

Order N 257/04
Of the President of the National Bank of Georgia
November 30, 2018
Tbilisi

On Approving the Rule on Additional Requirements for Pension Asset Management

In accordance with Article 15, paragraph 1, subparagraph "g" of the "Organic Law of Georgia" On the National Bank of Georgia, Article 52³, paragraphs "g" and "h" of the same Organic Law, and Article 6, paragraph 2 subparagraph "c", Article 28 paragraphs 4 and 6, moreover, Article 29 paragraph 4, I order:

Article 1

To approve the rule on additional requirements for the management of pension assets together with attachments.

Article 2

This order shall enter into force immediately upon publication.

The President of National Bank

Koba Gvenetadze

Rule on Additional Requirements for Pension Asset Management

Article 1. General provisions

1. This rule was developed in accordance with the Law of Georgia "On Funded Pension" (hereinafter - the Law) and defines additional requirements for the management of pension assets, including the pension assets management company (hereinafter - Pension Asset Management Company) for an entity licensed by the National Bank of Georgia or the relevant regulator of another state management company) granting status (hereinafter – authorization)/recognition and cancellation conditions, functions and duties of the pension asset management company and the procedure for submitting periodic reports by it.
2. The National Bank of Georgia (hereinafter - the National Bank) controls the granting of authorization/recognition and the exercise of its authority specified in the first paragraph of this article.
3. The management of pension assets may also be carried out by the entity created or established by the international organization for the purpose of asset management and/or providing investment advice, whose member state is Georgia and which is not subject to licensing by the relevant regulator of individual countries. The requirements specified in this rule do not apply to such a person, except for paragraphs 3, 4 and 5 of Article 10 of the same rule, the implementation of which is controlled by the National Bank.

Article 2. Definition of terms

1. The terms used in this rule have the following meanings:
 - a) funded pension scheme (pension scheme) –funded pension scheme defined by law;

b) Pension Agency – an independent public law legal entity established on the basis of the law, which is responsible for the implementation, management and administration of the cumulative pension scheme;

c) developed country - a developed country defined by the order N16/01 of the President of the National Bank of Georgia dated February 19, 2010 "On approval of the List of Developed Countries".

2. Other terms used in this rule have the meaning defined by the legislation of Georgia.

Article 3. Authorization/recognition of pension asset management company, grounds for refusal of authorization/recognition and cancellation of authorization/recognition

1. In accordance with this rule, the authorization/recognition of the pension asset management company can be granted only to:

a) a financial institution licensed by the National Bank, which is authorized to carry out brokerage activities;

b) an asset management company licensed by a regulator of a developed country.

2. Granting of authorization/recognition in accordance with this rule is carried out on the basis of an individual administrative-legal act issued by the President of the National Bank.

3. A company seeking authorization/recognition in order to obtain authorization/recognition as a pension asset management company, in addition to the requirements established by law, shall meet the following requirements:

a) it shall have sufficient financial and human resources, as well as relevant information systems, to ensure the timely fulfillment of obligations under the law, this rule and the agreement signed with the pension agency;

b) it or the members of its governing body should not represent persons affiliated with the specialized depository of the funded pension scheme and the pension agency;

c) the person responsible for managing the assets of the company seeking authorization/recognition shall have at least 3 years of professional experience in finance, investment and/or risk management.

4. The company seeking authorization/recognition applies to the National Bank in writing and submits the information and documentation requested in accordance with Articles 4 or 5 of this rule.

5. The National Bank reviews the submitted application and the attached information/documentation and within 30 days informs the company seeking authorization/recognition:

a) consent (together with the relevant individual-administrative legal act) that it has been granted the authorization/recognition of the pension asset management company;

b) justified refusal; or

c) If the information/documentation submitted by the company seeking authorization/recognition is inaccurate or incomplete, the request for additional information/documentation, the deadline and form of submission of this information/documentation. The authorization/recognition grant period shall be suspended from the date of preparation of the letter (from the date of registration of the letter) regarding deficiencies in the documentation submitted by the National Bank in accordance with this subsection or additional information/documentation request, and it shall be renewed upon submission of the correction of the deficiencies or additional documentation/information requested by the company seeking authorization/recognition at the National Bank.

6. In addition to the documentation/information submitted in accordance with Articles 4 or 5

of this rule, the National Bank is authorized to additionally determine the list of documentation/information indicating the deadline and form of submission of documentation, which must be submitted to the National Bank before the authorization/recognition of the pension assets management company is granted. .

