

“Verdipapirfondenes forenings bransjestandard for informasjon og klassifisering av rentefond”

Verdipapirfondenes Forening (VFF) ([Link](#))

The Norwegian Fund and Asset Management Association's industry standard for information and classification of fixed income funds

(Adopted at the association's annual general meeting on 27 May 1998, last amended at the annual general meeting on 23 March 2023)

1 Introduction

1.1 Purpose

The legislation does not contain any precise definitions of fixed income funds, here understood as a collective term for money market funds, liquidity funds, bond funds and other fixed income funds (e.g. so-called "high yield funds").

The purpose of this standard is firstly to define a distinction between money market funds, liquidity funds, bond funds and other fixed income funds. This will, among other things, clarify which investments different types of fixed income funds can make. In addition, criteria are laid down that are to be used as a basis for the classification of the various fixed income funds. The objective of the information and classification scheme for fixed income funds is to highlight the main elements that create differences in risk and return between the fixed income funds. In this way, the outside world will have a better basis for choosing funds for their own investments and comparing performance between different funds.

Furthermore, the purpose of the standard is to clarify the information that must be included in the information scheme for fixed income funds of the member companies of the Norwegian Fund and Asset Management Association. The individual management company must report this information daily (monthly when specified) - or when any changes occur - to the company with which the association has agreed operatorship of the database.

1.2 Who the standard applies to

The industry standard applies to the fixed income funds of members and associated members of the Norwegian Fund and Asset Management Association.

The member companies are obliged to follow this industry standard, and according to the association's articles of association, violation can result in disciplinary proceedings and, in the worst case, exclusion from the association.

2 Rating

Ratings of issuers and securities are central to the assessment of the credit risk associated with investments in fixed income funds. The Norwegian model for assessing credit risk is based on international practice, based on letter codes that predict the probability of bankruptcy for the issuer or individual securities.

There must be an official rating from at least one rating agency licensed by ESMA (European Securities and Markets Authority).¹

Where there is an official rating on both the individual bond and the issuer, the rating of the individual bond must be used.

If an official rating is not available or is unavailable, alternative information from Nordic Bond Pricing (NBP) can be used. This assumes that the bond is part of the Regular Market (RM) universe (RM1 – RM4) as defined by NBP. In cases where this industry standard refers to a requirement for a rating at the level of BBB- (Investment Grade), there will be a corresponding requirement for securities or issuers without an official rating that the security must be included in the RM universe of NBP. In the case of issues, it is sufficient if the bond satisfies the requirements of the NBP in order to be classified in the RM universe.

Where the standard refers to rating requirements other than this, the official rating will be used as a basis, unless otherwise specified.

As of 1 July 2021, a phased reduction of the maximum share of the portfolio in bond funds and liquidity funds that may consist of non-financial corporate securities (Utilities) without an official rating has been introduced. The following model is used:

Grade	As of date	Maximum share of portfolio without official rating
1	1.7.2021	30%
2	1.1.2022	20%
3	1.7.2022	10%

The requirement for an official rating or RM universe does not apply to securities issued by Norwegian counties and municipalities, as well as securities issued by publicly owned companies guaranteed by the Norwegian state, Norwegian counties or Norwegian municipalities.

3 Classification of fixed income funds

A fixed income fund is a mutual fund that, according to its articles of association, is normally required to invest funds in securities other than equity instruments, and which, in accordance with this industry standard, is classified either as a money market fund, liquidity fund, bond fund or other fixed income fund.

Where the term "fund" is used in this industry standard, this is also understood as a share class.

3.1 Money market funds

Mutual funds that meet the conditions set out in Regulation (EU) 2017/1131 on money market funds are defined as money market funds. Special approval from the Financial Supervisory Authority of Norway or an equivalent foreign competent authority is required in order to establish,

¹ Such as Standard and Poor's, Moody's, Fitch, Nordic Credit Rating (NCR) or Scope Ratings.

market and/or manage a money market fund. The term "money market funds" is thus reserved for funds that have been granted authorization pursuant to the above-mentioned regulation.

