

**Republic of Armenia
Central Bank Board
Decision No. 119 N of May 02, 2011**

ON APPROVING REGULATION 10/02

**PRUDENTIAL STANDARDS ON THE ACTIVITIES OF THE INVESTMENT FUND MANAGER,
THEIR THRESHOLDS (INCLUDING THE MINIMUM AMOUNTS OF THE MANDATORY
HOLDINGS OF THE MANAGER IN EACH INVESTMENT FUND UNDER THEIR
MANAGEMENT), MINIMUM AMOUNTS OF THE VIOLATIONS OF PRUDENTIAL
STANDARDS LEADING TO THE REVOCATION OF LICENCE (PERMISSION) OF THE
INVESTMENT FUND MANAGER**

*This Regulation incorporates amendments by the
Central Bank of the Republic of Armenia Board Decisions*

*No. 3 N of 10.01.2012, No. 105N of 16.04.2013,
No. 330 N of 27.12.2013, No.180 N of 15.07.2014, 153-N of 11.10.2019*

With the aim of enhancing the financial stability of investment fund managers and the efficiency of investment fund management, as well as investors' trust in investment fund managers,

By virtue of clause 7, paragraph, 1 article 59, paragraphs 1, 2 and 4, article 67 of the Republic of Armenia Law on Investment Funds and clause 1, paragraph 1, article 15, paragraphs 1, 2 and 5 of article 26, paragraph 3, article 37 of the Republic of Armenia Law on Funded Pensions,

Guided by article 20 (e) of the Republic of Armenia Law on the Central Bank of the Republic of Armenia and article 16 of the Republic of Armenia Law on Legal Acts, the Board of the Central Bank of the Republic of Armenia;

(Preamble was supplemented by Decision No. 330 N of 27.12.2013, amended by Decision No. 180 N of 15.07.2014)

decides:

1. To approve Regulation 10/02 on Prudential Standards on the Activities of the Investment Fund Manager, Their Thresholds (Including the Minimum Amounts of the Mandatory Holdings of the Manager in Each Investment Fund under their Management), Minimum Amounts of the Violations of Prudential Standards Leading to the Revocation of License (Permission) of the Investment Fund Manager, according to the Appendix (attached).

2. This Decision shall enter into force on the tenth day following its official publication.

Governor of the Central Bank

Appendix

Approved by the Republic of Armenia

Central Bank Board

Decision No. 119 N of

May 2, 2011

REGULATION 10/02

**PRUDENTIAL STANDARDS ON THE ACTIVITIES OF THE INVESTMENT FUND MANAGER,
THEIR THRESHOLDS (INCLUDING THE MINIMUM AMOUNTS OF THE MANDATORY
HOLDINGS OF THE MANAGER IN EACH INVESTMENT FUND UNDER THEIR
MANAGEMENT), MINIMUM AMOUNTS OF VIOLATIONS OF PRUDENTIAL STANDARDS
LEADING TO THE REVOCATION OF LICENCE (PERMISSION) OF THE INVESTMENT FUND
MANAGER**

CHAPTER 1. SUBJECT OF THE REGULATION

1. This regulation shall define:
 - 1) Statutory capital and total capital of an investment fund (hereinafter referred to as a fund) manager (hereinafter referred to as a manager), their minimum thresholds,
 - 2) Minimum amounts of the mandatory holdings of the manager in each fund under their management,
 - 3) Minimum amounts of violations of prudential standards (including of minimum amounts of mandatory holdings of the manager in each fund under their management), leading to the revocation of the manager's license for the fund management activity or the permission for providing the service(s) according to clauses 3 and (or) 4 or 4 and (or) 5, article 52 of the Republic of Armenia Law on Investment Funds.
2. Chapter 3 of this Regulation shall not apply to a branch of a foreign manager operating in the territory of the Republic of Armenia.

