

OCTOBER 2008

Guide to Eligible Securities Markets for UCITS



European Trust & Fiduciary Services

JPMorgan 

Eligible Markets

This Guide is offered to assist Operators of Collective Investment Undertakings (“Funds”) when considering the “eligibility” of securities markets in which they invest, or in which they are considering investing. This Guide includes relevant observations and requirements from information supplied to clients by JPMorgan Chase Bank N.A. (“JPMorgan”) and considers the various criteria of eligibility included in Article 19.1 of the UCITS Directive (85/611/EEC) and the Commission Directive clarifying certain Definitions (2007/16/EC) [the Eligible Assets Directive (“EAD”)].

Operators should carry out their own due diligence when considering the eligibility of a particular market.

This Guide is intended only for the category of users and for the purpose detailed above and should not be relied on to make decisions about the desirability or otherwise of investing in particular markets or instruments. In particular, this Guide is not intended for the use of retail investors.

Market Information

Market information on securities markets is provided by JPMorgan for each of the countries in which it arranges custody. JPMorgan’s Market Intelligence database is available to clients online via JPMorgan Access.

A market in a country not covered by a Fund’s appointed custodian will not comply with eligibility, since satisfactory custody arrangements will not be available in that market. However, custodians are constantly reviewing and assessing new countries and markets, and enquiries may be made to JPMorgan as to the status of any markets not covered by this Guide. As and when new countries are “opened” by JPMorgan, market information will be made available through the above web pages.

Clients will no doubt have information available from a variety of sources. We hope that the Market Information available from JPMorgan’s Market Profiles, Settlement System Market Practice Assessmentssm and Depository Safekeeping Assessmentssm, plus the observations and requirements in this Guide, will be of assistance in reaching a conclusion for the market in question.

Tim Gandy
Head of Fiduciary & Compliance Services

EEA Member States

*Austria
Belgium
Bulgaria
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany*

*Greece
Hungary
Iceland
Ireland
Italy
Latvia
Liechtenstein
Lithuania
Luxembourg
Malta*

*Netherlands
Norway
Poland
Portugal
Romania
Slovak Republic
Slovenia
Spain
Sweden
United Kingdom*

By virtue of Article 19 of the UCITS Directive, a securities market within the above EEA Member States is eligible, provided it is a **“regulated market”** or it is **regulated, operates regularly and is open to the public**.

EEA Member States may confer the status of “regulated market” upon those markets constituted within their territory which comply with the terms of Article 4, paragraph 1, point 14 of Directive 2004/39/EC (“The Markets in Financial Instruments Directive”). This is a defined status, and other regulated markets may exist within a particular Member State. The European Commission maintains a list of “regulated markets” at http://ec.europa.eu/internal_market/securities/isd/mifid_en.htm. At present, there are no “regulated markets” in Liechtenstein. JP Morgan does not currently offer Custody services in Liechtenstein.

Although an appropriate securities market in an EEA country is automatically eligible, there may still be risks associated with custody (e.g. Malta). Where risks are outlined in this Guide, Operators should contact their usual Fiduciary Client Contact in order to discuss how the risks associated with custody may be mitigated.

Markets in which JPMorgan offers custody arrangements and JPMorgan European Trust & Fiduciary Services currently has no observations or requirements:

*Australia
Canada
Hong Kong
Indonesia
Japan*

*Malaysia
Mauritius
Mexico
New Zealand
Singapore*

*South Africa
South Korea
Switzerland
United States of America*

Based upon JPMorgan's Observations and Requirements, markets have been categorised within one of the following:

Category:	Definition:
A	Markets with one or more characteristics that should not prohibit the market from being designated as "eligible" but where we wish to ensure that Clients are aware of the characteristic(s).
B	Markets with one or more characteristics on which we require information from Clients to clarify action taken to mitigate perceived risks to investors. As a consequence, we may wish to be involved in discussions from an early stage.
C	Markets with one or more characteristics that need to be taken into consideration. These characteristics should not prevent Clients acquiring "unapproved securities" (Article 19.2, UCITS Directive) in that market up to regulatory limits. However, from the information available at present, we recommend Clients to give very careful consideration to whether these markets satisfy regulatory requirements for "Eligibility". Where appropriate, when investing in these markets for the first time and, subject to market requirements, it may also be appropriate for us to be involved in discussions on any market opening formalities from an early stage.
C₁	Markets with similar characteristics and risks to those classified as "C", but where regulatory, documentary or other market considerations provide a specific barrier to market entry.
D	Markets with one or more characteristics that result in JPMorgan being unable to provide satisfactory safe custody arrangements.

