

THE LAW ON INVESTMENT FUNDS

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I GENERAL PROVISIONS

Objectives and Application

Article 1

This law shall regulate:

- 1) Organization and management of open-end investment funds (hereinafter: open-end funds);
 - 2) Establishment and management of closed-end investment funds (hereinafter: closed-end funds);
 - 3) Establishment and management of private investment funds (hereinafter: private funds);
 - 4) Establishment, activities and operation of management companies (hereinafter: management companies);
 - 5) Activities and responsibilities of custody banks, for the purpose of this law;
- Competencies of the Securities Commission (hereinafter: the Commission);
- 7) Other issues of relevance for the area of investment funds.

Definition of terms

Article 2

Specific terms, in the context of this Law, shall have the following meanings

- 1) *Management company* shall mean a business company which organizes, establishes and manages investment funds, in compliance with the Law;
- 2) *Investment fund* shall mean a collective investment undertaking in which money is collected and invested in different types of assets for the purpose of generating income and reducing investment risks;
- 3) *Custody bank* shall mean a bank which keeps the account of an investment fund and provides other custody services for the investment fund, and as regards the investment fund's assets, acts only according to the orders of its management company, that are in compliance with law and the prospectus of the investment fund;

4) *Member i.e. shareholder of an investment fund* shall be a natural or legal person to whom the units and/or shares of the investment fund are registered;

5) *Investment unit* – calculated proportionate share in the total net assets of an investment fund;

6) *Qualifying holding* shall mean any direct or indirect holding of a person which represents 10% or more of the capital or of the voting rights of another person;

7) *Prospectus* shall mean the basic document of investment funds which provides complete and clear information to potential investors for making an investment decision;

8) *Related persons* shall mean legal persons that are mutually related by management, capital or in some other manner, in order to achieve common business objectives, in such a manner that the operations or business results of one person may significantly influence operations, and/or business results of the other person. For purposes of this law, related persons shall be also the persons related:

- As family members,
- In such a way that, in compliance with this Article, one person, and/or persons that are considered to be related persons together, directly or indirectly, have a holding in the other person.
- In such a way that the same person has a holding in both persons, and/or persons that are considered to be related persons, pursuant to this Article,
- In the manner prescribed for related persons by the law governing legal status of companies.
- As members of management or supervisory board and members of families of those persons.

9) For the purpose of this law, *family members* shall be:

- Spouse, and/or persons in common-law marriage,
- Descendants and ancestors in the vertical line indefinitely,
- Relatives up to third level of kinship, in the side line, including relatives of the father/mother-in-law side,
- Adopter and adopted persons and descendants of adopted persons,
- Guardian and protégés and descendants of protégés.

Prohibition against the Use of the Term "Investment Fund"

Article 3

A legal person or an entrepreneur shall not use the term "investment fund" or its derivatives in their business name or name, and/or the name of their product or service, unless such phrase is used in accordance with provisions of this law.

II MANAGEMENT COMPANY

Legal Form

Article 4

A management company shall be established only as a closed-end joint stock company which is not a public company, within the meaning of the law governing the capital market.

Management companies are subject to provisions of the law regulating companies and provisions of the law governing the capital market unless otherwise stipulated by this law.

Activities of Management Companies

Article 5

A management company shall:

- 1) Organize and manage open-end fund(s);
- 2) Establish and manage closed-end fund(s);
- 3) Manage private fund(s);
- 4) Also perform other activities in compliance with the law regulating the capital market;

A management company shall not perform any other activities other than the activities stated in paragraph 1 of this Article.

A management company shall manage investment funds by making investment decisions and by carrying out administrative and marketing operations and activities.

A management company may delegate administrative and marketing operations and activities to other persons or entities, in the process of which responsibility of the management company shall not be diminished.

A management company may organize, establish and manage more than one investment fund.

In its business operation, a management company shall comply with the provisions of the law regulating the securities market, the rules of sound and prudent business, and the use and disclosure of privileged information.

A management company shall exercise voting rights attaching to shares which constitute assets of the investment fund under its management.

Restriction of Business Operation

Article 6

A management company shall not have a share in capital or participate in management of other legal persons unless an exemption is available under this law.

A management company may acquire investment units or shares of an investment fund in the amount not exceeding 20% of the net asset value of the fund.

Amount of Core Capital

Article 7

The pecuniary part of the core capital of a management company, in the course of its establishment, shall be at least EUR 200,000 (two hundred thousand) in RSD equivalent at the median exchange rate of the National Bank of Serbia, on the day of payment.

The pecuniary part of the core capital shall be paid in full amount to an interim bank account prior to the entry of the management company in the register of companies.

A management company shall ensure that, in its business operation, the pecuniary part of the core capital is always at the minimum level of EUR 200,000 (two hundred thousand) in RSD equivalent.

In the course of operation of a management company, the pecuniary part of the core capital may be held in securities with a maturity date of not more than a year, issued by the Republic of Serbia (hereinafter: the Republic) or the National Bank of Serbia.

Organizational and Technical Capacity

Article 8

A management company shall have at least one portfolio manager employed.

Boards of directors of management companies shall adopt decisions and other enactments which define the investment policy and the investment objective of their investment funds and portfolio managers shall implement such policy and objectives, make relevant decisions on individual investments for which they are accountable to the management company's board of directors.

A management company shall meet the minimum requirements for staff, organizational and technical capacities, as prescribed by the Commission.

Provisions of the law regulating the capital market shall apply accordingly to the granting and revocation of licenses for portfolio managers.

Use of Business Name

Article 9

The business name of a management company shall contain the words "investment fund management company".

A legal person which was not granted an operating license shall not use the name "investment fund management company" or any other similar name in its legal dealings.

Request for an Operating License

Article 10

A person that intends to establish a management company shall submit to the Commission a request for an operating license for a management company (hereinafter: operating license).

A management company may be established by domestic and foreign natural or legal persons. A single domestic and foreign natural or legal person and its related parties shall not have qualifying holdings in more than one management company.

A domestic legal person with a majority capital which is state and/or socially-owned, or its related party, shall not be the founder of a management company.

By exception to paragraph 3 of this Article, banks and insurance companies with a majority state and/or socially owned capital can be founders of a management company.

Persons referred to in paragraph 1 of this Article that acquire qualifying holdings in the course of establishment or operation of a management company must fulfill the conditions set forth in Article 11, paragraph 1, item 4 of this law.

The Commission shall adopt a decision on granting operating licenses and keep a Register of management companies.

The following shall be enclosed with the request for an operating license:

- 1) Articles of incorporation of the management company;
- 2) Evidence of the payment of the core capital in the temporary account of a bank;
- 3) Evidence of the origin of the initial capital;
- 4) Rules of operation of the management company;
- 5) Organizational chart of the management company;
- 6) A list of shareholders by surname, name and address, and/or a transcript from the company register for legal persons – shareholders of the management company, and/or a certified translation of the transcript from the company register for foreign legal person;
- 7) Evidence of organizational and technical capacity;
- 8) A list of portfolio managers including a certified internal auditor with evidence of qualifications, as well as a list of the proposed management members.

When founders of a management company are banks, insurance companies and other financial organizations and/or persons they control, the applicant shall submit, in addition to the documentation referred to in paragraph 7 of this Article, a solvency

report issued by the domestic or foreign authority supervising operation of banks, insurance companies and other financial institutions.

Granting an Operating License

Article 11

The Commission shall issue an operating license when the requirements set out in Article 10 are met and when it establishes the following:

- 1) Clear and doubtless origin of the core capital based on the submitted evidence;
- 2) Credibility of evidence referred to in Article 10, paragraph 7 of this Law;
- 3) The structure of related parties is not such, as to deter efficacious supervision of business operation;
- 4) It can be concluded from the received information that the persons with qualifying holdings are fit and proper.

The Commission shall adopt a decision on the grant of an operating license within 30 days from the day the request was submitted, after it concludes that the requirements stipulated by this Law have been met and that an adequate protection of the interests of investment fund members and/or shareholders is ensured.

Any person who has made a decision to acquire a qualifying holding in a management company shall first notify the Commission, which shall establish the facts laid down in paragraph 1 of this Article and issue its consent.

A person that acquires a qualifying holding contrary to the provisions of this law, and/or without the consent of the Commission, shall lose the voting right of the qualifying holding.

The Commission shall establish detailed conditions for determining the criteria pertaining to fit and proper persons who acquire qualifying holdings, and/or management members and general managers of management companies.

Management of a Management Company

Article 12

Provisions of the law governing companies shall apply accordingly to bodies of management companies, except as otherwise provided in this law.

A person may be elected general manager or a director of a management company board, if such person has not been convicted by a final and enforceable judgment for criminal acts against labor, economy, property, judiciary, public order and legal transactions, official duty, bribe and corruption, for criminal acts and commercial offences determined by laws governing the securities market, privatization, insurance, operation of banks and other financial organizations.