CHAPTER 2. MAIN CONCEPTS

3. Concepts used in this Regulation shall have the following meanings:
 - 1) **Central Bank**- shall mean the Central Bank of the Republic of Armenia,
 - 2) **Financial entity** –shall mean a legal person, licensed and (or) registered by the Central Bank or by a foreign authority responsible for the regulation and supervision of the financial sector,

- 3) **Portfolios under management**- shall mean a total of funds (their portfolios) under management according to paragraph 7, article 67 of the Republic of Armenia Law on Investment Funds,
- 4) **Tangible assets used for the management of the fund and (or) for the provision of other services** – shall mean assets used by the manager for the management of the fund according to the Republic of Armenia Law on Investment Funds and (or) for the provision of the service(s) according to paragraph(s) 3 and (or) 4 or paragraphs 4 and (or) 5 of article 52 of the Republic of Armenia Law on Investment Funds. At that, own buildings, constructions (properties), shall be considered those tangible assets that are used for the management of the fund and (or) the provision of other service(s), where the managers and (or) their branch offices conduct the activities of the fund management according the Republic of Armenia Law on Investment Funds (provision of a service (services) according to paragraph(s) 3 and (or) 4 or 4 and (or) 5 of article 52 of the Republic of Armenia Law on Investment Funds), as well as buildings and constructions occupied by branch offices and representative offices of the manager.
- 5) **Month** - shall mean a period calculated from the beginning of a calendar year with one month periodicity. The first month for calculating the main prudential standards (including minimum amounts of mandatory holdings of the manager in each fund under their management) according to this Regulation shall be the period starting form the day after obtaining a license for the fund management activity (assuming the responsibility for the management of the respective fund (funds)) until the last day of the given month.
- 6) **Accounting chart of accounts** shall mean the Accounting Chart of Accounts of Banks, Credit Organizations, Investment Firms, Investment Funds and Investment Fund Managers Operating within the Territory of the Republic of Armenia as jointly approved by the Republic of Armenia Central Bank Board Decision No. 322 N of November 30, 2011 and the Republic of Armenia Minister of Finance Order No. 1032 N of December 16, 2011.

Clause 3 was amended and supplemented by Decision No. 3 N of 10.01.2012

4. Other concepts used in this Regulation shall have the meanings according to the Republic of Armenia Law on Investment Funds.

CHAPTER 3. MAIN PRUDENTIAL STANDARDS ON THE ACTIVITIES OF THE MANAGERS AND THEIR THRESHOLDS

5. The minimum amount of the statutory capital of managers (excluding pension fund managers) shall be set at 1 million of Armenian drams.
6. Minimum amounts of the statutory capital of voluntary and mandatory pension fund managers shall be set at two hundred millions and five hundred millions of Armenian drams respectively.
7. The minimum amount of the total capital of the managers, not considered as pension fund managers shall be set at fifty millions of Armenian drams.
8. The minimum amount of the total capital of the pension fund managers shall be set equal to the minimum amount of the statutory capital of the pension fund managers according to clause 6 of this Regulation, with the exception of cases according to clauses 9 and 10 of this Regulation.
9. In case when the net asset value of the portfolio under management (excluding the portfolio of the mandatory pension fund manager) exceeds fifteen billions of Armenian drams, the minimum amount of total capital of the manager shall be calculated as follows:

- 1) in case of managing a portfolio, the total net asset value of which does not exceed fifty billions (inclusive) of Armenian drams, the minimum amount of total capital of the manager shall be set equal to the sum of the minimum amount of the total capital, according to clauses 7 or 8 respectively of this Regulation, and 0.02 percent of the amount, exceeding fifteen billions of Armenian drams;
- 2) in case of managing a portfolio, the net asset value of which exceeds fifty billions of Armenian drams the minimum amount of the total capital of the manager shall be set equal to the sum of the minimum amount of the total capital according to clauses 7 or 8 respectively of this Regulation, 7 million of Armenian drams and the amount, which is equal to 0.01 percent of the amount exceeding fifty billions of Armenian drams. The maximum required amount of the minimum total capital according to this sub-clause, shall be set at five hundred millions of Armenian drams.
10. In case the net asset value of the portfolio managed by the mandatory pension fund manager exceeds one hundred billions of Armenian drams, the minimum amount of the total capital of the mandatory pension fund manager shall be set equal to the sum of the minimum amount of the total capital according to clause 8 of this Regulation and 0.02 percent of the amount, exceeding one hundred billions of Armenian drams.
11. The net asset value of the portfolio under management shall be calculated on an average daily basis for each month. The net asset value of the portfolio, managed each day, which is included in the average daily calculation of the net asset value of the portfolio under management, shall be the lastly published net asset value for the respective fund as of the end of the given day.
12. The requirement on the minimum amount of the total capital, according to clauses 7, 8, 9, or 10 of this Regulation, shall be deemed as met by the manager, in case the manager was issued a guarantee by a bank or an insurance company, in the amount equal to the difference between the required minimum amount of the total capital, according to clauses 7, 8, 9, or 10 of this Regulation and the amount of total capital, held by the manager. The difference shall not exceed 50 percent of the required minimum amount of the total capital according to clauses 7, 8, 9, or 10 of this Regulation.
13. In case the guarantee according to clause 12 of this Regulation was issued by a non-resident bank or insurance company, the bank or the insurance company shall have a rating issued by at least one of the international credit rating agencies listed in the table according to this clause which is not below of the respective rating

