

**THE GOVERNMENT OF THE REPUBLIC OF ARMENIA
RESOLUTION**

**No. 1685-N
27/12/2012**

On Determining Quantitative and Foreign Currency Restrictions on Investment of Mandatory Pension Fund Assets in Financial Instruments

Assuming as a basis the RA Law “On Funded Pensions”, Article 44, Part 1, the Government of the Republic of Armenia (hereafter- GRA) *resolves*:

1. To determine quantitative and foreign currency restrictions on investments of mandatory pension fund assets in financial instruments in compliance with the Annex.
2. This Resolution shall enter into force on the tenth day following its official publication.

Quantitative and Foreign Currency Restrictions on Investment of Mandatory Pension Fund Assets in Financial Instruments

1. The definitions used in this regulation have the same meaning as defined in the RA Law “On Funded Pensions”. Within the scope of this document, foreign states are considered those specified in the RA Law “On Funded Pensions”, Article 43, Part 2.

Foreign Currency Restrictions on Investment of Mandatory Pension Fund Assets in Financial Instruments

2. Maximum amount of investments of a mandatory pension fund assets, made in a foreign currency, should not exceed 40 percent of total assets of the given mandatory pension fund.

3. Maximum amount of investments of a mandatory pension fund assets made in a non-convertible foreign currency should not exceed 3 percent of the total assets of the given pension fund.

Quantitative Restrictions on Investment of Mandatory Pension Fund Assets in Financial Instruments

4. Mandatory pension fund managers, in compliance with clauses 2 and 3 of these restrictions, may make investments, as specified in Article 43 of the RA law “On Funded Pensions”, only within the following maximum limits:

1) total amount of investments made in bank accounts and deposits, including securities certifying the deposition of funds in a bank (hereafter- bank deposit), may not exceed 40 percent of the assets of the given mandatory pension fund. In addition, investments made with the same bank, as well as in affiliated banks, as defined in RA law “On Banks and Banking Activities”, may not exceed 5 percent of the assets of the given mandatory pension fund. Furthermore, mandatory pension fund assets may be invested as deposits only in such a foreign bank, which at least has Standard & Poor’s “BBB” or Moody's Investors Service “Baa3” or Fitch Ratings “BBB-” ratings.

2) total amount of investments made in securities, issued or fully guaranteed by the Republic of Armenia, the Central Bank of the Republic of Armenia, a foreign state or the central bank of that state, may not exceed 60 percent of the assets of the given mandatory pension fund Moreover, the amount of investments in one issue (tranche) may not exceed 20 percent of the fund assets. This restriction does not

apply only to issuance of securities for pension funds, where the amount of investments in one issue (tranche) may not exceed 50 percent of the fund assets.

3) According to the RA Law “On Asset Securitization and Asset-Backed Securities”, amongst securities, issued by securitization funds, investments may only be made in mortgage-backed securities. The mentioned investments may not exceed 5 percent of the assets of the given mandatory pension fund. Total amount of investments, made by banks or credit institutions in mortgage-backed securities, issued in accordance with the RA law “On Asset Securitization and Asset-Backed Securities” may not exceed 30 percent of the assets of the given mandatory pension fund. The restrictions set forth for total amount of investments in mortgage-backed securities also apply to debt securities, issued by foreign banks, the proceeds from the allocation of which are invested in such assets that:

a) represent a sufficient collateral (coverage) for the liability deriving from those debt securities until their maturity date, and

b) in the event of insolvency or bankruptcy of the issuer bank, are intended, as a priority, to repay the capital and interest falling due to the holders of those debt securities or.

4) investments made by one mandatory pension fund with securities of the same issuer and issuers affiliated with the latter may not exceed 10 percent of the total amount of securities, issued by that issuer and the issuers, affiliated with the latter, for each class of securities (except for securities, specified in 2nd subclause of this clause).

5) Investments made in securities, issued by investment funds, may not exceed 20 percent of the assets of the given mandatory pension fund. Moreover, investments made in securities issued by investment funds may not exceed 2 percent of the assets of the given mandatory pension fund, if they are not:

a) an open-end, public, standard, diversified investment fund, registered in the Republic of Armenia,

b) an open-end and public investment fund, registered and supervised by an authority, supervising a foreign capital market, the rules (articles of association) of which define that at least 90 percent of investment fund assets shall be invested only in bank deposits, Government (treasury) bonds, securities admitted or being admitted to trading on a regulated market, or other liquid assets, specified by RA law “On Investment Funds”.

6) Investments made in investment funds, managed by the same fund manager or investment funds, managed by affiliated managers, as specified in Part 36 of Article 3 of the RA law “On Securities Market”, may not exceed 10 percent of the assets of the given mandatory pension fund.

7) Maximum amount of investments, made with securities of the same issuer may not exceed 10 percent of the total value of fund assets. And maximum amount of investments, made in securities of

affiliated issuers may not exceed 15 percent of the assets of the given fund, unless otherwise is provided by this legal act.

8) Total value of risk, related to securities issued by the same party, bank deposits invested in that party, and derivative instrument with that party, all of which are included in fund assets, shall not exceed 20 percent of the total value of the given fund assets.

9) Investments in derivative instruments are made only for hedging purposes, when the fund assets include the underlying asset or the risk subject to hedging is inherent to the fund. The value of the derivative instrument contract concluded with the same party may not exceed 10 percent of the value of fund assets, in case the counterparty of the transaction is a bank, and 5 percent, in case the counterparty of the transaction is another financial institution. Total value of risk, related to all derivative instruments, included in mandatory pension fund assets, may not exceed total value of assets of given fund.

5. Investments made with the same foreign state may not exceed 15 percent of the given mandatory pension fund assets.

6. Total market value of fund assets is assumed as a basis for calculation of quantitative and foreign currency restrictions on investment of mandatory pension fund assets in financial instruments.

7. Quantitative and foreign currency restrictions, specified in this Annex, apply to the mandatory pension fund 6 months after making the first funded contribution to that fund.