LAW OF GEORGIA

ON INVESTMENT FUNDS

Chapter I – General Provisions

Article 1 – Purpose, scope and application of the Law

1. The purpose of this Law is to develop the investment funds market, to ensure free competition in said market, and to protect th interests of investors.

2. This Law shall apply to:

a) investment funds established in Georgia, as well as foreign investment funds the units of which are offered in Georgia;

b) asset management companies of investment funds referred to in sub-paragraph (a) of this paragraph;

c) asset management companies established in Georgia, irrespective of whether or not an investment fund under its management is established in Georgia;

d) other natural and legal persons involved in activities related to the investment, management, safekeeping, administration, and record keeping and registration of the assets of investment funds referred to in sub-paragraph (a) of this paragraph.

3. Persons having a place of registration or a place of management in Georgia shall not carry out the activities of an investment fund or an asset management company in or outside Georgia without having been authorised/registered/licensed by a supervisory authority in accordance with this Law, except in cases determined by this Law.

4. This Law shall not apply to:

a) state bodies, the bodies of autonomous republics and municipal bodies, and the national, regional and local bodies and institutions of foreign countries, which manage funds for social security or pension systems;

b) holding companies;

c) pension schemes as defined in the Law of Georgia on Funded Pension and the Law of Georgia on the Provision of Non-State Pensions and Non-State Pensions Insurance;

d) international financial institutions;

e) securitisation special purpose entities;

f) the National Bank of Georgia and the central banks of foreign countries (except for the requirements related to specialised depositaries).

Article 2 – Definition of terms

1. The terms used in this Law shall have the following meanings:

a) accumulation unit – a unit in an investment fund the profit on which is capitalised and is not subject to distribution;

b) income unit – a unit in an investment fund the profit on which is distributed periodically and is not capitalised;

c) unit – a financial instrument constituting a share/stake in an investment company or a unit in a common fund;

d) unit-holder – a person which owns a unit(s) in an investment fund;

e) money market instruments – instruments normally dealt in on the money market which are liquid and have a value which can be accurately determined at any time, including treasury notes and deposit certificates, except for payment instruments;

f) person – a natural or legal person, or an organisational entity provided for by applicable legislation (including a common fund) which is not a legal person;

g) branch – a representation of an asset management company or an investment company which has no legal personality and which carries out its activities within the authority of the asset management company or the investment company;

h) control – the relationship between a parent undertaking and a subsidiary undertaking in accordance with the International Financial Reporting Standards which are put in place on the basis of the Law of Georgia on Accounting, Reporting and Audit, or a similar relationship between any person and an undertaking. For the purposes of this sub-paragraph, a subsidiary undertaking of a subsidiary undertaking shall also be considered to be a subsidiary undertaking of the parent undertaking which is at the head of those undertakings;

i) close links – a situation in which two or more natural or legal persons are linked by:

i.a) participation, which means the ownership, direct or by way of control, of 20% or more of the capital or the voting rights of an undertaking;

i.b) control;

i.c) the permanent link to one and the same person by a control relationship;

j) qualifying holding – a direct or indirect holding in an undertaking of 10% or more of the capital or voting rights, or a holding which makes it possible to exercise a significant influence over the management of that undertaking;

k) supervisory authority – the National Bank of Georgia;

l) foreign supervisory authority – the body empowered by the legislation of a foreign country to issue permits for the activities of investment funds/asset management companies and to supervise their activities;

m) investment fund established in Georgia – an investment fund which is authorised or registered in accordance with this Law;

n) asset management company established in Georgia – an asset management company which is licensed or registered in accordance with this Law;

o) investment fund – an investment fund provided for by Article 4(1) of this Law;

p) closed-end investment fund – an investment fund which may not issue units continuously and whose unit-holders do not have the right to request the redemption of their unit (units) prior to the liquidation of the investment fund, unless otherwise provided for by the legislation of Georgia;

q) open-end investment fund – an investment fund which may issue units continuously and whose unit-holders have the right to request the redemption of their unit (units), directly or indirectly, from the assets of the investment fund, in accordance with the procedure provided for in its founding document;

r) interval investment fund – an investment fund which may issue units in accordance with the procedure and with the frequency provided for in its founding document, but at least once a year, and whose unit-holders have the right to request the redemption of their unit (units), directly or indirectly, from the assets of the investment fund, in accordance with the procedure and with the frequency provided for in its founding document, but at least once a year;

s) prospectus – a document which is drawn up in accordance with Article 66 of this Law and which discloses detailed information about the investment fund and the units thereof;

t) key investor information – a document which is drawn up in accordance with Article 67 of this Law and which discloses key information about the investment fund and the units thereof;

u) authorised investment fund – an investment fund (an undertaking for the collective investment in transferable securities or a retail investment fund) authorised by the supervisory authority, which is eligible to make public offerings;

v) foreign investment fund – an investment fund which is established in accordance with the legislation of a foreign country;

w) recognised investment fund – a foreign investment fund recognised by the supervisory authority, which is eligible to make a public offering in Georgia;

x) registered investment fund – an investment fund registered by the supervisory authority, which is eligible to make private offerings only;

y) offering – any direct or indirect attempt to sell the units of an investment fund on the initiative or on behalf of an asset management company regarding the units of the investment fund it manages, or on the initiative or on behalf of an investment company regarding their own units;

z) public offering – an offering of units in an investment fund to more than 20 retail investors or to an undefined number of persons;

z_1) private offering – any offering of units in an investment fund which does not constitute a public offering;

z_2) retail investment fund – an investment fund authorised by the supervisory authority (except for an undertaking for the collective investment in transferable securities), which is eligible to make public offerings;

z_3) umbrella fund – an investment fund which is divided into several independent sub-funds;

z_4) sub-fund – an independent part of an umbrella fund for which capital is pooled, managed and accounted for separately;

z_5) stand-alone fund – an investment fund which is not an umbrella fund or a sub-fund;

z_6) undertaking for collective investment in transferable securities ('UCITS') – an open-end investment fund authorised in accordance with this Law, the sole object of which is the collective investment in transferable securities or in other liquid financial assets referred to in Article 53(1) of this Law of capital raised from the public and which operates on the principle of risk spreading;

z_7) asset management company – a legal person which is engaged in the management of one or more investment funds (collective portfolio management);

z_8) licensed asset management company – an asset management company which is licensed by the supervisory authority for the purpose of managing one or more investment funds;

z_9) registered asset management company – an asset management company which is registered by the supervisory authority for the purpose of managing one or more registered investment funds;

z_{10}) foreign asset management company – an asset management company to which a foreign supervisory authority issued a permit for the management of one or more investment funds;

z_{11}) recognised asset management company – a foreign asset management company recognised by the supervisory authority to manage one or more investment funds authorised and/or registered in Georgia;

z_{12}) managing an investment fund (collective portfolio management) – performing at least one of the functions referred to in Article 25(1)(a) and (b) of this Law;

z_{13}) common fund – an investment fund carrying out activities as a contractual scheme, without the formation of a legal person;

z_{14}) investment company – an investment fund carrying out activities as a legal person;

z_{15}) merger:

z_{15}.a) the transfer, by one or more investment funds or sub-funds (merging investment funds) which ceases (cease) to exist without going into liquidation, of all their assets and liabilities to another existing fund or sub-fund (receiving fund) in exchange for the issue to their unit-holders of units of the receiving fund and, where appropriate, a monetary payment;

z_{15}.b) the transfer, by two or more investment funds or sub-funds (merging investment funds) which cease to exist without going into liquidation, of all their assets and liabilities to a fund which they form or its sub-fund (a receiving fund) in exchange for the issue to the unit-holders of the merging investment funds of units of the receiving fund and, where appropriate, a monetary payment;

z_{15}.c) the transfer, by one or more investment funds or sub-funds (merging investment funds) which continues (continue) to exist until the liabilities have been discharged, of their net assets to a sub-fund of the same investment fund, to an investment fund which they form or to another existing investment fund or sub-fund (receiving investment fund);

z_{16}) founding document – the rules of a common fund or the instrument of incorporation of an investment company;

z_{17}) specialised depositary – a legal person performing the functions of a specialised depositary of an investment fund in accordance with this Law;

z_{18}) holding company – a company with shareholdings in one or more other companies, the commercial purpose of which is to carry out a business strategy (business strategies) through associated companies, its subsidiaries, or through participations in order to contribute to their value in the long-term, and which meets one of the following conditions:

z_{18}.a) it operates on its own account and its shares are admitted to trading on a stock exchange;

z_{18}.b) it is not established for the main purpose of generating returns for its investors by means of the divestment of its subsidiarie or associated companies, as evidenced in its annual report or other official documents;

z_{19}) net asset value – the aggregate value of the assets of an investment fund (sub-fund) less the total amount of the liabilities of that investment fund (sub-fund) at the time of the calculation;

z_{20}) net asset value per unit – the net asset value of the investment fund (sub-fund) divided by the number of units in issue at the time of the calculation of the net asset value. If an investment fund has issued units of several classes, the net asset value of the units of different classes may differ according to the rules established in the founding document of the investment fund;

z_{21}) retail investor – any person which is not a qualified investor as defined in the Law of Georgia on Securities Market;

z_{22}) qualified investor – any person which is a qualified investor in accordance with the Law of Georgia on Securities Market;

z_{23}) durable medium – any instrument (including in electronic form) which enables an investor to store information addressed personally to that investor in a way which is accessible for future reference for a period of time adequate for the purposes of the information, and which allows the unchanged reproduction of the information stored;

z_{24}) management body – a management body as defined in the Law of Georgia on Securities Market;

z_{25}) redemption – the redemption of units by their cancellation or, in the case of an investment company established as a joint stock company, the repurchase of units (shares) within the limits established by the Law of Georgia on Entrepreneurs;

z_{26}) investor – an existing or potential unit-holder of an investment fund;

z_{27}) feeder fund – an investment fund or a sub-fund thereof investing at least 85% of its assets in another investment fund or a sub-fund thereof (a master fund);

z_{28}) master fund – an investment fund or a sub-fund thereof in which another investment fund or a sub-fund thereof invests in accordance with sub-paragraph (z_{27}) of this paragraph;

z_{29}) reorganisation – the reorganisation of an undertaking in accordance with the Law of Georgia on Entrepreneurs;

z_{30}) securitisation special purpose entity – an entity whose sole purpose is to carry on a securitisation and other ancillary activities which serve the purpose of securitisation;

z_{31}) financial instrument – the following rights and/or agreements (save for exceptions as determined by a legal act of the supervisory authority):

z_{31}.a) securities;

z_{31}.b) units in an investment fund;

z_{31}.c) money market instruments;

z_{31}.d) options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates, other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;

z_{31}.e) options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (other than by reason of default or other termination event);

z_{31}.f) options, futures, swaps and any other derivative contracts relating to commodities that can be physically settled, provided that these instruments are traded on a stock exchange;

z_{31}.g) options, futures, swaps and any other derivative contracts relating to commodities (except for the instruments referred to in sub-paragraph (z_{31}.f) of this paragraph) that can be physically settled, provided that these instruments are not for commercial purposes and have the characteristics of other financial instruments;

z_{31}.h) derivative instruments for the transfer of credit risk;

z_{31}.i) financial contracts for differences;

z_{31}.j) options, futures, swaps, forward rate agreements and any other derivatives which are related to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or which may be settled in cash at the option of one of the parties (other that by reason of default or other termination event); as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not determined by this sub-paragraph, provided that these contracts have the characteristics of other financial derivatives instruments, having regard to whether, inter alia, they are traded on a stock exchange;

z_{32}) registration authority – the Legal Entity under Public Law called the National Agency of Public Registry operating under the Ministry of Justice of Georgia;

z_{33}) place of management – in the case of legal persons, a place where a management body actually performs a management function, and in the case of an organisational entity with no legal personality, its place of business.

2. Other terms used in this Law shall have meanings as defined in the Law of Georgia on Securities Market and other legislative acts of Georgia.

Article 3 – Calculating time limits and the procedure for submitting documents to the supervisory authority

1. The period within which an applicant was to submit documents and/or information necessary for the review of an application, as instructed by the supervisory authority, shall not be taken into account in calculating the time limits determined by this Law. In such a case, the running of a time limit for reviewing an application shall resume upon the submission of an appropriate document or information.

2. Documents issued by a foreign country to be submitted to the supervisory authority in accordance with this Law shall be legalised or certified by an apostille, except in the cases provided for by the legislation of Georgia.

Chapter II – Investment Funds

Article 4 – Essence of an investment fund

1. An investment fund is a collective investment scheme which pools capital from investors to invest the said capital in accordance with a determined investment policy and in favour of the investors.

2. For the purposes of paragraph 1 of this article, a collective investment scheme shall be a legal person or a contractual scheme that meets one or more of the following conditions:

a) the legal person or contractual scheme does not have a general commercial or industrial purpose;

b) the legal person or the contractual scheme pools together capital raised from its investors for the purpose of investment with a view to generating a pooled return for those investors from investments;

c) the unit-holders of the legal person or contractual scheme, as a collective group, have no day-to-day discretion or control. The fact that one or more, but not all, of the unit-holders are granted day-to-day discretion or control shall not be taken to show that the legal person or contractual scheme is not an investment fund.

3. The assets of an investment fund may be divided into separate investment compartments which are different from each other with their investment policies and/or other characteristics and which are regarded as sub-funds. In the cases explicitly provided for by this Law, the provisions regulating investment funds shall also apply to their respective sub-funds as stand-alone investment funds. The supervisory authority may exercise its powers in relation to a sub-fund of an investment fund as if that sub-fund were a stand-alone investment fund.

4. In addition to the requirements established for sub-funds by the legislation of Georgia, the following rules shall apply to a sub-fund of an umbrella fund established in Georgia:

a) it shall be prohibited to use, or apply enforcement measures to, the assets of one sub-fund for the fulfilment of the obligations of another sub-fund or for the meeting of the claims of the unit-holders of another sub-fund;

b) accounting for each sub-fund shall be done independently from another sub-fund of the umbrella fund;

c) an asset management company of an umbrella fund, or an umbrella investment company, may conduct activities associated with a sub-fund in the same manner as it would act for a stand-alone fund, unless otherwise provided for by this Law or legal acts issued on the basis thereof by the supervisory authority;

d) any right subject to registration under relevant legislation, which is acquired in favour of a sub-fund, shall be registered in the name of the said sub-fund;

e) a unit-holder of each sub-fund shall have the right to move to another sub-fund in accordance with the conditions laid down in the founding document of the umbrella fund and established procedure.

5. No one shall have the right to use the following terms: ‘investment fund’, ‘investment company’, ‘collective investment scheme’,

'collective investment fund', 'umbrella fund', 'sub-fund', 'UCITS', 'private equity fund' and 'venture capital fund', or other words meaning these terms, without authorisation, registration or recognition granted by the supervisory authority in accordance with this Law.

Article 5 – Types of investment funds

1. An investment fund may be established in Georgia in the form of an investment company or a common fund.

2. An investment fund as an investment company may exist in the form of a joint stock company, in accordance with the Law of Georgia on Entrepreneurs. A closed-end registered investment company may also exist in the form of a limited liability company or a limited partnership, in accordance with the Law of Georgia on Entrepreneurs.

3. Where an investment company has designated an asset management company, the asset management company shall be a person exercising the managerial and representative powers of the said investment company.

4. An investment fund in the form of a common fund shall be established as a contractual scheme which shall be managed and represented by a duly authorised asset management company.

5. An investment fund may be managed by only one asset management company.

6. Without prejudice to the restrictions set out in this Law, an investment fund may be formed as a closed-end investment fund, an interval investment fund or an open-end investment fund.

7. Where so provided for by the founding document of the investment fund, an open-end investment fund, an interval investment fund or a closed-end investment fund may be transformed into an investment fund of another type (open-end, interval or closed-end), unless otherwise provided for by the regulatory legislation. In such a case, the unit-holders shall be granted a right to request the redemption of their units before the investment fund is transformed, without paying any commission fee (except for the costs related to the withdrawal of investment).

8. The supervisory authority shall have the power to establish, on the basis of a legal act, additional requirements for investment funds based on the types of investment funds, investment policies, the subject-matter of activities or other criteria, in accordance with this Law.

Article 6 – Investment funds established in Georgia and foreign investment funds

1. A person having a place of registration or a place of management in Georgia shall not carry out the activities of an investment fund without having been authorised or registered as an investment fund in accordance with this Law.