7. The National Bank is authorized not to grant authorization/recognition to a company seeking authorization/recognition if:

- a) the application and the attached information/documentation are incomplete or inaccurate, and the company seeking authorization/recognition cannot provide or refuses to submit the additional information/documentation requested by the National Bank within the specified period and/or in the specified form;
- b) does not have sufficient resources and experience to ensure timely fulfillment of obligations imposed by law and this rule;
- c) the company seeking authorization/recognition cannot meet the requirements defined by this rule;
- d) Granting authorization/recognition may endanger the interests of pension scheme participants or the stability of the financial system.

8. The National Bank is authorized to suspend or revoke the authorization/recognition of the pension asset management company in the event that:

- a) the company has been deprived of the relevant activity license or can no longer meet the conditions on the basis of which the status was granted;
- b) the pension assets management company violates the requirements defined by the law, this rule and/or the current legislation of Georgia and/or fails to fulfill the obligations;
- c) authorization/recognition was granted based on false, incomplete or misleading information;
- c) the pension assets management company submits a request to the National Bank for the cancellation of the license and/or authorization/recognition;
- d) the pension asset management company threatens the interests of the pension scheme participants or the stability of the financial system and/or its activities are considered unhealthy and/or dangerous business practices;
- e) in other cases determined by the legislation of Georgia.

9. In the cases provided for in paragraph 8 of this article, the National Bank is authorized to cancel the authorization/recognition of the pension assets management company or to warn it and set a period of at least 30 calendar days, during which it must eliminate the deficiencies

i. If the pension asset management company is unable to eliminate the deficiencies within the specified period, the National Bank will revoke its authorization/recognition.

Article 4. Grant of pension asset management company authorization to a financial institution licensed by the National Bank

A company seeking authorization of a pension asset management company shall submit the following information/documentation to the National Bank:

- a) application for authorization of pension asset management company (Annex N1);
- b) the following information/documentation about the person responsible for asset management:
 - b.a) a copy of the identity document;
 - bb) information about his education and experience, including a copy of educational document(s) and personal resume (CV);
 - b.c) notice regarding criminal record;
 - b.d) information on financial situation and source of income;
 - b.e) information about the annual results of the portfolios under his/her management during

the last 3 years;

c) the policies and procedures defined by articles 7 and 8 of this rule.

Article 5. Recognition of the asset management company licensed by the relevant regulatory authority of the foreign country

1. A person licensed by the relevant regulatory body of a foreign country, who wants to manage pension assets based on a contract with a pension agency, must have a license issued by a regulator of a developed country and must have at least an "A-" or equivalent credit rating, which will be assigned the following international rating by one of the agencies: S&P, Moody's, Fitch.

2. For the purpose of recognition, the company licensed by the regulatory body of a foreign country, in addition to the documents stipulated in Article 4 of this rule, must submit the following documents to the National Bank:

a) a document confirming the licensing of the asset management company;

b) audited financial statements of the last financial year; If more than 6 months have passed from the date of the last audited financial statement to the date of submission of a written appeal to the National Bank, additionally half a year's financial statement (audited, if any);

c) the company's current balance sheet and relevant notes;

d) information on the annual results of all active portfolio management of the company over the last 3 years.

Article 6. Functions of the Pension Asset Management Company

1. The pension asset management company must meet the requirements stipulated by the legislation of Georgia and the contract signed with the Pension Agency at any stage of its activity. It must act in the interests of the pension scheme participants and its activities must be based on the principles of integrity, fairness and independence.

2. The functions of the pension asset management company are:

a) managing the investment portfolio of the accumulative pension scheme;

b) carrying out risk management of the investment portfolio of the accumulative pension scheme;

c) carrying out the assessment of the assets of the cumulative pension scheme and the calculation of the value of the net assets;

d) performing all other functions in the process of managing pension assets in accordance with this rule and the legislation of Georgia.

Article 7. Organizational requirements

1. The organizational structure and information systems of the pension asset management company, its financial situation, competence and experience of employees must be sufficient to perform the functions defined by the law, this rule and the contract with the pension agency.

2. The pension assets management company is obliged to functionally separate the activities related to the management of pension assets from other activities of the company. In addition, possible conflicts of interest between these activities should be identified and managed.

3. A pension asset management company should have functionally separate functions of asset management, risk management, assessment and compliance. In addition, the risk management and compliance functions must operate with the principles of independence and impartiality.

4. The pension asset management company must manage the assets in accordance with the detailed investment guidelines approved on the basis of the pension asset management agreement and the Investment Policy Document developed by the Investment Board of the Pension Agency, observing the risk limits defined therein.

5. The person responsible for asset management must be familiar with the investment financial instruments provided for by the law and other normative acts adopted on its basis, its features

and related conditions. Before investing in a specific asset, he/she should fully assess the suitability of the properties and risk profile of these financial instruments with the investment policy.

