

**THE CENTRAL BANK OF THE REPUBLIC OF ARMENIA**  
**BOARD RESOLUTION**

December 6, 2011

No 337-N

**ON APPROVAL OF REGULATION 10/10 ON “INVESTMENT LIMITS  
OF INVESTMENT FUNDS”**

In order to ensure effective investments diversification of investment funds, based on the Law of Republic of Armenia “On investment funds”, Articles 40(1), (4), 41(1), (2), (3), 43(2), 44(1), (3), guided by the Law of Republic of Armenia on “The Central bank” article 20(e), the Law of Republic of Armenia on “Legal acts” article 16, the Board of the Central bank of the Republic of Armenia decides:

1. To approve Regulation 10/10 on “Investment limits of investment funds” pursuant to Appendix (attached).
2. This resolution shall enter into force on the tenth day upon its official publication.

**Chairman of the Central bank of the Republic of Armenia**

**A. Javadyan**

## REGULATION 10/10

### INVESTMENT LIMITS OF INVESTMENT FUNDS

#### PART 1. GENERAL TERMS

##### CHAPTER 1. SCOPE

1. The Regulation sets the investment limits of public investment funds.
2. The requirements set in this Regulation do not refer to qualified investors' funds, as well as to pension funds. If the fund has sub-funds, the limits of this Regulation apply to each sub-fund separately if nothing else is defined in this Regulation.

##### CHAPTER 2. CONCEPTS

3. Concepts used in this Regulation have following meaning:
  - 1) **“fund”** - investment fund as defined in the Law of Republic of Armenia “On investment funds” (hereafter Law),
  - 2) **“covered bonds”** - covered mortgage bonds as defined in the Law of the Republic of Armenia on “Covered mortgage bonds”, as well as such debt securities issued by banks or credit organizations (including foreign ones), when means received from the distribution of those are invested in such assets, that
    - a. during the whole period of validity of the debt securities are capable of covering claims attaching to the bonds on their fixed obligations, and
    - b. in the case of issuer's insolvency or bankruptcy would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.
4. Other concepts used in this Regulation have the meaning as defined in the Law and in the Law of Republic of Armenia “On securities market”.

5. In clauses related to standard funds securities are those defined in sub-points “a”, “b”, “c”, “f” of point 1 of Article 3 of the Law of Republic of Armenia “On securities market”.

### **CHAPTER 3. THE LIST OF FOREIGN REGULATED MARKETS**

6. The regulated markets mentioned in point 1 of part 1 of Article 40 of the Law are those defined in the Appendix 3 of the Central Bank of Armenia Board Resolution No 68-N, adopted March 11, 2008 on approval of Regulation 4/04 “On Prospectus and reporting issuers reports” (hereafter Regulation 4/04).

### **CHAPTER 4. REQUIREMENTS FOR THE ISSUES OF MONEY MARKET INSTRUMENTS**

7. The international organization mentioned in sub-point “a” of point 4 of part 1 of Article 40 of the Law is the international organization from the list of Appendix 2 of Regulation 4\04, and the foreign country is the foreign country as in Appendix 1 of Regulation 4\04.
8. The organization mentioned in sub-point “c” of point 4 of part 1 of Article 40 is the organization that satisfies at list one of these criterions:
  - 1) is a bank, an insurance company, investment company, credit organization (except saving and credit unions) or fund management company, or
  - 2) has “C-” or greater rating granted by the Central Bank of the Republic of Armenia (hereafter the Central Bank).

### **CHAPTER 5. REQUIREMENTS FOR FOREIGN FUNDS**

9. The foreign fund mentioned in point 6 of part 1 of Article 40 of the Law is a company of collective investment undertakings in transferable securities subject of regulation under Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 as well as the foreign fund that satisfies all these criterions:
  - 1) is a public open-ended fund and is supervised by its competent national supervisory authority of funds’ activities (management companies);
  - 2) related to investing fund’s assets in permitted instruments the fund’s investment policy, according to its rules (charter), is equal to standard fund’s investment policy;
  - 3) according to law, legal acts of competent foreign authority or fund’s rules (charter) for the fund investments in securities issued by a single issuer (including a fund) or the limits of deposits in a single bank are not weaker than the limits set in points 11, 15, 20, 24 and 25 of the Regulation;

- 4) according to fund's rules (charter) borrowing, lending, uncovered sales, pledge limits of the fund are not weaker than the limits for standard funds set in the Law, legal acts approved under it;
- 5) information about it through reports is disclosed at least on a semi-annual basis.