Terms and Definitions

DVP	Settlement systems which provide for simultaneous delivery of assets versus payment may be available in certain markets, and where available, this can minimise trading risks. In the following table, "Y" indicates the existence of simultaneous DVP, "N" indicates DVP is not in place, and where a market is indicated as "C", please refer to comments in the relevant Key Market Risk Observations. Although DVP may be available in a particular market, other, non DVP settlement systems may also exist, and the use of a specific system may depend on the securities or specific local exchange used.
------------	--

Market	Market Category	DVP	Key Market Risk Observations / Requirements
Argentina	C	N	Restrictions apply to currency outflows.
Bahrain	B	N	Brokers have account access. However, risks are mitigated as sub-custodian uses separate trading and custody accounts.
Bangladesh	C	C	DVP exists for dematerialised securities (85% of trading). Title lags payment by 1-6 weeks when buying non dematerialised securities.
Bermuda	A	N	Exchange is recognised by FSA and SEC.
Botswana	C	N	Illiquid securities and FX market. Central depository was launched in May 2008, however most securities remain physical. As a result buyers are exposed to local broker until securities are re-registered.
Brazil	B	C	DVP only for Government securities. IOF tax applies to FX inflows used to purchase fixed income securities.
Chile	C	Y	Currency freely convertible, however FX transactions must be registered with central bank by entity executing the transaction.
China 'B'	C	N	Note multiple currencies in use.
China 'A'	C ₁	N	We understand that, currently, a UCITS is not recognised by the market authorities. This is an evolving / developing market and the position may change in future.
Columbia	C	C	DVP available for Government debt. Income and capital repatriation is subject to 40bp tax. FX inflows relating to fixed income securities are subject to 50% reserve requirement.

Croatia	C	C	Market constantly developing as Croatia prepares to join EU in 2009. DVP for large trades, small trades guaranteed by central depository.
Ecuador	D	-	JP Morgan has suspended custody services in Ecuador.
Egypt	C	N	Fees are levied on FX to maintain repatriation fund. No DVP, but JPMorgan's sub-custodian manages process to mitigate risks
Ghana	C	N	Central bank acts as depository for t-bills. Equity process is manual, resulting in broker and registrar risk, until central securities depository is launched.
India	C	N	Registered FIIs can repatriate currency freely provided complex taxes paid. Until RTGS is introduced, buyers/sellers exposed intra-day to clearing house. Margin payments are due on T+1 for all equity trades resulting in complex settlement process.
Israel	B	N	Sun-Thurs market FX issues. All trades may involve exposure to broker.
Ivory Coast	D	N	Restricted custody services in place, please contact your Fiduciary Client Contact. Recent civil unrest has led to market disruption. Regulator has limited resources. FX requests can be delayed due to liquidity problems.
Jamaica	D	N	Restricted custody services in place, please contact your Fiduciary Client Contact.
Jordan	C	N	Custodians do not have access to depository, only local brokers. Sunday – Thursday trading.
Kazakhstan	C	C	For trades on KASE, good funds follow good title by 5 minutes. OTC trades can involve depository, be free of payment or physical (visit to registrar).
Kenya	C	N	Legal framework for Government debt depository not clear. Currency illiquid.

Kuwait	C	C	Market has minimal experience of FII investment, and regulation untested. All trades are processed through sub-custodian as virtual counterparty. Sunday – Thursday trading.
Lebanon	C	N	Recent conflicts and civil unrest. No independent securities authority. Non-residents cannot hold local currency. Trading and income is processed in USD onshore.
Malta	C	N	Brokers have account access, sub-custodian mitigates by blocking debits. Regulations modified in line with EU directives, but relatively untested. Malta adopted the Euro currency in January 2008.
Morocco	C	C	Controlled DVP used, buyers and sellers exposed to depository and bank. Internally convertible currency. Registered FX inflows can be freely repatriated.
Namibia	C	N	Market based on South African currency and exchange technology. System based on UK SETS, but broker swaps physical certs for cheque on settlement date.
Nigeria	C	N	FX inflows need certificate to repatriate. Some physical aspects to market, with history of fraud and corruption. Brokers have had licenses terminated.
Oman	C	N	RTGS system is available, but not mandatory and cheques can be used. Note working week varies between banks, Government and exchange.
Pakistan	C	N	Most stocks dematerialised, and registration is slow for remaining physical stocks. Regulatory expertise developing. Special currency accounts required.
Panama	B	N	No guarantee fund, but participants pledge collateral. Equity trading volumes are low. Panama uses USD, via Monetary agreement with US, as de-facto local currency.
Peru	C	N	Market small and underdeveloped, supervision and enforcement evolving. Financial Transaction Tax applied to most cash credit / debits, and levy is charged on non resident cash balances at subcustodian banks where these exceed local regulatory limit.

