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Flash News

The new law on Specialized Investment Funds came into force on February 13, 2007

dated February 15, 2007

On February 13, 2007, the 1991 law on UCIs dedicated to institutional investors ceased to exist and was replaced by the law on Specialized Investment Funds ("SIF").

The main change as compared to the 1991 law concerns the scope of eligible investors, which is broadened in the draft law to include not only institutional investors but also professional investors and sophisticated investors. This latter category includes private individuals who fulfill the following criteria: (i) they formally adhere to the status of "sophisticated" investors (meaning in substance that they are able to understand the risks associated to investing in the SIF) and (ii) they invest a minimum of 125.000 euros in the SIF. The latter minimum investment amount may be waived if they receive a positive assessment from a credit institution, an investment firm or a management company confirming their ability to adequately appraise an investment in the SIF.

Other important changes are:

- The possibility to start the SIF activities without prior approval from the CSSF (the Luxembourg supervisory authorities of the financial sector); application for approval will have to be filed with the CSSF within the month following the creation of the SIF;
- A promoter is no longer required; the investment manager will not be subject to CSSF scrutiny and the depositary bank, while required in Luxembourg, has a lightened scope of responsibilities;
- No requirement for publication of a net asset value ("NAV"), to subscribe and redeem at NAV or to have fully paid shares in SIFs set up in the form of SICAVs;
- No semi-annual report or long form report required (only an annual audited report covering the relevant financial year is required) and the portfolio of investments does not need to be fully detailed anymore;
- Even if the risk diversification requirement remains (as this is the essence of a UCI), the quantitative limits that existed under the prior regime disappear. It should consequently be up to the managers of each SIF, in agreement with the CSSF, to determine such quantitative limits.
- Investors will be able to invest in the SIF via equity or debt.

The range of eligible assets (nature of assets or associated risks) is unlimited: private equity, alternative strategies, real estate and commodities are just a few examples of assets eligible for a SIF.

Existing 1991 funds automatically became SIFs on February 13, 2007. Directors and providers of legacy 1991 funds which have been automatically converted should consider the need to adapt their constitutional documents to the new flexibilities mentioned above.

Conclusion

The introduction of SIFs has raised a high degree of interest in the industry owing to the flexibility of the product (minimal time to market, permitted investor base, permitted investment scope, etc.) and the fact that they still benefit from the label of a "regulated fund" in Luxembourg.

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