



OPSC Directives	D – 02/2014	English
Conditions for investment foundations which, pursuant to Article 26 para. 3 ASV/OFP, exceed the limits per individual debtor and company stipulated in Articles 54 and 54a BVV/OPP 2		

Issued: 01.06.2014
Last amended: First version
Addressees: Investment foundations and auditors of investment foundations

Contents

1	Purpose	3
2	Investment specifications	3
2.1	Passively managed investment groups	3
2.2	Actively managed investment groups holding debt instruments.....	3
2.2.1	Maximum positive deviation from benchmark weightings	3
2.2.2	Requirement to replicate the benchmark	3
2.2.3	Additional diversification requirements	3
2.2.4	Limit on non-benchmark debt	4
2.3	Actively managed investment groups holding equity and other ownership instruments	4
2.3.1	Maximum positive deviations from index weightings	4
2.3.2	Requirement to replicate the benchmark	4
2.3.3	Additional diversification requirements	4
2.3.4	Limit on non-benchmark companies	4
3	Provisions concerning transparency	4
3.1	Naming	4
3.2	Investment guidelines	5
3.3	Information concerning the benchmark	5
3.4	Disclosure of limits that have been exceeded	5
4	Entry into force	6
5	Explanatory notes	7
5.1	Chapter 1 (Purpose)	7
5.2	Chapter 2.1 (Passively managed investment groups)	7
5.3	Chapter 2.2.1 (Maximum positive deviation from benchmark weightings)	7
5.4	Chapter 2.2.2 and 2.3.2 (Requirement to replicate the benchmark)	7
5.5	Chapter 2.2.3 and 2.3.3 (Additional diversification requirements)	7
5.6	Chapter 2.2.4 (Limit on non-benchmark debt)	7
5.7	Chapter 3.3 (Information concerning the benchmark)	8

The Occupational Pension Supervisory Commission (OPSC),
having regard to Article 64a. para. (1)a and (2) of the Federal Act on Occupational Old Age, Survivors' and Invalidity Pension Provision of 25 June 1982 (BVG/LPP; SR 831.40) and Article 26 para. 3 of the Ordinance on Investment Foundations of 22 June 2011 (ASV/OFP; SR 831.403.2),
issues the following directive:

1 Purpose

With the exception of mixed investment groups, investment groups that pursue a strategy based on a standard index may exceed the limits per individual debtor and company stipulated in Articles 54 and 54a of the Ordinance on Occupational Old Age, Survivors' and Invalidity Pension Provision of 18 April 1984 (BVV/OPP 2; SR 831.441.1), provided the index used as a benchmark contains big names. This OPSC directive sets out the conditions to be met in applying Article 26 (3), ASV/OFP (exemption).

Investment groups that do not exceed the limits per individual debtor and company stipulated in Articles 54 and 54a BVV/OPP 2 are not subject to this directive (general rule).

2 Investment specifications

2.1 Passively managed investment groups

Passively managed investment groups must meet the following requirements:

- only minimal deviations from the benchmark (lower and upper limits) are permitted
- no additional diversification requirements need to be observed

2.2 Actively managed investment groups holding debt instruments

2.2.1 Maximum positive deviation from benchmark weightings

In the case of actively managed investment groups, a maximum deviation of +5 percentage points from the benchmark weightings is possible.

In the case of high-grade sovereign debt issuers, a maximum deviation of +50 percentage points is authorised.

2.2.2 Requirement to replicate the benchmark

The risk structure of the investment group must always be similar to that of the benchmark. The investment foundation defines the corresponding limits in its investment guidelines.

2.2.3 Additional diversification requirements

The investment foundation must stipulate a minimum number of debt issuers in which investments are to be held.

2.2.4 Limit on non-benchmark debt

A maximum of 10% of the investment group's assets may be held in issuers of debt securities not included in the benchmark. High-grade issuers constitute an exception: they may be used as substitutes up to a level of 100%. Claims against non-benchmark issuers are subject to the prevailing limit of 10% per individual debtor.

The limit on non-benchmark debt does not apply to liquid assets.

2.3 Actively managed investment groups holding equity and other ownership instruments

2.3.1 Maximum positive deviations from index weightings

In the case of actively managed investment groups, a maximum deviation of +5 percentage points from the benchmark weightings is possible.

2.3.2 Requirement to replicate the benchmark

The risk structure of the investment group must always be similar to that of the benchmark. The investment foundation defines the corresponding limits in its investment guidelines.

2.3.3 Additional diversification requirements

The investment foundation must stipulate a minimum number of companies in which investments are to be held.

2.3.4 Limit on non-benchmark companies

In the case of actively managed investment groups, a maximum of 10% of the assets may be held in companies not included in the benchmark.

Investments made in companies that do not form part of the benchmark must comply with the limit of 5% per individual company.

The limit on non-benchmark companies does not apply to liquid assets.

3 Provisions concerning transparency

3.1 Naming

If positions of more than 50% are held long term, they must be referred to in the name of the investment group (e.g. US government bonds).

In the case of passively managed investment groups, the name must refer to the index being replicated.