## **CHAPTER 6. OTHER LIQUID ASSETS**

10. Other liquid assets mentioned in point 9 of part 1 of Article 40 are
  - 1) securities not permitted to trade in a regulated market issued by a foreign state or its central bank or local authorities, which ratings are not lower than "BBB" from Standard and Poor's "BBB" group, "Baa3" from Moody's "Baa" group or "BBB-" from Fitch's "BBB" group;
  - 2) bank accounts. Moreover, in this Regulation bank deposits include amounts in bank accounts.

## **PART 2. INVESTMENT LIMITS OF STANDARD FUNDS**

### **CHAPTER 7. RISK ALLOTMENT RELATED TO INVESTMENTS OF STANDARD FUNDS' ASSETS**

11. Not more than 10% of assets of a standard fund can be invested in securities of a single issuer, if nothing else is provided in this Regulation.
12. Up to 25% of assets of a standard fund can be invested in securities of a single issuer in the case those securities are covered bonds.
13. Up to 25% of assets of a standard fund can be invested in securities of a single issuer in the case those securities are issued or guaranteed by the Republic of Armenia, by the Central Bank, by the local authorities, by an international organization from Appendix 2 of Regulation 4/04, by a foreign country from Appendix 1 of Regulation 4/04, its central bank or local authority.
14. More than 35% of assets of a standard fund can be invested in single issuer's securities defined in point 13 of this Regulation, if
  - 1) adequate protection of the interests of the participants of the fund is provided.
  - 2) fund's rules (charter) and prospectus define those issuers in the securities issued by which a fund invests more than 35% of its assets,
  - 3) fund's assets are invested in securities of various issues, moreover, investment in each of them does not exceed 30% of fund's assets.

15. Not more than 20% of the value of the standard fund's assets can be invested as a deposit in a single bank.
16. The assets of a standard fund can be invested as a deposit only in such a foreign bank, which ratings are not lower than "BBB" from Standard and Poor's "BBB" group, "Baa3" from Moody's "Baa" group or "BBB-" from Fitch's "BBB" group.
17. Total value of risk related to the counterparty of the transaction with derivative instruments per person must not exceed 10% in the case the counterparty is a bank, and 5% in the case the counterparty is another entity. Moreover, subject of a derivative instrument (including the ones admitted to trading in a regulated market) can only be such an asset in which the fund according to its rules (charter) can invest, as well as a stock index, interest rate, foreign currency or foreign currency rate, except the cases mentioned in point 10 of part 1 of Article 40 of the Law.
18. Not more than 20% of a standard fund's assets can be invested in another fund's units (shares). Moreover, in the case of sub-funds, each sub-fund is considered as one single fund related to the limit of this point.
19. Not more than 30% of a standard fund's assets can be invested in units (shares) of funds managed by the same management company or by related management companies.
20. Not more than 50% of a standard fund's assets can be invested in other funds' units (shares).
21. Not more than 20% of a standard fund's assets can be invested in securities not mentioned in points 12 and 13 of this Regulation issued by issuers belonging to the same group or by related issuers.
22. Total value of risk related to securities (except covered bonds) issued by a single entity, bank deposits in the same single entity and derivative transactions signed with the same single entity cannot exceed 20% of the total value of a standard fund's assets.
23. Total value of risk related to securities including covered bonds issued by a single entity, bank deposits in the same single entity and derivative transactions signed with the same single entity cannot exceed 35% of the total value of a standard fund's assets.
24. Not more than 10% of shares with voting rights issued by any issuer can be bought at the expense of a standard fund.
25. Standard fund's assets cannot be invested
  - 1) more than 10% in shares without voting rights issued by a single issuer;
  - 2) more than 60% in debt securities issued by a single issuer;
  - 3) more than 25% in other fund's units or shares.
26. The limits defined in points 22, 23 and 24 of the Regulation don't relate to the investments in securities mentioned in point 13 of the Regulation.

