a UCITS invests at least 10% of its net asset value in another UCITS or a CIU which publish a TER in accordance with this Annex, the said UCITS must disclose a synthetic TER corresponding to that investment.

The synthetic TER is equal to the ratio of:

- The UCITS' total operating costs in accordance with paragraph 2 and all the costs incurred by the UCITS through holdings in underlying UCITS or CIUs (e.g. those expressed by the TER of the underlying UCITS or CIUs, weighted on the basis of their

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percentage participation in the UCITS' net assets) plus the entry and exit commissions of these underlying UCITS or CIUs,

- To, the average net assets of the UCITS (paragraph 3).

As mentioned in the previous sub-paragraph, entry and exit commissions of the underlying UCITS or CIUs should be included in the TER, except in the case stated in clause (4) of Article 106 of the Law.

Where any of the underlying CIUs does not publish a TER in accordance with this Annex, disclosure of costs is adjusted and made in the following way:

- Disclosure on the impossibility of calculating the synthetic TER for this fraction of the investment;
- Disclosure on the maximum proportion of management fees charged to the underlying CIU(s);
- Disclosure on the synthetic total expected costs calculated on the basis of:
  - A truncated synthetic TER incorporating the TER of each of those underlying UCITS or CIUs for which the TER is calculated according to this Annex, weighted on the basis of their percentage participation in the UCITS' assets, and
  - Adding for each one of the underlying CIUs for which the TER cannot be calculated, the entry and exit commission plus the best available upper-bound assessment of TER-eligible costs, including the maximum management fee and the last available performance fee for that CIU, weighted on the basis of their percentage participation in the UCITS' assets.

#### **7. Umbrella funds and Multi-class funds:**

In the case of umbrella funds, the TER must be calculated for each sub-fund. If, in the case of multi-class funds, the TER differs between different share classes, a separate TER must be calculated and disclosed for each share class. Furthermore, where there are differences in fees and expenses across classes, these must be disclosed separately in the Simplified Prospectus. An additional statement should indicate that the objective criteria (e.g. the amount of subscription) on which these differences are based, are available in the full prospectus.

**ANNEX II****Portfolio Turnover Rate**

A UCITS' or, where relevant, a compartment's Portfolio Turnover Rate must be calculated in the following way:

1. Purchases of securities = X  
Sales of securities = Y

**Total 1** = Total of transactions in securities = X + Y

2. Subscriptions of units of the UCITS = S  
Redemptions of units of the UCITS = T

**Total 2** = Total transactions in units of the UCITS = S + T

3. Reference average of total net assets = **M**

**Portfolio turnover** =  $[(\text{Total 1} - \text{Total 2})/M] \times 100$

The reference average of total net assets (M) corresponds to the average of the net asset values. The turnover rate disclosed must correspond to the period(s) for which a TER is disclosed. The simplified prospectus must, in any case, include a clear reference to an information source (e.g. the UCITS' website) where the investor may obtain the Portfolio Turnover Rates for previous periods.