A person shall not be elected as a general manager or a director of a management company board if such person is:

- 1) Director or an employee in another management company;
- 2) Director or an employee in a custody bank with which the management company has concluded a contract;
- 3) An official, appointed an/or designated person or a civil servant;
- 4) A related party to the persons specified in items 1) and 2) of this paragraph.

General manager and directors in a management company board shall have a university degree, in addition to which the general manager and not less than a half of the board of directors shall have at least three years of working experience in securities related activities obtained in the country or abroad:

- 1) In a broker-dealer company;
- 2) In the securities and/or financial derivatives exchange;
- 3) In a bank;
- 4) In companies for management of investment or voluntary pension funds;
- 5) In an insurance company;
- 6) In a central bank, or some other government authority or organization,
- 7) In a legal person which performs securities-related activities on behalf of the government as a delegated activity.

Consenting to the Election of Directors in a Management Company Board

Article 13

The Commission shall grant consent for election of the proposed directors and general managers of management companies.

The Commission shall grant consent to the election of the proposed directors and general managers of management companies based on the evidence that the requirements stipulated in Article 12 of this Law are met and when it estimates that the proposed directors and general managers are fit and proper persons.

When deciding on the consent referred to in paragraph 1 of this Article, the Commission may, if necessary, ask the proposed directors and general managers to come personally for an interview.

The Commission shall make a decision on the consent to the election of directors and general managers of a management company concurrently with the decision on the grant of operating licenses.

Revocation of Consent to the Election of Directors in a Management Company Board

Article 14

The Commission shall revoke its consent to the election of a general manager, and/or directors in a management company board when it establishes the following:

- 1) That the decision on the granting of consent was made on the basis of false information;
- 2) In the meanwhile, the person has ceased to meet requirements stipulated in Article 12 of this law;
- 3) The person has committed a grave violation of provisions of this law, rules of business ethics, conscientious conduct of business, and rules on risk management, or in some other manner, the person has gravely jeopardized the interest of members and/or shareholders of an investment fund managed by such management company;
- 4) The person was proclaimed incompetent by a final court decision.

A general manager or a director shall not perform any official duty in a management company from the day of receiving the decision on revocation of the consent.

The board of directors and/or general manager shall propose new directors and/or general manager not later than 15 days of the day of receipt of the decision referred to in paragraph 2 of this Article.

Business Secret

Article 15

The general manager and directors of a management company, employees of the management company and its related parties shall keep as a business secret and not disclose information on:

- 1) The investment fund or its management company, which could be misleading regarding the business operation of the company, and/or investment fund;
- 2) Future activities and business plans of the management company, except in cases stipulated by law;
- 3) Balance and turnover on the accounts of the investment fund and of its members;
- 4) Other information of importance for business operation of the investment fund, which they obtained in the course of carrying out activities in the company.

By way of exception to paragraph 1 of this Article, information may be disclosed and given for inspection to third parties, only in the course of supervision over legal compliance, based on the order from the court or pursuant to law.

Governing Instruments of a Management Company

Article 16

Governing instruments of a management company shall include Articles of Incorporation, rules of operation and other general enactments.

Business rules

Article 17

Rules of operation of a management company shall regulate:

- 1) The activities performed by the management company, conditions for and the manner of their performance;
- 2) Mutual relations of the management company and members, and/or shareholders of the investment fund;
- 3) The manner and conditions under which directors and employees of the management company may invest their assets in investment funds managed by the management company;
- 4) Administrative and accounting procedures;
- 5) Control and safety measures for data processing and their storage;
- 6) The system of internal control;
- 7) Procedures preventing conflicts of interest and measures preventing the use of investment fund's property by the management company for company's own purposes;
- 8) Measures preventing the misuse of privileged information;
- 9) Other issues of importance for business operation of the management company.

The Commission shall establish the detailed contents of Rules of Operation.

Amendments to Governing Instruments

Article 18

A management company shall communicate to all members i.e. shareholders of its investment fund, any changes of business operation rules and other general enactments, not later than 15 days prior to their application.

The Commission shall issue a decision on the consent to the changes of rules of operation and other general enactments when it establishes that they are not in contravention of the law or interests of members and/or shareholders of the investment fund, within 15 days from the day of receipt of the request.

Registration of Business Activity

Article 19

A management company shall file an application for entry into the company register in compliance with the law governing registration of companies, within 30 days of the day of receipt of the decision on the grant of an operating license, and the decision

granting approval to the election of a general manager and directors of the management company board.

A management company shall submit to the Commission a transcript of the entry into the company register within eight days of the day of receipt of the decision on the entry into the register.

Change of Business Name and Registered Office

Article 20

Prior to submitting the application for entry of a changed business name or registered office in the register, a management company shall notify the Commission thereof.

Business Book Keeping and Financial Statements

Article 21

Keeping business books and producing financial statements of a management company and its investment fund shall be done in compliance with the law governing accounting and auditing and with regulations promulgated by the Commission.

A management company shall separately present data for each fund it manages, in its business books and financial statements.

A management company shall keep its business books and produce financial statements separately from those of the investment fund it manages.

A management company shall have its annual financial statements audited by an external auditor.

A management company shall keep the documentation and data recorded electronically that refer to members and/or shareholders of the investment fund, in compliance with the law governing accounting and auditing.

The Commission shall establish the contents of data contained in the external audit report, chart of accounts and financial statements of management companies and investment funds.

Reporting to the Commission

Article 22

A management company shall submit to the Commission:

- 1) Annual financial statements for the company and investment funds it manages, with a report made by an external auditor, by March 31 of the current year for the previous year;
- 2) (Deleted)
- 3) Quarterly statements for each investment fund separately, by the 10th of the month for the previous quarter, containing information about the following:

- 1) Securities constituting assets of the investment fund which were traded, according to the type of security and issuers;
- 2) Real estate items constituting the assets of the investment fund which were traded, according to type and the place in which they are located;
- 3) Balance of cash deposits constituting the investment fund assets, according to financial organizations the deposits are placed with;
- 4) Dates of transactions of investment fund assets that constitute the assets of the investment fund and prices of such transactions;
- 5) Brokerage fees, custody bank fees and other transaction-related costs,
- 6) Values of investment fund assets, the number of investment units and their individual value as at the last business day in the quarter for which the report is submitted, and/or the number of subscribed shares.

The Commission may prescribe the obligation to submit other reports and deadlines for their submission.

III INVESTMENT FUNDS

1. Shared Provisions

Name and Business Name of an Investment Fund

Article 23

An open-end investment fund shall have a name. Closed-end and private investment funds shall have a business name. The name and the business name shall not be in contravention of the selected investment objectives of the investment fund.

The name of an open-end fund shall contain the wording: "open-end investment fund" or the abbreviation: "OEIF" or "OIF".

The business name of a closed-end fund shall contain the wording: "closed-end fund" or the abbreviation: "CEIF" or "CIF".

The business name of a private fund shall contain the wording: "private investment fund" or the abbreviation "PIF" or "P.I.F.".

Investment in Investment Funds

Article 24

Domestic and foreign legal and natural persons may invest in investment funds, in compliance with provisions of this law.

Investment Fund License

Article 25

A management company intending to organize an open-end and/or establish a closed-end investment fund shall submit a request for a license for organization of open-end investment funds and/or establishment of closed-end investment funds, to the Commission.

The Commission shall make a decision on the request referred to in paragraph 1 of this Article, within 30 days of the date of submission of the request.

The request for the license referred to in paragraph 1 of this Article shall contain:

- 1) Draft prospectus and summary prospectus of the investment fund;
- 2) Draft Articles of Incorporation of the closed-end investment fund;
- 3) Draft contract with a custody bank;
- 4) a list of persons to perform portfolio manager activities of the investment fund being organized or established;
- 5) Draft contract on management of the closed-end fund.

The Commission may request other documentation and information of importance for the operation of the investment fund.

If the Commission establishes that the request referred to in paragraph 1 of this Article is incomplete or incorrect, it shall prescribe an additional time period for completion of the request or removal of irregularities.

When the Commission decides on the grant of an operating license to a management company, it shall concurrently decide on the request referred to in paragraph 1 of this Article, if submitted at the same time.

An investment fund license cannot be granted without a granted license to the management company.

When issuing a license for the organization of an open-end fund and a license for the establishment of a closed-end fund, the Commission shall grant consent to the contents of the prospectus and the summary prospectus.

An investment fund may be established for a definite or indefinite time period.