2. In accordance with this Law, an investment fund shall be established in Georgia as:

a) an authorised investment fund (a UCITS or a retail investment fund);

b) a registered investment fund.

3. An authorised investment fund shall have the right to make public offerings in accordance with this Law. A registered investment fund shall have the right to make private offerings only.

4. A registered investment fund shall not have more than 20 retail investors. Where the number of retail investors in a registered investment fund exceeds 20, the registered investment fund shall be transformed into an authorised investment fund not later than 3 months after that number is exceeded. Such transformation shall not be required where the number of retail investors is exceeded through no fault of the registered investment fund and the registered investment fund ensures that the number of retail investors will be reduced to the permitted level within 3 months.

5. The total number of retail investors of registered investment funds under the management of a single registered asset management company shall not exceed 20. Where the number of retail investors in the registered investment funds exceeds 20, the registered asset management company shall be transformed into a licensed asset management company not later than 3 months after that number is exceeded. Such transformation shall not be required where the number of retail investors is exceeded

through no fault of the registered asset management company and the registered asset management company ensures that the number of retail investors will be reduced to the permitted level within 3 months.

6. Where, in the cases referred to in paragraphs 4 and 5 of this article, the registered investment fund or the registered asset management company fails to ensure compliance with the legislation of Georgia within the prescribed period in accordance with the said paragraphs, the supervisory authority shall cancel its registration.

7. A foreign investment fund shall have the right to make a public offering in Georgia only where it is recognised by the supervisory authority in accordance with this Law. A foreign investment fund shall, before making a private offer in Georgia, notify the supervisory authority of this offer in the form determined by the supervisory authority.

8. The supervisory authority shall have the power to establish, by a legal act, rules governing the offering of the units of foreign investment funds in Georgia.

Article 7 – Common funds

1. The assets collected through the issue of the units of a common fund, and the assets acquired through investing the assets of a common fund, shall be deemed to be owned jointly by the unit-holders. Such assets shall not be deemed to be owned by an asset management company or a specialised depositary, and shall not be included in the liquidation estate of such persons where insolvency or liquidation proceedings are initiated against them.

2. The rules governing joint ventures (partnerships) and joint ownership provided for by the Civil Code of Georgia shall not apply to the activities of common funds established in accordance with this Law.

3. An asset management company shall conduct transactions with the assets of a common fund in the common interests of the unit-holders of the common fund.

4. Any right or obligation acquired in the common interests of the unit-holders of a common fund, which is subject to registration under regulatory legislation, shall be registered in the name of the common fund. In the case of an umbrella fund, registration may also be effected in the name of its sub-fund.

5. A unit-holder shall not be personally liable for the obligations assumed by an asset management company for the account of the common fund. The liability of a unit-holder for the fulfilment of these obligations shall be limited only to his/her contribution to the assets of the common fund.

6. An asset management company shall not be personally liable for the obligations of the common fund which arise under regulatory legislation and the founding document of the investment fund.

7. A common fund shall not be liable for the obligations of the asset management company, the specialised depositary or the unit-holder. A common fund shall only be liable for its own obligations arising from the claims of its unit-holders and creditors.

8. Where any provision of the regulatory legislation requires that an investment fund take any action or refrain from taking any action, that provision in the case of a common fund shall be deemed to be a reference to its asset management company.

9. Unless otherwise provided for by this Law, the provisions of this article related to common funds shall also apply to the sub-funds of an umbrella fund.

Article 8 – Investment companies

1. An investment company shall not carry out activities other than those related to the management of its own portfolio, in accordance with Article 25(1) and (2) of this Law.

2. Where an investment company is established in Georgia as an umbrella fund, the general meeting of its unit-holders shall not be authorised to decide issues relating solely to the assets of a particular sub-fund or the unit-holders thereof. In this case, the voting rights shall be exercised only by the unit-holders of the respective sub-fund. This rule shall not apply if the unit-holders with voting rights are not members of the respective sub-fund.

3. An open-end or interval investment company shall not be required to indicate in its founding document the amount of authorised capital and the number of shares of the investment company. The founding document of such investment fund may indicate the maximum amount within the limits of which shares may be issued.

4. The following rules determined by the Law of Georgia on Entrepreneurs and/or by a subordinate normative act issued on the basis thereof shall not apply to open-end or interval investment companies:

a) rules for issuing shares and making payments related thereto;

b) rules for increasing or reducing capital and for making relevant information public;

c) rules for the compulsory sale of shares (squeeze out);

d) rules governing the pre-emptive rights of shareholders;

e) rules for the conduct of takeover bids.

Article 9 – Establishing investment funds

1. A decision establishing an authorised or registered common fund in accordance with this Law shall be made and an appropriate founding document shall be adopted by the asset management company. A common fund shall carry out the activities of an investment fund only from the moment when the supervisory authority authorises/registers it in accordance with this Law.

2. In order for an undertaking established in accordance with the Law of Georgia on Entrepreneurs to be authorised or registered as an investment company, the decision of all the shareholders/partners with voting rights in the undertaking shall be required, unless the founding document of the undertaking provides for otherwise. However, an investment company may carry out the activities of an investment fund only from the moment when the supervisory authority authorises/registers it in accordance with this Law.

Article 10 – Founding document of an investment fund

1. An authorised or registered investment fund shall be established on the basis of a founding document. The said instrument shall define the rules for managing and administering the investment fund, and shall determine the investment objectives of the investment fund and the terms and conditions for offering units. It shall constitute a binding document for the investment fund.

2. A founding document of an investment fund established in Georgia shall not contain provisions that:

a) contravene this Law or any provision of other legislative or subordinate legislative acts, or any of the rules established by those acts;

b) are manifestly unfair to the interests of unit-holders generally or to the interests of unit-holders of any class.

3. A founding document of an investment fund established in Georgia shall specify whether the investment fund is:

a) a UCITS, a retail investment fund or a registered investment fund;

b) an open-end, interval or closed-end investment fund;

c) a stand-alone fund or an umbrella fund;

d) a master fund;

e) a feeder fund.

4. In addition to the information provided for by paragraph 3 of this article, the founding document of an investment fund established in Georgia shall contain at least the following data and/or information:

a) the name of the investment fund, including the sub-funds thereof (if any);

b) the investment policy/strategy of the investment fund, including a reference to what types of assets it will invest in, as well as targeted investors;

c) a description of the units to be issued and related rights and obligations;

d) rules and procedures for the liquidation of the investment fund, including, in the case of a common fund, whether the voluntary liquidation of the investment fund requires consent from the unit-holders;

e) in the case of a common fund, as well as an investment company which has designated an asset management company, conditions for the replacement of the asset management company, and in the case of such replacement, guarantees for investor protection;

f) the procedure for making amendments to the founding document of the investment fund;

g) in the case of a closed-end investment fund, its duration.

5. In addition to the information provided for by paragraphs 3 and 4 of this article, the founding document of an authorised investment fund shall contain the following data and/or information:

a) in the case of a common fund, information on remuneration and expenses that an asset management company might impose on the common fund, as well as the method of calculating the said remuneration; in the case of an investment company, information on the expenses which might be imposed on the investment company;

b) conditions for the replacement of a specialised depositary and, in the case of such replacement, guarantees for investor protection;

c) the procedure and conditions for the redemption of units;

d) methods of valuation of the assets of the investment fund.

6. No amendment shall be made to the founding document of an authorised investment fund without prior approval by the supervisory authority. An amendment to be introduced shall be published in advance, in which case the amendment may enter into force not earlier than 2 months after publication. Publication shall not be required if information on the amendment is communicated to all the unit-holders by means of a durable medium. In such a case, the amendment may enter into force not earlier than 30 days after it has been communicated to all the unit-holders. Derogations from the provisions of this paragraph shall be determined by the supervisory authority by a legal act.

7. The supervisory authority shall have the power to establish, by a legal act, additional requirements in relation to the founding document of investment funds, including information to be included therein.

Article 11 – Units of investment funds and values thereof

1. An authorised or registered investment fund may issue units of different classes in accordance with its founding document and the requirements of this Law. Open-end and interval investment funds may issue units with different rights and obligations attached thereto, provided that the different rights and obligations relate to one or several of the following:

a) the capitalisation of income (accumulation units) as opposed to the distribution of income (income units);

b) charges, costs and commission fees that may be taken out of the property (assets) of the investment fund, or that are payable upon entry to and exit from the investment fund by unit-holders.

c) the currency in which the prices or values of units are expressed and/or payments made.

2. Units shall be issued at their issue price. The issue price of the units of open-end and interval investment funds shall be the net asset value per unit of the respective class, to which an issue fee may be added in accordance with the procedure provided for in the founding document of the investment fund.

3. In no case shall an open or interval investment fund issue units unless the equivalent of the issue price of the unit is paid into the investment fund, except where units are distributed as bonus units. The rule for making contributions to a closed-end investment fund shall be determined by the founding document of the investment fund, without prejudice to the restrictions established by the legislation of Georgia.

4. The units of a closed-end investment fund may be issued at an issue price which differs from the net asset value if one of the following conditions is met:

a) the conditions for the determination of the issue price of the units of the investment fund must be decided at the general meeting of unit-holders by a majority of at least two thirds of the votes represented at the general meeting, unless the legislation o Georgia or the founding document of the investment fund requires a higher majority;

b) the units of the investment fund are admitted to trading on a stock exchange, or the units of the investment fund must be admitted to trading on a stock exchange in accordance with the founding document of the investment fund within 12 months after the decision of the general meeting referred to in sub-paragraph (a) of this paragraph has been adopted.

5. The net asset value per unit of an open-end investment fund shall be established and disclosed on each day of issue or redemption of units, but at least once in two weeks. The net asset value per unit of a closed-end investment fund shall be established and disclosed on each day of issue or redemption of units, but at least once a year. The net asset value per unit of an interval investment fund shall be established and disclosed on each day of issue or redemption of units with the frequency set out in the founding document, but at least once a year.

Article 12 – Evidencing the ownership of units and transfer of ownership within an investment fund. Register of unit-holders of an investment fund

1. A unit issued by an authorised/registered investment fund is a financial instrument and the ownership thereof shall be registered in accordance with the legislation of Georgia.

2. The register of unit-holders of an authorised/registered common fund shall be maintained by the asset management company of the investment fund, except where they have entered into a contract with a third party on the delegation of the function of maintaining the register of unit-holders in accordance with regulatory legislation. The register of unit-holders of an authorised/registered investment company shall be maintained by the asset management company of the investment company or by the investment company itself which has not designated an asset management company, except where they have entered into a contract with a third party on the delegation of the function of maintaining the register of unit-holders in accordance with regulatory legislation.

3. Title or other rights in rem in the units of an investment fund shall be evidenced by an entry in the register of unit-holders of the investment fund, or by the records of the nominee holder if, according to the entry in the register of unit-holders, the unit has been transferred into a nominee holding.

4. The register of unit-holders of an investment fund shall contain at least the following information:

a) the name and address of each unit-holder; and if the units are transferred into a nominee holding, the name and address of the nominee holder;

b) the number of units of a respective class registered in the name of each unit-holder or nominee holder;

c) the date on which the unit was registered in the name of each unit-holder or nominee holder;

d) the number of units of each class in issue.

5. A person responsible for the creation and maintenance of a register of unit-holders in an investment fund shall ensure that the register is complete, accurate and up-to-date. A person maintaining a register of units-holders in an investment fund shall ensure the confidentiality of information on unit-holders and the transactions/operations conducted by them. The said information may be disclosed to third parties in the cases determined by, and in accordance with, the procedure established by Article 32(2) of the Law of Georgia on Securities Market.

6. The prospectus of an investment fund shall state the name of the person responsible for the creation and maintenance of the register of unit-holders in that investment fund.

7. A unit-holder of a registered investment fund may transfer to another person or pledge units only on the basis of prior approval by the investment fund and/or the asset management company acting on its behalf. The investment fund and/or an asset management company acting on its behalf shall not refuse approval unjustifiably. A refusal of approval shall be deemed to be justified if, as a result of such transfer/pledge, the number of retail investors of a registered investment fund exceeds (or might exceed) 20, or if the founding document of the investment fund provides for approval of a transfer/pledge of units. A transfer or pledge of units in violation of the procedure established by this paragraph, without prior approval by an investment fund and/or an asset management company acting on its behalf, shall be null and void.

8. The rules under the Law of Georgia on Entrepreneurs for maintaining a register of shareholders shall not apply to investment companies with the legal form of a joint stock company. Paragraphs 2-6 of this article shall not apply to investment companies with the legal form of a limited liability company or a limited partnership.

9. The supervisory authority shall have the power to determine, in accordance with this Law, rules for maintaining a register of unit-holders of an investment fund (except for investment companies with the legal form of a limited liability company or a limited partnership).

Chapter III – Authorisation, Registration and Recognition of Investment Funds

Article 13 – Terms of authorisation of UCITS and retail investment funds

1. For the purpose of authorising a common fund, a licensed asset management company shall submit to the supervisory authority an application which shall contain the following:

a) the decision of a licensed asset management company as referred to in Article 9(1) of this Law;

b) a founding document;

c) a prospectus;

d) key investor information;

e) information on an agreement concluded with a specialised depositary;

f) a document proving the payment of an authorisation fee.

2. For the purpose of authorising an investment company, an applicant company, or an asset management company designated by the applicant, shall submit to the supervisory authority the following documents and information:

a) an extract from the Registry of Entrepreneurs and Non-entrepreneurial (Non-commercial) Legal Persons, which proves that the company is a joint stock company registered under the Law of Georgia on Entrepreneurs;

b) the decision of the shareholders/partners of the company as referred to in Article 9(2) of this Law;

c) a founding document (instrument of incorporation), including changes made thereto (if any);

d) a prospectus;

e) key investor information;

f) information on an agreement concluded with a specialised depositary;

g) information on persons with a qualifying holding in the company, and documents that prove their suitability, taking into account the need to ensure the sound and prudent management of an investment fund;

h) information on contracts with third parties on the delegation of functions in accordance with Article 26 of this Law (if any);

i) information on the members of the management body of the company, and documents that prove that they are of sufficiently good repute and have sufficient experience;

j) documents proving that the applicant company has an initial capital in the amount of at least GEL 300 000 (three hundred thousand). The supervisory authority shall have the power to establish, by a legal act, a rule for authorised investment companies for determining a higher amount of an initial capital than referred to in this sub-paragraph, in proportion to the total volume of the assets of the investment company;

k) the programme of activities of the company, containing information on how the company will fulfil the obligations imposed on it under this Law;

l) information and documents confirming that the place of registration and the place of management of the company are in Georgia;

m) an audited financial statement of the company for the last financial year, or an audited half-year financial statement if more than 6 months have passed from the date of the last audited financial statement until the date of submitting an authorisation application. If the applicant for authorisation submits an application to the supervisory authority not later than 6 months of its establishment, he/she/it shall present only an unaudited current balance sheet and respective notes;

n) a document proving the payment of an authorisation fee.

3. An applicant company shall not submit to the supervisory authority information and documents referred to in paragraph 2(h-k) of this article if it has designated a licensed asset management company. In this case, the licensed asset management company shall, in addition to the documents required by the legislation of Georgia, submit to the supervisory authority the asset management agreement signed with the applicant company.

Article 14 – Terms of registration of investment funds

1. For the purpose of registering a common fund, an asset management company shall submit to the supervisory authority an application which shall contain the following:

a) the decision of the asset management company as referred to in Article 9(1) of this Law;

b) a founding document;

c) a document proving the payment of a registration fee.

2. For the purpose of registering an investment company, an applicant company or an asset management company designated by the applicant, shall submit to the supervisory authority the following documents and information:

a) an extract from the Registry of Entrepreneurs and Non-entrepreneurial (Non-commercial) Legal Persons, which proves that the company is registered as a joint stock company, a limited liability company or a limited partnership under the Law of Georgia on Entrepreneurs;

b) the decision of the shareholders/partners of the company as referred to in Article 9(2) of this Law;

c) a founding document, including changes made thereto (if any);

d) information on persons with a qualifying holding in the company, and documents that prove their suitability, taking into account the need to ensure the sound and prudent management of an investment fund;

e) information on the members of the management body of the company, and documents that prove that they are of sufficiently good repute and have sufficient experience;

f) information and documents confirming that the place of registration and the place of management of the company are in Georgia;

g) a document proving the payment of a registration fee.

3. An applicant company shall not submit to the supervisory authority information and documents referred to in paragraph 2(e) of this article if it has designated an asset management company. In this case, the asset management company shall, in addition to the documents required by the legislation of Georgia, submit to the supervisory authority the asset management agreement signed with the applicant company.

