



**CSSF**

COMMISSION DE SURVEILLANCE  
DU SECTEUR FINANCIER

# **Master/Feeder UCITS Structures: Practical Aspects**

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3 February 2010



# **Introduction**

## **I. The UCITS IV Directive**

## **II. The Level II Implementing Measures**



# Introduction

## Master/Feeder UCITS

Main idea: allow for the pooling of assets in order to enable economies of scale and allow for the use of master/feeder UCITS as a distribution tool



# Introduction

## Master/Feeder UCITS

The European Commission has stated that it is estimated that the introduction of master/feeder UCITS will allow to make up to 6 billion EUR in savings and economies of scale

The European Commission specifies that these economies could be shared with investors in the form of lower investment costs

# I. The UCITS IV Directive

## Master/Feeder UCITS

A feeder is a UCITS which invests at least 85 % of its assets in another UCITS (the master) or in a compartment of another UCITS

A feeder UCITS may hold up to 15 % of its assets in i) ancillary liquid assets, ii) financial derivative instruments, which may be used only for hedging purposes, and iii) movable and immovable property which is essential for the direct pursuit of the business, if the feeder UCITS is an investment company

A feeder UCITS can only invest in one master UCITS



# **I. The UCITS IV Directive**

## **Master/Feeder UCITS**

A master is a UCITS or a compartment thereof, which:

- has, among its unit-holders, at least one feeder UCITS
- is not itself a feeder UCITS
- does not hold units of a feeder UCITS



# **I. The UCITS IV Directive**

## **Master/Feeder UCITS**

The feeder and the master do not have to be established in the same Member State

A master can have feeders in various Member States



# **I. The UCITS IV Directive**

## **Master/Feeder UCITS**

The master UCITS has to provide the feeder UCITS with all documents and information necessary for the latter to meet the requirements laid down in the directive

For this purpose, the feeder UCITS shall enter into an agreement with the master UCITS

In the event that both master and feeder UCITS are managed by the same management company, the agreement may be replaced by internal conduct of business rules that cover the points mentioned in the UCITS IV directive

# I. The UCITS IV Directive

## Master/Feeder UCITS

If a master UCITS is liquidated, the feeder UCITS shall also be liquidated, unless the competent authorities of its home Member State approve:

- the investment of at least 85 % of the assets of the feeder UCITS in units of another master UCITS; or
- the amendment of its fund rules or instruments of incorporation in order to enable the feeder UCITS to convert into a UCITS which is not a feeder UCITS



# I. The UCITS IV Directive

## Master/Feeder UCITS

If a master UCITS merges with another UCITS or is divided into two or more UCITS, the feeder UCITS shall be liquidated, unless the competent authorities of the feeder UCITS home Member State grant approval to the feeder UCITS to:

- continue to be a feeder UCITS of the master UCITS or another UCITS resulting from the merger or division of the master UCITS;
- invest at least 85 % of its assets in units of another master UCITS not resulting from the merger or the division; or
- amend its fund rules or its instruments of incorporation in order to convert into a UCITS which is not a feeder UCITS

# I. The UCITS IV Directive

## Master/Feeder UCITS

If the master and the feeder UCITS have different depositaries, those depositaries enter into an information-sharing agreement in order to ensure the fulfilment of the duties of both depositaries

The feeder UCITS shall not invest in units of the master UCITS until such agreement has become effective

# I. The UCITS IV Directive

## Master/Feeder UCITS

If the master and the feeder UCITS have different auditors, those auditors shall enter into an information-sharing agreement in order to ensure the fulfilment of the duties of both auditors

The feeder UCITS shall not invest in units of the master UCITS until such agreement has become effective

In its audit report, the auditor of the feeder UCITS shall take into account the audit report of the master UCITS



# **I. The UCITS IV Directive**

## **Master/Feeder UCITS**

The conversion of existing UCITS into feeder UCITS has to be authorised by their competent supervisory authorities

Existing UCITS that convert into feeder UCITS have to provide their investors with certain informations, such as the Key Information Document (KID) and the date on which the conversion enters into effect

The investors in an existing UCITS which converts into a feeder UCITS have the right to request within 30 days the repurchase or redemption of their units without any charges other than those retained by the UCITS to cover disinvestment costs

## II. – The Level 2 Implementing Measures

On 17 February 2009, the European Commission published a mandate for CESR's Advice concerning the level 2 implementing measures regarding the passport for UCITS management companies, the Key Investor Information/Key Information Document and mergers of UCITS, master-feeder UCITS structures and cross-border notification of UCITS

It was agreed that CESR shall publish its technical advice to the European Commission on level 2 measures relating to mergers of UCITS, master-feeder UCITS structures and cross-border notification of UCITS before 31 December 2009

## II. – The Level 2 Implementing Measures

CESR's technical advice to the European Commission on level 2 measures relating to mergers of UCITS, master-feeder UCITS structures and cross-border notification of UCITS was published on 22 December 2009 (CESR/09-1186)

## II. – The Level 2 Implementing Measures

As of last week, the latest plans of the European Commission were to adopt the level 2 measures regarding master/feeder UCITS by way of a level 2 implementing directive

According to the latest plans of the European Commission, other level 2 measures will also be adopted by way of a level 2 implementing directive  
This will be the case for the organisational requirements of management companies of UCITS, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and a management company

## II. – The Level 2 Implementing Measures

Pursuant to the plans of the European Commission, some level 2 measures will be adopted by way of a European regulation

This will be the case for the Key Investor Information/Key Information Document (KID), for the cooperation between supervisory authorities/on-the-spot verifications and for the standardised notification and attestation letters and the use of electronic communication between competent authorities for the purpose of notification

## II. – The Level 2 Implementing Measures

The level 2 measures will determine the content of:

- the agreement between the master and the feeder UCITS
- the agreement between the depositaries of the master and the feeder UCITS and
- the agreement between the auditors of the master and the feeder UCITS

## II. – The Level 2 Implementing Measures

The level 2 measures will specify that the parties to

- the agreement between the master and the feeder UCITS

- the agreement between the depositaries of the master and the feeder UCITS and

- the agreement between the auditors of the master and the feeder UCITS

have the option to apply either the law of the jurisdiction of the master UCITS or the law of the jurisdiction of the feeder UCITS to such agreements

## II. – The Level 2 Implementing Measures

The CESR Advice specifies that a UCITS and its management company should ensure that all its unitholders are treated equitably and that no unitholder or group of unitholders should be discriminated against or placed at a disadvantage to other unitholders by the acts or omissions of the UCITS

The CESR Advice adds that Member States may, in their national laws, regulations and provisions require any master UCITS established in their jurisdiction to ensure that the arrangements between the master and its feeder UCITS shall not unfairly prejudice the interests of any other unitholder of the master that is not itself a feeder UCITS

It seems that this text will not be included in the level 2 implementing directive

It has to be added that the general principle of the UCITS directive that a Management Company shall act solely in the interest of the unitholders remains applicable

## II. – The Level 2 Implementing Measures

The current version of the draft level 2 implementing directive specifies that if an existing UCITS plans to be converted into a feeder UCITS, the relevant information to investors shall be provided on paper or on another durable medium in the sense of the UCITS IV directive

This could imply enormous costs for an existing UCITS which plans to be converted into a feeder UCITS