The industry-standard classification of money market funds follows the classification in the Regulation. Under the Regulation, money market funds can be established in three different variants:

- VNAV money market funds: Money market funds with variable net unit value, where the portfolio is valued at market value.
- CNAV money market funds: Money market funds with a constant net unit value, where the investment universe is also limited to public debt. The fund's portfolio shall be valued at amortized cost.
- LNAV money market funds: Money market funds with little variation in net unit value, where the fund's portfolio is generally also valued at amortized cost, and the net unit value is kept constant, but where the net unit value can be changed under certain conditions.

For the VNAV money market fund group, the funds can also be designed as either short-term money market funds or standard money market funds. CNAV and LVNAV money market funds must be designed as short-term money market funds.

The detailed requirements for the design of money market funds are set out in Regulation (EU) 2017/1131 on money market funds.

The industry standard does not impose any requirements on money market funds beyond what follows from the Regulation.

3.2 Liquidity fund²

It follows from Article 6 of Regulation (EU) 2017/1131 that UCITS that are not MMFs shall not have characteristics that are essentially equivalent to those of an MMF. As a result, the management company is responsible for ensuring that the objective and management of a liquidity fund differ sufficiently from the management of money market funds, and that the money market is not used as a reference for the fund.

To clarify this, it is recommended that liquidity funds use the following or similar wording in the description of the fund's investment mandate: "This fund is not a money market fund under the EU rules for money market funds."

Liquidity funds are defined as fixed income funds whose value as a result of interest rate changes is only affected by changes in 0-12-month interest rates. This means that liquidity funds can only invest in fixed-income securities with a remaining fixed interest rate of less than or equal to 365 days (+ 10 working days). Liquidity funds' interest rate sensitivity³ can never exceed 1.

² The industry standard does not refer to senior non-preferred debt. The following is assumed: Liquidity funds may use subordinated debt as an investment alternative without further restrictions. Low-risk liquidity funds are not permitted to invest in this type of fixed-income securities. ³ The fund's "interest rate sensitivity" is defined as the immediate percentage change in the fund's price as a result of a 1 percentage point change in the interest rate level on the Fund's investments based on today's interest rate level. A change in the interest rate level of 1 percentage point means that the entire yield curve will have a shift of 1 percentage point. Management companies can determine the interest rate sensitivity of their funds according to the above definition by calculating the percentage change in the fund's price in the event of an upward adjustment of 1 percentage point of the effective interest rate on all their investments. The management companies will usually have an ongoing overview of the funds' duration and effective interest rate (often also called 'yield'). Thus, the funds' interest rate sensitivity can alternatively be calculated using the following formula: fund duration / (1 + the fund's effective interest rate) = the Fund's interest rate sensitivity

Liquidity funds must also satisfy the other requirements set out in this industry standard, cf. sections 3.2.1 – 3.2.3.

In English translation, "liquidity funds" is used for this fund group.

3.2.1. Low-risk liquidity fund

The following requirements apply to funds that are to be classified in the group "Low-risk liquidity funds":

- The Fund's interest rate sensitivity shall be less than 0.5.
- The weighted average maturity of the fund⁴ shall be less than 1 year.
- The Fund may only invest in Norwegian fixed-income securities, i.e. securities denominated in Norwegian kroner, regardless of which jurisdictions the issuer is subject to and which national markets the securities are traded in.
- The Fund may only invest in fixed-income securities with a rating of at least double A (AA-) and in senior fixed-income securities issued by financial institutions where the issuer or the security itself has a rating of at least BBB- (Investment Grade). If there is no rating of the issuer or security, the bond must at least be included in NBP's RM2 universe.
- The fund cannot invest in FRN (floaters) with a maturity period of more than 3 years (+ 10 business days).
- A maximum of 25 percent of the fund's assets can be invested in FRN without a put (or with a put clause where the strike price is not close to par) with the remaining time to maturity between one and three years.
- The Fund cannot invest in subordinated loans and other loans with lower priority.
- The Fund's investments in bank deposits with a lock-in period⁵ beyond the Fund's settlement dates may amount to a maximum of 25 percent of the fund's total assets.