3.2 Investment guidelines

The investment guidelines state the official name of the benchmark and stipulate that the investment strategy is based on this index. They refer to information regarding the benchmark that is published on the website or in a separate document. If the investment group is actively managed, this is to be stated in the guidelines.

If an investment group avails itself of the possibility of exceeding the limits pursuant to Article 26 para. 3 ASV/OFP, the investment guidelines must clearly state that it is permissible to exceed the limits per individual debtor and company in derogation of Articles 54 and 54a BVV/OPP 2.

If an investment group is passively managed, the investment guidelines must state the method of replicating the chosen benchmark as well as the impact this method has on the investment group as far as exposures (in comparison with the benchmark) and counterparty risks are concerned.

If an investment group is permitted to invest in debt issuers or companies not included in the benchmark, the investment guidelines must identify these issuers or companies and justify their inclusion in the investment group. They must also indicate the maximum percentage of assets that may be invested in the non-benchmark issuers or companies.

3.3 Information concerning the benchmark

With regard to the benchmark, the transparency requirements in terms of directive 05/23 "Key information and additional disclosure requirements for investment foundations" apply¹. If the limits per individual debtor and company stipulated in BVV/OPP 2 are exceeded, this must also be indicated.

References to other websites and specific information regarding the benchmark published on the website of the investment foundation are to be checked and updated on a regular basis.

3.4 Disclosure of limits that have been exceeded

If the limits per individual debtor and company – and, in the case of actively managed investment groups, the actual proportion of debtors and companies not included in the benchmark – are exceeded, this must be disclosed in the annual report and in the interim publications specified in Article 35 para. 4 ASV/OFP.

The number of debtors and companies in which investments are held must also be mentioned in these interim publications. In addition, the risk structure of the investment group is to be compared with that of the benchmark by means of the selected dimensions for risk limits, and the deviations are to be commented upon.

¹ http://www.oak-bv.admin.ch/fileadmin/dateien/Regulierung/Weisungen/en/05_2013_Directives_key_information_for_investment_foundations.pdf

4 Entry into force

This directive enters into force on 1 June 2014. The transitional period for adapting the investment guidelines for existing investment groups ends on 31 March 2015.

1 June 2014

**Occupational Pension
Supervisory Commission (OPSC)**

President: Pierre Triponez

Director: Manfred Hüsler

5 Explanatory notes

5.1 Chapter 1 (Purpose)

Only investment groups that track an index featuring heavyweight stocks are affected: in other words weightings of at least 8% per individual debtor and at least 4% per individual company.

The OPSC defines the term "standard index" on the basis of the "Guidelines on ETFs and other UCITS issues" of the European Securities and Markets Authority (ESMA/2012/832EN)², which makes the following stipulation in article 52: "An index should not be considered as being an adequate benchmark of a market if it has been created and calculated on the request of one, or a very limited number of, market participants and according to the specifications of those market participants."

5.2 Chapter 2.1 (Passively managed investment groups)

For passively managed investment groups, the customary proven methods are permissible, e.g. full replication or stratified sampling. The chosen method must ensure that the differences between the investment group's return and that of the benchmark remain minimal.

5.3 Chapter 2.2.1 (Maximum positive deviation from benchmark weightings)

There are no limits on debt within the meaning of Article 54 para. 2 BVV/OPP 2 (debt issued by the Swiss Confederation or Swiss mortgage bond institutions, etc.).

5.4 Chapter 2.2.2 and 2.3.2 (Requirement to replicate the benchmark)

The text of the ordinance refers to an "index-based strategy". The latter must be reflected in the risk structure. The limits the investment foundation is required to set must ensure that the investment group remains similar in terms of its various risk dimensions to the risk structure of the benchmark. The choice of these dimensions depends on the type of investment group.

5.5 Chapter 2.2.3 and 2.3.3 (Additional diversification requirements)

As the minimum number of debtors or companies in which investments may be held is highly dependent on the investment group and chosen benchmark, a general rule cannot be stated: therefore, this directive does not stipulate a specific minimum number. The minimum number chosen by the investment group is to be set out in the investment guidelines.

5.6 Chapter 2.2.4 (Limit on non-benchmark debt)

The limit relates solely to debtors, not to individual issues. It is therefore possible for instruments issued by an issuer included in the benchmark to be replaced by other instruments issued by that same issuer.

Exposures by way of derivatives are viewed in economic terms; this means that a synthetic product may be constructed, but it will be factored in to the limits that apply to the corresponding debtor.

² http://www.esma.europa.eu/system/files/esma_fr_0.pdf

Thanks to this exemption, an investment group that uses a benchmark comprising government bonds, for example, is entitled to replace the government bonds with bonds from supranational issuers or other public-law corporations with a high credit rating.

5.7 Chapter 3.3 (Information concerning the)

If the limits per individual debtor and company laid down in BVV/OPP 2 are exceeded, investors must be given clear information about the benchmark and, in particular, about the weighting of the various securities. The benchmark is to be described in more precise detail on the investment foundation's website or in a separate document. Where a composite index is involved, clear information is to be provided about each of the indexes that make up the overall index. The weighting of each index in the composite index must also be stated.