No	Name of the international credit rating agency	Minimum rating
1.	Standard and Poor's, ratings BBB	BBB-
2.	Moody's, ratings Baa	Baa3
3.	A.M. Best, ratings B	B+
4.	Duff & Phelps, ratings BBB	BBB-
5.	Weiss, ratings B	B-
6.	Fitch, ratings BBB	BBB-

14. The manager shall calculate the minimum amount of statutory capital and total capital on an average daily basis for a calendar month.
15. In case the manager has a subsidiary main prudential standards, set by the Central Bank, shall also apply to the consolidated reports of the manager.

16. The total capital of the manager according to clauses 7, 8, 9 or 10 of this Regulation, shall be the sum of its core (primary) and supplementary (secondary) capital. At that, the supplementary capital shall be included in the calculation of the total capital in the amount not exceeding 50 percent of the core capital (after the respective deductions according to clause 18 of this Regulation).
17. Core capital of the manager shall be the difference between the sum of the following components and the components deducted from the core capital, according to clause 18 of this Regulation:
- 1) statutory capital included in Class 50 of the accounting chart of accounts,
 - 2) retained earnings (losses),
 - 3) general reserve.

Clause 17 was amended by Decision No. 3N of 10.01.2012.

18. Components deducted from the core capital shall be the following:
- 1) Book values of intangible assets (including intangible assets out of exploitation as well as right-of-use assets (with underlying intangible assets) as well as book values of capital expenditures on intangible assets), except for the software (used in the course of the activities of the manager while managing funds (providing other services) and payments for the rights thereon, payments for the rights on the use of the CBANet, Central Depository clearing and settlement system and, with the consent of the Board of the Central Bank, also other payment systems (including payments for the rights on the use of foreign payment systems used by foreign branch offices of the manager).
 - 2) Capital included in Class 51 of the accounting chart of accounts, repurchased and not paid.
 - 3) Book values of tangible assets, owned by the manager and not used for managing the fund and (or) providing other services (fixed assets and other tangible assets, including assets the ownership of which has been transferred as a result of a foreclosure or as a result of other claims, other fixed assets out of exploitation, as well as book values of capital expenditures on fixed assets, not used in the course of managing funds and (or) providing other services, after 6 months from the day of transfer of ownership of those assets to the manager according to the law, as well as book values of right-of-use assets (with underlying tangible assets) and book values of capital expenditures on such assets after six months following the day when underlying tangible assets were recognized as out of exploitation in the course of managing funds and (or) providing other services.
 - 4) Book values of tangible assets (fixed assets, including properties (buildings, constructions, other fixed assets as well as capital expenditures on the fixed assets used for managing funds and (or) providing other services) owned by the manager and used for the fund management activities and (or) provision of other services and values of right-of-use assets (with underlying tangible assets used for investment services) with the amount exceeding 25% of the amount of the core capital. For the purposes of this paragraph, the value of tangible assets owned by the manager shall be equal to the sum of the initial value of the tangible assets and value of capital expenditures with respect to such assets, deducted by the depreciation charges, impairment and revaluation losses with respect to such assets and the values of right-of-use assets (with underlying tangible assets) shall be equal to the sum of the book balances of the right-of-use assets (with underlying tangible assets) and capital expenditures with respect to such assets.
 - 5) *Sub-clause 5 was annulled by Decision No. 153-N of 11.10.2019*
 - 6) Net book values of investments (values of the financial assets minus reserves for covering the losses, if any) in the statutory capital of other financial entities (including in the statutory capital of other managers), in case

- a) the investment amounts 10 percent or more of the statutory capital of the respective entity; or
- b) the investment amounts less than 10 percent of the statutory capital of the respective entity, but exceeds 15 percent of the book value of the core capital of the manager, or
- c) investments in the statutory capital of all entities exceed 60 percent of the book value of the core capital of the manager.