3.2.2 Liquidity funds

The following requirements apply to funds classified in the group "Liquidity funds":

- The Fund's interest rate sensitivity must be less than 1.
- The weighted average maturity of the Fund shall be less than 1.5 years
- The Fund may only invest in Norwegian fixed-income securities, i.e. securities denominated in Norwegian kroner, regardless of which jurisdictions the issuer is subject to and which national markets the securities are traded in.
- The Fund may only invest in securities where the issuer or the security itself has a rating of at least BBB- (Investment Grade). If there is no rating of the issuer or security, the bond must at least be included in NBP's RM3 universe.
- A maximum of 10% of the fund's assets can be invested in subordinated loans. When investing in subordinated loans, the issuer must have a rating of at least BBB+. If there is no rating of the issuer or security, the bond must at least be included in NBP's RM3 universe.
- The fund's investment in securities that are downgraded to a rating lower than BBB- after the investment date («securities in valve») may amount to a maximum of 5 percent of the fund's total assets. Such investments must normally be sold within 1 month, unless there are special circumstances based on the unitholders' interests that warrant a further postponement.

⁴Weighted average maturity corresponds to the English term WAL (Weighted Average Life), which expresses the weighted average time until the cash flow in all of the loans included in the portfolio has been repaid. This means that it is the final maturity (and not the time until the next interest rate adjustment or the time of the call) that must be used as a basis for the calculation. The same also applies to investments in subordinated loans. For covered bonds, which are fixed-income securities with particularly low credit risk, exceptions are made to this general rule, where the time of call is used.

- The Fund's investments in bank deposits with a lock-in period⁵ beyond the Fund's settlement dates may amount to a maximum of 25 percent of the Fund's total assets.
- The Fund's total investments in subordinated loans, bank deposits with a lock-in period beyond the Fund's settlement dates and "securities in a valve" may amount to a maximum of 25 percent of the Fund's total assets.

3.2.3 International liquidity funds

Liquidity funds that invest in fixed-income securities denominated in a currency other than the Norwegian kroner, and which otherwise meet at least the requirements set for the group "Liquidity funds", are classified as international liquidity funds.

3.3 Bond funds⁶

Bond funds are fixed income funds that satisfy the following requirements:

- The Fund may only invest in Norwegian fixed-income securities, i.e. securities denominated in Norwegian kroner, regardless of which jurisdictions the issuer is subject to and which national markets the securities are traded in.
- The Fund may only invest in securities that have a rating of at least BBB- ("Investment Grade"). If there is no rating at bond level, the issuer's rating can be used correspondingly. If there is no rating of the issuer or security, the bond must at least be included in NBP's RM3 universe.
- The Fund's investment in securities that are downgraded to a rating lower than BBB- after the date of investment ("securities in valve") may amount to a maximum of 10 percent of the Fund's total assets. Such investments shall normally be sold within one month of the downgrade, unless there are special circumstances based on the interests of the unit holders that warrant a further postponement.

Bond funds are classified simultaneously according to two main criteria: the funds' interest rate risk, expressed by the fund's interest rate sensitivity (modified duration), and the fund's credit risk, grouped by investment category.

3.3.1 Interest rate risk

Based on interest rate sensitivity, the funds are divided into the following groups:

- Funds with an expected interest rate sensitivity equal to 0.125 (range from 0 to 1).
- Funds with an expected interest rate sensitivity equal to 1 (range from 0 to 2).
- Funds with an expected interest rate sensitivity equal to 3 (range from 1 to 5).
- Funds with an expected interest rate sensitivity equal to 5 (range from 3 to 7).
- Funds with an expected interest rate sensitivity other than that mentioned above are classified in the group other Norwegian bond funds until a sufficient number of funds are offered to enable the establishment of a separate group (ref. section 3.5).

3.3.2 Credit risk

The funds are also divided according to credit risk, expressed in the following investment categories:

⁵ Bank deposits where the cost of redeeming the deposit is negligible, and this is stated in writing in material issued by the bank if the terms of the deposit in question are not covered by this limitation.

⁶ The industry standard does not refer to senior non-preferred debt. The following is assumed: Bond funds in credit risk category 3 and other Norwegian bond funds may use subordinated debt as an investment alternative without further restrictions. Bond funds in credit risk class 2 may invest a maximum of 15 percent of the fund's assets in subordinated debt. Bond funds in credit risk group 1 are not permitted to invest in this type of fixed-income securities.

