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

**Directive DI78-2012-35
Of the Cyprus Securities and Exchange Commission as regards to Money Market
Funds**

Classification of paragraphs

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The Cyprus Securities and Exchange Commission in the exercise of the powers vested therein under Sections 4(7) and 141(1) of the Open-Ended Undertakings for Collective Investment (UCI) Law of 2012 issues the following Directive:

Short title	This Directive shall be referred to as 'The Money Market Funds Directive DI78-2012-35'.
1.	
2. Interpretation	<p>In this Directive, unless the context shall prescribe otherwise:</p> <p>(1) 'Recognized Credit Assessment Institution' means the credit assessment institution, which is registered with ESMA in accordance with the Regulation (EC) No 1060/2009 or which is subject to the transitional provisions of section 40 of the said Regulation.</p> <p>(2) 'Law' mean the Undertakings on Collective Investments and related issues Law of 2012, as in force.</p> <p>(3) 'Weighted Average Maturity' (WAM) is a measure of the average length of time to maturity of all of the underlying securities in the fund, weighted to reflect the relative holdings in each investment, assuming that the maturity of a floating rate instrument is the time remaining until the next interest rate reset to the money market rate.</p> <p>(4) 'Weighted Average Life' (WAL) is the weighted average of the remaining life (maturity) of the securities held in a fund, meaning the time until the principal is repaid in full weighted to reflect the percentage of investment in each security.</p> <p>(5) 'Directive': means the present Directive.</p>

	Terms used herein and not being interpreted differently have the meaning ascribed to them in the Open-Ended Undertakings for Collective Investment (UCI) Law of 2012.
Scope of application 3.	This Directive applies to UCITS Money Market Funds whose their main investment objective is maintaining the value of their initial asset while they aim in achieving returns analogous of the returns in the money markets.
4. Permitted investments	(1) UCITS Money Market Funds invest only in deposits with credit institutions or in money market instruments, which comply with the criteria for money market instruments as set out in the Law which are of 'high quality', as determined by the Management Company. In making its determination, the Management Company must take into account, at least, the following factors, which are evaluated ongoing basis:
	(a) the credit quality of the instrument;
	(b) the nature of the asset class represented by the instrument;
	(c) the liquidity profile of the instrument; and
	(d) for structured financial instruments, the operational and counterparty risk inherent within the structured financial transaction.
	(2) A money market instrument is considered of high quality, if it has been awarded. The credit rating of a money market instrument is permitted to use the characteristic of high quality, with the contribution of the criteria of sub-paragraph 1, when the instrument has been awarded one of the two highest available credit ratings by a recognized credit rating agency and has been considered to be appropriate, as determined by the management company's internal credit rating process. In the case the instrument has not been rated by the institutions of the previous sentence then it could be considered of high quality only if accordance with the management company's internal rating process, it would be awarded one of the two highest available credit ratings.
	(3) In the case of credit ratings issued in third countries, the rating must be countersigned by a credit rating agency in the EU Community which has been registered with ESMA in accordance with the Regulation (EC) No 1060/2009 or it is subject to the transitional provisions of section 40 of the said Regulation, or by credit rating agency which has been assessed from ESMA in accordance with the above Regulation.
	(4) The Management Company must adopt, enforce and keep updated internal credit rating process in order to be in the position to assess the credit rating of the money market instrument, irrespectively of any ratings by a recognized credit assessment institution.
	(5) UCITS money market funds are not permitted to invest in shares or commodities or in derivatives in financial derivatives instruments with an underlying value of shares or commodities.

	(6) UCITS money market funds may use financial derivatives instruments under their investment strategy. Financial derivatives in instruments that are exposed to currency risk may only use for hedging purposes.
	(7) The investments of UCITS money market funds may be in a foreign currency provided that the relative currency risk is being hedged.
Weighted average maturity and weighted average life 5.	(1) For the calculation of the weighted average maturity and of the weighted average life, the effect of the financial derivatives instruments, of the bank deposits and of the techniques of effective management should be taken into account.
	(2) In the case of a complex financial instrument that embeds put option, for the calculation of the weighted average life, in accordance, with sub-paragraph (1), the date of exercising the right, instead of the the remaining life (maturity), shall be used as the exercise date of the title, provided that on ongoing and cumulatively basis:
	(a) the Management Company may exercise freely the put option at the determined exercise date,
	(b) the exercise price of the put option does not deviate significantly from the anticipated price of the financial instrument on the date following the exercise,
	(c) from the investment policy of the UCITS there is a great possibility the put option will be exercised on the exercise date.
	(3) The UCITS money market funds must be further classified into short-term money market funds when its portfolio has a weighted average maturity of no more than 60 days and has weighted average life of no more than 120 days. The short-term money market funds may invest in debt instruments with residual life of no more than 397 days, as well as, in other short-term money market funds.
	(4) The portfolio of UCITS money market funds that do not fall in the category of sub-paragraph 3, has average maturity of no more than 6 months and has weighted average life of no more than 12 months. In addition, the UCITS of this sub-category:
	(a) may invest in debt instruments with residual life until the redemption date, of no more than 2 years, while the time remaining until the next interest rate reset date is no more than 397 days, and also, in the case of debt instruments with floating rate interest, the adjustment will be made in accordance with a money market rate or index,

	(b)	may invest their assets in government issues of money market instruments, that is in instruments that are issued or guaranteed by central or regional authority or from the central bank of a Member State, the European Central Bank or the European Union or the European Investment Bank or in other UCITS money market funds or in short-term money market funds. The government issues of the previous sentence must be of at least investment grade quality.
	(5)	The UCITS of the present paragraph are obliged in their Prospectus and in the Key Investor Information Document to provide investors information as to whether they are short-term money market funds in accordance with sub-paragraph (3) or are money market fund in accordance with sub-paragraph (4).
Net Asset Value 6.		The UCITS money market funds of the sub-category provided for in sub-paragraph (4) of paragraph (5) maintain a floating net asset value. The UCITS money market funds of the sub-category provided for in sub-paragraph (3) of paragraph (5) may have stable or floating net asset value.
Entry into force 7.		This Directive shall enter into force from the date of its publication in the Official Gazette of the Republic.