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December 27, 2013, No 324-N

Approving Regulation 10/06 “Minimum Requirements to Internal Controls and Risk Management Mechanisms for Investment Fund Manager”

Whereas highlighting the role of investment funds in the financial market and their importance in securing profits of investors in such funds,

By virtue of the Republic of Armenia Law on “Investment Funds”, Article 36 (2), the Republic of Armenia Law on “Central Bank”, Article 20 (e) and the Republic of Armenia Law on “Legal Acts”, Article 16 (1), the Board of the Central Bank of the Republic of Armenia

enacts:

1. Approve Regulation 10/06 “Minumum Requirements to Internal Controls and Risk Management Mechanisms for Investment Fund Manager” pursuant to the Appendix attached hereto.
2. This resolution shall enter into force on the tenth day following its official publication date.

Arthur Javadyan,
Chairman of the Central Bank

December 27, 2013,
c. Yerevan

REGULATION 10/06

Minimum Requirements to Internal Controls and Risk Management Mechanisms for Investment Fund Manager

Chapter 1: General provisions

1. This Regulation applies to investment fund managers who are responsible for carrying out public fund management.
2. Definitions used in this Regulation carry the same meaning as in the Republic of Armenia Law on Investment Funds.

Chapter 2: Risk management mechanisms

3. A manager shall have an effective risk management system in place. An effective risk management system shall include a strategy, processes and accountability needed to identify, measure, monitor, evaluate, monitor and present all significant risks, whether individually or grouped, as well as interdependence of such risks.
4. The risk management system must be sufficiently integrated with the manager's organizational structure and decision-making processes.
5. The risk management system should be consistent with management activities and the nature, volume and complexity of funds under management, reflecting the manager's scope of business.

Chapter 3: Risk management control

6. The competent authority of manager shall take measures for defining, operating and improving the manager's risk management system as well as for introducing high standards of professional ethics for manager.
7. The competent authority of manager shall establish and provide regular reviews of the overall risk management system. This process involves defining of acceptable levels of risks as well as taking action to measure and control such risks.
8. For effective risk assessment in place, the competent authority of manager shall evaluate and maintain a regular record of the risks that influence the manager's objectives, and shall respond to the changing environment and conditions.

9. The competent authority of manager shall ascertain that the manager's risk management mechanisms are effective all the time, and appropriate processes are existing to be usable in case of change (adjustment) of the management strategy.
10. The manager shall have a clear separation of duties in place. Separation of duties should reflect the nature and extent of the risks the manager and funds under management are exposed to.
11. The manager shall have an appropriate internal controls mechanism in place, which is needed for an adequate exchange of information between various levels of governance.
12. The manager shall have a policy in place that prevents conflict of interests, including mechanisms that identify such conflicts, as well as there should be rules of conduct for all staff.

Chapter 4: Control and monitoring mechanisms

13. The manager shall make sure that internal control mechanisms operate at all levels of management and constitute an integral part of the manager's daily activities at both top level of management and each unit.
14. The manager shall have an adequate risk monitoring system in place. The risk management system should ensure that the transactions be carried out by persons who have such competence, in the manner allowed by the competent authority of the manager.

Chapter 5: Information, accountability and communication

15. The manager shall have an adequate and versatile mechanisms in place that allow circulation of internal and external information and financial market information. The information shall be reliable, timely and affordable. The manager shall have a policy in place that ensures the proper use of confidential information.
16. The manager shall have an effective accountability mechanism in place that allows the information to be delivered to eligible persons in an understandable way and proper frequency.
17. The manager shall have an effective communications mechanism in place so that each person's competence is easily understood, while making sure the staff has an adequate access to the required information.
18. The competent authority of manager shall be kept informed of any internal control shortcomings or ineffective risk controls with the manager immediately after such shortcomings or defects are identified.