- Category 1: Funds that invest in securities issued or guaranteed by the Norwegian state, Norwegian counties and municipalities, securities with a zero (0) percent credit risk weight⁷ and a minimum double A (AA) rating, as well as securities secured by collateral (municipal, commercial and residential mortgage bonds) with a minimum double A (AA) rating⁸. If there is no rating of the issuer or security, the bond must at least be included in NBP's RM1 universe.
- Category 2: Funds with investments in fixed-income securities with a rating of at least double A (AA-), and in senior fixed-income securities issued by financial institutions. If there is no rating of the issuer or security, the bond must at least be included in NBP's RM2 universe.
- Category 3: Funds with investments in other senior fixed income securities, and subordinated loans in accordance with the requirements below. If there is no rating of the issuer or security, the bond must at least be included in NBP's RM3 universe.
- Other Norwegian bond funds, i.e. funds with investments in securities in accordance with the requirements for bond funds, but which do not satisfy the requirements for groups 1 - 3 above, including the right to invest in hybrid bonds and other hybrids. If there is no rating of the issuer or security, the bond must at least be included in NBP's RM4 universe.

Funds in Category 1 may only invest in securities that satisfy the requirements in this category, while funds in the other categories may also invest in securities with lower credit risk. This means that funds in Category 3 also have the opportunity to invest in securities that are included in Category 2 and Category 1.

The different categories must satisfy the following requirements:

- The bond funds' right to invest in subordinated loans is as follows: Categories 1 and 2 are by definition not permitted to invest in subordinated loans. Category 3 may invest a maximum of 20 percent of the fund's assets in subordinated loans. Other Norwegian bond funds have no restrictions on the right to invest in subordinated loans. Investments in subordinated loans are subject to compliance with the rating requirement. If there is no rating at bond level, the issuer's rating can be used. The issuer must then have a rating of at least BBB+. If there is no rating of the issuer or security, the bond must at least be included in NBP's RM3 universe.
- The bond funds' right to invest in hybrid bonds and other hybrid securities is as follows: For funds in categories 1 - 3, it is not possible to invest in hybrid bonds. Other Norwegian bond funds may invest funds in hybrid bonds, provided that the rating requirement is met. If there is no rating at bond level, the issuer's rating can be used. The issuer must then have a rating of at least A. If there is no rating of the issuer or bond, the bond must at least be included in NBP's RM4 universe.
- For bond funds in categories 1 - 3, the fund's investments in bank deposits with a lock-in period⁵ beyond the fund's settlement dates may amount to a maximum of 20 percent of the Fund's total assets.

⁷ As this is stated, the Capital Requirements Regulation (Regulation on capital requirements for commercial banks, savings banks, finance companies, holding companies in financial groups, investment firms and management companies for mutual funds, etc. (F14.12.2006 no. 1506).

⁸ If there is no rating of the issuer or bond, the bond must at least be included in NBP's RM1 universe.

- For bond funds in categories 1-3, the Fund's total investments in subordinated bonds, bank deposits with lock-in periods beyond the Fund's settlement dates and "securities in valves" may amount to a maximum of 25 percent of the Fund's total assets.

If there is not a sufficient number of funds to classify the funds simultaneously according to interest rate risk and credit risk, the funds will be classified in the group other Norwegian bond funds until a sufficient number of funds are offered to enable a separate group to be established (ref. section 3.5).

3.4 International bond funds

3.5 Bond funds that can invest in fixed-income securities denominated in foreign currency are classified in the group "International bond funds". In addition, the following requirements apply to be classified in this group:

- The fund's investments must be 95 – 105 percent currency hedged in relation to the fund's denomination currency.

3.6 Other fixed income funds

3.7 Fixed income funds that do not satisfy the requirements set for classification in any of the groups mentioned above are classified in a separate category. If necessary, the association's interest rate committee can establish separate sub-groups within this category.

3.8 Establishment of new classification groups

3.9 When a sufficient number of funds are offered within the same group or category and there is a need for it, separate groups/categories may be established for these funds. Decisions on the establishment of new groups/categories and the classification of funds are anchored in VFF's Fixed Income Committee.

4 Information to be reported

In the information matrices produced by the database operator and made available to the public (media, etc.), the funds will be sorted in alphabetical order within each individual fixed income fund group.

