

The 11th Annual Fund Compliance & Risk Management
Conference

Updating Risk & Collateral Management
for UCITS using EPM techniques

Yves de Naurois



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Efficient Portfolio Management Techniques

- Repos
- Reverse Repos
- Securities Lending

Repos & Reverse Repos

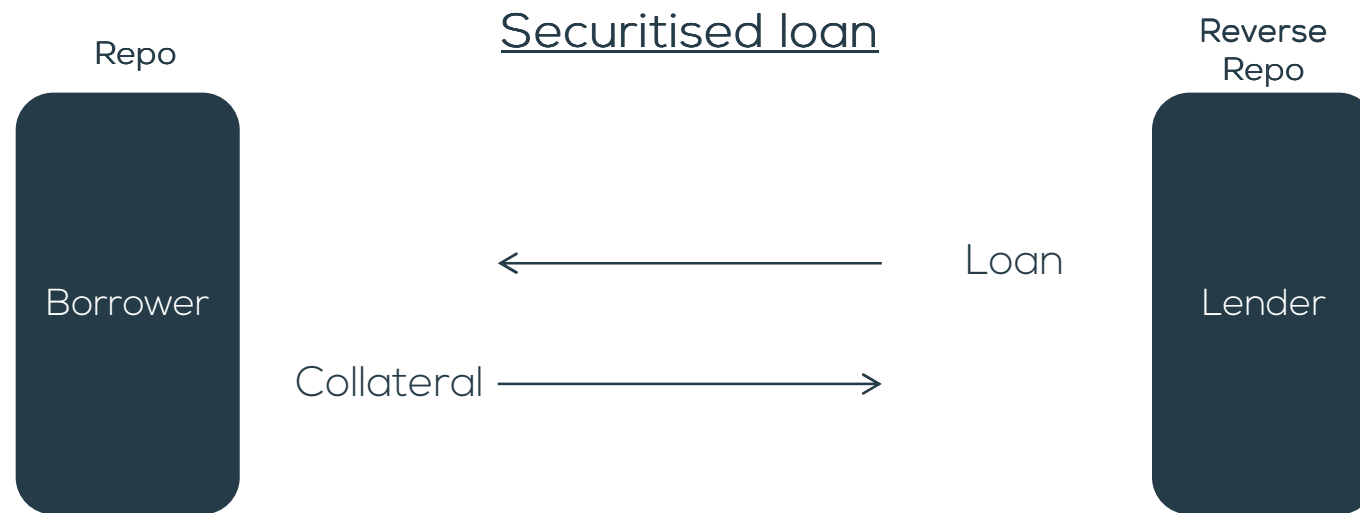
Repurchase agreement (spot sale + forward contract)



- ✘ Title of securities legally transferred
- ✘ Coupons passed back to repo seller
- ✘ Global exposure remains with repo seller
- ✘ Buyer has a counterparty exposure

Repos & Reverse Repos

Repurchase agreement (spot sale + forward contract)



Securities Lending



- ✘ Title transferred to borrower
- ✘ Coupon + dividends passed backed to lender
- ✘ Lender receives a fee
- ✘ Lender securitised loan is securitised by collateral

Efficient portfolio management techniques - Disclosures

✘ Prospectus should:

- Disclose the usage of EPM techniques (risks, counterparties, conflicts of interests involved)
- Include costs/fees policy of the techniques. Who receives them (Related parties to the UCITS management company or depositary)

✘ Annual Report should also contain:

- Exposure through EPM techniques
- The identified counterparties
- Type and amount of the collateral received (to reduce the counterparty exposure)
- Revenues arising from EPM techniques

✘ Security lending:

- UCITS should ensure to be able to recall any security lent at any time (7 days)

✘ Reverse repo:

- UCITS should ensure to be able to recall the full amount of cash at any time (7 days)

EPM techniques should be taken into account in the liquidity risk process to meet redemption – All revenues minus cost benefit the UCITS

Repurchase Agreement

Repo
Seller

Global
Exposure

Securities sold (posted)

+

Reinvestment of loan
(if $r >$ risk free rate)



Leverage

Counterparty
Risk

Value of securities sold (posted)

minus
loan

($vs > L$)

Reverse Repurchase Agreement

Repo Buyer

No reinvestment of collateral

Reinvestment of collateral
 HQ Gov. Bonds
 Repos

Global Exposure

None

Value of reinvestment



Leverage

Counterparty Risk

Cash lent + repo rate
minus
 Value of securities posted
 Adjusted by haircut

idem

Securities Lending

Securities
lender

No reinvestment of
collateral

Reinvestment of collateral
(cash only)

HQ Gov. Bonds

Repos

Global
Exposure

None

Value of reinvestment



Leverage

Counterparty
Risk

Value of Securities lent
minus
Adjusted value of collateral
 $VC > SL$

idem

Collateral management for OTC Derivatives and EPM techniques

IF the associated collaterals of OTC derivatives and EPM Techniques are compliant with the following criteria:



They **reduce** the associated counterparty exposure

Prospectus should include the collateral policy of the UCITS
(types, levels, re-investment policy)

Should you have any questions...

Contact

Yves de Naurois

Executive Chairman

+352 42 26 11 301

ynaurois@arkus-fs.com