6. Remuneration of employees performing risk management and compliance functions should not be related to the results obtained from the management of pension assets or otherwise create a conflict of interest.

7. The pension asset management company must develop risk management policies and procedures that will allow for the assessment, management and monitoring of market, credit, counterparty, liquidity and other risks for the pension asset portfolio.

8. The pension asset management company shall develop investment asset valuation policies and procedures, ensure fair valuation of pension assets and calculation of net asset value in accordance with legislation.

9. The employees implementing the compliance function of the pension assets management company shall ensure the monitoring of the implementation of the policies and procedures developed by the pension assets management company at every stage of the activity and their updating as necessary.

10. If the pension asset management company intends to delegate the function/functions determined by this rule to a third party, it is obliged to obtain the prior consent of the National Bank. However, any further delegation of functions must be agreed with the National Bank.

11. The ultimate responsibility for the implementation of the delegated function rests with the pension asset management company.

12. The pension assets management company is obliged to agree with the National Bank in advance the terms of the contract to be signed with the pension agency.

Article 8. Conflict of interest

1. A pension asset management company shall develop conflict of interest policies and procedures to ensure that potential conflicts of interest are identified, managed and disclosed. If the pension asset management company is a member of a group, the conflict of interest policy should also include procedures for identifying and managing potential conflicts of interest between companies within the group.

2. When identifying a possible conflict of interest, the pension asset management company should take into account situations where the interests of the participants of the pension scheme are at risk. Such situations include at least those cases where the pension asset management company, its significant shareholder or any of its employees:

- a) receives financial income or incurs financial losses at the expense of pension assets;
- b) has a financial and/or other interest to favor other clients of the company over the interests of the pension scheme participants;
- c) receives or will receive cash and/or other income from another third party in connection with the management of pension assets.

3. The pension asset management company is obliged to ensure that no member of the management body is a person affiliated with the specialized depository, member of the Supervisory Board or member of the Investment Board selected by the Pension Agency. In addition, the pension asset management company is obliged to identify and disclose to the National Bank those circumstances that may threaten the independence, objectivity and impartiality of the members of the management body in the performance of their duties and become the basis for a conflict of interest.

Article 9. Obligation to produce records

1. The pension asset management company is obliged to ensure accounting of all transactions entered into during the management of pension assets.
2. The pension asset management company must ensure the identification and accounting of such transactions in the concluded transactions, which are related to the cases defined by paragraphs 2 and 3 of Article 8 of this rule.
3. The pension asset management company is obliged to record information and documentation related to all received and issued instructions and assignments.
4. The pension asset management company shall carry out a daily reconciliation (reconciliation) of the data in its own records and those of the depositsry, in particular, records of transactions and pension assets.
5. The pension asset management company shall ensure the preparation and storage of daily reports of the assessment of the value of the net assets of the pension portfolio in such a way that the assessment can be carried out again at any time.
6. The pension asset management company shall record all other information and documentation related to its activities and duties and which ensure the provision of relevant information to the National Bank for the performance of its supervisory functions.
7. At any stage of the activity, the pension asset management company shall maintain records and reports in such a way as to ensure their accuracy and completeness.
8. Records shall be kept in such a way that it is possible to see all the changes made, the record before the change, the date of the change and the person responsible for making the change.
9. The documentation and records defined in this article can exist both in physical and electronic form, and the pension assets management company must ensure their storage for at least 6 years.

Article 10. Obligation to submit reports

1. A financial institution licensed by the National Bank, which manages pension assets in accordance with the law, this rule and the applicable legislation, shall submit reports taking into account the requirements of the applicable legislation in the relevant field.
2. The publication of the audited report on its own website shall be considered as the submission of the report to the asset management company licensed by the regulatory body of the developed country.
3. The pension assets management company is obliged to submit to the National Bank monthly:
 - a) information about the financial markets and instruments in which it invests, indicating each parameter and amount;
 - b) report of the net value of pension assets;
 - c) Information on the transactions specified in paragraph 2 of Article 9 of this rule during the month.
4. If the value of pension assets has decreased by 5% due to changes in market conditions, the company is obliged to send a notification to the National Bank and the Pension Agency within a reasonable period of time, but not later than 3 calendar days.
5. If the value of pension assets has decreased by 1% due to changes in non-market conditions, the pension assets management company is obliged to send a notification to the National Bank and the Pension Agency immediately.

6. The pension assets management company must submit the statements (notifications) and reports listed in this article both in physical and electronic form. The information presented in the electronic form should be in Excel and PDF format.