The following information must be reported either daily (monthly when specified) or when changes occur to previously reported information, to the company with which the Norwegian Fund and Asset Management Association has agreed operatorship of the database:

4.1 Name of the fund

The name of the fund must be stated. Fixed income funds that do not set their exchange rate in Norwegian kroner must indicate the currency denomination of the exchange rate in brackets after the name of the fund.

4.2 Interest rate risk

Information must be provided on the Fund's expected interest rate sensitivity, as well as the limits set by the management company for the Fund's highest and lowest interest rate sensitivity. The Fund's actual interest rate sensitivity must be disclosed at the end of each month.

4.3 The weighted average maturity of the Fund

The weighted average maturity of the Fund at the end of each month shall be disclosed.

4.4 Net unit value

The net unit value of the fund must be disclosed.

4.5 Subscription/redemption fees

The fund's subscription and redemption fees must be disclosed.

4.6 Management fees

The fund's annual management fee as a percentage must be disclosed.

4.7 Minimum subscription amount

The minimum subscription amount for the fund must be stated.

4.8 Current costs

The fund's current costs must be disclosed in line with the information provided in the Fund's Key Information. For funds that practice profit-sharing, the performance-related cost charged to the fund in the last calendar year (stated as a percentage of average total assets during the period) must also be disclosed.

4.9 Minimum amount savings agreement

If the fund offers a savings agreement, the minimum subscription amount must be disclosed in such agreements.

4.10 Information pursuant to the Disclosure Regulation

If the Fund promotes environmental or social characteristics (i.e. regulated in accordance with Article 8 of the Disclosure Regulation) or has environmental investments as its objective (i.e. regulated in accordance with Article 9 of the Disclosure Regulation), this must be disclosed.

4.11 Share classes

4.12 If the fund is divided into share classes, the disclosure requirements in sections 4.1 – 4.10 apply to each individual share class.

5 Other conditions

5.1 Calculation of return history

On the basis of the reported prices, as well as information on any dividends paid, splits, etc., the database operator will calculate the funds' returns so far this year, as well as (depending on the length of the individual fund's history) rolling one-year returns and rolling average returns over the past 1, 2, 3, 5, 7, 10, 15 and 20 years.

In accordance with the recommendations of the Global Investment Performance Standards (GIPS), the database operator will also calculate historical returns for each calendar year based on the 31.12. Furthermore, return figures for less than one year under GIPS will not be annualized. All return figures beyond 12 months will be annualized. Average returns over one year are salvaged as an annual geometric mean.

Similar calculations are made for the funds' benchmark indices.

The return history of funds that quote their rates in foreign currencies will be converted to and reported in Norwegian kroner by the database operator. However, it should be explicitly stated that the fund's exchange rate is calculated in foreign currency, but that the historical return figures have been converted to Norwegian kroner.

5.2 Changes to the investment mandate

A fund that makes significant changes to its investment mandate that result in the fund being classified in a new group will be regarded as a newly established fund. This means that such a fund cannot use its previous history when making comparisons with other funds.

This does not apply if a minor change is made to the investment mandate that means that the fund can remain classified in the same group, or in the event of reclassification as a result of the establishment of new fund groups.

5.3 Rules for mergers and demergers

In the event of mergers between funds, the investment mandate of the merged fund shall determine which of the merged funds' return history may be included as the merged fund's history. If the merged fund is to continue the investment mandate of one of the funds included in the merger, the history of this fund shall be included in the history of the merged fund.

If the merged fund does not retain any of the investment mandates of the funds included in the merger, so that the merged fund is classified in a different group than the original funds, the merged fund shall be regarded as a newly established fund with no history.

In the event of a merger between funds that have had relatively similar investment mandates and been grouped in the same group, and both the mandate and the classification are retained for the merged fund, the general rule is that the fund with the longest history shall be included as the merged fund's return history.

If the return history in such a case is the same length for the merged funds, the history of the largest fund shall normally be included as the history of the merged fund. However, other relevant factors may also be given weight when assessing which fund's return history should be continued after the merger. Similar rules also apply in the event of a demerger of funds.