4. A registered investment company, as well as an asset management company for each registered common fund under its management, shall provide the following information to the supervisory authority at intervals determined by a legal act of the supervisory authority:

a) updated information on the number of unit-holders of the registered investment fund, and information on which category of investors (retail or qualified) they belong to;

b) information on the changes (if any) made to the investment strategy of the investment fund;

c) information on the main instruments/assets in which the investment fund is trading, and information on the principal exposures and most important concentrations of the investment fund.

5. A registered investment fund may be transformed into an authorised investment fund on the basis of the common rules established for the authorisation of investment funds. The supervisory authority shall authorise the investment fund and concurrently cancel the registration.

6. To ensure the stability and sound operation of the financial sector, the supervisory authority shall have the power to establish, by a legal act, additional requirements for the registration and operation of registered investment funds.

Article 15 – Terms of recognition of foreign investment funds

1. The supervisory authority shall have the power to recognise a foreign investment fund as eligible to make public offerings in Georgia, provided that at least the following conditions are met:

a) the units of the foreign investment fund can be offered to an undefined number of retail investors under the legislation of the country in which the fund is established;

b) the foreign state where the foreign investment fund is established is not listed as a Non-Cooperative Country and Territory by the Financial Action Task Force (FATF);

c) the supervisory authority has signed a cooperation agreement with the respective foreign regulatory body;

d) in the cases determined by a legal act of the supervisory authority, the foreign investment company or, if a foreign investment fund is a common fund, its asset management company, has established a branch in Georgia in accordance with the Law of Georgia on Entrepreneurs, or has a representative appointed in Georgia.

2. The supervisory authority shall have the power to establish, by a legal act, additional conditions for the recognition and operation of foreign investment funds in Georgia. Such conditions may, inter alia, establish requirements equivalent to the regulatory framework applicable to authorised investment funds.

3. The supervisory authority shall have the power to establish, by a legal act, rules on the basis of which recognised investment funds will be exempted from complying with certain requirements provided for by this Law if the legislation of the foreign country to which they are subject establishes requirements equivalent to the regulatory framework in force in Georgia. These rules may refer to the requirements relating to the drawing up and dissemination of prospectuses, key investor information, annual and semi-annual statements, as well as other conditions for the operation of foreign investment funds.

Article 16 – Refusal to authorise, register and recognise as an investment fund

1. The supervisory authority shall not grant an authorisation, a registration or a recognition application of an investment fund if any of the following circumstances are present:

a) the application or the documents/information submitted does/do not meet the requirements established by this Law and/or a

legal act issued by the supervisory authority on the basis of this Law;

b) the members of the management body of an asset management company, or of an investment company which has not designated an asset management company, are not of sufficiently good repute or are not sufficiently experienced, including with respect to the investment strategy which will be implemented by the investment fund if authorisation, registration or recognition is granted;

c) a specialised depositary does not have sufficient resources or capability to provide services to the investment fund for which an authorisation application has been submitted to the supervisory authority;

d) a foreign investment fund whose recognition is requested by a respective application is legally prevented from offering its units in the country where it is established;

e) a foreign asset management company submitting the application is not allowed to manage the investment fund the authorisation of which it seeks by a respective application;

f) close links that exist between an applicant company or an asset management company, on the one hand, and any other natural or legal person, on the other hand, and/or the legislation of the foreign state applicable to the natural or legal person referred to in this sub-paragraph, or difficulties involved in the enforcement of that legislation, might prevent the supervisory authority from effectively exercising its supervisory functions;

g) other grounds for refusing to grant an authorisation, registration or recognition application of an investment fund exist, in accordance with the Organic Law of Georgia on the National Bank of Georgia.

2. The supervisory authority shall make a decision on granting or refusing the authorisation, registration or recognition of an investment fund within 1 month of receiving a respective application. In the case of refusal, the supervisory authority shall immediately communicate to the applicant its reasoned refusal in writing. By issuing a legal act, the supervisory authority shall establish respective procedures and additional rules for the authorisation, registration and recognition of investment funds.

Article 17 – Changes related to investment funds

1. An investment fund or an asset management company acting on its behalf shall notify the supervisory authority in advance of any change related to the investment fund if this change relates to the conditions for the authorisation, registration or recognition of the investment fund.

2. A change as referred to in paragraph 1 of this article may be made, unless the supervisory authority notifies the applicant of the rejection of the proposed change within 1 month of receiving the notification. Where necessary, such period may be prolonged by no longer than 1 month if the supervisory authority notifies the applicant in advance to that effect.

3. By issuing a legal act, the supervisory authority shall establish a procedure for notification in accordance with this article and for reviewing such notifications.

Article 18 – Register of investment funds and asset management companies

1. The supervisory authority shall create and maintain a register of all authorised, recognised and registered investment funds, and all licensed, registered and recognised asset management companies, and shall, by means of its official web page, make public information thereon, as provided for by this article and the rules of the supervisory authority.

2. Each investment fund and each sub-fund of an investment fund shall be assigned a unique identification code in the register of investment funds and asset management companies.

3. The register of investment funds and asset management companies shall contain the name, the status (whether it is authorised, registered or recognised) and the asset management company (if any) of each investment fund, and information about ongoing liquidation proceedings in respect of authorised or registered investment funds.

4. In accordance with the Law of Georgia on the Public Registry, the registration authority may, in effecting registrations, refer to the register provided for by this article and maintained by the supervisory authority.

Chapter IV – Asset Management Companies

Article 19 – Activities of asset management companies

1. A person having a place of registration or a place of management in Georgia shall be prohibited from managing an investment fund without having been licensed or registered as an asset management company in accordance with this Law.

2. A person shall be prohibited from managing an investment fund established in Georgia without having been licensed, registered or recognised as an asset management company in accordance with this Law.

3. The prohibitions established by paragraphs 1 and 2 of this article shall not apply to a member of the management body of an authorised/registered investment company or a foreign investment company, provided such member acts within the scope of the activities of a member of the management body.

4. No one shall have the right to use the terms 'asset management company' and 'asset manager', or other words meaning these terms, without an appropriate licence, registration or recognition issued by the supervisory authority in accordance with this Law.

5. The supervisory authority shall have the power to establish, by a legal act, a rule which will determine additional rules and conditions for the operation of asset management companies.

Article 20 – Terms of licensing of asset management companies

For the purpose of obtaining a licence for the activities of an asset management company, a licence applicant shall submit to the supervisory authority the following documents and information in addition to the documents provided for by Article 9 of the Law of Georgia on Licences and Permits:

a) an extract from the Registry of Entrepreneurs and Non-entrepreneurial (Non-commercial) Legal Persons, which proves that the licence applicant is registered as a limited liability company or a joint stock company;

b) the articles of association of the licence applicant, including changes made thereto (if any);

c) information on persons with a qualifying holding in the licence applicant, and documents that prove their suitability, taking into account the need to ensure the sound and prudent management of an asset management company;

d) information on the members of the management body of the licence applicant, and documents that prove that they are of sufficiently good repute and have sufficient experience;

e) the programme of activities which, inter alia, contains information on how the licence applicant will fulfil the obligations imposed on it under this Law;

f) information on contracts with third parties on the delegation of functions in accordance with Article 26 of this Law (if any);

g) documents proving that the company applying for a licence has an initial capital in the amount of at least GEL 300 000 (three hundred thousand). The supervisory authority shall have the power to establish, by a legal act, a rule for licensed asset management companies for determining a higher amount of an initial capital than referred to in this sub-paragraph, in proportion to the total volume of the assets of the investment fund(s) under its management;

h) an audited financial statement of the licence applicant for the last financial year or an audited half-year financial statement if more than 6 months have passed from the date of the last audited financial statement until the date of submitting a licence application. If the licence applicant submits a licence application to the supervisory authority not later than 6 months of its establishment, he/she/it shall present to the supervisory authority only an unaudited current balance sheet and respective notes;

i) information and documents confirming that the place of registration and the place of management of the licence applicant are in Georgia.

Article 21 – Terms of registration of asset management companies

1. For the purpose of registering an asset management company, an applicant company shall submit to the supervisory authority the information and documents provided for by Article 20 of this Law (except for the documents under sub-paragraph (g) of the same article), as well as a document proving the payment of a registration fee.

2. A registered asset management company may be transformed into a licensed asset management company on the basis of the common rules established for the licensing of asset management companies. The supervisory authority shall license the asset management company and concurrently cancel the registration.

Article 22 – Terms of recognition of foreign asset management companies

1. A foreign asset management company may, without additional licensing and on the basis of recognition granted by the supervisory authority, establish an investment fund in Georgia and/or manage an investment fund established in Georgia in accordance with this Law through a branch established under the Law of Georgia on Entrepreneurs. A foreign asset management company shall submit the following documents and information to the supervisory authority to obtain recognition:

a) an extract from the Registry of Entrepreneurs and Non-entrepreneurial (Non-commercial) Legal Persons, which proves that the applicant has a branch established in Georgia;

b) a document confirming that the applicant has a respective permit for activities issued by a foreign supervisory authority;

c) documents proving that a sufficient initial capital is at the free disposal of the branch (provided that the foreign asset management company plans to provide asset management services to investment funds authorised in Georgia and/or to carry out one or more additional activities as provided for in Article 25(4) of this Law);

d) information and documents on the person(s) representing and managing the branch, which prove that they are of sufficiently good repute and have sufficient experience;

e) other information/documents provided for by a legal act of the supervisory authority.

2. When recognising a foreign asset management company, the supervisory authority may specify the categories of investment funds which can be managed by the foreign asset management company in Georgia.

3. Upon the request of the applicant, the supervisory authority may, in accordance with Article 25(4) and (5) of this Law, determine additional activities which can be carried out by foreign asset management companies in Georgia on the basis of recognition, provided that such activities are included in a permit for activities issued by a foreign supervisory authority.

4. Taking into account respective particularities, any reference in this Law to a licensed asset management company shall also be construed as a reference to a branch registered in Georgia of a recognised asset management company.

Article 23 – Grounds for refusal to issue a licence for activities, to register or to recognise an asset management company

1. The supervisory authority shall not grant a licence, a registration or a recognition application of an asset management company if any one of the following circumstances are present:

a) the application or the documents submitted does/do not meet the requirements established by this Law or a legal act issued by the supervisory authority on the basis of this Law;

b) close links that exist between the applicant company, on the one hand, and any other natural or legal person, on the other hand, and/or the legislation of the foreign state applicable to the natural or legal person referred to in this sub-paragraph, or difficulties involved in the enforcement of that legislation, might prevent the supervisory authority from effectively exercising its supervisory functions;

c) in the case of a foreign asset management company, the foreign country where the foreign asset management company is established, is listed as a Non-cooperative Country and Territory by the Financial Action Task Force (FATF);

d) in the case of a foreign asset management company, there is no cooperation agreement between the supervisory authority and a respective foreign supervisory authority;

e) other grounds for refusing to issue a licence for activities, to register or to recognise an asset management company exist under the Organic Law of Georgia on the National Bank of Georgia.

2. The supervisory authority shall make a decision granting or refusing the licensing, registration or recognition of an asset management company within 1 month of receiving a respective application. In the case of refusal, the supervisory authority shall immediately communicate to the applicant its reasoned refusal in writing. By issuing a legal act, the supervisory authority shall establish respective procedures and additional rules for the licensing, registration and recognition of asset management companies.

Article 24 – Changes related to asset management companies

The requirements laid down in Article 17 of this Law, taking into account respective particularities, shall also apply to asset management companies licensed or registered in accordance with this Law.

Article 25 – Activities of an asset management company

1. An asset management company shall perform the following functions when managing an investment fund established in accordance with this Law:

a) portfolio management;

b) risk management.

2. An asset management company may additionally perform the following functions when managing an investment fund established in accordance with this Law:

a) administration:

a.a) legal and fund management accounting services;

a.b) customer inquiries;

a.c) valuation and pricing, including tax returns;

a.d) regulatory compliance monitoring;

a.e) maintenance of a register of unit-holders;

a.f) distribution of income;

a.g) unit issues and redemptions;

a.h) contract settlements;

a.i) record keeping;

b) offering of units;

c) activities related to the assets of investment funds (other than UCITS), namely services necessary to fulfil the fiduciary duties of the asset management company, the management of facilities/buildings and structures, the administration of immovable property, advice to undertakings on capital structure, industrial strategy and related matters, advice and services relating to mergers and the

purchase of undertakings, and other services connected to the management of the investment fund and the companies and other assets in which it has invested.

3. A registered asset management company shall not engage in activities other than those referred to in paragraphs 1 and 2 of this article.

4. A licensed asset management company shall not engage in activities other than the main activities referred to in paragraphs 1 and 2 of this article and the additional activities under this paragraph. The additional activities of a licensed asset management company may be as follows:

a) the management of portfolios of investments, including those owned by pension funds/schemes, in accordance with mandates given by investors on a discretionary, client-by-client basis;

b) investment advice;

c) safekeeping and administration in relation to the units of investment funds.

5. A recognised asset management company shall not carry out any activity in Georgia other than the main activities referred to in paragraphs 1 and 2 of this article, and the additional activities referred to in paragraph 4 of the same article. A recognised asset management company shall have the right to carry out in Georgia one or more of the additional activities referred to in paragraph 4 of this article through its branch if this is provided for by a decision of the supervisory authority recognising the foreign asset management company.

6. When carrying out the additional activities referred to in paragraph 4 of this article, an asset management company shall comply with the requirements established by the legislation of Georgia on securities for the provision of brokerage services.

Article 26 – Delegation of functions of a licensed or registered asset management company

1. An asset management company which is licensed or registered in accordance with this Law may delegate its function(s) to a third party on the basis of a written contract if the following conditions are met:

a) the licensed or registered asset management company notifies the supervisory authority to that effect at least 10 days prior to the delegation of its function/functions to a third party;

b) the licensed or registered asset management company can demonstrate that there is an objective reason for the delegation;

c) the delegation of a function(s) does not jeopardise the efficient supervision of the licensed or registered asset management company and in particular does not prevent it from acting in the best interests of investors;

d) the delegation by the licensed or registered asset management company of respective function(s) to a third party is provided for by the prospectus of the investment fund or, in the absence thereof, by the founding document of the investment fund;

e) when the delegation concerns portfolio management or risk management by the licensed or registered asset management company, the mandate is given only to undertakings which are authorised for the purpose of asset management and subject to prudential supervision;

f) where the mandate concerns portfolio management or risk management and is given to a third-country undertaking, a cooperation agreement between the supervisory bodies concerned is in place;

g) the licensed or registered asset management company retains the right to give instructions to a third party in relation to any function(s) delegated and to immediately terminate the contract;

h) a mandate with regard to portfolio management or risk management is not given to:

h.a) a specialised depositary or a delegatee of a specialised depositary;

h.b) any other third party whose interests may conflict with those of the asset management company or the unit-holder, except in cases where a portfolio management or risk management function is delegated by a registered asset management company and the portfolio management or risk management functions of the third party are functionally and hierarchically separated from its other

potentially conflicting tasks, and the potential conflicts of interest are properly managed, monitored and disclosed to the unit-holders.

i) having regard to the nature of the function(s) to be delegated, the third party to which a function(s) will be delegated is qualified and capable of undertaking the function(s) in question.

2. The delegation to a third party of its function(s) in accordance with paragraph 1 of this article shall not affect the liability of a licensed or registered asset management company or a specialised depositary.

3. In no case shall a licensed or registered asset management company delegate all of its core functions to a third party to the extent that it becomes a letter-box entity.

4. The requirements laid down in this article shall also apply to authorised/registered investment companies which have not designated an asset management company, taking into account respective particularities.

5. The supervisory authority shall have the power to establish, by a legal act, cases where the delegation of its functions by a licensed or registered asset management company shall require the consent of the supervisory authority.