Article 26

The Commission shall grant the license referred to in Article 25 of this Law when, taking into consideration the proposed investment goals, size and other material characteristics of the investment fund, it establishes that:

- 1) The amount of the core capital of the management company permits sustainable administration of the investment fund;
- 2) Portfolio managers who are to manage the investment fund are licensed in compliance with the law governing the securities market;
- 3) Investor's interests i.e. of members and/or shareholders will be safeguarded in an adequate manner.

Organization (Establishment) of an Investment Fund

Article 27

An investment fund shall be construed as organized and/or established on the day of its entry into the Register of Investment Funds.

The Commission shall issue a transcript from the Register of Investment Funds when the following conditions are met:

- 1) The Commission has granted a license for organization of an open-end investment fund and/or license for establishment of a closed-end fund;
- 2) The management company has concluded a contract with a Custody Bank;
- 3) The management company has submitted evidence on assets in the account with a Custody Bank collected in the minimum amount referred to in Article 42, paragraph 3, and Article 61, paragraph 2 of this Law, as well as evidence of adhering to restrictions regarding acquisition of investment units referred to in Article 46, paragraph 3 of this law;
- 4) The body or organization authorized to keep the company register issues a transcript from the register for the closed-end investment fund.

2. Investment Fund Assets

Investment Objective and Investment Policy

Article 28

In compliance with the selected investment objective, there are several types of investment funds:

- 1) Growth funds;
- 2) Income funds;
- 3) Balanced funds;
- 4) Money-market funds.

Detailed conditions for categorization of investment funds referred to in paragraph 1 of this Article shall be prescribed by the Commission.

The investment policy of an investment fund shall regulate:

- 1) The manner of implementation of the investment objective referred to in paragraph 1 of this Article;
- 2) The maximum and minimum portion of investment fund assets which can be invested in certain securities and real estate;
- 3) The maximum percentage of assets which can be kept in the cash account of the investment fund;
- 4) The manner of changing the investment policy.

Investment of Investment Fund Assets

Article 29

Assets of an investment fund may be invested in:

- 1) Debt securities issued by the National Bank of Serbia in compliance with the law governing organization and competencies of the National Bank of Serbia;
- 2) Debt securities issued by the Republic, autonomous territorial units and local government units in the Republic and other legal persons guaranteed by the Republic, in compliance with the law governing public debt;
- 3) Securities issued by international financial institutions;
- 4) Debt securities issued by EU or OECD member countries, and/or neighboring countries, which are traded on regulated markets in such countries;
- 5) Mortgage bonds issued in the Republic;
- 6) Securities issued by legal persons headquartered in the Republic and which are traded on a regulated market in the Republic;
- 7) Securities issued by foreign legal persons, which are traded on an organized market in the Republic;
- 8) Securities issued by legal entities with headquarters in EU or OECD member countries or neighboring countries, which are traded on regulated markets in such countries;
- 9) Deposit certificates issued by authorized banks with headquarters in the Republic of Serbia or in EU or OECD member states, based on the deposited securities referred to in items 3), 4) and 8) of this paragraph;
- 10) Money deposits in banks with headquarters in the Republic, founded in compliance with the law governing operation of banks and other financial organizations;
- 11) Money deposits in banks of EU or OECD member countries;
- 12) Financial derivatives which are traded on a regulated market in the Republic;
- 13) Financial derivatives which are traded on a regulated market in EU or OECD member countries;
- 14) Shares of closed-end investment funds with headquarters in the Republic;
- 15) Shares of investment funds with headquarters in EU or OECD member countries if their shares are traded on a regulated market;
- 15a) Investment units of open-end investment funds;
- 16) Shares of joint stock companies registered in the Republic, not traded on a regulated market;
- 17) Ownership shares in limited liability companies registered in the Republic;
- 18) Real estate located in the Republic.

The Commission shall prescribe in detail the manner of investing assets of investment funds referred to in paragraph 1 of this Article.

The Commission may prescribe additional criteria for investment of assets of investment funds in foreign securities.

Investments in financial derivatives shall be allowed exclusively for purposes of decreasing investment risks, and only if an investment fund possesses enough assets to cover the liabilities which might stem from a financial derivative.

The underlying assets of a financial derivative contract may include:

- 1) Securities referred to in paragraph 1, items 1) through 8) of this Article;
- 2) Stock indices comprising securities referred to in paragraph 1, items 1) through 8) of this Article, on a stock market headquartered in the Republic or in EU or OECD member countries;
- 3) Foreign currencies and exchange rates;
- 4) Interest rates.

Investment Restrictions of Investment Fund Assets

Article 30

The following restrictions shall apply to the investment of assets referred to in Article 29 of this law:

- 1) Not more than 10% of investment fund assets may be invested in securities, and/or in financial derivatives of the same issuer, or total in securities, and/or financial derivatives of two or more issuers which are related parties;
- 2) Not more than 20% of investment fund assets may be invested in money deposits in one bank or in total in money deposits of two or more banks which are related parties;
 - 2a) Not more than 20% of investment fund assets may be invested in a limited liability company and/or two or more limited liabilities companies which are related parties;
 - 2b) Not more than 20% of assets of an investment fund may be invested in investment units of open-end investment funds which are not managed by the same management company;
- 3) Assets of an investment fund shall not be invested in movables.

Not more than 35% of assets of an investment fund may be invested in one type of securities issued by the Republic, the National Bank of Serbia and/or by another legal person guaranteed for by the Republic.

Assets of investment funds may be invested abroad in accordance with regulations governing foreign-exchange operations.

Article 31

Assets of investment funds shall not be invested in securities and other financial instruments issued by:

1) A management company;

Items 2) and 3) (deleted)

4) Shareholder of the management company;

5) A person related to persons specified in items 1) and 4) of this Article.

Article 32

It shall be lawful for an investment fund not to adhere to investment restrictions in the first six months of its establishment.

Assets of an investment fund shall be invested in compliance with investment restrictions envisaged by this law and the investment fund's prospectus.

In the event of any departure from investment restrictions stipulated by this law and an investment fund prospectus, due to circumstances which a management company could not have foreseen or affected, the management company shall promptly notify the Commission thereof and adjust the structure of investment fund assets to investment restrictions, within three months of the occurrence of the departure.

The Commission may extend the time period referred in paragraph 3 of this Article in case of market disturbances or in other circumstances and on grounds of criteria set by the Commission's regulation.

In the event of departures from investment restrictions not envisaged by provisions of this Article, the Commission shall immediately and upon ascertaining these facts undertake supervision measures in compliance with this Law.

Restriction of Disposal of Investment Fund Assets

Article 33

Assets of an investment fund shall be kept separately from assets of its management company and assets of the custody bank.

Assets of an investment fund cannot be subject to lien, part of liquidation or bankruptcy estate of a management company or custody bank, and it cannot be subject to enforced collection used for settling liabilities of the management company, investment fund and custody bank.

A management company and its related parties shall not conclude contracts with the investment fund managed by such company, unless stipulated otherwise by provisions of this law and the Commission's regulations.

Establishing Net Asset Value of an Investment Fund

Article 34

The asset value of an investment fund shall be the sum of the securities value from the fund's portfolio, real estate in the ownership of the fund and deposits of pecuniary assets in banks and other assets.

The asset value of a fund shall be calculated according to the market value.

Net asset value of an investment fund shall be the asset value minus its liabilities.

Net asset value of an investment fund shall be calculated by its management company and submitted to the custody bank managing its account.

The custody bank shall control and validate the calculated net asset value of the investment fund.

The manner and frequency of calculation of the market value for certain categories of assets and calculation of net asset value of an investment fund shall be prescribed by the Commission, in compliance with the internationally recognized standards.

Establishing the Investment Fund Return

Article 35

A management company shall disclose the returns of its investment fund two times a year, on June 30 and December 31 of the current year.

The returns shall be calculated for the last twelve months to the day of disclosure, and/or cumulatively for a period of five years and from the beginning of operation.

The returns shall be calculated as net return, i.e. after deduction of fees and expenses.

By exception to paragraph 1 of this Article, the investment returns shall not be disclosed in the course of the entire first year of operation.

The returns shall be published in at least one daily newspaper, distributed throughout the Republic, with circulation of at least 100,000 copies, as well as on the internet site of the management company or its investment fund.

The Commission shall prescribe the manner of calculation of investment fund returns including rounding principles.

3. Advertising of Investment Funds

Investment Fund Prospectus

Article 36

An investment fund shall have a prospectus and a summary prospectus.

The summary prospectus shall be used exclusively for purposes of advertising the investment fund and it shall correspond to the contents of the prospectus.

The prospectus must include all the information necessary to make an informed and the most favorable investment decision, and based on which potential investors can have a clear understanding of the investment fund.

When joining an investment fund, a person shall sign a statement declaring they fully understand the prospectus, as well as the fees charged, their type and manner of collection.

