

Republic of Armenia
Central Bank Board
Resolution
02/05/2011 119 N

ON APPROVAL OF REGULATION 10/02

**“PRUDENTIAL STANDARDS OF MANAGEMENT COMPANY, SIZES THEREOF (INCLUDING
MINIMUM SIZE OF MANDATORY HOLDING OF MANAGEMENT COMPANY IN EACH
INVESTMENT FUND UNDER MANAGEMENT OF MANAGEMENT COMPANY), MINIMUM
SIZE OF INFRINGEMENT OF PRUDENTIAL STANDARDS, WHICH ARE GROUNDS FOR
REVOCATION OF LICENCE (PERMISSION) OF MANAGEMENT COMPANY”**

With the view to enhance the financial stability of investment management companies and the efficiency of investment fund management, as well as engender greater trust in management companies, pursuant to point 7 of Part 1 of Article 59, Parts 1, 2 and 4 of Article 67 of the Law of the Republic of Armenia “On Investment funds”, Article 30 and part 3 of Article 42 of the Law of the Republic of Armenia “On Funded Pensions” and acting in accordance with paragraph “e” of Article 20 of the Law of the Republic of Armenia “On Central Bank of the Republic of Armenia” and Article 16 of the Law of the Republic of Armenia “On Legal Acts”, the Board of the Central Bank of the Republic of Armenia hereby

decides:

1. To approve Regulation 10/02 “Prudential standards of management company, sizes thereof (including minimum size of mandatory holding of management company in each investment fund under management of management company), minimum size of infringement of prudential standards which are grounds for revocation of license (permission) of management company”, in accordance with the attached Appendix.
2. This Resolution enters into force on the tenth day after promulgation.

Chairman of Central Bank

of Republic of Armenia

Arthur Javadyan

06/05/2011

Yerevan

REGULATION 10/02

PRUDENTIAL STANDARDS OF MANAGEMENT COMPANY, SIZES THEREOF (INCLUDING MINIMUM SIZE OF MANDATORY HOLDING OF MANAGEMENT COMPANY IN EACH INVESTMENT FUND UNDER MANAGEMENT OF MANAGEMENT COMPANY), MINIMUM SIZE OF INFRINGEMENT OF PRUDENTIAL STANDARDS, WHICH ARE GROUNDS FOR REVOCATION OF LICENCE (PERMISSION) OF MANAGEMENT COMPANY

CHAPTER 1. SUBJECT OF REGULATION

1. This regulation establishes:
 - 1) Statutory capital and total capital of investment fund (hereinafter-fund) management company (hereinafter-manager), minimum sizes thereof,
 - 2) minimum size of mandatory holding of manager in each fund under their management,
 - 3) minimum size of infringement of prudential standards (including the minimum size of mandatory holding of manager in each fund under management the manager), which are grounds for revocation of the license for fund management activity of the manager or the permission for rendering service (services) stipulated by the clause 3 or (and) 4 or 4 and (or) 5 of Article 52 of the Law of the Republic of Armenia “On Investment Funds”, can be revoked.
2. Chapter 3 of this Regulation does not apply to the foreign manager’s branch office, operating in the territory of the Republic of Armenia.

CHAPTER 2. BASIC CONCEPTS

3. Concepts used in this Regulation have meanings as follows:
 - 1) 1) central Bank- the Central Bank of the Republic of Armenia,
 - 2) financial organization-legal person, licensed and supervised by the Central Bank,
 - 3) portfolio under management-totality of funds (their portfolios) under management of the manager, which are stipulated by part 7 of Article 67 of the Law of the Republic of Armenia “On Investment Funds”,
 - 4) tangible assets used for fund management and (or) rendering other services–assets, which are used by the manager for fund management, as stipulated by the Law of the Republic of Armenia “On Investment Funds”, and (or) for rendering service (services), as stipulated by point 3 or (and) 4 or 4 and (or) 5 of Article 52 of the Law of the Republic of Armenia “On Investment Funds”.
Moreover, own buildings (tangible assets), used for fund management and (or) rendering other services, are those tangible assets, where the managers and (or) their branch offices fulfill fund

management, as stipulated by the Law of the Republic of Armenia “On Investment Funds” (rendering service (services), as stipulated by point 3 or (and) 4 or 4 and (or) 5 of Article 52 of the Law of the Republic of Armenia “On Investment Funds”, as well as those buildings, which are occupied by branch offices and representative offices of the manager.

