

**- June 2006 -**

**THE LAW ON INVESTMENT FUNDS**

*(Zakon o investicionim fondovima, Official Gazette of the Republic of Serbia No.46/06)*

On 25 May 2006, the Serbian Parliament adopted the Law on Investment Funds (hereinafter referred to as the “**Law**”). The Law represents a breakthrough, being the first enactment in Serbia that regulates establishment and operation of investment funds and fund management companies. The Law shall become applicable on 10 December 2006.

❖ *Fund management company*

A fund management company can be established as a closed joint-stock company. According to the Companies' Act (*Zakon o privrednim društvima, Official Gazette of the Republic of Serbia No.124/05*), a closed joint-stock company may have up to 100 shareholders. The minimum founding capital of a fund management company is EUR 200,000 and must be paid in full prior to registration. This minimum capital must be maintained throughout the operation of a fund management company. A single natural or legal person may not have, alone or together with related parties, a qualified participation (more than 10% of capital or voting rights) in more than one fund management company. Serbian state-owned or socially-owned entities, except for banks and insurance companies, cannot be founders of fund management companies.

A fund management company cannot hold shares or other participations in legal entities, including investment units and shares of the fund under its management.

A fund management company must employ for indefinite period of time at least one portfolio manager and one internal auditor per investment fund. A single portfolio manager may not be in charge of more than one fund.

Operation of a fund management company is subject to a license issued by the Securities Commission. When issuing the license, the Securities Commission, *inter alia*, verifies the origin of the founding capital of the company and “adequacy and reliability” of the shareholders having more than 10% of the company's capital. The criteria for evaluation of “adequacy and reliability” of qualified shareholders are determined by the Securities Commission.

Any acquisition of more than 10% of shares or voting rights in a fund management company is subject to the approval of the Securities Commission. The Securities Commission is also in charge of approving the company's management.

## ❖ *Investment funds*

### *- Establishment*

The Law regulates three types of investment funds: open, closed and private investment funds.

The minimal amount of initial capital required for organization of an open fund is EUR 200.000. The same amount represents the minimum founding capital of a closed fund. A closed fund can be established and may issue its shares only pursuant to a public offer. Shares of a closed fund must be quoted on the stock exchange. A private fund is established as a limited liability company, with the minimum capital of EUR 50,000.

The Law prescribes that foreign funds may operate in Serbia only if established under the provisions of the Law.

Organization of open funds and establishment of closed funds are subject to license issued by the Securities Commission. When deciding whether to issue the license, the Securities Commission examines the sustainability of the fund, whether portfolio managers have requisite licenses and whether fund members' interests are adequately protected.

### *- Investment and credit restrictions*

Open investment funds can invest their assets in: debentures issued by the National Bank of Serbia, state or local self-government; securities issued by international financial institutions and deposit certificates pertaining to such securities; securities issued by EU or OECD member states, if they are traded at organized markets, and deposit certificates pertaining to such securities; securities issued by Serbian and foreign legal entities, provided that such securities are traded at the Belgrade Stock Exchange; cash deposits with banks licensed in Serbia, EU or OECD member states; shares of closed funds established in Serbia; shares of investment funds from EU or OECD member states, provided that such shares are traded at the recognized stock exchanges in those countries. Closed funds may also invest in: financial derivatives traded at recognized stock exchanges in Serbia and EU or OECD member states, however only for the purpose of risk minimization and provided the fund has sufficient assets to meet the obligations under the derivatives; capital of the companies registered in Serbia; and real property in Serbia that is registered and free of any encumbrances.

No more than 10% of investment fund's assets may be invested in securities or financial derivatives of a single issuer or related issuers. Furthermore, a maximum of 20% of investment fund's assets may be deposited with a single bank or related banks. Up to 35% of assets may be invested in securities issued by the Republic of Serbia or its National Bank. An open investment fund may not acquire more than 20% of share capital or voting shares in a single company, whereas a closed fund may not acquire more than 20% of ownership or voting shares in a single company or two or more related companies. A closed fund may not invest more than 20% of its assets into a single real property. No investment restrictions apply to private funds.

A maximum amount of loan that may be taken by a company managing an open fund is 10% of the fund's value and the repayment period may not be longer than 90 days. Such loan may be taken only for the purpose of maintaining the fund's liquidity. Closed funds and private funds are not subject to any credit limitation.

- *Advertising*

The Law prescribes detailed rules on the content of investment fund's prospectus and marketing of investment funds. The Securities Commission is in charge of monitoring and enforcing these rules.

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