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The Law on Voluntary Pension Funds and Pension Plans

(Zakon o dobrovoljnim penzijskim fondovima i penzijskim planovima, Official Gazette of the Republic of Serbia No.85/05)

SPECIAL POINTS OF INTEREST:

- Management Company
- Fund
- Custody bank

The new Law on Voluntary Pension Funds and Pension Plans (“**Law**”) came into force in October 2005. Its application is, however, postponed until April 1st 2006. After the decades of the monopoly of compulsory state-managed pension funds, the Law represents the first comprehensive regulatory attempt to promote the idea of voluntary pension insurance in Serbia.

This Newsletter presents the main rules on the three corner stone-institutions of voluntary pension insurance schemes: company for management of voluntary pensions funds (“**Management Company**”), voluntary pension fund (“**Fund**”) and custody bank.

Management Company

A Management Company may be organized only as a closed joint stock company with the minimum founding capital of EUR 1,000,000. The company is obliged to maintain its capital at

this level throughout its life.

The Law imposes several ownership and operational restrictions with respect to the Management Company. It is provided that a Serbian entity whose majority capital is socially-owned or state-owned may not acquire shares of a Management Company. Due to the fact that the presence of state-owned and socially-owned capital in Serbian banking and insurance sectors is still significant, the aforementioned prohibition does not apply to Serbian banks and insurance companies. A single shareholder may not hold shares in more than one Management Company. The Management Company may not engage in any other activities apart from the management of voluntary pension funds. Furthermore, the Management Company may not hold shares in other entities, lend money or issue guarantees.

A Management Company cannot be registered unless an operational license and a license

for establishment and management of a fund are issued by the National Bank of Serbia. The Law vests the National Bank of Serbia with broad discretionary powers in deciding whether to issue the requisite operational license. For example, the National Bank of Serbia may refuse a license if it determines that the origin of the founding capital is not “clear and indubious”. Any acquisition of more than 10% of shares or voting rights in a Management Company is subject to the approval of the National Bank of Serbia.

A Management Company may not offer benefits to the prospective members of a Fund under its control, apart from the waiver of or a discount on its fees. Any public advertisement of a Management Company in connection with a Fund under its administration must receive a prior approval of the National Bank of Serbia.

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Fund

A Fund is not a legal entity, but represents a group of assets owned by its members and managed by the Management Company. The Fund's assets are separate from the assets of the Management Company, as well as from the assets of the custody bank they are held with.

The Law restricts the investment possibilities in type and in amount. Thus, the Law enlists the type of securities in which the assets of a Fund may be invested. These are: bonds issued by the National Bank of Serbia; bonds issued by the Republic of Serbia (such as foreign currency savings bonds); securities issued by international financial institutions; foreign government's bonds or bonds issued by foreign legal entities with at least "A" credit rating awarded by *Standard and Poor's*, *Fitch-IBCA*, *Thompson Bank Watch* and *Moody's*; securities issued by domestic legal entities, provided they are traded at the Belgrade Stock Exchange; shares of foreign companies listed on the stock exchanges of EU and OECD member states, cash deposits with domestic banks; depository certificates issued by domestic banks or banks with their seat in EU or OECD member states. Not more than 10% of the

Fund's assets may be invested in securities of a single issuer (with the exception of government's bonds), whereas a maximum of 5% of the Fund's assets may be deposited with the banks. The Fund's assets may not used to acquire shares issued by the Management Company, the custody bank maintaining the Fund's account, the brokerage company providing services to the Management Company, a shareholder of the Management Company, or any of their respective affiliates. A maximum of 15% of the value of Fund's assets may be invested in real estate, out of which a maximum of 5% in a single real estate.

A member of the Fund may start withdrawing the capitalized assets held on his/her individual account when he/she reaches the age of 53. The capitalized assets may be withdrawn earlier only in case of extraordinary medical expenses or permanent disability for work. A member must start withdrawing the assets from its account at the age of 70.

The fees that may be charged by the Management Company are capped by the Law. Thus, the company may not charge a processing fee in excess of 3% of the value of a contribution to the

Fund. The total management fee is capped at the maximum of 2% of the value of the Fund's assets per annum.

Custody bank

Entire assets of a Fund must be kept with a single custody bank. A custody bank, however, may provide services to more than one Fund. The Fund's assets are separate from the assets of the custody bank and are outside the reach of the bank's creditors. In case of bankruptcy proceedings being initiated against the custody bank, the Management Company is obliged to terminate the custody agreement, hire the services of another custody bank and notify the National Bank of Serbia thereof.

The National Bank of Serbia retained the right to prescribe maximum fees chargeable by a custody bank.

Transitional provisions

The incumbent insurance companies engaged in providing voluntary pension insurance services must bring their operation in compliance with the Law by December 31st 2006. The Law prescribes that the regulations for implementation of the Law must be enacted by the competent authorities by March 31st 2006.

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