As an exception shall be those investments as a result of which the manager acquires 100 percent holdings in the capital of the entity, according to this sub-clause, provided that the investment has been made for purposes of subsequent liquidation of the entity or acquisition by the manager, and the Central Bank has been notified about that intention. Such investments shall not be deducted within six months following the day the investment was made.

7) Investments made in the statutory capital of any other commercial entities other than those according to sub-clause 6 of this clause, in case

- a) the investment amounts 10 percent or more of the statutory capital of the respective entity; or
- b) the investment amounts less than 10 percent of the statutory capital of the respective entity, but exceeds 15 percent of the book value of the core capital of the manager, or
- c) investments in the statutory capital of all entities (including also entities according to sub-clause 6 of this paragraph) exceed 60 percent of the book value of the core capital of the manager.

At that, deductions shall be made at the maximum amount of differences between investments made in the statutory capital of the entities according to this sub-clause and the amounts according to sub-clauses “a”, “b” and “c” of this sub-clause.

Clause 18 was amended by Decision No. 3N of 10.01.2012, amended and supplemented by 153-N of 11.10.2019.

19. Supplementary capital of the manager shall be comprised of the following:

- 1) Increases in the revaluation of tangible assets, owned by the manager and used in the course of managing funds and (or) providing services.
- 2) Foreign currency differences resulting from the translation of foreign operations.
- 3) Other components of other comprehensive income included in Class 52 of the accounting chart of accounts.

Clause 19 was amended by Decision No. 3 N of 10.01.2012.

20. Increases in the revaluation (income, profit / loss) (that is, items of other comprehensive income) of tangible assets not used by the manager in the course of managing funds and (or) providing other services, of tangible and intangible assets deducted from core capital, shall not be included in the calculation of the supplementary capital.

Clause 20 was amended by Decision No. 3 N of 10.01.2012.

CHAPTER 4. MINIMUM AMOUNTS OF MANDATORY HOLDINGS OF THE MANAGER IN EACH FUND UNDER THEIR MANAGEMENT

21. The manager shall have a minimum of 0.15 percent holding in each fund within three months after the establishment of the fund (assumption of the responsibility by the manager for managing the

respective fund according to the law and the legal acts of the Central Bank with the exception of the mandatory pension fund).

The requirement provided for in the first sentence of this clause shall apply within three years from the establishment of the fund. And the manager of a mandatory pension fund shall have a minimum of 1 percent holding in each mandatory pension fund under their management. The holding according to this clause shall be calculated on an average daily basis for each month.

Clause 21 was amended by Decision No. 3 N of 10.01.2012.

- 21.1 The requirement provided for in the third sentence of clause 21 of this Regulation shall not apply to pension fund managers with respect to the mandatory pension funds in which the manager's holding exceeds one billion of Armenian drams.

Clause 21.1 was supplemented by Decision No. 105N of 16.04.2013.

22. At that, the mandatory holding of the manager shall be defined according to the following formula:
[Number of units (shares) of the respective fund held by the manager divided by the total number of the units (shares) outstanding of the given fund] multiplied by 100 (for instance, $[A : B] \times 100$).

CHAPTER 5. MINIMUM AMOUNT OF THE VIOLATIONS OF THE PRUDENTIAL STANDARDS LEADING TO THE REVOCATION OF THE LICENSE (PERMISSION) OF THE INVESTMENT FUND MANAGER

23. Revocation of the license of the manager for the activities of fund management or the permission for the provision of the service(s), according to clause 3 and (or) 4 or 4 and (or) 5 of article 52 of the Republic of Armenia Law on Investment Funds, as a sanction, may be applied in case the prudential standards of the manager (including the minimum amounts of mandatory holdings of the manager in each fund under their management) decreases by 10 or more percent from the amounts, according to this Regulation or the law.