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Calculation of leverage by UCITS: CSSF press release

As announced in their annual report 2011 (see our [newsletter](#) dated July 2012) and following the release by ESMA of its Q&A relating to the Risk Measurement and Calculation of Global Exposure and Counterparty Risk for UCITS ("2012/ESMA/429"), the CSSF published yesterday a press release on its website. In this press release, the CSSF provides clarification in terms of the determination of leverage and its disclosure in the prospectus and the annual report for the UCITS determining the global exposure as per Article 42(3) of the Law of 17 December 2010 on undertakings for collective investment through a value-at-risk (VaR) approach. The CSSF clearly states that the sum of the notionals approach is now the standard reference. An English translation of the press release is available on our [website](#).

1. Determination of the level of leverage

- Newly created UCITS (or compartments thereof) must determine their level of leverage on the basis of the sum of the notionals approach from the moment they are launched.
- Existing UCITS must determine the level of leverage based on the sum of the notionals approach as quickly as possible and at the latest from 1 January 2013 onwards.

However, the CSSF recognises the possibility for UCITS to carry out the calculation of the leverage level by using the commitment approach in addition to the sum of the notionals approach.

2. Disclosure in the prospectus

- For newly created UCITS (or compartments thereof) the expected level of leverage should be based on the sum of the notionals approach.
- Existing UCITS must update their prospectus at the latest by 31 December 2012.

Similarly, the CSSF leaves the door open for UCITS to complement the expected level of leverage calculated through the sum of the notionals approach (i) by a figure determined by using the commitment approach, provided that a clear and precise

explanation of the underlying calculation method is given, or (ii) by giving further explanation.

3. Disclosure in the annual report

For any financial year ending after 31 December 2012, the leverage information should be disclosed on the basis of the sum of the notionals approach for the period after 1 January 2013.

This means that, for a financial year ending after 31 December 2012, UCITS may have a mixed disclosure by using a figure based on the commitment approach for the period until 31 December 2012 and a figure based on the sum of the notionals approach for the period from 1 January 2013 onwards. However, a precise indication of the calculation methodology used and the period of observation underlying the calculation must be disclosed.

The figures may also be complemented (i) by other figures such as those resulting from the commitment approach or (ii) by further explanation.

4. Update of CSSF Circular 11/512

The CSSF also announces that it will be updating its Circular 11/512 to reflect the 2012/ESMA/429 document.

Luxembourg, 1 August 2012