Philippines	C	N	All foreign investments and FX inflow must be registered to enable repatriation. There is a wide list of industries where foreign investment is not permitted.
Qatar	C	N	Foreign ownership restricted to an aggregate limit of 25%. Sunday – Thursday trading. Some brokers may still require pre-funding of local currency.
Russia	C	N	The Russian market has very specific risks relating to the share Registrars, which expose investors to a direct market risk. Restricted custody service is in place, and clients should contact their Fiduciary Client Contact prior to entering market. Limits apply to foreign investment in “strategic” industries. Registrars have had licenses revoked as Government tries to consolidate market.
Saudi Arabia	B	C	Foreign investors cannot directly invest in the equity market, but can invest in Government Bonds and Mutual Funds. DVP exists for Government Bonds.
Serbia	B	Y	FX cannot be repatriated until tax authority confirms obligations met. The foreign exchange market may be illiquid for large transactions.
Sri Lanka	C	N	Fraudulent sales possible, but guarantee fund operated. Foreign ownership restrictions apply.
Taiwan	B	N	Trade fails not permitted in market and consequences are severe. Foreign investors must apply for and obtain FINI status, appoint tax guarantor and use specific brokers to avoid FX repatriation issues. No overdrafts permitted and foreign ownership limits are in place. Currency must not be held for speculative purposes and long balances could be investigated.
Thailand	C	N	All FX relating to securities transactions must take place through special account. Trading in certain high turnover securities is subject to pre-funding requirements although local brokers have discretion to waive this. Foreign investment limits apply and penalties for breaching limits can be severe.
Tunisia	C	N	Regulatory environment developing. No DVP, but exposure is limited. Incoming FX and investments must be registered to repatriate income.

Turkey	A	Y	Failure to deliver securities or cash to a broker on T+2 on two occasions within three months will result in an investor having to deliver on TD. Tax regime is complex and Clients should refer to JP Morgan Investor Kit prior to market entry.
Ukraine	D	N	Restricted custody services in place, please contact your Fiduciary Client Contact. Numerous political risks. Equity market is OTC and registration requires physical attendance at registrar, unless counterparty has account with sub custodian. Potential for registrar fraud. Regulatory environment untested. With effect from April 2008, trades must be executed through a local broker and income cannot be repatriated if securities were previously purchased offshore.
UAE - Dubai	C	N	Both exchanges in market and regulatory framework are newly established. DIFX market uses USD and near-DVP, with minimal intra-day exposure to depository for buyers. DFM market is similar to ADX in Abu-Dhabi. Markets operate Sunday-Thursday.
UAE – Abu Dhabi	C	N	Market operates Sunday-Thursday. Sub-custodian has separate custody and trading accounts. Exchange members have a trading limit equal to the level of their bank guarantee.
Uruguay	C	N	Market is small and illiquid with few active securities. No central depository for equities, which are held in physical bearer form. JPMorgan's subcustodian has trading process to minimise exposure. Regulatory oversight untested.
Venezuela	C	C	Unstable political environment and complex taxation regime. FX controls in place, and repatriation of funds not permitted. No guarantees or default protections, but DVP possible for Govt debt. Depository procedures evolving.
Vietnam	C	N	Depository has poor disaster recovery procedures and exchange has suffered technical issues resulting in multiple day closures. Tax advisor required to repatriate currency. FX market has limited liquidity.
Zambia	C	N	Depository lacks legal authority to transfer title. Legislation to introduce depository and other market facilities delayed since 1999. Illiquid market.

Zimbabwe	D	N	Difficult political situation has led to civil unrest and hyperinflation. Government has passed legislation effectively nationalising foreign owned businesses. FX repatriation process is available, but effectively impossible due to lack of liquidity and central bank is unlikely to grant requests. Settlement is physical, with re-registration taking up to one week. Restricted custody service is in place, and clients should contact their Fiduciary Client Contact prior to entering market.
----------	---	---	---