- 5) month-a time span of monthly periodicity, calculated from the beginning of the year. For calculation of prudential standards (including the minimum size of mandatory holding of manager in each fund under management of the manager), defined in this Regulation, the period from the receiving the license for fund management activity (after assuming responsibility of given fund (funds) management activity by the manager) until the last day of that month.
4. Other concepts, used in this Regulation, have the same meanings, as in the Law of the Republic of Armenia “On Investment Funds”

CHAPTER 3. BASIC PRUDENTIAL STANDARDS OF THE MANAGERS AND SIZES THEREOF

5. The minimum size of statutory capital of the managers (except for pension fund managers) is set forth a million of the Republic of Armenia drams.
6. The minimum size of statutory capital of the voluntary and mandatory pension fund managers is set forth respectively two hundred millions and five hundred millions of the Republic of Armenia drams.
7. The minimum size of total capital of the managers, which are not considered as pension fund manager is set forth fifty millions of the Republic of Armenia drams.
8. The minimum size of total capital of pension fund managers is set forth equal to the minimum size of statutory capital of the pension fund managers, defined in point 6 of this Regulation, except for cases, stipulated by points 9 and 10 of this Regulation.
9. In case, when the net asset value of the portfolio under management of the manager (except for pension fund managers) exceeds fifty billions of the Republic of Armenia drams, the minimum size of total capital of the manager is calculated as follows:
 - 1) In case of managing a portfolio, the total net asset value of which is worth up to fifty billions of the Republic of Armenia drams inclusive, the minimum size of total capital of the manager is set forth the total amount of minimum size of statutory capital, defined in respectively points 7 and 8 of this Regulation, and 0.02 per cent of the amount, exceeding fifteen billions of the Republic of Armenia drams,
 - 2) in case of managing a portfolio, the total net asset value of which exceeds fifty billions of the Republic of Armenia drams, the minimum size of total capital of the manager is set forth the total amount of minimum size of statutory capital, defined in respectively points 7 and 8 of this Regulation, seven million of the Republic of Armenia drams and the amount, which is equal to 0.01 per cent of the amount exceeding fifty billions of the Republic of Armenia drams. The maximum required size of the minimum total capital, defined according to this sub-point, is five hundred million of the Republic of Armenia drams.
10. In cases, when the total net asset value of the portfolio under management of the mandatory pension fund manager exceeds a hundred billion of the Republic of Armenia drams, the minimum size of total capital of mandatory pension fund manager is set forth the total amount of the minimum size of total capital, defined in point 8 of this Regulation and 0.02 per cent of the amount, exceeding a hundred million of the Republic of Armenia drams.

11. The net asset value of the portfolio under management is calculated on an average daily basis per calendar month. The net asset value of the portfolio, being under management each day, which is included in average daily calculation of the net asset value of the portfolio under management is the net asset value most recently published for that fund as of the end of that day.
12. The requirement on minimum size of total capital, defined in points 7, 8, 9, or 10 of this Regulation, is considered as abided by the manager, if the latter has guarantees, given by bank or insurance company, covering the amount equal to the gap between the minimum size of total capital, required respectively in points 7, 8, 9, or 10 of this Regulation, and the amount of total capital, held by the manager. This gap can not exceed 50 per cent of the minimum size of total capital, required respectively in points 7, 8, 9, or 10 of this Regulation.
13. In case, when the guarantee, stated in point 12 of this Regulation, is provided by non-resident bank or insurance company, the latter shall have a grade not less than the respective grade of at least one of the international rating agencies, stated in the table of this point:

No	Name of international rating agency	Minimum grade
1.	Standard and Poor's, group "BBB"	BBB-
2.	Moody's, group "Baa"	Baa3
3.	A.M. Best, group "B"	B+
4.	Duff & Phelps, group "BBB"	BBB-
	Viessi, group "B"	B-
6.	Fitch, group "BBB"	BBB-

14. The management company calculates minimum size of statutory capital and total capital on an average daily basis per calendar month.
15. If the management company has a subsidiary, basic prudential standards, defined by the Central Bank, shall also apply to the consolidated reports of the management company.
16. The total capital of the management company, as defined in points 7, 8, 9 and 10 of this Regulation, is the sum of its main (primary) and additional (secondary) capitals. Moreover, the additional capital is included in the calculation of the total capital to the extent of maximum 50 per cent of the main capital (in consideration of deductions, pursuant to point 18 of this Regulation).
17. Main capital of the management company is the difference between the total amount of the following items and the items, deducted from the amount of the main capital, according to point 18 of this Regulation:
 - 1) statutory capital, including shares premium,
 - 2) undistributed profit (loss),
 - 3) legal reserve.
18. The following items are deducted from the amount of the main capital:
 - 1) book value of intangible assets (including those out of operation) (except for payments for the software, used by management companies in course of managing the fund (rendering other services) or payments for the rights of use thereof; and other payments for the right of use the CBAnet, Central Depository clearing system and, with consent of the Board of the Central Bank, other payment systems as well (including foreign payment systems, used by foreign branch offices of the management company)),
 - 2) sum of own equities or share securities, bought back or acquired by the management company,