Contents of a prospectus

Article 37

An investment fund prospectus shall include:

- 1) Information on the investment fund;
- 2) Information on the management company;
- 3) Business name and headquarters of the custody bank;
- 4) Information on fees and expenses charged to the investment fund;
- 5) Issue date of the prospectus.

Information on an investment fund shall contain:

- 1) Name of the investment fund;
- 2) Type of the investment fund;
- 3) Date of organizing and/or establishment of the investment fund and its duration if it is organized and/or founded for a definite period of time;
- 4) Time and location where financial statements of the investment fund may be inspected;
- 5) Tax treatment of the investment fund, its members and shareholders – tax rates and tax bases, and the manner of their calculation;
- 6) Description of the selected investment objective, investment policy and main risks thereof, and the category of the closed-end fund;
- 7) Criteria for formation and diversification of the securities portfolio;
- 8) Current structure of the investment fund assets as follows:
 - (1) Percentage share of securities according to the type of securities, name and registered address of the issuer and the name and registered address of the regulated market where securities are traded, when such securities constitute more than 5% of the total value of the investment fund;
 - (2) Percentage share of money deposits according to the name and registered address of the bank with which the pecuniary assets are deposited, when the deposits in such bank constitute more than 5% of the total value of the investment fund;

- (3) Percentage of real estate according to the type and location;
- 9) Net investment fund returns in compliance with Article 35 of this law;
- 10) Data on amount of fees and expenses including:
 - (1) Assets-under-management fee payable to the management company for the previous year, expressed as a percentage of net asset value of an investment fund;
 - (2) Amount of expenses incurred for sale and purchase of securities, custody bank expenses and external audit chargeable to the investment fund assets for the previous year, expressed as a percentage of net asset value of the investment fund;
 - (3) Total expenses indicator calculated when the total amount of the asset-under-management fee and expenses chargeable to the investment fund assets is divided by the value of investment fund assets;
- 11) Time and location where investment fund units may be purchased and redeemed and the manner of calculation of the redemption price, and the number and the manner of subscribing shares of the closed-end fund;
- 12) Time and manner of income and return distribution, if distributed;
- 13) Time and location where information is published about the value of investment units and the manner of calculation, and/or net asset value of the closed-end fund per share and its market value;
- 14) The manner of notifying fund members and/or shareholders of investment funds of changes in the investment policy;
- 15) The manner of notifying fund members and/or investment fund shareholders of changes of tariffs;
- 16) Grounds for dissolution of an investment fund and details about the dissolution, especially regarding rights of members and/or shareholders of the investment fund.

Information about a management company shall include:

- 1) Business name, registered address and registration number of the management company;
- 2) Names and authorities of the general manager and the board of directors of the management company;
- 3) Names and addresses of shareholders who possess qualifying holdings;
- 4) Amount of the core capital of the management company;
- 5) A list of all investment funds and their category the management company manages, if the company manages more than one investment fund;
- 6) The business name and registered address of the company doing the external audit of financial statements of the management company and its investment fund;
- 7) Time and location for inspection of general enactments of the management company and its financial statements.

The Commission shall prescribe detailed contents and the standardized format of prospectuses and summary prospectuses of investment funds, as well as the text warning investors about the main investment risks.

Article 38

The text of the prospectus and summary prospectus shall not contain incorrect information, or information which might be misleading to the investment fund members regarding the value of investment fund assets, value of investment units and other facts pertaining to the operation of the investment fund.

The management company managing an investment fund shall be held liable for the damages caused by collecting assets based on the prospectus and the summary prospectus containing information referred to in paragraph 1 of this Article.

Other persons, who participated in preparation of a prospectus, shall be held jointly liable for damages caused by collecting assets based on the prospectus containing information referred to in paragraph 1 of this Article, if they knew or, due to the nature of their job, should have known that the information were faulty.

Article 39

When significant changes occur, due to which information in the prospectus and the summary prospectus do not correspond to the real situation, the management company shall submit to the Commission the changed prospectus in order to obtain an approval thereto, within three days of the day of occurrence of such circumstances.

The Commission shall render a decision on the approval of the prospectus and the summary prospectus within 15 days, when it establishes that the conditions stipulated by law have been met and that the prospectus gives clear information on risks regarding the investment of investment fund assets.

Marketing

Article 40

A management company may advertise the investment fund under its management when soliciting membership in its investment fund, by publishing advertisements, by proffering public invitations and promotional materials, or in some other manner.

The text of the advertisement and/or invitation shall not contain incorrect information, and/or information that might be misleading regarding investment conditions and business operation of the investment fund.

Comparative advertising shall be allowed only if specific, objective, truthful and complete.

When comparing itself to other funds, a management company must provide a clear picture of the investment fund it advertises and other investment funds.

The Commission shall order withdrawal of the advertisement, if it finds that it contains incorrect information or information which might be misleading within the meaning of paragraph 2 of this Article.

The Commission shall regulate in detail the advertising of investment funds and the standardized text of advertisements.

Intermediaries

Article 41

A management company may directly or through intermediaries provide sale services.

Sale services shall be construed as rendering information about modalities and manners of investing in investment funds, distribution of prospectuses and mediation in purchase or redemption of investment units.

Banks and broker-dealer companies may act as intermediaries, as well as other persons in accordance with the Commission's regulation.

A management company and intermediaries shall be held liable for actions and damages incurred by intermediaries during their performance of sale services.

4. Open-End Investment Fund

Definition

Article 42

An open-end investment fund pools money by means of issuing investment units and it redeems them at the request of fund members.

An open-end investment fund shall not have the status of a legal person.

The minimum pecuniary assets required for the commencement of operation of open-end funds shall not be less than EUR 200,000 (two hundred thousand) in RSD equivalent, at the median exchange rate of the National Bank of Serbia, on the day of payment. The amount must be paid in the account with the custody bank within three months of the day of proffering a public invitation for subscription of investment units.

If the pecuniary assets have not been raised in the amount and within the time period stipulated in paragraph 3 of this Article, the custody bank shall return the collected assets within eight days.

Assets of an open-end fund shall be owned by the members of such fund.

Restrictions for Investment of Assets of an Open-end Fund

Article 43

Assets of an open-end investment fund may be invested exclusively in assets referred to in Article 29, paragraph 1, items 1) through 15a) of this law.

An open-end fund shall not acquire more than 20% of equity ownership, or shares with voting rights of a single issuer.

Short positions shall not be taken by means of open-end fund assets.

Rulebook on Fees

Article 44

A management company shall adopt a rulebook on fees, for each fund separately, and charge fees in compliance with it.

A management company may charge fees for purchase and redemption of investment units to open-end fund members.

Fees for redemption of investment units shall amount to not more than 1% of the value of investment units being redeemed.

The following can be charged to the assets of an open-end fund:

- 1) Assets-under-management fee payable to the management company;
- 2) Expenses for the purchase and sale of securities;
- 3) Custody bank expenses;
- 4) External audit expenses.

The fee referred to in paragraph 4, item 1) of this Article shall be calculated on a daily basis and collected monthly.

All the other expenses shall be borne by the management company.

The Commission may regulate in detail types of fees, their maximum amounts, and notifications on fees, as well as procedures prohibiting manipulation of fees, expenses and market prices.

Investment Units

Article 45

Net asset value per investment unit of an open-end fund shall be determined on every business day and published in at least one daily newspaper distributed throughout the Republic with a circulation of at least 100,000 copies, as well as on the internet site of the management company or the open-end fund.

The investment unit imparts the following entitlements to its holder:

- 1) Entitlement to a proportionate share of income;
- 2) Entitlement to redemption;
- 3) Entitlement to a proportionate share of the investment fund assets in the event of dissolution;

4) Other entitlements in accordance with this law.

Investment units of an open-end fund impart the same rights to fund members.

Investment units shall not be freely transferrable except on grounds of inheritance and a gift contract.

A management company shall keep a register of investment units and it shall file every purchase and redemption of investment units.

Acquisition of Investment Units

Article 46

Acquisition of investment units shall be made only by purchase in cash.

Price of an investment unit shall consist of net asset value of the open-end fund per investment unit on the day of the payment, increased by the purchase fee if the management company charges it in compliance with the rulebook on fees.

When acquiring investment units, a member of an open-end fund may not acquire more than 20% of net asset value of the open-end fund.

When acquiring investment units, a management company shall issue a receipt to the member of its open-end fund.

Redemption of Investment Units

Article 47

An open-end investment fund shall redeem investment units in the manner specified by the prospectus, within five business days of the day a fund member requests redemption of investment units.

The redemption price of an investment unit shall consist of net asset value of an open-end fund per investment unit on the day of submission of the request referred to in paragraph 1 of this Article, decreased by the redemption fee if the management company charges it, in compliance with the rulebook on fees.