Article 27 – Obligations of a licensed or registered asset management company

1. An asset management company licensed or registered in accordance with this Law is obliged to:

a) act in good faith, independently, professionally and only in the best interests of an investment fund and its investors;

b) implement and maintain a permanent risk management policy and procedures;

c) have internal control mechanisms to ensure investments in accordance with the legislation governing the assets of investment funds and with the founding document of an investment fund;

d) functionally and hierarchically separate the functions of risk management from the operating of units, including portfolio management;

e) have a business continuity plan;

f) take all reasonable steps to avoid conflicts of interest and, where such conflicts cannot be avoided, to identify, manage and monitor and, where applicable, disclose such conflicts of interest in order to prevent them from adversely affecting the interests of investment funds and their unit-holders;

g) treat all investors of an investment fund fairly;

h) develop appropriate procedures to ensure that the assets and liabilities of an investment fund are properly and correctly evaluated;

i) have sufficient information on the assets which it intends to purchase or which it has purchased on behalf of an investment fund;

j) establish appropriate policies and procedures to ensure that investment decisions are carried out in compliance with the objectives, investment strategy and risk limits of an investment fund;

k) protect the interests of an investment fund against a third party, including a specialised depositary (if any), and file a claim against the third party on behalf of an investment fund if omitting to do so might harm the investment fund or its investors;

l) ensure the registration of unit-holders and maintenance of a register of unit-holders taking into account the rules established by this Law and a legal act of the supervisory authority;

m) submit periodic reports to the supervisory authority and investors on the activities of an investment fund in the format established by the supervisory authority and within the set deadlines;

n) make appropriate and sufficient arrangements for suitable electronic systems for the timely and proper recording of each

portfolio transaction and subscriptions and redemptions;

o) immediately notify the specialised depositary of any violation of the legislation of Georgia in relation to the management of an investment fund;

p) establish appropriate procedures and arrangements to ensure that they deal properly and in a timely manner with investor complaints.

2. Where an asset management company does not fulfil the requirement of paragraph 1(k) of this article and does not file a claim on behalf of an investment fund against a third party, a unit-holder may instead lodge a claim in his/her own name and for the benefit of the investment fund/sub-fund for the fulfilment of that requirement. Such unit-holder shall be deemed to have legal standing if the asset management company does not file a claim against the third party within 90 days of receiving a written request to that effect. If, within the said period, the asset management company responds in writing to the request of the unit-holder, the latter shall be deemed to have legal standing unless the asset management company proves that the dispute involves disproportionate expenditure in relation to the disputed issue, or that the dispute might otherwise prejudice the interests of the investment fund. If the court satisfies the claim of the unit-holder, the asset management company shall reimburse any out-of-court expenses related to the claim reasonably incurred by the unit-holder, including attorney's fees. However, the asset management company shall be released from an obligation to reimburse such expenses if it can prove that satisfying the claim would be detrimental to the investment fund. If the unit-holder is deemed not to have legal standing, or his/her claim is not satisfied, the obligation to reimburse court costs reasonably incurred by the investment fund or the asset management company shall be imposed on the unit-holder.

3. Without prejudice to paragraph 4 of this article, the requirements laid down in paragraph 1 of this article shall also apply to authorised and registered investment companies which have not designated an asset management company, taking into account respective particularities.

4. Unless otherwise determined by a legal act of the supervisory authority, paragraph 1 of this article (except for sub-paragraphs (a), (f), (g) and (k-m)) shall not apply to the management of registered investment funds.

Article 28 – Remuneration policies and practices of licensed asset management companies

1. A licensed asset management company shall establish and apply remuneration policies and practices that are consistent with, and promote, sound and effective risk management and that neither encourage risk taking which is inconsistent with the risk profiles or the founding document of the investment fund that they manage, nor compliance with the asset management company’s duty to act in the best interests of the investment fund and its investors.

2. The remuneration policies and practices of a licensed asset management company shall apply to those categories of staff whose professional activities have a material impact on the risk profiles of the licensed asset management companies or of the investment funds that they manage.

3. The requirements laid down in this article shall also apply to authorised investment companies which have not designated an asset management company, taking into account respective particularities.

Article 29 – Termination of the authority of an asset management company to manage an investment fund

1. The following shall be grounds for terminating the authority of an asset management company to manage an investment fund:

a) the termination of the authority to manage assets in accordance with an asset management agreement and/or the founding document of the investment fund;

b) the cancellation of the licence, registration or recognition of the asset management company;

c) the commencement of liquidation or insolvency proceedings against the asset management company;

d) a decision of the supervisory authority as provided for by paragraph 2 of this article.

2. The supervisory authority shall have the power to terminate the authority of an asset management company to manage one or

more investment funds if the asset management company violates the requirements established by this Law, other laws of Georgia regulating the financial sector, legal acts issued on the basis of said laws, or instructions, or manifestly jeopardises the interests of the investment fund or its investors. If the authority of an asset management company designated by an investment company is terminated in accordance with this article, the supervisory authority shall submit an appropriate decision to the registration authority for registration.

3. If the authority of an asset management company to manage assets is terminated on its own initiative or due to the expiration of term, it shall continue its activities until the designation of a new asset management company. The services provided by the asset management company until such designation shall be remunerated in accordance with the terms and conditions of the asset management agreement or the founding document in force before the termination of said authority.

4. The designation of a new asset management company in an investment fund shall require prior approval by the supervisory authority. If a new asset management company is not designated within 1 month, the supervisory authority shall have the power to cancel the authorisation, registration or recognition of the investment fund.

Article 30 – Reorganisation and liquidation of licensed/registered asset management companies

1. The reorganisation of a licensed/registered asset management company shall commence upon prior approval by the supervisory authority.

2. A general meeting of partners/shareholders of a licensed/registered asset management company shall be authorised to adopt a decision on the liquidation of the licensed/registered asset management company only after all the investment funds it manages have been liquidated or the right to manage them has been transferred to another asset management company.

3. The licensed/registered asset management company shall, within 10 days, submit to the supervisory authority a decision on liquidation as referred to in paragraph 2 of this article, and shall file an application for the cancellation of the licence or registration. The asset management company shall demonstrate that all the investment funds managed by it have been liquidated, or the management of such investment funds has been transferred to another asset management company.

Article 31 – Procedure for liquidating asset management companies

1. Upon the cancellation of a licence or registration of an asset management company, it shall be liquidated, except in the case provided for by Article 21(2) of this Law. The functions of a liquidator shall be performed by a person appointed by the supervisory authority, on which the full authority of all the bodies of the company (including the general meeting of shareholders/partners and the management body) shall be conferred. Upon the commencement of the liquidation process, ongoing enforcement proceedings against the asset management company shall be terminated.

2. An asset management company shall be liquidated in accordance with the procedures established by this Law and a legal act of the supervisory authority. A liquidator shall be accountable to the supervisory authority.

3. A decision of the supervisory authority cancelling a licence or registration of an asset management company, commencing liquidation, and appointing a liquidator, shall be documented in an individual administrative act, which shall be published on the website of the supervisory authority and in the Legislative Herald of Georgia.

4. A liquidator shall publish an announcement on the decision commencing the liquidation of the asset management company in the Legislative Herald of Georgia and on the website of the supervisory authority within 10 days of the entry into force of the said decision. This announcement shall be published again within 1 month of its first publication. Creditors shall submit to the liquidator within 1 month of the second announcement a substantiated written request indicating the amount of and grounds for their claim.

5. A liquidator shall have the right to terminate:

a) a contract for hiring an employee of an asset management company;

b) contracts for services in which the asset management company has been involved;

c) any liability of the asset management company as a lessee of immovable property, provided that the lessor (who must be given

60 days' notice to the effect that the asset management company intends to exercise the right to cancel the lease agreement) has no claim on the lease payments other than the amount due on the date of cancelling the agreement, and that he/she does not request compensation for damage caused by the cancellation.

6. A liquidator shall be authorised to sell the assets of a person under liquidation (except for the assets referred to in Article 32(2) of this Law) at a public auction or, in agreement with the supervisory authority, to use another form of selling assets, as well as to transfer the rights of claim on such assets to the creditors according to their rank, to a representative of the financial sector or other person, and organise the transfer of liabilities. If the transfer of assets/liabilities requires the consent of the creditor/debtor, he/she shall consent to or reject such transfer to another person within the time limit set by the liquidator. After the time limit set by the liquidator expires, the consent shall be deemed to be given. No consent of the creditor/debtor shall be required if the transfer of the assets/liabilities to another person does not involve the modification of their terms.

7. The transfer of property to a new buyer, or to persons who receive the property in kind in accordance with this article, shall result in the cancellation of all rights in rem and obligations.

8. A liquidator may, by filing a claim with a court, challenge an action or transaction carried out on behalf of the asset management company within 1 year before his/her appointment, and request the avoidance of the challenged action/transaction, if, by virtue of such action/transation, persons related to the asset management company have obtained a material benefit or an advantage or privilege at the expense of the asset management company, causing damage to the entity and/or its creditors.

9. The supervisory authority shall submit for registration a decision commencing the liquidation of an asset management company to the registration authority on the same day.

Article 32 – Distribution of the assets of an asset management company to creditors and completion of liquidation

1. The liquidation estate of an asset management company shall consist of assets owned by the asset management company at the moment of the entry into force of the decision of the supervisory authority commencing the liquidation of the asset management company, and assets acquired during the liquidation process.

2. A liquidation estate referred to in paragraph 1 of this article shall not include assets which are not the property of the asset management company and belong to its clients (including assets held by the asset management company as a nominee holder).

3. The assets referred to in paragraph 2 of this article shall be restituted through the transfer of the said assets by the liquidator to an account in another financial institution. For this purpose, the liquidator shall select a relevant financial institution.

4. If the aggregate assets on the client's omnibus accounts are not sufficient for full restitution, they shall be distributed among the clients in proportion to their rights.

5. When an asset management company is liquidated, the financial collateral taker shall have a preferential right to satisfy his/her/its claim secured by a financial collateral arrangement. When liquidating an asset management company, the other claims of creditors shall be satisfied from the liquidation estate in the following order:

a) the claims of the supervisory authority, all costs and remunerations related to the appointment of a liquidator and the liquidation process, as well as liabilities incurred by the asset management company after the cancellation of the licence or registration;

b) secured claims (except for claims secured by a financial collateral arrangement and by a tax lien and claims provided for by sub-paragraphs (e) and (f) of this paragraph);

c) budget arrears, including claims secured by a tax lien;

d) other claims against the asset management company (except for claims provided for by sub-paragraphs (e) and (f) of this paragraph);

e) the loan obligations of the asset management company to its direct and indirect holders;

f) other liabilities of the asset management company to its direct and indirect holders;

g) late claims.

6. If the available money is not sufficient to fully satisfy the claims referred to in paragraph 5 of this article, all respective claims shall be paid in proportion to the amount of the claim of each creditor of the rank in question.

7. The claim of each following rank shall be satisfied after the claims of a preceding rank are fully satisfied. The liquidator may satisfy the claims of the following rank if there are sufficient monetary assets to satisfy the claims of the preceding rank, and the satisfaction of the claims of the preceding rank is not prejudiced. After the claims of the creditors have been satisfied, the remaining assets (funds), if any, will be distributed to the partners/shareholders of the asset management company in proportion to their share.

8. The requirements of the Organic Law of Georgia on the National Bank of Georgia, this Law and other legislative and subordinate normative acts of Georgia shall apply to persons under liquidation until the completion of liquidation.

9. After the liquidation of an asset management company has been completed, the supervisory authority shall issue an individual administrative act on the completion of the liquidation of the asset management company, and shall submit it to the registration authority on the same day, for the purpose of registering the completion of the liquidation of the entity and removing it from the relevant register.

Chapter V – Specialised Depositaries

Article 33 – Persons authorised to perform the functions of a specialised depositary of an authorised investment fund

1. An authorised investment company and, for each of authorised common funds that it manages, an asset management company shall ensure that a single specialised depositary is appointed in accordance with this Law.

2. The appointment of a specialised depositary shall be evidenced by a written contract. Such contract shall, inter alia, regulate the flow of information deemed to be necessary to allow the specialised depositary to perform its functions in accordance with this Law.

3. A specialised depositary of an authorised investment fund shall be a commercial bank licensed in Georgia, or another legal person licensed under the legislation of Georgia which has the right to provide safekeeping service in relation to financial instruments. Additional requirements for specialised depositaries of authorised investment funds shall be determined by a legal act of the supervisory authority. These additional requirements may relate to the initial capital of a specialised depositary, the experience of the staff, the hardware and software, or any other matters deemed necessary by the supervisory authority in order to enforce this Law.

4. In addition to the persons referred to in paragraph 3 of this article, the National Bank of Georgia may exercise the function of a specialised depositary of an authorised investment fund.

5. The supervisory authority shall have the power to establish, by a legal act, rules for the minimum information to be contained in a contract between an asset management company/investment company and a specialised depositary.

Article 34 – Functions and responsibilities of specialised depositaries

1. A specialised depositary of an investment fund shall act in accordance with the legislation of Georgia and shall fulfil the obligations imposed on it under a specialised depositary agreement.

2. A specialised depositary of an investment fund is obliged to:

a) safekeep and maintain a record of the financial instruments of an investment fund, and keep records of the other assets of the investment fund that may not be held in custody by a specialised depositary of an investment fund in accordance with regulatory rules and applicable legislation;

b) ensure that the cash flows of the investment fund are properly monitored, and in particular ensure that all payments made by or on behalf of investors upon the subscription of units have been received, and that all the cash of the investment fund has been

booked in cash accounts opened at a commercial bank licensed in Georgia or a foreign state in the name of the investment fund, or in the name of the asset management company or the specialised depositary acting on behalf of the investment fund. Where cash accounts are opened in the name of the specialised depositary, no cash of the commercial bank at which the cash accounts have been opened and none of the own cash of the specialised depositary of the investment fund shall be booked on such accounts;

c) ensure that the issue, sale, redemption and cancellation of units in the investment fund are carried out in accordance with the regulatory legislation and the founding document and the prospectus of the investment fund;

d) ensure that the value of units in the investment fund are calculated in accordance with the regulatory legislation and the founding document and the prospectus of the investment fund;

e) carry out the instructions of an asset management company or an investment company, unless they conflict with the regulatory legislation, the founding document and the prospectus of the investment fund;

f) ensure that, in transactions involving the assets of the investment fund, any consideration is remitted to the investment fund within the usual time limits;

g) ensure that the income of the investment fund is applied in accordance with the regulatory legislation and the founding document and the prospectus of the investment fund;

h) report to the supervisory authority immediately after it becomes aware, based on available information, of any material breach by an asset management company or investment company of the requirements of this Law, a legal act issued on the basis thereof, or the founding document or prospectus of the investment fund;

i) perform other functions provided for by the legal acts of the supervisory authority and the depositary agreement.

3. A specialised depositary shall be liable to an investment fund and to the unit-holders for the loss by the depositary or a third party in the case provided for by Article 38 of this Law.

4. In the case of a loss of a financial instrument held in custody, a specialised depositary shall return a financial instrument of an identical type or the corresponding amount to the investment fund or the asset management company acting on behalf of the investment fund without undue delay. The specialised depositary shall not be liable if it can prove that the loss has arisen as a result of an external event beyond its reasonable control, the consequences of which would have been unavoidable despite all reasonable efforts to the contrary.

5. Except in the case provided for by paragraph 4 of this article, the specialised depositary shall be liable to the investment fund, and the unit-holders of the investment fund, for all other losses suffered by them as a result of the specialised depositary's negligent or intentional failure to properly fulfil its obligations pursuant to this Law.

6. The liability of the specialised depositary referred to in paragraphs 4 and 5 of this article shall not be affected by the delegation of the functions of a specialised depositary to a third party.

7. The liability referred to in paragraphs 4 and 5 of this article shall not be excluded or limited by agreement.

8. The supervisory authority shall have the power to issue a legal act establishing rules which clarify conditions which shall be met by the specialised depositary in order to fulfil its obligations under paragraph 2 of this article.

Article 35 – Duty of care and conflict of interests

1. A specialised depositary of an investment fund shall act in good faith, fairly, professionally, independently and solely in the interests of the investment fund and its unit-holders.

2. No person shall act as both asset management company and specialised depositary in relation to the same investment fund. No person shall act as both investment company and specialised depositary.

3. A specialised depositary shall not carry out activities with regard to an investment company, or an asset management company acting on behalf of an investment fund, that may create conflicts of interest between the investment fund, the unit-holders in the investment fund, the asset management company and itself, unless the specialised depositary has functionally and hierarchically separated the performance of its depositary tasks from its other potentially conflicting tasks, and the potential conflicts of interest

are properly managed, monitored and disclosed to the unit-holders of the investment fund.

4. The supervisory authority shall have the power to establish, by a legal act, conditions upon the fulfilment of which a specialised depositary will be deemed to meet the requirements set forth in this article.