## **CHAPTER 8. FEATURES OF MONEY MARKET FUNDS' INVESTMENTS**

- 27. Money market funds must comply not only to the limits set in Chapter 5 of the Regulation but also to the requirements set in this chapter.
- 28. Not more than 5% of assets of a money market fund can be invested in foreign issuers' securities (except investment funds), if they don't have "BBB" rating from Standard and Poor's "BBB" group, "Baa3" rating from Moody's "Baa" group or "BBB-" rating from Fitch's "BBB" group or higher.

## **PART 3. INVESTMENT LIMITS OF SPECIALIZED FUNDS**

### **CHAPTER 9. RISK ALLOTMENT RELATED TO INVESTMENTS OF REAL ESTATE FUNDS' ASSETS**

- 29. Not more than 20% of assets of a real estate fund can be invested in single property. In the meaning of this point a single property is the real estate which economic viability is connected with another real estate. The apartments (areas) in one building are considered as a single property.
- 30. Not more than 50% of assets of a real estate fund can be invested in foreign property.
- 31. Not more than 40% of assets of a real estate fund can be invested in unaccomplished property.
- 32. Not more than 40% of assets of a real estate fund can be invested in industrial property.
- 33. Not more than 30% of assets of a real estate fund can be invested in land with agricultural sense.
- 34. In the expense of real estate fund loans received must not more than 20% of the value of the real estate fund's assets, moreover, the term of those loans cannot exceed two years.
- 35. At least 5% of the real fund's assets (except a closed-ended fund) must consist of liquid financial. In the meaning of this point the liquid assets are
  - 1) cash;
  - 2) bank demand deposit;
  - 3) securities issued or guaranteed by the Republic of Armenia, by the Central Bank, by the local authorities, if their time to maturity does not exceed 3 years;
  - 4) the debt securities issued by companies with "C-" or higher ratings granted by the Central Bank, permitted to trading in the stock exchange;
  - 5) debt securities issued or guaranteed by a foreign state or its central bank or local authorities, which ratings are not lower than "BBB" from Standard and Poor's

"BBB" group, "Baa3" from Moody's "Baa" group or "BBB-" from Fitch's "BBB" group.

- 36. The securities connected with the real estate mentioned in point 2 of part 2 of Article 45 of the Law must include the securities of such companies which main activity is investments in real estate or management of real estate, including construction, trading or renting of real estate.
- 37. Not more than 20% of assets of real estate fund can be invested in securities not permitted to trading in a regulated market (except units and shares of public funds).
- 38. The provisions set in points 11-25 of the Regulation relate to real estate funds as well.

## **CHAPTER 9. RISK ALLOTMENT RELATED TO INVESTMENTS OF OTHER SPECIALIZED FUNDS' ASSETS**

- 39. The provisions set in points 11-19 and 21-25 of the Regulation relate to fund of funds as well.
- 40. The provisions set in points 11-25 of the Regulation relate to other specialized funds different from real estate fund or fund of funds.
- 41. The limits of receiving loans in the expense of a real estate fund set in point 34 of the Regulation relate to other specialized funds different from real estate fund.

## **PART 4. DEVIATION FROM INVESTMENT LIMITS**

### **CHAPTER 11. DEVIATION FROM THE LIMITS SET IN THE REGULATION**

- 42. The limits set in the Regulation (except the limits set in points 34 and 41 of the Regulation) do not refer to newly established funds within the first year after the establishment.
- 43. If the deviation from the limits set in the Regulation arose from exercising the rights arising from securities included in the fund's assets or are a result of factors beyond the control of the management company, the management company must eliminate them as soon as possible taking into consideration the best interest of the fund's members.