Suspension of Redemption of Investment Units

Article 48

A management company may order its custody bank to suspend purchase and redemption of investment units of its open-end investment fund, to protect interests of fund members, when due to extraordinary circumstances it is not possible to calculate net asset value of the fund, and/or when claims for redemption of investment units exceed 10% of the asset value of the fund, in one day.

The custody bank shall suspend the purchase and redemption of investment units and promptly notify the Commission thereof.

The Commission may request from the management company to submit the documentation and information necessary to assess the justifiability of the suspension.

If the Commission assesses the suspension of purchase and redemption of investment units of an open-end fund jeopardizes the interests of fund members, it shall order its custody bank to discontinue the temporary suspension of purchase and redemption of investment units and notify the management company thereof.

The Commission shall regulate in detail the conditions and procedures for suspension of purchase and redemption of investment units.

Indebtedness

Article 49

A management company may, in its own name and on behalf of its open-end fund, temporarily take a loan, the value of which does not exceed 10% of the asset value of the fund and with a repayment period of not more than 360 days, exclusively for maintaining the necessary level of the liquidity in the fund by concluding:

- 1) The loan contract;
- 2) Repurchase agreement with other investment funds and banks the collateral of which may also be shares.

The total debt referred to in paragraph 1 of this Article shall not exceed 20% of the fund's asset value.

Taking foreign loans for the investment fund shall be done in compliance with the law governing credit activities with foreign countries.

Transfer of Rights to Manage Open-end Investment Funds

Article 50

A management company may transfer the right to manage its open-end fund to another management company by a written contract, with a prior consent from the Commission.

The management company to which the management right has been transferred shall assume all the rights and obligations of the management company transferring the right.

The management company shall notify the fund members two months prior to the transfer of rights referred to in paragraph 1 of this Article.

Merger of Open-end Investment Funds

Article 51

Merger of open-end investment funds may be carried out by means of merger-cum-acquisition or merger-cum-organization.

Merger-cum-acquisition shall mean that one investment fund ceases to exist without dissolution, transferring all of its property and obligations to another investment fund, in exchange for issue of investment units to the members of the investment fund acquired and merged, by the open-end fund to which it is being merged.

Merger-cum-organizing shall mean that two or more investment funds cease to exist, without dissolution, transferring all their property and obligations to a new open-end fund, in exchange for issue of investment units to the members of the investment funds which ceased to exist, by the new open-end fund.

The Commission shall grant consents for mergers of open-end investment funds.

A management company shall notify its fund members of the merger at least two months prior to the merger.

The Commission shall regulate in detail the procedure for mergers of open-end investment funds.

Notification of Fund Members

Article 52

A management company shall keep record for each member of its open-end fund of the number of investment units in their possession.

Together with reports referred to in Article 22, paragraph 1, items 1 and 2, a management company shall submit to every member of its investment fund a notification containing:

- 1) The number of investment units in the ownership of the member and their individual values;
- 2) The total amount of fees with their collection dates in the period for which the report is submitted.

A management company shall submit the notification referred to in paragraph 2 of this Article at the request of an open-end fund member within eight days of the day of submission of the request.

Income Distribution

Article 53

An open-end fund shall earn income from interests, dividends and made capital gains.

A management company must specify in the prospectus of its open-end fund the manner of income distribution.

The distribution of income may be in cash only.

Conditions for Dissolution of Open-End Investment Funds

Article 54

Members of an open-end fund shall not have the right to demand dissolution of the fund.

An open-end fund shall be dissolved by revocation of an operating license from its management company, if a new management company is not elected within the time period of three months.

An open-end fund shall also be dissolved after the expiration period, when the fund is organized for a definite period of time.

Collection of fees and other expenses regarding dissolution of a fund and redemption of investment units shall be charged to its management company when the fund is dissolved due to revocation of an operating license from the management company, and when this is not possible - at the expense of the open-end fund.

Collection of fees and other expenses referred to in paragraph 3 of this Article shall be charged to an open-end fund, if the fund is dissolved due to expiration of the period, when it is established for a definite time period.

Revocation of Operating Licenses from Management Companies

Article 55

A management company shall cease to manage its open-end fund, if the Commission adopts a decision revoking its operating license.

In the event referred to in paragraph 1 of this Article, the custody bank with which the management company has concluded a contract shall perform only urgent activities pertaining to management of the open-end fund until a new management company is elected, and for a period not longer than three months.

The urgent activities referred to in paragraph 2 of this Article shall mean activities to be performed in order to avoid damages to the open-end fund. After the revocation of the operating license of a management company and until a new management company is elected, the Custody Bank shall immediately discontinue the sale and redemption of investment units and it shall promptly notify the members of the fund thereof.

In the course of revocation of the operating license of a management company, the Commission shall immediately proffer a public invitation for selection of a new management company and adopt a decision on the selection within two months.

In the event of an unsuccessful public invitation referred to in paragraph 4 of this Article, the Commission shall render a decision on dissolution of the open-end fund.

The Commission shall determine detailed conditions for selection of the best offer referred to in paragraph 4 of this Article.

Dissolution of an Open-end Fund in the Event of Revocation of an Operating License from its Management Company

Article 56

Upon receipt of the decision on dissolution of an open-end fund, a custody bank shall notify thereof the public and the fund members by publishing an advertisement in at least one daily newspaper distributed throughout the Republic with a circulation of at least 100,000 copies, as well as on its internet site, it shall cash in the assets of the fund and make payments to the fund members within six months of the day of adoption of the dissolution decision.

The custody bank shall cash the assets of the open-end fund in the best interest of the fund members.

The custody bank shall submit to the Commission a report on the dissolution of the open-end fund based on which the Commission shall remove the fund from the Register of Investment Funds.

The custody bank shall keep business books and documentation of open-end funds for at least five years from dissolution, in compliance with regulations governing archives.

The Commission shall regulate in detail the procedure for dissolution of open-end funds.

Expiration of the Period When an Open-End Fund is Established for a Definite Time Period

Article 57

When an open-end fund is established for a definite time period, at the expiration of the period for which the fund was established, its management company shall conduct dissolution proceedings by cashing assets and making payments to the fund members, in compliance with the fund prospectus.

A management company shall file a report on dissolution of its fund to the Commission, within six months of the day the open-end fund stopped its business activities.

5. Closed-End Investment Fund

Article 58

A closed-end fund is a legal person organized as a public company.

A closed-end fund pools money in a public offering of shares.

A management company shall establish and manage closed-end funds.

A management company shall be entitled to reimbursement of establishment expenses from the assets of its closed-end fund not exceeding 2% of the core capital value at inception of the closed-end fund.

Provisions of the law governing securities market and provisions of the law governing business companies shall apply to the closed-end funds, unless otherwise stipulated by this Law.

Net asset value of the close-end fund per share shall be determined at least once a month and published in at least one daily newspaper distributed throughout the Republic, with a circulation of at least 100,000 copies, as well as on the internet site of the management company or the closed-end fund.

A closed-end company cannot be a target company in the context of the law governing takeovers of joint stock companies.

Restrictions for Investment of Assets of Closed-End Funds

Article 59

Assets of a closed-end fund may be invested in property prescribed by Article 29, paragraph 1 of this law.

A closed-end fund shall not acquire more than 20% of equity ownership, and/or shares with voting rights of a single issuer, and/or two or more issuers who are related parties.

By way of exception, paragraph 2 of this Law shall not be applicable to investments in assets referred to in Article 29, paragraph 1, items 16) and 17) of this law.

The Commission shall regulate categorization of closed-end funds, as well as detailed conditions for operation of individual categories of closed-end funds.

Article 60

Investments in real estate may be investments in land, buildings (business, residential, business-residential, economic-purpose, etc.) and specific parts of buildings (apartments, business premises, etc.) which are entered in the land-title registry and which represent the main record of the real estate and titles over them, the transfer of which is not limited and which are free of any lien, right of habitation, utilization, usufruct or encumbrance.

Not more than 20% of assets of a closed-end investment fund can be invested in one real estate.

Assets of a closed-end investment fund comprised of real estate shall be entered into books referred to in paragraph 1 of this Article as property of the fund, stating the name of the management company, and it shall be registered with the custody bank.

A certified appraiser must evaluate the real estate, assets of the closed-end fund are invested in. The real estate must be insured against all risks.

Shareholders of a closed-end investment fund shall not hold a pre-emption right in the sale of such real estate.

A closed-end investment fund may take loans without limitations, whereby loans taken abroad shall comply with the law governing foreign credit activities.

The Commission shall determine in detail the manner and frequency of appraisal of assets referred to in Article 29, paragraph 1, items 16, 17 and 18 of this law.

Core Capital of Closed-End Investment Funds

Article 61

The core capital of a closed-end investment fund shall be exclusively in cash.