Article 36 – Separation of the assets of an investment fund from the assets of a specialised depositary

1. A specialised depositary shall hold the assets of an investment fund separately from its own assets and the assets of other clients. The assets of the investment fund held in custody by a specialised depositary or a third party to which the custody function has been delegated shall not become subject of enforcement for the satisfaction of claims against the specialised depositary or the third party to which the custody function has been delegated, nor shall they be included in the liquidation estate thereof if insolvency or liquidation proceedings or other similar proceedings are initiated against them.

2. The assets held in custody by the specialised depositary shall not be reused by the specialised depositary, or by any third party to which the custody function has been delegated, for their own account, save for exceptional cases determined by a legal act of the supervisory authority. Reuse comprises any transaction of assets held in custody, including transferring, pledging, selling and lending.

Article 37 – Safekeeping and maintaining a record of the assets of an investment fund by a specialised depositary

1. A specialised depositary shall hold in custody all financial instruments owned by the investment fund that can be registered in a financial instruments account opened in the specialised depositary's books and all the financial instruments that can be physically delivered to the specialised depositary.

2. A specialised depositary shall ensure that all financial instruments that can be registered in a financial instruments account opened in the specialised depositary's books are registered in the specialised depositary's books in segregated accounts opened in the name of the investment fund (sub-fund), so that they can be clearly identified as belonging to the investment fund.

3. For other assets not covered by paragraph 1 and 2 of this article, the specialised depositary shall verify that the investment fund is the owner of the assets based on information or documents provided by the asset management company or the investment company and, where available, on external evidence. The specialised depositary shall maintain and keep up to date a record of those assets for which it is satisfied that the investment fund is the owner.

4. The specialised depositary shall provide the asset management company/investment company with a comprehensive inventory of all the assets of the investment fund with the frequency provided for by the written contract.

Article 38 – Delegation of functions by a specialised depositary

1. A specialised depositary shall not delegate to third parties its functions as provided for by this Law, except for those referred to in Article 37(1-3) of this Law.

2. A specialised depositary may delegate to a third party (parties) functions permitted under paragraph 1 of this article only where all the following conditions are met:

a) the tasks are not delegated with the intention of avoiding the requirements of this Law or legal acts issued on the basis thereof;

b) the specialised depositary can demonstrate that there is an objective reason for the delegation;

c) the specialised depositary has exercised all due skill, care and diligence in the selection and appointment of any third party to whom it intends to delegate parts of its tasks, and continues to exercise all due skill, care and diligence in the periodic review and ongoing monitoring of any third party to whom it has delegated parts of its tasks and of the arrangements of that third party in respect of the matters delegated to it;

d) the specialised depositary ensures that any third-party delegatee meets the following conditions at all times:

d.a) the third party has structures and expertise that are adequate and proportionate to the nature and complexity of the assets of the fund, which have been entrusted to it;

d.b) the third party is subject to effective prudential regulation, including minimum capital requirements, and supervision in the jurisdiction concerned, and to an external periodic audit to ensure that the financial instruments are held in its custody;

d.c) the third party segregates the assets of the clients of the specialised depositary from its own assets and from the assets of the specialised depositary in such a way that they can, at any time, be clearly identified as belonging to clients of a particular specialised depositary;

d.d) in the event of insolvency or liquidation proceedings or similar proceedings against the third party, the assets of the investment fund held by the third party in custody are unavailable for distribution among, or realisation for the benefit of, creditors of the third party;

e) the third party complies with the obligations and prohibitions provided for by Articles 33(2), 35 and 36 and Article 37(1-3) of this Law.

3. A third party to whom a specialised depository has delegated its functions in accordance with this article shall not sub-delegate those functions without compliance with the rules established by this Law for delegation. The sub-delegation of functions by a third party shall be subject to the requirement of Article 34(6) of this Law, taking into account respective particularities.

4. The provision of services by securities settlement systems as provided for by the Law of Georgia on Payment Systems and Payment Services, or the provision of similar services provided by foreign country securities settlement systems, shall not be considered to be a delegation by a specialised depositary of its functions.

5. The supervisory authority shall have the power to establish, by a legal act, additional conditions for the delegation of the functions of a specialised depositary.

Article 39 – Grounds for terminating the authority of a specialised depositary

1. The authority of a specialised depositary to provide depositary services to an investment fund shall cease upon:

a) the termination of the specialised depositary agreement, in accordance with the terms of the agreement or regulatory legislation;

b) the termination of the authority of the asset management company to manage the investment fund in accordance with Article 29(1) of this Law, unless the same person is appointed as a specialised depositary;

c) the cancellation of the licence of the specialised depositary;

d) the initiation of liquidation or insolvency proceedings against the specialised depositary;

e) a decision by the supervisory authority in accordance with paragraph 2 of this article.

2. The supervisory authority shall have the power to terminate the authority of the specialised depositary to provide services to one or more investment funds if the specialised depositary violates the requirements established by this Law, other laws regulating the financial sector, legal acts issued on the basis of said laws, or instructions, or manifestly endangers the interests of the investment fund or its investors.

3. If the authority of a specialised depositary is terminated on the basis of paragraph 1(a) or (b) of this article, it shall continue its activities until the appointment of a new specialised depositary. The depositary services provided by the specialised depositary until such appointment shall be remunerated in accordance with the terms of the depositary agreement in force before the termination of the authority.

4. The appointment of a new specialised depositary for the investment fund shall require the prior approval of the supervisory authority. If a new specialised depositary is not appointed within 1 month of any event referred to in paragraph 1 of this article, the supervisory authority shall have the power to cancel the authorisation of the investment fund.

Chapter VI – Process of Redemption

Article 40 – Redemption of units, return of contributions

1. Unit-holders in an open-end investment fund shall have the right to request the redemption of their units from the assets of the investment fund or its respective sub-fund. Redemption shall be made at the net asset value per unit, excluding the redemption fee (if any).

2. Unit-holders in an interval investment fund shall have the right to request the redemption of their units with the frequency determined by the founding document, but at least once a year. Redemption shall be made at the net asset value per unit, excluding the redemption fee (if any).

3. Unit-holders in a closed-end investment fund shall have the right to request the redemption of their units where the investment fund is liquidated in accordance with this Law, a legal act issued by the supervisory authority on the basis thereof, or the founding document of the investment fund.

4. In the cases referred to in paragraphs 1 and 2 of this article, an action taken by an investment fund or an asset management company acting on its behalf to ensure that the stock exchange value of the units of the investment fund does not significantly vary from their net asset value shall be regarded as equivalent to redemption.

5. The redemption of units shall be made in the form of monetary payment. Redemption may be made in a non-monetary form upon the liquidation of the investment fund, with the consent of the unit-holder, as well as in the cases determined by a legal act of the supervisory authority.

6. The frequency of the publication of the sale and redemption price of units shall be regulated by this Law and a legal act issued by the supervisory authority on the basis of this Law.

Article 41 – Suspension of the redemption of units

1. An open-end or interval investment fund established in Georgia and/or an asset management company acting on its behalf shall have the right to temporarily suspend the redemption of units in accordance with the procedure established by this article.

2. The process of redemption of units may be suspended in accordance with the rules established by the founding document of the investment fund and only in exceptional cases where existing circumstances require such suspension and such suspension is justified by the interests of unit-holders. The supervisory authority shall be immediately notified if the redemption of units of an authorised investment fund is temporarily suspended. Requests for the redemption of units shall not be granted after the decision suspending the redemption of units has been adopted.

3. The supervisory authority may request the temporary suspension of the redemption of units by the investment fund if it is necessary to protect the interests of the unit-holders or to ensure the stability of the financial sector.

4. The redemption of units in accordance with this article may be suspended for no longer than 3 months. The period of suspension of the redemption of units may be extended by up to 6 months with the consent of the supervisory authority.

5. The supervisory authority shall have the power to establish, by a legal act, conditions for the suspension of the redemption of units.

Article 42 – Resumption of the redemption of units

1. Where the redemption of units is suspended in accordance with the decision of an investment fund and/or an asset management company acting on its behalf, the redemption of units shall be resumed upon the expiry of the prescribed period or on the basis of a decision of the investment fund/asset management company. The supervisory authority shall be notified immediately of the resumption of the redemption of units.

2. The suspended redemption of units shall be resumed on the basis of the request of the supervisory authority in the case of the expiry of a prescribed period or by a decision of the supervisory authority.

Chapter VII – Mergers of Investment Funds

Article 43 – General provisions on the merger of investment funds

1. Investment funds may merge in one of the forms provided for by Article 2(1)(z_{15}) of this Law.

2. The merger of an authorised investment fund (funds) shall require the prior approval of the supervisory authority. The merger of registered investment funds shall require prior notice being given to the supervisory authority. The procedure for giving prior notice shall be determined by a legal act of the supervisory authority.

3. A registered investment fund may merge with an authorised investment fund if the receiving fund is an authorised investment fund.

4. A merger shall not take place between an open-end fund and a close-end fund. An interval fund shall not merge with an open-end or a closed-end fund. Investment funds with substantially different investment policies shall not be merged.

5. A common fund may merge with another common fund. A sub-fund of a common fund may merge with a sub-fund of the same investment fund, or another common fund or a sub-fund thereof.

6. An investment company may merge with another investment company. A sub-fund of an investment company may merge with a sub-fund of the same investment company, or another investment company or a sub-fund thereof.

7. The provisions regulating the reorganisation of entrepreneurial entities defined in the entrepreneurial legislation of Georgia shall apply to investment companies, unless otherwise provided for by this Law or a legal act issued on the basis thereof.

8. Investment funds shall not be de-merged (split, separated).

9. The supervisory authority shall have the power to establish, by a legal act, rules regulating the mergers of investment funds in accordance with requirements provided for by this chapter.

10. The rules for investment funds established by this chapter shall also apply to the sub-funds of an umbrella fund, taking into account respective particularities. In such a case, the sub-fund of the umbrella fund shall be deemed to be a stand-alone investment fund.

Article 44 – Approval by the supervisory authority for the merger of investment funds

1. The following information and documents shall be provided to the supervisory authority to obtain the approval of the merger of investment funds:

a) the draft terms of the proposed merger drawn up in accordance with Article 45 of this Law;

b) an updated version of the prospectus and the key investor information of the receiving investment fund, or, in the absence thereof, an updated investment strategy of the receiving investment fund;

c) a statement by each of the specialised depositaries of the merging and the receiving funds confirming that they have verified the compliance of information provided for by Article 45(1)(a), (f) and (g) of this Law with this Law and the founding documents of their respective investment funds;

d) information on the merger provided for by Article 46 of this Law that the merging and the receiving funds must provide to their respective unit-holders.

2. The supervisory authority shall have the power to require that the information to be provided to the unit-holders of the merging or receiving investment fund be modified or clarified.

3. Where the supervisory authority considers that the information or documents provided are not complete, it shall have the power to request the submission of additional information/documents within 10 working days of receiving the information/documents referred to in paragraph 1 of this article.

4. If investment funds merge in such a manner as to establish a new fund upon the merger or to necessitate amendments to the founding document or the prospectus of an investment fund, an application for the establishment of a new investment fund or an application for the approval of amendments to the founding document and/or the prospectus shall also be submitted to the supervisory authority, along with the information referred to in paragraph 1 of this article.

5. The supervisory authority shall make a decision approving or refusing the merger of investment funds within 20 working days of receiving a respective application.

Article 45 – Draft terms of merger

1. A merging investment fund(s) and a receiving investment fund shall draw up draft terms of the merger. The terms shall include at least the following information and documents:

a) an identification of the type of merger and of the investment funds involved;

b) the background to and rationale for the proposed merger;

c) the expected impact of the proposed merger on the unit-holders of both the merging and the receiving funds;

d) the criteria adopted for the valuation of the assets and, where applicable, the liabilities on the date of calculating the exchange ratio referred to under sub-paragraph (e) of this paragraph;

e) the calculation method of the exchange ratio of units of the merging fund into units of the receiving fund and the date of such calculation;

f) the planned effective date of merger;

g) the rules applicable to the transfer of assets and the exchange of units;

h) in the case of a merger as defined in Article 2(1)(z_{15}.b) or (z_{15}.c) of this Law, the founding document of the newly established receiving investment fund.

2. The draft terms of a merger may prescribe that monetary payments are made additionally to the unit-holders of the merging investment fund(s). The monetary payments shall be made together with the transfer of the units issued by the receiving investment fund to the unit-holders of the merging investment fund.

3. The specialised depositaries of the merging investment fund(s) and the receiving investment fund (if any) shall verify the compliance of the information referred to in paragraph 1(a), (f) and (g) of this article with this Law, and the founding documents of their respective investment funds involved in the merger.

Article 46 – Provision of information on merger to unit-holders

1. The merging investment fund(s) and a receiving investment fund shall provide appropriate and accurate information on the proposed merger to their respective unit-holders so as to enable them to make an informed decision on the impact of the proposed merger on their investment and on exercising the rights provided for by Articles 47 and 48 of this Law.

2. Information on the proposed merger shall be provided to unit-holders after the supervisory authority has approved the merger, and at least 30 days before the last date for requesting the redemption or conversion of units, in accordance with Article 48(2) of this Law. If all the investment funds involved in the merger are registered investment funds, the information on the merger shall

be provided to unit-holders after notifying the supervisory authority of the merger, in accordance with the procedure established by this paragraph.

3. Information to be provided to unit-holders shall include the following:

a) the background to and the rationale for the proposed merger;

b) the possible impact of the proposed merger on unit-holders, including but not limited to any material differences in respect of investment policy and strategy, costs, expected outcome, periodic reporting, possible dilution in performance, and, where relevant, a prominent warning to investors that their tax treatment may be changed following the merger;

c) any specific rights unit-holders have in relation to the proposed merger, including but not limited to the right to obtain additional information, the right to obtain a copy of the report of the independent auditor or the specialised depositary on request, and the right to request the redemption or the conversion of their units in accordance with Article 48(2) of this Law, as well as the deadlines for exercising these rights;

d) procedural issues related to the merger and the planned effective date of the merger;

e) a copy of the key investor information of the receiving investment fund;

f) information on the distribution of costs related to the merger if the payment of said costs might be imposed on the investment fund involved in the merger and/or its unit-holders.

4. Information on the progress and time limits of the merger of investment funds shall, upon request, be provided to each unit-holder of the investment funds involved in the merger and to the supervisory authority.

Article 47 – Decision on merger

1. A decision on the merger of an investment company shall be adopted by the general meeting of unit-holders, unless otherwise provided for by the founding document of the investment company. A decision on the merger of a common fund shall be adopted by the general meeting of unit-holders in the cases determined by the founding document of the common fund.

2. A decision on a merger shall require at least three quarters of the votes cast by unit-holders present at the general meeting of unit-holders, unless a lower threshold is established by the founding document of the investment fund.

Article 48 – Redemption upon merger

1. Unit-holders of the merging investment fund(s) and the receiving investment fund shall have the right to request, without any charge other than those retained to meet disinvestment costs, the redemption of their units or, where possible, the conversion of their units into units in another investment fund with similar investment policies, which is managed by the same asset management company, or by any other asset management company with which the asset management company is linked by common management or control, or by a qualifying direct or indirect holding.

2. The right under paragraph 1 of this article shall become effective from the moment that the unit-holders of the merging investment fund and those of the receiving investment fund have been informed of the proposed merger in accordance with Article 46 of this Law, and shall cease to exist 5 working days before the date of calculating the exchange ratio of the units of the merging investment fund into the units of the receiving investment fund.

3. Without prejudice to paragraph 1 of this article, the supervisory authority may require, or allow the temporary suspension of, the subscription or redemption of units of open-end or interval investment funds involved in the merger, provided that such suspension is justified for the protection of the unit-holders.

Article 49 – Completion of merger

1. A merger shall be deemed to have taken effect upon the occurrence of the events provided for by paragraphs 2 – 4 of this article.

2. A merger referred to in Article 2(1)(z_{15}.a) of this Law shall have the following consequences:

a) all the assets and liabilities of the merging investment fund are transferred to the receiving investment fund;

b) the unit-holders of the merging investment fund become unit-holders of the receiving investment fund and, where appropriate, they are entitled to a monetary payment in accordance with the terms of the merger;

c) the merging investment fund ceases to exist.

3. A merger provided for by Article 2(1)(z_{15}.b) of this Law shall have the following consequences:

a) all the assets and liabilities of the merging investment fund are transferred to the newly established receiving investment fund;

b) the unit-holders of the merging investment fund become unit-holders of the newly established receiving investment fund and, where appropriate, they are entitled to a monetary payment in accordance with the terms of the merger;

c) the merging investment fund ceases to exist.