5.4 Use of derivatives in fixed income funds

When using derivatives in fixed income funds as part of streamlining management, this shall be in accordance with the model established by the Association for non-risk-increasing derivative strategies in fixed income funds.

5.5 Processing by the association

In the event of new establishments of funds, as well as in connection with events that may have an impact on the classification of existing funds, including mergers, liquidation or changes to the fund's investment mandate, the management companies must immediately report this to the association. Cases of doubt shall be dealt with by the association's interest rate committee, which may make a recommendation to the board, which makes the final decision in such cases.

6 Entry into force

This industry standard came into force on 7 May 1999. Amendments adopted at the general meeting on 24 June 2021 entered into force from zz.xx.yyyy [Note: same date as the entry into force of the EU MMF Regulation in Norwegian law] .

Appendix: The criteria for the classification of fixed income funds summarised in 1. Main criteria and 2. Bond funds – credit risk categories

1. Main criteria

	Low-risk liquidity fund	Liquidity funds	Int.liquidity fund - fund	Bond funds 0.125	Bond Fund 1	Bond Fund 3	Bond Fund 5	Other Norwegian Bond Funds	Int. bond funds	Other fixed income funds
Fixed interest rates, single securities	≤ 1 year	≤ 1 year	≤ 1 year	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions
The fund's interest rate sensitivity	< 0.5	< 1	< 1	0,125	1	3	5	No restrictions	No restrictions	No restrictions
The fund's weighted average maturity	< 1 year	< 1.5 years	< 1.5 years	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions
Credit quality	Min. AA-, and senior finance min. BBB-	Min. BBB- (5% valve)	Min. BBB- (5% valve)	Min. BBB- (10% valve) See Table 2 for categories	Min. BBB- (10% valve) See Table 2 for categories	Min. BBB- (10% valve) See Table 2 for categories	Min. BBB- (10% valve) See Table 2 for categories	Min. BBB- (10% valve)	Min. BBB- (10% valve)	No restrictions
Subordinated bonds	Not allowed	Maximum 10%	Maximum 10%	See Table 2 for categories	See Table 2 for categories	See Table 2 for categories	See Table 2 for categories	No restrictions	No restrictions	No restrictions
Currency	Only NOK	Only NOK	Currency of the Fund only	Only NOK	Only NOK	Only NOK	Only NOK	Only NOK	95 -105% currency hedging	No restrictions
FRN	Max 25%, max 3 years	No restriction beyond the maximum weighted average maturity	No restriction beyond the maximum weighted average maturity	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions
Bank deposits with a fixed term	Max 25%	Max 25%	Max 25%	Maximum 20%	Maximum 20%	Maximum 20%	Maximum 20%	No restrictions	No restrictions	No restrictions
Total investment in "valve", subordinated loans and deposits with lock-in period	Max 25%	Max 25%	Max 25%	Max 25%	Max 25%	Max 25%	Max 25%	No restrictions	No restrictions	No restrictions
Hybrid bonds, other	Not allowed	Not allowed	Not allowed	Not allowed	Not allowed	Not allowed	Not allowed	Yes, provided the issuer rating A	Yes, provided the issuer rating A	No restrictions

Appendix: The criteria for the classification of fixed income funds summarized in 1. Main criteria and 2. Bond funds - credit risk categories

2. Bond funds - credit risk categories

Fixed income security requirements (issuer/rating)	Category 1	Category 2	Category 3	Other Norwegian obl. fund
Fixed-income securities issued by Norwegian governments, counties, municipalities	Yes	Yes	Yes	Yes
Fixed-income securities with 0% credit risk weight, minimum rating AA	Yes	Yes	Yes	Yes
Mortgage-backed fixed-income securities, minimum rating AA	Yes	Yes	Yes	Yes
Other fixed-income securities with a minimum rating of AA-	No	Yes	Yes	Yes
Senior fixed-income security from a financial institution, minimum rating BBB-	No	Yes	Yes	Yes
Other senior fixed income securities, minimum rating BBB-	No	No	Yes	Yes
Subordinated bonds, minimum issuer rating BBB+	No	No	Max 20%, assuming issuer rating my BBB+	Yes, assuming the issuer rating my BBB+
Hybrid bonds, other	No	No	No	Yes, assuming issuer rating min A