The core capital of a closed-end investment fund may not be lower than RSD equivalent of EUR 200,000 (two hundred thousand) at the median exchange rate of the National Bank of Serbia on the day of payment.

The core capital of a closed-end fund shall be paid in full in an account with a custody bank, prior to the entry of such fund into the Register of Investment Funds.

Bodies of Closed-End Investment Funds

Article 62

Bodies of a closed-end fund shall be the general meeting of shareholders and supervisory board.

Management companies shall manage closed-end funds.

General Meeting of Shareholders

Article 63

Provisions of the law governing companies shall apply accordingly to convening, sitting and decision-making process of general meetings of shareholders in a closed-end fund.

Authorities of the board of directors pertaining to convening and sitting of the general meeting of shareholders shall be exercised by the management company.

The general meeting of shareholders of a closed-end fund shall render a decision on the conclusion and termination of the management contract in compliance with this law, approve distribution of profit, new issue of shares, and elect the fund's supervisory board.

Supervisory Board of a Closed-End Investment Fund

Article 64

The supervisory board of a closed-end fund shall oversee carrying out of obligations of the management company regarding achievement of investment goals, implementation of the investment policy and observance of investment restrictions. In performance of their activities, members of the supervisory board may inspect business books and documentation and demand clarifications from the management company.

If any shortcomings have been found in the implementation of the investment policy and in observance of investment restrictions, the supervisory board of the closed-end fund shall request from the management company to promptly remove the shortcomings, and it shall notify the Commission and shareholders thereof.

A supervisory board of a closed-end fund shall elect an audit company and conclude a contract with it.

A supervisory board of a closed-end fund may convene the general meeting of shareholders of the closed-end fund by a decision of a two-thirds majority of its members.

A member of the closed-end fund supervisory board may not be a person employed by the management company or a person who is a member of a management body in the management company, custody bank or persons who are members of two or more bodies of other legal persons or their related parties.

A supervisory board of the closed-end fund shall adopt its rules of business procedures governing the manner of operation, as well as other issues of importance for the work of the supervisory board.

Shares of a Closed-End Investment Fund

Article 65

Shares of a closed-end fund shall be registered to a name, limitlessly transferable, and indivisible.

A management company shall enlist shares of closed-end funds on the regulated market, in compliance with the law governing the securities market, within 30 days of the day of entry into the Register of Investment Funds.

A closed-end fund shall introduce each successive issue of shares to public trading.

A closed-end fund may acquire its own shares only with prior consent of the Commission and if it submits a notification to the public in writing, published at least 15 days in advance in a daily newspaper distributed throughout the Republic, with a circulation of at least 100,000 copies, as well as on internet site of its management company or the closed-end fund.

The Commission shall prescribe procedures and the manner of acquiring own shares for closed-end funds and it shall grant consent referred to in paragraph 4 of this Article within 15 days of the day of receipt of the request.

Subscription of Shares of a Closed-End Investment Fund

Article 66

A public invitation for subscription of shares of a closed-end fund may not be proffered prior to issuance of license for the establishment of a closed-end investment fund.

The public invitation for subscription of shares of a closed-end fund shall be carried out in compliance with the provisions of the law governing the securities market.

Prospectus of a closed-end fund shall be submitted to the Commission along with the documentation for approval of distribution of shares.

The subscription and payment of shares shall be with a custody bank.

In the event of an unsuccessful issue of shares, provisions of the law governing companies shall be applied.

Management Contract

Article 67

Management companies shall manage closed-end funds on the basis of a management contract.

The management contract shall be concluded by the supervisory board on behalf of the closed-end fund.

The management contract shall contain:

- 1) Obligations of the management company;
- 2) Types, amount and manner of calculation of fees for the services provided;
- 3) Types of expenses to be charged to the fund's assets including administrative expenses for operation of bodies of the closed-end fund;
- 4) Provisions regarding whether and under what conditions a management company should delegate performance of administrative and marketing activities to third parties;
- 5) Grounds for termination of the contract as well as rights and obligations of the management company and the closed-end fund in the event of contract termination;
- 6) Duration of the notice period in the event of the contract termination.

Termination of a Management Contract by Mutual Agreement

Article 68

A closed-end fund and its management company may terminate their management contract by mutual agreement.

Termination of the contract by mutual agreement shall have legal effect of the day the Commission approves the management contract signed with another management company.

Special Cases of Termination of Management Contracts

Article 69

A closed-end fund may terminate its management contract on grounds not stipulated by the management contract. The decision on termination and conclusion of a new management contract of the closed-end investment fund shall be passed by the fund's general meeting of shareholders, requiring *two-thirds* of the votes represented at the meeting.

The termination of the contract referred to in paragraph 1 of this Article shall have the legal effect of the day the Commission approves the management contract with another management company.

Revocation of an Operating License from a Management Company

Article 70

A management contract shall be terminated, by force of law, on the day of revocation of an operating license from a management company.

The management company shall transfer all the activities regarding management of assets of its closed-end fund to the custody bank on the following day of the day of termination of the management contract.

In the event referred to in paragraph 1 of this Article, the custody bank shall temporarily, but for not more than three months, perform only urgent activities pertaining to the management of the closed-end fund with prior consultation of the supervisory board of the closed-end fund.

The urgent activities referred to in paragraph 3 of this Article shall mean activities required to be completed in order to avoid damages to the fund.

When a management contract is terminated, the supervisory board shall promptly notify thereof the fund's shareholders and proffer a public invitation to management companies to submit bids for management of the closed-end fund and it shall propose to the fund's general meeting of shareholders the most favorable offer.

The general meeting of shareholders of the closed-end fund shall, upon the proposal of the supervisory board, render a decision on conclusion of the management contract with a new management company, within three months of the day of termination of the contract. The new management company shall promptly submit a request for approval of the management contract to the Commission.

If the Commission does not receive the request for approval of the management contract within the time period stipulated in paragraph 6 of this Article, it shall order the custody bank to initiate dissolution proceedings of the fund.

Reasons for Dissolution

Article 71

Provisions of the law governing companies which regulate dissolution of joint stock companies shall apply accordingly to dissolution of closed-end investment funds.

Reporting

Article 72

A management company shall submit reports on purchased and sold securities and assets, as well as on the results of the fund's business to the supervisory board of its closed-end fund, at least monthly.

A management company shall submit special, additional reports at the request of supervisory board of its closed-end fund.

A management company shall submit biannual and annual financial statements with a report from an external audit attached thereto, to all shareholders of the closed-end fund.

Distribution of Profit

Article 73

A management company shall propose to the general meeting of shareholders of its closed-end fund the manner of distribution of the fund's profit.

Upon producing financial statements, report from an external audit and a decision from the general meeting of shareholders of the closed-end fund, its management company shall order the custody bank to distribute profit to shareholders of the fund.

6. Private Investment Fund

Article 74

A private investment fund shall be a legal person organized as a limited liability company in compliance with the law governing companies.

The minimum pecuniary investment per member of a private fund cannot be less than EUR 50,000 in RSD equivalent at the median exchange rate of the National Bank of Serbia on the day of payment.

A management company cannot, directly or indirectly through related parties, have a share in capital of the private fund it manages.

Private investment funds shall not be subject to general provisions on investment funds regarding: grant of licenses for investment funds, investment of assets, investment restrictions, asset management constraints, determining returns of an investment fund, issuance of prospectuses, marketing and intermediaries.

Private investment funds shall not be subject to provisions of the law governing custody services, keeping accounts with custody banks, and regular reporting to the Commission and investors, except for submission of the annual financial statements.

Borrowing limitations shall not apply to private funds, in compliance with their rules of operation.

Only a management company of a private investment fund may manage the fund, in compliance with the management contract concluded with the private fund.

A management company shall submit to the Commission the management contract referred to in paragraph 6 of this Article and rules of operation. The Commission shall register private investment funds in the Register of Investment Funds.

Provisions of the law governing companies shall apply accordingly to private investment funds.

Rules of Operations

Article 75

Rules of operation shall be a mandatory general enactment of private funds.

Rules of operation of a private fund shall contain:

- 1) Description of investment goals, investment policy and the main risks thereof;
- 2) Share value;
- 3) Rules on the transfer of shares;
- 4) The minimum pecuniary share per member;
- 5) The manner of determining net asset value of the fund;
- 6) Provisions on notification of fund members;
- 7) The time period for which the fund is established, if it is established for a definite period of time;
- 8) Procedure for dissolution of the fund;
- 9) Other issues of relevance for the operation of the fund.

Rules of operation must be available to potential investors.

Amendments to and changes of rules of operation shall be permitted only upon written consent of all members of a private fund.

Amendments to and changes of rules of operation of a private investment fund shall be submitted to the Commission.