4. A merger provided for by Article 2(1)(z_{15}.c) of this Law shall have the following consequences:

a) the net assets of the merging investment fund are transferred to the receiving investment fund;

b) the unit-holders of the merging investment fund become unit-holders of the receiving investment fund;

c) the merging investment fund continues to exist until the liabilities have been discharged.

5. In the cases provided for by paragraphs 2 and 3 of this article, the receiving investment fund shall become a legal successor of the merging investment fund(s).

6. A merger that has taken effect in accordance with this article shall not be invalidated.

Article 50 – Merger expenses

No legal, advisory or administrative costs associated with the preparation and the completion of the merger shall be charged to the merging or the receiving investment funds, or to any of their unit-holders, except in cases where the investment fund has not designated an asset management company.

Chapter VIII – Investments and Borrowing and Lending by Authorised Investment Funds

Article 51 – Requirements related to investments and borrowing and lending by authorised investment funds

1. This chapter establishes rules for making investments and borrowing and lending by authorised investment funds.

2. Unless otherwise provided for by Chapter IX of this Law, the rules determined by this chapter shall also apply to feeder funds established in the form of UCITS.

3. The rules established for investment funds on the basis of this chapter shall also apply to each sub-fund of an umbrella fund, taking into account respective particularities. In such a case, each sub-fund of the umbrella fund shall be regarded as a stand-alone investment fund.

Article 52 – Investments and loans permitted for authorised investment funds

1. Unless otherwise provided for by this Law or a legal act issued by the supervisory authority on the basis of this Law, the assets o an authorised investment fund may be invested in any type of asset or financial instrument in accordance with the founding document and the prospectus of the investment fund which shall specify:

a) the description (category) of assets/financial instruments in which the investment fund may invest;

b) the portion of the assets of the investment fund that may be invested in assets/financial instruments of respective description (category);

c) the description of transactions that are permitted;

d) the maximum exposure of an investment fund to a single person/group of persons;

e) the maximum concentration of ownership/holding or control over a person/group of persons;

f) requirements related to transactions with persons with whom the investment fund or the asset management company, or other investment funds managed by the same asset management company, have close links;

g) other risk management requirements.

2. Borrowing by an authorised investment fund shall be permitted only in accordance with the founding document and the prospectus of the investment fund which shall specify the maximum percentage of the value of the assets of an investment fund which may be borrowed.

3. Unless otherwise provided for by a legal act issued by the supervisory authority, an authorised investment fund shall not issue a loan, act as a guarantor, or assume an obligation in other equivalent form in favour of third parties. The said restriction shall not apply to investing by an investment fund in financial instruments or deposits, or to employing the efficient portfolio management technique as referred to in Article 55 of this Law.

4. A sub-fund of an authorised investment fund shall not invest in another sub-fund of the same investment fund, unless otherwis provided for by a legal act of the supervisory authority.

5. An authorised investment fund or an asset management company acting on its behalf shall establish a risk management process through which it will be able to monitor and evaluate at any time the risks assumed and their contribution to the risk profile of the entire portfolio of the authorised investment fund. An authorised investment fund or an asset management company acting on its behalf shall not be guided solely or directly by the credit rating assigned by the credit rating agency.

6. The supervisory authority shall have the power to impose, by a legal act, additional requirements on authorised investment funds relating to permitted investments, borrowing or lending powers, and the diversification of the investment portfolio.

Article 53 – Investments and transactions permitted for UCITS

1. UCITS may only invest in the following assets or financial instruments:

a) transferable securities and money market instruments admitted to trading on a stock exchange licensed in accordance with the Law of Georgia on Securities Market;

b) transferable securities and money market instruments admitted to trading on a stock exchange in a foreign country, provided that the stock exchange is included in the list determined by a legal act of the supervisory authority, operates regularly and is recognised and open to the public;

c) recently issued transferable securities, provided that the terms of issue include an undertaking that an application will be made for admission to trading on a stock exchange referred to in sub-paragraphs (a) or (b) of this paragraph, and such admission is secured within 1 year of issue;

d) the units of a UCITS or other investment fund equivalent to a UCITS, whether or not established in Georgia, provided that:

d.a) such other investment funds are authorised under laws which provide that they are subject to supervision considered by the supervisory authority to be equivalent to that laid down in this Law with respect to UCITS, and that cooperation between the supervisory bodies is sufficiently ensured;

d.b) the level of protection for unit-holders in the other investment funds is equivalent to that provided for unit-holders in UCITS under this Law, and in particular that the rules on assets segregation, borrowing, and lending are equivalent to the requirements of this Law;

d.c) the business of the other investment funds is reported in half-yearly and annual reports to enable an assessment of the assets and liabilities, and income and operations, over the reporting period;

d.d) no more than 10% of the assets of the UCITS or of the other investment fund equivalent to UCITS can, according to their founding documents, be invested in units of other UCITS or other investment funds;

e) deposits with commercial banks which are repayable on demand or have the right to be withdrawn, and maturing in no more than 12 months, provided that the commercial bank is licensed in Georgia or, if the commercial bank is licensed in a foreign country, it is subject to prudential rules considered by the supervisory authority as equivalent to those laid down in the legislation of Georgia;

f) derivative instruments (including equivalent cash-settled instruments), traded on a stock exchange referred to in sub-paragraph (a) or (b) of this paragraph or financial derivative instruments dealt in over-the-counter, provided that:

f.a) the underlying of the derivative consists of instruments covered by this paragraph, or financial indices, interest rates, foreign exchange rates or currencies, in which the UCITS may invest in accordance with its investment objectives as stated in its founding document;

f.b) the parties to over-the-counter derivatives are subject to prudential supervision and belong to the categories determined by a legal act of the supervisory authority;

f.c) the over-the-counter derivatives are subject to reliable and verifiable valuation on a daily basis and can be sold, liquidated or closed on the basis of a mutual offset agreement at any time, at their fair value, on the initiative of the UCITS;

g) money market instruments other than those admitted to trading on a stock exchange as referred to in sub-paragraph (a) or (b) of this paragraph, if the issue or the issuer of such instruments is itself regulated for the purpose of protecting investors and savings, provided that they are:

g.a) issued or guaranteed by a state body of Georgia, a body of an autonomous republic or a municipal body, a foreign country, or other person determined by a legal act of the supervisory authority;

g.b) issued by an undertaking any securities of which are admitted to trading on a stock exchange as referred to in sub-paragraph (a) or (b) of this paragraph;

g.c) issued or guaranteed by an undertaking subject to prudential supervision under the legislation of Georgia, or by an undertaking which is subject to prudential rules considered by the supervisory authority to be at least as stringent as those laid down in the legislation of Georgia;

g.d) issued by other undertakings belonging to the categories determined by a legal act of the supervisory authority, provided that investments in such instruments are subject to investor protection equivalent to that laid down in this sub-paragraph.

2. In addition to the assets and financial instruments referred to in paragraph 1 of this article, a UCITS may:

a) invest up to 10% of its assets in transferable securities or money market instruments not provided for by paragraph 1 of this article;

b) hold ancillary liquid assets.

3. A UCITS shall not acquire either precious metals or certificates representing them.

4. A UCITS shall ensure that its global exposure relating to derivative instruments does not exceed the total net value of its portfolio. The exposure is calculated taking into account the current value of the underlying assets, the counterparty risk, future market movements and the time available to liquidate the positions.

5. A UCITS established in the form of an investment company may acquire movable and immovable property and/or an intangible asset, provided that they are essential for the direct pursuit of its business.

6. The following instruments shall be considered as transferable securities in accordance with this article:

a) shares in companies and other securities equivalent to shares in companies (equity securities);

b) bonds and other debt securities;

c) any other transferable securities which carry the right to acquire any such transferable securities by subscription or exchange.

Article 54 – Diversification of an investment portfolio by a UCITS

1. A UCITS shall not invest more than 5% of its own assets in transferable securities or money market instruments issued by the same issuer. Deposits made with the same commercial bank shall not exceed 20% of the assets of a UCITS.

2. The risk exposure to a counterparty of a UCITS in an over-the-counter derivative transaction shall not exceed either 10% of the assets of the UCITS if the counterparty is a commercial bank referred to in Article 53(1)(e) of this Law, or 5% of the assets of the UCITS in other cases.

3. A UCITS shall not combine its investments in transferable securities and money market instruments, deposits and exposures arising from over-the-counter derivative transactions, where this would lead to investment of more than 20% of its assets in a single person.

4. Notwithstanding the requirements under paragraphs 1 and 3 of this article, UCITS may invest up to 100% of their assets in different transferable securities and money market instruments issued or guaranteed by the Government of Georgia, the body of an autonomous republic or a municipal body, a foreign country, or an international organisation to which Georgia belongs. In such a case, the unit-holders in UCITS shall have protection equivalent to that of unit-holders in UCITS complying with the requirements of paragraphs 1 and 3 of this article. Such a UCITS shall hold transferable securities from at least six different issues, but transferable securities from any single issue shall not account for more than 30% of its total assets.

5. A UCITS may acquire the units of UCITS referred to in Article 53(1)(d) of this Law or other investment funds equivalent to UCITS, provided that no more than 20% of its assets are invested in the units of a single UCITS. Investments made in the units of investment funds (other than UCITS) shall not exceed, in aggregate, 30% of the assets of the UCITS.

6. Notwithstanding the requirements under this article, the supervisory authority shall have the power to establish, by a legal act, detailed rules and determine conditions which shall be complied with by UCITS for the fulfilment of the diversification obligations provided for by this article.

Article 55 – Employment of an efficient portfolio management technique by a UCITS

1. A UCITS may employ techniques and instruments relating to transferable securities and money market instruments under the conditions and within the limits and conditions laid down in a legal act of the supervisory authority, provided that such techniques and instruments are used for the purpose of efficient portfolio management.

2. The operations provided for by this article shall not cause a UCITS to diverge from its investment objectives as laid down in the founding document and the prospectus of the UCITS.

Article 56 – Borrowing and lending by UCITS

1. A UCITS shall not borrow, except for acquiring foreign currency by means of a 'back-to-back' loan and for derogations provided for by paragraph 2 of this article.

2. A UCITS may borrow if any of the following conditions are met:

a) such borrowing is on a temporary basis and represents no more than 10% of the assets of the UCITS;

b) such borrowing is to enable the acquisition of immovable property essential for the direct pursuit of its business by the UCITS established in the form of an investment company, and represents no more than 10% of the assets of the UCITS.

3. Permitted borrowing as referred to in paragraph 2(a) and (b) of this article may not exceed 15% of the assets of the UCITS.

4. Without prejudice to Articles 53 and 55 of this Law, a UCITS shall not grant loans or act as a guarantor on behalf of third parties. This shall not prevent a UCITS from acquiring transferable securities, money market instruments or other financial instruments as referred to in Article 53(1)(d), (f) and (g) of this Law which are not fully paid.

Chapter IX – Structure of Master and Feeder UCITS

Article 57 – Master and feeder UCITS

1. This chapter establishes the structure and the rules of operation of master funds and feeder funds, provided that they are established in the form of UCITS, with the exception referred to in paragraph 5 of this article.

2. A feeder UCITS (for the purposes of this chapter – a feeder fund) is a UCITS, or a sub-fund thereof, which has been approved by the supervisory authority to invest at least 85% of its assets in the units of another UCITS as referred to in paragraph 5 of this article, or a sub-fund thereof (for the purposes of this chapter – a master fund).

3. A feeder fund may hold up to 15% of its assets in one or more of the following assets and or financial instruments:

a) ancillary liquid assets;

b) derivative instruments which may be used only for hedging purposes, in accordance with Article 53(1)(f) and (4) and Article 55 of this Law;

c) movable or immovable property and/or intangible assets which are essential for the direct pursuit of its business, provided that the feeder fund is an investment company.

4. A feeder fund shall calculate its global exposure related to derivative instruments by combining its own direct exposure under paragraph 3(b) of this article with either:

a) the actual exposure of the master fund to derivative instruments in proportion to the investment of the feeder fund in the master fund; or

b) the potential maximum global exposure of the master fund to derivative instruments provided for in the founding document of the master fund in proportion to the investment of the feeder fund in the master fund.

5. A master fund is a UCITS authorised in accordance with this Law, or another investment fund equivalent thereto, which meets the requirements established by Article 53(1)(d) of this Law, or a sub-fund of an UCITS or such investment fund, which:

a) has, amongst its unit-holders, at least one feeder fund;

b) is not itself a feeder fund;

c) does not hold units of a feeder fund.

Article 58 – Approval for the investment of a feeder fund in a master fund

1. Investment in a master fund which exceeds the limit established by Article 54(5) of this Law shall require prior approval by the

supervisory authority. For this purpose, a feeder fund and/or an asset management company acting on its behalf shall apply to the supervisory authority and submit the following information and documents:

a) the founding documents of the master fund and the feeder fund;

b) the prospectus and the key investor information of the master fund and the feeder fund;

c) the agreement between the master and the feeder funds or the internal conduct of business rules of the asset management company in accordance with Article 60(1) of this Law;

d) where applicable, the information to be provided to unit-holders in accordance with Article 59(1) of this Law;

e) if the master fund and the feeder fund have different specialised depositaries, the information-sharing agreement between their respective specialised depositaries in accordance with Article 61(1) of this Law;

f) if the master fund and the feeder fund have different auditors, the information-sharing agreement between their respective auditors in accordance with Article 61(3) of this Law.

2. Where a master fund is established outside Georgia, the feeder fund shall provide, along with the application for investment, an attestation by the foreign supervisory authority of the master fund that the master fund, or a sub-fund thereof, fulfils the requirements under Article 57(5)(b) and (c) of this Law.

3. The supervisory authority shall notify the applicant of a decision granting or refusing approval for investing in a master fund, as provided for by this article, within 15 working days of receiving the application.

4. The supervisory authority shall have the power to establish, by a legal act, a procedure for granting approval provided for by this article and additional requirements.

Article 59 – Provision of information by a feeder fund to its unit-holders

1. A feeder fund which pursues activities under this Law (including as a feeder fund of a different master fund), and is willing to invest in another master fund an amount which exceeds the limit established by Article 54(5) of this Law, shall provide the following documents and information to its unit-holders:

a) a statement that the supervisory authority approved the investment of the feeder fund in the units of such master fund;

b) the key investor information concerning the feeder and the master funds;

c) the date when the feeder fund is to start investing in the master fund or, if it has already invested therein, the date when its investment will exceed the limit established by Article 54(5) of this Law;

d) a statement that the unit-holders have the right to request within 30 days the redemption of their units without any charges other than those retained to cover disinvestment costs; that right shall become effective from the moment the feeder fund has provided the information referred to in this paragraph.

2. The information under paragraph 1 of this article shall be provided to unit-holders at least 30 days before the date referred to in sub-paragraph (c) of paragraph 1 of this article. The feeder fund shall not invest in the units of the given master fund in excess of the limit established by Article 54(5) of this Law before this period has elapsed.

Article 60 – General provisions for feeder and master funds

1. A master fund shall provide a feeder fund with all documents and information necessary for the feeder fund to meet the requirements established by this Law and a legal act of the supervisory authority. For this purpose, the feeder fund shall enter into an agreement with the master fund. Where both master and feeder funds are managed by the same asset management company, said agreement may be replaced by the internal conduct of business rules of the asset management company.

2. A feeder fund shall not invest in excess of the limit established by Article 54(5) of this Law in the units of a master fund until

the agreement referred to in paragraph 1 of this article has become effective. That agreement shall be made available, on request and free of charge, to all unit-holders.

3. Master and feeder funds shall take appropriate measures to coordinate the timing of their net asset value calculation and publication.

4. Without prejudice to Article 41 of this Law, if a master fund temporarily suspends the redemption or subscription of its units, whether on its own initiative or at the request of the supervisory authority, each of its feeder funds shall be entitled to suspend the redemption or subscription of its units within the same period of time as the master fund. In such a case, restrictions established by the same article shall not apply to the feeder fund.

5. If a master fund is liquidated, the feeder fund shall also be liquidated, except where the supervisory authority grants approval to the feeder fund to:

a) invest at least 85% of its assets in the units of another master fund;

b) amend its founding document in order to convert into an investment fund (UCITS) which is not a feeder fund.