- 3) book value of tangible assets, owned by the management company and not used for managing the fund and (or) providing other services (capital assets and other tangible assets, including assets made management company's own as a result of confiscation of property subject to pledge or ensued as a result of other claims, other fixed assets out of operation, as well as capital investments in fixed assets, not used in fund management and (or) rendering other services), six months following the date when the assets were deemed to become the property of the management company,
- 4) value of tangible assets (fixed assets, including immovable property (buildings), other fixed assets, as well as capital investments in fixed assets, used for activity of the management company), which constitute the property of the management company and which are used for fund management and (or) rendering other services, equal to the amount exceeding 25 per cent of the book value of the fixed capital. For the purposes of this sub-point the value of mtangible asset equals the sum of the investments minus their depreciation, losses from devaluation and revaluation,
- 5) balance value of capital investments aimed at improvement of fixed asset rented by the management company,
- 6) net book value of investments (value of financial assets minus reserves for covering the losses if any) in the statutory capital of other financial organizations (including those of other management companies), if
 - a) the investment includes 10 per cent or more of the statutory capital of the person in question, or
 - b) the investment is less then 10 percent of the statutory capital of the person in question, but exceeds 15 percent of the book value of the main capital of the management company, or
 - c) investments in the statutory capitals of all persons exceed 60 percent of the book value of the main capital of the management company.

Exception are the investments due to which the management company acquires 100 per cent holding in the capital of the organization, stated in this sub-point, provided that the investment has been made for purposes of liquidating the organization in the future or merging it with the management company, and the Central Bank has been notified about that intention. Such investments are not deducted within six months following the day the investment was made:

- 7) in case of investments in the statutory capital of commercial organizations other than those, stated under sub-point 6 of this point,
 - a) if the investment in the statutory capital constitutes 10 or more per cent of the statutory capital of the person in question, or
 - b) if the investment in the statutory capital is less than 10 per cent of the statutory capital of the person in question, but exceeds 15 percent of the book value of the main capital, or
 - c) if investments in the statutory capital of all persons (including those, mentioned in sub-point 6 of this paragraph) exceed 60 percent of book value of main capital of the management company. Moreover, deductions are made to the extent of the maximum of differences of investments made in the statutory capital of the organizations, stated in this sub-point and amounts stated in paragraphs "a", "b" and "c" of this sub-point.
19. Additional capital of the management company is comprised of the following:
- 1) reserves for reassessment (re-measurement) of tangible assets, owned by the management company and (or) used for provision of other services,
 - 2) reserves for the differences of foreign currencies, ensued in course of consolidation of the balance,

3) other reserves.

20. Calculation of additional capital does not include reserves for tangible assets, not used by the management company for managing the funds and (or) providing other services, for reassessing intangible assets deducted from the amount of the main capital.

CHAPTER 4. MINIMUM SIZE OF MANDATORY HOLDING OF THE MANAGEMENT COMPANY IN EACH FUND MANAGED BY THE MANAGEMENT COMPANY

21. Within three months following the establishment of the fund (assuming responsibility of managing given fund by the management company in accordance with law and legal acts of the Central Bank) the management company shall have at least 0.15 per cent holding in each fund (except for mandatory pension fund).

The claim envisaged in this point shall be in force within three years following the establishment of such fund. Holding, defined in this point, is calculated on an average daily basis per calendar month.

22. Moreover, mandatory holding of the management company is defined according to the following formula: [Number of the fund units (shares) held by the management company divided by the total number of fund tradable units (shares) multiplied by 100 (For instance, [A: B] x 100).

CHAPTER 5. MINIMUM SIZE, CONSIDERED AS BASIS FOR REVOCATION OF THE LICENSE (PERMISSION) OF THE FUND MANAGEMENT COMPANY FOR INFRINGEMENTS OF PRUDENTIAL STANDARDS

23. Revocation of the license for fund management of the management company or the permission for provision of the service (services), as stipulated by point 3 or (and) 4 or 4 and (or) 5 of Article 52 of the Law of the Republic of Armenia “On Investment Funds”, as a sanction, can be applied in case prudential standards of the management company (including the minimum size of mandatory holding of the management company in each fund managed by the management company) is reduced 10 or more percent of the sizes, envisaged by this Regulation or Law.