IV CUSTODY BANK

Authorization to Perform the Activity of Custody Bank

Article 75a

A bank may perform the activity of a custody bank if it obtains a license for such activity from the Commission.

The Commission shall maintain a register of custody bank licenses.

A License for Custody Bank Activities

Article 75b

The Commission shall prescribe in detail the contents of the application for a custody bank license.

The following shall be enclosed with the application referred to in paragraph 1 of this Article:

- 1) Evidence that the bank is a member of the Central Securities Depository and Clearing House;
- 2) Rules of operation of the custody bank;
- 3) Evidence that the bank has a separate organizational unit for carrying out activities of a custody bank;
- 4) Evidence that the custody bank meets requirements regarding staff and organizational capacities for performing activities of a custody bank;
- 5) Evidence that the bank meets requirements regarding technical equipment and information processing systems for performing activities of a custody bank.
- 6) Other documentation as requested by the Commission.

The Commission shall approve the appointment of the person to manage activities of the custody bank.

The Commission shall prescribe requirements regarding staff and organizational capacities and technical equipment for carrying out activities of a custody bank.

A legal person which was denied a license for a custody bank in accordance with this law, including entrepreneurs, shall not be entered into the Register of Business Entities, nor can they use the name custody bank in legal transactions, and/or words with derived meaning, unless otherwise specified by another law.

Rules of Operation of a Custody Bank and Conclusion of Contract

Article 75v

A custody bank shall adopt rules of operations regarding the performance of custody activities, which shall be approved by the Commission.

The rules referred to in paragraph 1 of this Article shall particularly determine:

- 1) Types of custody activities performed by the custody bank;
- 2) Types of client's orders and the mode of their execution;
- 3) The manner of handling client's securities and monies;
- 4) Rights and obligations of the custody bank and of its clients.

The Commission shall prescribe in detail the contents and the manner of publication of the rules referred to in paragraph 1 of this Article.

The custody bank shall conclude in writing a contract with its clients, governing their mutual rights and obligations in performance of custody activities, in conformity with this law and the rules specified in paragraph 1 of this Article.

Employees, managers and directors of the custody bank shall keep as business secret information about client securities accounts and transactions and amounts in such accounts, and they must not disclose the information to third parties, or use the information or allow third parties to use the information.

By exception to paragraph 5 of this Article, the information referred to in the paragraph may be disclosed and made available to third parties, only:

- 1) On grounds of the client's written approval;
- 2) In supervision of legal compliance of operation by a person authorized by the Commission;
- 3) On grounds of a court order or order of another competent government authority.

Contract with Custody Bank

Article 76

A management company shall conclude a contract with a custody bank on custody services, for each investment fund separately, within eight days of the day of receipt of the license for organization of an open-end, or establishment of a closed-end fund.

The contract referred to in paragraph 1 of this Article shall bind the custody bank to perform activities in compliance with Article 77 of this law, and the management company to pay due fees to the custody bank.

Custody services for a single investment fund shall be provided by one custody bank only.

A management company shall submit to the Commission a copy of the concluded contract referred to in paragraph 1 of this Article, as well as any subsequent changes thereof.

Custody Bank Services

Article 77

Custody banks shall provide the following custodian services:

- 1) Open and keep accounts of securities constituting the assets of open-end funds with the Central Securities Depository and Clearing House (hereinafter: CSD), on its own behalf and for the account of other members of an open-end fund (custody account);
- 2) Open and keep accounts of securities constituting the assets of a closed-end fund with the CSD, on behalf and for the account of the closed-end fund;
- 3) Open and keep securities accounts kept with the CSD on behalf and for the account of lawful possessors of securities, clients of the management company (administration account);
- 4) Open and keep a pecuniary account of an investment fund, collect payments of investment units, transfer monies when assets are invested, and carry out disbursements regarding redemption of investment units;
- 5) Execute orders for the transfer of rights arising from securities and orders for recording third party rights on securities, and taking care of the transfer of rights arising from the securities;

- 6) Execute orders of the management company regarding purchase and sale of investment fund assets, if they are not in contravention of the law and the prospectus of the fund;
- 7) Notify the management company of executed orders and other undertaken activities regarding investment fund assets;
- 8) Control and confirm the calculated net asset value of open-end and closed-end funds, value of investment units or net asset value per share;
- 9) Control the calculation of returns of open-end funds;
- 10) Collect claims from issuers on the ground of matured securities, interests and dividends on behalf of lawful possessors of securities, and taking care of exercising other rights of lawful possessors of securities who are its clients;
- 11) On grounds of the client's authorization, attend to the meeting of tax liabilities of clients regarding securities;
- 12) Notify the management company of corporate activities regarding investment fund assets, and the client whose assets are managed by the company;
- 13) Notify the Commission of observed irregularities in operations of the management company regarding the management of the fund, immediately upon observing such irregularities;
- 14) Also perform other activities in compliance with this law, the law governing voluntary pension funds and other law.

When providing services from paragraph 1 of this Article, the custody bank shall see to it that there are sufficient cash funds i.e. securities on the client's cash account i.e. the proprietary account of the client, on the day of settlement.

When providing services referred to in paragraph 1, of this Article, the custody bank shall keep separate records on securities and persons on whose behalf it conducts such activities, and it shall keep the records confidential protecting them from unauthorized use, change or loss.

Securities kept on the administration account and on the omnibus custody account shall not be the property of the custody bank and shall not be considered as part of its assets, nor can they be included in the liquidation or bankruptcy estate or be used for payment of liabilities of the custody bank to third parties.

The custody bank may use the securities kept on the custody account solely upon the client's order.

Upon client's request, the custody bank shall promptly present a balance statement of funds in the client's custody account, not later than three days of the day the request has been submitted.

A custody bank may provide services to more investment funds, however it must keep accounts of assets for each fund separately.

A custody bank cannot be a related party to a management company.

Custody banks shall ensure that the sale, issue, and redemption of investment units are carried out in compliance with the law, rules of operation and the investment policy of the investment fund.

The Commission shall regulate in detail the frequency, manner and standardized format of custody bank reporting to the Commission, as well as the manner of reconciliation of possible differences between the calculated net asset value of the fund, referred to in paragraph 1, item 8), of this Article by a management company and custody bank, and/or the calculated return of the fund, referred to in paragraph 1, item 9) of this Article by the management company and custody bank.

Termination of Contract with Custody Bank

Article 78

The party intending to terminate the contract referred to in Article 76, paragraph 1 of this law shall notify the other contracting party of such intention, three months before termination of the contract.

The contract being terminated shall be construed as such from the moment of conclusion of the contract with a new custody bank and after expiration of the period referred to in paragraph 1 of this Article.

The custody bank shall notify the Commission of the contract termination and reasons thereof.

After the termination of the contract, the custody bank shall surrender all documents and archives to the new custody bank, on the following day of the termination of the contract.

Article 79

In the event of revocation of an operating license or license for performance of custody bank activities, or of initiation of bankruptcy proceedings against a custody bank, the management company shall immediately terminate the contract on provision of custody services, conclude a contract with a new custody bank and notify the Commission thereof.

A custody bank whose license for performance of custody bank activities or an operating license has been revoked, or against which the bankruptcy proceedings have been initiated shall immediately transfer the assets of the investment fund to the newly contracted custody bank.

If a management company fails to act in compliance with paragraph 1 of this Article, the Commission shall render a decision whereby a new Custody Bank is designated.

The Commission may propose to a management company to change its custody bank if, due to activities of such bank, interests of members and/or shareholders of the investment fund are compromised to any significant extent.

V SUPERVISION

Competencies of the Commission

Article 80

The Commission shall supervise the implementation of this law, adopt bylaws for the implementation of this law, for which it is empowered, and keep a Register of Management Companies and a Register of Investment Funds.

In the performance of its competencies, the Commission shall adopt decisions which are final.

A party that is dissatisfied may initiate an administrative proceeding against the decision referred to in paragraph 2 of this Article.

Supervision of Operation

Article 81

The Commission shall oversee the legality of business operation of management companies and investment funds, as well as the provision of services by custody banks, within the meaning of this Law.

If the Commission establishes, within its competencies, that there are legal persons which perform activities of management companies or operate as investment funds without a license or registration based on this law, it shall prohibit the performance of activities which are performed by management companies and investment funds according to this law, and it shall undertake other measures in compliance with the law.

The Commission shall carry out the on-site supervision of business operation of management companies and investment funds, as well as supervision of provision of custody services of custody banks, on business premises of the companies, funds and custody banks, at least annually, or more often if needed.

An authorized person of the Commission may perform the following in the process of on-site supervision:

- 1) Inspect general enactments, business books, account statements and other documents of a management company, investment fund, and custody bank, and make copies of the documents;
- 2) Request information on certain issues of importance for operation of a management company, investment fund and custody bank.