6. If a master fund merges with another UCITS or, in the case of a master fund established in a foreign country, is divided into two or more investment funds, the feeder fund shall be liquidated, except where the supervisory authority grants approval to the feeder fund to:

a) continue to be a feeder fund of the master fund or another fund resulting from the merger or division of the master fund. Unless the supervisory authority has granted approval under this sub-paragraph, the master fund shall enable the feeder fund to redeem all units in the master fund before the merger or division of the master fund becomes effective;

b) invest at least 85% of its assets in another master fund not resulting from the merger or the division;

c) amend its founding document in order to convert into an investment fund (UCITS) which is not a feeder fund.

Article 61 – Specialised depositaries and auditors of feeder and master funds

1. If a feeder and a master fund have different specialised depositaries, those depositaries shall enter into an information-sharing agreement to ensure the fulfilment of their duties. The feeder fund shall not invest in the units of the master fund until such agreement has become effective.

2. Where they fulfil the duties provided for by this chapter, and a legal act issued by the supervisory authority on the basis thereof neither the specialised depositary of a master fund nor that of a feeder fund shall be deemed to be in breach of any contract or law that regulates the disclosure of confidential information or the protection of data.

3. The requirements and rules of paragraphs 1 and 2 of this article shall also apply to auditors of both a feeder fund and a master fund, taking into account respective particularities.

4. The specialised depositary of a master fund shall immediately inform the supervisory authority, the feeder fund or, where applicable, the asset management company and the specialised depositary of the feeder fund about any irregularities it detects with regard to the master fund which are deemed to have a negative impact on the feeder fund.

5. In its audit report, the auditor of a feeder fund shall take into account the audit report of the master fund. The auditor of the feeder fund shall report any irregularities revealed in the audit report of the master fund and on their impact on the feeder fund.

Article 62 – Obligations of a feeder fund

1. A feeder fund and/or an asset management company acting on its behalf shall monitor effectively the activities of the master fund, relying on information and documents received from the master fund or, where applicable, its asset management company, specialised depositary and auditor, unless there is reason to doubt the accuracy of said information or documents.

2. Where, in connection with an investment in the units of a master fund, a commission fee or any other monetary benefit is

received by a feeder fund, its management company, or any person acting on behalf of either the feeder fund or the management company of the feeder fund, the commission fee or other monetary benefit shall be paid into the assets of the feeder fund.

Article 63 – Obligations of a master fund

1. A master fund and/or an asset management company acting on its behalf shall immediately inform the supervisory authority of the identity of each feeder fund which invests in its units.

2. A master fund shall not charge any commission fees for the investment of a feeder fund in its units or the redemption thereof.

3. A master fund and/or an asset management company acting on its behalf shall ensure the timely availability of all information that is required in accordance with the applicable law and founding document, to a feeder fund and/or the asset management company acting on its behalf, and to the supervisory authority body, and the specialised depositary and auditor of the feeder fund.

Chapter X – Offering

Article 64 – Offering of units

1. An asset management company and/or an investment company which have/has not designated an asset management company shall ensure that all communications to investors for the purpose of offering units are clearly identifiable as such, and that they describe the risks and rewards of purchasing units in an equally prominent manner. Such communication shall be accurate, clear and not misleading. Any offering communication comprising an invitation to purchase the units of investment funds that contains specific information about an investment fund shall make no statement that contradicts or diminishes the significance of the information contained in the prospectus and key investor information.

2. The communication referred to in paragraph 1 of this article shall indicate that, if applicable, a prospectus exists and that the key investor information is available. In addition, it shall specify where, how and in which language said documents may be obtained or accessed by investors.

3. Unless otherwise provided for by a legal act of the supervisory authority, the communication under paragraph 1 of this article shall be made in Georgia in the Georgian language.

Chapter XI – Obligations Related to the Provision of Information to Investors

Article 65 – Obligation to publish a prospectus, key investor information and periodic reports

1. An investment company authorised/recognised under this Law, and an asset management company for each authorised/recognised common fund under its management, shall draw up and publish the following documents:

a) a prospectus;

b) key investor information;

c) an annual report for each financial year;

d) a half-yearly report covering the first 6 months of the financial year.

2. The persons referred to in paragraph 1 of this article shall provide investors, on request and free of charge, with the prospectus and annual/half-yearly reports. The prospectus may be provided in a durable medium or by means of a website. A paper copy of the prospectus shall be delivered to the investors on request and free of charge.

3. The annual and half-yearly reports shall be available to investors in the manner specified in the prospectus and in the key investor information. A paper copy of the annual and half-yearly reports shall be delivered to the investors on request and free of charge.

4. The supervisory authority shall have the power to establish, by a legal act, the rules governing the drawing up and publication of documents referred to in paragraph 1 of this article.

5. Unless otherwise provided for by a legal act of the supervisory authority, the documents referred to in paragraph 1 of this article shall be drawn up in the Georgian language.

Article 66 – Drawing up a prospectus of an authorised/recognised investment fund, and information to be included therein

1. A prospectus of an investment fund authorised/recognised under this Law shall contain information about the proposed investment and information necessary for investors to assess the risks attached to the investment proposed to them. The prospectus shall include a clear and easily understandable explanation of the risk profile of the investment fund.

2. Information included in a prospectus shall be accurate, clear and not misleading. The approval of the prospectus shall not be considered to be a recommendation or an opinion of the supervisory authority as to the accuracy of the content of the prospectus or the value of the investments described therein.

3. The prospectus of an authorised/recognised investment fund shall contain at least the following information:

a) the name, date of establishment and duration (if limited) of the investment fund and, where applicable, its asset management company;

b) in the case of an umbrella fund, the indication of the relevant sub-fund;

c) a statement of the place where the founding document, if it is not annexed, and periodic reports may be obtained;

d) brief indications relevant to unit-holders of the tax system applicable to the investment fund;

e) the names of the persons responsible for auditing the accounting information referred to in Article 68(6) of this Law;

f) the names and positions of the members of the management body of the asset management company and/or investment company;

g) the capital of the asset management company and/or investment company;

h) the details of the types and main characteristics of the units of the investment fund and, where applicable, an indication of stock exchanges where the units are admitted to trading;

i) conditions and procedures for the issue and sale of units;

j) conditions and procedures for the redemption of units, and circumstances in which the redemption of units may be suspended; in the case of umbrella funds, conditions and procedures as to how a unit-holder may pass from one sub-fund into another;

k) rules for determining and applying the income of the investment fund;

l) a description of the investment objectives and the investment policy of the investment fund (including whether it is specialised in the geographical or industrial sectors), and any limitations on that investment policy and an indication of any techniques and instruments or borrowing powers which may be used in the management of the investment fund;

m) rules for the valuation of the assets of the investment fund;

n) a determination of the issue/sale and the redemption price of units, including information concerning commission fees and charges relating thereto;

o) information concerning the manner, amount and calculation of remuneration payable by the investment fund to the asset

management company, the specialised depositary or third parties, and the reimbursement of costs by the investment fund to the asset management company, to the specialised depositary or to third parties;

p) the specialised depositary and the persons to whom safekeeping functions have been delegated;

q) where applicable, the past performance of the investment fund;

r) a description of the profile of the typical investor for whom the investment fund is designated;

s) possible commission fees charges (other than those referred to in sub-paragraph (n) of this paragraph), distinguishing between those to be paid by a unit-holder and those to be paid out of the assets of the investment fund;

t) any other information provided for by a legal act issued by the supervisory authority.

4. The information referred to in paragraph 3 of this article need not be included in the prospectus if that information already appears in the founding document of the fund annexed to the prospectus.

5. The founding document of an investment fund shall form an integral part of its prospectus and shall be annexed thereto. The founding document need not be annexed to the prospectus, provided that the investor is informed that, on request, he/she will be sent those documents or be apprised of the place where he/she may consult them.

6. The essential elements of the prospectus shall be kept up to date. Amendments to the prospectus of an authorised investment fund shall be made in accordance with the procedure established by Article 10(6) of this Law.

Article 67 – Key investor information

1. An investment company authorised or recognised under this Law, and an asset management company for each authorised or recognised common fund under its management, shall draw up a document containing key investor information. The document shall include appropriate information about the essential characteristics of the investment fund concerned, which is to be provided to investors so that they are reasonably able to understand the nature and the risks of the investment product that is being offered to them, and to take investment decisions on an informed basis.

2. Key investor information shall be written in a concise manner and in non-technical language. It shall be drawn up in a common format, allowing for comparison, and shall be presented in a way that is likely to be understood by retail investors.

3. Key investor information shall be accurate and not misleading. It shall be consistent with the relevant parts of the prospectus. It shall include, without any reference to other documents, the following information:

a) the name of the investment fund and of the respective supervisory authority;

b) a short description of the investment objectives and the investment policy of the investment fund;

c) the past performance of the investment fund or, where relevant, performance scenarios;

d) commission fees and charges;

e) the risk and reward profile of the investment, including appropriate guidance and warnings in relation to the risks associated with investments in the relevant investment fund;

f) information on where and how to obtain additional information relating to the proposed investment, including where and how the prospectus and the annual and half-yearly reports can be obtained on request and free of charge at any time, and the language in which such information is available.

4. Key investor information shall constitute pre-contractual information. No person shall incur civil liability solely on the basis of the key investor information, including any translation thereof, unless it is inaccurate, inconsistent with the relevant parts of the prospectus, or misleading. Key investor information shall contain a clear warning in this respect.

5. The persons referred to in paragraph 1 of this article, who are selling the units of authorised or recognised investment funds to investors either directly or indirectly through other persons, shall in good time before the subscription of units provide the

investors with key investor information.

6. The persons referred to in paragraph 1 of this article, who are not selling the units of authorised or recognised investment funds to investors either directly or indirectly through other persons, shall provide key investor information on request to securities market intermediaries or other persons who are selling the units or advising investors on potential investment in the units of the investment fund. Said intermediaries shall provide key investor information to their clients or potential clients in good time before the subscription of units.

7. The persons referred to in paragraph 1 of this article may provide key investor information to investors in a durable medium or by means of a website. A paper copy of the key investor information shall be delivered to the investors on request and free of charge.

8. The essential elements ofkey investor information shall be kept up to date. Any amendment to key investor information shall require the prior approval of the supervisory authority.

Article 68 – Obligation to draw up and publish annual and half-yearly reports

1. An investment company authorised or recognised under this Law, and an asset management company for each authorised or recognised common fund under its management, shall draw up and publish annual and half-yearly reports.

2. An annual report shall be drawn up and published after the end of the calendar year, but no later than 15 May. If a financial year of an investment fund differs from a calendar year, the supervisory authority may determine a different time limit for drawing up and publishing an annual report of an investment fund, but not later than 4 months after the end of the financial year of the investment fund concerned. A half-yearly report shall be drawn up and published before 15 August of the current calendar year. If a financial year of an investment fund differs from a calendar year, the supervisory authority may determine a different time limit for drawing up and publishing a half-yearly report of an investment fund, but not later than 2 months after the end of the respective period.

3. An annual report shall include a balance sheet or a statement of assets and liabilities, a detailed income and expenditure account for the financial year, a report on the activities of the financial year, and other information provided for by a legal act of the supervisory authority, as well as any significant information which will enable investors to make an informed judgment on the development of the activities of the investment fund and its results.

4. In addition to the information provided for by paragraph 3 of this article, an annual report shall include:

a) the total amount of remuneration for the financial year, split into fixed and variable remuneration paid by the asset management company and by the investment company to its staff, and the number of beneficiaries, and, where relevant, any amount paid directly by the investment fund itself, including any performance fee;

b) the aggregate amount of remuneration broken down by categories of employees as referred to in Article 28(2) of this Law;

c) a description of how the remuneration and the benefits have been calculated;

d) any material changes to the remuneration policy as referred to in Article 28(1) of this Law.

5. The accounting information given in the annual and the half-yearly report shall be prepared in accordance with the requirements established by the Law of Georgia on Accounting, Reporting and Audit, or the accounting standards in force in the country where the investment fund is established.

6. The accounting information given in the annual report shall be audited in accordance with the procedure established by the Law of Georgia on Accounting, Reporting and Audit. In the case of recognised investment funds, the supervisory authority may permit the asset management company/investment company to have the annual reports of such investment funds audited in accordance with the rules in force in the country where the investment fund in established, provided that those rules are consistent with international auditing standards.

Article 69 – Obligation to make public the issue, sale and redemption price of the units of an investment fund

An investment company authorised/recognised under this Law, or the asset management company of an authorised/recognised common fund, shall shall make public in an appropriate manner the issue, sale and redemption price of its units each time it issues, sells or redeems them. In the case of open-end investment funds, such information shall be published at least once every two weeks. The supervisory authority may permit the investment fund to reduce the frequency to once a month on condition that this does not prejudice the interests of the unit-holders.

Article 70 – Obligations of an auditor of an authorised investment fund

1. Each authorised investment fund shall have an independent auditor who meets the requirements of the Law of Georgia on Accounting, Reporting and Audit.

2. An auditor of a common fund shall be appointed by its asset management company. An auditor of an investment company shall be appointed by the general meeting of unit-holders of the investment company, unless this right is conferred under the founding document on the supervisory board of the investment company.

3. The auditor of an authorised investment fund, or of an undertaking whose activities are related to the activities of the authorised investment fund, shall report promptly to the supervisory authority any fact or decision concerning the authorised investment fund or that undertaking, of which he/she has become aware in the course of carrying out his/her tasks and which might bring about any of the following:

a) a material breach of the terms of authorisation, licensing or registration by the authorised investment fund or that undertaking, or of the requirements of the legislation regulating their activities;

b) the impairment of the continuous functioning of the authorised investment fund or that undertaking;

c) a refusal to certify the accounts or the expression of reservations.

4. The obligation under paragraph 3 of this article shall also apply to an auditor if he/she becomes aware of the relevant information in the course of carrying out his/her tasks in an undertaking having close links resulting from a control relationship with the person referred to in paragraph 3 of this article.

5. The supervisory authority may require an auditor to provide it with any information in relation to the audit of the activities of an investment fund which the supervisory authority needs for the exercise of its powers or the protection of the interests of unit-holders. The auditor shall comply with this requirement without delay.

6. No duty to which the auditor is subject shall be regarded as contravened, and no liability to the investment fund, or its unit-holders, creditors or other interested parties, shall attach to the auditor by reason of his/her compliance with any obligation imposed on him/her by or under this Law.

7. The supervisory authority may require an asset management company, or an investment company which has not designated an asset management company, to terminate the agreement with the auditor of an investment fund if the auditor violates the requirements established by this Law, other laws regulating the financial sector, the Law of Georgia on Accounting, Reporting and Audit, or legal acts issued on the basis thereof.

Chapter XII – Valuation of Authorised Investment Funds

Article 71 – Requirements for the valuation of the assets and units of authorised investment funds

1. Asset management companies shall ensure that, for each authorised investment fund they manage, appropriate and consistent procedures are established so that a proper and independent valuation of the assets of an investment fund can be performed in accordance with the legislation of Georgia and the founding document.

2. The founding document of an investment fund shall lay down the rules applicable to the valuation of assets and the calculation of the net asset value per unit of the investment fund.

3. Asset management companies shall ensure that the net asset value per unit of each investment fund/sub-fund is calculated and disclosed to the unit-holders in accordance with the legislation of Georgia and the founding document of the investment fund.

4. The valuation procedures used shall ensure that the assets are valued and the net asset value per unit is calculated with the frequency determined by Article 11(5) of this Law.

5. Unit-holders shall be informed of the results of the valuations and the calculations of the net asset value per unit in accordance with the procedure established by the founding document.

6. Asset management companies shall ensure that the valuation function is either performed by:

a) the asset management company itself, provided that the valuation is functionally independent from the portfolio management, and the remuneration policy and other measures ensure that conflicts of interests are managed and that undue influence on employees is prevented; or

b) an external valuer, being a legal or natural person independent from the investment fund, the asset management company, or any other persons with close links to the investment fund or the asset management company.

7. Asset management companies shall notify the supervisory authority in advance of the appointment of an external valuer. If the external valuer does not comply with the requirements provided for by paragraph 8 of this article, or by a legal act issued by the supervisory authority on the basis of this Law, the supervisory authority may require that another external valuer be appointed instead.

8. An external valuer shall be a person who has appropriate qualifications and sufficient knowledge and experience to evaluate the assets of the investment fund.

9. An external valuer shall not delegate the valuation function to a third party.

10. Asset management companies shall be responsible for the proper valuation of the assets of investment funds, the calculation of the net asset value, and the publication of that net asset value. The liability of the asset management company towards the investment fund and its investors shall not be affected by the fact that the asset management company has appointed an external valuer.