There shall be a report on the conducted on-site supervision.

Supervision Measures

Article 82

If the Commission establishes illegalities or irregularities in business operation when supervising a management company, investment fund, and a custody bank, it shall adopt a decision whereby it orders removal of established irregularities to the management company and/or custody bank within the period which may not exceed 60 days of the day of receipt of such decision.

If a management company and its custody bank fail to act in compliance with the decision referred to in paragraph 1 of this Article, the Commission shall undertake one or more of the following measures:

- 1) Shall pronounce a public censure;
- 2) Initiate proceedings before the competent authority;
- 3) Revoke the consent to appointment of members of the board of directors, and/or general manager;
- 4) Prohibits the issue of investment units in the duration of up to three months.

Revocation of an Operating License from a Management Company

Article 83

The Commission shall adopt a decision on the revocation of an operating license of a management company:

- 1) If it fails to submit a registration application within 30 days in compliance with the law governing registration of companies;
- 2) If it discontinues activities for more than two years;
- 3) If the license was issued based on false data;
- 4) If it performs some other activity along with the management of investment funds;
- 5) If it ceases to meet the conditions prescribed for obtaining a working license;
- 6) If it commits a grave violation of provisions of this law and provisions of the law governing the securities market;
- 7) If a management company fails to act in compliance with the issued order, even after the undertaken measures stipulated in Article 82, paragraph 2 of this law;
- 8) When a management company submits a notification to the Commission stating its intention to cease to manage the fund and files a request for removal from the Register;
- 9) Due to the initiation of bankruptcy or liquidation proceedings.

VI FOREIGN MANAGEMENT COMPANIES AND INVESTMENT FUNDS

Article 84

Foreign management companies and investment funds which intend to raise assets in the Republic shall register and operate in compliance with this law.

VII PENALTY PROVISIONS

1. Criminal Offenses

Disclosure of Privileged Information

Article 85

A person who, in the intention to acquire illicit gain for themselves or someone else, discloses privileged information to another party or based on such information recommends someone to acquire, buy, sell or in some other manner manage securities or other investment fund property, shall be punished by a prison sentence from three months to three years.

Advertisement of Prospectuses with False Data

Article 86

A person who, in the intention to delude investors, publishes false data in an investment fund prospectus, summary prospectus, and annual or biannual statements regarding the legal and financial position of an investment fund, its business potentials and/or other false facts relevant for making an investment decision, or who fails to publish complete data on such facts, shall be punished by a prison sentence of up to three years.

A person who, in the intention to delude investors, fails to publish a supplement to the prospectus or a report on relevant events which could significantly influence decisions of investors shall be punished by a prison sentence of up to three years.

2. Commercial Offences of a Management Company and Other Legal Persons

Article 87

A legal person shall be fined from RSD 500,000 to 3,000,000 for a commercial offence, if it:

- 1) Uses the term investment fund in violation of the provisions of Article 3 of this law;
- 2) Acts in contravention of Article 6 of this law regarding holding a share in capital or assets of other persons;
- 3) Performs activities for which it does not possess a license referred to in Article 10, paragraph 6 and Article 25 of this law;
- 4) Does not comply with investment restrictions referred to in Articles 29, 30 and 31 of this law;
- 5) Manages assets of an investment fund in contravention of Article 33 of this law;
- 6) Calculates fees in contravention of Article 44 of this law;
- 7) Obstructs the supervision activities of the person from the Commission authorized to exercise on-site supervision.

The responsible person in a legal person shall be punished for a commercial offense referred to in paragraph 1 of this Article by a fine ranging from RSD 50,000 to 200,000.

3. Infractions

Article 88

A management company shall be fined for an infraction by a fine ranging from RSD 300,000 to 2 000,000 if it:

- 1) Proposes persons who do not fulfill the conditions stipulated in Article 12 of this law to be members of the board of directors i.e. a general manager;
- 2) Acts in contravention of Article 18, paragraphs 1 and 2 of this law concerning notifications regarding changes in rules of operation;
- 3) Fails to keep separate business books, and fails to produce financial statements and submit them to the Commission in compliance with Article 21 and 22 of this law;
- 4) Disregards rules pertaining to the investment goal and investment policy of the investment fund in compliance with Article 28 of this law;
- 5) Fails to present for signature the statement referred to in Article 36, paragraph 4 of this law to the members of investment fund when purchasing investment units;
- 6) In redemption of investment units of an open-end fund it fails to calculate the price in compliance with the prospectus, pursuant to Article 37, paragraph 2, item 11) of this law;
- 7) Due to occurrence of significant changes, fails to submit to the Commission the changed prospectus for approval, in compliance with Article 39, paragraph 1 of this law;
- 8) Temporarily suspends redemption of investment units of an open-end fund in contravention of Article 48 of this Law;
- 9) Fails to notify members of an investment fund of transfer of right to manage the open-end fund within the time period referred to in Article 50, paragraph 3 of this law;
- 10) Fails to employ a certified appraiser in compliance with Article 60, paragraph 4 of this law;
- 11) Fails to submit to the Commission a copy of the concluded contract, as well as subsequent changes and amendments, in compliance with Article 76, paragraph 4 of this law;

The responsible person in a management company shall also be punished for an infringement by a fine ranging from RSD 10,000 to 150,000 for the activities listed in paragraph 1 of this Article.

Article 89

A custody bank shall be fined from RSD 300,000 to 2 000,000 for an infringement if it:

- 1) In the event of revocation of an operating license of a management company and of dissolution of an investment fund, fails to undertake actions prescribed by the provisions of Articles 55, 56 and 70 of this law;
- 2) Makes a decision on appointment of the person who shall manage the operations of the custody bank without the prior approval from the Commission (Article 75b, paragraph 3);
- 3) Fails to obtain consent from the Commission to business rules relating to operations with securities (Article 75v);
- 4) Fails to conclude a written contract with a client (Article 75v, paragraph 4);
- 5) Fails to provide services in compliance with Article 77, paragraph 1, items 5) to 13) of this law;
- 6) Fails to act in accordance with Article 77, paragraph 2 of this law concerning settlement;
- 7) Fails to keep records on securities and persons entities on whose behalf it opens and keeps securities accounts (Article 77, paragraph 3);
- 8) Uses securities kept on the custody account without or not according to client's order (Article 77, paragraph 5);
- 9) Fails to provide a balance statement of the funds on the clients custody account upon clients request, within the stipulated period (article 77, paragraph 6);

The responsible person in a custody bank shall also be fined by a fine ranging from RSD 10,000 to 150,000 for an infringement, for activities specified in paragraph 1 of this Article.

Article 90

(Deleted)

VIII TRANSITIONAL AND FINAL PROVISIONS

Article 91

Legal persons which have been operating as management companies or investment funds, within the meaning of this Law, or participating in legal transactions using the name "investment fund" prior to the effective day of this law, shall harmonize their business operations and general enactments with the provisions of this law, and obtain an operating license from the Commission for a management company, i.e. a license for organization of an open-end fund or establishment of a closed-end fund, i.e. registration of a private fund, within 6 months of the beginning of application of this law.

Article 92

Regulations regarding implementation of this law shall be adopted within six months of the effective date of this law.

Article 93

This law shall come into effect on the eighth day of the day of its publication in the Official Gazette of the Republic of Serbia, and it shall be applied six months after the day of its entry into force.

Independent Articles of the Law on Changes and Amendments to the Law on Investment Funds

(Official Gazette of RS, Nos. 51/2009)

Article 21[s1]

The Commission shall harmonize its by-laws with this law within 30 days of the day of entry into force of this Law.

Article 22[s1]

The Commission shall adopt regulations as authorized under this law within 60 days of the day of entry into force of this Law.

Article 23[s1]

Provisions of Article 1, Article 2, paragraph 2, Article 7, paragraph 1, Article 8, paragraph 1, Article 9, the part concerning the authorization of the Securities Commission to prescribe the time period in which assets of an investment fund should be harmonized with investment restrictions of Article 13, Article 14, paragraph 1, and Article 15 and 16 of this law shall be applied from 28 March 2009.

Article 24[s1]

This law shall come into force on the following day of its publication in the Official Gazette of the Republic of Serbia.

Independent Articles of the Law on Changes and Amendments to the Law on Investment Funds

(Official Gazette of RS, Nos. 31/2011)

Article 18[s2]

The Commission shall harmonize its by-laws with this law within 30 days of the day of entry into force of this Law.

Article 19[s2]

The Commission shall adopt regulations as authorized under this law within 60 days of the day of entry into force of this Law.

Article 20[s2]

This law shall come into force on the eighth day of its publication in the Official Gazette of the Republic of Serbia.