11. An external valuer shall be liable to an asset management company for any losses suffered by the asset management company as a result of the external valuer's negligence or intentional failure to perform his/her/its tasks.

12. The rules established by this article for asset management companies shall also apply to authorised investment companies which have not designated an asset management company.

13. The supervisory authority shall have the power to establish, by a legal act, additional rules for the valuation of the assets and units of authorised investment funds.

Chapter XIII – Liquidation of Investment Funds

Article 72 – Liquidation of an investment fund

1. The cancellation by the supervisory authority of the authorisation or registration of an investment fund shall serve as a basis for the liquidation of the investment fund, except in the case determined by Article 14(5) of this Law. The expiration of the duration of the sub-fund of an umbrella fund shall also serve as a basis for the liquidation of such sub-fund, provided that, according to the founding document, the duration of the sub-fund is less than the duration of the umbrella fund.

2. Upon the cancellation of the authorisation or registration of an investment fund on the basis of Article 80(a) and (b) of this Law, the liquidator of an investment fund shall be an asset management company or, in the case of an investment company which has not designated an asset management company, a person appointed by the investment company.

3. Where the authorisation or registration of an investment fund is cancelled on the basis of Article 80(c-k) of this Law, the liquidator of the investment fund shall be appointed by the supervisory authority.

4. If an asset management company or an investment company fails to submit a liquidation plan to the supervisory authority in accordance with Article 73(1) and (2) of this Law, or the supervisory authority refuses to approve the plan, a liquidator of the investment fund shall be appointed by the supervisory authority.

5. The supervisory authority may appoint a liquidator of an investment fund if the requirements of the legislation of Georgia and/or the terms of the liquidation plan approved by the supervisory authority are violated in the liquidation process.

6. Where a liquidator is appointed by the supervisory authority, the full authority of all the bodies of the asset management company and the investment fund with respect to the investment fund shall be conferred on the liquidator. A liquidator shall be accountable to the supervisory authority.

7. Upon the commencement of the liquidation process in accordance with this chapter, ongoing enforcement proceedings against the investment fund or the sub-fund thereof shall be terminated.

8. The insolvency and liquidation procedures determined by the Law of Georgia on Entrepreneurs and the Law of Georgia on Insolvency Proceedings shall not apply to investment funds. The supervisory authority shall have the power to establish, by a legal act, rules for the liquidation of investment funds in accordance with this Law.

9. Before the completion of liquidation, an investment fund under liquidation shall be subject to the requirements of the Organic Law of Georgia on the National Bank of Georgia, this Law, and other legislative and subordinate normative acts of Georgia.

10. The supervisory authority shall submit for registration a decision commencing the liquidation of an investment company to the registration authority on the same day.

11. The rules under this chapter for the liquidation of investment funds shall also apply to the liquidation of the sub-funds of an umbrella fund, taking into account respective particularities.

Article 73 – Approval of a liquidation plan

1. An investment fund or an asset management company acting on its behalf shall submit to the supervisory authority for approval a liquidation plan of the investment fund when submitting to the supervisory authority an application requesting the cancellation of authorisation or registration in accordance with Article 80(b) of this Law. Such liquidation plan shall set forth the steps to be taken in the course of liquidation, taking into account the best interests of the unit-holders, and shall include at least the following data and documents:

a) the decision on liquidation;

b) reasons for the need to liquidate the investment fund, and an assessment as to whether the liquidation of the fund is in the interests of the unit-holders;

c) the maximum amount of expenses relating to liquidation;

d) the names, addresses, and other information necessary for the identification of the unit-holders;

e) the number, class and value of the units held by each unit-holder;

f) the assets of the investment fund;

g) the amount of indebtedness to creditors of the investment fund;

h) the estimated duration of the liquidation process, and how information will be communicated to the unit-holders during the process;

i) any other information provided for by a legal act of the supervisory authority.

2. An investment fund and/or an asset management company acting on its behalf shall, no later than 1 month prior to the expiration of the duration of the investment fund, submit to the supervisory authority a liquidation plan which shall contain information provided for by paragraph 1(c-i) of this article.

3. In order to verify the document/information submitted, the supervisory authority may request the submission of additional data or documents, the carrying out of assessments or special audits, and may conduct on-site inspections, and request written or oral explanations from the members of the management body of an asset management company or an investment company, and from audit firms, their representatives and third parties, concerning the documents/information submitted.

4. If a liquidator of an investment fund is a person appointed by the supervisory authority in accordance with Article 72(3-5) of this Law, the said person shall submit a liquidation plan to the supervisory authority. A liquidation plan thus submitted shall include at least the data and documents referred to in paragraph 1(c-i) of this article.

5. The supervisory authority shall make a decision as to whether to approve the liquidation plan within 1 month of receiving the application.

6. The supervisory authority may refuse to approve the liquidation plan if one of the following circumstances is present:

a) the data indicated in the application for the approval of a liquidation plan and the documents submitted along with this application do not reflect fully, clearly and unambiguously all the circumstances of the liquidation of the investment fund;

b) the liquidation of the investment fund does not comply with the requirements of this Law.

Article 74 – Duration of liquidation proceedings

1. The liquidation of an investment fund shall commence upon the cancellation of the authorisation/registration of the investment fund, and shall be completed upon the issuance of an individual administrative act on the completion of liquidation by the supervisory authority in accordance with Article 77(2) of this Law.

2. The liquidation of an open-end or interval investment fund shall be completed within 6 months of commencing the liquidation proceedings. The liquidation of a closed-end investment fund shall be completed within 12 months of commencing the liquidation proceedings.

3. Upon the request of a liquidator, the supervisory authority may extend the time limit set for the liquidation of an investment fund only once, by up to the period referred to in paragraph 2 of this article, provided that this is required for the completion of the liquidation proceedings and for the protection of the interests of the unit-holders.

Article 75 – Conduct of liquidation proceedings

1. In no case shall an investment fund and/or an asset management company acting on its behalf subscribe or redeem the units after a decision on the liquidation of an investment fund has been made, or after the duration of the investment fund has expired. The same rule shall apply where the supervisory authority cancels the authorisation or registration of an investment fund on any of the grounds provided for by Article 80(c-k) of this Law. During liquidation proceedings, the units shall only be redeemed in accordance with the liquidation plan approved by the supervisory authority and the requirements of this Law.

2. A liquidator may, in accordance with a liquidation plan and the founding document of an investment fund, perform actions that are necessary for the liquidation of the investment fund, the disposal of its assets, and the satisfaction of the claims of creditors. When performing its functions, a liquidator shall take into account the interests of the unit-holders of an investment fund.

3. The provisions of Article 31(3), (4) and (6-8) of this Law shall apply to the liquidation of investment funds, taking into account the particularities of this chapter.

Article 76 – Distribution of assets

1. A liquidator shall distribute the assets of an investment fund between the creditors and the unit-holders of the investment fund in accordance with this article. The unit-holders of the investment fund shall be remunerated according to the net asset value of their units, after the claims of creditors referred to in paragraph 2 of this article have been satisfied. No redemption fee shall be charged to unit-holders.

2. The financial collateral taker shall have a preferential right to satisfy his/her/its claim secured by a financial collateral arrangement. The other liabilities of an investment fund shall be satisfied in the following order:

a) the claims of the supervisory authority, all costs and remunerations related to the appointment of a liquidator and the liquidation process, as well as liabilities incurred by the investment fund after the cancellation of the authorisation or registration;

b) secured claims (except for claims secured by a financial collateral arrangement and by a tax lien and claims provided for by sub-paragraphs (e) and (f) of this paragraph);

c) budget arrears, including claims secured by a tax lien;

d) other claims against the investment fund (except for claims provided for by sub-paragraphs (e) and (f) of this paragraph);

e) the loan obligations of the investment fund to its direct and indirect holders;

f) other liabilities of the investment fund to its direct and indirect holders;

g) late claims of creditors.

3. If the available assets are not sufficient to fully satisfy the claims referred to in paragraph 2 of this article, all respective claims shall be fully paid in proportion to the amount of the claim of each creditor of the rank in question.

4. The claim of each following rank shall be satisfied after the claims of a preceding rank are fully satisfied. The liquidator may satisfy the claims of the following rank if there are sufficient assets to satisfy the claims of the preceding rank and the satisfaction of the claims of the preceding rank is not prejudiced.

Article 77 – Completion of liquidation proceedings and submission of a liquidation report

1. A liquidator shall submit to the supervisory authority a final balance sheet and a report on his/her/its activities within 1 month after all the claims against the investment fund have been satisfied and/or all the assets have been sold.

2. The supervisory authority shall issue an individual administrative act on the completion of the liquidation of an investment fund after receiving a report referred to in paragraph 1 of this article.

3. The supervisory authority shall submit the issued individual administrative act on the completion of the liquidation of an investment company to the registration authority on the same day, for the purpose of registering the completion of the liquidation of the investment company and removing it from the relevant register.

Chapter XIV – Regulation and Supervision of Investment Funds and Asset Management Companies

Article 78 – Powers of the supervisory authority

1. In accordance with the Organic Law of Georgia on the National Bank of Georgia, this Law, and other legislative and subordinate normative acts of Georgia, within the scope of its powers, the supervisory authority shall have the right to:

a) request and receive documents/information (including confidential) from any person;

b) conduct on-site inspections of investment funds and asset management companies;

c) request the cessation of certain actions if said actions contravene the legislation of Georgia;

d) suspend the right of signature of a member of the management body of an asset management company or an investment company and request his/her temporary removal or dismissal;

e) appoint a temporary administrator in investment funds or asset management companies in accordance with Article 79 of this Law;

f) impose sanctions on a person;

g) make a public statement which identifies the person responsible and the nature of the infringement;

h) authorise, register or recognise investment funds and cancel the authorisation, registration or recognition thereof;

i) license, register or recognise asset management companies and cancel the licence, registration or recognition thereof;

j) issue mandatory written instructions;

k) issue legal acts;

l) exercise other powers conferred under the legislation of Georgia.

2. The supervisory authority shall have the power to establish, on the basis of a legal act, rules for the exercise of the powers conferred on it under this chapter.

Article 79 – Appointment of a temporary administrator by the supervisory authority

1. The supervisory authority may, taking into account the principle of proportionality, appoint a temporary administrator in a licensed asset management company, a branch of a recognised asset management company, or an authorised investment company, if the instructions of the supervisory authority are not complied with, and/or there is a significant violation of the requirements of the legislation Georgia, and/or a person cannot temporarily fulfil investment-related functions. The temporary administrator may either work with the members of the management body of an asset management company/investment company or may replace them.

2. The supervisory authority shall specify the powers of a temporary administrator at the time of his/her appointment. In the case of asset management companies or investment companies, the powers of a temporary administrator may include some or all of the powers of the management body of the asset management company/investment company.

3. The supervisory authority may remove a temporary administrator at any time and for any reason, or vary the terms of his/her appointment. A temporary administrator shall be accountable to the supervisory authority.

4. The powers of a temporary administrator shall be terminated:

a) upon the expiration of his/her appointment;

b) on the basis of a decision of the supervisory authority;

c) in the case of the cancellation of the licence/recognition of the respective asset management company or the authorisation of the respective investment fund.

Article 80 – Cancellation of the authorisation, registration or recognition of an investment fund by the supervisory authority

The supervisory authority may cancel the authorisation, registration or recognition of an investment fund in one or more of the following circumstances:

a) the duration of the investment fund has expired in accordance with the founding document thereof;

b) the investment fund or the asset management company acting on its behalf has submitted to the supervisory authority an application requesting the cancellation of the authorisation, registration or recognition of the investment fund in accordance with the founding document thereof and the legislation of Georgia;

c) the investment fund or the asset management company acting on its behalf has obtained the authorisation, registration or recognition of the investment fund by making false statements or by any other irregular means;

d) the investment fund no longer fulfils the conditions under which the authorisation, registration or recognition was granted;

e) the investment fund or the asset management company acting on its behalf has repeatedly or seriously violated the requirement(s) established by this Law, other laws regulating the financial sector and legal acts issued on the basis of said laws, or instructions;

f) the investment fund does not make use of the authorisation, registration or recognition within 12 months, or has ceased activities more than 6 months previously;

g) the authority of the asset management company or the specialised depositary has been terminated and no appropriate replacement has been appointed in accordance with this Law;

h) the investment fund has become insolvent;

i) the court has adopted a decision depriving the investment fund of the right to carry out activities;

j) the supervisory authority has made a decision on the liquidation of the investment fund;

k) other cases provided for by the legislation of Georgia.

Article 81 – Cancellation of the licence, registration or recognition of an asset management company by the supervisory authority

The supervisory authority may cancel the licence, registration or recognition of an asset management company in one or more of the following circumstances:

a) the asset management company has submitted to the supervisory authority an application requesting the cancellation of its licence, registration or recognition;

b) the asset management company has obtained the licence, registration or recognition by making false statements or by any other irregular means;

c) the asset management company no longer fulfils the conditions under which the licence, registration or recognition was granted;

d) the asset management company has repeatedly or seriously violated the requirement(s) established by this Law, other laws regulating the financial sector and legal acts issued on the basis of said laws, or instructions;

e) the asset management company does not make use of the licence, registration or recognition within 12 months, or has ceased activities more than 6 months previously;

f) the court has adopted a decision depriving the asset management company of the right to carry out activities;

g) the asset management company has become insolvent;

h) the supervisory authority has made a decision on the liquidation of the asset management company;

i) other cases provided for by the legislation of Georgia;

Article 82 – Powers of the supervisory authority to impose sanctions

1. The supervisory authority may, for violations of the Organic Law of Georgia on the National Bank of Georgia, this Law, and other legislative and subordinate normative acts of Georgia, or the written instructions of the supervisory authority, impose a sanction (a monetary fine) on a person concerned (including a person employed in the organisation) in the amount and in accordance with the procedure established by a legal act of the supervisory authority.

2. The sanction referred to in paragraph 1 of this article shall be proportional and consistent with the seriousness and severity of the violation and/or damage inflicted on, or possible risks posed to, the assets of an investment fund, and shall take into account the impact of the violation on the interests of investors.

Chapter XV – Authorisation Fee

Article 83 – Amount of authorisation fee and payment procedure

1. Investment funds shall be authorised by the supervisory authority.

2. The authorisation fee for an investment fund shall be GEL 5 000 (five thousand).

3. An authorisation fee shall be paid in a cash or non-cash form.

4. Non-cash payments shall be made in accordance with existing procedures.

5. Cash payments shall be made in national currency in banks, followed by the issuance of a receipt of the prescribed form.

6. An authorisation fee shall be transferred to the State Budget in accordance with the procedure established by the legislation of Georgia.

7. Where authorisation is refused in accordance with the procedure established by this Law, the authorisation fee shall not be refundable.

Chapter XVI – Transitional and Final Provisions

Article 84 – Regulation of existing investment funds

Persons carrying out the activities of an investment fund or an asset management company at the time of the entry into force of this Law shall, within 12 months of the enactment of this Law, apply to the supervisory authority to ensure the compliance of their activities with this Law. After applying to the supervisory authority, a person shall have the right to continue carrying out activities provided for by this article until the relevant individual administrative act of the supervisory authority enters into force.

Article 85 – Company name of persons registered before the entry into force of this Law

A person registered in the Registry of Entrepreneurs and Non-entrepreneurial (Non-commercial) Legal Persons in accordance with the Law of Georgia on Entrepreneurs shall have the right to use the terms referred to in Article 4(5) or Article 19(4) of this Law in their company name if the person has registered this company name before this Law enters into force.

Article 86 – Normative acts to be issued

The supervisory authority shall ensure that the following legal acts are issued within 2 months:

a) the procedure for authorising, registering and recognising investment funds;

b) the procedure for licensing, registering or recognising asset management companies;

c) the rules of operation of specialised depositaries;

d) the procedure for drawing up prospectuses and key investor information;

e) the rules of operation of undertakings for collective investment in transferable securities (UCITS);

f) the procedure for notifying the supervisory authority of a private offering by a foreign investment fund.

Article 87 – Repealed normative act

The Law of Georgia on Investment Funds of 24 July 2013 shall be repealed (Legislative Herald of Georgia (www.matsne.gov.ge), 16.8.2013, registration code: 240080000.05.001.017035).

Article 88 – Entry into force of the Law

1. This Law, except for Articles 1-85 and Article 87, shall enter into force upon its promulgation.

2. Articles 1-85 and Article 87 of this Law shall enter into force on the 90th day from its promulgation.

President of Georgia **Salome Zourabichvili**

Tbilisi

14 July 2020

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